OCWEN FINANCIAL Corp
Form 10-K
February 28, 2011

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, 2010

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	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)

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 o No x

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 o   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 Nox

Aggregate market value of the common stock of the registrant held by nonaffiliates as of June 30, 2010: $780,985,547

Number of shares of common stock outstanding as of February 22, 2011: 100,726,947 shares

DOCUMENTS INCORPORATED BY REFERENCE: Portions of our definitive Proxy Statement with respect to our Annual Meeting of Shareholders to be held on May 12, 2011, are incorporated by reference into Part III, Items 10 - 12 and 14.

OCWEN FINANCIAL CORPORATION

2010 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," "expects," "plans," "anticipates," "believes," "estimates," "predicts" or "continue" or the negative of such terms or other comparable terminology. These forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the risks and uncertainties include those referred to in the section entitled "Risk Factors" and the following:

- assumptions related to the sources of liquidity, our ability to fund advances and the adequacy of financial resources;
- estimates regarding prepayment speeds, float balances, delinquency rates, advances and other servicing portfolio characteristics;
- projections as to the performance of our asset management vehicles;
- assumptions about our ability to grow or otherwise adapt our business;
- our plans to continue to sell our non-core assets;
- our ability to reduce our cost structure;
- our continued ability to successfully modify delinquent loans and sell foreclosed properties;
- estimates regarding our reserves, valuations and anticipated realization on assets; and
- expectations as to the effect of resolution of pending legal proceedings on our financial condition.

Forward-looking 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" above and the following:

- availability of adequate, affordable and timely sources of liquidity;
- delinquencies, advances and availability of servicing;
- general economic and market conditions;
- uncertainty related to the actions of loan owners, including mortgage-backed securities investors, regarding loan putbacks and other servicing practices;
- uncertainty related to the processes for judicial and non-judicial foreclosure proceedings, including potential additional costs, delays or moratoria in the future or claims pertaining to past practices;
- uncertainty related to inquiries from government agencies into past servicing and foreclosure practices;
- uncertainty related to legislation, regulations, government programs and policies, and industry initiatives; and
- uncertainty related to dispute resolution and litigation.

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.

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PART I

ITEM 1. BUSINESS (Dollars in thousands, unless otherwise indicated)

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 Orlando and West Palm Beach, Florida and Washington, DC and support operations in India and Uruguay. OCN is a Florida corporation organized in February 1988. Ocwen Loan Servicing, LLC (OLS), a wholly owned subsidiary of Ocwen, is a licensed mortgage servicer in all 50 states, the District of Columbia and two U.S. territories. As of December 31, 2010, we serviced 479,165 loans with an aggregate unpaid principal balance (UPB) of $73,886,391.

On August 10, 2009, we completed the distribution of our Ocwen Solutions (OS) line of business (the Separation) via the spin-off of a separate publicly traded company, Altisource Portfolio Solutions S.A. (Altisource). Altisource common stock is listed on the NASDAQ market under the ticker symbol “ASPS.” We distributed all of the shares of Altisource common stock to OCN’s shareholders of record as of August 4, 2009.

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 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 HomeEq 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.

Ocwen acquired HomEq Servicing in order to grow our Servicing segment. With the close of the HomEq Acquisition, Ocwen boarded onto its servicing platform approximately 134,000 residential mortgage loans with an aggregate UPB of approximately $22,400,000.

OLS paid an initial aggregate purchase price of $1,196,747 in cash upon closing of the HomEq Acquisition. Of this amount, $852,617 was funded by notes issued through a new $1,011,000 structured servicing advance financing facility, $150,000 was paid from funds held in escrow in accordance with the terms of the new $350,000 senior secured term loan facility and $194,130 consisted of cash and funds borrowed pursuant to the senior secured term loan facility. See Note 14 and Note 16 to the Consolidated Financial Statements for additional details regarding the terms of the notes supporting these facilities. The initial purchase price was reduced by $29,625 pursuant to an initial true-up of advances on September 30, 2010. We do not anticipate any further adjustments subsequent to December 31, 2010.

Following the closing, our reorganization and streamlining of the operations of HomEq Servicing obligated Ocwen to pay severance to all HomEq Servicing employees who entered into an employment agreement with Ocwen. The duties of these employees have been transferred to existing and newly-hired employees in the U.S., India and Uruguay. We incurred non-recurring costs of $52,603, including severance and Worker Adjustment and Retraining Notification Act (WARN Act) compensation of $32,954, occupancy and equipment costs of $15,104 and professional fees of $3,977. Occupancy and equipment costs include lease termination costs of $7,794 and a charge of $5,840 to write off leasehold improvements in connection with our decision to shutdown the leased HomEq facilities that we acquired.

We accounted for the transaction 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. See Note 2 to the Consolidated Financial Statements for additional information regarding the HomEq Acquisition.

Effective October 1, 2010, Ocwen and the other stockholders of BMS Holdings, Inc. (BMS Holdings) no longer own any interest in BMS. The stock of BMS was transferred to debt holders as part of a restructuring plan. Ocwen no longer has a business relationship with BMS or its affiliates. Following the restructuring, BMS Holdings has no assets or operations. BMS Holdings had acquired BMS on July 31, 2006. Since the second quarter of 2008, we carried our investment in BMS Holdings at zero and did not recognize any income or losses. On October 15, 2010, BMS Holdings changed its name to BHI Liquidation, Inc. (BHI).

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.

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.

Our competitive strengths are:

Lowest Cost Provider. We believe that OLS has the lowest operating cost in the sub-prime mortgage servicing industry and special servicing industry. Based on average industry cost information provided by a third party valuation consultant on November 30, 2010, OLS' net cost to service a non-performing loan was 63% lower than the average net cost for the subprime industry.

Scalable Servicing Platform. We believe that OLS has the most scalable platform in the subprime and special servicing industries primarily as a result of our superior technology. Recent examples of our ability to scale our platform include:

- Transfer in, via a special servicing agreement, of approximately $4 billion of delinquent Freddie Mac loans in August of 2009
- Transfer in, via a subservicing agreement, of approximately $9.7 billion of subprime loans in November and December of 2009,
- Transfer in, via a mortgage servicing rights (MSRs) acquisition, of approximately $6.9 billion of subprime loans in April and May of 2010; and
- The HomEq Acquisition of approximately $22.4 billion of subprime loans on September 1, 2010.

Superior Loss Mitigation and Cash Management. We believe that OLS provides the highest servicing quality in the subprime sector based on the following third-party studies:

- 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.
- Bank of America/Merrill Lynch (July 2009) – Ocwen had the highest roll rate from 90+ delinquent to current on both fixed rate and adjustable rate subprime loans. Ocwen's results were more than double the midpoint for all servicers reported.
- Deutsche Bank (May 2010) – Ocwen was ranked first in a measure called "Recovery Score," which evaluates the results of short sales and real estate owned sales based on the timeline to liquidate and loss severity.
- J.P. Morgan (June 2010) – Ocwen was ranked first in Quality Rank, which considers the re-default rate for loans modified.
- Fannie Mae Reports on the federal Home Affordable Modification Program (HAMP) (various dates in 2010) – Ocwen was consistently ranked among the top three servicers in terms of the number of trial modifications and the speed of converting trial modifications to permanent

modifications.

Generate Substantial Cash Flow. Our servicing business generates substantial cash flow. Healthy margins are augmented by the add-back of non-cash amortization expense. Cash flow is further enhanced by reducing delinquencies and the associated advances which allows Ocwen to recover the advance haircut and reduce asset intensity.

We believe that we achieve these superior results largely because of 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 $140,000. We license this technology from Altisource under long-term agreements. 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 also 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 provides dynamic solutions to borrowers. By tailoring “what we say” and “how we say it” to each individual borrower, we create a “market of one.” As a result, we are able to increase borrower acceptance rates of loan modifications and other resolution alternatives and at the same time increase compliance. 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 focused 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 criteria:

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

Ocwen is an established industry leader in cost of servicing and ability to manage delinquencies and advances. While we will continue to pursue improvements in these areas, our plan for 2011 is to focus more heavily on access to new servicing business and on 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. Special servicing opportunities (both residential and commercial)
3. Flow servicing
4. New servicing segments

In 2011, we will continue to pursue subservicing transactions, the acquisition of existing servicing portfolios and platforms and special servicing opportunities. We have been able to grow our average residential UPB serviced by 36% annually since the end of 2008 without access to a flow of new business. On flow servicing, we are working with Altisource and its Lenders One business (which generated upwards of 6% of new loans originated in the U.S. in 2010) to create a new entity to securitize newly originated loans. We believe that this venture can improve the economics for the members of Lenders One and allow Ocwen to compete for servicing rights that align with our interest in servicing newly originated FHA loans. Should proposed changes in the servicing fee structure be implemented in a manner that allows Ocwen to compete for the servicing of Fannie Mae and Freddie Mac loans, the potential flow of new loans into Ocwen’s servicing business could increase. With our highly automated platform, we can quickly scale our servicing capabilities to handle acquired loan portfolios with only modest additions to infrastructure.

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 plan to deploy a full on-shore servicing alternative for entities that limit or prohibit offshore activities by their service providers.

Ocwen Financial Corporation (Ocwen) is pursuing a strategic opportunity that could significantly reduce the amount of capital we require through our 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 mortgage servicing rights (MSRs) and related advances in a more efficient manner than is currently feasible for Ocwen. HLSS intends to purchase from Ocwen a portfolio of MSRs and assume the related match funded liabilities (the Initial Acquisition). The MSRs in the Initial Acquisition will be a portion of those that Ocwen had acquired from Barclays Bank PLC on September 1, 2010 in its purchase of the “HomEq Servicing” business.

As part of the Initial Acquisition, which HLSS intends to finance though proceeds from an initial public offering, HLSS will engage Ocwen to subservice the subject MSRs pursuant to a subservicing agreement. Although Ocwen’s servicing fee and float income will decline under this subservicing agreement, we expect that the impact on net income will be partly offset by increased subservicing fee revenue and by reduced expenses for MSR amortization and interest on advance financing. We also expect the decline in our match funded advances and MSRs to be partly offset by the reduction in match funded liabilities with the difference accruing to cash. We may use this cash in any combination to pay down debt, repurchase stock or purchase additional MSRs. We expect that the reduction in the equity required to run Ocwen's servicing business will be greater than the reduction in net income, thus improving the return on equity of our servicing business.

HLSS may acquire additional servicing rights from and enter into related subservicing arrangements with Ocwen in the future. HLSS may also acquire servicing rights from third parties, which could increase the benefit of this strategy to Ocwen by boosting the size of our 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 over time, Ocwen could evolve into a "capital-light" fee-for-service business. There is no assurance that Ocwen will consummate the sale of the MSRs to HLSS. Any MSRs acquired by HLSS, both with respect to the Initial Acquisition and any subsequent acquisitions, will be subject to customary requirements for the transfer of MSRs from one servicer to another, including consents from certain third parties.

Results of our revenue growth initiatives during 2010 include:

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 Acquisition). This acquisition was completed on May 3, 2010.

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 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 increasing the size of our Servicing business to $76.7 billion in UPB on the closing date.

Certain Residential Mortgage Backed Securities (RMBS) investor groups have expressed interest in seeking to transfer servicing on some seasoned non-agency securitized loan portfolios in order to improve returns. Ocwen has discussed servicing opportunities with certain of these investors who have cited Ocwen's consistently high ranking in third-party servicing effectiveness studies. If this prospect develops, it could represent an opportunity for Ocwen, but it could also be a threat if servicing were to be transferred away from Ocwen without compensation on PSAs that have exceeded maximum loss limits in the contract. Most non-agency PSAs serviced y Ocwen and others have exceeded the pre-set maximum delinquency or cumulative loss triggers that allow the servicing to be transferred, although we are not aware of any transfers that have been made solely for this reason.

There is also the possibility that servicing of certain loans may be lost if they transfer back to the originator as a result of loan putbacks. Our view is that delinquent loans are the most likely loans to be put back which could reduce revenue but improve profitability as delinquent loans require advances and cost more to service. To date there have been no MSRs moved or loans put back as a result of these developments.

Inquiries into servicer foreclosure practices are continuing and bring the possibility of action by state or federal government bodies, regulators or courts that could have an adverse effect on the average foreclosure timeline and increase asset intensity. The average number of days to complete a foreclosure action has extended by 53 days in judicial foreclosure states and 43 days in traditional non-judicial foreclosure states through 2010 as compared to 2009 and may extend further. Despite this timeline extension, the 90+ non-performing delinquency rate on the Ocwen portfolio, excluding servicing acquired in 2010, has decreased from 18.8% at the end of 2009 to 18.7% at December 31, 2010. This improvement occurred because 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.

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 are not subject to putback risk. There is one remaining securitization with an original UPB of approximately $200,000 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 $58,132 at December 31, 2010 and outstanding notes were $59,007. 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.

We will continue in 2011 to roll out new initiatives designed to improve our ability to manage delinquencies and advances. These initiatives will also be designed to improve borrower customer service levels, increase loan modifications and reduce re-defaults on loan modifications. We have already begun rolling 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 are also rolling out in 2011 our “Appointment Model” approach for communicating with our delinquent borrowers. We believe the Appointment Model approach will be far superior to the two most widely used and widely criticized alternative servicing methods of (i) specifically assigned resolution specialists and (ii) randomly assigned resolution specialists.

OPERATING SEGMENTS

Our current business segments are:

- Servicing
- Loans and Residuals
- Asset Management Vehicles (AMV)

These three segments comprise our Ocwen Asset Management (OAM) line of business that, in addition to our core residential servicing business, includes our equity investments in AMVs and our remaining investments in subprime loans and residual securities.

Prior to August 10, 2009, our operations included the Ocwen Solutions (OS) line of business. OS consisted of our former unsecured collections business, residential fee-based loan processing businesses and technology platforms as well as our equity investment in BMS Holdings and the international commercial loan servicing business that we conducted through Global Servicing Solutions, LLC (GSS). With the exception of our interests in GSS and BMS Holdings (now BHI), which have minimal or no book value, we distributed the assets, liabilities and operations of OS in the Separation.

Beginning in 2011, with the growth in our Servicing segment and continuing reductions in the Loans and Residuals and AMV segments, we plan to change our internal management reporting to focus on the Servicing segment and include the results for Loans and Residuals and AMVs in Corporate Items & Other. Our segment reporting in 2011 will be updated to reflect this change.

See Management’s Discussion and Analysis of Financial Condition and Results of Operations—Segment Results and Financial Condition and Note 29 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:

	2010				2009				2008			
Segment	$		%		$		%		$		%	
External Revenue												
Servicing	$	358,441	99.5	%	$	271,561	71.3	%	$	339,278	69.0	%
Loans and Residuals		—	—			—	—			—	—	
Asset Management Vehicles		523	0.1			1,381	0.4			2,751	0.6	
Mortgage Services		—	—			54,052	14.2			58,706	11.9	
Financial Services		—	—			40,293	10.6			73,835	15.0	
Technology Products		—	—			12,375	3.2			17,402	3.5	
Corporate Items and Other		1,417	0.4			1,066	0.3			156	—	
Consolidated	$	360,381	100.0	%	$	380,728	100.0	%	$	492,128	100.0	%
Income (Loss) from Continuing Operations before Income Taxes												
Servicing	$	78,195	199.7	%	$	87,681	94.0	%	$	100,770	325.2	%

Loans and Residuals	(2,846)	(7.3)	(9,121)	(9.8)	(14,682)	(47.4)
Asset Management Vehicles	(797)	(2.0)	(5,317)	(5.7)	(9,813)	(31.7)
Mortgage Services	—	—	17,815	19.1	13,262	42.8
Financial Services	—	—	(5,969)	(6.4)	(7,875)	(25.4)
Technology Products	—	—	9,590	10.3	3,580	11.6
Corporate Items and Other	(35,398)	(90.4)	(1,418)	(1.5)	(54,260)	(175.1)
Consolidated	$ 39,154	100.0 %	$ 93,261	100.0 %	$ 30,982	100.0 %

Segment	2010 $	2010 %	2009 $	2009 %	2008 $	2008 %
Total Assets						
Servicing	$ 2,495,966	85.4 %	$ 1,191,212	67.3 %	$ 1,416,615	63.3 %
Loans and Residuals	103,880	3.6	48,690	2.8	67,317	3.0
Asset Management Vehicles	12,097	0.4	15,271	0.9	26,755	1.2
Mortgage Services	—	—	—	—	3,558	0.2
Financial Services	—	—	—	—	58,707	2.6
Technology Products	—	—	—	—	8,906	0.4
Corporate Items and Other	309,466	10.6	514,177	29.0	664,962	29.7
Corporate Eliminations	—	—	—	—	(9,720)	(0.4)
Consolidated	$ 2,921,409	100.0 %	$ 1,769,350	100.0 %	$ 2,237,100	100.0 %

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Segments” and Note 29 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 MSR from the owner of the mortgage or because we entered into a subservicing or special servicing agreement with the entity that owns the MSR.

We are one of the largest servicers of subprime residential mortgage loans. As of December 31, 2010, we serviced 479,165 loans and real estate properties with an aggregate UPB of $73,886,391 under 716 servicing agreements for over 53 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 42% of the loans serviced at December 31, 2010. California has the largest concentration with 54,111 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 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. Most purchased MSRs entitle us generally 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 5 and 45 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 and the number of payments that we receive, delinquent loans that resolve either through borrower payments, modifications (HAMP and non-HAMP) or sales of REO.

These fees 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 and have subsequently become current.

Loan Resolution (Modification and REO Sales). The importance of loan resolution 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 describe the typical timing of our revenue recognition. The amounts used are not presented in thousands 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 or third anniversary of the start of the trial modification, up to a $1,000 HAMP success fee on each anniversary. We expect HAMP success fees soon to exceed 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 (i) existing loan terms are already below a 31% debt to income (DTI) ratio, (ii) inadequate documentation or (iii) 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 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 generally result in the highest net present value, but not in all cases.

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 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 to finance the servicing advances.

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. A larger servicing portfolio also increases expenses although, generally, less rapidly than the growth in UPB. To the extent that we grow UPB through the purchase of MSRs, our amortization of MSRs will generally increase with the growth in the carrying value of our MSRs. We will also incur additional interest expense to finance servicing advances, and our compensating interest expense will generally increase as the size of our portfolio increases.

Delinquencies. Delinquencies also have a significant impact on our results of operations. Non-performing loans are more expensive to service than performing loans because 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 or have been delinquent for less than 90 days in accordance with their original terms 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. When loans are performing, we have limited interaction with the borrowers, and relatively low-cost customer service personnel conduct most of those interactions.

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 and interest payments, refinancing, loan modifications involving forgiveness of principal and interest, voluntary property sales and involuntary property sales such as foreclosures. Prepayment speed impacts future servicing fees, amortization of servicing rights, float income, 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.

Prepayment speeds also affect our float income since decreased prepayment speeds lead to lower float income due to lower invested balances and lower compensating interest expense. Compensating interest represents the difference between the full month of interest that we are required to remit to the REMIC Trustee in the month that a loan pays off and the amount of interest that we actually collect from the borrower for that month. Compensating interest expense is included in “Servicing and origination expenses” in our consolidated statements of operations.

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. Standard & Poor’s Rating Services (Standard & Poor’s) has rated OLS “Strong” as a Residential Subprime Servicer and Residential Special Servicer. “Strong” represents Standard & Poor’s highest ratings category. Moody’s Investors Services, Inc. (Moody’s) has rated OLS “SQ2–” as a Residential

Subprime Servicer and “SQ2” as a Residential Special Servicer. “SQ2” represents Moody’s second highest rating category. Fitch Ratings (Fitch) has rated OLS “RPS2” for Residential Subprime Servicing and “RSS2” for Residential Special Servicing. These represent Fitch’s second highest categories.

Loans and Residuals

Our Loans and Residuals segment consists of three components:

Trading and investing activities. During 2007, we de-emphasized our whole loan purchase and securitization activities. Whole loans acquired but not securitized and sold are held for resale. Long-term, the key driver of our results is the performance of our assets. Asset performance is significantly affected by the default risk and the underlying property values associated with our loans held for resale and with the loans underlying our mortgage backed securities.

Subprime originations. In January 2007, we decided to close our subprime loan origination operation and no longer originate loans. Our loan origination operation included the results of Funding America, LLC (Funding America). Our decision to discontinue the subprime loan origination component included closing Funding America. Loans originated by Funding America but not sold are held for resale.

Consolidated securitization trusts. Effective January 1, 2010, the Loans and Residuals segment includes the four securitization trusts that we include in our consolidated financial statements under the recently amended provisions of Accounting Standards Codification (ASC) 810, Consolidation. See Note 1 to the Consolidated Financial Statements—Securitizations or Asset Backed Financing Arrangements for additional information regarding these consolidated trusts.

Asset Management Vehicles

In 2007, we began developing asset management vehicles to provide us with a source of servicing growth by involving third parties in the funding of these entities. Due to a lack of opportunities to profitably acquire assets, we are now allowing the assets of the existing asset management vehicles to run off.

Ocwen Structured Investments, LLC (OSI). To date we have invested $37,500 in OSI. Our commitment to invest additional capital expired on September 18, 2008. Our ownership interest in OSI is 25%. OSI invested primarily in MSRs and the related lower tranches and residuals of residential mortgage-backed securities, the credit risk of which we partially mitigated through the use of credit default swaps which have now expired or been sold. Under agreements that we entered into with OSI, we are responsible for providing various management services and for subservicing the portfolio of loans underlying its MSRs. During 2010, we received distributions from OSI totaling $875 that represent return of capital.

Ocwen Nonperforming Loans, LLC (ONL). Our investments in ONL and its related entities represent approximately a 25% equity interest. To date we have invested a combined $37,623 in ONL and its related entities. Our commitment to invest additional capital expired on September 13, 2010. These entities invested both in non-performing residential loans purchased at a discount and in foreclosed real estate. Under agreements that we have entered into with ONL and affiliates, we provide various management services and act as the servicer of the loans and foreclosed real estate. During 2010, we received distributions from ONL and related entities totaling $2,667 that represent return of capital.

We account for our investments in OSI and ONL using the equity method.

Mortgage Services, Financial Services and Technology Products

Substantially all of the Mortgage Services, Financial Services and Technology Products operations were separated as of August 10, 2009 as part of the Separation of the Ocwen Solutions line of business, except for GSS and BHI (formerly BMS Holdings). As a separate, publicly traded company, Altisource Portfolio Solutions S.A. will file a Form 10-K with the SEC.

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 the related costs of financing these investments and certain other corporate expenses. Our corporate debt, the majority of our cash and auction rate securities are also included in Corporate Items and Other. During 2010, we received $239,555 of cash proceeds from the liquidation our remaining auction rate securities through sales, settlements of legal actions and redemptions. We realized losses of $5,903 related to these transactions.

Business activities not considered to be of continuing significance include our affordable housing investment activities. In December 2010, we completed the sale of our 1% general partnership interests in three affordable housing properties. Because the carrying value of our investment in these properties was zero at the time of the sale, the proceeds from the sale resulted in our recognition of a gain of $6,036. Beginning August 10, 2009, the results of BHI (formerly BMS Holdings) and GSS are also included in Corporate Items and Other. We report the results of operations of BOK in the consolidated financial statements as discontinued operations.

SOURCES OF FUNDS

We meet our near-term liquidity requirements through:

- financings, such as match funded liabilities, lines of credit and other secured borrowings;
- funds generated by operations, such as servicing fees (including float earnings and other ancillary fees);
- collections of advances that were not financed; and
- payments received on loans held for resale.

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 servicing rights. 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

A discussion of competition as it relates to our primary businesses appears in Item 1A, "Risk Factors."

SUBSIDIARIES

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

EMPLOYEES

As of December 31, 2010, we had 2,274 employees, of which 291 were resident in our U.S. facilities, 1,854 were resident in our India operations centers and 129 were based in Uruguay. We have developed our India operations centers over the past nine years. Our Uruguay operation center, located in Montevideo, has been in existence since 2008.

In the U.S., the majority our employees were in our West Palm Beach, Florida facility, which had 251 employees as of December 31, 2010. We had 40 employees at various other locations in the U.S.

Of our employees in India as of December 31, 2010, 1,298 were in our Bangalore facility and 556 were in our Mumbai facility. Our India-based workforce is deployed as follows:

- 89% are in Servicing,

- 10% 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 and the SEC. We are also subject to regulation by the state agencies that license our mortgage servicing and collection activities in a number of states. We are subject to audits and examinations conducted by these state agencies. From time to time, we may 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 activities. We will 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, Homeowners Protection Act, the Federal Trade Commission 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, fees and escrow payment features, and they mandate certain disclosures and notices to borrowers.

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 recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act (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.

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. 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 Bureau of Consumer Financial Protection ("BCFP"), a new federal entity responsible for regulating consumer financial services.

The BCFP will directly impact the regulation of residential mortgage servicing in a number of ways. First, the BCFP will have rulemaking authority with respect to many of the federal consumer protection laws applicable to mortgage servicers, including TILA and RESPA. Second, the BCFP 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 BCFP'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. Beginning in July 2011, we expect that OLS will be subject to supervision, examination and enforcement by the BCFP.

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.

While the effective date for many of these provisions remains at least two years away, we expect to incur 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 during this period that place additional obligations on servicers of residential mortgage loans.

We are also subject to licensing and regulation as a mortgage service provider and/or debt collector in a number of states. We are subject to audits and examinations conducted by the states. From time to time, we receive requests from state and other agencies for records, documents and information regarding our policies, procedures and practices regarding our loan servicing and debt collection business activities. We incur significant ongoing costs to comply with governmental regulations.

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 contains 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 contains 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 will 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. For additional information regarding the Guaranty, see Note 31 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 (http://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, Room 1580, 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 (Dollars in thousands, except per share data or unless otherwise indicated)

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 Related to the Company

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 subordinate and residual securities and AMVs.

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. 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 an 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 and 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 delinquencies 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. Prepayment speeds have a significant impact on our revenues, our expenses and on the valuation of our MSRs as follows:

Revenue. If prepayment speeds increase, our servicing fees will decline more rapidly 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 our largest operating expense. Since we amortize servicing rights in proportion to total expected income over the life of a portfolio, an increase in prepayment speeds will lead to increased amortization expense as we revise downward our estimate of total expected income. Faster prepayment speeds would also result in higher compensating interest expense. Compensating interest expense represents the difference, in the month in which a loan is repaid, between the full month of interest that we are required to remit to the trust and the amount of interest that we actually collect from the borrower. 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.

The value of certain of our financial investments could change and adversely affect our operating results. We have invested in loans that we hold for resale and in certain asset management vehicles that invest principally in the subordinate and residual interests of REMIC trusts that are comprised primarily of subprime mortgage loans. We believe that we have established adequate valuation allowances for declines in fair values below the cost of these assets. However, future increases to these valuation allowances may be necessary due to changes in economic conditions and the performance of these assets prior to their sale or resolution. Increases in our valuation allowance for declines in fair value below cost could adversely affect our results of operations.

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 use internal financial models that use, wherever possible, market participant data to value our MSRs. These models are complex and use 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 the models. 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. Our current favorable servicer ratings from these entities are important to the conduct of our loan servicing business. Servicer ratings affect our ability to finance servicing advances, as the interest rates on our match funded advance facilities can increase with downgrades in our ratings. Downgrades in our servicer ratings could also affect the terms of match funded advance facilities that we may enter into in the future. Lenders may negotiate for increases in interest rates in future match funded advance facilities or may limit the amount of money that we can borrow to finance servicing advances if our ratings are deemed by the lenders to be too low. In addition, some of our pooling and servicing agreements may also require that the servicer maintain specified servicer ratings. Failure to maintain the specified rating may cause our termination as servicer. Any such downgrade could have an adverse effect on our business, financing activities, financial condition or results of operations.

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 purported class action lawsuits challenging our residential loan servicing practices. We have also received a Civil Investigative Demand from the Federal Trade Commission (FTC), 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. We have also been made aware that a coalition of state Attorneys General (AG Coalition) is conducting an industry-wide investigation into certain acts and practices concerning the mortgage foreclosure process. We have received no notification of alleged wrongdoing from either the FTC or the AG Coalition. Furthermore, we believe that we have meritorious legal and factual defenses to the lawsuits. However, we can provide no assurances with regard to ultimate outcomes with respect to these matters. 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 “Legal Proceedings.”

The expanding body of federal, state and local regulation and/or the licensing of loan servicing, collections or other aspects of our business may increase the cost of compliance and the risks of noncompliance. As noted in “Regulation,” our business is subject to extensive regulation by federal, state and local governmental authorities and is subject to various laws and judicial and administrative decisions imposing requirements and restrictions on a substantial portion of our operations. The volume of new or modified laws and regulations has increased in recent years and, in addition, some individual municipalities have begun to enact laws that restrict loan servicing activities including delaying or temporarily preventing foreclosures or forcing the modification of certain mortgages. 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 possibly 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 could harm our results of operations or financial condition.

GSE initiatives and other actions may affect mortgage servicing generally and future servicing fees in particular. On January 17, 2011, the Federal Housing Finance Agency announced that it has instructed Fannie Mae and Freddie Mac to study possible alternatives to the current residential mortgage servicing and compensation structure employed for single-family mortgage loans prospectively. It is too early to determine what Fannie Mae and Freddie Mac may propose as alternatives, or when any such alternatives would become effective. Although our business does not focus on servicing mortgage loans that would be directly governed by Fannie Mae or Freddie Mac servicing requirements, because of the significant role Fannie Mae and Freddie Mac play in the secondary mortgage market, it is possible that any changes 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 servicing practices and compensation structures do not serve broader housing policy objectives well. It is possible that these and other developments in mortgage servicing practices and compensation may result in an overall reduction in our servicing fees per loan in the future, which could adversely affect our financial results.

Changes to government loan modification and refinance programs may adversely affect future incremental revenues. Under government programs such as the Home Affordable Modification Program, 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 we 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 Wall Street Reform and Consumer Protection Act, the SAFE Act, or other legislative and regulatory developments may adversely affect our business. The Dodd-Frank Wall Street Reform and Consumer Protection Act (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.

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. The Department of Housing and Urban Development (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. Comments were due on the proposed rule on March 5, 2010, and 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.

Regulatory scrutiny regarding foreclosure processes may increase our advances, lengthen the time it takes for us to be reimbursed for such advances, and increase the costs incurred by us during the foreclosure process. As discussed in the Strategic Priorities section and above in this Risk Factors section, state banking regulators and state attorneys general publicly announced that they have initiated inquiries of 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 23 so-called “judicial states”; namely, those jurisdictions that require lenders or their loan servicers to go through a judicial proceeding to obtain a foreclosure order. In these judicial states, lenders or their loan servicer are generally required to provide to the court the mortgage loan documents and a sworn and notarized affidavit of an employee or 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 employee or 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, generally court proceedings, including affidavits similar to those provided in the judicial states, will 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 also called for a temporary moratorium on mortgage foreclosures. Such moratoria or other action by state or federal government bodies, regulators or courts could increase the length of time 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 trustee of the securitization trust that owns the mortgage loan to the extent we determine that such amounts are recoverable and to also make advances for delinquent taxes and insurance and foreclosure costs and the upkeep of vacant property in foreclosure. These advances are generally recovered when the delinquency is resolved. Foreclosure moratoria or other actions that lengthen the foreclosure process will increase the amount of advances 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, a number of our match funded advance facilities contain provisions that limit the eligibility of advances to be financed based on the length of time that advances are outstanding, and one of our match funded advance facilities has provisions that limit new borrowings if average foreclosure timelines extend beyond a certain time period, either of which, if such provisions applied, could adversely affect liquidity by reducing our average effective advance rate.

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, according to the acting Comptroller of the Currency a recent review of the foreclosure practices of the 14 largest federally-regulated mortgage servicers revealed “critical deficiencies and shortcomings,” and federal regulators are currently assessing sanctions and other remedial requirements to address these findings. Ocwen was not subject to this review because it is not a federally regulated depository institution, but Congress or other federal, state or municipal regulatory agencies could subject us to similar investigations. In general, these regulatory developments with respect to foreclosure practices could result in increases in the amount of advances and the length of time to recover advances, fines or increases in operating expenses, and decreases in the advance rate and availability of financing for advances. This would in turn lead to increased borrowings, reduced cash and higher interest expense which could negatively impact our liquidity and profitability.

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 are not subject to putback risk. There is one remaining securitization with an original UPB of approximately $200,000 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 $58,132 at December 31, 2010 and outstanding notes were $59,007. 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 risks associated with interest rate risk. At present, we have entered into interest rate swaps to fix our exposure to variable interest rates under two of our match funded securitizations. 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 rising interest rates. Therefore, we may consider utilizing various derivative financial instruments. 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. Over 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, 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 24% of our outstanding common shares. This includes approximately 18% owned or controlled by our executive chairman, William C. Erbey, and approximately 5% 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 high 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, 2010, we had total advances and match funded advances of $2,108,885. We are also exposed to interest rate risk because a portion of our outstanding debt 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 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. We have 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.

Risks Relating to Ownership of Our Common Shares

Our common share price may experience substantial volatility which may affect your ability to sell our common shares at an advantageous price. The market price of our common shares has been and may continue to be volatile. For example, the closing market price of our common shares on the New York Stock Exchange has fluctuated during the twelve months ended December 31, 2010 between $8.48 per share and $12.45 per share and may continue to fluctuate. Therefore, the volatility may affect your ability to sell our common shares at an advantageous price. Market price fluctuations in our common shares may be due to acquisitions, dispositions, the Separation 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 shares.

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.

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. In the pre-spin-off restructuring, any assets that were 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.

New prospective tax regulations, if held applicable to the Separation, could materially increase tax costs to Ocwen. On June 10, 2009, the IRS issued new regulations under Section 7874 of the Code. The IRS further indicated that it intends to issue additional regulations with respect to transactions where a U.S. corporation contributes assets, including subsidiary equity interests, to a foreign corporation and distributes the shares of such corporation, as in the Separation and the related transactions. Our understanding of the IRS’s plans regarding these forthcoming regulations is that they would apply to the Separation only if the value of assets held by Ocwen’s corporate or partnership subsidiary entities (either currently, or those that were distributed from such entities as part of the plan encompassing the Separation) exceeded, in the aggregate, 60% of the value of Altisource when contributed to Altisource. It is not certain, however, what these regulations will provide for once adopted. Prior to completing the Separation, Ocwen’s board of directors required Ocwen and Altisource to receive a valuation from an independent valuation firm that enabled the Company to determine whether the value of these assets was less than 60% of the value of Altisource. Because we believe the value of these assets does not exceed the 60% threshold, as we confirmed by information we derived from the independent valuation, we do not believe that Section 7874 of the Code applies to the Separation. The independent valuation is not binding on the IRS. If the IRS were to successfully challenge this valuation and find that the value of these assets exceeded 60% of the value of Altisource, then Ocwen would not be permitted to offset gain recognized on the transfer of these assets to Altisource with net operating losses, tax credits or other tax attributes. This could materially increase the tax cost to Ocwen of the Separation.

We may not realize all of the anticipated benefits of potential future acquisitions. Our ability to realize the anticipated benefits of potential future acquisitions of assets and/or companies will depend, in part, on our ability to scale-up to appropriately service any such assets and/or integrate the businesses of such acquired companies with our business. The process of acquiring assets and/or companies may disrupt our business and may not result in the full benefits expected. The risks associated with acquisitions include, among others:

- coordinating market functions;
- unanticipated issues in integrating information, communications and other systems;
- unanticipated incompatibility of purchasing, logistics, marketing and administration methods;
- retaining key employees; and
- the diversion of management’s attention from ongoing business concerns.

There is no assurance that we will realize the full benefits anticipated for any future acquisitions, or that we will be able to consummate any future acquisitions. In order to finance potential future acquisitions, we may, among other alternatives, issue additional shares of our common stock or convertible or other equity linked securities, including options, and warrants, or otherwise, which will dilute the ownership interest of our common stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table sets forth information relating to our primary facilities at December 31, 2010:

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
Sacramento, California (2)	Leased	126,460
Raleigh, North Carolina (2)	Leased	46,528
Bangalore, India	Leased	86,413
Mumbai, India	Leased	23,140
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. The former HomEq operations have been shut down and these facilities are currently not in use.

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 (Dollars in thousands)

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, have entered into a definitive written agreement with plaintiffs' counsel with respect to a class settlement. Ocwen's portion of the proposed settlement payment would be $5,163 plus certain other non-cash consideration. This liability and related settlement administrative costs are included in Other liabilities on the Consolidated Balance Sheet. The Court has granted preliminary approval to this class settlement, and notice of the settlement is being provided to potential class members. If the Court does not grant final approval of the settlement, then we will continue to vigorously defend the MDL Proceeding.

In November 2004, a judgment was entered in litigation in federal court in Denver brought by Cartel Asset Management, Inc. (Cartel) against OCN, the Bank and Ocwen Technology Xchange, Inc. (OTX), a subsidiary that has been dissolved. This matter involved allegations of misappropriation of trade secrets and contract-related claims brought by Cartel, a former vendor. In September 2007, the United States Court of Appeals for the Tenth Circuit upheld the judgment against OTX and remanded the case for a retrial on damages against the Bank. The trial court set a date of September 13, 2010 for the retrial against the Bank, as well as OLS and OCN which were added as defendants. At the retrial, Cartel requested the jury to award it $35,000 in compensatory damages, plus punitive damages. On September 24, 2010, the jury returned a verdict in the amount of $6,360 in compensatory damages and $6,360 in punitive damages. The verdict, which has not yet been reduced to a final judgment, does not include prejudgment interest or plaintiff's legal fees which may also be payable by Ocwen. Ocwen is evaluating post-verdict legal remedies in connection with the matter. Ocwen has accrued its best estimate of the total expected liability related to this matter. This liability is included in Other liabilities on the Consolidated Balance Sheet.

In September 2006, the Bankruptcy Trustee in Chapter 7 proceedings involving American Business Financial Services, Inc. (ABFS) brought an action against multiple defendants, including OLS, 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 OLS 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 OLS 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 $100,000 and punitive damages jointly and severally against all defendants. In April 2008, OLS 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 OLS are without merit and intend to continue to vigorously defend against this matter.

OCN is subject to various other pending legal proceedings. In our opinion, the resolution of those proceedings will not have a material effect on our financial condition, results of operations or cash flows.

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
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
2009		
First quarter	$12.02	$8.37
Second quarter	13.30	10.80
Third quarter	14.30	9.02
Fourth quarter	11.95	9.05

The closing sales price of our common stock on February 22, 2011 was $10.95.

We do not currently pay cash dividends on our common stock and have no current plans to do so in the future. The timing and amount of future dividends, if any, 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. See Note 31 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, 2005, with the cumulative total return on the stocks included in Standard & Poor's 500 Market Index and Standard & Poor's Diversified Financials Market Index.

	Period Ending					
Index	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Ocwen Financial Corporation	100.00	182.30	63.68	105.52	110.00	109.66
S&P 500	100.00	113.62	117.63	72.36	89.33	100.75
S&P Diversified Financials	100.00	120.74	95.70	38.16	49.05	51.16

(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 2010.

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 31 to the Consolidated Financial Statements for additional information regarding the terms of the Guaranty. The $350,000 senior secured term loan agreement that we entered on July 29, 2010 also limits our ability to repurchase shares of our common stock. See Note 16 for additional information regarding the terms of this loan.

Number of Holders of Common Stock

At February 22, 2011, 100,726,947 shares of our common stock were outstanding and held by approximately 111 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.

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

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, 2010 have been derived from our audited financial statements.

As disclosed in Note 2 to the Consolidated Financial Statements, on September 1, 2010, we completed the acquisition of the U.S. non-prime mortgage servicing business of Barclays Bank plc known as HomEq Servicing and boarded approximately 134,000 residential mortgage loans with an aggregate unpaid principal balance of approximately $22,400,000. The transaction has been accounted for using the acquisition method of accounting and included the mortgage servicing rights and associated servicer advances of the business.

On August 10, 2009, we completed the Separation by distributing all of the shares of Altisource common stock to Ocwen shareholders in the form of a pro rata stock distribution. Altisource consists of the operations of our former Ocwen Solutions line of business and related assets comprising the Mortgage Services, Financial Services and Technology Products segments. On August 9, 2009, as a result of the Separation, we eliminated the assets and liabilities of Altisource from our consolidated balance sheet effective at the close of business, and the operating results of Altisource are no longer included in our operating results after that date. We do not report the historical operating results of Altisource as a discontinued operation because of the significance of the continuing involvement between Altisource and Ocwen under long-term services agreements.

We have reclassified certain amounts included in the selected financial data for prior years to conform to the 2010 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,				
	2010 (7)	2009 (6)	2008	2007	2006
Selected Balance Sheet Data					
Cash	$ 127,796	$ 90,919	$ 201,025	$ 114,243	$ 236,581
Restricted cash – for securitization investors (1)	727	—	—	—	—
Trading securities, at fair value:					
Auction rate	—	247,464	239,301	—	—
Other investment grade securities	—	—	—	34,876	74,986
Subordinates and residuals	—	3,692	4,369	7,362	65,242
Investment in certificates of deposit	—	—	—	—	72,733
Loans held for resale, at lower of cost or fair value	25,803	33,197	49,918	75,240	99,064
Advances	184,833	145,914	102,085	292,887	324,137
Match funded advances	1,924,052	822,615	1,100,555	1,126,097	572,708
Loans, net – restricted for securitization investors (1)	67,340	—	—	—	—
Mortgage servicing rights	193,985	117,802	139,500	197,295	183,743
Deferred tax assets, net (2)	138,716	132,683	175,145	175,669	172,202
Intangibles, net, including goodwill (6) (7)	12,810	—	46,227	58,301	7,053
Investment in unconsolidated entities (3)	12,072	15,008	25,663	76,465	46,151
Other	233,275	160,056	153,312	233,489	150,794
Total assets	$ 2,921,409	$ 1,769,350	$ 2,237,100	$ 2,391,924	$ 2,005,394
Match funded liabilities	$ 1,482,529	$ 465,691	$ 961,939	$ 1,001,403	$ 510,236
Secured borrowings – owed to securitization investors (1)	62,705	—	—	—	—
Debt securities, lines of credit and other secured borrowings:					
Short-term	51,085	7,979	182,860	339,976	310,149
Long-term	277,542	143,395	67,377	143,111	153,462
Investment line	—	156,968	200,719	—	—

Servicer liabilities	2,492	38,672	135,751	204,484	383,549
Other	140,239	90,782	78,813	110,429	81,340
Total liabilities	2,016,592	903,487	1,627,459	1,799,403	1,438,736
Ocwen Financial Corporation stockholders' equity (1)	904,571	865,611	609,235	590,542	564,868
Non-controlling interest in subsidiaries	246	252	406	1,979	1,790
Total equity	904,817	865,863	609,641	592,521	566,658
Total liabilities and equity	$ 2,921,409	$ 1,769,350	$ 2,237,100	$ 2,391,924	$ 2,005,394
Residential Loans and Real Estate Serviced for Others					
Count	479,165	351,595	322,515	435,616	473,665
Amount	$ 73,886,391	$ 49,980,077	$ 40,171,532	$ 53,545,985	$ 52,834,028

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	For the Years Ended December 31,				
	2010 (7)	2009 (6)	2008	2007	2006
Selected Operations Data					
Revenue:					
Servicing and subservicing fees	$ 321,699	$ 264,467	$ 368,026	$ 379,277	$ 340,584
Other	38,682	116,261	124,102	101,384	90,746
Total revenue	360,381	380,728	492,128	480,661	431,330
Operating expenses	236,474	235,654	323,355	351,866	339,655
Income from operations	123,907	145,074	168,773	128,795	91,675
Other income (expense):					
Interest income (1)	10,859	8,786	14,696	29,651	47,609
Interest expense	(85,923)	(62,954)	(86,574)	(76,586)	(56,979)
Other, net (1)	(9,689)	2,355	(65,913)	(27,306)	(3,717)
Other expense, net	(84,753)	(51,813)	(137,791)	(74,241)	(13,087)
Income from continuing operations before income taxes	39,154	93,261	30,982	54,554	78,588
Income tax expense (benefit) (2)(6)	5,545	96,110	12,006	15,186	(127,720)
Income (loss) from continuing operations	33,609	(2,849)	18,976	39,368	206,308
Income (loss) from discontinued operations, net of taxes (4)	4,383	3,121	(5,767)	(3,172)	(2,094)
Net income	37,992	272	13,209	36,196	204,214
Net loss (income) attributable to non-controlling interests	(8)	25	41	(92)	(69)
Net income attributable to OCN	$ 37,984	$ 297	$ 13,250	$ 36,104	$ 204,145
Basic earnings per share					
Income (loss) from continuing operations	$ 0.34	$ (0.04)	$ 0.30	$ 0.63	$ 3.28
Income (loss) from discontinued operations (4)	0.04	0.04	(0.09)	(0.05)	(0.03)
Net income	$ 0.38	$ —	$ 0.21	$ 0.58	$ 3.25
Diluted earnings per share					
Income (loss) from continuing operations	$ 0.32	$ (0.04)	$ 0.30	$ 0.62	$ 2.95
Income (loss) from discontinued operations (4)	0.04	0.04	(0.09)	(0.05)	(0.03)
Net income	$ 0.36	$ —	$ 0.21	$ 0.57	$ 2.92

Weighted average common shares outstanding					
Basic	100,273,121	78,252,000	62,670,957	62,712,076	62,871,613
Diluted (5)	107,483,015	78,252,000	62,935,314	63,496,339	71,864,311

(1) As a result of our adoption of Accounting Standards Update (ASU) 2009-16 (ASC 860, Transfers and Servicing) and ASU 2009-17 (ASC 810, Consolidation) on January 1, 2010 we began consolidating four residential mortgage loan securitization trusts that were previously excluded from our consolidated financial statements because each trust was a qualifying special purpose entity (QSPE). In prior years, we had securitized residential mortgage loans using certain trusts. Upon adoption of this new accounting guidance, we recorded a $75,506 increase in total assets, a $73,232 increase in liabilities and a $2,274 increase in the opening balance of retained earnings. Our Consolidated Statements of Operations and Consolidated Balance Sheets for the prior years presented have not been retroactively adjusted. Beginning January 1, 2010, we eliminate in consolidation our investment in the securities we hold that were issued by the securitization trusts, as well as the related interest income and unrealized gains and losses. See Note 1 to the Consolidated Financial Statements for additional information.

(2) The income tax benefit for 2006 reflects the reversal of $155,377 of valuation allowances on our deferred tax assets in order to increase the net deferred tax asset to the amount that is more likely than not to be realized in future periods.

(3) We account for our investments in unconsolidated entities using the equity method. In 2006, we acquired an equity interest in BMS Holdings. During 2008, our 45% equity interest in the losses of BMS Holdings reduced our investment to zero, and we suspended the recognition of losses from our investment. In 2010, the stock of BMS was transferred to debt holders as part of a restructuring plan, and as a result, BMS Holdings has no remaining assets or operations. Following the restructuring, BMS Holdings changed its name to BHI Liquidation, Inc. (BHI). In 2007, we acquired 25% equity interests in OSI and in ONL and affiliates.

(4) In the fourth quarter of 2009, we completed the sale of our investment in BOK. We have reported the results of operations of BOK in the consolidated financial statements as discontinued operations. Income from discontinued operations for 2010 represents a true-up of Ocwen’s income tax expense on the sale of BOK.

(5) The assumed conversion of the 3.25% Convertible Notes has been reflected in the calculation of weighted average common shares outstanding in computing diluted earnings per share for 2006. Conversion of the Convertible Notes to common stock was not assumed for 2009, 2008 and 2007 because the effect was antidilutive. Interest expense on the Convertible Notes, net of income tax, has been added to net income for purposes of computing diluted earnings per share for 2010 and 2006.

(6) As a consequence of the Separation and related transactions, Ocwen incurred income taxes to the extent that the fair market value of Altisource assets exceeded Ocwen’s tax basis in such assets in accordance with Section 367 of the Internal Revenue Code. Ocwen recognized $52,047 of income tax expense, of which $25,649 was current expense and $26,398 was deferred expense. We eliminated $88,478 of the assets (including goodwill and other intangibles) and $16,332 of the liabilities of Altisource from our consolidated balance sheet effective at the close of business on August 9, 2009. Beginning August 10, 2009, the operating results of Altisource are no longer included in our operating results. The Separation contributed significantly to the declines in revenues, operating expenses, income from operations and income from continuing operations. See Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview for additional information regarding the effects of the Separation.

(7) Ocwen acquired HomEq Servicing for total consideration of $1,165,673, of which $852,617 was funded by a new match funded servicing advance facility with the remainder primarily borrowed under a new senior secured term loan. Total identifiable net assets acquired were $1,162,189, including MSRs of $84,324 and advances of $1,063,180. We also acquired goodwill of $12,810. Revenues and operating expenses of HomEq Servicing from the acquisition date of September 1, 2010 through December 31, 2010 were $43,127 and $56,725, respectively. Operating expenses for this period consist principally of non-recurring costs related to the acquisition, including employee severance and lease termination costs and the amortization of MSRs. These operating expenses do not include an allocation of costs related to the servicing of HomEq Servicing loans on Ocwen’s platform.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in thousands, except share data)

INTRODUCTION

Unless specifically stated otherwise, all references to 2010, 2009 and 2008 refer to our fiscal years ended, or the dates, as the context requires, December 31, 2010, December 31, 2009 and December 31, 2008, respectively.

The following discussion of our results of operations, financial condition and capital resources and liquidity should be read in conjunction with our Consolidated Financial Statements and the related notes, all included elsewhere in this annual report on Form 10-K.

OVERVIEW

Operations Summary

The HomEq Acquisition and related shutdown costs in 2010 and the Altisource Separation and related income taxes in 2009 have significantly impacted our consolidated operating results. The operating results of the HomEq Servicing business are included in the Servicing segment since the acquisition on September 1, 2010. As a result of the Separation on August 10, 2009, Ocwen ceased, beginning on that date, to record operating results from the Mortgage Services, Financial Services and Technology Products segments.

The following table summarizes our consolidated operating results for the years indicated. We have provided a more complete discussion of operating results by line of business in the Segments section.

	For the years ended December 31,			% Change	
	2010	2009	2008	2010 to 2009	2009 to 2008
Consolidated:					
Revenue (1)	$ 360,381	$ 380,728	$ 492,128	(5)%	(23)%
Operating expenses (2)	236,474	235,654	323,355	—	(27)
Income from operations	123,907	145,074	168,773	(15)	(14)
Other expense, net	(84,753)	(51,813)	(137,791)	64	(62)
Income from continuing operations before taxes	39,154	93,261	30,982	(58)	201
Income tax expense	5,545	96,110	12,006	(94)	701
Income (loss) from continuing operations	33,609	(2,849)	18,976	(1,280)	(115)
Income (loss) from discontinued operations, net of taxes	4,383	3,121	(5,767)	40	(154)
Net income	37,992	272	13,209	13,868	(98)
Net income (loss) attributable to non-controlling interests	(8)	25	41	(132)	(39)
Net income attributable to OCN	$ 37,984	$ 297	$ 13,250	12,689	(98)
Segment income (loss) from continuing operations before taxes:					
Servicing	$ 78,195	$ 87,681	$ 100,770	(11)%	(13)%
Loans and Residuals	(2,846)	(9,121)	(14,682)	(69)	(38)
Asset Management Vehicles	(797)	(5,317)	(9,813)	(85)	(46)
Mortgage Services	—	17,815	13,262	(100)	34
Financial Services	—	(5,969)	(7,875)	(100)	(24)
Technology Products	—	9,590	3,580	(100)	168
Corporate Items and Other	(35,398)	(1,418)	(54,260)	2,396	(97)
	$ 39,154	$ 93,261	$ 30,982	(58)	201

(1) Excluding the revenues earned by GSS and intersegment revenues of OS that were eliminated in consolidation, OS revenues were $106,257 and $146,166 for the years ended December 31, 2009 and 2008, respectively.

(2) Excluding the expenses of GSS and BMS and intersegment expenses of OS that were eliminated in consolidation, OS operating expenses were $91,847 and $143,135 for the years ended December 31, 2009 and 2008, respectively.

2010 versus 2009. Residential servicing fees were higher than 2009 as a result of fees from HAMP modifications and the effects of $32.2 billion of UPB additions to the Servicing portfolio including approximately $22.4 billion on September 1, 2010 related to the HomEq Acquisition and $6.9 billion added by the Saxon Acquisition in the second quarter. However, process management fees and other revenues declined as a result of the Separation. Operating expenses increased slightly in 2010 despite the Separation because of non-recurring expenses of $52,603 associated with the HomEq Acquisition and because of litigation expense of $26,882 incurred in connection with the Cartel verdict and the proposed settlement of the MDL Proceeding. Income from operations declined by $21,167, or 15%, in 2010 as compared to 2009.

Other expense, net increased due to higher interest expense on borrowings related to the HomEq Acquisition of $31,915 and realized losses on sales of our remaining auction rate securities of $5,903. Other expense, net also includes a $3,000 write-off of a commercial real estate investment. These increases in expenses were partially offset by gains of $6,036 from the sale of our 1% general partnership interests in three affordable housing projects during the fourth quarter.

Income from continuing operations before income taxes was $39,154 for 2010 as compared to $93,261 for 2009. The former OS segments were included in our results through August 9, 2009 and generated Income from continuing operations before income taxes of $12,836 for the year ended December 31, 2009.

The provision for income taxes was reduced by the effect of the reversal of $9,126 of reserves related to income taxes. The net loss for 2009 includes the $52,047 income tax effect associated with the Separation. Discontinued operations for 2010 includes an income tax benefit of $4,383 recorded in the third quarter related to our recognition of additional tax losses on our former investment in BOK. Net income attributable to Ocwen increased by $37,687 as compared to 2009.

2009 versus 2008. Our residential servicing revenues declined from 2008 due to lower annual average UPB and fewer total completed loan modifications due in large part to the delays associated with the implementation of the HAMP. Process management fees and other revenues declined because of the Separation. Operating expenses declined in 2009 in part because of the Separation. In addition, Servicing operating expenses for 2009 benefited from lower amortization expense on a smaller MSR portfolio, reduced staffing levels and fewer loan payoffs. Income from operations declined by $23,699, or 14%, in 2009 as compared to 2008.

Other expense, net declined dramatically due to gains on auction rate securities in 2009 compared to losses in 2008, representing a $41,476 improvement and a reduction in interest expense as advances and advance financing balances declined despite higher average spreads and facility fees in 2009 compared to 2008. Income from continuing operations before taxes climbed to $93,261 in 2009 from $30,982 in 2008.

As noted above, we incurred a significant non-recurring income tax expense associated with the Separation and increased our liability for selected tax items by $8,489, representing the full amount of recognized deferred tax assets arising from deductibility of losses in a servicing advance finance structure. These two items contributed to a higher effective tax rate in 2009, the deferred portion of which was non-cash. As a result, income from continuing operations declined $21,825 or 115% in 2009 as compared to 2008. Discontinued operations for 2009 includes a pre-tax gain of $4,034 realized on the sale of BOK.

Primarily due to the tax impact of the Separation and the increase in our liability for selected tax items, net income declined 98% from 2008 to 2009.

Change in Financial Condition Summary

The overall increase in our assets of $1,152,059 or 65% during 2010 was principally the result of the following changes:

- Cash increased by $36,877.

- We liquidated our remaining investment in auction rate securities which had a fair value of $247,464 at December 31, 2009 through sales and the settlement of two litigation actions.