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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, 2004

OR

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

For the transition period from: _____ to _____

Commission File No. 1-13219

OCWEN FINANCIAL CORPORATION

(Exact name of Registrant as specified in our charter)

FLORIDA

65-0039856

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1675 Palm Beach Lakes Boulevard
West Palm Beach, Florida

33401

(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 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 []

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No []

Aggregate market value of the Common Stock, \$0.01 par value, held by nonaffiliates of the registrant, computed by reference to the closing price as reported on the NYSE as of the close of business on March 10, 2005: \$284,147,823 (for purposes of this calculation affiliates include only directors and executive officers of the registrant).

Number of shares of Common Stock, \$0.01 par value, outstanding as of March 10, 2005: 62,750,904 shares

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Annual Report to Shareholders for fiscal year ended December 31, 2004 are incorporated by reference into Part I, Item 1 and Part II, Items 5-8 and portions of our definitive Proxy Statement with respect to our Annual Meeting of Shareholders to be held on May 17, 2005, are incorporated by reference into Part III, Items 10 - 12 and 14.

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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, including, but not limited to the following:

- . Estimates regarding the benefits of cost saving opportunities and quality workforce in India,
- . Projections for staff reduction in the United States and growth in our India workforce,
- . Predictions as to the potential business opportunities in business process outsourcing,

- . Predictions regarding sales of our commercial and affordable housing assets and
- . Intentions related to the issuance of brokered deposits and other sources of financing.

Forward-looking statements are not guarantees of future performance and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially. Important factors that could cause actual results to differ materially from those suggested by the forward-looking statements include, but are not limited to, the following:

- . General economic and market conditions,
- . Prevailing interest or currency exchange rates,
- . Availability of servicing rights for purchase,
- . Governmental regulations and policies,
- . International political and economic uncertainty,
- . Availability of adequate and timely sources of liquidity,
- . Uncertainty related to dispute resolution and litigation and
- . Real estate market conditions and trends.

Further information on the risks specific to our business are detailed within this report and our other reports and filings with the Securities and Exchange Commission, including our periodic reports on Form 10-K, Form 10-Q and Form 8-K. The forward-looking statements speak only as of the date they are made and should not be relied upon. OCN undertakes no obligation to update or revise the forward-looking statements.

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PART I

ITEM 1 BUSINESS (Dollars in thousands)

GENERAL

Ocwen Financial Corporation ("OCN" or "the Company") is a diversified financial services holding company with headquarters in West Palm Beach, Florida and operations in Canada, China, Germany, India, Japan and Taiwan. We are engaged in a variety of businesses related to residential and commercial mortgage servicing, real estate asset management, asset recovery, business process outsourcing and the marketing and sales of technology solutions to third parties. OCN is a Florida corporation that was organized in February 1988 in connection with the acquisition of Ocwen Federal Bank FSB (the "Bank"). OCN is a registered savings and loan holding company subject to regulation by the Office of Thrift Supervision ("OTS"). The Bank is a wholly owned subsidiary of OCN and is also subject to regulation by the OTS, as its chartering authority, and by the Federal Deposit Insurance Corporation ("FDIC"), as a result of its membership in the Savings Association Insurance Fund, which insures the Bank's deposits to the maximum extent permitted by law. The Bank is also subject to regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve Board") and currently is a member of the Federal Home Loan Bank ("FHLB") of New York, one of the 12 regional banks that comprise the FHLB System.

We have recently begun the process of having the Bank terminate its status as a federal savings bank under OTS and FDIC supervision, which would, among other things, eliminate certain restrictions on our growth. If this process, which we refer to as "debanking," is completed, we would dissolve the Bank and continue its non-depository businesses, including its mortgage servicing business, under another subsidiary of our Company, which would be licensed where necessary at the state or territory level. Should debanking be completed, Ocwen Financial Corporation would no longer be a savings and loan holding company and would no longer be able to take deposits in the United States or benefit from federal preemption. Our ability to debank is subject to a number of contingencies, many of which are beyond our control, including approvals by the OTS with respect to the Application for a Voluntary Dissolution (which we filed with the OTS on November 24, 2004) and sales of the Bank's deposits to third parties. There can be no assurance that we ultimately will be successful in debanking.

In connection with our debanking process, on February 4, 2005, we entered into a Branch Purchase and Deposit Assumption Agreement (the "Branch Purchase Agreement") with Marathon National Bank of New York ("Marathon"). Pursuant to the Branch Purchase Agreement, Marathon agreed to assume the deposit liabilities of the accounts associated with the Bank branch facility in Fort

Lee, New Jersey. In addition, Marathon will take over the lease and other contracts and acquire assets related to the branch. In connection with that closing, Ocwen will make a cash payment to Marathon, which payment is calculated based upon, among other things, the amount of those deposit account liabilities as of the closing. As of February 28, 2005, the amount of the deposit liabilities of the accounts subject to the Branch Purchase Agreement was approximately \$193,000. The transaction is subject to regulatory and other customary approvals and conditions.

On September 30, 2004, we acquired Bankhaus Oswald Kruber KG ("BOK") a German bank, for \$9,737, including acquisition costs. Our primary objectives in acquiring BOK were to diversify our funding sources and to establish a platform to provide services to our multinational client base. The results of operations of BOK are included in our consolidated income statement beginning on October 1, 2004. The excess of the purchase price over the fair value of the net assets acquired (goodwill) related to this transaction is \$3,694. We also recorded \$1,741 of intangible assets, none of which are subject to amortization. As of December 31, 2004 BOK had assets of \$23,043, of which \$10,699 were interest earning deposits, and total liabilities of \$10,919.

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 practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Also posted on our website, and available in print upon request, are the charters for our Audit Committee, Compensation Committee and Governance Committee, our Governance Guidelines, and 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.

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PART I (Continued)

SEGMENTS

In early 2000, we began the execution of our strategic plan to shift our business activities away from capital-intensive businesses involving the purchase or origination of loans, real estate and related assets toward less capital-intensive businesses that generate fee-based revenues. As a result, we generally ceased to originate or invest in assets in certain of our business segments ("non-core businesses") unless contractually committed to do so. However, we continue to actively manage and resolve the remaining assets in these segments. Our primary fee-based business activity is servicing subprime residential mortgage loans for others. As of December 31, 2004, our core and non-core businesses were as follows:

CORE BUSINESSES	NON-CORE BUSINESSES
Residential Loan Servicing	Commercial Assets
Ocwen Technology Xchange ("OTX")	Affordable Housing
Ocwen Realty Advisors ("ORA")	Subprime Finance
Ocwen Recovery Group	
Business Process Outsourcing	
Commercial Servicing	

In addition to our core and non-core business segments, we report other items of revenue and expense in our Corporate Items and Other segment as discussed later in this section.

Our decision to change our strategy and to focus on fee-based earnings was driven by changes in the economy and in the markets we serve and in our perception of how to maximize the long-term value of the Company. The non-core residential discount loan business and commercial finance business involved the acquisition of non-performing loans at a discount to par value. The objective was to resolve the loan and return it to performing status in order to increase its value. Once the loan was reperforming, the exit strategy was to sell or securitize the loan for a profit. As the economy continued to expand throughout the late 1990s, however, the supply of non-performing loans decreased. As a result, the prices asked for non-performing loans increased, and consequently the profit margins on the business decreased. Additionally, the earnings

patterns of the businesses could be erratic as they typically depended on the consummation of a few large sales transactions. Simultaneously, new competitors that had access to large amounts of capital were entering the market.

In the late 1990s we also began to originate subprime residential mortgage loans. However, the business attracted a substantial amount of new capital and competition increased. The competition from larger, better-capitalized companies put pressure on pricing relative to the rates and terms offered to subprime borrowers in general, and, as a result, profit margins declined. Simultaneously, interest rates began to decrease and the assumptions concerning prepayment speeds that had been used to price new loans turned out to be overly optimistic as mortgages prepaid more quickly than expected, adding additional risk to investments in this business line. Consequently, we determined that our best course of action was to compete where we were strongest, that is, by using the technology and expertise we had developed over the years in managing our own portfolio of non-performing residential and commercial loans and in servicing our own subprime loans and offering it to other institutions on a fee for service basis, either as a mortgage servicer or as a technology provider. We believe that these activities offer a more consistent earnings stream with a more attractive risk profile. Accordingly, in late 1999 and early 2000 we embarked on our current business strategy.

Segment results in recent years reflect growth in our residential loan servicing segment, continued investment in the development and marketing of our technology products, cessation of loan acquisition and origination activities and our continuing resolution or disposition of those assets not associated with our core businesses. To date, the Residential Loan Servicing business has been profitable. Our Ocwen Recovery Group business and ORA are profitable but smaller contributors to the bottom line. Both earn fee income for performing services for third parties. OTX markets several products to the real estate and mortgage industries. However, although we earn some fee income from sales of these products, they have not yet been sufficient for this business line to earn a profit. Business Process Outsourcing, which began offering business process outsourcing services late in 2002, improved its profitability in 2003 and 2004. Commercial Servicing was not profitable in 2003 and 2002, reflecting start-up costs associated with expanding our asset servicing business to various other countries, but achieved a small profit in 2004. Additional information regarding profitability of our business segments appears under the caption "Segment Results" on pages 23 to 29 and in "Note 26: Business Segment Reporting" on pages 105 to 107 of our 2004 Annual Report to Shareholders.

A more detailed description of each of our business segments follows.

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PART I (Continued)

RESIDENTIAL LOAN SERVICING

We service performing, sub-performing and non-performing residential mortgage loans. Subprime mortgages comprised the vast majority of the \$37,697,318 in total unpaid principal balance of the loans we serviced at December 31, 2004. We serviced loans under approximately 345 servicing agreements for 22 clients as of December 31, 2004. These clients include well capitalized mortgage originators, such as New Century and Delta Funding, Wall Street firms with mortgage securitization platforms, such as Lehman Brothers, Credit Suisse First Boston and Morgan Stanley, and governmental agencies, such as the United States Department of Veterans Affairs.

We are entitled to service mortgages because we purchased the servicing rights from the owners of the mortgages or have entered into a subservicing agreement with an entity that owns the servicing rights. The rights and obligations of servicing rights are typically specified in an agreement between the various parties to a mortgage securitization transaction. Our largest source of revenue with respect to servicing rights is the servicing fees we earn pursuant to servicing and subservicing agreements. Servicing fees are usually earned as a percentage of the unpaid principal amount of the mortgages that are being serviced. A typical servicing fee is approximately 0.50% per year and a typical subservicing fee ranges from approximately 0.17% to 0.19% per year. The servicing and subservicing fees are supplemented by related income, including late fees from borrowers who are delinquent in remitting their monthly mortgage payments and interest earned on payments made to us but not yet remitted to the owner of the mortgage.

As servicer or subservicer, we also have a variety of obligations that are also specified in the servicing or subservicing agreement, including the obligation to service the mortgages according to certain contractual standards and to advance funds to securitization trusts in the event that borrowers are delinquent on their monthly mortgage payments. The costs incurred in connection with meeting these obligations includes, but is not limited to, the cost of servicing the loans and the interest expense incurred to finance the servicing rights and servicing advances incurred in connection with conducting the business.

The contracts for servicing may provide for a single bulk transfer of a servicing portfolio or the ongoing transfer of loans as they are originated or purchased by counterparties to the servicing contract. While the loan data are transferred to us for servicing, the client retains ownership of the loans.

The acquisition of servicing rights is generally structured as a two-part bid process. A preliminary bid is provided to each potential client following a preliminary due diligence review of the loan portfolio, the seller's financial status, the strategic fit of the portfolio with our servicing capabilities and the portfolio's historical performance characteristics.

Once the preliminary bid is accepted by the potential client, we initiate a further evaluation of the portfolio through a formal due diligence process, which includes a more detailed analysis of historical prepayment and delinquency experience. This formal process determines the present value of a projected stream of cash inflows and outflows from the portfolio. Based upon the findings of this formal process, a final bid is prepared for approval by our Credit Committee and submitted to the client for consideration. Upon the client's acceptance, we enter into a servicing rights purchase agreement.

The U.S. Department of Housing and Urban Development, Freddie Mac and Fannie Mae have approved the Bank as a loan servicer. Standard & Poor's has rated the Bank as "Strong" as a Residential Subprime Servicer and Residential Special Servicer. "Strong" represents Standard & Poor's highest ratings category. On April 23, 2004, Standard & Poor's placed these ratings on watch with negative implications. Moody's has rated the Bank as "SQ2" as a Residential Subprime Servicer and as a Residential Special Servicer. "SQ2" represents Moody's above average rating category. Fitch has rated us "RPS2" for Residential Subprime Servicing and "RSS2" for Residential Special Servicing. These represent Fitch's second highest categories, respectively. On March 1, 2004, Fitch placed our "RPS2" rating for Residential Subprime Servicing and our "RSS2" rating for Residential Special Servicing on negative watch. On December 29, 2004, Fitch removed our Residential Subprime Servicing and Residential Special Servicing ratings from negative watch.

OCWEN TECHNOLOGY XCHANGE (OTX)

The OTX segment consists of the following three product lines: REALTrans(SM), REALServicing(TM) and REALSynergy(TM). Each of these product lines serves a different market need, and each is at a different stage of maturity and commercial use.

Our REALTrans product is a web-based vendor management platform that facilitates the electronic fulfillment of real estate products and services necessary to process, approve and close residential mortgage loans, as well as to service them. We market this product to residential lenders and servicers and their associated vendors. By connecting these two parties through the REALTrans platform, we allow them to conduct business more effectively and efficiently. We earn transaction fee revenues from the vendors based on the products and services they provide to their lenders through this platform. We also earn revenues through annual membership fees. The transaction fees are recognized

PART I (Continued)

as revenue as incurred. The membership fees are deferred and recognized as revenue over the twelve-month membership period. Among our customer base on the REALTrans platform are several of the top 35 residential mortgage lenders and over 4,000 vendors. These lenders account for a significant portion of the mortgage origination market.

Our REALServicing product is a comprehensive enterprise-level residential mortgage loan servicing platform, which has been used by the Bank

since January 2001. The REALServicing product suite also includes REALResolution(TM), a default management platform that provides end-to-end mortgage default processing support. The target market for this platform includes both prime and sub-prime residential mortgage loan servicers.

On May 3, 2004, OTX entered into a Service and License Agreement with Aegis Mortgage Corporation regarding the REALServicing product. Pursuant to that agreement, OTX has agreed to operate the REALServicing system for use in Aegis's residential mortgage loan servicing business in exchange for a one-time documentation fee and a commitment to pay monthly fees. The initial term of the agreement is for four years with an option for Aegis to renew for one additional three-year term.

Our REALSynergy product is a comprehensive enterprise-level commercial mortgage loan servicing platform. The target market for this platform includes domestic and international commercial mortgage loan servicers. The market in which REALSynergy competes is served by a limited number of companies. Our primary competitor is a division of a large, diversified public company. The REALSynergy product suite includes REALSAMM(TM), the REALSynergy Asset Management Module, a web-enabled platform for the asset and default management of performing and non-performing commercial loans and real estate. REALSAMM is being introduced to selected international markets through GSS, our joint venture with Merrill Lynch.

OCWEN REALTY ADVISORS (ORA)

As part of our strategic focus on fee-based businesses, we established ORA in 1999 as a new segment. ORA provides valuation services to external customers in the wholesale lending community as well as for our own residential real estate transactions.

An important part of the process of acquiring and managing mortgage loan portfolios is the accurate review and analysis of the collateral offered as security for the loans. ORA not only provides traditional valuation products such as appraisals and broker price opinions, it also employs valuation models and other alternative valuation products that can more precisely meet the specific risk management needs of our customers.

OCWEN RECOVERY GROUP

This segment conducts collection activities for third party owners of unsecured receivables and for a portfolio of unsecured credit card receivables that we acquired at a discount in 1999 and 2000.

On collections for third party owners, we generally earn a fee based upon a percentage of the dollars collected. The percentage fee generally ranges from 17% to 50%. We intend to continue to grow our third party collections activity.

We accounted for collections of our unsecured credit card receivables under the cost recovery method through 2001 by which time we had reduced the net book value of these receivables to zero as a result of collections and reserves. Our contractual obligations to acquire these receivables expired in June 2000. We have made no purchases since that time and plan no future purchases.

BUSINESS PROCESS OUTSOURCING

This business segment began operations in December 2002. The results for 2004 and 2003 primarily reflect the initiation of new outsourcing contracts in the third quarter of 2003. Business Process Outsourcing provides outsourcing services to third parties, including mortgage underwriting, data entry, call center services and mortgage research.

COMMERCIAL SERVICING

This segment includes the results of operations of both domestic and international servicing. International servicing is conducted through Global Servicing Solutions, LLC ("GSS"), a joint servicing venture we formed with Merrill Lynch in March 2002 for the servicing of assets in various countries. Prior to 2004, domestic commercial servicing was reported as a component of the Commercial Finance segment (re-named Commercial Assets), and the results of our international operations were reported as a separate segment. Results for prior years have been restated to conform to this presentation. We own 70% of GSS with the remaining 30% owned by Merrill Lynch. GSS offices in Tokyo, Japan and Taipei, Taiwan became fully operational during 2003. We also established

servicing offices in Toronto, Canada and Mainz, Germany in 2004. We have established consulting operations in the United Kingdom and China.

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PART I (Continued)

RESIDENTIAL DISCOUNT LOANS

This segment consisted of operations to acquire at a discount and subsequently resolve sub-performing and non-performing residential mortgage loans.

We began our discount loan operations in 1991. Our strategy was to acquire at a discount certain mortgage loans for which the borrowers were not current as to principal and interest payments. We would work to resolve the loans by bringing them current and then selling or securitizing the loans for a profit, by structuring a settlement with the borrower or by foreclosing on the loan and liquidating the collateral.

The last acquisition of residential discount loans was made in 2000. Based on the relative insignificance of the non-core assets remaining in this business at December 31, 2002, the remaining assets of this business and any related income or loss arising from their resolution have been included in the Corporate Items and Other segment beginning January 1, 2003.

COMMERCIAL ASSETS

Effective January 1, 2002, we combined our Commercial Loan and Commercial Real Estate segments, because the assets in each had fundamentally similar attributes and had been assigned to a single management team. Commercial activities include both discount loans and originated loans as well as our investment in commercial real estate.

No new commercial assets have been purchased since 2000. Since then, this business has consisted of the management, repositioning and resolution of the remaining non-core assets. Other than loans made to facilitate sales of our own assets, we also have not originated any commercial loans since 2000. At December 31, 2004, we had \$21,560 of non-core assets in this segment, which consisted of four real estate assets (a shopping center, parcel of land and two partnership interests) and one unrated subordinate security. In February 2005, we sold the subsidiary that held our investment in our shopping center located in Halifax, Nova Scotia. It is difficult to project with certainty when final sales or resolutions will be completed or whether further losses may be incurred upon resolution. We regularly assess the value of our remaining assets and provide additional loss reserves or impairment charges as appropriate.

AFFORDABLE HOUSING

Historically, we invested in affordable housing properties primarily through limited partnerships for the purpose of obtaining Federal income tax credits pursuant to Section 42 of the Internal Revenue Code of 1986, as amended.

Beginning in 2000 we ceased making investments in these properties, except to complete those projects in which an investment had already been made. This reflects our change in strategic focus away from capital intensive lines of business and the fact that the volume of tax credits being generated was exceeding our ability to utilize them effectively. At that time, we also began the process of marketing each of these properties for sale. At December 31, 2004, our investment of \$5,641 represents a 99.9% limited partnership interest in one affordable housing property. We also have \$3,198 loan outstanding to the limited partnership. This limited partnership is not consolidated into our financial statements. While we cannot project sales with certainty, we believe that it is possible that this property will be sold before the end of 2005 and that new sources of financing will be established to repay the remaining loan balance. We regularly assess the carrying value of our remaining assets and provide additional loss reserves as appropriate.

Tax credits may be claimed over a ten-year period on a straight-line basis once the underlying multi-family residential properties are placed in service. Tax credits generally can be lost or recaptured only if non-qualifying tenants are placed in units, ownership of the project is transferred or the project is destroyed and not rebuilt during a 15-year compliance period for the project. There can be no assurance that the multi-family residential projects

owned by the low-income housing tax credit partnerships in which we have currently or previously invested will satisfy applicable criteria during the 15-year compliance period and that there will not be loss or recapture of a portion of the associated tax credits.

SUBPRIME FINANCE

We were engaged in subprime residential loan origination prior to ceasing originations in August of 1999; however, we have continued to manage and resolve the remaining non-core assets. Effective January 2002, the remaining business was renamed Subprime Finance from Subprime Residential Lending to better depict the current nature of the business activity. The remaining assets of this segment consist primarily of subprime residual securities issued in the United Kingdom. These securities are presently generating income and return of principal through cash flows.

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PART I (Continued)

CORPORATE ITEMS AND OTHER

In this segment we report business activities that are individually insignificant (including BOK), interest income on cash and cash equivalents, interest expense on corporate assets, general corporate expenses and gains and losses from the early retirement of debt.

Additional financial information and related discussion regarding each of our segments appears under the captions "Segment Results" on pages 23 to 29 and "Note 26: Business Segment Reporting" on pages 105 to 107 of our 2004 Annual Report to Shareholders.

SOURCES OF FUNDS

General. The principal sources of funds that support our business activities have historically been:

- . Lines of credit and other secured borrowings
- . Match funded debt
- . Debt securities
- . Securities sold under agreements to repurchase
- . Deposits
- . Servicing fees
- . Payments received on loans and securities
- . Proceeds from sales of assets

We closely monitor our liquidity position and ongoing funding requirements. Among the risks and challenges associated with our funding activities are the following:

- . Scheduled maturities of certificates of deposit for 2005, 2006 and thereafter amount to \$201,934, \$47,006 and \$28,731, respectively.
- . Maturity of existing collateralized lines of credit and other secured borrowings totaling \$35,676 at various dates through 2005.
- . Potential extension of resolution and sale timelines for non-core assets.
- . Ongoing cash requirements to fund operations of our holding company.
- . Cash requirements to fund our acquisition of additional servicing rights and related advances, as discussed immediately below.

In the last several years, our Residential Loan Servicing business has grown primarily through the purchase of servicing rights. Servicing rights entitle the owner to earn servicing fees and other types of ancillary income and impose various obligations on the servicer. Among these are the obligation to advance our own funds to meet contractual principal and interest payments for certain investors and to pay taxes, insurance and various other items that are required to preserve the assets being serviced.

Our ability to continue to expand our servicing business depends in part on our ability to obtain additional financing to purchase new servicing rights and to fund servicing advances. We currently use a variety of sources of debt to finance these assets, including match funded agreements, deposits, credit facilities and seller financing. Our credit facilities provide financing to us at amounts that are less than the full value of the related servicing assets

that serve as collateral for the credit facilities. If we cannot replace or renew these sources as they mature or obtain additional sources of financing, we may be unable to acquire new servicing rights and make the associated advances.

Deposits. Historically, a significant source of funds for us had been certificates of deposit obtained primarily through national investment banking firms and our branch office located in New Jersey. If, as described under "GENERAL", we cease to control a federal savings bank as a result of debanking, we would no longer be able to rely on U.S. deposits obtained through the Bank as a source of funds. Our total deposits amounted to \$301,299 at December 31, 2004, including \$290,507 at the Bank and \$10,792 at BOK.

Lines of Credit and Other Secured Borrowings. In April 2003, we entered into a \$60,000 secured credit agreement that may be used to fund servicing advances and acquisitions of servicing rights. The agreement matured in April 2004 and was renewed through April 2005. The size of the facility was increased to \$70,000. At December 31, 2004, we had a balance outstanding under this agreement of \$24,218.

In December 2003, we entered into a \$12,500 secured credit agreement under which any borrowings are collateralized by mortgage servicing rights. In January 2004, we borrowed \$12,500 under this facility and the balance outstanding as of December 31, 2004 was \$11,458.

In October 2004, we obtained a mortgage on our call center in Orlando, Florida in the amount of \$15,000. The note matures in October 2014 and interest accrues at an annual fixed rate of 5.62%. The balance outstanding at December 31, 2004 was \$14,936.

PART I (Continued)

Match Funded Liabilities. On November 17, 2004, we entered into a match funded agreement under which we transferred certain of our advances on loans serviced for others. As of December 31, 2004, proceeds received in connection with this transfer of advances were \$149,342. As of December 31, 2004, there was \$25,658 of capacity available under this facility. The \$100,000 term note under this facility has a stated maturity of October 2013. The variable funding note has a stated maturity of November 2010. Under a match funding agreement that we entered into on December 20, 2001, we are eligible to finance advances on loans serviced for others up to a maximum debt balance of \$200,000 at any one time. At December 31, 2004, we had \$90,851 of match funded liabilities outstanding under this facility, which will mature in January 2006. The transfers of advances under these agreements did not qualify as sales for accounting purposes because we retain effective control of the advances. Accordingly, we report the advances transferred as match funded assets and the amount of proceeds we receive from the transfers as a secured borrowing with pledge of collateral.

Securities Sold Under Agreements to Repurchase. We also obtain funds pursuant to securities sold under reverse repurchase agreements. Under these agreements, we sell securities (generally mortgage-backed and mortgage-related securities) under an agreement to repurchase such securities at a specified price at a later date. Reverse repurchase agreements have short-term maturities (typically 90 days or less) and are deemed to be financing transactions. All securities underlying reverse repurchase agreements are reflected as assets in our consolidated financial statements and are held in safekeeping by broker-dealers. We had no securities sold under agreements to repurchase at December 31, 2004.

Debt Securities. Our debt securities at December 31, 2004 consisted of 10.875% Capital Securities due in 2027 with an outstanding balance of \$56,249 and 3.25% Convertible Notes due in 2024 with an outstanding balance of \$175,000.

In July 2004 we issued the \$175,000 of 3.25% Convertible Notes due 2024. The notes are convertible at the option of the holders, if certain conditions are met, into shares of our common stock. We have used 25% of the gross proceeds of the sale of the Convertible Notes to repurchase, in privately negotiated transactions concurrent with the private placement of the Convertible Notes, 4,850,000 shares of our common stock at a price of \$9.02 per share. We have used the remaining proceeds, net of underwriting discount and other expenses, primarily to repay maturing deposits and other liabilities, increase our cash and invest in short-term AAA-rated securities.

RISK FACTORS

There are a number of risk factors that relate to our business and that may directly or indirectly affect our results of operations and financial condition. A discussion of our principal risk factors appears under the caption "Overview of Risks and Related Critical Accounting Policies" on pages 13 to 21 of our 2004 Annual Report to Shareholders and is incorporated herein.

COMPETITION

A discussion of competition as it relates to our primary core businesses appears under the caption "Risk Relating to Our Business" on pages 13 to 18 of our 2004 Annual Report to Shareholders and is incorporated herein by reference.

SUBSIDIARIES

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

EMPLOYEES

As of December 31, 2004, we had a total of 3,120 employees, of which 1,032 were in our United States facilities and 2,026 were in our India operations centers. We have developed our India operations centers over the past three years in order to benefit from the cost savings opportunities and quality workforce available in that country. We also had 62 employees in other countries at December 31, 2004.

In the United States, our operations are concentrated in our headquarters in West Palm Beach, which had 357 employees as of December 31, 2004, and our operations center in Orlando, which had 645 staff members as of the same date. Our Orlando facility has the capacity to house 1,154 employees on a single shift. In addition, we had 30 employees at various other locations in the United States.

In India, our operations are located in the cities of Bangalore and Mumbai. Of the 2,026 members of the staff in India as of December 31, 2004, 1,201 were in Bangalore and 825 were in Mumbai. Our India workforce can be summarized by business as follows:

- . 43% are engaged in activities for our Residential Loan Servicing business,
- . 22% support Business Process Outsourcing,
- . 14% support OTX and Technology Services,
- . 17% work in various other business units and
- . 4% represent various support functions, including Human Resources and Corporate Services, Accounting and Risk Management. Our employees are not represented by a collective bargaining agreement. We consider our employee relations to be satisfactory.

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PART I (Continued)

REGULATION

U.S. financial institutions and their holding companies are extensively regulated under federal and state laws. The Bank is regulated and examined primarily by the OTS, which has substantial enforcement authority over the Bank. Because the Bank accepts deposits that are insured by the FDIC, the FDIC serves as a secondary federal banking regulator of the Bank. As such, it also has substantial enforcement authority over the Bank. These Federal banking regulators have the ability to assess civil monetary penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions for violations of laws and regulations and unsafe or unsound practices. As a result, our business can be materially affected by changes in our regulatory environment.

If, as described under "General" we were to no longer control a federal savings bank, we would no longer be subject to federal banking regulations but would remain subject to certain federal, state and local consumer protection provisions. We also would become subject to regulation in a number of states as a mortgage service provider and/or as a debt collector. We have not previously operated our residential loan servicing business under such regulatory regimes and there can be no assurance that this transition would not result in

additional costs or uncertainties that would have a material adverse effect on the profitability of our residential loan servicing business.

Although not significant to current operations, BOK is licensed as a credit institution under the laws of the Federal Republic of Germany and is subject to supervision and regulation in that country.

THE HOLDING COMPANY

Savings and Loan Holding Company. Ocwen Financial Corporation is a registered savings and loan holding company under the Home Owners' Loan Act ("HOLA"). As such, we have registered with the OTS and are subject to regulation, supervision and examination by the OTS. We are required to file periodic reports with the OTS on our business and activities. The OTS has the authority to review our activities and determine if any activity constitutes a serious risk to the financial soundness, safety, or stability of the Bank. If the OTS makes a determination that these risks exist, the OTS may place restrictions on our activities or the activities of our subsidiaries or affiliates. These restrictions may impact the ability of the Bank to pay dividends, to engage in transactions with us or our subsidiaries or affiliates and to engage in other banking activities.

Restrictions on Acquisitions. Savings and loan holding companies and their affiliates are prohibited from acquiring more than 5% of the voting shares, or from acquiring control, of any other savings association or savings and loan holding company, without prior approval of the OTS. No person or entity can acquire a controlling interest in Ocwen Financial Corporation without receiving the approval of the OTS. Moreover, no other savings and loan holding company can acquire more than 5% of Ocwen's voting shares without the prior approval of the OTS.

THE BANK

General. The Bank is a federal savings bank organized under the HOLA. The Bank is subject to regulation, supervision and examination by the OTS and by the FDIC. The business and activities of the Bank are reported in periodic filings with the OTS. Regulations apply to, among other things, insurance of deposit accounts, capital requirements, payment of dividends, the nature and amount of the investments that the Bank may make, transactions with affiliates, community reinvestment, lending, internal policies and controls and changes in control of the Bank as well as subsidiaries established by the Bank.

FDIC. The FDIC may terminate the deposit insurance of the Bank if the Bank engages in unsafe or unsound practices, is in an unsafe or unsound condition or has violated any applicable law, regulation, rule, order or condition imposed by the OTS or the FDIC. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Other than in connection with the completion of debanking as described in "General", we are aware of no existing circumstances that would result in termination of the Bank's deposit insurance.

Regulatory Capital Requirements. Federal savings banks are subject to minimum capital requirements set forth by the OTS. The three capital requirements applicable to the Bank are discussed below.

Leverage Capital Requirement. The minimum leverage capital requirement for most savings associations is a ratio of core capital to adjusted total assets of 4%. Core capital includes common shareholders' equity, non-cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries and certain non-withdrawable accounts and pledged deposits. Deductions from core capital include certain intangibles, disallowed servicing assets and disallowed deferred tax assets. Adjusted total assets of a savings association are total assets as reported for consolidated entities on period-end reports in accordance with GAAP plus the prorated assets of any includible subsidiary in which the savings association has a minority ownership interest that is not consolidated under GAAP and any remaining qualifying supervisory goodwill, minus certain assets not includible in the applicable capital standard, investments in any includible subsidiary in which a savings association has minority interests investments in a subsidiary subject to consolidation.

PART I (Continued)

Tangible Capital Requirement. Tangible capital is core capital less all intangibles other than qualifying mortgage servicing rights. Federal savings banks are required to maintain tangible capital of at least 1.5% of their adjusted total assets.

Risk-Based Capital Requirement. A savings bank is allowed to include both core capital and supplementary capital in the calculation of its total capital for purposes of the risk-based capital requirements, provided that the amount of supplementary capital included does not exceed the savings bank's core capital. Supplementary capital consists of certain capital instruments that do not qualify as core capital, including subordinated debt that meets specified requirements and loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. In determining the required amount of risk-based capital, total assets, as well as residual interests (including certain off-balance sheet items that are converted to on-balance sheet credit equivalents using a conversion factor of 0% to 100%), are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights assigned by the OTS for principal categories of assets currently range from 0% to 200%, depending on the type of asset. Deductions from risk-based capital include real estate acquired in satisfaction of a debt and held in excess of five years.

Following an examination by the OTS in late 1996 and early 1997, the Bank committed to the OTS to maintain a core capital ratio and a total risk-based capital ratio of at least 9% and 13%, respectively. The Bank continues to be in compliance with this commitment.

Prompt Corrective Action. Federal banking regulators have the authority to take "prompt corrective action" to resolve the problems of undercapitalized institutions. The regulations establish five categories with varying degrees of regulators' powers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." At December 31, 2004, the Bank was a "well capitalized" institution under the prompt corrective action regulations of the OTS; however, this classification is for limited purposes and may not be indicative of the Bank's financial condition. The regulations also permit the appropriate Federal banking regulator to downgrade an institution to the next lower category under certain circumstances. Depending upon the capital category of an institution, the regulators' corrective powers may affect capital and stock distributions, limits on asset growth, acquisitions and new lines of business, transactions with affiliates, the ability to accept brokered deposits and changes in officers and directors, among other things.

Qualified Thrift Lender Test. The Bank is required to meet the qualified thrift lender ("QTL") test set forth in the HOLA to avoid certain restrictions on their operations. Under the QTL test provisions, a savings institution must maintain at least 65% of portfolio assets in qualified thrift investments, which generally include loans, securities and other investments that are related to housing, small business and credit card lending. A savings bank that does not meet the QTL test must either convert to a bank charter or comply with the following restrictions on its operations:

- . The association may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for a national bank,
- . The branching powers of the association shall be restricted to those of a national bank; and
- . Payment of dividends by the association shall be subject to the rules regarding payment of dividends by a national bank.

The Bank is currently and expects to remain in compliance with QTL standards.

Restrictions on Capital Distributions. The Bank is required to file a notice with the OTS at least 30 days prior to paying a dividend, or making any payment to repurchase, redeem, retire or otherwise acquire debt instruments included in total risk-based capital (each a "capital distribution") if (a) it is not eligible for expedited treatment under the OTS application processing regulations, (b) the total amount of the Bank's capital distributions (including the proposed distribution) for the calendar year exceeds the Bank's net income for the year to date plus retained net income for the previous two years, (c) the Bank would not be "adequately capitalized" following the proposed capital distribution or (d) the proposed capital distribution would violate any applicable statute, regulation, or an agreement between the Bank and the OTS, or

a condition imposed upon the Bank by an OTS-approved application or notice. The OTS may deny the Bank's application or disapprove the Bank's notice if the OTS determines that (a) the Bank will be "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," as defined in the OTS capital regulations, following the capital distribution, (b) the proposed capital distribution raises safety and soundness concerns or (c) the proposed capital distribution violates a prohibition contained in any statute, regulation or agreement between the Bank and the OTS or a condition imposed on the Bank in an application or notice approved by the OTS. The Bank is in compliance with these restrictions.

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PART I (Continued)

Loan-To-One Borrower. The amount of loans and extensions of credit that may be extended by the Bank to any one borrower, including related entities, generally may not exceed 15% of the unimpaired capital and unimpaired surplus of the institution. Loans in an amount equal to an additional 10% of unimpaired capital and unimpaired surplus may be made to a borrower if the loans are fully secured by readily marketable collateral, which does not include real estate collateral. An institution's "unimpaired capital and unimpaired surplus" includes, among other things, the amount of its core capital and supplementary capital included in its total capital under OTS regulations. The Bank is currently in compliance with the loan-to-one borrower limitation.

Affiliate Transactions and Tying. Transactions between the Bank and Ocwen Financial Corporation, OAC, OTX and their non-bank subsidiaries are subject to quantitative and qualitative restrictions. Such transactions with any one affiliate may not exceed 10% of the Bank's capital and surplus and with all affiliates in the aggregate may not exceed 20% of the Bank's capital and surplus. Certain such transactions (e.g., loans and guarantees) must meet collateralization requirements. A transaction between the Bank and its affiliate must be on terms and conditions at least as favorable to the Bank as those prevailing at the time for comparable transactions with non-affiliated companies. Savings banks are required to make and retain detailed records of transactions with affiliates. Additionally, the Bank is not permitted to make a loan or extension of credit to any affiliate unless the affiliate is engaged only in activities the Federal Reserve Board has determined to be permissible for bank holding companies. The Bank is also prohibited from purchasing or investing in securities issued by an affiliate, other than shares of a subsidiary. The Bank is currently and expects to remain in compliance with the affiliate transaction provisions.

Also, subject to certain exceptions, savings banks are prohibited from conditioning the availability or pricing of their products or services on the requirement that a customer obtain another product or service from the savings bank or an affiliate, provide another product or service to the savings bank or an affiliate or refrain from obtaining another product or service from a competitor of the savings bank or an affiliate.

Insider Loans. Savings banks are also subject to various limitations and reporting requirements on loans to insiders. These limitations require, among other things, that all loans or extensions of credit to insiders (generally executive officers, directors or 10% stockholders of the institution) or their "related interests" be made on substantially the same terms (including interest rates and collateral) as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with the general public and not involve more than the normal risk of repayment or present other unfavorable features. The Bank currently has no insider loans.

Gramm-Leach-Bliley Act. Title V of the Gramm-Leach-Bliley Act imposes consumer financial privacy restrictions on savings banks. These restrictions require a savings bank to safeguard non-public personal information of consumers; provide notices to consumers about an institution's privacy policies and practices and the about the right of consumers to opt-out of certain information sharing by savings banks. Also, these laws provide consumers a right to prevent a savings bank from disclosing non-public personal information about the consumer to non-affiliated third parties, with exceptions. The Bank currently is and expects to remain in compliance with applicable privacy provisions.

Federal Reserve Regulation. Under Federal Reserve Board regulations, the Bank is required to maintain a reserve against its transaction accounts, which

increases the Bank's cost of funds. The Bank may borrow from the Federal Reserve Bank discount window, but the Federal Reserve Board's regulations require the Bank to exhaust other reasonable alternative sources before borrowing from the Federal Reserve Bank. Numerous other regulations promulgated by the Federal Reserve Board affect the business operations of the Bank. These include regulations relating to equal credit opportunity, electronic fund transfers, collection of checks, truth in lending, truth in savings and availability of funds.

Federal Home Loan Bank System. The Federal Housing Finance Board is an agency of the federal government and is generally responsible for regulating the FHLB System. FHLBs are federally chartered but privately owned institutions created by Congress. The primary purpose of the FHLBs is to provide funding to their members for making housing loans as well as for affordable housing and community development lending. Generally, an institution is eligible to be a member of the FHLB for the district where the member's principal place of business is located. The Bank, whose home office is in Ft. Lee, New Jersey, is a member of the New York FHLB. As an FHLB member, we are required to own FHLB capital stock based upon the aggregate outstanding advances from the FHLB. In addition, there are risk-based and leverage capital requirements that must be met by FHLB members, which are similar to those currently in place for depository institutions.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires financial institutions regulated by the federal banking agencies to ascertain and help meet the credit needs of their delineated communities, including low- to moderate-income neighborhoods within those communities, while maintaining safe and sound banking practices. The regulatory agency assigns one of four possible ratings to an institution's CRA performance: outstanding, satisfactory, needs to improve and substantial noncompliance. The institution's regulator must consider its financial capacity and size, legal impediments, local economic conditions and demographics, including the competitive environment in which it operates. The most recent review of the Bank's CRA performance resulted in a "Satisfactory" rating from the OTS in 2002. Since 2002 the Bank has been evaluated as a wholesale institution. Wholesale institutions are a type of federal savings bank that is not in the business of extending home mortgage, small business, small farmer or consumer loans to retail customers and for which a designation as a wholesale savings association is in effect. As a wholesale institution for purposes of the CRA, the OTS assesses our record of helping to meet the credit needs of our assessment area through its community development lending, qualified investments, or community development services.

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PART I (Continued)

USA PATRIOT Act. Among other requirements, the USA PATRIOT Act requires savings banks to establish an anti-money laundering program and imposes limitations and due diligence requirements on private banking accounts and correspondent accounts with certain foreign nationals and foreign institutions. Pursuant to the USA PATRIOT Act, the OTS has adopted regulations requiring depository institutions, such as the Bank, to adopt customer identification programs. The Bank has adopted an anti-money laundering program as well as a customer identification program and currently is and expects to remain in compliance with these laws.

Supervisory Agreement with the OTS. On April 19, 2004, the Bank and the OTS entered into the Supervisory Agreement regarding various mortgage loan servicing and customer service practices. The Supervisory Agreement, among other things, requires that the Bank:

- . continue to maintain and further develop an Office of Consumer Ombudsman to address borrower issues in a timely and effective manner;
- . develop a "Borrower-Oriented Customer Service Plan" to set standards and goals for customer services, with input from one or more consumer-interest groups;
- . develop a "Consumer Dispute Resolution Initiative," to improve and expedite the resolution of consumer issues;
- . implement procedures regarding force-placed hazard insurance, by providing borrowers/customers the opportunity to respond to a notice that hazard insurance will be obtained on their behalf and at their expense if the customer does not have appropriate hazard insurance already in place;
- . not impose fees relating to notice-of-default letters;

- . agree not to charge fees to delinquent borrowers for entering into forbearance agreements (i.e., formally agree to make certain payments on loan balances in lieu of foreclosure); and
- . provide borrowers and/or their attorneys/agents with itemized and complete written loan pay-off quotes within five business days, and ensuring that all fees and charges for the quotes are verified by the Bank prior to issuance, and if a payoff quote, exclusive of principal and interest, exceeds \$1,000, to include conspicuous disclosure that a borrower may contact the Bank's Consumer Ombudsman or the OTS if a borrower has reason to dispute any of the charges.

As required under the Supervisory Agreement, the Bank has established a compliance committee of three directors, all of whom are outside directors, to monitor and coordinate the Bank's compliance with the Supervisory Agreement as well as adherence with the practices adopted and implemented under the Supervisory Agreement. Each quarter the compliance committee will report to the Bank's board of directors with written progress reports detailing actions taken to comply with the provisions of the Supervisory Agreement and the results of those actions, and the Bank's board of directors will provide such reports to the OTS. Messrs. Lacy (Chairman), Korn and Wish serve as members of the compliance committee. The Bank also is providing the OTS with monthly reports summarizing information about the aggregate number and nature of any unresolved consumer complaints outstanding for 30 or more calendar days as of the last day of the preceding month. To date, the Bank has complied fully with each of its obligations under the Supervisory Agreement and is not aware of any reason why it would not be able to comply with the terms and conditions of the Supervisory Agreement in the future. The OTS continues to supervise and examine our compliance with the Supervisory Agreement and our mortgage loan servicing and customer service practices generally. If the OTS were to determine that we failed to comply with the Supervisory Agreement or otherwise were to find deficiencies in our mortgage servicing practices, the OTS could initiate an enforcement proceeding against the Bank, which could result in civil money penalties or the imposition of further requirements on the Bank's business practices.

BOK

Bankhaus Oswald Kruber GmbH & Co. KG, or BOK, our German banking subsidiary, is licensed as a credit institution (Kreditinstitut) under the laws of the Federal Republic of Germany and is supervised and regulated in Germany by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin), the German Central Bank (Deutsche Bundesbank) and, in respect of minimum reserves on deposits, the European Central Bank.

Under its license, BOK may engage in a number of traditional banking activities such as deposit and lending business, but also in investment banking, underwriting and securities trading transactions, both for its own account and for customers. BOK must conduct its banking activities in particular in accordance with the German Banking Act (Kreditwesengesetz), the German Securities Trading Act (Wertpapierhandelsgesetz) and the rules and regulations adopted thereunder. This legal framework reflects certain recommendations of the Basel Committee on Banking Regulations and Supervisory Practices at the Bank for International Settlements, as well as legislative acts adopted by the European Community.

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PART I (Continued)

German regulatory requirements applicable to BOK concern in particular the maintenance of adequate regulatory capital and liquidity, the monitoring of, and limitations on, large credit exposures, limitations on equity and equity-like participations in other companies, the protection of depositors and the adoption of certain accounting standards and business practices. The German Federal Financial Supervisory Authority and the German Central Bank monitor the compliance of German banks such as BOK with the applicable German banking laws, rules and regulations largely upon the basis of extensive reporting requirements as well as through general and specific audits. BOK is in compliance in all material respects with the German regulatory requirements that are applicable to its business.

The German Federal Financial Supervisory Authority has a wide range of means to investigate and enforce a bank's compliance with the German regulatory

requirements. It may conduct audits on a random basis or for cause (even outside Germany, if the other jurisdiction permits the audit), it may require banks to furnish information and documents, and it may attend meetings of a bank's supervisory board or shareholders. If the German Federal Financial Supervisory Authority discovers any irregularities, it may remove a bank's managers from office or prohibit them from exercising their duties, it may prohibit a bank from distributing profits or extending credit, and, as an ultimate measure, it may revoke a bank's license and order the closure of the bank. The German Banking Act also entitles the German Federal Financial Supervisory Authority to take certain emergency measures if a bank is in danger of defaulting on its obligations to creditors or to avoid the insolvency of a bank.

SARBANES-OXLEY ACT OF 2002

In response to the recent series of regulatory enactments in furtherance of the provisions of the Sarbanes-Oxley Act, we have taken actions including, but not limited to:

- . Review of the responsibilities and reporting practices of our auditors,
- . Development of questionnaires to identify potential conflicts of interest,
- . Establishment of Disclosure Review and Nomination/Governance Committees,
- . Review of our procedures and policies with regard to independence of our board members serving on the Audit Committee and Audit Committee responsibilities consistent with Section 301 of the Act,
- . Establishment of a Whistleblower Policy,
- . Development of CEO and CFO certifications to accompany audit reports,
- . Review of procedures in place to avoid any improper influence on conduct of audits,
- . Update disclosures in periodic reports to conform with Section 401 of the Act,
- . Establishment of ethics policies identifying prohibited activities under the Act,
- . Expedite insider reporting of transactions,
- . Review of internal controls by management,
- . Development of practices for real time disclosure of material events and
- . Establishment of procedures for document retention and control.

FEDERAL TAXATION

General. OCN and all of its domestic subsidiaries currently file, and expect to continue to file, a consolidated Federal income tax return based on a calendar year. Consolidated returns have the effect of eliminating inter-company transactions, including dividends, from the computation of taxable income.

Alternative Minimum Tax. In addition to the regular corporate income tax, corporations, including qualifying savings institutions, are subject to an alternative minimum tax. The 20% tax is computed on Alternative Minimum Taxable Income ("AMTI") and applies if it exceeds the regular tax liability. AMTI is equal to regular taxable income with certain adjustments. For taxable years beginning after 1989, AMTI includes an adjustment for 75% of the excess of "adjusted current earnings" over regular taxable income. Net operating loss carrybacks and carryforwards are permitted to offset only 90% of AMTI. Alternative minimum tax paid can be credited against regular tax due in later years.

Tax Residuals. From time to time, we acquired Real Estate Mortgage Investment Conduit ("REMIC") residuals or retained residual securities in REMICs that were formed by us in connection with the securitization and sale of loans. Although a tax residual may have little or no future economic cash flows from the REMIC from which it has been issued, the tax residual does bear the income tax liability or benefit resulting from the difference between the interest rate paid on the securities by the REMIC and the interest rate received on the mortgage loans held by the REMIC. This generally results in taxable income for us in the first several years of the REMIC and equal amounts of tax deductions thereafter, although the amount and timing with which we must report taxable income or deductions may vary based on the particular experience of the mortgage collateral supporting each REMIC. The tax residuals may also generate excess inclusion income that could create a tax liability for us if we have not otherwise earned taxable Income in a particular year.

Investments in Affordable Housing Properties. For a discussion of the tax effects of investments in affordable housing properties, see "Segments-Affordable Housing."

Examinations. The Internal Revenue Service agent has completed an examination of the Company's Federal income tax returns for the years 1998 through 2001 and has reviewed the tax years 1995 through 1997 and 2002 as result of carryback claims filed. The statute of limitations has run with respect to 1997 and all prior tax years. Thus, the Federal income tax returns for the years 1998 through 2000 (due to a waiver of the statute of limitations) and 2001 through 2003 are open for examination. We do not anticipate any material adjustments as a result of any examination, although there can be no assurances in this regard.

STATE TAXATION

OCN's income is subject to tax by the States of Florida and California, which have statutory tax rates of 5.5% and 10.84%, respectively, and its taxable income in these states is determined based on certain apportionment factors. We are taxed in New Jersey on income, net of expenses, earned in New Jersey at a statutory rate of 9.0%. Currently no state return of ours is being examined, and we have received no notification from any state that intends to examine any of our tax returns. We do not anticipate any material adjustments as a result of any examination, although there can be no assurances in this regard.

PART I (Continued)

ITEM 2. PROPERTIES (Dollars in thousands)

The following table sets forth information relating to our facilities at December 31, 2004:

Location -----	Owned/Leased -----	Net Book Value of Property or Leasehold Improvements -----
EXECUTIVE OFFICES:		
1675 Palm Beach Lakes Boulevard West Palm Beach, FL.....	Leased	\$ 1,367
BANK MAIN OFFICE:		
2400 Lemoine Ave Fort Lee, NJ.....	Leased	\$ 4
SERVICING CENTERS:		
12650 Ingenuity Drive Orlando, FL.....	Owned	\$ 21,087
2650 Warrenville Road Chicago, IL.....	Leased	\$ --
SOFTWARE DEVELOPMENT AND SERVICING OPERATIONS CENTER:		
Salarpuria Arena 24 Hosur Luskar Road Bangalore, India.....	Leased	\$ 891
Salarpuria Adonis 3/1 Kolar Road, Sarvagna Nagar, Ward No. 85 Binnamangala, Bangalore, India.....	Leased	\$ --
Spectrum Towers Mind Space Business District Link Road, Malad West Mumbai, India.....	Leased	\$ 61
GSS OFFICES:		
Taiwan office:		
Taipei World Trade Center 333 Keelung Road Taipei, Taiwan.....	Leased	\$ 36
Japan office:		
SK Building 3F 2-7-4 Nishi-Shinbashi Tokyo, Japan.....	Leased	\$ 12
China office:		
China World Tower 1 No. 1 Jian Guo Men Wai Avenue Beijing, Peoples' Republic of China.....	Leased	\$ 19
Canada office:		
111 Richmond Street West, Suite 1202		

Toronto, Ontario, Canada.....	Leased	\$	5
Germany office:			
Bonifaziusturm B, 21st Floor, Erthalstrasse 1 D-55118 Mainz, Germany.....	Leased	\$	--
BOK OFFICES:			
Berlin office:			
Bondickstrasse 22 13469 Berlin, Germany.....	Leased	\$	--
Frankfurt office:			
Mainzer Landstrasse 16 60325 Frankfurt, Germany.....	Leased	\$	--

PART I (Continued)

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:

OCN and certain of its affiliates, including the Bank, have been named as defendants in purported class action lawsuits brought in various federal and state courts challenging the Bank's mortgage servicing practices. On April 13, 2004 the United States Judicial Panel on Multi-District Litigation granted our petition to transfer and consolidate a number of the lawsuits into a single case to proceed in the United States District Court for the Northern District of Illinois under caption styled: In re Ocwen Federal Bank FSB Mortgage Servicing Litigation, MDL Docket No. 1604 (the "MDL Proceeding"). Additional similar lawsuits have been brought in other courts, some of which have been or may be transferred and consolidated in the MDL Proceeding.

The MDL Proceeding currently includes the following actions in which OCN and/or the Bank are defendants:

- (1) Patricia Antoine, et al v. Ocwen Federal Bank FSB, et al., case No. C-03-5503 (N.D.Cal.)
- (2) Deborah Bush v. Ocwen Federal Bank FSB, et al., Case No. 7:04-cv-02827 (N.D.Ala.)
- (3) Carolyn P. Calhoun v. Ocwen Federal Bank FSB, et al., Case No. 4:04-cv-00293 (N.D.Miss.)
- (4) Ralph Carreon Jr., et al. v. Ocwen Federal Bank FSB, Case No. 5:03-5151 (Bankr. W.D.Tex.)
- (5) Stevie Cooper, et al. v. Ocwen Federal Bank FSB, et al., Case No. 1:04-cv-00639 (S.D.Ala.)
- (6) Mary Crosby v. Ocwen Federal Bank FSB, et al., Case No. 5:04-cv-02828 (N.D.Ala.)
- (7) Billy M. Dockery, et al. v. Ocwen Federal Bank FSB, et al., Case No. 7:04-cv-02830 (N.D.Ala.)
- (8) Thomas B. Doherty v. Ocwen Federal Bank FSB, et al., Case No. 04-cv-04880 (D.Minn.)
- (9) Unnatiben Gandabhai, et al. v. Ocwen Federal Bank FSB, et al., Case No. 3:04-2582 (N.D.Cal.)
- (10) Lizzie Hannah, et al. v. Ocwen Federal Bank FSB, et al., Case No. 7:04-cv-02833 (N.D.Ala.)
- (11) Kweku Hanson, et al v. Ocwen Federal Bank FSB, et al., Case No. 02-CV-860 (D.Conn.)
- (12) William Hearn, et al v. Ocwen Federal Bank FSB, et al., Case No. C-04-0291 (E.D.Cal.)
- (13) Stephanie Hunter, et al. v. Ocwen Federal Bank FSB, et al., Case No. 2:04-cv-02864 (N.D.Ala.)
- (14) Lula M. Jackson, et al v. Ocwen Federal Bank FSB, et al., Case No. C-03-0743 (N.D.Cal.)
- (15) Freddie Jones v. Ocwen Federal Bank FSB, et al., Case No. 4:04-cv-00294 (N.D.Miss.)
- (16) Marion Long v. Ocwen Federal Bank FSB, et al., Case No. 7:04-cv-02852 (N.D.Ala.)
- (17) Allie M. Maddox, et al v. Ocwen Federal Bank FSB, et al., Case No. CV-03-9515 (C.D.Cal.)
- (18) Jeannette E. Martinez v. Ocwen Federal Savings Bank FSB, Case No. 1:04-296 (D.N.M.)
- (19) Michele McAuliffe, et al. v. U.S. Bank, N.A. as Trustee., et al., Case No. 03-C-1103 (N.D. Ill.)
- (20) George McDonald v. Ocwen Financial Corp., et al.,

- (21) Case No. 1:04-03673 (N.D.Cal.)
Al McZeal v. Ocwen Federal Bank FSB, et al.,
Case No. 4:04-1576 (S.D.Tex.)
- (22) Delores B. Moore v. Ocwen Federal Bank FSB, et al.,
Case No. 2:04-2612 (E.D. Pa.)
- (23) Timothy Napier, et al. v. Ocwen Federal Bank FSB, et al.,
Case No. 2:03-174 (E.D.Wash.)
- (24) William A. Soto, et al v. Ocwen Federal Bank FSB, et al.,
Case No. 02-C-6818 (N.D.Ill.)
- (25) Geneva Spires, et al v. Ocwen Financial Services, Inc., et al.,
Case No. C-03-5600 (N.D.Cal.)
- (26) Maggie Williams, et al. v. Ocwen Federal Bank FSB, et al.,
Case No. 4:04-cv-02869 (N.D.Ala.)
- (27) Thomas Wright, et al. v. Ocwen Federal Bank FSB, et al.,
Case No. 1:04-cv-00638 (S.D.Ala.)

On August 23, 2004, plaintiffs filed a Consolidated Complaint, setting forth claims contained in lawsuits consolidated in the MDL Proceeding. Those claims variously involve alleged violations of federal statutes, including the Real Estate Settlement Procedures Act and Fair Debt Collection Practices Act, and state deceptive trade practices statutes, and assert common law claims. The claims are based on various allegations of improper servicing practices, including (i) charging borrowers allegedly improper or unnecessary fees such as breach letter fees, hazard insurance premiums, foreclosure-related fees, late fees and property inspection fees; (ii) untimely posting and misapplication of borrower payments; and (iii) improperly treating borrowers as in default on their loans. While some of the individual lawsuits had set forth specific damage allegations (e.g., the Gandabhai complaint (item 9 above) claimed actual damages of \$61; the Hanson complaint (item 11 above) claimed actual damages of \$150,000 and punitive and exemplary damages of \$1,500,000; the various Alabama and Mississippi cases generally alleged damages less than \$75 (items 2, 3, 5, 6, 7, 10, 13, 15, 16, 26 and 27 above)), the Consolidated Complaint in the MDL Proceeding does not set forth any specific amounts of claimed damages. The absence of any specification of damages in the Consolidated Complaint does not, however, preclude plaintiffs in the MDL Proceeding from requesting leave from the court to amend the Consolidated Complaint or from otherwise seeking damages should the matter proceed to trial.

PART I (Continued)

On September 30, 2004, the Ocwen defendants filed various motions to dismiss, for summary judgment, to strike class allegations and to stay discovery. Briefing on these motions has recently closed. Discovery in the MDL Proceeding has been stayed pending resolution of the motions. No motion for class certification has been submitted by plaintiffs, and the Court has not indicated when any such motion would be permitted to be filed.

We cannot currently determine the ultimate outcome of the MDL Proceeding or the other matters described above and have not established a reserve in respect thereof. We believe the allegations in the MDL Proceeding and the other matters described above are without merit and will continue to vigorously defend against them.

On November 3, 2004, the trial judge in litigation brought by Cartel Asset Management, Inc. ("Cartel") against OCN, the Bank and OTX in federal court in Denver, Colorado entered final judgment in the amount of \$520 against OTX and nominal damages of two dollars against the Bank. No damages were entered against OCN. By the November 3, 2004 order, the judge reduced a prior jury verdict in the amount of \$9,320 after trial on this matter involving allegations of misappropriation of trade secrets and contract-related claims brought by a former vendor. The litigation does not relate to our core Residential Loan Servicing business practices. Notwithstanding the nominal damage award against the Bank, it was assessed a statutory award to Cartel of attorneys' fees in an additional amount of \$170, and the Bank and OTX were further assessed costs in the amount of \$9. Cartel and defendants are pursuing cross-appeals in the United States Court of Appeals for the Tenth Circuit. A reserve of \$1,000 had been established for this matter. We intend to continue to vigorously defend this matter.

On February 8, 2005, a jury in Circuit Court for Palm Beach County, Florida returned verdicts of \$1,000 and \$1,056 in compensatory damages in favor of two former employees of the Bank in a lawsuit against OCN and the Bank. The

jury rejected plaintiffs' request for punitive damages. The plaintiffs brought claims under the Florida Civil Rights Act, the Florida Whistleblower Act and state tort law, arising out of an alleged invasion of privacy and related incidents allegedly committed by other former employees of the Bank in 1998 for which plaintiffs sought to hold the Ocwen defendants vicariously liable. We believe the verdicts, which have not yet been reduced to final judgments, are against the weight of evidence and contrary to law. Defendants have filed motions for a new trial and/or remittitur and, if necessary, will take an appeal to the Florida Court of Appeals for the Fourth District. We intend to continue to vigorously defend this matter.

On February 28, 2005, a jury in County Court for Nueces County, Texas, returned a verdict of \$140 in compensatory and statutory damages in favor of two borrowers whose mortgage loan was serviced by the Bank in a lawsuit arising out of a disputed foreclosure. The jury rejected plaintiffs' request for punitive damages. The verdict included \$2,900 for plaintiffs' attorneys' fees, an amount, which we believe is unsupported by the evidence and impermissibly excessive under the controlling legal authorities. The verdict has not yet been reduced to a final judgment. We are pursuing post-trial motions seeking to set aside or substantially reduce the attorneys' fees award and, if necessary, will take an appeal on that issue and perhaps other issues to the Texas Court of Appeals for the Thirteenth Judicial District. We intend to continue to vigorously defend this matter.

In light of the above-referenced developments in the Florida and Texas matters, we have established a reserve of \$3,000 in 2004.

On March 9, 2005, the Bank was served with a complaint filed in Superior Court for Los Angeles County, California, by Banco Popular North America, successor by merger to Quaker City Bank ("Banco Popular"), which claims to be a holder of residual interest in two mortgage loan trusts for which the Bank provides loan servicing. In this lawsuit, Banco Popular challenges the Bank's fee charges for recoveries on charged-off loans. The complaint variously alleges breach of contract, conversion, breach of fiduciary duty and fraud, and seeks declaratory and equitable relief, along with claimed compensatory damages in excess of \$3,000 and punitive damages in an unspecified amount. We believe the allegations are without merit and will vigorously defend this matter.

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

We continuously monitor the status of our litigation, including advice from external legal counsel, and perform periodic assessments of our litigation for potential accrual of litigation reserves and disclosure. We accrue a litigation reserve when it is probable that a liability had been incurred and the amount of loss can be reasonably estimated.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of stockholders during the quarter ended December 31, 2004.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Information required by this Item appears under the caption "Shareholder Information" on page 115 of our 2004 Annual Report to Shareholders and under the caption "Security Ownership of Certain Beneficial Owners and Related Stockholder Matters - Equity Compensation Plan Information" in our 2005 Proxy Statement and is incorporated herein by reference.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Information required by this Item appears under the caption "Selected Consolidated Financial Information" on pages 10 to 12 of our 2004 Annual Report to Shareholders and is incorporated herein by reference. See Item 8 below and Part IV, Item 15 regarding our consolidated financial statements and notes.

PART II (Continued)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information required by this Item appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 13 to 64 of our 2004 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item appears under the captions "Asset and Liability Management" on pages 56 to 60, "Note 1: Summary of Significant Accounting Policies" on pages 73 to 82 and "Note 18: Derivative Financial Instruments" on pages 96 to 97 of our 2004 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this Item appears on pages 66 to 114 in our 2004 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. The Company's management, under the supervision of and with the participation of the Company's Chief Executive Officer and Acting Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Acting Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective and are reasonably designed to ensure that all material information relating to the Company required to be included in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

Status of Management's Report on Internal Control over Financial Reporting. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of the Company's management, including the principal executive officer and principal financial officer, the Company is in the process of conducting an evaluation of its internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company's evaluation of its internal control over financial reporting has not yet been completed. In connection with this process, the Company has identified certain significant deficiencies that have been or are being remediated. There can be no assurance that as a result of the ongoing evaluation of internal control over financial reporting, additional deficiencies will not be identified or that any deficiencies identified, either alone or in combination with others, will not be considered a material weakness.

Pursuant to Securities and Exchange Commission Release No. 34-50754, which, subject to certain conditions, provides up to 45 additional days beyond the due date of this Form 10-K for the filing of management's annual report on internal control over financial reporting required by Item 308(a) of Regulation S-K, and the related attestation report of the independent registered public accounting firm, as required by Item 308(b) of Regulation S-K, management's report on internal control over financial reporting and the associated report on the audit of management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, are not filed herein and are expected to be filed no later than May 2, 2005.

Changes in Internal Control over Financial Reporting. There have not

been any changes in the Company's internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act during the Company's fiscal quarter ended December 31, 2004 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls. The Company's management, including the Chief Executive Officer and Acting Chief Financial Officer, does not expect that the Company's disclosure controls or the Company's internal control over financial reporting will prevent all errors and all fraud.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in

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PART II (Continued)

reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Further, the design of disclosure controls and internal control over financial reporting must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

ITEM 9B. OTHER

There was no information required to be reported on Form 8-K during the fourth quarter of the year covered by this Form 10-K that was not so reported.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in our definitive Proxy Statement with respect to our Annual Meeting of Shareholders to be held on May 17, 2005 and as filed with the Commission on or about March 16, 2005 (the "2005 Proxy Statement") under the captions "Election of Directors - Nominees for Director," "Executive Officers Who Are Not Directors," "Board of Directors and Corporate Governance - Committees of the Board of Directors - Audit committee", "Security Ownership of Certain Beneficial Owners and Related Stockholder Matters - Section 16(a) Beneficial Ownership Reporting Compliance" and "Board of Directors and Corporate Governance - Code of Ethics" is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in our 2005 Proxy Statement under the captions "Executive Compensation," "Board of Directors Compensation" and "Comparison of Cumulative Total Return" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information contained in our 2005 Proxy Statement under the captions

"Security Ownership of Certain Beneficial Owners and Related Stockholder Matters - Beneficial Ownership of Common Stock" and "Security Ownership of Certain Beneficial Owners and Related Stockholder Matters - Equity Compensation Plan Information" are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is included in our 2005 Proxy Statement under the caption "Ratification of Appointment of Independent Registered Certified Public Accounting Firm" and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES and REPORTS ON FORM 8-K

(a) 1 & 2 Financial Statements and Schedules. The following Consolidated Financial Statements of Ocwen Financial Corporation and Report of PricewaterhouseCoopers LLP, Independent Registered Certified Public Accounting Firm, are incorporated herein by reference from pages 66 to 114 of our Annual Report to Shareholders:

Report of Independent Registered Certified Public Accounting Firm

Consolidated Statements of Financial Condition at December 31, 2004 and 2003

Consolidated Statements of Operations for each of the three years in the period ended December 31, 2004

Consolidated Statements of Changes in Shareholders' Equity for each of the three years in the period ended December 31, 2004

Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2004

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2004

Notes to Consolidated Financial Statements

Financial statement schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

(a) 3 EXHIBITS.

- 2.1 Agreement of Merger dated as of July 25, 1999 among Ocwen Financial Corporation, Ocwen Asset Investment Corp. and Ocwen Acquisition Company (1)
- 3.1 Amended and Restated Articles of Incorporation (2)
- 3.2 Amended and Restated Bylaws (3)
- 4.0 Form of Certificate of Common Stock (2)
- 4.1 Certificate of Trust of Ocwen Capital Trust I (4)
- 4.2 Amended and Restated Declaration of Trust of Ocwen Capital Trust I (4)
- 4.3 Form of Capital Security of Ocwen Capital Trust I (included in Exhibit 4.4) (4)
- 4.4 Form of Indenture relating to 10.875% Junior Subordinated Debentures due 2027 of OCN (4)
- 4.5 Form of 10.875% Junior Subordinated Debentures due 2027 of OCN (included in Exhibit 4.6) (4)
- 4.6 Form of Guarantee of OCN relating to the Capital Securities of Ocwen Capital Trust I (4)
- 4.7 Registration Rights Agreement dated as of July 28, 2004, between OCN and Jeffries & Company Inc. (5)
- 4.8 Indenture dated as of July 28, 2004, between OCN and the Bank of New York Trust Company, N.A., as trustee (5)

- 10.1 Ocwen Financial Corporation 1996 Stock Plan for Directors, as amended (6)
- 10.2 Ocwen Financial Corporation 1998 Annual Incentive Plan (7)
- 10.3 Compensation and Indemnification Agreement, dated as of May 6, 1999, between OAC and the independent committee of the Board of Directors (8)
- 10.4 Indemnity agreement, dated August 24, 1999, among OCN and OAC's directors (9)
- 10.5 Amended Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, dated October 26, 1999 (9)
- 10.6 First Amendment to Agreement, dated March 30, 2000 between HCT Investments, Inc. and OAIC Partnership I, L.P. (9)
- 10.7 Ocwen Financial Corporation Deferral Plan for Directors dated March 7, 2005 (filed herewith)
- 11.1 Computation of earnings per share (10)
- 12.1 Ratio of earnings to fixed charges (filed herewith)
- 13.1 Excerpts from the Annual Report to Shareholders for the year ended December 31, 2004 (filed herewith)
- 21.0 Subsidiaries (filed herewith)
- 23.0 Consent of PricewaterhouseCoopers LLP (filed herewith)
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

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PART IV (Continued)

- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
 - 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- (1) Incorporated by reference from a similarly described exhibit included with the Registrant's Current Report on Form 8-K filed with the Commission on July 26, 1999.
 - (2) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-1 (File No. 333-5153) as amended, declared effective by the commission on September 25, 1996.
 - (3) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998.
 - (4) Incorporated by reference from the similarly described exhibit filed in connection with our Registration Statement on Form S-1 (File No. 333-28889), as amended, declared effective by the Commission on August 6, 1997.
 - (5) Incorporated by reference from the similarly described exhibit included with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004.
 - (6) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-8 (File No. 333-44999), effective when filed with the Commission on January 28, 1998.
 - (7) Incorporated by reference from the similarly described exhibit to our definitive Proxy Statement with respect to our 1998 Annual Meeting of Shareholders as filed with the Commission on March 31, 1998.
 - (8) Incorporated by reference from OAC's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999.
 - (9) Incorporated by reference from the similarly described exhibit included with the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000.

- (10) Incorporated by reference from "Note 17: Basic and Diluted Earnings per Share" on page 95 of our 2004 Annual Report to Shareholders.
- (b) REPORTS ON FORM 8-K FILED DURING THE QUARTER ENDED DECEMBER 31, 2004
 - (1) A Form 8-K was filed by OCN on October 21, 2004, which contained a news release announcing our 2004 third quarter results and certain other information.
 - (2) A Form 8-K was filed by OCN on November 30, 2004, which announced the application by Ocwen Federal Bank to the OTS for Voluntary Dissolution pursuant to 12 C.F.R. Section 546.4.

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

OCWEN FINANCIAL CORPORATION

By: /s/ WILLIAM C. ERBEY

 William C. Erbey
 Chairman of the Board and
 Chief Executive Officer
 (duly authorized representative)

Date: March 16, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

/s/ WILLIAM C. ERBEY ----- William C. Erbey, Chairman of the Board and Chief Executive Officer (principal executive officer)	Date: March 16, 2005
/s/ RONALD M. FARIS ----- Ronald M. Faris, President and Director	Date: March 16, 2005
/s/ RONALD J. KORN ----- Ronald J. Korn, Director	Date: March 16, 2005
/s/ WILLIAM H. LACY ----- William H. Lacy, Director	Date: March 16, 2005
/s/ W. MICHAEL LINN ----- W. Michael Linn, Executive Vice President and Director	Date: March 16, 2005
/s/ W.C. MARTIN ----- W.C. Martin, Director	Date: March 16, 2005
/s/ BARRY N. WISH ----- Barry N. Wish, Director	Date: March 16, 2005
/s/ ROBERT J. LEIST, JR. ----- Robert J. Leist, Jr., Vice President & Chief Accounting Officer and Acting Chief Financial Officer (principal financial and accounting officer)	Date: March 16, 2005

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OCWEN FINANCIAL CORPORATION
DEFERRAL PLAN FOR DIRECTORS

ADOPTED MARCH 7, 2005

ARTICLE I
Purpose

The purpose of the Ocwen Financial Corporation Deferral Plan for Directors is to provide Directors with the opportunity to defer the receipt of all or a portion of their stock-based compensation earned as directors of the Company or any Subsidiary of the Company. All capitalized terms used in the Plan shall have the meanings set forth in Article II.

ARTICLE II
Definitions

"Board" means the Board of Directors of the Company.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Compensation Committee of the Board.

"Common Stock" means the common stock of the Company.

"Company" means Ocwen Financial Corporation, a Florida corporation.

"Deferral" shall have the meaning set forth in Section 4.1.

"Deferral Account" means a bookkeeping account in the name of a Director who elects to defer, pursuant to the Plan, all or a portion of his or her Director Shares.

"Deferral Election" shall have the meaning set forth in Section 4.1.

"Director" means any director of the Company or any Subsidiary, whether or not such director is an officer or employee of the Company or any Subsidiary. In the case of a Subsidiary other than a corporation, "Director" shall mean any member of the board of managers or other similar board or committee responsible for the governance of such Subsidiary.

"Director Shares" means shares of restricted stock granted to Directors under the Stock Plan for their service on the Board, the board of directors of a Subsidiary or, in either case, any committee thereof.

"Distribution Date" shall have the meaning set forth in Section 7.1.

"Effective Date" means May 17, 2005.

"Fair Market Value" means (i) if the Common Stock is listed or admitted to trading on any securities exchange or national market system in the United States, the average of the high and low sales prices on such day on the principal securities exchange or national market system in the United States on which the Common Stock is traded, (ii) if the Common Stock is not then listed or admitted to trading on any such day, or if no sale takes place on such day, the average of the closing bid and asked prices in the United States on such day, as reported by a reputable quotation source designated by the Committee, and (iii) if the Common Stock is not then listed or admitted to trading on any such securities exchange or national market system and no such reported sale price or bid and asked prices are available, the average of the reported high bid and low asked prices in the United States on such day, as reported in The Wall Street Journal (Eastern edition) or other newspaper designated by the Committee.

"Plan" means this Deferral Plan for Directors, as amended and restated from time to time.

"Plan Year" means the 12-month period coincident with each Grant Year, as defined in the Stock Plan; provided, however, that the initial Plan Year shall begin on the Effective Date and end on the last day of the Grant Year then in effect.

"Share Unit" means a bookkeeping unit credited to a Director's Deferral Account and having a value equal to one share of Common Stock.

"Stock Plan" means the Ocwen Financial Corporation 1996 Stock Plan for Directors, or any successor thereto.

"Subsidiary" means any corporation or other business entity, the majority of the outstanding voting stock or other equity interests of which are owned, directly or indirectly, by the Company.

"Termination Date" means the date on which a Director ceases to serve as a Director.

"Unforeseeable Emergency" means (i) a severe financial hardship to a Director resulting from an illness or accident of the Director, or the spouse or a dependent (as defined in Section 152(a) of the Code) of the Director, (ii) the loss of a Director's property due to casualty or (iii) such other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Director.

ARTICLE III Administration

The Plan shall be administered by the Committee. The Committee shall, subject to the terms of this Plan, interpret this Plan and the application thereof, and establish rules and regulations it deems necessary or desirable for the administration of this Plan. All such interpretations, rules and regulations shall be final, binding and conclusive. The Committee may delegate administrative duties under the Plan to one or more agents, as it shall deem necessary or advisable.

ARTICLE IV Deferral Elections

Section 4.1. Eligibility for Deferral Elections. Each Director shall be eligible to participate in the Plan. A Director shall be eligible to make a Deferral Election pursuant to Section 4.2 if he or she is a current Director or has been elected to serve as a Director on the date such election is made.

Section 4.2. Election Procedures. Prior to the first day of the calendar year in which each Plan Year commences or, with respect to the Plan Year beginning on the Effective Date, prior to the Effective Date, each Director may make an election to defer the receipt of all or any portion of the Director Shares to be earned by such Director in such Plan Year (each such election shall be referred to as a "Deferral Election" and the amounts deferred pursuant to such an election the "Deferral"). Notwithstanding the foregoing, a Director who is elected to serve as a Director during a Plan Year may make a Deferral Election for such Plan Year within 30 days after such election. All Deferral Elections must be made in accordance with procedures prescribed by the Committee. Any Deferral Election shall apply only to the Director Shares earned in the Plan Year for which the Deferral Election is made. In no event shall an election under the Plan apply to Director Shares issuable to the Director prior to the date on which such election is received by the Company.

Section 4.3. Changes in Deferral Election. A Director may change his or her Deferral Election with respect to any Plan Year by submitting a new election in accordance with Section 4.2. A Director may elect to suspend his or her Deferrals during a Plan Year only if the Director demonstrates to the satisfaction of the Committee that he or she has incurred an Unforeseeable Emergency. No other changes may be made during a Plan Year to a Director's Deferral Election.

Section 4.4. Effect of Deferral Election. The submission of an election form pursuant to Section 4.2 shall evidence the Director's authorization of the Company to withhold the issuance of Director Shares pursuant to the terms of the Stock Plan, to the extent such Director Shares are deferred pursuant to such election, and to credit to such Director's Deferral Account, in accordance with Article V, an equal number of Share Units. The submission of such election form shall further evidence the Director's election of the timing of payment of the amount credited to such Director's Deferral Account.

ARTICLE V

Deferral Accounts

Section 5.1. Deferral Account. As of each date on which, in the absence of a Deferral Election, a Director is entitled to receive Director Shares from the Company, the Director's Deferral Account under the Plan shall be credited with a number of Share Units equal to the number of Director Shares subject to the Director's Deferral Election then in effect.

Section 5.2. Dividend Equivalents. An amount equal to the number of Share Units credited to each Deferral Account multiplied by the dividend paid on a share of Common Stock on each dividend payment date shall be credited to such Deferral Account within 10 days after the dividend payment date and shall be deemed invested in additional whole and fractional Share Units as though such dividend credit was a Deferral for such year.

Section 5.3. Vesting of Deferral Account. A Director shall become vested in or shall forfeit the Share Units credited to the Director's Deferral Account to the same extent that such Director would have become vested in or forfeited the Director Shares subject to the Deferral Election, had they been issued to the Director, subject to the terms and conditions set forth in the Stock Plan.

ARTICLE VI Payment of Deferral Accounts

Section 6.1. Time and Method of Payment. Except as otherwise specifically provided herein, the number of Share Units credited to a Director's Deferral Account for a Plan Year, together with any dividend equivalents relating to such Share Units and credited to such account pursuant to Section 5.2, shall be paid to such Director in a single lump sum payment as soon as administratively practicable after the payment date elected by the Director on the Deferral Election form submitted to the Company for such Plan Year. The payment date elected by the Director may be (i) the six-month anniversary of the Director's Termination Date or (ii) any other date elected by the Director which is at least two years after the last day of the Plan Year for which the Deferrals are credited to the Director's Deferral Account; provided, however, that if the Director's Termination Date occurs prior to the date elected by the Director, the payment date shall be the six-month anniversary of the Director's Termination Date.

Section 6.2. Change in Payment Election. A Director may elect to change the time of payment elected pursuant to Section 6.1 in accordance with procedures prescribed by the Committee; provided that such new election shall not be effective unless it (i) is received by the Company at least one year prior to the previously scheduled payment date, (ii) does not take effect for 12 months after it is received by the Company and (iii) extends the payment date by at least five years.

Section 6.3. Form of Payment. At least 30 days prior to the payment of a Director's Deferral Account, such Director shall elect whether to receive such payment in the form of (i) cash in an amount equal to the Fair Market Value of the number of whole and fractional Share Units credited to such account or (ii) whole shares of Common Stock equal to the number of whole Share Units credited to such Deferral Account and cash in an amount equal to the Fair Market Value of any fractional Share Unit credited to such account. If a Director does not elect the form in which his or her Deferral Account shall be paid, such account shall be paid in cash in accordance with clause (i) above.

Section 6.4. Unforeseeable Emergency. In the event of an Unforeseeable Emergency, a Director may file a written request with the Committee to receive all or any portion of the vested balance of such Director's Deferral Account in an immediate lump sum cash payment. A Director's written request for such a payment shall describe the circumstances, which the Director believes justify the payment and an estimate of the amount necessary to eliminate the Unforeseeable Emergency. An immediate payment to satisfy an Unforeseeable Emergency will be made only to the extent necessary to satisfy the emergency need, plus an amount necessary to pay any taxes reasonably anticipated as a result of such payment, and will not be made to the extent the need is or may be relieved through reimbursement or compensation, by insurance or otherwise or by liquidation of the Director's assets (to the extent such liquidation itself would not cause severe financial hardship). Any payment from a Director's Deferral Account on account of an Unforeseeable Emergency shall be deemed to cancel any Deferral Election of the Director then in effect and the Director shall be suspended from making further Deferral Elections under the Plan during the remainder of the Plan Year in which such payment is made.

Section 6.5. Distributions to Minor and Incompetent Persons. If a payment is to be made to a minor or to an individual who, in the opinion of the Committee, is unable to manage his or her financial affairs by reason of illness or mental incompetency, such distribution may be made to or for the benefit of any such individual in such of the following ways as the Committee shall direct: (a) directly to any such minor individual if, in the opinion of the Committee, he or she is able to manage his or her financial affairs, (b) to the legal representative of any such individual, (c) to a custodian under a Uniform Gifts to Minors Act for any such minor individual or (d) to some near relative of any such individual to be used for the latter's benefit. Neither the Committee nor the Company shall be required to see to the application by any third party of any payment made to or for the benefit of a Director or beneficiary pursuant to this Section.

ARTICLE VII
Payment Upon Death of a Director

Section 7.1. Payment to Beneficiary. In the event a Director dies before all amounts credited to his or her Deferral Account have been paid, payment of the Director's Deferral Account shall be made as soon as practicable after the date of such death.

Section 7.2. Designation of Beneficiary. Each Director may file with the Company a written designation of one or more persons as such Director's beneficiary or beneficiaries (both primary and contingent) in the event of the Director's death. Each beneficiary designation shall become effective only when filed in writing with the Company during the Director's lifetime on a form prescribed by the Company. The filing with the Company of a new beneficiary designation shall cancel all previously filed beneficiary designations. If a Director fails to designate a beneficiary, or if all designated beneficiaries of a Director predecease the Director, then the Deferral Account shall be paid to the Director's estate.

ARTICLE VIII
Funding

Benefits payable under the Plan to any Director shall be paid by the Company. The Company shall not be required to fund, or otherwise segregate assets to be used for payment of benefits under the Plan. Notwithstanding the foregoing, the Company, in the discretion of the Committee, may maintain one or more grantor trusts (each, a "Trust") to hold assets to be used for payment of benefits under the Plan. The assets of the Trust shall remain the assets of the Company subject to the claims of its general creditors. Any payments by a Trust of benefits provided to a Director under the Plan shall be considered payment by the Company and shall discharge the Company of any further liability under the Plan for such payments.

ARTICLE IX
General

Section 9.1. Effective Date; Termination. This Plan shall be effective as of the Effective Date. The Committee may terminate this Plan at any time. Termination of this Plan shall not affect the payment of any amounts credited to a Director's Deferral Account.

Section 9.2. Amendments. The Committee may amend this Plan as it shall deem advisable. No amendment may impair the rights of a Director to payment of his or her Deferral Account without the consent of such Director.

Section 9.3. Nontransferability of Benefits. No benefit payable at any time under the Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, attachment, or other legal process, or encumbrance of any kind. Any attempt to alienate, sell, transfer, assign, pledge or otherwise encumber any such benefits, whether currently or thereafter payable, shall be void. No person shall, in any manner, be liable for or subject to the debts or liabilities of any person entitled to such benefits. If any person shall attempt to, or shall alienate, sell, transfer, assign, pledge or otherwise encumber his benefits under the Plan, or if by any reason of his bankruptcy or other event happening at any time, such benefits would devolve upon any other person or would not be enjoyed by the person entitled thereto under the Plan, then the Committee, in its discretion, may terminate the interest in any such benefits of the person entitled thereto under the Plan and hold or apply them

for or to the benefit of such person entitled thereto under the Plan or his spouse, children or other dependents, or any of them, in such manner as the Committee may deem proper.

Section 9.4. Adjustment. In the event of any stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off or other similar change in capitalization or event, or any distribution to holders of Common Stock other than a regular cash dividend, the number of Share Units credited to each Deferral Account under the Plan shall be appropriately adjusted by the Committee. The decision of the Committee regarding any such adjustment shall be final, binding and conclusive.

Section 9.5. Forfeitures and Unclaimed Amounts. Unclaimed amounts shall consist of the amounts of the Deferral Account of a Director that are not distributed because of the Company's inability, after a reasonable search, to locate a Director or his or her beneficiary, as applicable, within a period of two (2) years after the distribution date upon which the payment of any benefits becomes due. Unclaimed amounts shall be forfeited at the end of such two-year period. These forfeitures will reduce the obligations of the Company under the Plan and the Director or beneficiary, as applicable, shall have no further right to his or her Deferral Account.

Section 9.6. Governing Law. This Plan and all determinations made and actions taken pursuant thereto shall be governed by the laws of the State of Florida and construed in accordance therewith without giving effect to principles of conflicts of laws.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
 COMPUTATION OF EARNINGS TO FIXED CHARGES
 (DOLLARS IN THOUSANDS)

	2004	2003	2002	2001	2000
	-----	-----	-----	-----	-----
EARNINGS:					
Income (loss) from continuing operations before income taxes and effect of change in accounting principle	\$ 25,238	\$ 5,028	\$ (82,057)	\$ (41,782)	\$ 21,139
Less:					
(Losses) and undistributed income of equity investees	--	--	--	--	(5,280)
Adds:					
Interest expensed and capitalized, except interest on deposits, and amortization of capitalized debt expenses	16,805	24,650	35,681	42,738	84,897
Interest on deposits	13,634	17,546	27,455	59,967	98,224
Interest component of rental expense	907	1,169	1,108	1,176	1,124
Total fixed charges (1)	31,346	43,365	64,244	103,881	184,245
Earnings (losses) for computation purposes	\$ 56,584	\$ 48,393	\$ (17,813)	\$ 62,099	\$ 210,664
Ratio of earnings to fixed charges:					
Including interest on deposits (2)	1.81	1.12	(3)	(3)	1.14
Excluding interest on deposits (2)	2.42	1.19	(3)	(3)	1.31

- (1) Fixed charges represent total interest expensed and capitalized, including and excluding interest on deposits, amortization of capitalized debt expenses, as well as the interest component of rental expense.
- (2) The ratios of earnings to fixed charges were computed by dividing (x) income from continuing operations before income taxes and effect of change in accounting principal, adjusted for losses and undistributed income of equity investees plus fixed charges by (y) fixed charges.
- (3) Due to our losses in 2002 and 2001, the ratio of earnings to fixed charges was less than 1:1. We would have had to generate additional earnings of \$82,057 and \$41,782, respectively, to achieve coverage of 1:1.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION
(Dollars in thousands, except share data)

The following tables present selected consolidated financial information of Ocwen Financial Corporation and its subsidiaries at the dates and for the years indicated. Our historical operations and balance sheet data at and for the years ended December 31, 2004, 2003, 2002, 2001, and 2000 have been derived from our audited financial statements. We have reclassified certain amounts included in the 2003, 2002, 2001 and 2000 selected consolidated financial information to conform to the 2004 presentation. The selected consolidated financial information should be read in conjunction with, and is qualified in its entirety by reference to, the information we have provided in our Consolidated Financial Statements and the Notes to Consolidated Financial Statements on pages 65 to 114.

	For the Years Ended December 31,				
	2004	2003	2002	2001	2000
BALANCE SHEET DATA					
Total assets	\$ 1,327,493	\$ 1,240,118	\$ 1,222,242	\$ 1,711,150	\$ 2,249,420
Trading securities, at fair value (1):					
Investment grade securities	\$ 86,215	\$ 6,679	\$ 21,556	\$ 16,191	\$ 277,595
Subordinates and residuals	\$ 39,527	\$ 42,841	\$ 37,339	\$ 65,058	\$ 112,647
Real estate (1) (3)	\$ 18,732	\$ 103,943	\$ 120,715	\$ 240,779	\$ 291,851
Affordable housing properties (1)	\$ 5,641	\$ 7,410	\$ 15,319	\$ 102,069	\$ 142,812
Loans, net (1)	\$ 3,792	\$ 28,098	\$ 76,857	\$ 185,293	\$ 631,634
Match funded assets, net (2)	\$ 280,760	\$ 130,087	\$ 167,744	\$ 174,351	\$ 116,987
Advances on loans and loans serviced for					
others (1)	\$ 240,430	\$ 374,769	\$ 266,356	\$ 283,183	\$ 277,055
Mortgage servicing rights (1)	\$ 131,409	\$ 166,495	\$ 171,611	\$ 101,107	\$ 51,426
Total liabilities	\$ 995,855	\$ 921,574	\$ 853,496	\$ 1,270,885	\$ 1,666,464
Deposits and escrows (4)	\$ 427,276	\$ 562,832	\$ 510,956	\$ 730,443	\$ 1,258,360
Match funded liabilities (5)	\$ 244,327	\$ 115,394	\$ 147,071	\$ 156,908	\$ 107,050
Debt securities, lines of credit and other secured					
borrowings (6) (7)	\$ 281,861	\$ 206,633	\$ 159,721	\$ 244,609	\$ 206,263
Capital Securities (7)	\$ --	\$ --	\$ 56,249	\$ 61,159	\$ 79,530
Stockholder's equity (8)	\$ 330,108	\$ 317,258	\$ 310,718	\$ 379,106	\$ 503,426
OTHER DATA					
Average assets	\$ 1,315,687	\$ 1,300,491	\$ 1,435,105	\$ 1,983,657	\$ 2,566,093
Average equity	\$ 322,705	\$ 308,940	\$ 346,918	\$ 448,752	\$ 456,166
Return on average assets:					
Income (loss) before effect of change in					
accounting principle	4.39%	0.37%	(5.92)%	(6.29)%	0.09%
Net income (loss)	4.39%	0.37%	(4.79)%	(6.29)%	0.09%
Return on average equity:					
Income (loss) before effect of change in					
accounting principle	17.89%	1.54%	(24.48)%	(27.81)%	0.48%
Net income (loss)	17.89%	1.54%	(19.82)%	(27.81)%	0.48%
Average equity to average assets	24.53%	23.76%	24.17%	22.62%	17.78%
Net interest spread	2.12%	2.78%	0.99%	1.36%	2.85%
Net interest margin	(1.71)%	(4.69)%	(3.62)%	(1.03)%	(1.94)%
Efficiency ratio (9)	89.20%	96.68%	153.81%	111.55%	78.04%
Bank regulatory capital ratios at end of period:					
Tangible	21.97%	14.93%	15.28%	13.43%	13.83%
Core (Leverage)	22.07%	15.09%	15.51%	13.64%	13.83%
Risk-based	32.16%	14.95%	21.71%	23.33%	21.83%

SELECTED CONSOLIDATED FINANCIAL INFORMATION
(Dollars in thousands, except share data)

For the Years Ended December 31,

	2004	2003	2002	2001	2000
OPERATIONS DATA					
Net income (loss)	\$ 57,724	\$ 4,772	\$ (68,775)	\$ (124,782)	\$ 2,193
Total non-interest revenue (10)	\$ 223,027	\$ 177,497	\$ 134,012	\$ 174,289	\$ 201,475
Servicing and related fees (1)	\$ 160,062	\$ 139,744	\$ 127,787	\$ 122,808	\$ 86,450
Vendor management fees (1)	\$ 46,986	\$ 29,842	\$ 18,299	\$ 13,988	\$ 11,089
Gain (loss) on trading and match funded securities, net	\$ (537)	\$ 3,344	\$ 7,012	\$ 16,330	\$ (3,971)
Valuation gains (losses) on real estate (11)	\$ (5,110)	\$ (7,430)	\$ (35,002)	\$ (22,282)	\$ (27,378)
Gain (loss) on sale of real estate (11)	\$ 1,556	\$ 466	\$ 4,098	\$ 14,156	\$ 45,464
Operating income (loss) from real estate (11)	\$ 605	\$ 5,128	\$ 7,864	\$ 4,495	\$ 17,538
Amortization of excess of net assets acquired over purchase price (13)	\$ --	\$ --	\$ --	\$ 18,333	\$ 14,112
Gain (loss) on repurchase of debt (6)	\$ --	\$ (445)	\$ (1,461)	\$ 3,774	\$ 29,703
Net interest income (expense)	\$ (6,688)	\$ (14,594)	\$ (18,527)	\$ (9,958)	\$ 15,726
Provision for loan losses	\$ (1,881)	\$ (2,684)	\$ 13,629	\$ 15,666	\$ 15,177
Total non-interest expense	\$ 192,982	\$ 157,501	\$ 117,626	\$ 183,316	\$ 170,001
Income tax expense (benefit) (12)	\$ (32,324)	\$ 748	\$ 2,983	\$ 83,000	\$ 18,947
Distributions on Capital Securities	\$ --	\$ 3,058	\$ 6,287	\$ 7,131	\$ 11,380
Effect of change in accounting principle, net of taxes (13)	\$ --	\$ --	\$ 16,166	\$ --	\$ --
EARNINGS (LOSS) PER SHARE					
Basic:					
Net income (loss) before effect of accounting change	\$ 0.88	\$ 0.07	\$ (1.26)	\$ (1.86)	\$ 0.03
Effect of change in accounting principle, net of tax	--	--	0.24	--	--
Net income (loss)	\$ 0.88	\$ 0.07	\$ (1.02)	\$ (1.86)	\$ 0.03
Diluted:					
Net income (loss) before effect of accounting change	\$ 0.82	\$ 0.07	\$ (1.26)	\$ (1.86)	\$ 0.03
Effect of change in accounting principle, net of tax	--	--	0.24	--	--
Net income (loss)	\$ 0.82	\$ 0.07	\$ (1.02)	\$ (1.86)	\$ 0.03
Weighted average common shares outstanding:					
Basic	65,811,697	67,166,888	67,321,299	67,227,058	67,427,662
Diluted	73,197,255	68,063,873	67,321,299	67,227,058	67,464,043

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

(Dollars in thousands, except share data)

NOTES TO SELECTED CONSOLIDATED FINANCIAL INFORMATION

- (1) Beginning in late 1999 and early 2000, we shifted our business activities away from businesses involving the acquisition of the loans, real estate, residual and subordinate trading securities and affordable housing properties. Since then, our results reflect the ongoing management and resolution of these assets. At the same time we shifted our focus toward
- (2) growing fee-based businesses, primarily Residential Loan Servicing and Ocwen Technology Xchange ("OTX"), our technology solutions business. As a result, our investment in mortgage servicing rights and servicing advances has grown, as well as the related residential servicing fees. Additionally, we have incurred losses in the development and marketing of OTX products. Those losses (pre-tax) amounted to \$(3,862), \$(11,520), \$(24,144) and \$(36,392) and \$(33,951) during 2004, 2003, 2002, 2001 and 2000, respectively. See "Overview of Risks and Related Critical Accounting Policies" and "Results of Operations - Segment Results".
- (3) Match funded assets at December 31, 2000 were comprised solely of securitized loans and securities. Match funded assets at December 31, 2004, 2003, 2002 and 2001 also included \$276,626, \$105,788, \$121,702 and \$101,963, respectively, of loan servicing advances which were sold but did not qualify as a sale for accounting purposes. We have accounted for these transactions as secured borrowings with pledges of collateral (match funded liabilities). See "Changes in Financial Condition - Match Funded Assets".
- (4) Real estate, which includes properties we acquired by foreclosures on loans we owned, has declined as a result of sales and our exit from the loan acquisition businesses. See "Changes in Financial Condition - Real Estate".
- (5) Since 2000, we have been reducing our reliance on brokered certificates of deposit as a source of funding. The amount of such deposits

outstanding amounted to \$26,418, \$84,426, \$198,248, \$483,149 and \$968,432 at December 31, 2004, 2003, 2002, 2001 and 2000, respectively. See "Banking Operations" and "Liquidity, Commitments and Off-balance Sheet Risks".

- (6) Match funded liabilities at December 31, 2004, 2003, 2002 and 2001 included \$240,193, \$94,967, \$106,797 and \$91,766, respectively, collateralized by loan servicing advances. See "Changes in Financial Condition -Match Funded Liabilities".
- (7) During 2003, 2002, 2001, and 2000 we repurchased a total of \$33,500, \$77,095, \$13,025, and \$146,755, respectively, of fixed rate debt with high interest rates. Balance at December 31, 2004 and 2003 includes the \$56,249 outstanding balance of our Capital Securities. See "Changes in Financial Condition - Debt Securities" and - "Lines of Credit and Other Secured Borrowings".
- (8) Effective with our adoption of Statement of Financial Accounting Standard (`SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", on July 1, 2003, we reclassified the \$56,249 outstanding balance of our Capital Securities to Debt Securities. Beginning with the third quarter of 2003, distributions are reported as interest expense.
- (9) Stockholders' equity reflects our repurchase of 5,481,100 common shares for \$49,449 in 2004, 500,000 shares for \$2,262 in 2003 and 1,388,300 shares for \$8,996 in 2000.
- (10) The efficiency ratio represents non-interest expense divided by the sum of net interest income before provision for loan losses and non-interest revenue.
- (11) Non-interest revenue for 2000 included a gain of \$20,025 from the sale of our unconsolidated investment in Kensington Group PLC ("Kensington") in November 2000. Kensington was engaged in the subprime mortgage loan origination business in the UK.
- (12) Valuation losses, gains on sales and operating income related to real estate has been declining since 2000 primarily as a result of declines in our commercial real estate investments. At December 31, 2004, commercial real estate consisted of one property and two partnership interests. See (3) above.
- (13) Income tax expense we recorded for 2001 and 2000 included \$83,000 and \$17,500, respectively, of net provisions to increase the valuation allowance on prior years' deferred tax assets. No such provision was required for 2003 or 2002. The (\$32,324) income tax benefit for 2004 resulted in large part from a partial reversal of the valuation allowance on our deferred tax asset that was established in prior years. See "Results of Operations - Income Tax Expense (Benefit)".
- (14) Upon adoption of SFAS No. 142, "Goodwill and Other Intangible Assets", effective January 1, 2002 we reversed the unamortized balance of the excess of net assets acquired over purchase price (negative goodwill) of \$18,333 we had originally recorded in connection with our acquisition of Ocwen Asset Investment Corp. ("OAC") in 1999 and recorded \$3,333 of impairment charges on goodwill and intangible assets. These amounts have been reported as the effect of a change in accounting principle, net of an income tax benefit of \$1,166. See Notes 1 and 2 to our Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -
(Dollars in thousands, except share data)

The following discussion of our results of operations, consolidated financial condition and capital resources and liquidity should be read in conjunction with our Selected Consolidated Financial Information, Consolidated Financial Statements and the related notes, all included elsewhere herein.

OVERVIEW OF RISKS AND RELATED CRITICAL ACCOUNTING POLICIES

For the past several years, we have been undergoing a fundamental transition in the nature of our business. In late 1999 and early 2000, we began the execution of our strategic plan to shift our business activities away from capital-intensive businesses involving the purchase or origination of loans, real estate and related assets toward less capital-intensive businesses that generate fee-based revenues. As a result, we generally ceased to originate or invest in assets in certain of our business segments ("non-core businesses") unless contractually committed to do so. However, we continued to actively manage and resolve the remaining assets in these segments. Our primary goal is to become the leading provider of third party outsourcing solutions to the mortgage and real estate industries. Key elements of our strategy are summarized as follows:

- . continuing to grow our residential loan servicing business, including through the opportunistic acquisition of servicing and subservicing rights;
- . continuing our globalization efforts through both the expansion of our international facilities and the expansion of the potential client base for our products and services;
- . expanding our other core businesses, such as unsecured debt collection, business process outsourcing and the sale or licensing of our proprietary technology;
- . diversifying our funding sources by eliminating our reliance on deposits and utilizing alternative funding sources, such as securitizing our rights to receive reimbursement for servicing advances;
- . terminating the status of Ocwen Federal Bank ("the Bank"), a wholly owned subsidiary, as a federal savings bank, which would eliminate the restrictions imposed on the amount of mortgage servicing rights that we may obtain and therefore provide us more flexibility to grow our residential servicing business; and
- . continuing to actively manage and resolve our remaining non-core assets and aggressively pursuing ways to reduce our exposure to these assets, including through opportunistic sales.

As of December 31, 2004, our core and non-core businesses were as follows:

Core Businesses	Non-Core Businesses
-----	-----
Residential Loan Servicing	Commercial Assets
Ocwen Technology Xchange ("OTX")	Affordable Housing
Ocwen Realty Advisors ("ORA")	Subprime Finance
Ocwen Recovery Group	
Business Process Outsourcing	
Commercial Servicing	

Additionally, we account for certain items of revenue and expense that are not directly related to a business unit in our Corporate Items and Other segment. Included in our Corporate Items and Other segment is interest income on short-term investments of cash and the related costs of financing these investments, results of business activities that are not significant, gains and losses on the early retirement of debt and certain other corporate income and expense items.

Risks Relating to Our Business. The following is a discussion of the principal risk factors that relate to our businesses and that may affect future results.

Our success is highly dependent upon our ability to acquire and accurately price mortgage servicing rights, as well as general economic conditions in the geographic areas in which we service loans.

The primary risk associated with mortgage servicing rights is that they will lose a portion of their value as a result of higher than anticipated prepayments occasioned by declining interest rates or because of higher than anticipated delinquency rates occasioned by deteriorating credit conditions. Interest rates, prepayment speeds and the payment performance of the underlying loans significantly affect both our initial and ongoing valuations and the rate of amortization of mortgage servicing rights. In general, the value of mortgage servicing assets is affected by increased mortgage refinance activity that is influenced by changes in borrowers' credit ratings, shifts in value in the housing market and interest rates. While such assets tend to decrease in value as interest rates decrease, they tend to increase in value as interest rates increase. Increases in prepayment speeds result in increases in the amortization expense of our mortgage servicing rights. As of December 31, 2004,

we held \$131,409 of mortgage servicing rights.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -
(Dollars in thousands, except share data)

We acquire servicing rights principally from mortgage origination companies and investment banks. Servicing rights are typically acquired based upon a competitive bidding process. A number of our competitors have access to greater capital resources, which may provide them with a competitive advantage if they seek to increase their market share. Although the market for the acquisition of servicing rights to subprime mortgage loans has grown in recent years, we may be unable to acquire the desired amount and type of servicing rights in future periods. In addition, the volume of servicing rights acquired by us may vary over time resulting in significant inter-period variations in our results of operations.

In determining the purchase price for servicing rights, management makes assumptions regarding the following, among other things:

- . the rates of prepayment and repayment within the pools;
- . projected rates of delinquencies and defaults;
- . our cost to service the loans;
- . amounts of future servicing advances;
- . ancillary fee income;
- . our ability to service and resolve loans successfully; and
- . future interest rates.

If these assumptions are inaccurate or the bases for the assumptions change, the price we pay for servicing rights may be too high. This could result in reduced revenue or a loss to us. Therefore, our success is highly dependent upon accuracy in our pricing of servicing rights, as well as general economic conditions in the geographic areas in which we service loans.

We rely on data from a third party vendor in the pricing of mortgage servicing rights in our residential loan servicing business.

Our residential loan servicing business uses data that we purchase from a third party that runs a model on which we base our bids for mortgage servicing rights. This model projects, among other things, prepayment speeds and delinquencies. Problems with this relationship or a disruption in this service could disrupt our operations or adversely affect our financial results.

Our strategy to grow our business is subject to uncertainty.

Our corporate strategy focuses on growing our servicing of assets owned by others, growing our activities to provide business process outsourcing to others and the development of loan origination and servicing technology for the mortgage and real estate industries. Many factors could adversely affect our ability to realize this strategy, including general economic factors, the general interest rate environment, our ability to maintain the servicing ratings assigned to us by rating agencies, government regulation, competition, our ability to obtain mortgage servicing rights, the effectiveness of our marketing initiatives, our ability to recruit or replace experienced management and operations personnel, the success of our international operations and the availability of funding. In addition, there can be no assurance that we will be able to accomplish our strategic objectives as a result of changes in the nature of our operations over time or that such changes will not have a material adverse effect from time to time or generally on our business, financial condition or results of operations.

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

We are rated as a mortgage servicer by Standard & Poor's Ratings Services ("Standard & Poor's"), Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch"). Our favorable servicer ratings from these entities are important to the conduct of our loan servicing business. Standard & Poor's has placed our servicing ratings on negative watch. We can provide no assurance that this rating, or the ratings assigned by Moody's and Fitch, will not be downgraded in the future. Any such downgrade could have an adverse effect on our business, financial condition or results of operations.

Our earnings may be inconsistent.

As discussed in the overview above, since late 1999 and early 2000, we have implemented our strategy to shift our business activities away from capital-intensive businesses involving the purchase or origination of loans, real estate and related assets towards less capital-intensive businesses that generate fee-based revenues. The resulting exit from certain businesses and entry into others resulted in variations in our results of operations and earnings. Our past financial performance may not be considered a reliable indicator of future performance, and historical trends may not be reliable indicators of anticipated results or trends in future periods.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

In addition to inconsistency in results caused by our entry into or exit from businesses in recent years, the consistency of our operating results has been and may continue to 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;
- . gains or losses realized from the disposition of our remaining non-core assets; and
- . changes in the earnings or losses of our other core business segments.

In addition, our operating results have been significantly affected by certain non-recurring items. Items reported by us in prior periods may not be repeated in future periods.

We incur significant costs related to governmental regulation.

Our business is subject to extensive regulation and supervision 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. Our banking and servicing activities are subject to numerous federal agencies, laws and regulations, including the Office of Thrift Supervision ("OTS"), the Federal Deposit Insurance Corporation ("FDIC"), the Board of Governors of the Federal Reserve System, the Federal Home Loan Bank of New York, the Home Owners' Loan Act, the Federal Deposit Insurance Act, the Community Reinvestment Act and provisions of the Gramm-Leach-Bliley Act and USA PATRIOT Act. The Bank is currently a federally chartered savings bank. As such, it is subject to regulation, examination and supervision by the OTS and FDIC. We also are required to comply with a variety of federal, state and local consumer protection laws, including the Fair Debt Collections Practice Act, Real Estate Settlement Procedures Act and the Equal Credit Opportunity Act and are subject to the rules and regulations of state regulatory authorities with respect to our operations. These requirements can and do change as statutes and regulations are enacted, promulgated or amended.

These statutes and regulations, among other things, regulate assessment, collection, foreclosure and claims handling, investment and interest payments on escrow balances and payment features, mandate certain disclosures and notices to borrowers, prohibit discrimination and, in some cases, fix maximum interest rates, finance charges, fees and mortgage loan amounts. We incur significant costs on an on-going basis to comply with governmental regulations, which adversely affects our net income. If our regulators impose new or more restrictive requirements, we may incur additional significant costs to comply with such requirements, which could adversely affect our net income.

If, as described under "Banking Operations", we were to no longer control a federal savings bank, we would no longer be subject to federal banking regulations but would remain subject to certain federal, state and local consumer protection provisions. We also would become subject to regulation in a number of states as a mortgage service provider and/or as a debt collector. We have not previously operated our mortgage servicing business under such regulatory regimes and there can be no assurance that this transition would not result in additional costs or uncertainties that would have a material adverse effect on the profitability of our mortgage servicing business.

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

We face the risk of governmental proceedings and litigation, including class action lawsuits, challenging our residential loan servicing and other business practices. On April 19, 2004, the Bank entered into a Supervisory Agreement with the OTS. See "Banking Operations" and Note 22 to the Consolidated Financial Statements. While we do not expect that compliance with the agreement will have a material adverse impact on our financial condition, results of operations or cash flows, the OTS or other regulatory agencies may take additional actions to require the Bank to implement measures relating to our servicing practices, including with respect to the matters that are the subject of the Supervisory Agreement, other matters on which we communicate with the OTS from time to time or otherwise. In addition, if the OTS were to determine that we failed to comply with the Supervisory Agreement or otherwise were to find deficiencies in our mortgage servicing practices, the OTS could initiate an enforcement proceeding against the Bank, which could result in civil money penalties or the imposition of further requirements on the Bank's business practices. Accordingly, there can be no assurance that any such eventualities, were they to occur, would not have a material adverse effect on our financial condition, results of operations or cash flows.

In addition, we and certain of our affiliates, including the Bank, have been named as defendants in a number of purported class action lawsuits challenging the Bank's residential loan servicing practices. At least one of our competitors has paid significant sums to settle lawsuits brought against it that raised claims similar to those raised in the lawsuits brought against us and our affiliates. Although we believe that we have meritorious legal and factual defenses to the lawsuits, we can provide no assurance that we will ultimately prevail. Litigation and other proceedings may result in the adoption of business practices different from those of our competitors, as well as settlement costs, damages, penalties or other charges, which would adversely affect our financial results.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

Finally, we cannot be certain that litigation relating to businesses other than residential loan servicing will not have an adverse effect on our financial results. For additional information regarding litigation, see Note 27 to the Consolidated Financial Statements.

We may be unable to obtain the necessary additional capital to finance the growth of our business.

Our financing strategy includes the use of leverage. Accordingly, our ability to remain in business and finance our operations rests in part on our ability to borrow money. Our ability to borrow money depends on a variety of factors, including:

- . our ability to meet our current debt service obligations on our existing debt;
- . our corporate credit rating as evaluated from time to time by rating agencies and the occasion of any changes to their published ratings;
- . our financial performance and the perception that existing and potential lenders have of our financial strength; o our ability to compete with other banks for deposits;
- . limitations imposed on us by regulatory agencies and/or existing lending agreements that limit our ability to raise additional debt; and
- . general economic conditions and the impact they have on the availability of credit.

An event of default, a negative ratings action by a rating agency, the perception of financial weakness resulting from continuing operating losses, an increase in the cost of competing for deposits, an action by a regulatory authority or a restriction imposed on us as a function of a debt covenant that serves to limit our ability to borrow money, 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.

If, as described under "Banking Operations", we were to cease to control a federal savings bank, we would no longer be able to rely on deposits obtained through the Bank as a source of funding. Although we believe that we would be able to replace these deposits with other financing arrangements, we can provide no assurance that such alternative funding sources would be adequate to meet our needs or would not increase our cost of funds.

Our international operations are subject to political and economic uncertainties and other risks beyond our control.

We conduct business in the United States, and we have established two software development and servicing operations centers in India. Through Global Servicing Solutions, LLC ("GSS"), a joint venture formed with Merrill Lynch to service assets in other countries, we now have two fully operational offices located in Tokyo, Japan and Taipei, Taiwan. In 2004, we established servicing operations in Toronto, Canada and Mainz, Germany. We have established consulting operations in the United Kingdom and China. In addition, we recently acquired a bank in Germany. Our foreign operations are subject to risks beyond those associated with our United States operations, including:

- . unexpected changes in local regulatory requirements;
- . unfavorable changes in trade protection laws;
- . difficulties in managing and staffing international operations;
- . potentially adverse tax consequences;
- . adaptability problems;
- . increased accounting and control expenses;
- . the burden of complying with foreign laws;
- . adverse social, political, labor or economic conditions;
- . changes in foreign currency exchange rates; and
- . our limited international experience.

Although we evaluate hedging strategies to limit the effects of currency exchange rate fluctuations on our results of operations, there can be no assurance that our strategies will achieve their intended purpose. Further, we may be unable to effectively manage the risks listed above in order to realize the benefits of international operations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -
(Dollars in thousands, except share data)

We face strong competition in our primary business segment.

We face strong competition from a variety of competitors in our residential loan servicing business. These competitors include several smaller companies focused on servicing as well as a number of large financial institutions. These financial institutions generally have significantly greater resources and access to capital than we do, resulting in a lower cost of funds and a greater ability to purchase mortgage servicing rights. Because a part of our strategy depends on our ability to obtain mortgage servicing rights, we can provide no assurance that such competition will not have an adverse impact on our ability to implement our strategy.

In general, our competition has intensified in recent years as the low-interest rate environment has created favorable conditions for other companies and banks to enter the residential subprime loan business or expand their existing activities within the industry. While some of these entities only originate and do not currently service loans, there is no assurance that they will not develop internal servicing capability or outsource the servicing function to one of our competitors. Recently, some originators from whom we have purchased servicing rights in the past have developed their own servicing capabilities.

We may be unable to satisfy consumer demand for new technologies.

Part of our business strategy is to expand our sales of proprietary technology products, including REALservicing, REALTrans and REALSynergy. Rapid change and uncertainty due to new and emerging technologies characterize the software industry. Our ability to grow our technology revenue is dependent upon our ability to develop and introduce new products and enhance existing products to satisfy customer demand for new technologies. Because the pace of change

continues to accelerate and new opportunities for competitors arise, our business planning is subject to substantial uncertainty. If we do not successfully identify new product opportunities and develop and bring new products to market in a timely and efficient manner, our business will suffer. New platforms and products may gain popularity with customers, vendors and loan originators, reducing or eliminating the potential for future revenue.

There is fierce competition in the software industry; however, our products compete in a limited market. While we believe REALServicing, REALTrans and REALSynergy each present greater functionality and a better value than competing products in the market, our products may not realize any competitive advantage. Competitors may arrive at a technology that creates a new market altogether and renders our product offerings obsolete. We may not be successful in introducing the products to the market on a commercial basis or in translating the products' business, marketing and pricing models into revenue sufficient to produce net income.

The software industry is inherently complex. New products and product enhancements can require long development and testing periods. While we believe our products are attractive to the mortgage and real estate industries, the computer software industry is subject to rapid technological change, changing customer requirements, frequent new product introductions and evolving industry standards that may render existing products and services obsolete. We may experience future difficulties that could delay or prevent the successful development, introduction or marketing of our products. Further, our products and product enhancements may not meet the requirements of the marketplace and achieve market acceptance. If we are unable to develop and introduce products of acceptable quality in a timely manner in response to changing market conditions or customer requirements, our business could be adversely affected.

We may not be able to adequately protect our proprietary rights or information.

Our success is in part dependent upon our proprietary information and technology. We rely on a combination of copyright, trade secret and contract protection to establish and protect our proprietary rights in our products and technology. In general, we enter into intellectual property agreements with all employees (including our management and technical staff) and consultants as well as limit access to and distribution of our proprietary information. We cannot be sure that we have taken adequate steps to deter misappropriation of our proprietary rights or information. Independent third parties may develop products and technology substantially similar to ours. Although we believe that our products and technology do not infringe any proprietary rights of others, we could be subject to claims of infringement in the future.

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 chairman and chief executive officer, William C. Erbey, has been with us since our founding in 1987 and our president, Ronald M. Faris, joined us in 1991. Other senior managers of ours 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

Other industry risks could affect our financial performance.

We face many industry risks that could negatively affect our financial performance. For example, we face the risk that increased criticism from consumer advocates or the media could hurt consumer acceptance of our services and could lead to the adoption of different business practices. In addition, 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 is essential to maintain consumer confidence in certain of our services. Security breaches, 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, we rely on our foreign employees for a number of our business processes in our call and data centers overseas. The issue of outsourcing to lower-cost foreign workers and the impact on the U.S. labor market has recently attracted significant negative media and Congressional attention, and Congress or individual states could enact new laws regulating outsourcing that could adversely affect us.

We may be required to repurchase loans or indemnify investors if we breach representations and warranties that we made in connection with the sale of those loans.

Historically, we purchased and originated loans that were subsequently pooled and securitized or sold outright. While we no longer purchase, originate or securitize a significant volume of loans, on substantially all loans sold we made representations or warranties at the time the loans were sold. We may be required to repurchase loans at a price equal to the then outstanding principal balance of the loan and any accrued and unpaid interest thereon, if there were a breach of those representations or warranties. Additionally, we may be required to advance funds to the securitization trusts or to indemnify the trustee or the underwriters of a securitization under specific circumstances.

The representations made in connection with our loan sale agreements typically include, among others, representations regarding the nature and condition of the related properties, including environmental issues, the absence of liens, the lack of undocumented mortgage modifications, and validity and enforceability of the mortgages, and the existence of appropriate insurance coverage. We recorded approximately \$500 and \$1,300 of expenses in 2004 and 2003, respectively, in fulfillment of these guarantees, and our exposure to future obligations in this regard is not estimated to be significant.

We are subject to investment risks.

A component of our previous business strategy in the Residential Discount Loan and Subprime Finance non-core business lines was the acquisition, origination and securitization of residential mortgage loans. We had historically retained subordinate and residual interests in connection with the securitization of our loans and had acquired other residual interests in connection with our acquisition of OAC. The performance of these securities in prior years was negatively impacted by higher than expected prepayment speeds and credit losses experienced on the mortgage loans collateralizing the securities. We have reduced our exposure to loss on these investments by selling most of the portfolio. However, we remain subject to the risk of loss on our remaining securities primarily to the extent that future credit losses exceed expected credit losses. The fair value of our remaining investment in subordinate and residual securities at December 31, 2004 was \$39,527, of which \$35,276 represents unrated single family subprime residuals.

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

As of December 31, 2004, our directors and executive officers and their affiliates collectively owned or controlled approximately 44% of our outstanding common shares. This includes approximately 30% owned or controlled by our chairman and chief executive officer, William C. Erbey, and approximately 13% 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 amendment of our articles of incorporation, the approval of mergers or similar transactions and the election of all directors.

Critical Accounting Policies. Our strategies to exit non-core businesses and grow core businesses are affected by risks in the marketplace. Further, our ability to measure and report our operating results and financial position is heavily influenced by the need to estimate the impact or outcome of these risks or other future events. Our critical accounting policies are those that relate to the estimation and measurement of these risks; an understanding of these policies is fundamental to understanding Management's Discussion and Analysis of Results of Operations and Financial Condition. Our significant accounting policies are discussed in detail in Note 1 of our Consolidated Financial Statements (which are incorporated herein by reference). The following is a summary of our more subjective and complex accounting policies, as they relate

to our overall business strategy.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -
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Our most significant business in recent years has been our Residential Loan Servicing business, which has achieved increased transaction volumes during the past three years. Inherent in our growth of this business has been an increase in purchased mortgage servicing rights, an intangible asset representing the present value of the right to service loans in a portfolio. Therefore, the most critical accounting policy for this business line is the methodology we use to determine the value of mortgage servicing rights. Application of this methodology requires the development of a number of estimates, including anticipated amortization and periodic revaluation. We estimate the fair value of our mortgage servicing rights based on the results of our internal valuation and an external valuation obtained from an independent third party valuation specialist. Our internal valuation is performed using an industry standard model which calculates the present value of estimated future cash flows utilizing market based assumptions. The more significant assumptions used in our internal valuation include:

- . Prepayment speeds
- . Compensating interest expense
- . Delinquency experience
- . Discount rate
- . Interest rate used for computing the cost of servicing advances
- . Interest rate used for computing float income
- . Cost of servicing

Prepayment speeds and delinquency experience are derived from an industry standard model, for each strata in our mortgage servicing rights. Our strata are based upon loan type, which represents the predominant risk characteristics of the underlying loans, including:

- . Subprime
- . ALT A
- . High-loan-to-value
- . Re-performing
- . Special servicing
- . Non-residential mortgage
- . Other

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -
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The graphs presented below provides the overall prepayment speed and delinquency assumptions by strata as of December 31, 2004:

[CHART APPEARS HERE]

[CHART APPEARS HERE]

The discount rate, interest rate for the cost of financing advances, interest rate for float income and the cost of servicing are based on the market assumptions provided by our third party valuation specialist. As of December 31, 2004, these assumptions were as follows:

- . Discount rate of 18%
- . Interest rate of six-month LIBOR plus 300 basis points for the cost of financing advances

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -
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- . Interest rate of six-month LIBOR for float income
- . Assumptions regarding the cost of servicing vary by strata, and range from a low of \$50 per year for a performing Alt A loan to a high of \$1,250 per year for a loan that is in foreclosure.

Changes in these assumptions are generally expected to impact our results of operations as summarized below:

- . Increases in prepayment speeds generally reduce the value of our mortgage servicing rights as the underlying loans prepay faster, causing higher mortgage servicing rights amortization, higher compensating interest payments and lower overall servicing fees, partially offset by lower overall cost of servicing and increased float balances and income.
- . Increases in delinquencies generally reduce the value of our mortgage servicing rights as the cost of servicing increases during the delinquency period and the amount of servicing advances and related interest expense increases.
- . Increases in the discount rate reduce the value of our mortgage servicing rights due to the lower overall net present value of the combined cash flows.
- . Increases in interest rate assumptions for the cost of servicing advances will increase interest expense, while rate increases will also increase the amount of float earnings we recognize as fee income.
- . Increases in interest rate assumptions also generally increase the value of our mortgage servicing rights as the underlying loans projected prepayment rate slows, while decreases in interest rate assumptions generally reduce the value of our mortgage servicing rights as the underlying loans projected prepayment rate increases.

We perform an interest rate sensitivity analysis of our mortgage servicing rights portfolio every quarter. We currently estimate that the fair value of the portfolio increases by approximately 7% for every 50 basis point (bps) increase in interest rates and reduces by approximately 9% for every 50 bps decline in interest rates.

An impairment analysis is performed after grouping our loans into the seven strata based on loan type, which represent the predominant risk characteristics of the underlying loans. The risk factors used to assign loans to strata include the credit score (FICO) of the borrower, the loan to value ratio, the type of asset (mortgage or non-mortgage) and the default risk.

We amortize mortgage servicing rights over the period of estimated net servicing income based on our projections of the amount and timing of future cash flows. The amount and timing of servicing asset amortization is adjusted periodically based on actual results and updated projections. During the past two years, the prepayment speeds in our servicing portfolio have increased, resulting in a substantial increase in the rate of amortization of servicing rights.

Another accounting policy that requires the use of estimates and the application of judgment is the determination of our overall tax provision and the evaluation of the realizability of our gross deferred tax assets in the near term. As of December 31, 2004 we had gross deferred tax assets of \$183,610, and a corresponding valuation allowance of \$165,927 resulting in a net deferred tax asset of \$17,683. Our valuation allowance was primarily established in 2001, when we recorded an \$83,000 provision to increase the valuation allowance on our prior years' deferred tax assets. During 2003 and 2002, we provided an additional valuation allowance equal to the amount of any deferred tax assets recorded during the year. During 2004, we recorded a \$35,518 partial reversal of the valuation allowance we had established on the deferred tax asset in prior years. The allowance was reduced as a result of refund claims we filed with the IRS that reduced our deferred tax asset as of December 31, 2004 and increased our income tax receivable balance by the same amount. The evaluation of the need to maintain our valuation allowance takes into consideration our recent earnings history, current tax position and estimates of taxable income in the near term. The tax character (ordinary versus capital) and the carry forward periods of certain tax attributes (e.g., capital losses and tax credits) must also be considered. Significant judgment is required in considering the relative impact of negative and positive evidence related to realizability of the deferred tax assets. The determination of the amount of the aggregate valuation allowance is based on scenario analyses of the projected results of operations by line of business resulting in a range of potential valuation allowances, within which a final amount is determined. Reversal of all or a portion of the valuation allowance may be required in the future based on the results of our operations.

BANKING OPERATIONS

The Bank operates one bank branch in Fort Lee, New Jersey. This location, which provides most of our retail banking services, is primarily focused on the issuance of retail certificates of deposit that currently serve as a source of financing for us. We do not conduct loan origination activities in the Fort Lee branch. We currently also operate several of our core businesses primarily in the Bank: Residential Loan Servicing, ORA and portions of Ocwen Recovery Group. In addition, our non-core Affordable Housing business operates in the Bank, as does a portion of our non-core Commercial Assets business.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

We have an active ongoing dialogue with the OTS regarding our various businesses and business plans, and we continue to be subject to a number of restrictions with respect to our future operations. Arising out of our ongoing dialogue and communications with the OTS, which includes the Supervisory Agreement we entered into on April 19, 2004, we are no longer collecting forbearance and breach fees directly from borrowers whose loans we service. Forbearance fees represent a charge to compensate us for the costs we incur in developing forbearance plans, i.e. alternative payment schedules that enable borrowers to make affordable loan payments and retain their homes during periods of personal economic difficulty. Breach fees represent attorneys' fees we paid to a law firm to whom we had outsourced the process of sending obligatory default notices to borrowers who were delinquent in making their mortgage payments. We reassumed this process internally in September of 2003, thus eliminating these fees prospectively. See Note 22 to the Consolidated Financial Statements for additional information regarding the Supervisory Agreement.

We have also committed to the OTS to limit our investment in mortgage servicing rights at no more than 60% of core capital (before any deduction thereto for mortgage servicing rights) at the Bank and 50% of stockholders' equity on a consolidated basis. As disclosed in Note 22 to the Consolidated Financial Statements, our investments in mortgage servicing rights are below these limits at December 31, 2004. These commitments effectively limit the size of our residential loan servicing business and, consistent with our strategy of growing that business, we have determined to begin the process of having the Bank terminate its status as a federal savings bank under OTS and FDIC supervision, which would, among other things, eliminate these restrictions on our growth. If this process, which we refer to as "debanking," is completed, we would dissolve the Bank and continue its non-depository businesses, including its mortgage servicing business, under another subsidiary of our Company, which would be licensed where necessary at the state level. Should debanking be completed, we would no longer be a savings-and-loan holding company and would no longer be able to take deposits in the United States or benefit from federal preemption.

Our ability to debank is subject to a number of contingencies, many of which are beyond our control, including approvals by the OTS with respect to the application for a voluntary dissolution (which we filed with the OTS on November 24, 2004) and sales of the Bank's deposits to third parties. There can be no assurance that we ultimately will be successful in debanking.

In connection with our debanking process, on February 4, 2005, we entered into a Branch Purchase and Deposit Assumption Agreement (the "Branch Purchase Agreement") with Marathon National Bank of New York ("Marathon"). Pursuant to the Branch Purchase Agreement, Marathon agreed to assume the deposit liabilities of the accounts associated with the Bank branch facility in Fort Lee, New Jersey. In addition, Marathon will take over the lease and other contracts and acquire assets related to the branch. In connection with that closing, Ocwen will make a cash payment to Marathon, which payment is calculated based upon, among other things, the amount of those deposit account liabilities as of the closing. As of February 28, 2005, the amount of the deposit liabilities of the accounts subject to the Branch Purchase Agreement was approximately \$193,000. The transaction is subject to regulatory and other customary approvals and conditions.

On September 30, 2004, we acquired Bankhaus Oswald Kruber KG ("BOK") a German bank, for \$9,737, including acquisition costs. Our primary objectives in acquiring BOK were to diversify our funding sources and to establish a platform

to provide services to our multinational client base. The results of operations of BOK are included in our consolidated income statement beginning on October 1, 2004. The excess of the purchase price over the fair value of the net assets acquired (goodwill) related to this transaction is \$3,694. We also recorded \$1,741 of intangible assets, none of which are subject to amortization. As of December 31, 2004 BOK had assets of \$23,043, of which \$10,699 were interest earning deposits, and total liabilities of \$10,919. BOK is not significant to our current banking operations.

WORKFORCE AND OPERATIONAL CAPACITY

As of December 31, 2004, we had a total of 3,120 employees, of which 1,032 were in our United States facilities and 2,026 were in our India operations centers. We have developed our India operations centers over the past four years in order to benefit from the cost savings opportunities and quality workforce available in that country. We also had 62 employees in other countries at December 31, 2004.

In the United States, our operations are concentrated in our headquarters in West Palm Beach, Florida, which had 357 employees as of December 31, 2004, and our operations center in Orlando, Florida, which had 645 staff members as of December 31, 2004. Our Orlando facility has the capacity to house 950 employees on a single shift. In addition, we had 30 employees at various other locations in the United States.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

In India, our operations are located in the cities of Bangalore and Mumbai. Of the 2,026 members of the staff in India as of December 31, 2004, 1,201 were in Bangalore and 825 were in Mumbai. Our India workforce can be summarized by business as follows:

- . 43% are engaged in activities for our Residential Loan Servicing business,
- . 22% support Business Process Outsourcing,
- . 14% support OTX and Technology Services,
- . 17% work in various other business units, and
- . 4% represent various support functions, including Human Resources and Corporate Services, Accounting and Risk Management.

RESULTS OF OPERATIONS

General. We recorded net income of \$57,724 for 2004, as compared to net income of \$4,772 for 2003 and a net loss of \$(68,775) for 2002. Our basic earnings per share was \$0.88 for 2004, as compared to \$0.07 for 2003, and a loss per share of \$(1.02) for 2002. Net income for 2004 includes an income tax benefit of \$(32,324) that largely resulted from a \$35,518 partial reversal of the valuation allowance we had established on our deferred tax asset in prior years. Pre-tax income (loss) before minority interest and the effect of a change in accounting principle in 2002 was \$25,238, \$5,028 and \$(82,057) for 2004, 2003 and 2002, respectively. As discussed in "Overview of Risks and Related Critical Accounting Policies", our operating results reflect our ongoing strategy to grow and expand our core businesses while at the same time actively managing and resolving remaining assets not associated with our core business segments.

Our core businesses recorded combined pre-tax income of \$25,112 for 2004, as compared to \$27,944 for 2003 and \$11,328 for 2002. The \$2,832 decline in pre-tax income from core businesses in 2004 as compared to 2003 is primarily due to a \$15,229 decline in pre-tax income from Residential Loan Servicing, offset by a \$7,658 decline in OTX losses and a \$4,777 improvement in Commercial Servicing results. Residential Loan Servicing results for 2004 reflect rising prepayment speeds, low interest rates and an increase in operating expenses. The decline in OTX losses in 2004 reflects an increase in revenue, primarily related to our REALServicing residential loan servicing system. Commercial Servicing results improved primarily due to the growth of our international servicing business. Our non-core business segments recorded pre-tax income of \$2,304 in 2004, as compared to losses of \$(10,099) and \$(65,968) in 2003 and 2002, respectively. The \$12,403 improvement in pre-tax earnings from our non-core segments in 2004 as compared to 2003 is primarily due to a \$6,380 improvement in Subprime Finance results and a \$4,391 reduction in losses from the Commercial

Assets segment. Subprime results for 2003 included the \$10,000 charge resulting from the Admiral Home Loan arbitration settlement. Commercial Assets results have continued to improve as a result of sales and resolutions of the real estate and loan assets. Impairment charges and loss provisions, which totaled \$46,127 in 2002, and net interest expense have all declined significantly in the Commercial Assets segment since 2002. Results of our Corporate Items and Other segment have also continued to improve with a pretax loss of \$(2,178) in 2004 as compared to pre-tax losses of (\$12,817) and (\$27,417) in 2003 and 2002, respectively. This improvement is largely due to reduced interest expense, resulting from reductions in corporate debt and brokered deposits and the recognition of \$6,874 of interest income on federal income tax refund claims in 2004. We discuss segment results in detail in our review of segment results, which follows.

Segment Results. In general, we have ceased conducting any new business activities related to our non-core businesses, although we are actively engaged in the sale or other resolution of the remaining non-core assets. These assets are comprised of loans, real estate, securities held in our residual and subordinate trading portfolio and affordable housing properties. As of December 31, 2004, we held \$67,692, of non-core assets, compared to \$182,292 and \$250,230 at December 31, 2003 and 2002, respectively. As discussed in detail below, the combined pre-tax results of our core business segments declined slightly in 2004, while our non-core segments and the Corporate Items segment all improved significantly during 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

The following tables present the pre-tax income (loss) and total assets for each of our reportable segments at and for the dates indicated:

	Pre-Tax Income (Loss)		
	For the Years Ended December 31,		
	2004	2003	2002
Core businesses:			
Residential Loan Servicing ...	\$ 15,814	\$ 31,043	\$ 31,974
OTX	(3,862)	(11,520)	(24,144)
Ocwen Realty Advisors	6,466	5,432	2,597
Ocwen Recovery Group	3,916	5,300	4,006
Business Process Outsourcing..	2,205	1,893	118
Commercial Servicing	573	(4,204)	(3,223)
	25,112	27,944	11,328
Non-core businesses:			
Residential Discount Loans ...	--	--	763
Commercial Assets	(5,008)	(9,399)	(49,746)
Affordable Housing	(3,256)	(4,888)	(31,521)
Subprime Finance	10,568	4,188	14,536
	2,304	(10,099)	(65,968)
Corporate Items and Other	(2,178)	(12,817)	(27,417)
	\$ 25,238	\$ 5,028	\$ (82,057)

	Total Assets	
	December 31,	
	2004	2003
Core businesses:		
Residential Loan Servicing	\$ 694,175	\$ 672,779
OTX	4,430	5,290
Ocwen Realty Advisors	2,077	1,056
Ocwen Recovery Group	541	323
Business Process Outsourcing ...	2,502	1,010

Commercial Servicing	13,025	5,241
	-----	-----
	716,750	685,699
	-----	-----
Non-core businesses:		
Commercial Assets	24,149	133,015
Affordable Housing	36,715	48,974
Subprime Finance	35,519	39,162
	-----	-----
	96,383	221,151
	-----	-----
Corporate Items and Other	514,360	333,268
	-----	-----
	\$ 1,327,493	\$ 1,240,118
	=====	=====

The following table summarizes our remaining investment in non-core assets, which are included in the total asset amounts presented above:

	Non-Core Assets December 31	
	2004	2003
	-----	-----
Non-core businesses:		
Commercial Assets	\$ 21,560	\$ 126,401
Affordable Housing	8,839	13,955
Subprime Finance	35,351	38,973
Corporate Items and Other	1,942	2,963
	-----	-----
	\$ 67,692	\$ 182,292
	=====	=====

The following is a discussion of the pre-tax income (loss) for each of our reportable business segments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -
(Dollars in thousands, except share data)

CORE BUSINESSES

Residential Loan Servicing. Through this business we earn fees for providing loan servicing, including asset management and resolution services, to third party owners of subprime and "high loan to value" residential mortgage loans. Subprime residential mortgages comprise the vast majority of loans we service. We acquire the rights to service loans by purchasing them outright or by entering into sub-servicing contracts. Results for the past three years reflect continued growth in the volume of mortgage loans serviced through 2003 and then a decline in 2004, as shown in the table below, reflecting continuing earnings pressure from low interest rates and high prepayments in our servicing portfolio. Not only do prepayments result in the loss of future servicing fees, they also result in increases to the rate at which we amortize the balance of our servicing rights. Prepayments also create an obligation for us to pay compensating interest to investors for the full month of interest on loans that are repaid before the end of a calendar month.

Selected information

	2004	2003	2002
	-----	-----	-----
Number of loans at December 31	320,185	359,590	336,097
Unpaid principal balance at December 31	\$ 34,524,491	\$ 37,697,318	\$ 30,738,855
Average unpaid principal balance for the year	\$ 35,295,755	\$ 33,589,509	\$ 26,533,826
Average number of employees:			
United States	682	626	837
India	817	671	403

	For the Years Ended December 31,		
	2004	2003	2002
Pre-tax income	\$ 15,814	\$ 31,043	\$ 31,974
Net interest expense	\$ 19,397	\$ 20,892	\$ 18,304
Non-interest revenue:			
Servicing and related fees, net:			
Fees	\$ 254,270	\$ 244,191	\$ 196,053
Amortization of servicing rights	(96,036)	(93,558)	(58,045)
Compensating interest expense	(33,115)	(32,315)	(19,758)
Total servicing and related fees	125,119	118,318	118,250
Vendor management fees	3,388	2,487	2,112
Other	219	327	(338)
Total non-interest revenue	\$ 128,726	\$ 121,132	\$ 120,024
Non-interest expense	\$ 93,515	\$ 69,196	\$ 69,746

- . The decline in the unpaid principal balance and number of loans we service for others during 2004 is the result of a continued high level of runoff due to prepayments, and a more cautious acquisition strategy we adopted given the uncertainty of prepayment speeds in the current environment. In addition we have commitments with the OTS to maintain our investment in mortgage servicing rights at or below certain levels. See "Changes in Financial Condition - Mortgage Servicing Rights".
- . Servicing and related fees for 2004 and 2003 include \$19,286 and \$4,714, respectively, of real estate property management fees associated with the contract we entered into with the U.S. Department of Veteran's Affairs (the "VA") in September 2003.
- . We continue to experience low earnings on funds that we have received from borrowers that are held on deposit with an unaffiliated bank ("float balances") as a result of low short-term interest rates. Float income, reported as a component of fee income, amounted to \$16,561, \$10,821 and \$7,757 during 2004, 2003 and 2002, respectively. The yield we earned on float balances averaged 1.38% during 2004 as compared to 1.01% and 1.56% during 2003 and 2002, respectively. See "Non-Interest Revenue - Servicing and Related Fees" for additional details of the principal components of servicing and related fees.
- . The rate of amortization on servicing rights increased in 2004 and 2003 in response to increased actual and projected prepayment volumes, resulting in higher amortization expense. The effect of the increased rate of amortization has been partially offset by the reduction in purchases of servicing rights. The balance of mortgage servicing rights declined \$35,086 during 2004 as amortization exceeded purchases. See "Changes in Financial Condition - Mortgage Servicing Rights".
- . During 2004 and 2003, prepayments on our loans serviced for others increased significantly primarily due to lower interest rates. Accordingly, we were required to pay increased compensating interest to the securitization trusts for the full month of interest on loans that are repaid before the end of a calendar month.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

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- . The increase in non-interest expense in 2004 as compared to 2003 is primarily due to the following:
 - 1) A \$9,569 increase in costs associated with the property management contract we entered into with the VA in September 2003.
 - 2) In September 2003, we terminated our agreement with an external law firm to manage certain aspects of our loan resolution function, which included, among other functions, the issuance of obligatory breach notices to delinquent borrowers, for which the law firm charged us a fee. In consideration of evolving Fannie Mae servicing guidelines, we decided to cease to assess these fees to borrowers, although it was legally permissible for us to do so under the

mortgage documents. Upon termination of the agreement, we began performing these functions internally. This resulted in the need to hire additional staff to perform these functions, which has increased our compensation and benefit expenses as well as the related occupancy and technology costs. See "Banking Operations".

- 3) During 2004, we recorded professional fees of \$5,198 and bad debt expense of \$1,000 to establish an allowance for multiple breach and forbearance fees, respectively, that we are no longer collecting directly from borrowers. As of December 31, 2004, advances on loans serviced for others are net of an allowance for estimated losses of \$4,115 related to the remaining balance of these fees. See "Banking Operations" and "Changes in Financial Condition - Advances on Loans and Loans Serviced for Others".

OTX. Through this segment we provide technology solutions for the mortgage and real estate industries. OTX products include a residential loan servicing system (REALServicing), a commercial loan servicing system (REALSynergy) and an internet-based vendor management system (REALTrans).

	For the Years Ended December 31,		
	2004	2003	2002
Selected information			
Pre-tax income loss	\$ (3,862)	\$ (11,520)	\$ (24,144)
Non-interest revenue	16,352	9,933	6,522
Non-interest expense	20,214	21,453	30,667

- Non-interest revenue for 2004 as compared to 2003 increased primarily as a result of an increase in REALServicing fees, including \$2,900 of one-time fees (primarily documentation fees) earned during the second quarter associated with a service contract for use of the REALServicing system.
- The increase in non-interest revenue in 2003 as compared to 2002 is primarily due to an increase in transaction fees resulting from an increase in REALTrans transaction volumes.
- The decline in non-interest expense in 2003 as compared to 2002 primarily reflects a decline in compensation and employee benefits, and technology and communication costs as a result of cost reduction efforts.
- Non-interest expense for 2002 also included a goodwill write-off of \$2,231 that resulted from our annual impairment test for that year. This write-off represented the remaining balance of goodwill associated with our REALServicing product.

Ocwen Realty Advisors. Through ORA we provide residential property valuation services.

	For the Years Ended December 31,		
	2004	2003	2002
Selected information			
Pre-tax income	\$ 6,466	\$ 5,432	\$ 2,597
Property valuation fees	30,373	18,804	14,080
Non-interest expense:			
Appraisal expenses	20,747	10,647	9,463
Other	3,089	2,704	2,021
Gross margin	9,626	8,156	4,618

- The increase in property valuation fees and appraisal expenses reflects a significant increase in the volume of property valuation services performed, primarily as a result of the contract we entered into in September 2003 to service foreclosed residential properties for the VA.

Ocwen Recovery Group. This core business conducts collection activities

for third party owners of unsecured receivables and for a portfolio of unsecured credit card receivables that we acquired at a discount in 1999 and 2000. We accounted for our collections of our unsecured credit card receivables portfolio under the cost recovery method through the end of 2001, by which time we reduced the net book value of our unsecured receivables to zero as a result of collections and additional reserves. Beginning in 2002, income is recognized as cash is collected.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

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	For the Years Ended December 31,		
	2004	2003	2002
Selected information			
Pre-tax income	\$ 3,916	\$ 5,300	\$ 4,006
Non-interest revenue:			
Servicing and related fees (third-party collections) ...	11,821	9,151	6,461
Recoveries of unsecured credit card receivables owned ..	1,811	2,737	4,191
Other	171	252	--
Non-interest expense	9,888	6,840	6,925

- Recoveries of unsecured credit card receivables owned have declined in 2004 as these portfolios have declined in size and have not been replaced. We have not purchased any unsecured credit card receivables since 2000.
- The increase in non-interest expense in 2004 reflects in large part an increase in staffing levels, primarily in India.

Business Process Outsourcing. This business segment began operations in December 2002. The results below primarily reflect the initiation of new outsourcing contracts in 2003 and the expansion of sales and marketing activities in 2004. Business Process Outsourcing provides outsourcing services to third parties including mortgage underwriting, data entry, call center services and mortgage research.

	For the Years Ended December 31,		
	2004	2003	2002
Selected information			
Pre-tax income	\$ 2,205	\$ 1,893	\$ 118
Servicing and related fees.. ..	\$ 9,493	\$ 4,496	\$ 206
Non-interest expense	\$ 7,264	\$ 2,597	\$ 88

Commercial Servicing. This segment includes the results of both our domestic and international servicing of commercial assets. Prior to 2004, domestic commercial servicing was reported as a component of the Commercial Finance segment (re-named Commercial Assets), and the results of our international operations were reported as a separate segment. Results for the prior periods have been restated to conform to this presentation. International servicing is conducted through Global Servicing Solutions, LLC ("GSS"), our 70% owned joint servicing venture with Merrill Lynch. As of the end of 2003, our two offices in Tokyo, Japan and Taipei, Taiwan were fully operational. We also established servicing offices in Toronto, Canada and Mainz, Germany in 2004. We have established consulting operations in the United Kingdom and China. At December 31, 2004, this segment serviced a total of 9,794 loans with an aggregate unpaid principal balance of \$13,484,723, the majority of which were serviced by our office in Japan.

	For the Years Ended December 31,		
	2004	2003	2002
Selected information			
Pre-tax income (loss)	\$ 573	\$ (4,204)	\$ (3,223)
Servicing and related fees	\$ 15,035	\$ 6,377	\$ 3,960
Non-interest expense	\$ 14,692	\$ 11,151	\$ 8,733

- . The results for 2004 as compared to 2003 primarily reflects growth in our international servicing of commercial assets through GSS. See "Non-Interest Revenue - Servicing and Related Fees."
- . Results for 2002 primarily reflect a one time consulting project for the government of Jamaica as well as other precedent ventures, now concluded.

NON-CORE BUSINESSES

Residential Discount Loans. Based on the relative insignificance of the non-core assets remaining in this segment, the remaining assets of this business and any related income or loss arising from their resolution have been included in the Corporate Items and Other segment beginning January 1, 2003. This segment consisted of operations to acquire at a discount and subsequently resolve sub-performing and non-performing residential mortgage loans. We have not acquired any residential discount loans since 2000. See "Changes in Financial Condition - Loans, Net."

Commercial Assets. Results for this non-core segment reflect our continuing exit from the commercial loan and real estate businesses. We have not purchased any commercial assets since 2000. With the exception of loans made to facilitate the sale of our own assets, we have also not originated any commercial loans since 2000. Since then, this business has consisted of the management, repositioning, and resolution of the remaining non-core assets. At December 31, 2004, the \$21,560 of non-core assets remaining in this business consisted of four real estate assets (a shopping center, a parcel of land and two partnership interests) with a combined net carrying value of

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\$18,217 and one unrated subordinate security with a fair value of \$3,343. We sold three real estate properties during 2004 and the remaining loans were either repaid or sold during the year. We regularly assess the value of our remaining assets and provide additional loss reserves or impairment charges as appropriate. In February 2005, we sold the subsidiary that held our investment in our shopping center located in Halifax, Nova Scotia. See "Changes in Financial Condition - Loans, Net and - Real Estate".

	For the Years Ended December 31,		
	2004	2003	2002
Selected information			
Pre-tax income loss	\$ (5,008)	\$ (9,399)	\$ (49,746)
Net interest expense	338	7,217	7,627
Provision for loan losses	(1,651)	(3,095)	12,814
Non-interest revenue:			
Valuation gains (losses) on real estate	(5,075)	(7,184)	(33,313)
Gain (loss) on sales of real estate	1,110	97	1,055
Operating income (loss) from real estate	682	4,969	9,107
Other	1,286	926	(695)
Non-interest expense	4,324	4,085	5,458

- . The decline in net interest expense reflects the decline in loans and real estate.
- . The negative provision for loan losses in 2004 and 2003 resulted from

the recovery of excess reserves on loan resolutions and sales during those years. See "Provision for Loan Losses".

- . The decline in valuation losses and operating income in 2004 and 2003 reflects the decline in the number of real estate assets remaining as a result of sales and the decline in loan foreclosures. See "Non-Interest Revenue - Operating Income (Loss) from Real Estate and - Valuation Gains (Losses) on Real Estate".
- . Non-interest expense for 2002 included a provision of \$2,250 to provide for the settlement of a lawsuit. See "Non-interest Expense - Professional Services and Regulatory Fees" for additional information regarding the settlement of this litigation.

Affordable Housing. Historically, we invested in affordable housing properties primarily through a series of limited partnerships. Except to complete those projects in which an investment had already been made, we ceased making investments in properties in 2000 as part of our shift in strategy to fee-based businesses and because the volume of tax credits being generated was exceeding our ability to utilize them effectively. Since that time, we have been marketing these properties for sale. Our investment in affordable housing properties at December 31, 2004 consisted of one limited partnership property with a carrying value of \$5,641. This compares to four properties at December 31, 2003 with an aggregate carrying value of \$7,410. In addition, this segment had \$3,198 of loans outstanding at December 31, 2004 to the one remaining limited partnership property, which we do not consolidate in our financial statements. While we cannot project sales with certainty, we believe that it is possible that we will sell the remaining property before the end of 2005 and that new sources of financing will be established to repay the remaining loan balance. We regularly assess the carrying value of our remaining assets and provide additional loss reserves as appropriate. At December 31, 2004, our combined reserves associated with affordable housing properties and loans amounted to 50% of the remaining book value of such assets as compared to 55% at December 31, 2003 and 48% at December 31, 2002.

For the Years Ended December 31,		
2004	2003	2002

Selected information

Pre-tax income loss	\$ (3,256)	\$ (4,888)	\$ (31,521)
Net interest expense	1,226	2,767	4,449
Provision for loan losses	(112)	151	3,392
Loss (gain) on investments in affordable housing properties ..	(255)	285	21,915

- . Net interest expense has declined primarily because of a decline in the assets of this segment, most of which do not earn interest.
- . Loss on investments in affordable housing properties for 2002 included charges of \$17,350 for estimated losses on the sale of the properties and a \$3,944 charge to record a discount arising from the sale of properties. During 2002, we sold seven affordable housing properties for cash and a non-interest bearing note receivable. A discount was recorded on the long-term note receivable in the amount of \$3,944 and is being accreted to income over the term of the note receivable, which extends through September 2014. The discount rate utilized was based on the 10-year Treasury rate at the date of the sale. See "Changes in Financial Condition - Receivables".

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Subprime Finance. We were engaged in domestic subprime residential lending prior to ceasing originations in August of 1999; however, we have continued to manage and resolve the remaining non-core assets. At December 31, 2004, the non-core assets remaining in this business consisted primarily of unrated single family subprime residual trading securities with a fair value of \$35,276. These securities are presently generating income and return of principal through cash flows. See "Changes in Financial Condition - Trading Securities".

	For the Years Ended December 31,		
	2004	2003	2002
Selected information			
Pre-tax income	\$ 10,568	\$ 4,188	\$ 14,536
Interest income	14,810	16,717	14,661
Interest expense	1,047	1,507	2,874
Gain (loss) on trading securities, net	(2,004)	2,932	7,287
Non-interest expense	2,271	13,936	4,646

- The decline in interest income in 2004 as compared to 2003 is primarily due to a decline in cash flow distributions received on our U.K. unrated single family subprime residual securities. Interest income increased during 2003 as compared to 2002 primarily as a result of an increase in cash flow distributions received on these securities.
- Gain (loss) on trading securities for 2002 included \$4,840 of realized gains on sales. See "Gain (Loss) on Trading and Match Funded Securities, Net".
- Non-interest expense for 2003 includes the \$10,000 charge related to the conclusion of the Admiral Home Loan arbitration. See "Non-interest Expense - Professional Services and Regulatory Fees" for additional information regarding this arbitration.

Corporate Items and Other. Pre-tax results for this segment include business activities that are individually insignificant (including BOK), interest income on cash and cash equivalents, interest expense on corporate assets, gains and losses from debt repurchases and general corporate expenses. The table below presents the more significant amounts included in each of the periods indicated.

	For the Years Ended December 31,		
	2004	2003	2002
Selected information			
Pre-tax income (loss)	\$ (2,178)	\$ (12,817)	\$ (27,417)
Net interest income (expense)	617	(1,150)	(5,952)
Non-interest revenue	11,694	677	(5,091)
Non-interest expense	14,606	11,327	10,085

- Net interest expense has declined primarily as a result of repurchases and maturities of high interest rate debt, and the ongoing reduction in brokered deposits. See "Changes in Financial Condition - Debt Securities" and "- Deposits".
- Effective with our adoption of SFAS No. 150 effective July 1, 2003, distributions on our Capital Securities are reported in the consolidated statement of operations as interest expense beginning in the third quarter of 2003. For purposes of this analysis, net interest expense includes distributions on Capital Securities for all years.
- Non-interest revenue for 2004 includes \$6,874 of interest income on federal income tax refund claims. See "Changes in Financial Condition - Receivables" for additional information regarding these claims.
- Non-interest revenue for 2003 and 2002 includes losses on repurchases of debt of \$445 and \$1,461, respectively.
- Non-interest expense for 2004, 2003 and 2002 included \$9,047, \$1,932 and \$1,743, respectively, of legal fees and settlements.

See Note 26 to our Consolidated Financial Statements for additional information related to our operating segments.

components of our non-interest revenue during the years indicated:

	2004	2003	2002
	-----	-----	-----
Servicing and related fees	\$ 160,062	\$ 139,744	\$ 127,787
Vendor management fees	46,986	29,842	18,299
Gain (loss) on trading and match funded securities, net	(537)	3,344	7,012
Valuation gains (losses) on real estate	(5,110)	(7,429)	(35,002)
Gain (loss) on sales of real estate	1,556	466	4,098
Operating income (loss) from real estate	605	5,127	7,864
Gain (loss) on debt repurchases	--	(445)	(1,461)
Other revenue	19,465	6,848	5,415
	-----	-----	-----
Non-interest revenue	\$ 223,027	\$ 177,497	\$ 134,012
	=====	=====	=====

Servicing and Related Fees. Our servicing and related fees are primarily comprised of fees we earned from investors for servicing residential mortgage loans on their behalf. The following table sets forth the principal components of our servicing and related fees for the years indicated:

	2004	2003	2002
	-----	-----	-----
Residential Loan Servicing:			
Servicing and related fees:			
Loan servicing fees (1)	\$ 166,594	\$ 166,425	\$ 139,178
Late charges	40,149	35,461	28,075
Interest on custodial accounts (2)	16,561	10,821	7,757
Compensating interest expense (3)	(33,115)	(32,315)	(19,758)
Amortization of servicing rights (4)	(96,036)	(93,558)	(58,045)
Other, net	10,016	7,622	6,430
	-----	-----	-----
	104,169	94,456	103,637
Other fees:			
Default servicing fees	1,805	3,956	4,418
Retail banking fees	8,575	8,496	5,036
Other	10,570	11,410	5,159
	-----	-----	-----
	125,119	118,318	118,250
	-----	-----	-----
Other Segments (5):			
Servicing and related fees:			
Loan servicing fees	13,202	10,583	6,710
Other, net	15,575	9,433	2,371
	-----	-----	-----
	28,777	20,016	9,081
Other fees	6,166	1,410	456
	-----	-----	-----
	\$ 160,062	\$ 139,744	\$ 127,787
	=====	=====	=====

(1) The increase in loan servicing fees during 2003 was largely due to the growth in residential loans we serviced for others. The average unpaid principal balance of loans we serviced in the Residential Loan Servicing Segment during 2004, 2003 and 2002 amounted to \$35,295,755, \$33,589,509 and \$26,533,826, respectively. In spite of the increase in the average balance of loans serviced for others in 2004 as compared to 2003, loan servicing fees increased only slightly due in part to a greater concentration of sub-servicing business. Subservicing contracts provide for lower servicing fees, but do not require the purchase of servicing rights.

(2) Interest we earned on custodial accounts during the holding period between collection of borrower payments and remittance to investors. These custodial accounts are held by an unaffiliated bank and are excluded from our statement of financial condition. The average balances held in these custodial accounts were approximately \$1,204,000, \$993,000 and \$494,000 during 2004, 2003 and 2002, respectively.

- (3) Our loan servicing agreements include a requirement for us to pay to securitization trusts the difference between a full month of interest and the interest collected on loans that are repaid before the end of the month. The amount of interest we are required to pay depends on the number of borrowers that repay their loans and the timing of their repayment during the month. An estimate of this amount is included in the quarterly valuation of our mortgage servicing rights. The increase in compensating interest expense reflects an increase in loan prepayments, primarily due to lower interest rates.

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- (4) Although purchases of servicing rights have declined in 2004 and 2003 as compared to 2002, amortization expense has increased as a result of higher actual and projected prepayment rates due to lower interest rates. See "Changes in Financial Condition - Mortgage Servicing Rights".
- (5) Other Segments primarily includes Commercial Servicing, Ocwen Recovery Group and Business Process Outsourcing. See "Segment Results - Core Businesses" for additional information regarding servicing and related fees for these segments.

The following table sets forth our loans serviced for others at the dates indicated:

	Loans (1) (2) (3)		Real Estate (4)		Total	
	Amount	Count	Amount	Count	Amount	Count
Residential Loan Servicing						
December 31, 2004:						
Performing	\$ 29,227,341	253,617	\$ --	--	\$ 29,227,341	253,617
Non-performing	3,971,439	48,711	1,325,711	17,857	5,297,150	66,568
	<u>\$ 33,198,780</u>	<u>302,328</u>	<u>\$ 1,325,711</u>	<u>17,857</u>	<u>\$ 34,524,491</u>	<u>320,185</u>
December 31, 2003:						
Performing	\$ 32,413,000	292,670	\$ --	--	\$ 32,413,000	292,670
Non-performing	4,306,794	52,922	977,524	13,998	5,284,318	66,920
	<u>\$ 36,719,794</u>	<u>345,592</u>	<u>\$ 977,524</u>	<u>13,998</u>	<u>\$ 37,697,318</u>	<u>359,590</u>
December 31, 2002:						
Performing	\$ 26,600,529	280,089	\$ --	--	\$ 26,600,529	280,089
Non-performing	3,786,932	51,467	351,394	4,541	4,138,326	56,008
	<u>\$ 30,387,461</u>	<u>331,556</u>	<u>\$ 351,394</u>	<u>4,541</u>	<u>\$ 30,738,855</u>	<u>336,097</u>
Commercial Servicing						
December 31, 2004:						
Performing	\$ 834,032	367	\$ --	--	\$ 834,032	367
Non-performing	12,530,324	9,393	120,366	34	12,650,691	9,427
	<u>\$ 13,364,356</u>	<u>9,760</u>	<u>\$ 120,366</u>	<u>34</u>	<u>\$ 13,484,723</u>	<u>9,794</u>
December 31, 2003:						
Performing	\$ 384,869	216	\$ --	--	\$ 384,869	216
Non-performing	11,982,257	7,400	83,665	38	12,065,922	7,438
	<u>\$ 12,367,126</u>	<u>7,616</u>	<u>\$ 83,665</u>	<u>38</u>	<u>\$ 12,450,791</u>	<u>7,654</u>
December 31, 2002:						
Performing	\$ 585,251	239	\$ --	--	\$ 585,251	239
Non-performing	750,872	111	22,782	28	773,654	139
	<u>\$ 1,336,123</u>	<u>350</u>	<u>\$ 22,782</u>	<u>28</u>	<u>\$ 1,358,905</u>	<u>378</u>

- (1) At December 31, 2004, we serviced 238,105 subprime loans with an unpaid principal balance of \$28,374,493. This compares to 257,089 subprime loans with an unpaid principal balance of \$30,563,123 at December 31, 2003. Subprime loans represent residential loans we service which were made by others to borrowers who generally did not qualify under guidelines of Fannie Mae and Freddie Mac ("nonconforming loans").
- (2) Non-performing loans serviced for others have been delinquent for 90 days or more. Performing loans serviced for others are current or have

been delinquent for less than 90 days.

- (3) At December 31, 2004, we serviced under sub-servicing contracts 71,235 residential loans with an unpaid principal balance of \$7,902,887.
- (4) Includes \$839,654 and \$480,388 of foreclosed residential properties serviced for the VA at December 31, 2004 and 2003, respectively.

Vendor Management Fees. Vendor management fees are primarily comprised of property valuation fees earned by our ORA segment, fees earned from vendors in the REALTrans network and commissions on real estate sales. The increase in vendor management fees in 2004 as compared to 2003 primarily reflects an increase in the volume of valuation services performed by ORA, primarily as a result of the VA contract. See "Segment Results - Ocwen Realty Advisors".

Gain (Loss) on Trading and Match Funded Securities Net. The net gain (loss) recorded on trading and match funded securities includes both unrealized gains (losses) on securities to record them at fair value and realized gains (losses) resulting from sales thereof. Realized and unrealized gains (losses) on trading and match funded securities are disclosed in the table below for the years indicated:

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	2004	2003	2002
	-----	-----	-----
Unrealized gains (losses):			
Subprime Finance (1)	\$ (2,060)	\$ 2,566	\$ 2,447
Commercial Assets	765	--	--
Residential Discount Loans	--	--	(192)
Corporate Items and Other	228	412	(235)
	-----	-----	-----
	(1,067)	2,978	2,020
	-----	-----	-----
Realized gains (losses) (2):			
Subprime Finance	57	366	4,840
Residential Discount Loans	--	--	152
Corporate Items and Other	473	--	--
	-----	-----	-----
	530	366	4,992
	-----	-----	-----
	\$ (537)	\$ 3,344	\$ 7,012
	=====	=====	=====

- (1) The unrealized loss on subprime residual and subordinate securities in 2004 was primarily due to a \$2,312 decline in the fair value of our U.K. unrated single family subprime residual securities. In 2003, the unrealized gains were a result of increases in the value of unrated subprime residual securities that had been classified as match funded securities in prior years. The unrealized gain in 2002 is principally related to increases in the value of the U.K. residual securities offset by declines in the value of other subprime residual securities.
- (2) During 2002, we sold subordinate and residual securities with an aggregate fair value of \$26,438 for total realized gains of \$4,992. The decline in realized gains in 2003 and 2004, as compared to 2002, reflects a significant decline in sales.

See "Changes in Financial Condition - Trading Securities" and Notes 1 and 5 to our Consolidated Financial Statements.

Valuation Gains (Losses) on Real Estate. We regularly assess the value of our remaining real estate assets and provide additional loss reserves or impairment charges as appropriate. Valuation gains (losses) on real estate primarily consist of impairment charges and provisions for losses in fair value on commercial assets, as indicated in the table below for the years presented:

	2004	2003	2002
	-----	-----	-----
Residential Discount Loans	\$ --	\$ --	\$ (1,648)
Commercial Assets (1)	(5,075)	(7,183)	(33,313)
Subprime Assets	--	--	(12)
Corporate Items and Other	(35)	(247)	(29)
	-----	-----	-----
	\$ (5,110)	\$ (7,430)	\$ (35,002)
	=====	=====	=====

(1) The decline in valuation losses in 2004 and 2003 reflects the decline in commercial assets. Only four commercial assets (a shopping center, a parcel of land and two partnership interests) with a combined carrying value of \$18,732 remain in the Commercial Assets segment at December 31, 2004. See "Changes in Financial Condition - Real Estate".

Gain (Loss) on Sales of Real Estate. The following table sets forth the principal components of net gains (losses) we recorded on sales of our real estate for the years indicated:

	2004 (1)	2003	2002
	-----	-----	-----
Residential Discount Loans	\$ --	\$ --	\$ 3,025
Commercial Assets (1)	1,110	97	1,055
Subprime Finance	--	1	17
Corporate Items and Other	446	368	1
	-----	-----	-----
	\$ 1,556	\$ 466	\$ 4,098
	=====	=====	=====

(1) Net gains from sales of commercial real estate during 2004 is comprised of a \$1,349 gain on the sale of a shopping mall and a \$351 gain on the sale of a hotel, offset in part by a \$590 loss on the sale of an office building. Only one commercial property remains at December 31, 2004. See "Changes in Financial Condition - Real Estate".

Operating Income (Loss) from Real Estate. The following table sets forth the operating results of our real estate for the years indicated:

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	2004	2003	2002
	-----	-----	-----
Residential Discount Loans	\$ --	\$ --	\$ (987)
Commercial Assets	682	4,968	9,106
Subprime Finance	(2)	(5)	(11)
Corporate Items and Other	(75)	165	(244)
	-----	-----	-----
	\$ 605	\$ 5,128	\$ 7,864
	=====	=====	=====

Operating income (loss) includes rental income, depreciation expense (held for use properties) and operating expenses associated with holding and maintaining our properties. Operating income (loss) for 2003 and 2002 also included \$857 and \$3,967, respectively, of equity in earnings of loans accounted for as investments in real estate. The decrease in operating income during 2004 and 2003 reflects sales of properties and the repayment of loans we accounted for as investments in real estate. Only one commercial property remains at December 31, 2004. See "Changes in Financial Condition - Real Estate".

Gain (Loss) on Repurchase of Debt. The following table sets forth the components of the gains (losses) resulting from our repurchase of our debt securities during the years indicated:

	2004	2003	2002
	-----	-----	-----
10.875% Capital Securities due August 1, 2027:			
Face amount repurchased	\$ --	\$ --	\$ 4,910
Gain (loss)	\$ --	\$ --	\$ 1,074
11.875% Notes due October 1, 2003 (1):			
Face amount repurchased	\$ --	\$ --	\$ 43,550
Gain (loss)	\$ --	\$ --	\$ (1,508)
11.5% Redeemable Notes due July 1, 2005:			
Face amount repurchased	\$ --	\$ --	\$ 45
Gain (loss)	\$ --	\$ --	\$ (2)
12.0% Subordinated Debentures due June 15, 2005 (2):			
Face amount repurchased	\$ --	\$ 33,500	\$ 33,500
Gain (loss)	\$ --	\$ (445)	\$ (1,025)
Total debt repurchases (3):			
Face amount repurchased	\$ --	\$ 33,500	\$ 82,005
Gain (loss)	\$ --	\$ (445)	\$ (1,461)

- (1) The remaining \$43,475 balance of our 11.875% Notes matured on October 1, 2003 and were repaid in full.
- (2) On September 30, 2003 we exercised our redemption option and called the remaining \$33,065 balance of our 12.0% Subordinated Debentures at a price of 101.333%, or a premium of \$441. Earlier in 2003, we had repurchased \$435 in the open market resulting in a loss of \$4.
- (3) In November 2002 we exercised redemption options on three of our outstanding debt obligations for a combined debt reduction of \$73,545. As provided for in the terms of the indentures, we exercised our redemption option and called \$40,000 of our 11.875% Notes at a price of 102.969%, \$33,500 of our 12% Subordinated Debentures at a price of 102.667% and the remaining \$45 of our 11.5% Redeemable Notes at a price of 105.75%. As a result of these early redemptions at a premium, we incurred \$2,499 of loss, including the write-off of \$416 of unamortized issuance costs.

See "Changes in Financial Condition - Debt Securities" and Note 16 to our Consolidated Financial Statements.

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Other Income. The following table sets forth the principal components of other income by segment for the years indicated:

	2004	2003	2002
	-----	-----	-----
Residential Loan Servicing	\$ 269	\$ 18	\$ (103)
OTX (1)	7,729	1,382	4,533
Ocwen Recovery Group (2)	1,982	2,989	4,191
Commercial Servicing	193	622	1,601
Commercial Assets	402	799	423
Affordable Housing	1	877	600
Subprime Finance	1,082	(14)	(18)
Residential Discount Loans	--	--	(2,720)
Corporate Items and Other (3)	7,807	175	(3,092)
	-----	-----	-----
	\$ 19,465	\$ 6,848	\$ 5,415
	=====	=====	=====

- (1) Primarily represents service contract fees, maintenance fees, consulting revenue and other income associated with our REALServicing, REALSynergy, and REALTrans products. Income for 2004 includes \$2,900 of one-time fees earned during the second quarter, primarily documentation fees, associated with a service contract for the use of our REALServicing system. See "Segment Results - OTX".
- (2) Primarily comprised of collections of credit card receivables accounted for under the cost recovery method. See "Segment Results - Core Businesses - Ocwen Recovery Group".
- (3) Includes \$6,874 of interest income recorded during 2004 on federal tax refund claims due from the Internal Revenue Service ("IRS"). Our policy is to recognize interest income on income tax receivable balances upon receipt of a written finding from the IRS agent that validates our claim. See "Changes in Financial Condition - Receivables".

Net Interest Income (Expense). Net interest income (expense) is the difference between the interest income earned from our interest-earning assets and interest expense incurred on our interest-bearing liabilities. Net interest income (expense) is determined by net interest spread (i.e., the difference between the yield earned on our interest-earning assets and the rates incurred on our interest-bearing liabilities), the amount of interest-earning assets relative to the amount of interest-bearing liabilities and the degree of mismatch in the maturity and repricing characteristics of our interest-earning assets and interest-bearing liabilities.

In addition to interest income reported in this caption, we also earn interest on float balances in connection with our Residential Loan Servicing business. These amounts are reported as a component of servicing fees and are not included in the following information. See "Non-Interest Revenue - Servicing and Related Fees".

Our net interest income and net interest margin began declining in 2000 and have been negative since 2001. This trend reflects a decline in the ratio of interest-earning assets to interest-bearing liabilities, which has fallen from 98% at the end of 1999 to 51% at the end of 2004. Both our acquisition of OAC in 1999 and our change in strategic direction from capital-intensive businesses to fee-based sources of revenue have contributed to an increase in the relative amount of non-interest-earning assets (such as real estate, advances on loans serviced for others and mortgage servicing rights) that are funded by interest-bearing liabilities. We expect this trend of net interest expense and negative net interest margin to continue as we dispose of our remaining non-core assets, a portion of which are interest-bearing, and increase non-interest-earning assets of our core businesses. While it had no impact on consolidated net income, the reclassification of our 10.875% Capital Securities to interest-bearing liabilities on July 1, 2003 as a result of our adoption of SFAS No. 150 has had a negative impact on net interest income, margin and spread because the distributions on the Capital Securities have been included in interest on Debt Securities since that date. At the same time, our redemption of the remaining \$33,065 balance of our 12% Subordinated Debentures on September 30, 2003, the repayment of the remaining \$43,475 of our 11.875% Notes on October 1, 2003 (the maturity date) and the continuing reduction in brokered certificates of deposit all have had a positive impact on net interest income, spread and margin. See "Gain (Loss) on Repurchase of Debt" and "Changes in Financial Condition - Debt Securities".

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The following table sets forth, for the years indicated, information regarding the total amount of income from our interest-earning assets and the resultant average yields, the interest expense associated with our interest-bearing liabilities, expressed in dollars and rates, and the net interest spread and net interest margin. Information is based on average daily balances during the indicated years:

	2004			2003		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
AVERAGE ASSETS						
Interest earning cash and other	\$ 88,698	\$ 1,293	1.46%	\$ 30,705	\$ 356	1.16%
Federal funds sold and repurchase agreements	155,519	2,087	1.34%	125,732	1,403	1.12%
Trading securities:						
Investment grade securities (1)	61,882	1,269	2.05%	10,054	(71)	(0.71)%
Subordinates and residuals (2)	42,015	16,316	38.83%	38,679	17,418	45.03%
Loans (3)	26,329	1,676	6.37%	68,613	1,614	2.35%
Match funded loans and securities (4)	15,894	1,035	6.51%	37,513	3,402	9.07%
Total interest earning assets	390,337	23,676	6.07%	311,296	24,122	7.75%
Advances on loans and loans						
serviced for others	335,888			324,834		
Mortgage servicing rights	144,014			177,171		
Match funded advances on loans						
serviced for others	119,691			117,219		
Other non-interest earning assets	325,757			369,971		
Total assets	\$ 1,315,687			\$ 1,300,491		
AVERAGE LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing demand deposits	\$ 19,968	161	0.81%	\$ 16,525	195	1.18%
Savings deposits	1,657	14	0.84%	1,554	12	0.77%
Certificates of deposit (5)	410,024	13,459	3.28%	408,941	17,339	4.24%
Total interest-bearing deposits	431,649	13,634	3.16%	427,020	17,546	4.11%
Securities sold under agreements to repurchase						
	--	--	--%	250	3	1.20%
Match funded liabilities	124,222	4,923	3.96%	129,438	5,414	4.18%
Lines of credit and other secured borrowings (6)						
	66,271	2,717	4.10%	130,886	5,824	4.45%
Debt securities (7)	146,172	9,090	6.22%	85,629	9,929	11.60%
Total interest-bearing liabilities	768,314	30,364	3.95%	773,223	38,716	5.01%
Escrow deposits						
	132,212			107,888		
Other non-interest bearing liabilities						
	91,404			80,812		
Total liabilities	991,930			961,923		
Capital Securities (7)	--			28,125		
Minority interest	1,052			1,503		
Stockholders' equity	322,705			308,940		
Total liabilities and stockholders' equity	\$ 1,315,687			\$ 1,300,491		
Net interest income (expense)		\$ (6,688)			\$ (14,594)	
Net interest spread			2.12%			2.74%
Net interest margin			(1.71)%			(4.69)%
Ratio of interest-earning assets to interest-bearing liabilities	51%			40%		

Years Ended December 31,

	2002		
	Average Balance	Interest Income/Expense	Average Yield/Rate
AVERAGE ASSETS			
Interest earning cash and other	\$ 13,693	\$ 278	2.03%
Federal funds sold and repurchase agreements	152,588	2,629	1.72%
Trading securities:			
Investment grade securities (1)	88,565	2,064	2.33%
Subordinates and residuals (2)	44,251	14,522	32.82%
Loans (3)	146,671	11,279	7.69%
Match funded loans and securities (4)	66,233	6,463	9.76%
Total interest earning assets	512,001	37,235	7.27%
Advances on loans and loans			
serviced for others	267,572		
Mortgage servicing rights	137,323		
Match funded advances on loans			
serviced for others	101,863		
Other non-interest earning assets	416,346		
Total assets	\$ 1,435,105		
AVERAGE LIABILITIES AND STOCKHOLDERS' EQUITY			
Interest-bearing demand deposits	\$ 14,749	245	1.66%
Savings deposits	1,605	17	1.06%
Certificates of deposit (5)	473,793	27,193	5.74%
Total interest-bearing deposits	490,147	27,455	5.60%
Securities sold under agreements to repurchase			
	12,774	236	1.85%
Match funded liabilities	147,139	6,573	4.47%
Lines of credit and other secured borrowings (6)			
	94,169	4,152	4.41%
Debt securities (7)	144,044	17,346	12.04%
Total interest-bearing liabilities	888,273	55,762	6.28%
Escrow deposits			
	90,612		
Other non-interest bearing liabilities			
	50,920		
Total liabilities	1,029,805		
Capital Securities (7)	57,812		
Minority interest	570		

Stockholders' equity	346,918	

Total liabilities and stockholders' equity	\$ 1,435,105	
	=====	
Net interest income (expense)	\$ (18,527)	
	=====	
Net interest spread		0.99%
Net interest margin		(3.62)%
Ratio of interest-earning assets to interest-bearing liabilities	58%	

- (1) The average balance of investment grade securities outstanding decreased between 2002 and 2003 by \$78,511 as we had been investing in AAA-rated collateralized mortgage obligations ("CMO") during 2002 to enable the Bank to meet the Qualified Thrift Lender ("QTL") requirements. During 2003, we had only minimal investments in CMOs, reflecting a reduced need to hold these securities to meet the QTL requirements. During the fourth quarter of 2004, we again began investing in CMOs to meet the QTL requirements. In addition, in order to maximize our returns on excess cash, we also invested in AAA-rated auction rate securities during the second half of 2004.

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- (2) The increase in the average yield on subprime and residual trading securities in 2003 was largely the result of sales of approximately \$26,400 of lower-yielding unrated subordinates and residuals during 2002 and an increase in interest income on unrated single family subprime residuals. The average yield of 45.03% during 2003 was due to increased cash flows from certain subprime residuals, which increased the market value and interest earnings on these securities. This treatment is in accordance with Emerging Issues Task Force (EITF) Issue 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securititized Financial Assets, which requires us to update quarterly our estimates of future cash flows over the estimated lives of the securities.
- (3) The decline in the average balance of loans is the result of sales, resolutions and repayments (primarily commercial loans) coupled with minimal acquisitions and originations. The decline reflects our strategic decision to exit non-core businesses and to dispose of the related assets. The average balances included non-performing loans on which we recognize interest on a cash basis. On loans that we acquired at a discount, we recognize any remaining unamortized discount as interest income upon the repayment or discharging of such loans. As the discount loan portfolio has declined, such resolution gains have also declined from \$3,347 in 2002 to \$57 in 2003. No resolution gains were recognized in 2004.
- (4) The decline in the average balance of match funded loans and securities is the result of principal repayments coupled with the sale of the remaining match funded single family loans at the end of the third quarter of 2004 and the transfer of match funded securities to residual trading securities during the second quarter of 2003. The loans were sold in connection with the redemption of the related match funded debt and the securities were reclassified as the result of the repurchase and retirement of the related match funded debt.
- (5) The decline in the average balance of certificates of deposit is largely the result of maturing brokered certificates of deposit, offset in part by increases in non-brokered certificates of deposit through the first quarter of 2004. We have not issued any new brokered certificates of deposit since 2000. The decline in the average rate earned on certificates of deposit reflects the replacement of maturing brokered certificates of deposit with non-brokered certificates of deposit that have lower interest rates because interest rates have been declining during the past two years.
- (6) The average balance of lines of credit and other secured borrowings increased during 2003 as we entered into lending agreements secured by advances on loans serviced for others, purchased mortgage servicing rights, real estate and unrated subprime residual trading securities.

During 2004, the sale of real estate and the issuance of \$175,000 of 3.25% Convertible Notes, as noted below, allowed us to repay a significant portion of this debt.

(7) The average balance of debt securities declined during 2003 as the result of our repurchase of \$33,500 of our 12% subordinated debentures at the end of the third quarter and the maturity of \$43,475 of our 11.875% notes at the beginning of the fourth quarter. These declines were partially offset by the transfer of the \$56,249 outstanding of our 10.875% Capital Securities to debt securities effective with our adoption of SFAS No. 150 on July 1, 2003. Also as a result of our adoption of SFAS No. 150, distributions on our Capital Securities are included in interest expense on debt securities beginning in July 2003. During 2004, the average balance of debt securities increased as a result of our issuance on July 28, 2004 of \$175,000 of 3.25% Contingent Convertible Senior Unsecured Notes due 2024. See "Changes in Financial Condition - Debt Securities" and Note 16 to the Consolidated Financial Statements. The decline in the average rate on debt securities during 2004 is principally the result of our issuance of the 3.25% Convertible Notes.

The following table describes the extent to which changes in interest rates and changes in volume of our interest-earning assets and interest-bearing liabilities have affected our interest income and expense during the periods indicated. For each category of our interest-earning assets and interest-bearing liabilities, we have provided information on changes attributable to (i) changes in volume (change in volume multiplied by prior rate), (ii) changes in rate (change in rate multiplied by prior volume) and (iii) total change in rate and volume. We have allocated changes attributable to both volume and rate proportionately to the change due to volume and the change due to rate.

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	Years Ended December 31,					
	2004 vs. 2003			2003 vs. 2002		
	Favorable (unfavorable) variance			Favorable (unfavorable) variance		
	Rate	Volume	Total	Rate	Volume	Total
INTEREST-EARNING ASSETS						
Interest-earning cash and other	\$ 113	\$ 824	\$ 937	\$ (157)	\$ 235	\$ 78
Federal funds sold and repurchase agreements	310	374	684	(815)	(411)	(1,226)
Trading securities:						
Investment grade securities	892	448	1,340	(1,271)	(864)	(2,135)
Subordinates and residuals	(2,525)	1,423	(1,102)	4,896	(2,000)	2,896
Loans	1,507	(1,445)	62	(5,472)	(4,193)	(9,665)
Match funded loans and securities ..	(778)	(1,589)	(2,367)	(429)	(2,632)	(3,061)
Total interest-earning assets.....	(481)	35	(446)	(3,248)	(9,865)	(13,113)
INTEREST-BEARING LIABILITIES						
Interest-bearing demand deposits ...	69	(35)	34	77	(27)	50
Savings deposits	(1)	(1)	(2)	4	1	5
Certificates of deposit	3,926	(46)	3,880	6,467	3,387	9,854
Total interest-bearing deposits ..	3,994	(82)	3,912	6,548	3,361	9,909
Securities sold under agreements to repurchase	--	3	3	61	172	233
Match funded liabilities	278	213	491	406	753	1,159
Lines of credit and other secured borrowings	427	2,680	3,107	(38)	(1,634)	(1,672)
Debt securities	5,896	(5,057)	839	613	6,804	7,417
Total interest-bearing liabilities	10,595	(2,243)	8,352	7,590	9,456	17,046
Favorable (Unfavorable) Variance ...	\$ 10,114	\$ (2,208)	\$ 7,906	\$ 4,342	\$ (409)	\$ 3,933

Provisions for Loan Losses. At December 31, 2004, our total net loan balance was \$3,792 or 0.3% of total assets as compared to \$28,098 or 2.3% of total assets at December 31, 2003. Of the balance remaining at December 31, 2004, \$3,198 represents one multi-family loan in our Affordable Housing segment. For loans held in our Affordable Housing business, we project the amount to be realized from the disposition of the property to determine the appropriate allowance for loan losses. Because we have only one loan remaining in the

Affordable Housing segment we are able to perform a specific assessment. We also analyze the historical trends in the gains or losses on disposition and resolution of loans as compared to the allowance for loan losses at the time of disposition and resolution. The allowance for loan losses is management's best estimate of probable inherent loan losses incurred as of December 31, 2004.

The following table presents the provisions for loan losses for the years indicated:

	2004	2003	2002
	-----	-----	-----
Loans:			
Ocwen Recovery Group	\$ --	\$ --	\$ (278)
Residential Discount Loans	--	--	(2,273)
Commercial Assets (1)	(1,651)	(3,095)	12,814
Affordable Housing	(112)	151	3,392
Corporate Items and Other	(24)	311	--
	-----	-----	-----
	(1,787)	(2,633)	13,655
Match funded loans:			
Residential Discount Loans		--	(26)
Corporate Items and Other	(94)	(51)	--
	-----	-----	-----
	\$ (1,881)	\$ (2,684)	\$ 13,629
	=====	=====	=====

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- (1) During 2004, our investment in commercial loans was reduced to zero as a result of resolutions, repayments and transfers to real estate. During 2003, our investment declined from \$69,198 at December 31, 2002 to \$20,763 at December 31, 2003, primarily as a result of sales, resolutions and repayments. Accordingly, less allowance for loan losses was required, resulting in negative provisions for loan losses in 2004 and 2003 for the Commercial Assets segment. Of the \$3,095 negative provision in 2003, \$3,078 resulted from a loan with a book value (before allowance) of \$24,882 that was discharged through a negotiated cash repayment. The 2002 provision reflects an increase in the allowance on the loans in the Commercial Assets segment from 4.2% at December 31, 2001 to 19.0% at December 31, 2002.

Our total allowance for loan losses as a percentage of non-performing loans has increased from 27.5% at December 31, 2002 to 38.7% at December 31, 2003 and 58.1% at December 31, 2004. As indicated in the table below, our total allowance as a percentage of loans increased from 21.3% at December 31, 2002 to 23.2% at December 31, 2003 and 54.5% at December 31, 2004.

The following table sets forth the allowance for loan losses as a percentage of the respective loan balances at the dates indicated:

	Allowance	Loan Balance	Allowance as a % of Loan Balance
	-----	-----	-----
December 31, 2004			
Loans:			
Commercial Finance	\$ --	\$ --	--%
Affordable Housing	4,468	7,666	58.3%
Subprime Finance	--	74	--%
Corporate Items and Other	78	598	13.0%
	-----	-----	
	\$ 4,546	\$ 8,338	54.5%
	=====	=====	
December 31, 2003			

Loans:			
Commercial Finance	\$ 3,786	\$ 24,549	15.4%
Affordable Housing	4,579	11,124	41.2%
Corporate Items and Other	105	895	11.7%
	-----	-----	
	8,470	36,568	23.2%
Match funded loans:			
Corporate Items and Other	94	24,393	0.4%
	-----	-----	
	\$ 8,564	\$ 60,961	14.0%
	=====	=====	
December 31, 2002			
Loans:			
Residential Discount Loans	\$ 154	\$ 1,400	11.0%
Commercial Finance	16,179	85,377	19.0%
Affordable Housing	4,428	10,657	41.6%
Subprime Finance	--	184	--%
	-----	-----	
	20,761	97,618	21.3%
Match funded loans:			
Residential Discount Loans	144	38,129	0.4%
	-----	-----	
	\$ 20,905	\$ 135,747	15.4%
	=====	=====	

For additional information regarding our allowance for loan losses on the above portfolios, see "Changes in Financial Condition - Allowances for Loan Losses."

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NON-INTEREST EXPENSE. The following table sets forth the principal components of our non-interest expense for the years indicated:

	2004	2003	2002
	-----	-----	-----
Compensation and employee benefits	\$ 87,284	\$ 72,221	\$ 77,778
Occupancy and equipment	15,933	13,159	11,843
Technology and communication costs	26,049	21,121	25,270
Loan expenses	27,313	14,252	12,605
Loss (gain) on investments in affordable housing properties	(255)	285	21,915
Write-off of goodwill	--	--	2,231
Professional services and regulatory fees	26,589	26,054	16,383
Other operating expenses	10,069	10,409	9,601
	-----	-----	-----
	\$ 192,982	\$ 157,501	\$ 177,626
	=====	=====	=====

Compensation and Employee Benefits. The following table presents the principal components of compensation and benefits for the years indicated:

	2004	2003	2002
	-----	-----	-----
Salaries (1)	\$ 59,221	\$ 49,811	\$ 53,746
Bonuses (2)	10,978	9,771	7,904
Payroll taxes	4,496	3,708	4,352
Commissions	5,040	2,460	3,370
Insurance	2,381	2,251	2,668
Severance	1,349	1,397	2,316
Other (3)	3,819	2,823	3,422
	-----	-----	-----
	\$ 87,284	\$ 72,221	\$ 77,778
	=====	=====	=====

- (1) Salaries include fees paid for the services of temporary employees.
- (2) Bonuses also include compensation related to employee incentive awards of restricted stock and stock options.
- (3) Other consists primarily of recruiting expenses, relocation expenses, matching contributions to our 401(K) plan and fees paid to directors.

The increase in compensation and benefits in 2004 as compared to 2003 is primarily due to increase in salaries and commissions. The increase in salaries has occurred primarily because of an increase in the average number of our full time employees, both in the U.S. and our India offices. The average total number of our full-time employees (domestic and international combined) amounted to 2,809, 2,083 and 1,790 during 2004, 2003 and 2002, respectively. The number of employees in our India offices averaged 1,738 during 2004 as compared to 1,134 during 2003 and 543 during 2002. See "Workforce and Operational Capacity" for additional information regarding our operations and workforce in India. In September 2003, we terminated our agreement with an external law firm to manage certain aspects of our loan resolution function of our Residential Loan Servicing business, including the issuance of obligatory breach notices to delinquent borrowers. Upon termination of the agreement, we began performing these functions internally. This resulted in the need to hire additional staff to perform these functions, which has increased our compensation and benefit expenses. See "Results of Operations - Core Businesses -Residential Loan Servicing" for additional information regarding these changes. The property management contract we entered into with the VA in September 2003 also resulted in the need to hire additional staff.

There were two principal factors contributing to the increase in commissions in 2004. First, our re-assumption, during the fourth quarter of 2003 of certain loan resolution activities in the Residential Loan Servicing Segment, as described in the paragraph above. Second, the property management contract with the VA, as noted in the paragraph above.

The decline in compensation and benefits in 2003 was primarily due to a decrease in salaries. This decline in costs occurred in spite of an increase in the average number of our employees and is due in large part to our ongoing globalization initiative. The goal of this initiative was to reduce labor costs by migrating certain functions (primarily in support of our Residential Loan Servicing, Global Outsourcing and OTX businesses) to our offices in Bangalore and Mumbai, India. The average number of employees in our India offices as a percent of the total average number of employees increased from 30% during 2002 to 54% during 2003. The decline in salaries is also the result of a change in the mix of our workforce in the United States to a greater concentration of call center and similar level positions. This change in mix occurred as we exited capital-intensive businesses in favor of fee-based businesses, primarily residential loan servicing

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -
(Dollars in thousands, except share data)

Occupancy and Equipment. The following table presents the principal components of occupancy and equipment costs for the years indicated:

	2004	2003	2002
	-----	-----	-----
Postage and mailing	\$ 5,701	\$ 4,689	\$ 4,432
Rent	2,796	3,515	3,238
Depreciation	2,677	2,935	2,961
Other (1)	4,759	2,020	1,212
	-----	-----	-----
	\$ 15,933	\$ 13,159	\$ 11,843
	=====	=====	=====

- (1) The increase in other occupancy and equipment costs in 2004 is primarily the result of our reassuming in the fourth quarter of 2003 certain loan resolution activities in our Residential Loan Servicing segment,

including the issuance of breach notices to delinquent borrowers. These loan resolution functions were previously performed by a third party law firm. See "Results of Operations - Core Businesses - Residential Loan Servicing" for additional information regarding this change.

Technology and Communication Costs. The following table presents the principle components of technology and communication costs for the years indicated:

	2004	2003	2002
	-----	-----	-----
Depreciation expense:			
Hardware	\$ 6,042	\$ 6,579	\$ 7,154
Software	2,925	2,455	2,562
Other	668	437	326
	-----	-----	-----
	9,635	9,471	10,042
	-----	-----	-----
Telecommunications expense (1)	6,619	5,927	4,990
Consulting fees - technology	1,089	1,552	1,729
Amortization expense:			
Capitalized software development costs	1,451	1,511	1,424
Intellectual property	--	--	1,029
	-----	-----	-----
	1,451	1,511	2,453
	-----	-----	-----
Equipment lease expense	1,459	1,462	1,312
Other (2)	5,796	1,198	4,744
	-----	-----	-----
	\$ 26,049	\$ 21,121	\$ 25,270
	=====	=====	=====

(1) The increase in telecommunication expense during 2003 is largely due to increased costs of telecommunication lines as a result of our expansion in India.

(2) The increase in other technology and communication costs in 2004 is primarily due to our reassuming in the fourth quarter of 2003 certain loan resolution activities in our Residential Loan Servicing segment, including the issuance of breach notices to delinquent borrowers. These loan resolution functions were previously performed by a third party law firm. See "Results of Operations-Core Businesses - Residential Loan Servicing" for additional information regarding this change. Other costs for 2002 included \$1,068 of payments related to the acquisition of Amos, Inc., an OTX subsidiary, in 1997. This represented the final compensatory payment due in connection with this acquisition.

Loss (Gain) on Investment in Affordable Housing Properties. Net losses we recorded on investments in affordable housing properties during 2003 and 2002 included loss provisions in the amount of \$432 and \$17,350, respectively, for expected losses on the sale of properties. No such provisions were required for 2004. Losses for 2002 also included a \$3,944 charge to record a discount on a long-term sale of seven properties during the second quarter. We are accreting this discount to income over the term of the related receivable balance, which extends through 2014. Our remaining investment in affordable housing properties consists of only one limited partnership interest at December 31, 2004. See "Segment Results - Affordable Housing".

Write-off of Goodwill. Goodwill amortization and writeoffs that we recognized during 2002 related entirely to OTX. In accordance with the provisions of SFAS No. 142, which we adopted on January 1, 2002, we ceased amortization of the remaining balance of our goodwill beginning in 2002. However, we test our goodwill annually for impairment. As a result of our annual impairment testing in 2002, we wrote-off the remaining \$2,231 of goodwill associated with the 1997 acquisition of Amos, Inc. No write-off was required as a result of our 2004 or 2003 impairment testing. See Note 1 to our Consolidated Financial Statements.

OPERATIONS -

(Dollars in thousands, except share data)

Loan Expenses. Loan expenses for 2004, 2003 and 2002 included \$20,747, \$10,649 and \$9,463, respectively, of appraisal fees incurred in connection with property valuation services we provided through ORA. See "Segment Results - ORA". Loan expenses also include other miscellaneous expenses incurred in connection with loans we own and those we service for others.

Professional Services and Regulatory Fees. The following table presents the principal components of professional services and regulatory fees for the years indicated:

	2004	2003	2002
	-----	-----	-----
Legal fees and settlements	\$ 16,796	\$ 18,244	\$ 8,308
Consulting fees (non-technology)	2,387	2,183	2,873
Audit and accounting fees	2,763	1,745	1,236
Corporate insurance	1,736	1,512	1,010
FDIC insurance	342	299	398
Other	2,565	2,071	2,558
	-----	-----	-----
	\$ 26,589	\$ 26,054	\$ 16,383
	=====	=====	=====

Legal fees and settlements in 2004 include \$5,198 to establish a reserve for multiple forbearance plan fees and breach fees that were charged to borrowers but may no longer be collectible. See "Results of Operations - Core Businesses - Residential Loan Servicing" for additional information on this reserve. In addition, a reserve of \$3,000 was established to provide for the following two claims:

- (a) On February 8, 2005, a jury in Circuit Court for Palm Beach County, Florida returned verdicts of \$1,000 and \$1,056 in compensatory damages in favor of two former employees of the Bank in a lawsuit against OCN and the Bank. The jury rejected plaintiffs' request for punitive damages. The plaintiffs brought claims under the Florida Civil Rights Act, the Florida Whistleblower Act and state tort law, arising out of an alleged invasion of privacy and related incidents allegedly committed by other former employees of the Bank in 1998 for which plaintiffs sought to hold the OCN defendants vicariously liable. We believe the verdicts, which have not yet been reduced to final judgments, are against the weight of evidence and contrary to law. Defendants have filed motions for a new trial and/or remittitur and, if necessary, will take an appeal to the Florida Court of Appeals for the Fourth District. We intend to continue to vigorously defend this matter.
- (b) On February 28, 2005, a jury in County Court for Nueces County, Texas, returned a verdict of \$140 in compensatory and statutory damages in favor of two borrowers whose mortgage loan was serviced by the Bank in a lawsuit arising out of a disputed foreclosure. The jury rejected plaintiffs' request for punitive damages. The verdict included \$2,900 for plaintiffs' attorneys' fees, an amount, which we believe is unsupported by the evidence and impermissibly excessive under the controlling legal authorities. The verdict has not yet been reduced to a final judgment. We are pursuing post-trial motions seeking to set aside or substantially reduce the attorneys' fees award and, if necessary, will take an appeal on that issue and perhaps other issues to the Texas Court of Appeals for the Thirteenth Judicial District. We intend to continue to vigorously defend this matter.

Legal fees and settlements for 2003 include a \$10,000 settlement resulting from a proceeding before an arbitration panel. The former owners of Admiral Home Loan sought damages exceeding \$75,000 arising out of a 1997 acquisition agreement pursuant to which OCN Financial Services, Inc. ("OFS") acquired all of the assets of Admiral Home Loan. OFS ceased operations in 1999. In their decision, the arbitration panel awarded Claimants damages in the amount of \$6,000. Including of interest, costs and attorneys' fees, the total charge associated with this matter was approximately \$10,000.

Legal fees and settlements for 2002 include the settlement of two claims for \$3,250. Given the substantial costs of proceeding with litigation, coupled with the uncertainty of jury trials in complex civil matters, we determined that it was in our best interest to settle the two litigation claims as follows:

- (c) Walton Street Capital, L.L.C. ("Walton") filed suit against Ocwen Asset Investment Corporation ("OAC") and Ocwen Partnership, L.P. Walton alleged that OAC committed an anticipatory breach of contract with respect to the proposed sale by OAC of all of its interest in its commercial mortgage-backed securities portfolio to Walton. Walton claimed damages in an amount in excess of \$27 million including prejudgment interest. On March 3, 2003, the parties entered into a settlement agreement under which defendants admitted no liability, and the case was dismissed with prejudice. The amount of the settlement was \$2,250, which was included in the financial results for 2002 because the settlement was concluded prior to the issuance of our financial statements; and
- (d) Vincent and Elizabeth Turner filed a class action lawsuit against Ocwen Federal Bank claiming breach of contract, unjust enrichment and violation of the New Jersey Consumer Protection Fraud Act based on the collection of a loan satisfaction fee when the plaintiffs paid off their loan. The Court granted plaintiffs' motion to certify a class consisting of borrowers who were charged a similar satisfaction fee by the Bank from 1992 through February 2002. The parties entered into a settlement agreement, subsequently approved by the Court, under which the Bank admitted no liability and the case was dismissed with prejudice. The amount of the settlement was approximately \$1,000, including plaintiffs' attorneys' fees and costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

The increase in audit and accounting fees between 2003 and 2004 is primarily due to \$900 of fees recorded in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Other Operating Expenses. The following table presents the principal components of other operating expenses for the years indicated:

	2004	2003	2002
	-----	-----	-----
Travel, lodging, meals and entertainment	\$ 3,361	\$ 2,864	\$ 2,585
Bad debt expense (1)	2,655	554	39
Amortization of deferred costs	1,039	1,197	1,436
Deposit related expense	718	912	1,198
Other	2,296	4,882	4,343
	-----	-----	-----
	\$ 10,069	\$ 10,409	\$ 9,601
	=====	=====	=====

(1) Bad debt expense for 2004 includes a provision of \$1,780 recorded for estimated uncollectible servicing advances and other receivables related to our Residential Loan Servicing segment, including \$1,000 to establish an allowance for forbearance fees that we are no longer collecting directly from borrowers. See "Banking Operations" and "Segment Results - Core Businesses - Residential Loan Servicing" for additional information regarding forbearance fees.

Distributions on Company Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company. Cash distributions on our Capital Securities are payable semi-annually in arrears on February 1 and August 1 of each year at an annual rate of 10.875%. We recorded \$6,117, \$6,117 and \$6,287 of distributions to holders of the Capital Securities during 2004, 2003 and 2002, respectively. Effective July 1, 2003 with

our adoption of SFAS No. 150, these distributions are reported in the consolidated statement of operations as interest expense. The decline in distributions is the result of repurchases we made during 2002. See "Non-Interest Revenue - Gain (Loss) on Repurchase of Debt", Note 16 to our Consolidated Financial Statements and "Changes in Financial Condition - Debt Securities".

Income Tax Expense (Benefit). The following table provides details of our income tax expense (benefit) and effective tax rates for the years indicated:

	2004	2003	2002
	-----	-----	-----
Income tax expense (benefit) on income (loss) before taxes and effect of change in accounting principle..	\$ 3,194	\$ (1,427)	\$ (31,066)
Provision for (reversal of) valuation allowance on deferred tax asset	(35,518)	2,175	34,049
	-----	-----	-----
	(32,324)	748	2,983
Income tax benefit on effect of change in accounting principle	--	--	(1,166)
	-----	-----	-----
Total income tax expense (benefit)	\$ (32,324)	\$ 748	\$ 1,817
	=====	=====	=====

The provision for deferred tax asset valuation allowance is a non-cash charge that we recorded to increase the aggregate valuation allowance. We maintain a valuation allowance in an amount sufficient to reduce our deferred tax asset to the amount that is more likely than not to be realized. The valuation allowance amounted to \$165,927 and \$201,445 at December 31, 2004 and 2003, respectively. Our assessment of the amount of the valuation allowance was based on consideration of all available evidence, both positive and negative, including our recent earnings history, current tax position, and estimates of future taxable income. The tax character (ordinary versus capital) and the carry forward and carry back periods of certain tax attributes (e.g., capital losses and tax credits) was also considered. Reversal of all or a portion of the valuation allowance may be required in the future based on the results of our operations. Given our improved profitability in 2003 and 2004, it is possible that a portion of the valuation allowance could be reversed in 2005.

The \$35,518 reduction in the valuation allowance on the deferred tax asset is principally a result of refund claims of \$56,526 filed with the IRS that reduced our gross deferred tax asset and increased our income tax receivable balance by the same amount. These refund claims, which were affirmed in writing by the IRS agent during 2004, arose because of changes in the tax law that allowed us to carry back net operating losses from 2001 and 2002 to taxes paid in earlier years. See "Changes in Financial Condition - Receivables" for additional information regarding our refund claims and related income taxes receivable.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

Income tax expense (benefit) before the effect of change in accounting principle differs from amounts that would be computed by applying the Federal corporate income tax rate of 35% because of the effect of foreign taxes, non-economic tax residual payments, changes in the valuation allowance and low-income housing tax credits. See Note 19 to our Consolidated Financial Statements for a reconciliation of taxes at the statutory rate to actual income tax expense (benefit). Income tax expense reflects tax credits of \$4,848, \$2,393 and 2,685, respectively. Although we have substantial unused tax credits available to reduce the liability arising from income taxes on our current year income, tax credits can be used to reduce income tax expense only to the corporate alternative minimum tax rate of 20% of taxable income. See Note 19 to our Consolidated Financial Statements.

Effect of Change in Accounting Principle. The amortization of excess of net assets acquired over purchase price (negative goodwill) resulted from our

acquisition of OAC on October 7, 1999. Our acquisition resulted in negative goodwill of \$60,042, which we amortized on a straight-line basis through 2001. On January 1, 2002, upon our adoption of SFAS No. 142, we reversed the unamortized balance of \$18,333 to income. The impact from the adoption of other elements of SFAS No. 142 resulted in our recording impairment charges of \$3,333 on goodwill and intangible assets originally recorded in connection with the formation of REALSynergy, Inc. in 1999. These amounts have been reported in 2002 as the effect of a change in accounting principle, net of an income tax benefit of \$1,166. See Notes 1 and 2 to our Consolidated Financial Statements.

CHANGES IN FINANCIAL CONDITION

Trading Securities. The following table sets forth the fair value of our trading securities at the dates indicated:

	December 31,		
	2004	2003	2002
Investment grade securities:			
U.S. Treasury securities	\$ 1,594	\$ 6,679	\$ 1,016
Collateralized mortgage obligations (AAA-rated) (1)	81,466	--	20,540
Bonds and debentures (2)	3,155	--	--
	-----	-----	-----
	\$ 86,215	\$ 6,679	\$ 21,556
	=====	=====	=====
Subordinates and residuals (3):			
Single family residential			
BB rated subordinates	\$ 256	\$ 579	\$ 599
B-rated subordinates	435	580	606
Unrated subordinates	217	222	344
Unrated subprime residuals	35,276	38,883	33,213
	-----	-----	-----
	36,184	40,264	34,762
Commercial unrated subordinates	3,343	2,577	2,577
	-----	-----	-----
	\$ 39,527	\$ 42,841	\$ 37,339
	=====	=====	=====

- (1) We invest in CMOs as needed to meet the Qualified Thrift Lender requirements of the Bank.
- (2) These securities were acquired in connection with our acquisition on September 30, 2004 of Bankhaus Oswald Kruber KG, a bank located in Germany. See Note 3 to our Consolidated Financial statements for additional information regarding this acquisition.
- (3) During 2004, our subordinate and residual trading securities declined by \$3,314. This decline was primarily due to principal repayments and amortization. A decrease in the fair value of our unrated subprime residuals during 2004 was largely offset by changes in exchange rates between the US dollar and the British Pound. The \$5,502 increase in subordinate and residual trading securities during 2003 was principally the result of the transfer of \$5,926 of match funded securities to trading securities in June 2003 as a result of our early redemption of the related match funded liabilities. These securities had a fair value of \$5,146 at December 31, 2003. See "Changes in Financial Condition - Match Funded Assets". Principal repayments and amortization during 2003 were largely offset by increases in fair value. The change in fair value between years did not result from changes in the assumptions or methodologies used to determine fair value. See Note 1 to our Consolidated Financial Statements for a discussion of our methodologies used to determine the fair value of trading securities.

Subordinate and residual interests in mortgage-related securities provide credit support to the more senior classes of the mortgage-related securities. Principal from the underlying mortgage loans generally is allocated first to the senior classes, with the most senior class having a priority right to the cash flow from the mortgage loans until its payment requirements are satisfied. To the extent that there are defaults and unrecoverable losses on the underlying mortgage loans, resulting in reduced cash flows, the most subordinate security will be the first to bear this loss. Because subordinate and residual

interests generally have no credit support, to the extent there are realized losses on the mortgage loans comprising the mortgage collateral for such securities, we may not recover the full amount or, indeed, any of our remaining investment in such subordinate and residual interests.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -
(Dollars in thousands, except share data)

Subordinate and residual interests are affected by the rate and timing of payments of principal (including prepayments, repurchase, defaults and liquidations) on the mortgage loans underlying a series of mortgage-related securities. The rate of principal payments may vary significantly over time depending on a variety of factors, such as the level of prevailing mortgage loan interest rates and economic, demographic, tax, legal and other factors. Prepayments on the mortgage loans underlying a series of mortgage-related securities are generally allocated to the more senior classes of mortgage-related securities. Although in the absence of defaults or interest shortfalls all subordinates receive interest, amounts otherwise allocable to residuals generally are used to make payments on more senior classes or to fund a reserve account for the protection of senior classes until over collateralization or the balance in the reserve account reaches a specified level. For residual interests in residential mortgage-backed securities, over collateralization is the amount by which the collateral balance exceeds the sum of the bond principal amounts. Over collateralization is achieved by applying monthly a portion of the interest payments of the underlying mortgages toward the reduction of the senior class certificate principal amounts, causing them to amortize more rapidly than the aggregate loan balance. Over collateralization represents the first tier of loss protection afforded to the non-residual holders. To the extent not consumed by losses on more highly rated bonds, over collateralization is remitted to the residual holders. In periods of declining interest rates, rates of prepayments on mortgage loans generally increase, and if the rate of prepayments is faster than anticipated, then the yield on subordinates will be positively affected and the yield on residuals will be negatively affected.

We periodically assess the carrying value of our subordinate securities and residual securities retained. There can be no assurance that our estimates used to determine the value of subordinate securities and residual securities retained will remain appropriate for the life of each securitization. If actual loan prepayments or defaults exceed our estimates, the carrying value of our subordinate securities and residual securities retained may be decreased during the period in which we recognized the disparity.

The following table presents information regarding our trading subordinate and residual securities summarized by classification and rating at December 31, 2004:

RATING/DESCRIPTION (1)	PERCENT OWNED BY OCWEN	ANTICIPATED YIELD TO MATURITY AT PURCHASE (2) (3)	ANTICIPATED YIELD TO MATURITY AT 12/31/04 (2) (4)	COUPON	ANTICIPATED WEIGHTED AVERAGE REMAINING LIFE (2) (5)
SINGLE-FAMILY RESIDENTIAL:					
BB-rated subordinates	100.00%	19.23%	11.10%	6.75%	3.59
B-rated subordinates	100.00	17.11	17.62	5.86	1.83
Unrated subordinates	100.00	13.91	41.84	6.54	0.17
Unrated subprime residuals	100.00	17.27	11.55	N/A	4.26
COMMERCIAL:					
Unrated subordinates	25.00	22.15	14.23	N/A	1.67

(1) Refers to the credit rating designated by the rating agency for each securitization transaction. Classes designated "A" have a superior claim on payment to those rated "B". Additionally, multiple letters have a superior claim to designations with fewer letters. Thus, for example, "BBB" is superior to "BB", which in turn is superior to "B". The lower class designations in any securitization will receive interest payments

after senior classes and will experience losses before any senior class. The lowest potential class designation is "unrated" which, if included in a securitization, will always receive interest last and experience losses first.

- (2) Subordinate and residual securities do not have a contractual maturity but are paid down over time as cash distributions are received. Because they do not have a stated maturity, we disclose the weighted average life of these securities.
- (3) Represents the effective yield from inception to maturity based on the purchase price and anticipated future cash flows under pricing assumptions.
- (4) Represents the effective yield based on the purchase price, actual cash flows received from inception until the respective date, and the then current estimate of future cash flows under the assumptions at the respective date. Changes in the December 31, 2004 anticipated yield to maturity from that originally anticipated are due to differences between estimated cash flows and actual cash flows. Each quarter, we update the assumptions used to estimate future cash flows based on the actual results to date. The primary assumptions include prepayment speeds, loss rates and the discount rate.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

- (5) Represents the weighted average life in years based on the December 31, 2004 book value.

The following table sets forth the principal amount of mortgage loans by the geographic location of the properties securing the mortgages that underlie our trading subordinate and residual securities at December 31, 2004:

DESCRIPTION	U.K.	CALIFORNIA	NEW JERSEY	TEXAS	NEW YORK	OTHER (1)	TOTAL
Single family residential	\$ 51,044	\$ 16,469	\$ 18,037	\$ 18,108	\$ 17,833	\$ 135,706	\$ 257,197
Commercial	--	2,005	--	--	--	24,415	26,420
Multi-family	--	307	217	--	208	1,124	1,856
Total	\$ 51,044	\$ 18,781	\$ 18,254	\$ 18,108	\$ 18,041	\$ 161,245	\$ 285,473
Percentage of total	17.88%	6.58%	6.39%	6.34%	6.32%	56.49%	100.00%

- (1) Consists of properties located in 46 other states, none of which aggregated over \$15,659 in any one state.

See Note 1 and Note 5 to our Consolidated Financial Statements.

Real Estate. The decline in real estate reflects our strategy to dispose of assets not associated with core businesses. Although we have committed to a plan to sell these assets, we account for them in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Generally, properties held for more than one year are accounted for as held and used. These properties are depreciated over their estimated useful lives. Properties held less than one year are not depreciated and are carried at the lower of carrying value or fair value less costs to sell. Our real estate consisted of the following at the dates indicated:

	December 31,		
	2004	2003	2002
Properties accounted for as held and used:			
Office building	\$ --	\$ 37,553	\$ 42,374
Retail	--	43,460	41,000

	-----	-----	-----
	--	81,013	83,374
	-----	-----	-----
Properties accounted for as held for sale:			
Retail	8,827	10,657	9,750
Hotel	--	6,171	18,616
Land	844	--	--
Single family residential	515	882	1,887
	-----	-----	-----
	10,186	17,710	30,253
	-----	-----	-----
Total investment in real estate properties (1)	10,186	98,723	113,627
Commercial loans accounted for as investments in real estate ..	--	--	2,188
Investment in real estate partnerships	8,546	5,220	4,900
	-----	-----	-----
	\$ 18,732	\$ 103,943	\$ 120,715
	=====	=====	=====

(1) Total properties included \$49,631 and \$60,152 at December 31, 2003 and 2002, respectively, of properties we acquired by foreclosure or deed-in-lieu thereof on loans, primarily those that we had previously acquired at a discount.

Properties accounted as held and used. Properties accounted as held at December 31, 2003 consisted of an office building and shopping mall, both located in Florida. We acquired these properties as a result of our acquisition of OAC in 1999. Both of these properties were sold in 2004 for a net gain of \$759.

Properties accounted as held for sale. Properties accounted as held for sale at December 31, 2004 consisted primarily of one shopping center located in Halifax, Nova Scotia with a net carrying value of \$8,827. In February 2005, we sold the subsidiary that held our investment in the shopping center. Properties at December 31, 2003 consisted of our shopping center in Halifax and a hotel located in Michigan.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

The decline in our investment during 2004 was primarily due to the sale of our hotel, which resulted in a gain of \$351, and a \$3,018 decline in the fair value of the shopping center. Properties classified as held for sale are reported net of reserves established to report the properties at the lower of carrying value or fair value less costs to sell. Such reserves amounted to \$3,155, \$1,279 and \$4,591 at December 31, 2004, 2003 and 2002, respectively. See Note 7 for additional information regarding these revenues.

Loans Accounted for as Investments in Real Estate. We acquired certain acquisition, development and construction loans in January 2000 in which we participated in the expected residual profits of the underlying real estate, and where the borrower had not contributed substantial equity to the project. As such, we accounted for these loans under the equity method of accounting as though we had an investment in a real estate limited partnership. The one loan remaining at December 31, 2002 was repaid during 2003.

Investment in Real Estate Partnerships. This balance represents interests in two limited partnerships operating as real estate ventures, consisting of multi-family type properties. At December 31, 2003 we also had loans with combined net book value of \$4,771 (\$6,811 before discount and allowance for loan losses) due from one of the real estate ventures. During the first quarter of 2004, we forgave loans to the venture in exchange for an increased investment in the partnership. During 2004, we also recorded an impairment charge of \$1,105 related to one of the partnership interests.

Loans, Net. Our net investment in loans of \$3,792 at December 31, 2004 represents 0.3% of total assets and consisted of only 22 loans. Our loans have been declining since 1998 as sales, resolutions and foreclosures more than offset acquisitions and originations. This reflects our strategy to dispose of assets associated with non-core business lines. Originations primarily represent loans made to facilitate sales of commercial real estate assets that we owned

and fundings of pre-existing commitments on construction loans.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -
(Dollars in thousands, except share data)

Composition of Loans. The following table sets forth the composition of our loans by business segment at the dates indicated:

	December 31,				
	2004	2003	2002	2001	2000
Residential Discount Loans (1):					
Single family residential loans	\$ --	\$ --	\$ 1,965	\$ 57,954	\$ 297,790
Unaccrued discount and deferred fees	--	--	(565)	(16,804)	(74,341)
Allowance for loan losses	--	--	(154)	(3,401)	(3,493)
	--	--	1,246	37,749	219,956
Affordable Housing (2):					
Multifamily residential loans	7,466	10,924	10,803	19,714	32,330
Land and other	200	200	200	200	1
	7,666	11,124	11,003	19,914	32,331
Deferred fees	--	--	--	--	(46)
Undisbursed loan funds	--	--	(346)	(1,430)	(4,586)
Allowance for loan losses	(4,468)	(4,579)	(4,428)	(1,269)	(139)
	3,198	6,545	6,229	17,215	27,560
Commercial Assets:					
Office buildings	--	--	41,215	56,713	98,425
Hotels	--	10,600	11,668	38,576	102,120
Retail properties	--	--	27,500	47,492	85,924
Multifamily residential loans	--	14,964	15,215	13,605	118,411
Land and other	--	--	1,188	607	36,608
	--	25,564	96,786	156,993	441,488
Unaccrued discount and deferred fees	--	(1,015)	(11,409)	(19,962)	(45,918)
Undisbursed loan funds	--	--	--	(1,483)	(4,293)
Allowance for loan losses	--	(3,786)	(16,179)	(5,744)	(10,877)
	--	20,763	69,198	129,804	380,400
Subprime Finance:					
Single family residential loans	94	--	199	512	3,540
Unamortized (discount) premium	(20)	--	(15)	13	(45)
	74	--	184	525	3,495
Ocwen Recovery Group:					
Consumer	--	--	--	--	17,188
Allowance for loan losses	--	--	--	--	(8,770)
	--	--	--	--	8,418
Corporate Items and Other (1):					
Single family residential loans	1,125	1,307	--	--	223
Unaccrued discount and deferred fees	(527)	(412)	--	--	--
Allowance for loan losses	(78)	(105)	--	--	--
	520	790	--	--	223
Loans, net	\$ 3,792	\$ 28,098	\$ 76,857	\$ 185,293	\$ 640,052

- (1) Loans and all other assets of the Residential Discount Loans segment were transferred to the Corporate Items and Other segment, effective January 1, 2003. These loans were acquired by us at a discount and are secured by mortgages on single family residential properties.
- (2) Loans we made to affordable housing properties in which we have invested as a limited partner but do not consolidate in our financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -
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Activity in Loans. The following table sets forth the activity in our net loans during the periods indicated:

	2004	2003	2002	2001	2000
Amount					
Balance at beginning of period	\$ 28,098	\$ 76,857	\$ 185,293	\$ 640,052	\$ 1,115,850
Acquisitions (1)	372	420	1,018	--	221,940
Originations (2)	16,106	6,277	18,478	18,144	39,792
Resolutions and repayments (3)	(38,747)	(29,362)	(50,965)	(139,232)	(312,856)
Loans transferred to real estate (4)	(6,841)	(157)	(16,000)	(92,949)	(201,010)
Sales	--	(49,110)	(77,636)	(343,262)	(369,630)
Decrease (increase) in undisbursed loan proceeds	--	346	2,569	5,965	15,774
Decrease (increase) in discount	880	10,537	24,447	83,710	125,406
Decrease (increase) in allowance	3,924	12,290	(10,347)	12,865	4,786
Balance at end of period	\$ 3,792	\$ 28,098	\$ 76,857	\$ 185,293	\$ 640,052

	Years Ended December 31,				
	2004	2003	2002	2001	2000
Number of Loans					
Balance at beginning of period	22	38	931	4,282	8,765
Acquisitions (1)	11	8	17	--	2,231
Originations (2)	1	1	3	4	4
Resolutions and repayments (3)	(11)	(19)	(77)	(662)	(1,572)
Loans transferred to real estate (4)	(1)	(3)	(21)	(747)	(2,455)
Sales	--	(3)	(815)	(1,946)	(2,691)
Balance at end of period (5)	22	22	38	931	4,282

- (1) The decline in acquisitions reflect our strategic decision to exit non-core businesses and dispose of the related assets. Acquisitions in 2002, 2003 and 2004 represent repurchases of single-family residential discount loans previously sold. Acquisitions in 2000 included \$164,920 (2,208 loans), of single-family residential discount loans.
- (2) Originations represent loans made to facilitate sales of our own commercial assets and fundings of construction loans we originated in prior years.
- (3) Resolutions and repayments consists of loans which we resolved and discharged in a manner which resulted in partial or full repayment of the loan to us, as well as principal payments on loans that have been brought current in accordance with their original or modified terms (whether pursuant to forbearance agreements or otherwise) or on other loans which have not been resolved.
- (4) During 2004, we forgave loans with an unpaid principal value of \$6,811 to a real estate venture, in which we also had an equity ownership interest, in exchange for an increased investment in the limited partnership. Loans transferred to real estate in prior years represent properties acquired through foreclosure or deed-in-lieu thereof. See "Real Estate".
- (5) Of the 22 loans remaining at December 31, 2004, one is a multi-family loan in the Affordable Housing segment and the remainder are single family loans in the Corporate Items and Other and Subprime Finance segments.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

The following table sets forth certain information relating to our non-performing loans and allowance for loan losses at the dates indicated:

	December 31,				
	2004	2003	2002	2001	2000
Non-performing loans (1) (2)	\$ 7,827	\$ 21,898	\$ 75,549	\$ 94,307	\$ 297,547
Non-performing loans as a percentage of (1):					
Total loans (2)	93.9%	59.9%	77.4%	48.2%	44.9%
Total assets	0.6%	1.8%	6.2%	5.5%	13.2%
Allowance for loan losses as a percentage of:					

Total loans (2)	54.5%	23.2%	21.3%	5.3%	3.5%
Non-performing loans (1)	58.1%	38.7%	27.5%	11.0%	7.8%

- (1) Loans, which are contractually past due 90 days or more in accordance with the original terms of the loan agreement. We do not accrue interest on loans past due 90 days or more.
- (2) Loans are net of unaccreted discount, unamortized deferred fees and undisbursed loan funds.

Allowances for Loan Losses. As discussed in the "Results of Operations - Provision for Loan Losses" section, we maintain an allowance for loan losses for each of our loans at a level that we consider adequate to provide for probable losses based upon an evaluation of known and inherent risks. The following tables set forth (a) the breakdown of the allowance for loan losses on our loans in each segment and (b) the percentage of loans in each segment to total loans in the respective segments at the dates indicated:

	December 31,				
	2004	2003	2002	2001	2000
Amount:					
Residential Discount Loans	\$ --	\$ --	\$ 154	\$ 3,401	\$ 3,493
Commercial Asset (1)	--	3,786	16,179	5,744	10,877
Affordable Housing	4,468	4,579	4,428	1,269	139
Ocwen Recovery Group	--	--	--	--	8,770
Corporate Items and Other	78	105	--	--	--
	\$ 4,546	\$ 8,470	\$ 20,761	\$ 10,414	\$ 23,279

- (1) The decline in the allowance on Commercial Asset loans during 2004 and 2003 is primarily the result of sales and resolutions. As of December 31, 2004, all Commercial Asset loans had been sold or resolved. The allowance as a percentage of loan value for this segment was 15.4% at December 31, 2003 as compared to 19.0% at December 31, 2002 and 4.2% at December 31, 2001. See "Results of Operations-Provisions for Loan Losses" for additional information regarding our allowance as a percentage of loans.

	December 31,				
	2004	2003	2002	2001	2000
Percentage of Loans to Total Loans:					
Residential Discount Loans	--%	--%	1.4%	21.0%	33.7%
Commercial Asset	--	67.1	87.5	69.3	59.0
Affordable Housing	91.9	30.4	10.9	9.4	4.2
Subprime Finance	0.9	--	0.2	0.3	0.5
Ocwen Recovery Group	--	--	--	--	2.6
Corporate Items and Other	7.2	2.5	--	--	--
	100.0%	100.0%	100.0%	100.0%	100.0%

The allocation of the allowance to each segment is not necessarily indicative of future losses and does not restrict our use of the allowance to absorb losses in any other segment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

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The following table sets forth an analysis of activity in the allowance for loan losses relating to our loans during the periods indicated:

	December 31,				
	2004	2003	2002	2001	2000
Balance at beginning of period	\$ 8,470	\$ 20,761	\$ 10,414	\$ 23,279	\$ 26,440
Provision for loan losses	(1,787)	(2,633)	13,655	15,478	15,270

Charge-offs	(2,137)	(9,658)	(3,756)	(28,827)	(19,068)
Recoveries	--	--	448	484	637
Net charge-offs	(2,137)	(9,658)	(3,308)	(28,343)	(18,431)
Balance at end of period	\$ 4,546	\$ 8,470	\$ 20,761	\$ 10,414	\$ 23,279

Match Funded Assets. Our match funded assets were comprised of the following at the dates indicated:

	December 31,		
	2004	2003	2002
Match funded advances on loans serviced for others:			
Principal and interest	\$ 107,102	\$ 54,516	\$ 66,524
Taxes and insurance	107,710	30,176	30,301
Other	61,814	21,096	24,877
	-----	-----	-----
	276,626	105,788	121,702
	-----	-----	-----
Single family residential loans	--	24,393	38,129
Commercial loans	4,134	--	--
Allowance for loan losses	--	(94)	(144)
	-----	-----	-----
Match funded loans, net	4,134	24,299	37,985
	-----	-----	-----
Match funded securities	--	--	8,057
	-----	-----	-----
	\$ 280,760	\$ 130,087	\$ 167,744
	=====	=====	=====

Match funded advances on loans serviced for others resulted from our transfer of certain residential loan servicing related advances to a third party in exchange for cash. The original and subsequent transfers did not qualify as sales for accounting purposes since we retained effective control of the advances. Accordingly, we report the amount of proceeds we received from the sale as a secured borrowing with pledge of collateral (match funded liabilities). The \$170,838 increase in match funded advances during 2004 is primarily the result of a servicing advance securitization that was executed in November. See "Match Funded Liabilities" and Note 14 to our Consolidated Financial Statements.

We acquired single-family residential match funded loans in connection with our acquisition of OAC. OAC had previously securitized these loans in 1998 and transferred them to a real estate mortgage investment conduit (the "Trust"), which then issued two classes of notes secured by the loans. The transfer did not qualify as a sale for accounting purposes since we retained effective control of the loans transferred. Accordingly, we reported the proceeds that we received from the transfer as a liability (match funded liabilities). Each class of the notes was subject to redemption at our option when the remaining aggregate principal balance of the loans had declined to less than 20% of the initial aggregate principal balance of the loans at the transfer date. During the third quarter of 2004, we exercised our option to redeem the notes (match funded liabilities) thereby causing the termination and liquidation of the Trust. Upon redemption of the notes, the loans were released from the Trust and were sold by us to a third party. Non-performing loans amounted to \$2,321 and \$3,120 at December 31, 2003 and 2002, respectively.

Commercial match funded loans held by our GSS subsidiary in Japan resulted from the transfer, on a non-recourse basis, of an undivided 100% participation interest in certain real estate loans to a Japanese subsidiary of Merrill Lynch on March 30, 2004 in exchange for cash. The transfer did not qualify as a sale for accounting purposes as we did not meet all of the conditions for surrender of control over the transferred loans. Accordingly, we report the amount of proceeds we received from the transfer as a secured borrowing with pledge of collateral (match funded liabilities).

Match funded securities resulted from our transfer of four unrated residual securities to a trust on December 16, 1999 in exchange for non-recourse notes. The transfer did not qualify as a sale for accounting purposes since we

retained effective control over the securities transferred. Accordingly, we reported the amount of proceeds we received from the transfer as a secured borrowing with pledge of collateral (match funded liabilities). In June 2003, the Ocwen NIM Trust 1999 - OAC1 adopted a plan of complete liquidation, which caused the early redemption of the related match funded liabilities. The match funded securities, which had a fair value of \$5,926 at the time of transfer, were transferred to trading securities. See "Changes in Financial Condition - Trading Securities" and "- Match Funded Liabilities".

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

Advances on Loans and Loans Serviced for Others. Advances related to our loan portfolios and loans we serviced for others consisted of the following at the dates indicated:

	December 31,		
	2004	2003	2002
Loans serviced for others:			
Principal and interest	\$ 51,782	\$ 118,024	\$ 63,326
Taxes and insurance	94,926	145,507	117,937
Other	93,375	110,802	84,455
	-----	-----	-----
	240,083	374,333	265,718
Loans	347	436	638
	-----	-----	-----
	\$ 240,430	\$ 374,769	\$ 266,356
	=====	=====	=====

During any period in which the borrower is not making payments, we are required under certain 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 generally recover such advances from borrowers for reinstated and performing loans and from investors for foreclosed loans. We record a charge to the extent that we estimate that advances are uncollectible, taking into consideration the age and nature of the advance and our historical loss experience, among other factors. Advances on loans serviced for others are net of reserves of \$5,212, \$4,002 and \$2,939 as of December 31, 2004, 2003 and 2002, respectively. The \$5,212 of reserves at December 31, 2004 includes \$4,115 to provide for forbearance plan fees and multiple breach fees that may no longer be collectible. See "Results of Operations - Core Businesses - Residential Loan Servicing".

Advances on loans serviced for others do not include match funded advances that were transferred to a third party in transactions that did not qualify as sales for accounting purposes and that we account for as secured borrowings. The \$134,250 decline in advances on loans serviced for others during 2004 is in large part due to a securitization transaction that we executed in November. See "Match Funded Assets" for information regarding these advances.

Mortgage Servicing Rights. The unamortized balance of mortgage servicing rights is primarily related to residential assets. Our investment has declined during 2004 and 2003 as amortization exceeded purchases. The rate of amortization reflects increased actual and projected prepayments on subprime residential mortgage loans due to lower interest rates. The decline in acquisitions reflects the more cautious acquisition strategy that we adopted given the uncertainty of prepayment speeds in the current environment. In addition, we have commitments with the OTS to maintain our investment in mortgage servicing rights at or below certain levels. See Note 22 to the Consolidated Financial Statements and "General - Banking Operations" for additional information regarding these commitments. See also "Results of Operations - Non-Interest Revenue - Servicing and Other Fees" and "- Segment Results - Core Businesses - Residential Loan Servicing".

	December 31,		
	2004	2003	2002
Balance at beginning of period	\$ 166,495	\$ 171,611	\$ 101,107
Purchases	60,950	88,829	128,891
Amortization	(96,036)	(93,558)	(58,153)
Impairment	--	(387)	--
Sales	--	--	(234)
Balance at end of period	\$ 131,409	\$ 166,495	\$ 171,611

At December 31, 2004, we serviced loans under approximately 345 servicing agreements for 22 clients. Purchases during 2004 were all for residential assets.

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Receivables. Receivables consisted of the following at the dates indicated:

	December 31,		
	2004	2003	2002
Residential Loan Servicing (1)	\$ 23,241	\$ 18,564	\$ 10,982
OTX	2,360	1,442	1,193
Ocwen Realty Advisors	2,011	962	532
Ocwen Recovery Group	341	260	296
Business Process Outsourcing	1,532	969	--
Commercial Servicing	2,530	1,324	680
Residential Discount Loans	--	--	1,286
Commercial Assets	192	2,848	2,515
Affordable Housing (2)	18,308	25,581	40,327
Corporate Items and Other (3)	76,204	22,365	21,089
	\$ 126,719	\$ 74,315	\$ 78,900

- (1) Consist principally of fees earned and reimbursable expenses due from investors. Receivables representing fees earned totaled \$4,069 and \$2,769 at December 31, 2004 and 2003, respectively.

Primarily represents payments to be received in future years from the sale of investments in affordable housing properties, net of unaccrued discount of \$2,346, \$2,901 and \$3,400 at December 31, 2004, 2003 and 2002, respectively. Balances are also net of reserves for doubtful accounts of \$5,596, \$4,232 and \$1,340 at December 31, 2004, 2003 and 2002, respectively. The decline in the balance during 2004 is primarily due to scheduled installment payments received, offset by an additional installment note receivable of \$2,945 resulting from the sale of three properties during the fourth quarter. See "Results of Operations - Segment Results - Affordable Housing".

- (3) Includes \$61,591, \$21,465 and \$20,841 of income taxes receivable at December 31, 2004, 2003 and 2002, respectively. As of December 31, 2004, income taxes receivable includes \$56,526 of federal tax refund claims, the payment of which is subject to final approval by the Joint Committee on Taxation of the U.S. Congress. We have agreed with the IRS to extend the statute of limitations with respect to these claims until December 31, 2005, and we currently expect that this approval will be issued prior to that date. The receivable balance at December 31, 2004 also included \$6,872 of accrued interest on the federal tax refund claims.

Other Assets. Other assets consisted of the following at the dates indicated:

	December 31,		
	2004	2003	2002
Deferred tax assets, net (1)	\$ 17,683	\$ 7,547	\$ 8,387
Deferred debt related costs, net (2)	11,216	3,113	2,946
Interest earning insurance collateral deposits (3)	8,905	8,813	--
Loans held for resale (4)	8,437	--	--
Interest earning reserve accounts (5)	5,850	4,279	4,254
Goodwill, net (6)	5,312	1,618	1,618
Prepaid expenses	4,069	3,750	3,740
Stocks and mutual funds (7)	2,886	14	1,108
Capitalized software development costs, net	1,147	2,598	4,010
Other	3,472	1,876	3,265
	-----	-----	-----
	\$ 68,977	\$ 33,608	\$ 29,328
	=====	=====	=====

- (1) Deferred tax assets are net of valuation allowances of \$165,927, \$201,445 and \$199,270 at December 31, 2004, 2003 and 2002, respectively. See "Results of Operations - Income Tax Expense (Benefit)".
- (2) The \$8,103 increase in net deferred debt-related costs during 2004 is primarily the result of capitalized costs directly related to our issuance of the \$175,000 Convertible Notes on July 28, 2004. The unamortized balance of these issuance costs amounted to \$6,107 at December 31, 2004. See "Debt Securities" for additional information regarding the Convertible Notes.

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- (3) These deposits were required in order to obtain surety bonds for affordable housing properties that we sold before the end of the fifteen-year tax credit amortization period, and on which we have previously claimed tax credits on our income tax returns. The surety bond is necessary in order to avoid the recapture of those tax credits previously claimed.
- (4) Loans originated in response to requests from Residential Loan Servicing customers to refinance their mortgage. Only loans with sales commitments prior to closing are originated under this program. These loans were sold during January 2005.
- (5) Represents amounts set aside from the proceeds of our match funded advance facilities to provide for possible shortfalls in the funds available to pay certain expenses and interest.
- (6) The increase in goodwill during 2004 is the result of our acquisition on September 30, 2004 of Bankhaus Oswald Kruber KG, a bank located in Germany. The purchase price, plus acquisition costs, exceeded the net assets acquired by \$3,694. For additional information regarding this acquisition, see Note 3 to our Consolidated Financial Statements.
- (7) The \$2,872 increase in the balance during 2004 primarily represents an investment by the Bank in a mutual fund that invests in assets that meet the requirements of the Community Reinvestment Act.

Deposits. Our customer deposits decreased during 2004 primarily as a result of maturing brokered certificates of deposits. This decline reflects our reduced reliance on deposits as a source of financing our operations. See "General - Banking Operations".

The following table sets forth information related to our deposits at the dates indicated:

December 31,

	2004			2003		
	Amount	Weighted Average Rate	% of Total Deposits	Amount	Weighted Average Rate	% of Total Deposits
Non interest-bearing checking accounts	\$ 4,513	--%	1.5%	\$ 4,879	--%	1.1%
NOW and money market checking accounts	12,541	.75%	4.1%	18,313	0.90%	4.1%
Savings accounts	6,574	.75%	2.2%	1,657	1.00%	0.4%
	23,628		7.8%	24,849		5.6%
Certificates of deposit (1) (2)..	277,671			421,657		
Unamortized deferred fees	--			(118)		
Total certificates of deposit ...	277,671	3.12%	92.2%	421,539	3.41%	94.4%
	\$ 301,299		100.0%	\$ 446,388		100.0%

December 31,

	2002		
	Amount	Weighted Average Rate	% of Total Deposits
Non interest-bearing checking accounts	\$ 4,378	--%	1.0%
NOW and money market checking accounts	17,720	1.20%	4.2%
Savings accounts	1,592	1.00%	0.4%
	23,690		5.6%
Certificates of deposit (1) (2)..	402,917		
Unamortized deferred fees	(637)		
Total certificates of deposit ...	402,280	4.89%	94.4%
	\$ 425,970		100.0%

(1) Included \$26,418, \$84,426 and \$198,248 at December 31, 2004, 2003 and 2002 respectively, of brokered deposits originated through national, regional and local investment banking firms that solicit deposits from their customers, all of which are non-cancelable. During the second quarter of 2003, we exercised our right to call brokered certificates of deposit with a face value of \$18,194 that carried an interest rate of 6%.

(2) At December 31, 2004, 2003 and 2002, certificates of deposit with outstanding balances of \$100 or more amounted to \$75,899, \$137,746 and \$125,451, respectively. Of the \$75,899 of such deposits at December 31, 2004, \$8,800 were from political subdivisions in New Jersey and were secured or collateralized as required under state law. The basic insured amount of a depositor is \$100. Deposits maintained in different categories of legal ownership are separately insured.

The following table sets forth the remaining maturities for our time deposits with balances of \$100 or more at December 31, 2004:

Matures within three months.....	\$ 33,258
Matures after three months through six months.....	5,032
Matures after six months through twelve months.....	21,287
Matures after twelve months.....	16,322

\$ 75,899
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Escrow Deposits. Escrow deposits amounted to \$125,977, \$116,444 and \$84,986 at December 31, 2004, 2003 and 2002, respectively. The balance consisted principally of custodial deposit balances representing collections that we made from borrowers for the payment of taxes and insurance premiums on mortgage properties underlying loans that we serviced for others. Such balances amounted to \$105,924, \$96,924 and \$72,254 at December 31, 2004, 2003 and 2002, respectively. See "Results of Operations - Non-Interest Revenue - Servicing and Other Fees."

Match Funded Liabilities. Match funded liabilities represent proceeds received from transfers of loans, residual securities and advances on our loans serviced for others. Because we retained effective control over the assets transferred, these transfers did not qualify as sales for accounting purposes and, therefore, we report them as secured borrowings with pledges of collateral. Our match funded liabilities were comprised of the following at the dates indicated:

Collateral	Interest rate	December 31,		
		2004	2003	2002
Advances on loans serviced for others (1)	LIBOR plus 175 basis points	\$ 90,851	\$ 94,967	\$ 106,797
Advances on loans serviced for others (2)	See (2)	149,342	--	--
Single family loans (3)	LIBOR plus 65-70 basis points	--	20,427	32,217
Commercial loans (4)		4,134	--	--
Unrated residual securities (5)	9.50%	--	--	8,057
		<u>\$ 244,327</u>	<u>\$ 115,394</u>	<u>\$ 147,071</u>

- (1) Under the terms of the agreement, we are eligible to finance additional advances on loans serviced for others up to a maximum balance of \$200,000. This facility will mature January 2006.
- (2) In November 2004, we executed a servicing advance securitization. This transaction involved the issuance of a term note for \$100,000 and a one-year variable funding note for a maximum of \$75,000. The term note bears interest at LIBOR plus 50 basis points. The variable funding note bears interest at a commercial paper rate plus a margin that approximates LIBOR plus 53 basis points. Under the terms of the agreement, as of December 31, 2004, we are eligible to finance additional advances on loans serviced for others of \$25,658. The term note under this facility has a stated maturity of October 2013. The variable funding note has a stated maturity of November 2010.
- (3) During the third quarter of 2004, we exercised our option to redeem the bonds that were secured by single family loans. See "Match Funded Assets".
- (4) Represents a 100% participation interest held by a third party.
- (5) During the second quarter of 2003, the Ocwen NIM Trust 1999 - OAC1 adopted a plan of complete liquidation and, thereby, caused the early redemption of the match funded liabilities that were secured by residual securities. See "Match Funded Assets."

See "Match Funded Assets" and "Liquidity, Commitments and Off-Balance Sheet Risks - Liquidity".

Debt Securities. Debt securities consisted of the following at the dates indicated:

	December 31,		
	2004	2003	2002
11.875% Notes due October 1, 2003 (1)	\$ --	\$ --	\$ 43,475
12% Subordinated Debentures due June 15, 2005 (2)	--	--	33,500
3.25% Contingent Convertible Senior Unsecured Notes due August 1, 2024 (3)	175,000	--	--
10.875% Capital Securities due August 1, 2027 (4)	56,249	56,249	--
	\$ 231,249	\$ 56,249	\$ 76,975

- (1) The remaining \$43,475 balance of these notes matured on October 1, 2003. On November 26, 2002 we had exercised our redemption option and called \$40,000 of these notes at a price of 102.969%. Earlier during 2002, we had repurchased \$3,550 of these notes in the open market.
- (2) On September 30, 2003 we exercised our redemption option and called the remaining balance of \$33,065 at a price of 101.333%, or a premium of \$441. Also, during the second quarter of 2003 we repurchased \$435 in the open market resulting in a loss of \$4. On November 26, 2002 we had exercised our redemption option and called \$33,500 of these debentures at a price of 102.667%.
- (3) On July 28, 2004, OCN issued \$175,000 aggregate principal amount of 3.25% Contingent Convertible Senior Unsecured Notes due 2024 ("Convertible Notes") in a private placement as permitted by the Securities Act of 1933, as amended. The Convertible Notes are senior unsecured obligations and bear interest at the rate of 3.25% per year. Interest is payable on February 1 and August 1 of each

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year, beginning on February 1, 2005. The Convertible Notes will be convertible at the option of the holder thereof under certain circumstances into shares of our common stock at an initial conversion rate of 82.1693 shares per \$1 principal amount of the Convertible Notes, subject to adjustment. Upon conversion, we may at our option choose to deliver, in lieu of common stock, cash or a combination of cash and common stock. See Note 16 to our Consolidated Financial Statements for additional details regarding the Convertible Notes.

- (4) Capital Securities were reclassified to notes and debentures effective July 1, 2003 with our adoption of SFAS No. 150. See Note 1 to our Consolidated Financial Statements.

For additional information regarding our debt securities, see "Results of Operations - Gain (Loss) on Repurchase of Debt" and Note 16 to our Consolidated Financial Statements.

Lines of Credit and Other Secured Borrowings. We have obtained secured line of credit arrangements from unaffiliated financial institutions as follows at the dates indicated:

Borrowing Type	Collateral	Maturity	Interest Rate (1)	December 31,	
				2004	2003
Line of credit	Advances on loans serviced for others (2)	March 2004	LIBOR + 200 basis points	\$ --	\$ 68,548
Line of credit	Advances on loans serviced for others (2)	October 2004	LIBOR + 200 basis points	--	9,386
Senior secured credit agreement	Purchased mortgage servicing rights and advances on loans serviced for others (3)	April 2005	LIBOR + 162.5 or 225 basis points	24,218	35,321
Senior secured credit agreement	Purchased mortgage servicing rights	December 2005	LIBOR + 250 basis points	11,458	--

Installment notes	Purchased mortgage servicing rights	July 2004	2.81%	--	2,332
Mortgage note	Real estate - office building	May 2005	LIBOR + 350 basis points,	--	20,000
	building (4)		floor of 5.75%		
Mortgage note	Office building (5)	October 2014	5.62%	14,936	--
Secured loan	Trading securities - UK	November 2004	LIBOR + 275 basis points	--	11,562
	unrated subprime residuals				
Term loan	Loan receivable	March 2005	LIBOR + 250 basis points	--	3,235
				-----	-----
				\$ 50,612	\$ 150,384
				-----	-----

- (1) 1-month LIBOR was 2.40% and 1.12% at December 31, 2004 and December 31, 2003, respectively.
- (2) This line was fully repaid subsequent to December 31, 2003 and was not renewed.
- (3) Maximum amount of borrowing under this facility is \$70,000. We are currently in negotiations with the lender to possibly extend the maturity date and increase the maximum amount of borrowing.
- (4) We sold our office building located in Jacksonville, Florida in January 2004 and the buyer assumed this note at that time. See "Changes in Financial Condition - Real Estate".
- (5) Collateral represents our loan servicing call center located in Orlando, Florida. We entered into this mortgage in October 2004.

See "Liquidity, Commitments and Off-Balance Sheet Risks - Liquidity" for additional information regarding sources of funding.

Company Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company ("Capital Securities"). As indicated in "Debt Securities" above, the outstanding balance of the 10.875% Capital Securities due August 1, 2027 of \$56,249 has been classified as a liability effective July 1, 2003 upon our adoption of SFAS No. 150. See Notes 1 and 16 to the Consolidated Financial Statements. The outstanding balance of the 10.875% Capital Securities amounted to \$56,249 at December 31, 2003 and 2002. During 2002 we repurchased \$4,910 of the Capital Securities in the open market. See "Results of Operations -Gain (Loss) on Repurchase of Debt".

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

Minority Interest in Subsidiaries. Minority interest of \$1,530, \$1,286 and \$1,778 at December 31, 2004, 2003 and 2002, respectively, represents the investment by others in Global Servicing Solutions, LLC, which we formed during the third quarter of 2002 to establish, license and operate distressed asset management servicing companies in various countries around the world. See the Principles of Consolidation section of Note 1 to our Consolidated Financial Statements.

Stockholders' Equity. Stockholders' equity amounted to \$330,108 at December 31, 2004 as compared to \$317,258 at December 31, 2003 and \$310,718 at December 31, 2002. The \$12,851 increase in stockholders' equity during 2004 was primarily due to net income of \$57,724, the issuance of 543,260 shares of common stock as a result of stock option exercises and the issuance of 203,088 shares of restricted stock to employees as part of our annual incentive awards, offset in large part by our repurchase of 5,481,100 shares of common stock. See Consolidated Statements of Changes in Stockholders' Equity, which provides the details of changes in stockholders' equity for the past three years, and Notes 1 and 21 to our Consolidated Financial Statements.

ASSET AND LIABILITY MANAGEMENT

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. Our objective is to control risks associated with interest rate and foreign currency exchange rate movements. Our Asset/Liability Management Committee (the "Committee"), which is composed of certain of our officers, formulates and monitors our asset and liability management strategy in accordance with policies approved by our Board of Directors. The Committee meets to review, among other things, the sensitivity

of our assets and liabilities to interest rate changes and foreign currency exchange rate changes, the book and market values of assets and liabilities, unrealized gains and losses, including those attributable to hedging transactions, purchase and sale activity, and maturities of investments and borrowings. The Committee also approves and establishes pricing and funding decisions with respect to overall asset and liability composition.

The Committee's methods for evaluating interest rate risk include an analysis of the our interest rate sensitivity "gap," which is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

The following table sets forth the estimated maturity or repricing of our interest-earning assets and interest-bearing liabilities at December 31, 2004. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual terms of the assets and liabilities, except:

- . Adjustable-rate loans, performing discount loans and securities are included in the period in which they are first scheduled to adjust and not in the period in which they mature,
- . Fixed-rate mortgage-related securities reflect prepayments that were estimated based on analyses of broker estimates, the results of a prepayment model we use and empirical data,
- . Non-performing discount loans reflect the estimated timing of resolutions that result in repayment to us,
- . NOW and money market checking deposits and savings deposits, which do not have contractual maturities, reflect estimated levels of attrition, which are based on our detailed studies of each such category of deposit and,
- . Escrow deposits and other non interest-bearing checking accounts, which amounted to \$130,491 at December 31, 2004, are excluded.

We believe that these assumptions approximate actual experience and consider them reasonable; however, the interest rate sensitivity of our assets and liabilities in the table could vary substantially if we were to use different assumptions or actual experience differs from the historical experience on which we based the assumptions.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

	December 31, 2004				
	Within Three Months	Four to Twelve Months	More Than One Year to Three Years	Three Years and Over	Total
Rate-Sensitive Assets:					
Interest-earning deposits	\$ 116,206	\$ --	\$ --	\$ --	\$ 116,206
Trading securities	24,303	47,222	39,542	14,675	125,742
Investment securities, net	5,859	2,877	--	--	8,736
Loans, net (1)	234	529	1,187	1,842	3,792
Match funded loans (1)	4,134	--	--	--	4,134
Total rate-sensitive assets	150,736	50,628	40,729	16,517	258,610
Rate-Sensitive Liabilities:					
NOW and money market checking deposits	10,418	244	521	1,358	12,541
Savings deposits	4,891	259	513	911	6,574
Certificates of deposit	109,971	91,884	68,706	7,110	277,671

Total interest-bearing deposits	125,280	92,387	69,740	9,379	296,786
Match funded liabilities	244,327	--	--	--	244,327
Lines of credit and other secured borrowings ...	24,218	11,458	--	14,936	50,612
Debt securities	--	--	--	231,249	231,249
	-----	-----	-----	-----	-----
Total rate-sensitive liabilities	393,825	103,845	69,740	255,564	822,974
	-----	-----	-----	-----	-----
Interest rate sensitivity gap (2)	\$ (243,089)	\$ (53,217)	\$ (29,011)	\$ (239,047)	\$ (564,364)
	-----	-----	-----	-----	-----
Cumulative interest rate sensitivity gap	\$ (243,089)	\$ (296,306)	\$ (325,317)	\$ (564,364)	
	-----	-----	-----	-----	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets	(94.00)%	(114.58)%	(125.79)%	(218.23)%	
AS OF DECEMBER 31, 2003					
Cumulative interest rate sensitivity gap	\$ (372,312)	\$ (505,845)	\$ (615,111)	\$ (657,002)	
	-----	-----	-----	-----	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets	(349.48)%	(474.82)%	(577.38)%	(616.71)%	

- (1) We have not reduced balances for non-performing loans.
- (2) We had no rate-sensitive financial instruments outstanding at December 31, 2004.

We have experienced a large negative interest rate sensitivity gap in recent years. The negative interest rate sensitivity gap reflects the economics of our Residential Loan Servicing business. At December 31, 2004, we had servicing advances of \$517,056 consisting of advances on loans and loans serviced for others of \$240,430 and match funded advances on loans serviced for others of \$276,626. Servicing advances do not bear interest but are generally funded with interest bearing liabilities. As a result, these instruments result in a negative interest rate sensitivity gap. In addition, we earn interest on float balances. We earn a short term, 30 days or less, rate of interest on float balances. These float balances, which are not included in our financial statements, amounted to \$867,884, \$1,429,986 and \$581,507 at December 31, 2004, 2003 and 2002, respectively. When the float balances are considered by adding them to the within three months rate-sensitive assets, the interest rate sensitivity gap shifts from negative to positive.

The OTS has established specific minimum guidelines for thrift institutions to observe in the area of interest rate risk as described in Thrift Bulletin No. 13a, "Management of Interest Rate Risk, Investment Securities, and Derivative Activities" ("TB 13a"). Under TB 13a, institutions are required to establish and demonstrate quarterly compliance with board-approved limits on interest rate risk that are defined in terms of net portfolio value ("NPV"). We use NPV to measure our exposure to interest rate risk. NPV is calculated as the net present value of expected cash flows from an institution's existing assets, less the net present value of the expected cash flows from existing liabilities, plus the net present value of expected cash inflows from existing financial derivatives and off-balance sheet contracts. Cash flows for each asset and liability are based on the contractual rates and terms at the individual asset and liability level. These cash flows are discounted to the present period using a discount rate that is relevant to the particular asset or liability, to arrive at the base case scenario. Deposits instruments are discounted using their annual percentage rate paid to the depositor, loans at their contractual interest rate. Residual and subordinate securities are discounted at rates ranging from 18% to 21% depending on the composition of their underlying collateral and its performance.

The NPV model does not value new business activity or other projected or possible changes in the company's balance sheet. Rather, it takes a snapshot view of the portfolio at each quarter-end and estimates its economic value at that time, and the value of the portfolio under the different interest rate scenarios. The model estimates the current, or base case, economic value of each type of asset, liability and off-balance sheet contract at the end of each quarter.

NPV is useful in assessing interest rate risk in that it measures how changes in interest rates might affect the economic value of a portfolio of assets, liabilities and off balance sheet contracts. By recalculating NPV under various interest rate scenarios we can see the consequences of our business strategy under several possible alternative courses of interest rates, and evaluate the extent to which we may want to alter our interest rate exposure through hedging or other techniques.

The board-approved limits specify the minimum net portfolio value ratio ("NPV Ratio") allowable under current interest rates and hypothetical interest rate scenarios. An institution's NPV Ratio for a given interest rate scenario is calculated by dividing the NPV that would result in that scenario by the present value of the institution's assets in that same scenario. The hypothetical

scenarios are represented by immediate, permanent, parallel movements (shocks) in the term structure of interest rates of plus 100, 200 and 300 basis points and minus 100 basis points from the actual term structure observed at quarter end. The NPV Ratio may be interpreted as an indicator of capital strength in each scenario: the higher the NPV Ratio, the greater is the institution's ability to weather negative events. The change in an institution's NPV Ratio across the various scenarios gives an indication of the institutions capacity to withstand interest rate stress. The current NPV Ratio for each of the five rate scenarios and the corresponding limits approved by the Board of Directors, as applied to Ocwen Financial Corporation and its subsidiaries, are as follows at December 31, 2004:

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(Dollars in thousands, except share data)

Rate Shock in basis points	Board Limits (minimum NPV Ratios)	Current NPV Ratios
+300	5.00%	30.60%
+200	6.00%	29.33%
+100	7.00%	27.93%
0	8.00%	25.84%
-100	7.00%	22.97%

The Committee also regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income or expense and NPV and evaluating such impacts against the maximum potential changes in net interest income and NPV that is authorized by the Board of Directors, as applied to Ocwen Financial Corporation and its subsidiaries. We calculate the cash flows associated with the loan portfolios and securities based on prepayment and default rates that vary by asset. We generate projected losses, as well as prepayments, based upon the actual experience with the subject pool, as well as similar, more seasoned pools. To the extent available, we use loan characteristics such as loan-to-value ratio, interest rate, credit history, prepayment penalty terms and product types to produce the projected loss and prepayment assumptions that are included in the cash flow projections of the securities. When we shock interest rates we further adjust these projected loss and prepayment assumptions. The base interest rate scenario assumes interest rates at December 31, 2004. The base case net interest expense is a projection of interest for the following 12 months based on the net interest income expense in our consolidated statement of operations for the last month of the year. A weighted average rate of interest is calculated based on the interest rate sensitivity gap of our rate sensitive assets and liabilities that are scheduled to mature over the first twelve months following the end of the year. The weighted average interest rate is then applied against the interest rate sensitivity gap for this twelve month period to determine the base case net interest expense.

An interest rate sensitivity gap is calculated for each interest rate scenario, and a hypothetical net interest expense is calculated based upon the weighted average interest rate. The result is then compared to the base case net interest expense to determine the percentage increase or decrease in net interest expense that each scenario produces relative to the base case. The following table quantifies the potential changes in net interest expense and NPV should interest rates go up or down (shocked) 300 or 100 basis points, respectively, assuming the yield curves of the rate shocks will be parallel to each other. Actual results of Ocwen Financial Corporation and its subsidiaries could differ significantly from the results estimated in this table:

Rate Shock in basis points	Estimated Changes in	
	Net Interest Expense (1)	NPV
+300	1890.24%	22.51%
+200	1260.16%	16.17%
+100	630.08%	9.36%
0	0.00%	0.00%
-100	(630.08)%	(12.77)%

(1) The base case interest was based on net interest income of only \$73 for the month of December 2004. Therefore, the estimated changes in net

interest expense expressed as a percent are significant.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

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The following table shows our financial instruments that are sensitive to changes in interest rates, categorized by expected maturity or repricing characteristics, and the fair values of those instruments at December 31, 2004:

Expected Maturity Date at December 31, 2004 (1)								
	2005	2006	2007	2008	2009	Thereafter	Total Balance	Fair Value
Rate-Sensitive Assets:								
Interest-earning deposits	\$ 116,206	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 116,206	\$ 116,206
Average interest rate	0.75%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.75%
Trading securities	71,525	31,319	8,223	4,679	2,288	7,708	125,742	125,742
Average interest rate	4.77%	6.51%	14.65%	16.09%	19.92%	22.46%	22.46%	7.63%
Investment securities, net	8,736	--	--	--	--	--	8,736	8,736
Average interest rate	3.64%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	3.64%
Loans, net (2)	763	728	459	339	292	1,211	3,792	3,870
Average interest rate	5.00%	3.00%	4.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Match funded loans (2)	4,134	--	--	--	--	--	4,134	4,134
Average interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total rate-sensitive assets	\$ 201,364	\$ 32,047	\$ 8,682	\$ 5,018	\$ 2,580	\$ 8,919	\$ 258,610	\$ 258,688
Rate-Sensitive Liabilities:								
NOW and money market deposits ..	\$ 10,662	\$ 282	\$ 240	\$ 203	\$ 173	\$ 981	\$ 12,541	\$ 12,184
Average interest rate	0.66%	0.25%	0.25%	0.25%	0.25%	0.25%	0.60%	0.60%
Savings deposits	5,150	285	228	182	146	583	6,574	6,487
Average interest rate	1.07%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
Certificates of deposit	201,855	46,697	22,008	4,713	130	2,268	277,671	280,659
Average interest rate	1.20%	0.88%	0.65%	0.17%	0.11%	13.00%	1.18%	1.18%
Total interest-bearing deposits	217,667	47,264	22,476	5,098	449	3,832	296,786	299,330
Match funded liabilities	244,327	--	--	--	--	--	244,327	244,327
Average interest rate	3.32%	0.00%	0.00%	0.00%	0.00%	0.00%	3.32%	3.32%
Lines of credit and other secured borrowings	35,676	--	--	--	--	14,936	50,612	50,612
Average interest rate	4.52%	0.00%	0.00%	0.00%	0.00%	5.62%	4.84%	4.84%
Debt securities	--	--	--	--	175,000	56,249	231,249	228,003
Average interest rate	0.00%	0.00%	0.00%	0.00%	3.00%	10.88%	4.92%	4.92%
Total rate-sensitive liabilities	\$ 497,670	\$ 47,264	\$ 22,476	\$ 5,098	\$ 175,449	\$ 75,017	\$ 822,974	\$ 822,272

- Expected maturities are contractual maturities adjusted for prepayments of principal. We use certain assumptions to estimate fair values and expected maturities. For assets, expected maturities are based upon contractual maturity, projected repayments and prepayments of principal. We base the prepayment experience reflected herein on our historical experience. The actual maturities of these instruments could vary substantially if future prepayments differ from our historical experience.
- We have not reduced balances for non-performing loans.

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The expected maturity or repricing dates of interest rate-sensitive assets and liabilities as of December 31, 2004, 2003 and 2002 compare as follows:

	1st Year	2nd Year	3rd Year	4th Year	5th Year	Thereafter	Total
Total rate-sensitive assets:							
2004							
Amount	\$ 201,364	\$ 32,047	\$ 8,682	\$ 5,018	\$ 2,580	\$ 8,919	\$ 258,610
Percent of total	77.86%	12.39%	3.36%	1.94%	1.00%	3.45%	100.00%
2003							

Amount	\$ 50,705	\$ 21,938	\$ 8,858	\$ 5,836	\$ 3,744	\$ 15,453	\$ 106,534
Percent of total	47.59%	20.59%	8.31%	5.48%	3.51%	14.52%	100.00%
2002							
Amount	\$ 216,990	\$ 47,774	\$ 9,460	\$ 6,198	\$ 4,494	\$ 17,888	\$ 302,804
Percent of total	71.66%	15.78%	3.12%	2.05%	1.48%	5.91%	100.00%
Total rate-sensitive liabilities:							
2004							
Amount	\$ 497,670	\$ 47,264	\$ 22,476	\$ 5,098	\$ 175,449	\$ 75,017	\$ 822,974
Percent of total	60.47%	5.74%	2.73%	0.62%	21.32%	9.12%	100.00%
2003							
Amount	\$ 556,550	\$ 112,780	\$ 27,283	\$ 7,425	\$ 2,326	\$ 57,172	\$ 763,536
Percent of total	72.89%	14.77%	3.57%	0.97%	0.30%	7.50%	100.00%
2002							
Amount	\$ 558,547	\$ 79,554	\$ 62,929	\$ 1,852	\$ 4,213	\$ 21,295	\$ 728,384
Percent of total	79.69%	10.92%	8.64%	0.25%	0.58%	2.92%	100.00%

The Committee is authorized to utilize a wide variety of off-balance sheet financial techniques to assist it in the management of interest rate risk and foreign currency exchange rate risk. These techniques include interest rate exchange contracts or "swap" agreements, interest rate caps and floors, U.S. Treasury interest rate futures contracts, foreign currency futures contracts, foreign currency forwards and European swaptions and put options.

Interest Rate Risk Management. In general, we manage our interest rate risk by monitoring the extent of our exposure to changes in interest rates as a whole and in relation to specific transactions. As a whole, we consider the extent to which we have an overall positive or negative interest rate gap, including balances in the float accounts. We may manage our overall interest rate exposure by entering into derivative contracts. For example, during 2003, we entered into interest rate swaps to receive a two-year fixed interest rate and pay a short-term interest rate that reduced the size of the positive 3-month gap and reduced the size of the negative 1-3 year gap. These swaps, which were not accounted for as hedging transactions, were subsequently closed out prior to December 31, 2003 at a gain of \$1,076.

In addition, during most of 2003 we held interest rate cap and interest rate floor contracts that were closed out in October 2003. The cap and floor transactions had been executed in prior years in connection with two specific financing transactions. The purpose of the derivative instruments was to economically hedge interest rate exposure. In one case we purchased interest rate caps to hedge our exposure to increasing interest rates arising from our issuance of floating rates notes. In the second case we purchased interest rate floors to hedge our exposure to declining interest rates arising from our issuance of fixed rate notes. See the "Derivative Financial Instruments" section of Note 1 and the "Interest Rate Risk Management" section of Note 18 to our Consolidated Financial Statements.

Foreign Currency Exchange Rate Risk Management. We have entered into foreign currency futures to hedge our net investments in foreign subsidiaries that own residual securities backed by subprime residential loans originated in the UK and the shopping center located in Halifax, Nova Scotia. Our principal exposure to foreign currency exchange rates exists with the British Pound versus the U.S. dollar and the Canadian Dollar versus the U.S. dollar. Our policy is to periodically adjust the amount of foreign currency derivative contracts that we have entered into in response to changes in our recorded investment in these foreign entities as well as to changes in our assets denominated in a foreign currency. Our net exposures are subject to gain or loss if foreign currency exchange rates fluctuate. See the "Derivatives Financial Instruments" section of Note 1 and the "Foreign Currency Exchange Rate Risk Management" section of Note 18 to our Consolidated Financial Statements.

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LIQUIDITY, COMMITMENTS AND OFF-BALANCE SHEET RISKS

Liquidity. Our primary sources of funds for liquidity are:

- . Lines of credit and other secured borrowings
- . Match funded debt
- . Debt securities
- . Deposits
- . Servicing fees
- . Payments received on loans and securities
- . Proceeds from sales of assets

We closely monitor our liquidity position and ongoing funding requirements. At December 31, 2004, we had \$274,111 of unrestricted cash and cash equivalents and \$61,095 of short-term investment grade securities. Among the risks and challenges associated with our funding activities are the following:

- . Scheduled maturities of all certificates of deposit for 2005, 2006 and thereafter amount to \$201,934, \$47,006 and \$28,731, respectively. However, as noted in "Banking Operations" debanking, if successful, will require that we make a cash payment to the purchaser of our branch that will be based in part on the amount of deposits assumed.
- . Cash requirements to fund our acquisition of additional servicing rights and related advances.
- . The maturity of existing collateralized lines of credit and other secured borrowings totaling \$35,676 at various times in 2005.
- . Ongoing cash requirements to fund operations of our holding company.
- . Potential extension of resolution and sale timelines for non-core assets.

Our reliance on deposits has been reduced through sales of non-core assets and by diversifying our funding sources, including obtaining credit facilities for servicing rights and advances. If, as described under "Banking Operations", we are successful in our de-banking efforts and cease to control a federal savings bank, we would no longer be able to rely on deposits obtained in the United States through the Bank as a source of funding.

Alternative sources of corporate funding that have been secured recently include the following:

- . On July 28, 2004 we issued \$175,000 aggregate principal amount of 3.25% Convertible Notes due 2024. The notes are convertible at the option of the holders, if certain conditions are met, into shares of our common stock. We have used 25% of the gross proceeds of the sale of the Convertible Notes to repurchase, in privately negotiated transactions concurrent with the private placement of the Convertible Notes, 4,850,000 shares of our common stock at a price of \$9.02 per share. We have used the remaining proceeds, net of underwriting discount and other expenses, primarily to repay maturing deposits and other liabilities, increase our cash and invest in short-term AAA-rated securities. See "Debt Securities" for additional information regarding the Convertible Notes.
- . In October 2004, we obtained a mortgage on our call center in Orlando, Florida in the amount of \$15,000. The note matures in October 2014 and interest accrues at an annual fixed rate of 5.62%. The balance outstanding at December 31, 2004 was \$14,936.

In the last several years, our Residential Loan Servicing business has grown through the purchase of servicing rights. Servicing rights entitle the owner to earn servicing fees and other types of ancillary income and impose various obligations on the servicer. Among these are the obligations to advance our own funds to meet contractual principal and interest payments for certain investors and to pay taxes, insurance and various other items that are required to preserve the assets being serviced.

Our ability to expand our Residential Loan Servicing business depends in part on our ability to obtain additional financing to purchase new servicing rights and to fund servicing advances. We currently use a variety of sources of debt to finance these assets, including match funded agreements, deposits, credit facilities and seller financing. Our credit facilities provide financing to us at amounts that are less than the full value of the related servicing assets that serve as collateral for the credit facilities. If we cannot replace or renew these sources as they mature or obtain additional sources of financing, we may be unable to acquire new servicing rights or make the associated advances. Credit facilities directly related to our Residential Loan servicing business is summarized as follows:

- . Under a match funding agreement that we entered into on December 20, 2001, we are eligible to sell advances on loans serviced for others up to a maximum debt balance of \$200,000 at any one time. At December 31, 2004, we had \$90,851 of match funded liabilities outstanding under this facility, which will mature in January 2006. The sales of advances do not qualify as sales for accounting purposes; therefore, we report them as secured borrowings with pledges of collateral.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

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- . In April 2003, we also entered into a \$60,000 secured in credit agreement that may be used to fund servicing advances and acquisitions of servicing rights. The agreement matured in April 2004 and was renewed through April 2005. The size of the facility was increased to \$70,000. At December 31, 2004, we had a balance outstanding under this agreement of \$24,218.
- . In December 2003, we entered into a \$12,500 secured credit agreement under which any borrowings are collateralized by mortgage servicing rights. In January 2004, we borrowed \$12,500 under this facility and the balance outstanding as of December 31, 2004 was \$11,458.
- . On November 17, 2004, we entered into a match funded agreement under which we transferred certain of our advances on loans serviced for others. As of December 31, 2004, proceeds received in connection with this transfer of advances were \$149,342. As of December 31, 2004, there was \$25,658 of capacity available under this facility. The transfers of advances under this agreement do not qualify as sales for accounting purposes because we retain effective control of the advances. Accordingly, we report the advances transferred as match funded assets and the amount of proceeds we receive from the transfers as a secured borrowing with pledge of collateral. The \$100,000 term note under this facility has a stated maturity of October 2013. The variable funding note has a stated maturity of November 2010.

We believe that our existing sources of liquidity, including internally generated funds, will be adequate to fund our planned activities for the foreseeable future, although there can be no assurances in this regard. As discussed above, we continue to evaluate other sources of liquidity, such as debt securities, lines of credit from unaffiliated parties, match funded debt and other secured borrowings.

Our operating activities provided (used) \$(23,287), \$47,358 and \$249,166 of cash flows during 2004, 2003 and 2002, respectively. The decline in operating cash flows in 2004 as compared to 2003 is in large part due to purchases of investment grade securities (primarily CMOs) during 2004 to meet the Bank's QTL requirements. During 2002 cash was generated from operating activities, despite the net loss recorded, for two reasons. First, the net losses included a significant amount of non-cash reserves and impairment charges. Second, our securities portfolio generated positive cash flow through sales and interest and principal payments.

Our investing activities provided (used) cash flows totaling \$39,625, \$(19,164) and \$75,940 during 2004, 2003 and 2002, respectively. During the foregoing years, cash flows from our investing activities were provided primarily from principal payments on our loans, and proceeds from sales of loans and real estate. We used cash flows from our investing activities primarily to purchase mortgage servicing rights and fund loans made to facilitate sales of real estate. The increase in net cash provided by investing activities in 2004 as compared to 2003 is primarily due to an increase in proceeds from sales of real estate and a decline in purchases of mortgage servicing rights.

Our financing activities provided (used) cash flows of \$41,583, \$9,489 and \$(393,514) during 2004, 2003 and 2002, respectively. New sources of financing in 2004, including the match funded agreements and our issuance of \$175,000 of 3.25% Convertible Notes, more than offset the run-off of deposits, declines in secured borrowings and repurchases of common stock. Cash flows from financing activities in 2003 reflected our efforts at that time to pay off our high-yield debt and replace it with less expensive sources of financing including secured credit facilities and non-brokered deposits. Financing cash flows in 2002 were primarily used to repay maturing brokered certificates of deposit, repurchase high-yield debt and repay securities sold under agreements to repurchase.

Negative rating actions may adversely impact our business and financing activities. The following is a summary of recent rating actions by rating agencies:

- . The U.S. Department of Housing and Urban Development, Freddie Mac and Fannie Mae have approved the Bank as a loan servicer. Standard & Poor's

has rated the Bank as "Strong" as a Residential Subprime Servicer and Residential Special Servicer. "Strong" represents Standard & Poor's highest ratings category. On April 23, 2004, Standard & Poor's placed these ratings on watch with negative implications.

- . Moody's has rated the Bank as "SQ2" as a Residential Subprime Servicer and as a Residential Special Servicer. "SQ2" represents Moody's above average rating category.
- . Fitch has rated us "RPS2" for Residential Subprime Servicing and "RSS2" for Residential Special Servicing. These represent Fitch's second highest categories, respectively. On March 1, 2004, Fitch placed our "RPS2" rating for Residential Subprime Servicing and our "RSS2" rating for Residential Special Servicing on negative watch. On December 29, 2004, Fitch removed our Residential Subprime Servicing and Residential Special Servicing ratings from negative watch.

These rating actions have not had a material impact on our business or financing activities. Certain of our servicing agreements require minimum servicer ratings; we remain well in excess of those requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -

(Dollars in thousands, except share data)

Commitments. The following table sets forth certain information regarding amounts we owe to others under contractual obligations as of December 31, 2004 based on maturities and payment due dates:

Contractual Obligations	Less Than One Year	After One Year Through Three Years	After Three Years Through Five Years	After Five Years	Total
Convertible Notes.....	\$ --	\$ --	\$ --	\$ 175,000	\$ 175,000
Capital Trust Securities.....	--	--	--	56,249	56,249
Operating leases.....	3,631	4,669	2,071	1,708	12,079
Certificates of deposit.....	201,934	68,376	7,361	--	277,671
Lines of credit and other secured borrowings.....	35,676	--	--	14,936	50,612
Total.....	\$ 241,241	\$ 73,045	\$ 9,432	\$ 247,893	\$ 571,611

We believe that we have adequate resources to fund all unfunded commitments to the extent required and meet all contractual obligations as they come due. See Note 27 to our Consolidated Financial Statements for additional information regarding commitments and contingencies.

Off-Balance Sheet Risks. In addition to commitments to extend credit, we are party to various off-balance sheet financial instruments in the normal course of our business to manage our interest rate risk and foreign currency exchange rate risk. See Note 27 to our Consolidated Financial Statements and "Asset and Liability Management" above.

We conduct business with a variety of financial institutions and other companies in the normal course of business, including counterparties to our off-balance sheet financial instruments. We are subject to potential financial loss if the counterparty is unable to complete an agreed upon transaction. We seek to limit counterparty risk through financial analysis, dollar limits and other monitoring procedures.

REGULATORY CAPITAL AND OTHER REQUIREMENTS

See Note 22 to our Consolidated Financial Statements.

RECENT ACCOUNTING DEVELOPMENTS

For information relating to the effects of our adoption of recent accounting standards, see Note 1 to our Consolidated Financial Statements.

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, including, but not limited to the following:

- . Expectations regarding the earnings stream from our fee for service businesses,
- . Estimates regarding the market opportunity for our technology products,
- . Predictions as to the potential business opportunities in business process outsourcing,
- . Assumptions regarding the key elements of our strategy to grow third party outsourcing solutions through expanding core businesses,
- . Expectations regarding the trends in net interest expense and negative net interest margin,
- . Expectations regarding the outcome of pending litigation and dispute resolution,
- . Predictions regarding sales of our commercial and affordable housing assets and
- . Plans to debank and secure sources of financing alternative to bank deposits.

Forward-looking statements are not guarantees of future performance and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially. Important factors that could cause actual results to differ materially from those suggested by the forward-looking statements include, but are not limited to, the following:

- . General economic and market conditions,
- . Prevailing interest or currency exchange rates,
- . Availability of servicing rights for purchase,
- . Governmental regulations and policies,
- . International political and economic uncertainty,
- . Availability of adequate and timely sources of liquidity,
- . Uncertainty related to dispute resolution and litigation and
- . Real estate market conditions and trends.

Further information on the risks specific to our business are detailed within this report and our other reports and filings with the Securities and Exchange Commission, including our periodic reports on Form 10-K, Form 10-Q and Form 8-K. The forward-looking statements speak only as of the date they are made and should not be relied upon. OCN undertakes no obligation to update or revise the forward-looking statements.

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[LOGO OF OCWEN(R)]

OCWEN FINANCIAL CORPORATION

REPORT OF MANAGEMENT

The management of Ocwen Financial Corporation is responsible for the accompanying consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America applied on a consistent basis. In preparing the financial statements, it is necessary for management to make informed judgments and best estimates giving due consideration to materiality. In the opinion of management, the consolidated financial statements fairly reflect our financial position and results of operations. Information, both financial and non-financial, presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

PricewaterhouseCoopers LLP was engaged to perform an audit of the consolidated financial statements in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). The Company also maintains a professional staff of internal auditors who conduct financial, procedural and special audits and make recommendations on both administrative and accounting controls.

The Audit Committee of the Board of Directors is comprised solely of independent directors and is responsible for overseeing and monitoring the quality of our accounting and auditing practices. The independent accountants and internal auditors have direct access to the Audit Committee and meet periodically with the committee to discuss the scope and results of their work, internal controls over financial reporting and financial reporting matters.

/s/ William C. Erbey

 William C. Erbey
 Chairman and Chief Executive Officer

/s/ Robert J. Leist

 Robert J. Leist, Jr.
 Vice President & Chief
 Accounting Officer and
 Acting Chief Financial
 Officer

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Ocwen Financial Corporation

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, of comprehensive income (loss), of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Ocwen Financial Corporation and its subsidiaries (the "Company") at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2002, the Company changed its method of accounting for goodwill and intangible assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", and on July 1, 2003, its classification of Capital Securities in accordance with SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity".

PRICEWATERHOUSECOOPERS LLP
 West Palm Beach, Florida
 March 15, 2005

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
 (Dollars in thousands, except share data)

	December 31, 2004	December 31, 2003
	-----	-----
ASSETS		
Cash and amounts due from depository institutions	\$ 171,645	\$ 229,606
Interest earning deposits	116,206	324
Trading securities, at fair value		
Investment grade securities	86,215	6,679
Subordinates and residuals	39,527	42,841
Real estate	18,732	103,943
Affordable housing properties	5,641	7,410
Loans, net	3,792	28,098
Match funded assets (including advances on loans serviced for others of \$276,626 in 2004 and \$105,788 in 2003)	280,760	130,087
Premises and equipment, net	37,440	41,943
Advances on loans and loans serviced for others	240,430	374,769
Mortgage servicing rights	131,409	166,495
Receivables	126,719	74,315
Other assets	68,977	33,608
	-----	-----
Total assets	\$ 1,327,493	\$ 1,240,118
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY LIABILITIES		
Deposits	\$ 301,299	\$ 446,388

Escrow deposits	125,977	116,444
Match funded liabilities	244,327	115,394
Lines of credit and other secured borrowings	50,612	150,384
Debt securities	231,249	56,249
Accrued interest payable	6,173	4,789
Accrued expenses, payables and other liabilities	36,218	31,926
Total liabilities	995,855	921,574
Minority interest in subsidiaries	1,530	1,286
COMMITMENTS AND CONTINGENCIES (Note 27)		
STOCKHOLDERS' EQUITY		
Common stock, \$0.1 par value; 200,000,000 shares authorized; 62,739,478 and 67,467,220 shares issued and outstanding at December 31, 2004 and December 31, 2003, respectively	627	675
Additional paid-in capital	181,336	225,559
Retained earnings	148,133	90,409
Accumulated other comprehensive income (loss), net of taxes	12	615
Total stockholders' equity	330,108	317,258
Total liabilities and stockholders' equity	\$ 1,327,493	\$ 1,240,118

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

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except share data)

	For the Years Ended December 31,		
	2004	2003	2002
REVENUE			
Servicing and related fees	\$ 160,062	\$ 139,744	\$ 127,787
Vendor management fees	46,986	29,842	18,299
Gain (loss) on trading and match funded securities, net	(537)	3,344	7,012
Valuation gains (losses) on real estate	(5,110)	(7,430)	(35,002)
Gain (loss) on sales of real estate	1,556	466	4,098
Operating income (loss) from real estate	605	5,128	7,864
Gain (loss) on debt repurchases	--	(445)	(1,461)
Other income	19,465	6,848	5,415
Non-interest revenue	223,027	177,497	134,012
Interest income	23,676	24,122	37,235
Interest expense	30,364	38,716	55,762
Net interest income (expense) before provision for loan losses	(6,688)	(14,594)	(18,527)
Provision for loan losses	(1,881)	(2,684)	13,629
Net interest income (expense) after provision for loan losses	(4,807)	(11,910)	(32,156)
Total revenue	218,220	165,587	101,856
NON-INTEREST EXPENSE			
Compensation and employee benefits	87,284	72,221	77,778
Occupancy and equipment	15,933	13,159	11,843
Technology and communication costs	26,049	21,121	25,270
Loan expenses	27,313	14,252	12,605
Loss (gain) on investments in affordable housing properties	(255)	285	21,915
Writeoff of excess of purchase price over net assets acquired	--	--	2,231
Professional services and regulatory fees	26,589	26,054	16,383
Other operating expenses	10,069	10,409	9,601
Non-interest expense	192,982	157,501	177,626
Distributions on Capital Securities	--	3,058	6,287
Income (loss) before minority interest, income taxes and effect of change in accounting principle	25,238	5,028	(82,057)
Minority interest in net income (loss) of consolidated subsidiaries	(162)	(492)	(99)
Income tax expense (benefit)	(32,324)	748	2,983
Net income (loss) before effect of change in accounting principle	57,724	4,772	(84,941)
Effect of change in accounting principle, net of taxes	--	--	16,166
Net income (loss)	\$ 57,724	\$ 4,772	\$ (68,775)
EARNINGS (loss) PER SHARE			
Basic			
Net income (loss) before effect of change in accounting principle	\$ 0.88	\$ 0.07	\$ (1.26)
Effect of change in accounting principle, net of taxes	--	--	0.24
Net income (loss)	\$ 0.88	\$ 0.07	\$ (1.02)
Diluted			
Net income (loss) before effect of change in accounting principle	\$ 0.82	\$ 0.07	\$ (1.26)
Effect of change in accounting principle, net of taxes	--	--	0.24

Net income (loss)	\$ 0.82	\$ 0.07	\$ (1.02)
=====			
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	65,811,697	67,166,888	67,321,299
Diluted	73,197,255	68,063,873	67,321,299

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

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands)

	For the Years Ended December 31,		
	2004	2003	2002
	-----	-----	-----
Net income (loss)	\$ 57,724	\$ 4,772	\$ (68,775)
Other comprehensive income (loss), net of taxes			
Net change in unrealized foreign currency translation loss (net of tax benefit (expense) of \$354, \$(459) and \$43 for 2004, 2003 and 2002, respectively)	(603)	661	75
	-----	-----	-----
Comprehensive income (loss)	\$ 57,121	\$ 5,433	\$ (68,700)
	=====	=====	=====

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

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 and 2002
(Dollars in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss), Net of Taxes	Total
	Shares	Amount				
Balances at December 31, 2001	67,289,313	\$ 673	\$ 224,142	\$ 154,412	\$ (121)	\$ 379,106
Net loss	--	--	--	(68,775)	--	(68,775)
Exercise of common stock options	32,937	--	214	--	--	214
Directors' compensation	17,523	--	98	--	--	98
Other comprehensive income, net of taxes						
Change in unrealized foreign currency translation gain	--	--	--	--	75	75
	-----	-----	-----	-----	-----	-----
Balances at December 31, 2002	67,339,773	673	224,454	85,637	(46)	310,718
Net income	--	--	--	4,772	--	4,772
Issuance of restricted common stock awards to employees	236,461	2	955	--	--	957
Repurchase of common stock	(500,000)	(5)	(2,257)	--	--	(2,262)
Exercise of common stock options	359,419	4	2,325	--	--	2,329
Directors' compensation	31,567	1	82	--	--	83
Other comprehensive income, net of taxes						
Change in unrealized foreign currency translation gain	--	--	--	--	661	661
	-----	-----	-----	-----	-----	-----
Balances at December 31, 2003	67,467,220	675	225,559	90,409	615	317,258
Net income	--	--	--	57,724	--	57,724
Issuance of restricted common stock awards to employees	203,088	2	624	--	--	626
Repurchase of common stock	(5,481,100)	(55)	(49,394)	--	--	(49,449)
Exercise of common stock options	543,260	5	4,341	--	--	4,346
Directors' compensation	7,010	--	206	--	--	206
Other comprehensive income, net of taxes						
Change in unrealized foreign currency translation gain	--	--	--	--	(603)	(603)
	-----	-----	-----	-----	-----	-----
Balances at December 31, 2004	62,739,478	\$ 627	\$ 181,336	\$ 148,133	\$ 12	\$ 330,108
	=====	=====	=====	=====	=====	=====

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the Years Ended December 31,		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ 57,724	\$ 4,772	\$ (68,775)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities			
Net cash provided (used) by trading activities	(75,067)	20,807	186,511
Premium amortization (discount accretion) on securities, net	(1,319)	2,402	1,469
Amortization of servicing rights	96,036	93,558	58,153
Depreciation and amortization	13,345	13,530	11,887
Provision for loan losses	(1,881)	(2,684)	13,629
Valuation (gains) losses on real estate	5,110	7,430	35,002
(Gain) loss on trading and match funded securities, net	537	(3,344)	(7,012)
Provisions for losses on affordable housing properties	--	432	21,294
(Gain) loss on sale of real estate	(1,556)	(466)	(4,098)
(Gain) loss on sale of affordable housing properties	(965)	(1,050)	(444)
(Gain) loss on repurchase of debt	--	445	1,461
Effect of change in accounting principle before taxes	--	--	(15,000)
(Increase) decrease in match funded advances and advances on loans serviced for others, net	(36,499)	(92,532)	(4,945)
(Increase) decrease in receivables, net	(52,404)	4,584	20,845
(Increase) decrease in other assets, net	(35,369)	(4,281)	8,394
Increase (decrease) in accrued expense, interest payable and other liabilities, net	5,676	3,612	(5,439)
Other, net	3,345	143	(3,766)
Net cash provided (used) by operating activities	(23,287)	47,358	249,166
CASH FLOWS FROM INVESTING ACTIVITIES			
Principal payments received on match funded loans	5,757	13,736	16,490
Acquisition of match funded loans	(7,119)	--	--
Proceeds from sale of match funded loans	21,592	--	--
Investment in affordable housing properties	--	--	(3,687)
Proceeds from sale of affordable housing properties	327	5,257	25,017
Purchase of mortgage servicing rights	(60,950)	(88,829)	(128,891)
Proceeds from sale of loans	--	30,153	60,118
Principal payments received on loans	38,750	28,337	45,014
Purchases, originations and funded commitments on loans, net	(16,478)	(6,201)	(21,722)
Capital improvements to real estate	(2,682)	(8,837)	(9,340)
Proceeds from sale of real estate	70,504	17,573	105,743
Additions to premises and equipment	(7,594)	(10,353)	(12,802)
Acquisition of subsidiaries	(2,482)	--	--
Net cash provided (used) by investing activities	39,625	(19,164)	75,940

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

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

	For the Years Ended December 31,		
	2004	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in deposits and escrow deposits	(135,556)	51,876	(219,487)
Proceeds from (repayment of) securities sold under agreement to repurchase	--	--	(79,405)
Proceeds from (repayments of) lines of credit and other secured borrowings, net	(79,772)	67,638	(7,793)
Proceeds from issuance (repayments) of match funded liabilities, net	128,933	(31,677)	(9,837)
Issue (repayment) of debt securities, net	175,000	(77,420)	(77,095)
Exercise of common stock options	2,427	1,334	103
Repurchase of common stock	(49,449)	(2,262)	--
Net cash provided (used) by financing activities	41,583	9,489	(393,514)
Net increase (decrease) in cash and cash equivalents	57,921	37,683	(68,408)
Cash and cash equivalents at beginning of year	229,930	192,247	260,655
Cash and cash equivalents at end of year	\$ 287,851	\$ 229,930	\$ 192,247
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and amounts due from depository institutions	\$ 171,645	\$ 229,606	\$ 76,598
Interest-earning deposits	116,206	324	30,649
Federal funds sold and repurchase agreements	--	--	85,000

	----- \$ 287,851 -----	----- \$ 229,930 -----	----- \$ 192,247 -----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the period for			
Interest	\$ 28,980	\$ 41,362	\$ 61,163
Income tax refunds (payments)	(16,610)	(869)	2,444
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Assumption of line of credit by purchaser of real estate	20,000	--	--
Exchange of loans for real estate	4,771	--	--
Accounts receivable from sale of affordable housing properties	2,535	2,767	44,591
Real estate acquired through foreclosure	--	161	9,492
Exchange of real estate for loan	--	--	9,153
ACQUISITION OF BUSINESSES			
Fair value of assets acquired	(21,850)	--	--
Fair value of liabilities assumed	11,170	--	--
Cash paid	(10,680)	--	--
Less cash acquired	8,198	--	--
Net cash acquired (paid) for assets	\$ (2,482)	--	--

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

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2003 AND 2002
(Dollars in thousands, except share data)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

Ocwen Financial Corporation ("OCN") is a financial services holding company engaged in a variety of business activities related to residential and commercial mortgage servicing, real estate asset management, asset recovery, business process outsourcing and the marketing and sales of technology solutions to third parties. We also specialize in the related development of loan servicing technology and software for the mortgage and real estate industries. Our consolidated financial statements include the accounts of OCN and its subsidiaries. OCN owns directly and indirectly all of the outstanding common and preferred stock of its primary subsidiaries, Ocwen Federal Bank FSB (the "Bank"), Investors Mortgage Insurance Holding Company ("IMI"), Ocwen Technology Xchange, Inc. ("OTX"), Ocwen Asset Investment Corp. ("OAC") and Ocwen Financial Solutions Pvt. Limited ("India"). In 2002, we formed Global Servicing Solutions, LLC ("GSS"). We own 70% of GSS with the remaining 30% minority interest held by ML IBK Positions, Inc. ("Merrill Lynch"). We have eliminated all significant intercompany transactions and balances in consolidation.

The Bank is currently a federally chartered savings bank regulated by the Office of Thrift Supervision ("OTS"), however, we have filed an application with the OTS to turn in the Bank's thrift charter and terminate its status as a federal savings bank. See Note 22 for additional information.

RECLASSIFICATION

Certain amounts included in our 2003 and 2002 consolidated financial statements have been reclassified to conform to the 2004 presentation.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For purposes of reporting cash flows, our cash and cash equivalents include cash on hand, interest-bearing and non-interest-bearing deposits and all investments in highly liquid debt instruments that we purchased with an original maturity of three months or less. Cash flows associated with items we intended as hedges of identifiable transactions or events are classified in the same category as the cash flows from the items being hedged.

SHORT-TERM HIGHLY LIQUID INVESTMENTS

Our short-term highly liquid investments generally consist of federal funds sold and assets we purchased under agreements to resell. We invest in these assets to maximize the return on liquid funds. At December 31, 2004 and 2003, we had no short-term highly liquid investments. The average balance of our

investment in federal funds sold and assets purchased under agreements to resell amounted to \$155,519 and \$125,732 during 2004 and 2003, respectively.

The Federal Reserve System requires that the Bank maintain non-interest-earning cash reserves against certain of its transaction accounts and time deposit accounts. Such reserves totaled \$13,740 and \$9,383 at December 31, 2004 and 2003, respectively.

TRADING SECURITIES

We currently account for our investment grade, residual and subordinate securities as trading. We report securities in our statement of financial condition at fair value. We report changes in fair value in income in the period of change. We determine fair value based on either third party dealer quotations, where available, or internal values. Our internal valuations are determined using industry standard third party software or internally developed models. Expected future cash flows are estimated using assumptions such as discount rates, prepayment speeds and expected losses. Discount rates for the subordinate and residual securities range from 11% to 30%, and are determined based upon an assessment of general market conditions. The prepayment and loss assumptions are projected based on a comparison to actual historical performance curves.

Interest income on subordinate and residual securities is recognized through an "effective yield" method, with changes in expected future cash flows reflected in the yield on a prospective basis as required by Emerging Issues Task Force ("EITF") 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets". The prospective yield that is used to determine interest income is re-calculated each time the expected future cash flows change or the actual cash flows differ from projections. The newly calculated yield is used in the accrual of interest income for subsequent reporting periods.

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2004, 2003 AND 2002
(Dollars in thousands, except share data)

LOANS

We report loans at amortized cost, less an allowance for loan losses, discounts, deferred loan fees and undisbursed loan funds. We defer loan origination fees and certain direct loan origination costs and recognize them over the lives of the related loans as a yield adjustment that we include in interest income using the interest method applied on a loan-by-loan basis. We accrue interest income as it is earned. We place loans on non-accrual status after being delinquent greater than 89 days or earlier if the borrower is deemed by management to be unable to continue performance. When we place a loan on non-accrual status, we reverse interest accrued but not received. In addition, we suspend the amortization of deferred loan fees when we place a loan on nonaccrual status. We return loans to accrual status only when we reinstate the loan and have no doubt regarding ultimate collectibility. We report as interest income, gains on loans resolved and discharged through repayment of the loan in full or at a negotiated amount.

In situations where we foreclose upon the collateral, we transfer the loans to real estate upon receipt of title to the property.

ALLOWANCE FOR LOAN LOSSES

We maintain the allowance for loan losses at a level that, based upon our evaluation of known and inherent risks in the portfolio, we consider adequate to provide for probable losses. We establish specific valuation allowances for impaired loans in the amount by which the carrying value, before allowance for probable losses, exceeds the fair value of collateral less costs to dispose on an individual loan basis. In the case of single family residential mortgage loans, we generally evaluate for impairment as homogeneous pools of loans. We consider a loan to be impaired when, based upon current information and events, we believe that we will probably be unable to collect on a timely basis all amounts due according to the contractual terms of the loan agreement. We measure these impaired loans at the fair value of the collateral underlying the loans, less estimated disposal costs. We may leave impaired loans on accrual

status during the period we are pursuing repayment of the loan. We place these loans on non-accrual status at such time that either: (i) the loans become 90 days delinquent; or (ii) we determine that the borrower is incapable of, or has ceased efforts toward, curing the cause of the non-payment. We recognize impairment losses through an increase in the allowance for loan losses and a corresponding charge to the provision for loan losses. When we either sell, transfer to real estate or charge-off an impaired loan, we remove valuation allowance from the allowance for loan losses. Charge-offs occur when we consider loans, or a portion thereof, uncollectible and of such little value that we consider unwarranted their continuance as bankable assets. We base our ongoing evaluation of the allowance for loan losses upon an analysis of the portfolio, historical loss experience, economic conditions and trends, collateral values and other relevant factors. We may make subsequent adjustments to the allowance if these factors differ substantially from the assumptions used in making the evaluation.

MORTGAGE SERVICING RIGHTS

We acquire mortgage servicing rights, which we record at the price paid. We amortize mortgage servicing assets in proportion to and over the period of estimated net servicing income. We determine estimated net servicing income using the estimated future balance of the underlying mortgage loan portfolio, which, absent new purchases, declines over time from prepayments and scheduled loan amortization. We adjust amortization prospectively in response to changes in estimated projections of future cash flows. We evaluate the mortgage servicing assets for impairment based on the fair value of the servicing assets by strata. We stratify the servicing assets based on loan type. To the extent the carrying value of the servicing assets exceeds their fair value by strata, we establish a valuation allowance, which we may adjust in the future, as the value of the servicing assets increases or decreases. We estimate the fair value of our mortgage servicing rights based on the results of our internal valuation and an external valuation obtained from an independent third party valuation specialist. Our internal valuation is performed using an industry standard model, which calculates the present value of estimated future cash flows utilizing market based assumptions. The more significant assumptions used in our internal valuation include:

- . Prepayment speeds
- . Compensating interest expense
- . Delinquency experience
- . Discount rate
- . Interest rate used for computing the cost of servicing advances
- . Interest rate used for computing float income
- . Cost of servicing

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The significant cash inflows considered in our estimate of future cash flows include servicing fees, late fees, prepayment penalties, float income and other ancillary fees. Significant cash outflows include the cost of servicing, compensating interest payments and the cost of making service advances. Prepayment speeds and delinquency experience are derived from an industry standard model for each strata in our mortgage servicing rights. The discount rate, interest rate for the cost of financing advances, interest rate for float income and the cost of servicing are based on market assumptions provided by our third party valuation specialist. Our impairment analysis is performed after grouping our loans into the seven strata based on loan type, which represent the predominant risk characteristics of the underlying loans. The risk factors used to assign loans to strata include the credit score (FICO) of the borrower, the loan to value ratio, the type of asset (mortgage or non-mortgage) and the default risk. Our strata include:

- . Subprime
- . ALT A
- . High-loan-to-value
- . Re-performing
- . Special servicing
- . Non-residential mortgage
- . Other

MORTGAGE SERVICING FEES AND ADVANCES ON LOANS SERVICED FOR OTHERS

We earn fees for servicing mortgage loans. We collect servicing fees, generally expressed as a percent of the unpaid principal balance, from the borrowers' payments. We also include late fees, prepayment penalties, float income and other ancillary fees, net of compensating interest and amortization of servicing assets, in servicing income. During any period in which the borrower is not making payments, we are required under certain servicing agreements to advance our own funds to meet contractual principal and interest remittance requirements for certain investors, pay property taxes and insurance premiums and process foreclosures. We generally recover such advances from borrowers for reinstated and performing loans and from investors for foreclosed loans. We record a charge to earnings to the extent that we estimate that advances are uncollectible under provisions of the servicing contracts, taking into consideration historical loss and delinquency experience, length of delinquency and the amount of the advance.

REAL ESTATE

We account for real estate properties as held for sale in the period in which all of the following criteria are met:

- . Management, having the authority to approve the action, commits to a plan to sell the asset.
- . The property is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets.
- . An active program to locate a buyer and other actions required to complete the plan to sell the property have been initiated.
- . The sale of the property is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year.
- . The property is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
- . Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

If at any time the criteria in this paragraph are no longer met, a real estate property accounted for as held for sale is reclassified and accounted for as held and used. A property that is reclassified is measured at the lower of its (a) carrying amount before it was classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had it been continuously accounted for as held and used, or (b) fair value at the date of the asset is reclassified. A real estate property accounted for as held for sale is not depreciated and is recorded at the lower of its carrying amount or fair value less cost to sell.

We perform quarterly impairment evaluations of our real estate investments, including consideration of the status of the property vis a vis negotiations for sale to third party buyers. Our assessments of fair value are based on negotiated sales prices with third party buyers where applicable or, if not yet in active negotiations with buyers, external or internally developed appraised values. For properties accounted for as held and used, we recognize an impairment charge to earnings whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For properties accounted for as held for sale, we recognize decreases in the fair value as a valuation allowance on a property specific basis. We report subsequent increases in fair value as reductions in the valuation allowance, but only to the extent the valuation allowance reaches zero. We charge or credit to income such changes in the valuation allowance.

For all real estate properties, we charge expenditures for repairs and maintenance to operations as incurred but capitalize significant improvements. We classify leases as operating. We defer fees and costs incurred in the successful negotiation of leases and amortize them on a straight-line basis over

the terms of the respective leases. We report rental income on a straight-line basis over the terms of the respective leases. We recognize sales proceeds and related costs with passage of title to the buyer and, in cases where we finance the sale, receipt of sufficient down payment. For properties classified as held and used, we compute depreciation on a straight-line basis over the estimated useful lives of the assets.

Our investments in real estate partnerships are accounted for under the equity method of accounting. Under the equity method of accounting, we record an investment in the shares or other interests of an investee at cost of the shares or interests acquired and thereafter periodically increase (decrease) the investment by our proportionate share of earnings (losses) of the investee and decrease it by the dividends or distributions that we receive from the investee.

AFFORDABLE HOUSING PROPERTIES

Affordable housing partnerships own multi-family residential properties that have been allocated tax credits under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). The obligations of the partnership to sustain qualifying status of the properties covers a 15-year period; however, tax credits generally accrue over a 10-year period on a straight-line basis. We account for investments in affordable housing partnerships that we made on or after May 18, 1995 and in which we invest solely as a limited partner using the equity method. For our limited partnership investments made before this date, we record our receipt of income tax credits and other tax benefits on a level yield basis over the 15-year obligation period and report the tax credits and tax benefits net of amortization of our investment in the limited partnership as a reduction of income tax expense. We consolidate affordable housing partnerships in which we have invested as a limited partner and through a subsidiary act as the general partner, and include them in our consolidated financial statements. For all investments in affordable housing partnerships made after May 18, 1995, we capitalized interest expense and certain direct costs incurred during the pre-operating period.

We report affordable housing properties for which we have entered into an agreement to sell at the lower of cost or fair value less costs to sell. As of December 31, 2004, our investment in affordable housing properties consists of a 99.9% limited partnership interest in a single property, which we account for using the equity method.

EXCESS OF COST OVER NET ASSETS ACQUIRED

We report the excess of purchase price over net assets of acquired businesses ("goodwill") at cost. Prior to our adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002, we amortized goodwill on a straight-line basis over the estimated future periods to be benefited, ranging from 3 to 7 years. Effective January 1, 2002 we no longer amortize our goodwill, but we do review the carrying value at least annually for impairment in accordance with the provisions of SFAS No. 142.

SFAS No. 142 prescribes a methodology for performing the impairment analyses for goodwill and other intangibles. This methodology uses an approach based on fair value of the assets rather than on undiscounted cash flows, as was the case prior to adoption. We perform this analysis using projections of future income discounted at a market rate. The determination of market discount rates is subjective and may vary by product based on the nature of the underlying business, stage of development and sales to date.

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PREMISES AND EQUIPMENT

We report premises and equipment at cost and, except for land, depreciate them over their estimated useful lives on the straight-line method as follows:

Buildings	39 years
Land improvements	39 years

Furniture and fixtures	5 years
Computer hardware and software	3 years
Leasehold improvements	Life of the lease, with maximum lease term of 10 years.

CAPITALIZED SOFTWARE COSTS

We currently expense all costs attributable to enhancing our OTX technology solutions. Prior to 2000, we capitalized certain costs, although we expensed costs incurred up to the establishment of technological feasibility as research and development costs. Once the products were made available for general release to customers, we began amortization of the capitalized costs using the straight-line method over the estimated economic lives of the individual products. At each balance sheet date, we perform an impairment analysis by product by comparing unamortized capitalized costs to the net realizable value. An impairment charge is recorded to the extent the unamortized capitalized costs exceed the net realizable value.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

We periodically enter into sales of securities under agreements to repurchase the same securities. We report repurchase agreements as financings and report the obligations to repurchase securities sold as a liability in our consolidated statements of financial condition. We report all securities underlying repurchase agreements as assets in our consolidated statements of financial condition. Custodians hold these securities in safekeeping.

EXCESS OF NET ASSETS ACQUIRED OVER PURCHASE PRICE

The effects of our acquisition of OAC in 1999 resulted in a new basis of accounting reflecting fair values of assets and liabilities at the date of acquisition. We reported the excess of assets over the purchase price of acquired net assets ("negative goodwill") resulting from the acquisition at cost and amortized it on a straight-line basis over the estimated future periods to be benefited. Effective January 1, 2002, upon adoption of SFAS No. 142, we reversed the unamortized balance of the excess of net assets acquired over purchase price to income in accordance with the provisions of SFAS No. 141, "Business Combinations". We reported this reversal as the effect of a change in accounting principle. See Note 2 for additional information.

DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative financial instruments for the purpose of managing our exposure to adverse fluctuations in interest and foreign currency exchange rates. While these instruments are subject to fluctuations in value, such fluctuations are generally offset by the change in value of the underlying exposures being hedged. We do not enter into any derivative financial instruments for trading purposes.

We record all of our derivative instruments in the statement of financial condition at fair value. We record changes in the fair value of derivatives each period in current earnings or other comprehensive (loss) income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction and the effectiveness of the hedge.

For hedge transactions of net investments in foreign operations, we record the effective portions of the changes in fair value of the derivative instruments as a cumulative translation adjustment and include as a component of accumulated other comprehensive (loss) income in stockholders' equity.

For cash-flow hedge transactions in which we hedge the variability of cash flows related to a variable-rate asset, liability or a forecasted transaction, we report the effective portions of the changes in the fair value of the derivative instruments in other comprehensive (loss) income. The gains and losses on the derivative instrument that are reported in other comprehensive (loss) income are reclassified to earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item.

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We account for all other derivative instruments used for risk management purposes that do not meet the hedge accounting criteria and, therefore, do not qualify for hedge accounting at fair value with changes in fair value recorded in our consolidated statement of operations. We recognize the ineffective portions of all hedges in our current period earnings.

FOREIGN CURRENCY TRANSLATION

Where the functional currency is not the U.S. dollar, we translate assets and liabilities of foreign entities into U.S. dollars at the current rate of exchange existing at the statement of financial condition date and revenues and expenses at average monthly rates. We include the resulting translation adjustments as a component of accumulated other comprehensive income in stockholders' equity. Where the functional currency of a foreign entity is the U.S. dollar, translation adjustments are included in the results of operations.

INCOME TAXES

We file consolidated Federal income tax returns with our subsidiaries. Consolidated income tax is allocated among the subsidiaries participating in the consolidated return as if each subsidiary that has one or more subsidiaries filed its own consolidated return and those with no subsidiaries filed separate returns.

We account for income taxes using the asset and liability method, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Additionally, we adjust deferred taxes for subsequent tax rate changes. We conduct periodic evaluations to determine whether it is more likely than not that some or all of our deferred tax asset will not be realized. Among the factors considered in this evaluation are estimates of future earnings, the future reversal of temporary differences and the impact of tax planning strategies that we can implement if warranted.

BASIC AND DILUTED EARNINGS PER SHARE

We calculate basic earnings per share based upon the weighted average number of shares of common stock outstanding during the year. We calculate diluted earnings per share based upon the weighted average number of shares of common stock outstanding and all dilutive potential common shares outstanding during the year. The computation of diluted earnings per share includes the impact of the exercise of the outstanding options to purchase common stock using the treasury stock method, which assumes that the proceeds from such issuance are used to repurchase common shares at fair value. If the Company incurs a net loss for the period, we exclude common stock equivalents from the diluted calculation since the common stock equivalents would be antidilutive. The computation of diluted earnings per share also includes the potential shares of converted common stock associated with our contingently convertible notes using the if-converted method. Under the if-converted method, the convertible notes are assumed to have been converted, regardless of whether any of the contingent features have been met, and the resulting shares are included in the denominator (if dilutive). Interest expense applicable to the convertible notes is added back to the numerator (i.e. net income).

COMPREHENSIVE INCOME

Comprehensive income represents the change in equity of a business enterprise during a period from transactions and other events and circumstances excluding those resulting from investments by and distributions to owners. We present comprehensive income beginning with net income and adding the elements of comprehensive income not included in the determination of net income to arrive at comprehensive income. We present accumulated other comprehensive income net of income taxes and include unrealized foreign currency translation gains and losses.

RISKS AND UNCERTAINTIES

In the normal course of business, we encounter two significant types of risk: economic and regulatory. There are three main components of economic risk: credit risk, market risk and concentration of credit risk. Credit risk is the risk of default on our loan portfolios and derivative financial instruments that results from a borrower's inability or unwillingness to make contractually required payments. Market risk includes interest rate risk, foreign currency

exchange rate risk and liquidity risk. 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. We are exposed to foreign currency exchange rate risk in connection with our investment in non-U.S. dollar functional currency operations and to

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the extent our foreign exchange positions remain unhedged. Market risk also reflects the risk of declines in the valuation of trading securities, and in the value of the collateral underlying loans and the value of real estate held. Concentration of credit risk refers to the risk that, if we extend a significant portion of the total outstanding credit to borrowers in a specific geographical area or industry or on the security of a specific form of collateral, we may experience disproportionately high levels of default and losses if those borrowers, or the value of such type of collateral, is adversely affected by economic or other factors that are particularly applicable to such borrowers or collateral.

We are also exposed to liquidity risk. Our business requires substantial cash to support the residential loan servicing business, including acquisitions of mortgage servicing rights and the unfinanced portion of servicing advances and to fund holding company operations, including OTX operations. In general, we finance our operations through operating cash flows and various other sources, including Bank deposits, long-term debt and financing facilities, some of which have 90% advance rates. As we continue to purchase mortgage servicing contracts and fund other core business operations from operating cash flows, we must secure additional capital to support our growth. Failure to secure additional financing sources or to achieve profitable operations could result in a significant adverse effect on our financial position and results of operations.

The Bank is subject to the regulations of various government agencies. These regulations can and do change significantly from period to period. The Bank also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions resulting from the regulators' judgments based on information available to them at the time of their examination.

The preparation of financial statements in conformity with generally accepted accounting principles requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly significant in the near or medium term relate to our determination of the allowance for loan losses and our valuation of securities, real estate, affordable housing properties, advances on loans and loans serviced for others, servicing rights, intangibles and our deferred tax asset.

STOCK-BASED COMPENSATION

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. Certain provisions of the statement were effective December 31, 2002. We currently account for stock-based compensation under the intrinsic value method set forth in Accounting Principles Board ("APB") Opinion No. 25 and related interpretations. For this reason, the transition guidance of SFAS No. 148 did not have an impact on our consolidated financial position or consolidated results of operations. The Statement did amend existing guidance with respect to required disclosures, regardless of the method of accounting used. As discussed in the "Current Accounting Pronouncements" section below, the FASB issued a revision of SFAS No. 123 in December 2004, which supercedes APB Opinion No. 25 and is effective for the third quarter of 2005.

We maintain stock-based compensation plans that provide for the granting

of stock and stock options to our employees and directors. As indicated above, we account for our stock option plans based on the intrinsic value method set forth in APB Opinion No. 25 and related Interpretations, under which no compensation cost has been recognized, except with respect to stock options that are granted with an exercise price that is less than the fair value of the Company's stock at the date of the grant, as disclosed in the accompanying table. The following table presents net income, basic and diluted earnings per share as reported and pro forma net income and pro forma earnings per share. We have determined pro forma amounts by assuming that compensation costs for our stock option plans had been determined based on the fair value at the grant dates for awards under those plans granted after December 31, 1994, consistent with the method described by SFAS No. 123.

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	Years Ended December 31,		
	2004	2003	2002
NET INCOME			
Net income (loss) as reported	\$ 57,724	\$ 4,772	\$ (68,775)
Add stock-based compensation expense included in reported net income, net of tax	823	797	599
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of tax ...	(2,668)	(1,559)	(1,344)
Pro forma net income (loss)	\$ 55,879	\$ 4,010	\$ (69,520)
BASIC EPS			
As reported	\$ 0.88	\$ 0.07	\$ (1.02)
Pro forma	\$ 0.85	\$ 0.06	\$ (1.03)
DILUTED EPS			
As reported	\$ 0.82	\$ 0.07	\$ (1.02)
Pro forma	\$ 0.80	\$ 0.06	\$ (1.03)

We estimate the fair value of our option grants using the Black-Scholes option-pricing model with the following assumptions:

	2004	2003	2002
Expected dividend yield.....	0.00%	0.00%	0.00%
Expected stock price volatility.....	43.00	48.00	62.00
Risk-free interest rate.....	3.61%	3.25%	2.73%
Expected life of options.....	5 years	5 years	5 years

CURRENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 123 (R), "Share-Based Payment". This Statement was issued by the FASB on December 16, 2004 and is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". This Statement also supersedes APB Opinion No. 25 and its related implementation guidance.

SFAS No. 123 (R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award - the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. The fair value of an award is not re-measured after its initial estimation on the grant date (except in the case of a liability award or if the award is subsequently modified). The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). The notes to financial statements will disclose information to assist users of financial information to understand the nature of share-based payment transactions and the effects of

those transactions on the financial statements.

SFAS No. 123 (R) eliminates the alternative to use Opinion 25's intrinsic value method of accounting that was provided in SFAS No. 123 as originally issued. Under APB Opinion No. 25, issuing stock options to employees generally resulted in recognition of no compensation cost, except with respect to options that were granted with an exercise price that was less than fair value of the stock at the date of grant.

This Statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005, which in our case is the beginning of the third quarter of 2005. SFAS 123 (R) applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. The cumulative effect of initially applying this Statement, if any, is recognized as of the required effective date.

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As of the required effective date, all public entities will apply this Statement using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under Statement 123 for either recognition or pro forma disclosures. For periods before the required effective date, public entities may elect to apply a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by SFAS No. 123.

We have not yet determined which transition method we will apply or the cumulative effect of initially adopting this Statement. We have determined that awards we have granted to date will be classified as equity awards (versus liability awards) because their terms contain service conditions. Therefore, the fair value of these awards will not be re-measured after our initial estimation on the grant date. As disclosed in the "Stock-Based Compensation" section above, we currently account for our stock option plans based on the intrinsic value method set forth in APB Opinion No. 25. Therefore, we anticipate that the amount of compensation expense we recognize in connection with our stock option awards will increase under the fair value based method of SFAS No. 123 and 123(R).

Earnings Per Share - An Amendment of SFAS No. 128. In December 2004, the FASB decided to defer the issuance of a final standard on EPS until 2005. When issued, the provisions of the final standard will be effective in 2005 and will require retrospective application for all prior periods presented. When computing diluted EPS for year-to-date periods, companies will be required to use the year-to-date average stock price to compute the number of treasury shares that could theoretically be purchased with the proceeds from exercise of share contracts such as options or warrants. The year-to-date computation would be performed independently from the quarterly computations. The old method required companies to calculate an average of the potential incremental common shares computed for each quarter when computing year-to-date incremental shares. This will apply to Ocwen as we use the treasury stock method to determine the number of incremental shares from the assumed exercise of stock options to be included in the denominator of diluted EPS computations. Under the treasury stock method, the proceeds from the assumed exercise of options are assumed to be used to purchase common stock at the average market price during the period. The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted EPS computation.

EITF Issue 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share". EITF Issue 04-8 was approved on September 30, 2004 and provides guidance as to when the dilutive effect of contingently convertible debt should be included in diluted earnings per share. The EITF reached the conclusion that the potential shares of stock associated with contingently convertible debt should be included in diluted earnings per share computations (if dilutive) regardless of whether the market price trigger (or other contingent feature) has been met. EITF Issue 04-8 is effective for all periods ending after December 15, 2004 and is to be applied by restating previously

reported diluted earnings per share.

EITF Issue 04-8 did have an impact on our diluted earnings per share computations because of the \$175,000 of 3.25% Contingent Convertible Senior Unsecured Notes we issued on July 28, 2004 (see Note 16). Beginning with our 2004 annual financial statements, we have included the potential shares of stock associated with our contingently convertible debt in diluted earnings per share computations using the if-converted method regardless of whether any of the contingent features have been met. See Note 17 for information regarding the effect on diluted EPS.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation was issued in January 2003 and provides guidance with respect to the identification of variable interest entities and when assets, liabilities, noncontrolling interests, and the results of operations of a variable interest entity need to be included in a company's consolidated financial statements. The Interpretation requires consolidation by business enterprises of variable interest entities in certain cases. The factors to be considered in making this determination include the adequacy of the equity of the entity and the nature of the risks, rights and rewards of the equity investors in the entity. The Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. Due to significant implementation concerns, the FASB modified the wording of FIN 46 and issued FIN 46R in December of 2003. FIN 46R deferred the effective date for the provisions of FIN 46 to entities other than Special Purpose Entities ("SPEs") until financial statements issued for periods ending after March 15, 2004. SPEs are subject to the provisions of either FIN 46 or FIN 46R as of December 15, 2003. As of December 31, 2004, we are a limited partner in one partnership that developed low-income housing properties. We do not consolidate this partnership but rather record our investment in it using the equity method of accounting. As of December 31, 2004, our investment in such limited partnership amounted to \$5,641. In addition, we had a loan to this partnership with a net book value of \$3,198 at December 31, 2004. FIN 46R did not have a significant impact on our consolidated financial statements because prior to its adoption we had already recorded our 99.9% limited partnership interest in this affordable housing property.

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Statement of Position 03-3, "Accounting or Certain Loans or Debt Securities Acquired in a Transfer" ("SOP 03-3"). SOP 03-3 was issued in December 2003 and is effective for loans acquired on or after January 1, 2005. Our net investment in loans at December 31, 2004 amounted to \$3,792; therefore, it is expected that the application of SOP 03-3 will not have a significant impact on our consolidated financial statements.

NOTE 2 EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

We adopted SFAS No. 142 effective January 1, 2002. As a result, in accordance with the provisions of SFAS No. 141, we reversed the unamortized balance of negative goodwill we had originally recorded in connection with our acquisition of OAC. This reversal resulted in a credit to income of \$18,333. The impact from the adoption of other elements of SFAS No. 142 resulted in our recording impairment charges of \$3,333 on goodwill and intangible assets originally recorded in connection with the formation of REALSynergy, Inc. in 1999. These amounts have been reported, net of an income tax benefit of \$1,166, in 2002 as the effect of a change in accounting principle of \$16,166. The negative goodwill and the effect of the change in accounting principle related to its reversal were recorded in the Corporate Items and Other Segment.

NOTE 3 ACQUISITIONS

On September 30, 2004, we acquired Bankhaus Oswald Kruber KG ("BOK") a German bank, for \$9,737, including acquisition costs. Our primary objectives in acquiring BOK were to diversify our funding sources and to establish a platform to provide services to our multinational client base. The results of operations of BOK are included in our consolidated income statement beginning on October 1, 2004. The excess of the purchase price over the fair value of the net assets

acquired (goodwill) related to this transaction is \$3,694. We also recorded \$1,741 of intangible assets, none of which are subject to amortization. As of December 31, 2004 BOK had assets of \$23,043, of which \$10,699 were interest earning deposits, and total liabilities of \$10,919.

On December 31, 2004, we acquired a residential mortgage fulfillment center and due diligence operation, including staff, facilities and systems, for approximately \$1,000. The objective of this acquisition was to enhance our ability to provide mortgage fulfillment and due diligence services to others. We simultaneously entered into a one-year renewable contract to provide these services to the seller. We have recorded approximately \$700 of intangible assets as a result of this acquisition, all of which are subject to amortization.

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS

A majority of our assets, liabilities and off-balance sheet instruments and commitments are considered financial instruments. For the majority of our financial instruments, principally loans and deposits, fair values are not readily available since there are no available trading markets as characterized by current exchanges between willing parties. Accordingly, fair values can only be derived or estimated using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. In addition, for those financial instruments with option-related features, prepayment assumptions are incorporated into the valuation techniques. Minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values.

The fair values reflected below are indicative of the interest rate environments as of December 31, 2004 and 2003, and do not take into consideration the effects of interest rate fluctuations. In different interest rate environments, fair value results can differ significantly, especially for certain fixed-rate financial instruments and non-accrual assets. In addition, the fair values presented do not attempt to estimate the value of our fee generating businesses and anticipated future business activities. In other words, they do not represent our value as a going concern. Furthermore, the differences between the carrying amounts and the fair values presented may not be realized.

Reasonable comparability of fair values among financial institutions is difficult due to the wide range of permitted valuation techniques and numerous estimates that must be made in the absence of secondary market prices. This lack of objective pricing standards introduces a degree of subjectivity to these derived or estimated fair values. Therefore, while disclosure of estimated fair values of financial instruments is required, readers are cautioned in using this data for purposes of evaluating our financial condition.

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The methodologies used and key assumptions made to estimate fair value, the estimated fair values determined and recorded carrying values follow:

CASH AND CASH EQUIVALENTS

We have valued cash and cash equivalents at their carrying amounts as these are reasonable estimates of fair value given the relatively short period of time between origination of the instruments and their expected realization.

TRADING SECURITIES

We adjust our securities portfolio to fair value within a range based on third party dealer quotations, where available, and internal values, subject to an internal review process. For those securities that do not have an available market quotation we will request market values and underlying assumptions from the various securities dealers that underwrote, are currently financing the securities, or have had prior experience with the type of security to be valued. When we obtain quotations from two or more dealers, we generally use the average dealer quote.

LOANS AND MATCH FUNDED LOANS

We estimate the fair value of our performing loans based upon quoted market prices for similar whole loan pools. We base the fair value of our non-performing loans on estimated cash flows discounted using a rate commensurate with the risk associated with the estimated cash flows. We estimate the fair value of our match funded loans and our loans based upon current market yields at which recent pools of similar mortgages have traded taking into consideration the timing and amount of expected cash flows.

ADVANCES ON LOANS AND LOANS SERVICED FOR OTHERS

We value advances we make on our loans and loans we service for others at their carrying amounts because they have no stated maturity and do not bear interest.

RECEIVABLES

The carrying value of receivables approximates fair value because of the relatively short period of time between their origination and realization. Certain long-term receivables are carried at a discounted value that we believe approximates fair value.

DEPOSITS AND ESCROWS

The fair value of our demand deposits, savings accounts, money market deposits and escrow deposits is the amount payable on demand at the reporting date. We estimate the fair value of fixed-maturity certificates of deposit by discounting the required cash payments at the market rates offered for deposits with similar maturities on the respective financial statement dates.

BORROWINGS

We base the fair value of our match funded liabilities and debt securities on quoted market prices. The fair value of our other borrowings, including obligations outstanding under lines of credit, approximates carrying value because these borrowings are either short-term or bear interest at a rate that is adjusted regularly based on a market index.

DERIVATIVE FINANCIAL INSTRUMENTS

We base the fair values of our derivative financial instruments on quoted market prices.

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LOAN COMMITMENTS AND LETTERS OF CREDIT

The fair values of loan commitments and letters of credit estimated considering the difference between interest rates on the respective financial statement dates and the committed rates.

The carrying amounts and the estimated fair values of our financial instruments are as follows:

	December 31, 2004		December 31, 2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Interest earning and non-interest earning cash	\$ 287,851	\$ 287,851	\$ 229,930	\$ 229,930
Trading securities	125,742	125,742	49,520	49,520
Loans, net	3,792	3,870	28,098	29,407
Match funded assets	280,760	280,760	130,087	128,860
Advances on loans and loans serviced for others	240,430	240,430	374,769	374,769
Receivables	126,719	126,719	74,315	74,315
Financial liabilities:				
Deposits	301,299	303,622	446,388	452,015

Escrow deposits	125,977	125,977	116,444	116,444
Match funded liabilities	244,327	244,327	115,394	115,401
Lines of credit and other secured borrowings ..	50,612	50,612	150,384	150,384
Debt securities	231,249	228,003	56,249	55,581
Derivative financial instruments:				
British Pound futures	301	301	(737)	(737)
Canadian Dollar futures	109	109	(34)	(34)
Other:				
Loan commitments (1)	--	35	--	451

(1) Our loan commitment represents the unfunded portion of a loan commitment to our affordable housing limited partnership.

NOTE 5 TRADING SECURITIES

The fair value of our trading securities are as follows at December 31:

	2004	2003
	-----	-----
Investment grade securities:		
U.S. Government and sponsored enterprise securities	\$ 1,594	\$ 6,679
Collateralized mortgage obligations (AAA-rated)	81,466	--
Bonds and debentures	3,155	--
	-----	-----
	\$ 86,215	\$ 6,679
	=====	=====
Subordinates and residual securities:		
Single family residential		
BB-rated subordinates	\$ 256	\$ 579
B-rated subordinates	435	580
Unrated subordinates	217	222
Unrated subprime residuals	35,276	38,883
	-----	-----
	36,184	40,264
Nonresidential unrated subordinates	3,343	2,577
	-----	-----
	\$ 39,527	\$ 42,841
	=====	=====

A profile of the maturities of our trading securities at December 31, 2004 follows. Mortgage-backed securities are included based on their weighted-average maturities, reflecting anticipated future prepayments.

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	Investment Grade Securities		Subordinates and Residuals	
	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value
	-----	-----	-----	-----
Due within one year	2.63%	\$ 61,095	17.59%	\$ 10,300
Due after 1 through 5 years	3.10	24,939	17.05	21,851
Due after 5 through 10 years	4.00	181	21.44	6,023
Due after 10 years	--	--	24.60	1,353
		-----		-----
		\$ 86,215		\$ 39,527
		=====		=====

Realized and unrealized gains on trading and match funded securities for the years ended December 31, 2004, 2003 and 2002 were comprised of the following:

2004	2003	2002
-----	-----	-----

Unrealized gains (losses):			
Trading securities	\$ (1,067)	\$ 3,226	\$ 1,727
Match funded securities	--	(248)	293
	-----	-----	-----
	(1,067)	2,978	2,020
	-----	-----	-----
Realized gains:			
Trading securities	530	366	4,992
	-----	-----	-----
	\$ (537)	\$ 3,344	\$ 7,012
	=====	=====	=====

Our subordinate and residual securities at December 31, 2004, 2003 and 2002 include retained interests with a fair value of \$907, \$1,346 and \$1,465, respectively, from securitizations of our loans completed in prior years. We have not securitized any loans since 1999.

NOTE 6 MATCH FUNDED ASSETS

Our match funded assets are comprised of the following at December 31:

	2004	2003
	-----	-----
Match funded advances on loans serviced for others:		
Principal and interest	\$ 107,102	\$ 54,516
Taxes and insurance	107,710	30,176
Other	61,814	21,096
	-----	-----
	276,626	105,788
	-----	-----
Match funded loans:		
Commercial loans	4,134	--
Single family residential loans	--	24,393
Allowance for loan losses	--	(94)
	-----	-----
	4,134	24,299
	-----	-----
	\$ 280,760	\$ 130,087
	=====	=====

Match funded advances on loans serviced for others resulted from the transfer of certain advances on loans serviced for others to third parties under two lending facilities. The second lending agreement is the result of the advance securitization completed in November 2004. According to the terms of the agreements, we retain the option, at any time, to purchase from the transferee up to 5% under one agreement and up to 20% under the other agreement of the aggregate advances outstanding and the right to select the specific advances to be repurchased. Accordingly, we retain control of the advances and therefore the transfer did not qualify as a sale for accounting purposes. As a result, the proceeds we received from the transfer are reported as a secured borrowing with pledge of collateral (match funded liabilities) in our consolidated statement of financial condition. See Note 14 - "Match Funded Liabilities".

Commercial match funded loans held by our GSS subsidiary in Japan resulted from the transfer, on a non-recourse basis, of an undivided 100% participation interest in certain real estate loans to a Japanese subsidiary of Merrill Lynch on March 30, 2004 in exchange for cash. The transfer did not qualify as a sale for accounting purposes as we did not meet all of the conditions for surrender of control over the transferred loans. Accordingly, we report the amount of proceeds we received from the transfer as a secured borrowing with pledge of collateral (match funded liabilities).

We acquired single-family residential match funded loans in connection with our acquisition of OAC in 1999. OAC had previously securitized these loans in 1998 and transferred them to a real estate mortgage investment conduit, which then issued two classes of notes secured by the loans. The transfer did not qualify as a sale for accounting purposes since we retained effective control of

the loans transferred. Accordingly, we reported the proceeds that we received from the transfer as a liability (match funded liabilities). Each class of the notes was subject to redemption at our option when the remaining aggregate principal balance of the loans had declined to less than 20% of the initial aggregate principal balance of the loans at the transfer date. During the third quarter of 2004, we exercised our option to redeem the notes (match funded liabilities) thereby causing the termination and liquidation of the trust. Upon redemption of the notes, the loans were released from the Trust and were sold by us to a third party.

NOTE 7 REAL ESTATE

Our real estate assets consisted of the following at December 31:

	2004	2003
	-----	-----
Properties accounted for as held and used (1)		
Office building	\$ --	\$ 37,553
Retail	--	43,460
	-----	-----
	--	81,013
	-----	-----
Properties accounted for as held for sale (2)		
Retail	8,827	10,657
Hotel	--	6,171
Land	844	--
Single family residential	515	882
	-----	-----
	10,186	17,710
	-----	-----
Total investment in real estate properties	10,186	98,723
Investment in real estate partnerships (3)	8,546	5,220
	-----	-----
	\$ 18,732	\$ 103,943
	=====	=====

- (1) Properties accounted for as held and used at December 31, 2003 consisted of an office building and one shopping mall, both located in Florida. These properties were sold in 2004 for a net gain of \$759.
- (2) Properties accounted for as held for sale at December 31, 2004 primarily consisted of one retail shopping center in Halifax, Nova Scotia. In February 2005, we sold the subsidiary that held our investment in the shopping center. At December 31, 2003, properties classified as held for sale were comprised primarily of the retail shopping center in Halifax, and one hotel located in Michigan. During 2004, we sold the hotel for a gain of \$351.
- (3) Consists of interests in two limited partnerships operating as real estate ventures, consisting of multi-family type properties. At December 31, 2003 we also had loans with combined net book value of \$4,771 (\$6,811 before discount and allowance for loan losses) due from one of the real estate ventures. During 2004, we forgave these loans to the venture in exchange for an increased investment in the partnership.

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The following schedule presents the activity, in aggregate, in the valuation allowance on our real estate classified as held for sale for the years ended December 31:

	2004	2003	2002
	-----	-----	-----
Balance at beginning of year	\$ 1,279	\$ 4,591	\$ 19,098
Provision for losses	3,059	(96)	19,685
Charge-offs	(37)	(2,459)	(5,304)
Sales	(1,146)	(757)	(7,835)

Basis adjustment (1)	--	--	(21,053)
	-----	-----	-----
Balance at end of year	\$ 3,155	\$ 1,279	\$ 4,591
	=====	=====	=====

(1) Our shopping mall property, which we had held for more than one year, was being repositioned for future sale. This valuation allowance had been established to carry this asset at the lower of cost or fair value less estimated costs to sell. Under SFAS No. 144, which became effective in 2002, we began accounting for this property as held for use, and we applied the valuation allowance as a reduction of cost.

We recorded impairment charges on properties, while classified as held and used, of \$946, \$7,526 and \$14,549 during 2004, 2003 and 2002, respectively. In addition, we recorded impairment charges on our real estate partnership interests of \$1,105 and \$768 during 2004 and 2002, respectively.

NOTE 8 RESIDENTIAL LOAN SERVICING

Under contractual servicing agreements with investors, we service mortgage and non-mortgage loans that we do not own. The total unpaid principal balance of such loans we serviced for others was \$34,524,491 and \$37,697,318 at December 31, 2004 and 2003, respectively, and is excluded from our consolidated statements of financial condition. We similarly exclude from our statements of financial condition funds representing collections of principal and interest we have received from borrowers that are on deposit with an unaffiliated bank. Those funds amounted to \$867,884 and \$1,429,986 at December 31, 2004 and 2003, respectively. Servicing fees and other servicing-related income we earned on loans we serviced for others, net of servicing rights amortization, amounted to \$125,119, \$118,318 and \$118,250 for the years ended December 31, 2004, 2003 and 2002, respectively. These net fees are included in servicing and other fees in our consolidated statements of operations. In general, these servicing agreements include guidelines and procedures for servicing the loans, including servicing, remittance and reporting requirements, among other provisions.

We earn servicing and sub-servicing income primarily on mortgage loans secured by real estate in 50 states. At December 31, 2004, the geographic distribution based on the unpaid principal balance of the loans we serviced was as follows:

	Amount (1)	No. of loans (1)
	-----	-----
California	\$ 7,903,488	41,158
Florida	2,660,650	26,196
New York	2,319,472	15,370
Texas	1,757,856	25,040
Illinois	1,679,636	14,586
Other (2)	18,203,389	197,835
	-----	-----
	\$ 34,524,491	320,185
	=====	=====

(1) Included 1,338 non-mortgage loans with an unpaid principal balance of \$140,757.

(2) Consisted of loans in 45 other states, the District of Columbia, three U.S. territories and one foreign country, none of which aggregated over \$1,296,839 in any one state.

The risk inherent in such concentrations is dependent upon regional and general economic conditions that affect property values.

The following table summarizes the activity in our servicing rights for

the years ended December 31:

	2004	2003	2002
	-----	-----	-----
Balance at beginning of year	\$ 166,495	\$ 171,611	\$ 100,765
Purchases	60,950	88,829	128,891
Amortization	(96,036)	(93,558)	(58,045)
Impairment	--	(387)	--
	-----	-----	-----
Balance at end of year	\$ 131,409	\$ 166,495	\$ 171,611
	=====	=====	=====

At December 31, 2004 and 2003, we estimated the fair value of our servicing rights to be \$152,148 and \$227,825, respectively, by discounting future underlying loan cash flows. As more fully described in Note 1, the more significant assumptions used in the December 31, 2004 valuation include a discount rate of 18%, constant prepayment speeds ranging from 29% to 42% (depending on loan type), delinquency rates ranging from 2% to 34% (depending on loan type), an interest rate of six-month LIBOR plus 300 basis points for computing the cost of servicing advances and an interest rate of six-month LIBOR for computing float income.

Advances on loans serviced for others consisted of the following at December 31:

	2004	2003
	-----	-----
Principal and interest	\$ 51,782	\$ 118,024
Taxes and insurance	94,926	145,507
Other	93,375	110,802
	-----	-----
	\$ 240,083	\$ 374,333
	=====	=====

Advances on loans serviced for others are net of reserves of \$5,212 and \$4,002 at December 31, 2004 and 2003, respectively. The \$5,212 of reserves at December 31, 2004 include \$4,115 to provide for forbearance plan fees and multiple breach fees that may no longer be collectible. Advances on loans serviced for others do not include advances on our loan portfolios of \$347 and \$436 at December 31, 2004 and 2003, respectively. These advances also do not include advances reported as part of match funded assets. See Note 6.

NOTE 9 PREMISES AND EQUIPMENT

Our premises and equipment are summarized as follows at December 31:

	2004	2003
	-----	-----
Computer hardware and software	\$ 67,483	\$ 61,748
Building	19,641	19,601
Leasehold improvements	10,508	8,985
Land and land improvements	4,049	4,041
Furniture and fixtures	8,677	8,395
Office equipment and other	3,887	3,572
Less accumulated depreciation and amortization	(76,805)	(64,399)
	-----	-----
	\$ 37,440	\$ 41,943
	=====	=====

Depreciation expense amounted to \$12,312, \$12,406 and \$13,004 for 2004, 2003 and 2002, respectively (of which \$2,925, \$2,455 and \$2,562 for 2004, 2003 and 2002, respectively, related to computer software). Building represents our customer service and collection facility in Orlando, Florida. We used this building as collateral to secure a mortgage in October 2004. See Note 15.

NOTE 10 RECEIVABLES

Receivables consisted of the following at the dates indicated:

	December 31,	
	2004	2003
Residential Loan Servicing (1)	\$ 23,241	\$ 18,564
OTX	2,360	1,442
Ocwen Realty Advisors	2,011	962
Ocwen Recovery Group	341	260
Business Process Outsourcing	1,532	969
Commercial Servicing	2,530	1,324
Commercial Assets	192	2,848
Affordable Housing (2)	18,308	25,581
Corporate Items and Other (3)	76,204	22,365
	-----	-----
	\$ 126,719	\$ 74,315
	=====	=====

- (1) Consist principally of fees earned and reimbursable expenses due from investors. Receivables representing fees earned totaled \$4,069 and \$2,769 at December 31, 2004 and 2003, respectively.
- (2) Primarily represents payments to be received in future years of proceeds from the sales of affordable housing properties, net of unaccrued discount of \$2,346 and \$2,901 at December 31, 2004 and 2003, respectively. Balances are also net of reserves for doubtful accounts of \$5,596 and \$4,232 at December 31, 2004 and 2003, respectively.
- (3) Includes \$61,591 and \$21,465 of income taxes receivable at December 31, 2004 and 2003, respectively. At December 31, 2004, income taxes receivable includes \$56,526 of federal tax refund claims, the payment of which is subject to final approval by the Joint Committee on Taxation of the U.S. Congress. We have agreed with the IRS to extend the statute of limitations with respect to these claims until December 31, 2005, and we currently expect that this approval will be issued prior to that date. The receivable balance at December 31, 2004 also included \$6,872 of accrued interest on the federal tax refund claims.

NOTE 11 OTHER ASSETS

Other assets consisted of the following at the dates indicated:

	December 31,	
	2004	2003
Deferred tax assets, net (1)	\$ 17,683	\$ 7,547
Deferred debt related costs, net (2)	11,216	3,113
Interest earning insurance collateral deposits (3)	8,905	8,813
Loans held for resale (4)	8,437	--
Interest earning reserve accounts (5)	5,850	4,279
Goodwill, net (6)	5,312	1,618
Prepaid expenses	4,069	3,750
Stocks and mutual funds (7)	2,886	14
Capitalized software development costs, net	1,147	2,598
Other	3,472	1,876
	-----	-----
	\$ 68,977	\$ 33,608
	=====	=====

- (1) Deferred tax assets are net of valuation allowances of \$165,927 and \$201,445 at December 31, 2004 and 2003, respectively. See Note 19 for additional information regarding deferred tax assets.
- (2) Deferred debt related costs at December 31, 2004 include \$6,107 of capitalized costs directly related to our issuance of the \$175,000 Convertible Notes on July 28, 2004. See Note 16 for additional information regarding the Convertible Notes.

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- (3) These deposits were required in order to obtain surety bonds for affordable housing properties that we sold before the end of the fifteen-year tax credit amortization period, and on which we have previously claimed tax credits on our income tax returns. The surety bond is necessary in order to avoid the recapture of those tax credits previously claimed.
- (4) Loans originated in response to requests from Residential Loan Servicing customers to refinance their mortgages. Only loans with sales commitments prior to closing are originated under this program. All of these loans were sold in January 2005.
- (5) Represents amounts set aside from the proceeds of our match funded advance facilities to provide for possible shortfalls in the funds available to pay certain expenses and interest.
- (6) Goodwill at December 31, 2004 includes \$3,694 related to our acquisition of BOK on September 30, 2004. See Note 3 for additional information regarding this acquisition.
- (7) The balance at December 31, 2004 primarily represents an investment by the Bank in a mutual fund that invests in assets that meet the requirements of the Community Reinvestment Act.

NOTE 12 DEPOSITS

Our deposits consisted of the following at December 31:

	2004	2003
	-----	-----
Non-interest-bearing deposits	\$ 4,513	\$ 4,879
NOW and money market checking accounts	12,541	18,313
Savings accounts (1)	6,574	1,657
	-----	-----
	23,628	24,849
	-----	-----
Certificates of deposit (1) (2) (3)	277,671	421,657
Unamortized deferred fees	--	(118)
	-----	-----
	277,671	421,539
	-----	-----
	\$ 301,299	\$ 446,388
	=====	=====

- (1) Deposit balances at December 31, 2004 include \$4,770 of savings accounts and \$6,022 of certificates of deposit held by BOK, a German bank we acquired in 2004. See Note 3 for additional information regarding this acquisition.
- (2) At December 31, 2004 and 2003, certificates of deposit included \$26,418 and \$84,426, respectively, of brokered deposits originated through national, regional and local investment banking firms, which solicit deposits from their customers, all of which are non-cancelable. We have not issued any new brokered certificates of deposit since 2000 and, at this time, do not intend to issue any such deposits in the foreseeable future.
- (3) At December 31, 2004 and 2003, certificates of deposit with outstanding balances of \$100 or more amounted to \$75,899 and \$137,746, respectively. Of such deposits at December 31, 2004, \$8,800 were from political subdivisions in New Jersey and are secured or collateralized as required under state law.

The contractual remaining maturity of our certificates of deposit at December 31, 2004 is as follows:

Within one year	\$ 201,934
Within two years	46,759
Within three years	21,617
Within four years	7,226
Within five years	135

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We amortize deferred fees on certificates of deposit on a straight-line basis over the term of the respective certificates of deposit. Such amortization amounted to \$118, \$519 and \$912 for the years ended December 31, 2004, 2003 and 2002, respectively, and is included in interest expense on deposits. Interest expense we incurred by type of deposit account was as follows for the years ended December 31:

	2004	2003	2002
NOW accounts and money market checking	\$ 572	\$ 514	\$ 527
Savings	14	14	18
Certificates of deposit	13,048	17,018	26,910
	\$ 13,634	\$ 17,546	\$ 27,455
	=====	=====	=====

Accrued interest payable on our deposits amounted to \$910 and \$1,693 at December 31, 2004 and 2003, respectively.

NOTE 13 ESCROW DEPOSITS

Escrow deposits on loans we own and on loans we serviced for others consisted of the following at December 31:

	2004	2003
Taxes and insurance payments held on loans serviced for others	\$ 105,924	\$ 96,924
Other escrow deposits	20,053	19,520
	\$ 125,977	\$ 116,444
	=====	=====

NOTE 14 MATCH FUNDED LIABILITIES

Our match funded liabilities are accounted for as secured borrowings with pledges of collateral and were comprised of the following at December 31:

		December 31,	
Collateral	Interest rate	2004	2003
Advances on loans serviced for others (1)	LIBOR plus 175 basis points	\$ 90,851	\$ 94,967
Advances on loans serviced for others (2)	See (2)	149,342	--
Single family loans (3)	LIBOR plus 65-70 basis points	--	20,427
Commercial loans (4)		4,134	--
		\$ 244,327	\$ 115,394
		=====	=====

(1) Under the terms of the agreement, we are eligible to finance additional advances on loans serviced for others up to a maximum balance of \$200,000. This facility will mature January 2006.

- (2) In November 2004, we executed a servicing advance securitization. This transaction involved the issuance of a term note for \$100,000 and a one-year variable funding note for a maximum of \$75,000. The term note bears interest at LIBOR plus 50 basis points. The variable funding note bears interest at a commercial paper rate plus a margin that approximates LIBOR plus 53 basis points. Under the terms of the agreement, as of December 31, 2004, we are eligible to finance additional advances on loans serviced for others of \$25,658. The term note under this facility has a stated maturity of October 2013. The variable funding note has a stated maturity of November 2010.
- (3) During the third quarter of 2004, we exercised our option to redeem the bonds that were secured by single family loans. See Note 6.
- (4) Represents a 100% participation interest held by a third party.

Match funded liabilities are obligations secured by the collateral underlying the related match funded assets, and are repaid through the cash proceeds arising from those assets.

At December 31, 2004 and 2003, match funded liabilities had a weighted average interest rate of 3.32% and 2.56%, respectively. Accrued interest payable on our match funded liabilities amounted to \$121 and \$71 at December 31, 2004 and 2003, respectively. We incurred interest expense on match funded liabilities of \$4,923, \$5,414 and \$6,573 during 2004, 2003 and 2002, respectively.

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Match funded liabilities contain various qualitative and quantitative covenants that, among other things, establish requirements for the monitoring and reporting of specified financial transactions and reporting on defined events affecting the collateral underlying the agreements. We are currently in compliance with these covenants. We are also in discussions with our lenders to amend the lending agreements such that we will not be in default should we succeed in terminating our status as a federal savings bank. We anticipate successful completion of the discussions prior to debanking.

NOTE 15 LINES OF CREDIT AND OTHER SECURED BORROWINGS

Through our subsidiaries we have obtained secured lines of credit from various unaffiliated financial institutions at December 31 as follows:

Borrowing Type	Collateral	Maturity	Interest Rate (1)	2004	2003
Line of credit	Advances on loans serviced for others (2)	March 2004	LIBOR + 200 basis points	\$ --	\$ 68,548
Line of credit	Advances on loans serviced for others (2)	October 2004	LIBOR + 200 basis points	--	9,386
Senior secured credit agreement	Purchased mortgage servicing rights and advances on loans serviced for others (3)	April 2005	LIBOR + 162.5 or 225 basis points	24,218	35,321
Senior secured credit agreement	Purchased mortgage servicing rights	December 2005	LIBOR + 250 basis points	11,458	--
Installment notes	Purchased mortgage servicing rights	July 2004	2.81%	--	2,332
Mortgage note	Real estate - office building (4)	May 2005	LIBOR + 350 basis points, floor of 5.75%	--	20,000
Mortgage note	Office building (5)	October 2014	5.62%	14,936	--
Secured loan	Trading securities - UK unrated subprime residuals	November 2004	LIBOR + 275 basis points	--	11,562
Term loan	Loan receivable	March 2005	LIBOR + 250 basis points	--	3,235
				\$ 50,612	\$ 150,384

(1) LIBOR was 2.40% and 1.12% at December 31, 2004 and 2003, respectively.

- (2) This line was fully repaid subsequent to December 31, 2003 and was not renewed.
- (3) Maximum amount of borrowing under this facility is \$70,000. We are currently in negotiations with the lender to possibly extend the maturity date and increase the maximum amount of borrowing.
- (4) We sold our office building located in Jacksonville, Florida in January 2004 and the buyer assumed this note at that time. See Note 7.
- (5) Collateral represents our loan servicing call center located in Orlando, Florida. See Note 9.

Each of our lines contains qualitative and quantitative covenants that establish, among other things, the maintenance of specified net worth and restrictions on future indebtedness, as well as the monitoring and reporting of various specified transactions or events. We are currently in compliance with these covenants. While we have not historically paid dividends, our covenants, by establishing net worth requirements, in effect limit the amount of dividends that could be paid. As of December 31, 2004, the most restrictive limitation of all the covenants would limit dividends that could be paid to \$50,500. As required under the terms of certain of the lending agreements, we have obtained approval of the lenders accepting the replacement of our chief financial officer, who resigned on March 2, 2005. We are also in discussions with our lenders to amend the lending agreements such that we will not be in default should we succeed in terminating our status as a federal savings bank.

The maximum month end amount outstanding under lines of credit and other secured borrowings was \$113,790 and \$188,947 for the years ended December 31, 2004 and 2003, respectively. The average balance of obligations outstanding under lines of credit and other secured borrowings was \$66,271 and \$130,886 during the years ended December 31, 2004 and 2003, respectively, and the weighted average interest rates were 4.10% and 4.45%, respectively.

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Accrued interest payable on our obligations outstanding under lines of credit and other secured borrowings amounted to \$112 and \$516 at December 31, 2004 and 2003, respectively. Interest expense we incurred on our obligations outstanding under lines of credit and other secured borrowings amounted to \$2,717, \$5,824 and \$4,152 during 2004, 2003 and 2002, respectively.

At December 31, 2004 and 2003, we had no repurchase agreements outstanding. The average balance of repurchase agreements outstanding was \$0 and \$250 during the years ended December 31, 2004 and 2003, respectively, and the weighted average interest rate was 1.20%, for the year ended December 31, 2003.

The weighted average interest rates on our obligations outstanding under lines of credit and other secured borrowings were 4.84% and 3.59% at December 31, 2004 and 2003, respectively.

NOTE 16 DEBT SECURITIES

Our debt securities consisted of the following at December 31:

	2004	2003
	-----	-----
3.25% Convertible Notes due August 1, 2024.....	\$ 175,000	\$ --
10.875% Capital Securities due August 1, 2027	56,249	56,249
	-----	-----
	\$ 231,249	\$ 56,249
	=====	=====

In addition to the specific requirements discussed below, each of our debt securities contain qualitative and quantitative covenants that establish, among other things, the maintenance of specified net worth and restrictions on future indebtedness, as well as the monitoring and reporting of various specified transactions or events. We are currently in compliance with these covenants.

Convertible Notes. In July 2004, OCN issued \$175,000 aggregate principal amount of 3.25% Contingent Convertible Senior Unsecured Notes due 2024 ("Convertible Notes") in a private placement as permitted by the Securities Act of 1933, as amended. The Convertible Notes are senior unsecured obligations of Ocwen Financial Corporation and bear interest at the rate of 3.25% per year. Interest is payable on February 1 and August 1 of each year, beginning on February 1, 2005. Interest expense for the period from July 28, 2004 through December 31, 2004 amounted to \$2,972, including amortization of issuance costs. Interest payable on the Convertible Notes amounted to \$2,417 at December 31, 2004. The Convertible Notes will mature on August 1, 2024.

Holders may convert all or a portion of their notes into shares of our common stock under the following circumstances: (1) at any time during any calendar quarter commencing after December 31, 2004, if the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the calendar quarter prior to such quarter is greater than 125% of the conversion price per share of common stock on such last day; (2) subject to certain exceptions, during the five business day period after any five-consecutive-trading-day period in which the trading price per \$1 principal amount of the notes for each day of the five-consecutive-trading-day period was less than 98% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of \$1 principal amount of the notes; (3) if the notes have been called for redemption; (4) upon the occurrence of specified corporate transactions; or (5) if we elect at our sole discretion to permit conversion following the implementation of EITF Issue 04-8. We elected not to permit conversion following the implementation of EITF 04-8 in the fourth quarter of 2004.

The conversion rate will be 82.1693 shares of our common stock per \$1 principal amount of the notes, subject to adjustment. Events that may cause the conversion rate to be adjusted, as more fully described in the related indenture agreement, primarily relate to cash dividends or other distributions to holders of our common stock. Upon conversion, we may at our option choose to deliver, in lieu of our common stock, cash or a combination of cash and common stock as described herein.

Beginning August 1, 2009, we may redeem all or a portion of the notes for cash for a price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest, if any.

Holders may require us to repurchase all or a portion of their notes for cash on August 1, 2009, August 1, 2014, and August 1, 2019 or upon the occurrence of a "fundamental change" at a repurchase price equal to 100% of the principal amount of the notes to be repurchased plus accrued and unpaid interest, if any. A "fundamental change", as further defined in the indenture agreement, is deemed to have occurred upon a change of control or a termination of trading in our common stock.

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In connection with our issuance of the Convertible Notes, we incurred certain costs that we capitalized and are amortizing over the period from the date of issuance to August 1, 2009, the first date at which holders may require us to repurchase their notes. The unamortized balance of these issuance costs amounted to \$6,107 at December 31, 2004.

In privately negotiated transactions concurrent with the private placement of the Convertible Notes, we used 25% of the gross proceeds from the sale of the Convertible Notes to repurchase 4,850,000 shares of our common stock at a price of \$9.02 per share. We used the remaining proceeds, net of underwriting discount and other expenses, primarily to repay maturing deposits and other liabilities, to increase our cash and to invest in short-term investment grade securities.

In conjunction with our issuance of the Convertible Notes, we entered into a registration rights agreement for the benefit of the holders of the notes. Pursuant to the agreement, we agreed to file with the Securities and

Exchange Commission a registration statement covering re-sales by holders of all notes and the common stock issuable upon conversion of the notes. We also agreed to use our reasonable best efforts to cause such registration statement to become effective not later than January 24, 2005. The registration statement was declared effective on March 15, 2005. As a result, cash liquidated damages have accrued on the notes since January 24, 2005, totaling \$61, of which \$10 was paid on the first semiannual interest payment date of February 1, 2005. Liquidated damages accrue at a rate per year equal to 0.25% of the principal amount of a note to and including the 90th day following such registration default; and 0.50% of the principal amount of a note from and after the 91st day following such registration default. The balance of the liquidated damages will be paid on the second semiannual interest payment date of August 1, 2005.

Capital Securities. In August 1997, Ocwen Capital Trust ("OCT") issued \$125,000 of 10.875% Capital Securities (the "Capital Securities"). OCT invested the proceeds from issuance of the Capital Securities in 10.875% Junior Subordinated Debentures issued by OCN. The Junior Subordinated Debentures, which represent the sole assets of OCT, will mature on August 1, 2027. Prior to our adoption of SFAS No. 150 on July 1, 2003, we presented the Capital Securities in a separate caption between liabilities and stockholders' equity in our consolidated statement of financial condition as "Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely Junior Subordinated Debentures of the Company", and distributions were reported on the Capital Securities in a separate caption immediately following non-interest expense in our consolidated statement of operations. Effective with our adoption of SFAS No. 150 on July 1, 2003, the Capital Securities are presented as a liability in the consolidated statement of financial condition as a component of Debt Securities. At the same time, we began reporting distributions on the Capital Securities as a component of interest expense in the consolidated statement of operations. During 2002 and 2001, we repurchased \$4,910 and \$18,371, respectively, of our Capital Securities in the open market, resulting in gains of \$1,074 and \$3,723, respectively.

Holders of the Capital Securities are entitled to receive cumulative cash distributions accruing from the date of original issuance and payable semiannually in arrears on February 1 and August 1 of each year, commencing on February 1, 1998, at an annual rate of 10.875% of the liquidation amount of \$1,000 per Capital Security. OCN guarantees payment of distributions out of moneys held by OCT, and payments on liquidation of OCT or the redemption of Capital Securities, to the extent OCT has funds available. If Ocwen Financial Corporation does not make principal or interest payments on the Junior Subordinated Debentures, OCT will not have sufficient funds to make distributions on the Capital Securities, in which event the guarantee shall not apply to such distributions until OCT has sufficient funds available therefore. Distributions on Capital Securities amounted to \$6,117 and \$6,118 in 2004 and 2003, respectively, of which \$6,117 and \$3,059 has been reported as interest expense as discussed in the paragraph above. Accumulated distributions payable on the Capital Securities amounted to \$2,549 at both December 31, 2004 and 2003, and are included in accrued interest payable.

We have the right to defer payment of interest on the Junior Subordinated Debentures at any time or from time to time for a period not exceeding 10 consecutive semiannual periods with respect to each deferral period, provided that no extension period may extend beyond the stated maturity of the Junior Subordinated Debentures. Upon the termination of any such extension period and the payment of all amounts then due on any interest payment date, we may elect to begin a new extension period. Accordingly, there could be multiple extension periods of varying lengths throughout the term of the Junior Subordinated Debentures. If we defer interest payments on the Junior Subordinated Debentures, distributions on the Capital Securities will also be deferred, and we may not, nor may any of our subsidiaries, (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, their capital stock or (ii) make any payment of principal, interest or premium, if any, on or repay, repurchase or redeem any debt securities that rank pari passu with or junior to the Junior Subordinated Debentures. During an extension period, interest on the Junior Subordinated Debentures will continue to accrue at the rate of 10.875% per annum, compounded semiannually.

We may redeem the Junior Subordinated Debentures before maturity at our option, subject to the receipt of any necessary prior regulatory approval, (i) in whole or in part on or after August 1, 2007, at a redemption price equal to 105.438% of the principal amount thereof on August 1, 2007, declining ratably on each August 1 thereafter to 100% on or after August 1, 2017, plus accrued interest thereon, or (ii) at any time, in whole (but not in part), upon the

occurrence and continuation of a special event (defined as a tax event, regulatory capital event or an investment company event) at a redemption price equal to the greater of (a) 100% of the principal amount thereof or (b) the sum of the present values of the principal amount and premium payable with respect to an optional redemption of such Junior Subordinated Debentures on August 1, 2007, together with scheduled payments of interest from the prepayment date to August 1, 2007, discounted to the prepayment date on a semiannual basis at the adjusted Treasury rate plus accrued interest thereon to the date of prepayment. The Capital Securities are subject to mandatory redemption, in whole or in part, upon repayment of the Junior Subordinated Debentures at maturity or their earlier redemption, in an amount equal to the amount of the related Junior Subordinated Debentures maturing or being redeemed and at a redemption price equal to the redemption price of the Junior Subordinated Debentures, plus accumulated and unpaid distributions thereon to the date of redemption.

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For financial reporting purposes, we treat OCT as a subsidiary and, accordingly, the accounts of OCT are included in our consolidated financial statements. We eliminate intercompany balances and transactions with OCT, including the balance of Junior Subordinated Debentures outstanding, in our consolidated financial statements.

In connection with our issuance of the Capital Securities, we incurred certain costs that we capitalized and are amortizing over the term of the Capital Securities. The unamortized balance of these issuance costs amounted to \$1,691 and \$1,766 at December 31, 2004 and 2003, respectively, and is included in other assets.

NOTE 17 BASIC AND DILUTED EARNINGS PER SHARE

We are required to present both basic and diluted EPS on the face of our statement of operations. Basic EPS excludes common stock equivalents and is calculated by dividing net income by the weighted average number of common shares outstanding during the year. We calculate diluted EPS by dividing net income, as adjusted to add back interest expense on the Convertible Notes, by the weighted average number of common shares outstanding, including the dilutive potential common shares related to outstanding stock options, restricted stock awards and the Convertible Notes.

The following is a reconciliation of the calculation of basic EPS to diluted EPS for the years ended December 31:

	2004	2003	2002
	-----	-----	-----
Basic EPS:			
Net income (loss)	\$ 57,724	\$ 4,772	\$ (68,775)
	=====	=====	=====
Weighted average shares of common stock	65,811,697	67,166,888	67,321,299
	=====	=====	=====
Basic EPS	\$ 0.88	\$ 0.07	\$ (1.02)
	=====	=====	=====
Diluted EPS:			
Net income (loss)	\$ 57,724	\$ 4,772	\$ (68,775)
Interest expense on Convertible Notes, net of income tax (1)	2,378	--	--
	-----	-----	-----
Adjusted net income (loss)	\$ 60,102	\$ 4,772	\$ (68,755)
	=====	=====	=====
Weighted average shares of common stock	65,811,697	67,166,888	67,321,299
Effect of dilutive elements:			
Convertible Notes (1)	6,129,022	--	--
Stock options (2)	992,337	493,889	--
Restricted stock awards	264,199	403,096	--
	-----	-----	-----
Dilutive weighted average of common stock	73,197,255	68,063,873	67,321,299
	=====	=====	=====

Diluted EPS \$ 0.82 \$ 0.07 \$ (1.02)
=====

- (1) The effect of our Convertible Notes on diluted EPS is computed using the if-converted method in accordance with the provisions of EITF 04-8, as described in Note 1. The Convertible Notes are assumed to have been converted to common shares at the time the Convertible Notes were issued on July 28, 2004. Interest expense applicable to the Convertible Notes, including amortization of capitalized costs, which we report as a component of interest expense, is added back to net income.
- (2) Excludes the effect of all options in the year 2002, because options are antidilutive in the event of a loss, and the effect of an average of 1,274,364 and 2,818,332 of options that were antidilutive for 2004 and 2003, respectively, because their exercise price was greater than the average market price of our stock.

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NOTE 18 DERIVATIVE FINANCIAL INSTRUMENTS

FOREIGN CURRENCY EXCHANGE RATE RISK MANAGEMENT

We entered into foreign currency derivatives to hedge our net investments in foreign subsidiaries that own residual securities backed by subprime residential loans originated in the UK and that own a shopping center located in Halifax, Nova Scotia. Our principal exposure to foreign currency exchange rates exists with the British Pound versus the U.S. dollar and the Canadian Dollar versus the U.S. dollar. Our policy is to periodically adjust the amount of foreign currency derivative contracts we have entered into in response to changes in our recorded investment in these foreign entities as well as to changes in our assets denominated in a foreign currency. Our net exposures are subject to gain or loss if foreign currency exchange rates fluctuate. Currency futures are commitments to either purchase or sell foreign currency at a future date for a specified price. We have determined that the local currency of our investment in UK residuals and our investment in the Nova Scotia Shopping Center is the functional currency. Our foreign currency derivative financial instruments were designated as hedges. Accordingly, we include the gains or losses in the net unrealized foreign currency translation in accumulated other comprehensive income in stockholders' equity.

The following table sets forth the terms and values of these foreign currency financial instruments at the dates indicated:

	Position	Maturity	Notional Amount	Strike Rate	Fair Value

December 31, 2004:					
Canadian Dollar currency futures (1) ..	Short	March 2005	C\$ 11,500	0.8416	\$ 109
British Pound currency futures (1)	Short	March 2005	(Pound) 17,000	1.9248	301

					\$ 410
=====					
December 31 2003:					
Canadian Dollar currency futures	Short	March 2004	C\$ 10,000	0.7660	\$ (34)
British Pound currency futures	Short	March 2004	(Pound) 16,500	1.7292	(737)

					\$ (771)
=====					

- (1) The U.S. Dollar equivalent notional amount of the Canadian Dollar currency futures and British Pound currency futures at December 31, 2004 was \$9,570 and \$32,609, respectively.

Because foreign currency futures contracts are exchange traded, holders of these instruments look to the exchange for performance under these contracts and not the entity holding the offsetting futures contract, thereby minimizing the risk of nonperformance under these contracts. The notional principal amount

does not represent our exposure to credit loss.

INTEREST RATE RISK MANAGEMENT

From time to time we enter into interest rate swaps. Under interest rate swaps, we agree with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional amount. We are exposed to credit loss when we enter into interest rate swaps if: (i) the counterparty to the interest rate swap does not perform and (ii) the interest rate that we receive exceeds the interest rate that we pay.

We had no interest rate swaps outstanding at December 31, 2004 or 2003. During 2003, we realized gains of \$1,076 on swaps that we included in non-interest revenue. While these two swaps were entered into for interest rate risk management purposes, they did not meet the criteria to be accounted for under hedge accounting. Accordingly, they were accounted for at fair value with changes in fair value recorded in our consolidated statements of operations. We entered into no swap agreements during 2004 or 2002.

The amortizing interest rate caps and floors we had purchased in 1999 to hedge our interest rate exposure relating to our match funded loans and securities matured in October 2003. Net realized and unrealized gains and (losses) included in earnings to record these caps and floors at fair value during 2003 and 2002 amounted to \$(592) and \$188, respectively.

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The following table summarizes our use of interest rate risk management instruments:

	Notional Amount		
	Interest Rate Swaps	Caps	Floors
Balance, December 31, 2002	\$ --	\$ 111,799	\$ 30,563
Purchases	200,000	--	--
Maturities	--	(111,799)	(30,563)
Terminations	(200,000)	--	--
Balance, December 31, 2003	\$ --	\$ --	\$ --

NOTE 19 INCOME TAXES

The components of income tax expense (benefit) were as follows:

	Years Ended December 31,		
	2004	2003	2002
Current:			
Federal	\$ (23,019)	\$ 667	\$ 1,817
State	241	49	--
Foreign	224	163	--
	(22,554)	879	1,817
Deferred:			
Federal	25,742	(2,401)	(30,798)
State	--	95	(2,085)
Foreign	6	--	--
Provision for (reversal of) valuation allowance on deferred tax asset	(35,518)	2,175	34,049
	(9,770)	(131)	1,166

Income tax expense (benefit) before change in accounting principle	(32,324)	748	2,983
Income tax benefit on change in accounting principle	--	--	(1,166)
Total	<u>\$(32,324)</u>	<u>\$ 748</u>	<u>\$ 1,817</u>

Income tax expense (benefit) before the effect of change in accounting principle differs from the amounts computed by applying the U.S. Federal corporate income tax rate of 35% as follows:

	Years Ended December 31,		
	2004	2003	2002
Expected income tax expense (benefit) at statutory rate	\$ 8,890	\$ 1,760	\$ (27,933)
Differences between expected and actual expense (benefit)			
Excess of cost over net assets acquired, net	(1,023)	(931)	1,051
State tax (after Federal tax benefit)	157	94	(1,355)
Low-income housing tax credits	(4,848)	(2,393)	(2,685)
Deferred tax asset valuation allowance expense (benefit)	(35,518)	2,175	34,049
Other	18	43	(144)
Actual income tax expense (benefit)	<u>\$(32,324)</u>	<u>\$ 748</u>	<u>\$ 2,983</u>

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The net deferred tax asset was comprised of the following as of December 31:

	2004	2003
Deferred Tax Assets:		
Tax residuals and deferred income on tax residuals	\$ 1,159	\$ 5,688
State taxes	8,465	8,456
Accrued incentive compensation	2,368	2,609
Accrued other liabilities	1,423	418
Interest expense related to discount loan portfolio	--	5,453
Valuation allowance on real estate owned	444	10,455
Gain on loan foreclosure	--	4,430
Bad debt and allowance for loan losses	3,067	7,936
Impairment on securities available for sale and unrealized gains and losses on trading securities	7,226	10,011
Mortgage servicing rights amortization	61,216	24,094
Goodwill amortization	960	1,152
Foreign currency exchange	1,075	1,075
Capital loss carryforward	8,601	21,110
Net operating loss carryforward	27,086	71,061
Partnership losses and low-income housing tax credits	62,904	42,550
	<u>185,994</u>	<u>216,498</u>
Deferred Tax Liabilities:		
Deferred interest income on loans	1,255	6,421
Loss on loan foreclosure	61	--
Research and development costs	324	647
Other	744	439
	<u>2,384</u>	<u>7,507</u>
Valuation allowances	<u>183,610</u>	<u>208,991</u>
	<u>(165,927)</u>	<u>(201,445)</u>
Net deferred tax asset	<u>\$ 17,683</u>	<u>\$ 7,546</u>

We conduct periodic evaluations of positive and negative evidence to determine whether it is more likely than not that the deferred tax asset can be realized in future periods. Among the factors considered in this evaluation are estimates of future taxable income, the future reversal of temporary differences, tax character and the impact of tax planning strategies that can be implemented if warranted. As a result of this evaluation, we included in the tax provision a decrease of \$35,518 to the valuation allowance for 2004 and an increase of \$2,175 and \$34,049 to the valuation allowance for 2003 and 2002, respectively.

As of December 31, 2004, we had a deferred tax asset valuation allowance totaling \$165,927. This allowance is comprised of \$38,873 relating to built-in loss limitations arising from our acquisition of OAC and \$127,054 relating to our evaluation of the future realization of prior years deferred tax asset.

Before our acquisition of OAC, OAC was a REIT for federal tax purposes and filed a REIT federal income tax return through October 20, 1999. We have included OAC in our consolidated federal income tax return since October 21, 1999. OAC had, at October 6, 1999, approximately \$131,567 of net unrealized built-in losses. Any such losses recognized within the five-year period beginning on October 7, 1999 (the "recognition period") are treated as pre-change losses and, as such, are subject to an annual limit as to the amount, which may offset the taxable income of Ocwen Financial Corporation and its subsidiaries ("the IRC section 382 limitation"). A net unrealized built-in loss is an amount by which the tax basis of the corporation's assets at the time of the change in ownership exceeds the aggregate fair market value of those assets at that time. The IRC section 382 limitation is determined by multiplying the value of OAC's stock by the federal long-term tax-exempt rate and amounts to approximately \$5,700. If a deduction is denied for any recognized built-in loss in any post-change year, the loss is carried forward to subsequent years under rules similar to the standard loss carryforward rules. As a result of these limitations, we established a corresponding deferred tax asset valuation allowance at the acquisition date as part of purchase accounting in the amount of \$38,873. At December 31, 2004, we had realized built-in losses of \$101,938, which consists of net operating loss carryforwards of \$77,390 and capital loss carryforwards of \$24,548.

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Deferred tax assets, net of deferred fees, include tax residuals, which result from the ownership of Real Estate Mortgage Investment Conduits ("REMIC"). While a tax residual is anticipated to have little or no future cash flows from the REMIC from which it has been issued, the tax residual does bear the income tax liability and benefit resulting from the annual differences between the interest paid on the debt instruments issued by the REMIC and the interest received on the mortgage loans held by the REMIC. Typically this difference generates taxable income to the Company in the first several years of the REMIC and equal amounts of tax losses thereafter, thus resulting in the deferred tax asset. The current Federal income tax expense in 2003 and 2002 is the result of excess inclusion income generated by REMIC residuals.

At December 31, 2003, we had net operating loss carryforwards of \$123,699 and capital loss carryforwards of \$35,767. During 2004, we filed claims with the Internal Revenue Service to carryback these net operating losses and capital losses to prior years in which taxes were paid. At December 31, 2004, we had tax credit carryforwards of \$51,057 related to our low-income housing tax credits, which expire in the years 2018 through 2024.

Prior to December 31, 1996, The Bank was permitted to deduct from taxable income an allowance for bad debts, which was in excess of the provision for such losses charged to income. Accordingly, at December 31, 2004, retained earnings includes \$5,700, for which no provision for income tax has been provided. The base reserves will continue to be subject to recapture, and the Bank could be required to recognize a tax liability if: (1) the Bank fails to qualify as a "bank" for federal income tax purposes, (2) certain distributions are made with respect to the stock of the Bank, (3) the bad debt reserves are used for any purpose other than to absorb bad debt losses or (4) there is a change in federal tax law.

We have not recognized a deferred tax liability for the tax bad debt reserves of the Bank. If in the future, this portion of retained earnings is distributed or the Bank no longer qualifies as a bank for tax purposes, federal income tax of approximately \$2,000 would be imposed.

NOTE 20 EMPLOYEE BENEFIT AND COMPENSATION PLANS

We maintain a defined contribution plan to provide postretirement benefits to our eligible employees. We also adopted a number of compensation

plans for certain of our employees. We designed these plans to facilitate a pay-for-performance policy, further align the interests of our officers and key employees with the interests of our shareholders and assist in attracting and retaining employees vital to our long-term success. These plans are summarized below.

RETIREMENT PLAN

We maintain a defined contribution 401(k) plan. We match 50% of each employee's contributions, limited to 2% of the employee's compensation. Our contributions to the 401(k) plan for the years ended December 31, 2004, 2003 and 2002, were \$490, \$417 and \$593, respectively.

In connection with our acquisition of Berkeley Federal Savings Bank in June 1993, the Bank assumed the obligations under a noncontributory defined benefit pension plan (the "Plan") covering substantially all employees upon their eligibility under the terms of the Plan. We froze and fully funded the Plan after the plan year ended December 31, 1993.

ANNUAL INCENTIVE PLAN

The Ocwen Financial Corporation 1998 Annual Incentive Plan (the "AIP") is our primary incentive compensation plan for executives and other key employees. Under the terms of the AIP participants can earn cash and equity based awards as determined by the Compensation Committee. The awards are based on objective performance criteria established by the Committee, including growth in our core businesses, reduction in non-core assets, cost savings through Six Sigma initiatives and utilization of India operations and the achievement of other established performance goals. Non-qualified stock options to purchase our common stock are issued as part of the AIP and are granted pursuant to the Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan.

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The following table provides a summary of our stock option activity for the years ended December 31, 2004, 2003 and 2002, respectively, and stock options exercisable at the end of each of those years:

	2004		2003		2002	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	4,581,370	\$ 8.08	4,723,166	\$ 7.97	4,655,269	\$ 9.01
Granted (1)	633,169	\$ 8.01	431,982	\$ 6.15	634,228	\$ 1.87
Exercised	(543,260)	\$ 4.47	(359,419)	\$ 4.51	(32,937)	\$ 4.62
Forfeited	(392,010)	\$ 10.08	(214,359)	\$ 7.74	(533,394)	\$ 9.98
Outstanding at end of year	<u>4,279,269</u>	\$ 8.34	<u>4,581,370</u>	\$ 8.08	<u>4,723,166</u>	\$ 7.97
Exercisable at end of year	<u>2,805,555</u>	\$ 9.60	<u>2,541,593</u>	\$ 9.72	<u>2,744,160</u>	\$ 9.46

(1) The weighted average grant-date fair value was \$9.48 in 2004, \$8.74 in 2003 and \$2.67 in 2002.

The following table summarizes information about our stock options outstanding at December 31, 2004:

Award Year	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Exercise Price (1)	Remaining Contractual Life	Number of Options	Weighted Average Exercise Price

2004	633,169	\$	8.01	10	76,634	\$	6.57
2003	393,494	\$	6.15	9	101,660	\$	6.18
2002	402,751	\$	1.87	8	158,840	\$	1.87
2001	933,867	\$	8.68	7	695,392	\$	9.68
2000	728,121	\$	4.09	6	585,162	\$	4.09
1999	116,828	\$	6.25	5	116,828	\$	6.25
1998	69,123	\$	12.31	4	69,123	\$	12.31
1997	481,336	\$	20.35	3	481,336	\$	20.35
1996	431,580	\$	11.00	2	431,580	\$	11.00
1995	89,000	\$	2.88	1	89,000	\$	2.88
	-----				-----		
	4,279,269	\$	8.34		2,805,555	\$	9.60
	=====				=====		

- (1) With the exception of 2004, 2003, and 2001 the weighted average exercise price of outstanding options represents the actual exercise price. For those years, options were granted at more than the exercise price. The number of options outstanding and the respective exercise price for award years 2004, 2003 and 2001 is as follows:

Award Year	Options Outstanding	Exercise Price
2004	383,169	\$ 6.57
2004	200,000	\$ 10.60
2004	30,000	\$ 8.56
2004	20,000	\$ 8.75

	633,169	
	=====	
2003	383,494	\$ 6.18
2003	10,000	\$ 4.92

	393,494	
	=====	
2001	533,868	\$ 5.79
2001	400,000	\$ 12.55

	933,868	
	=====	

After the awards of 633,169 options for 2004, the number of authorized shares remaining and available for future awards of stock options is 5,660,385.

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Stock options we awarded under the annual incentive plan prior to 1998 had a one-year vesting period. Stock options we awarded under the AIP for 1998 and 1999 vested ratably over a three-year period. Stock options we awarded under the AIP for 2000 and thereafter generally vest ratably over a five-year period, including the award year. The term of all options granted is ten years from the grant date. As discussed in the "Stock-Based Compensation" and "Current Accounting Pronouncements" sections of Note 1, we currently treat the difference, if any, between the fair market value of our stock at the date of grant and the exercise price as compensation expense. We recognize this compensation expense ratably over the vesting period of the grant. Included in compensation expense for the years ended December 31, 2004, 2003 and 2002 was \$1,266, \$1,226 and \$922, respectively, related to options granted below fair market value. Upon adoption of SFAS No. 123 (R), compensation expense related to options will be measured based on the grant-date fair value of the options using an option-pricing model.

NOTE 21 STOCKHOLDERS' EQUITY

On May 9, 2000, we announced that our Board of Directors authorized the repurchase of up to 6,000,000 of our issued and outstanding shares of common stock. To date, 431,100 shares have been repurchased under this plan (all in 2004). A total of 5,568,900 shares may still be purchased under this plan. On

May 16, 2003 we announced our initiation of a stock repurchase program to purchase 700,000 shares of our issued and outstanding common stock with the intent to utilize these repurchased shares as a portion of our annual incentive awards to employees for service in 2002. During 2004 and 2003, we repurchased 200,000 and 500,000 shares, respectively, and issued 203,088 and 236,461 shares, respectively, to employees. No shares remain to be purchased under this plan. We also repurchased 4,850,000 shares in 2004 with a portion of the proceeds from our issuance of the Convertible Notes in July. No shares remain to be purchased under this plan.

NOTE 22 REGULATORY REQUIREMENTS

The Bank, as a federal savings bank organized under the Home Owners' Loan Act, and OCN, as a registered savings and loan holding company under the Act, are subject to extensive federal and state regulation under the Act and other U.S. federal and state laws. Our primary regulatory authority is the U.S. Office of Thrift Supervision ("OTS"). As such, the OTS periodically conducts an examination of the Bank and its business practices.

On April 19, 2004, the Bank and the OTS entered into a Supervisory Agreement (the "Agreement"). The Agreement memorializes various loan servicing and customer service practices, some of which the Bank had previously adopted and some of which it has implemented on a going-forward basis. Under the Agreement, the Bank will continue to maintain and further develop its Office of Consumer Ombudsman, an initiative implemented effective January 1, 2004. The Agreement acknowledges that the Bank no longer assesses delinquent borrowers attorneys' fees for issuing notices of default (breach fees). Beginning with the effective date of the Agreement, the Bank will no longer charge delinquent borrowers a fee for providing forbearance plans in lieu of foreclosures (forbearance fees). The Agreement also establishes the procedures to be followed to determine whether appropriate hazard insurance is in place before placing insurance on behalf of the borrower. Those procedures include some already implemented by the Bank, as well as new requirements, including that the second notice shall be sent to borrowers by certified mail. Consistent with practices in place prior to the date of the Agreement, the Bank will not place the borrower's loan in default, assess fees or initiate foreclosure proceedings solely due to the borrower's nonpayment of insurance premiums. The Agreement also provides that the Bank agrees "to utilize best efforts" to provide borrowers or their agents pay-off quotes within five business days and sets forth new guidelines regarding documentation of charges on such pay-off quotes.

The Bank also is required to meet a number of deadlines and submit reports relating to its implementation of the Agreement. While we do not expect that compliance with the Agreement will have a material adverse impact on our financial condition, results of operations or cash flows, we do not know whether the OTS or other regulatory agencies will seek to implement additional measures relating to the Bank's servicing practices, including with respect to the matters that are the subject of the Agreement. Accordingly, there can be no assurance that any such measures, if implemented, would not have a material adverse effect on our financial condition, results of operations or cash flows.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 and the regulations promulgated thereunder established certain minimum levels of regulatory capital for savings institutions subject to regulation by the OTS. As a federally chartered savings bank regulated by the OTS, the bank must follow specific capital guidelines stipulated by the OTS. These guidelines involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items. An institution that fails to comply with its regulatory capital requirements must obtain OTS approval of a capital plan and can be subject to a capital directive and certain restrictions on its operations.

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At December 31, 2004, the Bank was "well capitalized" under the prompt corrective action regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991. To be categorized as "well capitalized", the Bank must maintain minimum core capital, Tier 1 risk-based capital and risk-based capital ratios as set forth in the following table. The Bank's capital amounts and classification are subject to review by federal

regulators regarding components, risk-weightings and other factors. There are no conditions or events since December 31, 2004 that we believe have changed the Bank's category.

Since 1997, the Bank has committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9.00% and 13.00%, respectively. The Bank continues to be in compliance with this commitment as well as with the regulatory capital requirements of general applicability (as indicated in the table below). In addition during 2002, we committed to limit our investment in mortgage servicing rights to an amount no greater than 50% of stockholders' equity on a consolidated basis and no greater than 60% of core capital (before any deduction thereto for mortgage servicing rights) at the Bank. On a consolidated basis, our investment in mortgage servicing rights is below the limit and represented 40% of stockholders' equity at December 31, 2004. At the Bank, mortgage servicing rights are also below the limit, amounting to 49% of core capital at December 31, 2004.

We have recently begun the process of having the Bank terminate its status as a federal savings bank under OTS and FDIC supervision, which would, among other things, eliminate certain restrictions on our growth. If this process, which we refer to as "debanking," is completed, we would dissolve the Bank and continue its non-depository businesses, including its mortgage servicing business, under another subsidiary of our Company, which would be licensed where necessary at the state level. Should debanking be completed, Ocwen Financial Corporation would no longer be a savings-and-loan holding company and would no longer be able to take deposits in the United States or benefit from federal preemption. Our ability to debank is subject to a number of contingencies, many of which are beyond our control, including approvals by the OTS with respect to the application for a voluntary dissolution (which we filed with the OTS on November 24, 2004) and sales of the Bank's deposits to third parties. There can be no assurance that we ultimately will be successful in debanking.

In connection with our debanking process, on February 4, 2005, we entered into a Branch Purchase and Deposit Assumption Agreement (the "Branch Purchase Agreement") with Marathon National Bank of New York ("Marathon"). Pursuant to the Branch Purchase Agreement, Marathon agreed to assume the deposit liabilities of the accounts associated with the Bank branch facility in Fort Lee, New Jersey. In addition, Marathon will take over the lease and other contracts and acquire assets related to the branch. In connection with that closing, Ocwen will make a cash payment to Marathon, which payment is calculated based upon, among other things, the amount of those deposit account liabilities as of the closing. As of February 28, 2005, the amount of the deposit liabilities of the accounts subject to the Branch Purchase Agreement was approximately \$193,000. The transaction is subject to regulatory and other customary approvals and conditions.

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The following table summarizes the Bank's actual and required regulatory capital at December 31, 2004 and 2003:

	Actual		Minimum For Capital Adequacy Purposes		To Be Well Capitalized For Prompt Corrective Action Provisions		Committed Capital Requirements
	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2004							
Shareholders' equity, and ratio to total assets	25.62%	\$ 214,054					
Disallowed mortgage servicing rights		(9,042)					
Disallowed deferred tax assets		(25,362)					
Non-includable subsidiary		(807)					
Intangible assets (1)		(2,845)					

Tier 1 (core) capital and ratio to adjusted total assets	22.07%	175,998	4.00%	\$ 31,892	5.00%	\$ 39,865	9.00%
Non-mortgage servicing rights		(1,014)					

Tangible capital and ratio to tangible assets ..	21.97%	\$ 174,984	1.50%	\$ 11,944			

Tier 1 capital and ratio to risk-weighted assets	31.50%	\$ 175,998			6.00%	\$ 33,527	
Tier 2 capital - Allowance for loan losses		4,572					

Real estate required to be deducted		(844)				
Total risk-based capital and ratio to risk-weighted assets	32.16%	\$ 179,726	8.00%	\$ 44,703	10.00%	\$ 55,879 13.00%
		=====				
Total regulatory assets		\$ 835,378				
		=====				
Adjusted total assets		\$ 797,306				
		=====				
Tangible assets		\$ 796,292				
		=====				
Risk-weighted assets		\$ 558,791				
		=====				
December 31, 2003						
Shareholders' equity, and ratio to total assets	18.10%	\$ 183,230				
Disallowed mortgage servicing rights		(10,846)				
Disallowed deferred tax assets		(21,052)				
Non-includable subsidiary		(839)				
Intangible assets (1)		(3,078)				

Tier 1 (core) capital and ratio to adjusted total assets	15.09%	147,415	4.00%	\$ 39,064	5.00%	\$ 48,830 9.00%
Non-mortgage servicing rights		(1,892)				

Tangible capital and ratio to tangible assets ..	14.93%	\$ 145,523	1.50%	\$ 14,621		
		=====				
Tier 1 capital and ratio to risk-weighted assets	20.00%	\$ 147,415			6.00%	\$ 44,230
		=====				
Tier 2 capital - Allowance for loan losses		6,247				
Real estate required to be deducted (2)		(43,460)				

Total risk-based capital and ratio to risk-weighted assets	14.95%	\$ 110,202	8.00%	\$ 58,973	10.00%	\$ 73,717 13.00%
		=====				
Total regulatory assets		\$ 1,012,437				
		=====				
Adjusted total assets		\$ 976,606				
		=====				
Tangible assets		\$ 974,714				
		=====				
Risk-weighted assets		\$ 737,168				
		=====				

(1) Unamortized balance of computer software.

(2) Retail shopping mall, which we originally acquired in satisfaction of a debt and had held in excess of five years prior to its sale in November 2004.

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Bankhaus Oswald Kruber GmbH & Co. KG, or BOK, our German banking subsidiary, is licensed as a credit institution (Kreditinstitut) under the laws of the Federal Republic of Germany and is supervised and regulated in Germany by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin), the German Central Bank (Deutsche Bundesbank) and, in respect of minimum reserves on deposits, the European Central Bank.

Although currently not significant to our operations, BOK, under its license, may engage not only in a number of traditional banking activities such as deposit and lending business, but also in investment banking, underwriting and securities trading transactions, both for its own account and for customers.

German regulatory requirements applicable to BOK concern in particular the maintenance of adequate regulatory capital and liquidity, the monitoring of, and limitations on, large credit exposures, limitations on equity and equity-like participations in other companies, the protection of depositors and the adoption of certain accounting standards and business practices. The German Federal Financial Supervisory Authority and the German Central Bank monitor the compliance of German banks such as BOK with the applicable German banking laws, rules and regulations largely upon the basis of extensive reporting requirements as well as through general and specific audits. BOK is in compliance in all material respects with the German regulatory requirements that are applicable to its business.

NOTE 23 NET INTEREST INCOME (EXPENSE) BEFORE PROVISION FOR LOAN LOSSES

The following table presents the components of net interest income (expense) for each category of our interest-earning assets and interest-bearing liabilities for the years ended December 31:

	2004	2003	2002
	-----	-----	-----
Interest income:			
Interest earning cash and other	\$ 1,293	\$ 356	\$ 278
Federal funds sold and repurchase agreements	2,087	1,403	2,629
Trading securities	17,585	17,347	16,586
Loans	1,676	1,614	11,279
Match funded loans and securities	1,035	3,402	6,463
	-----	-----	-----
	23,676	24,122	37,235
	-----	-----	-----
Interest expense:			
Deposits	13,634	17,546	27,455
Securities sold under agreements to repurchase	--	3	236
Match funded liabilities	4,923	5,414	6,573
Lines of credit and other secured borrowings	2,717	5,824	4,152
Debt securities (1)	9,090	9,929	17,346
	-----	-----	-----
	30,364	38,716	55,762
	-----	-----	-----
Net interest income (expense) before provision for loan losses	\$ (6,688)	\$ (14,594)	\$ (18,527)
	=====	=====	=====

- (1) Includes \$6,117 and \$3,058 of interest expense on Capital Securities as a result of our adoption of SFAS No. 150 effective July 1, 2003. See Note 16.

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NOTE 24 OTHER INCOME

The following table presents the principal components of other income we earned during the years ended December 31:

	2004	2003	2002
	-----	-----	-----
Interest on federal tax refund claims (1)	\$ 6,874	\$ --	\$ --
Technology and related revenue (2)	6,871	1,472	910
Collections of credit card receivables (3)	1,811	2,737	4,191
Consulting fees	76	208	1,409
Gain (loss) on sales of interest-earning assets	--	28	(3,485)
Other	3,833	2,403	2,390
	-----	-----	-----
	\$ 19,465	\$ 6,848	\$ 5,415
	=====	=====	=====

- (1) See Note 10 for additional information regarding these federal tax refund claims.
- (2) Represents service contract fees, maintenance fees, consulting revenue and other fees earned through OTX and its technology products. Those products include a residential loan servicing system (REALServicing(TM)), a commercial loan servicing system (REALSynergy(TM)) and an internet-based mortgage loan processing application and vendor management system (REALTrans(SM)).
- (3) We recorded collections on charged-off unsecured credit card receivables that we have purchased from third parties on the cost recovery method through the end of 2001, at which time we reduced the net book value of these receivables to zero as a result of collections and reserves. Since that time, we have recorded all collections on the receivables as other income.

NOTE 25 OTHER OPERATING EXPENSES

The following table presents the principal components of other operating expenses we incurred during the years ended December 31:

2004 2003 2002

Travel, lodging, meals and entertainment	\$ 3,361	\$ 2,864	\$ 2,585
Bad debt expense	2,655	554	39
Amortization	1,039	1,197	1,436
Deposit related expenses	718	912	1,198
Conferences and seminars	363	361	475
Marketing	273	345	241
Investment and treasury services	261	282	340
Other	1,399	3,894	3,287
	<u>\$ 10,069</u>	<u>\$ 10,409</u>	<u>\$ 9,601</u>

NOTE 26 BUSINESS SEGMENT REPORTING

An operating segment is defined as a component of an enterprise that (a) engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (c) for which discrete financial information is available. A brief description of our segments follows:

Core Businesses

- Residential Loan Servicing. Through this business we provide loan servicing including asset management and resolution services to third party owners of subprime residential mortgage and high loan-to-value loans for a fee. We acquire the rights to service loans and obtain such rights by purchasing them outright or by entering into sub-servicing contracts.
- OTX. Through this segment we provide technology solutions for the mortgage and real estate industries. OTX products include a residential loan servicing system (REALServicing), a commercial loan servicing system (REALSynergy) and an internet-based mortgage loan processing application and vendor management system (REALTrans).

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- Ocwen Realty Advisors (ORA). Through ORA we provide residential property valuation services.
- Ocwen Recovery Group. This core business conducts collection activities for third party owners of unsecured receivables and for a portfolio of unsecured credit card receivables that we acquired at a discount in 1999 and 2000.
- Business Process Outsourcing. This core business segment began operations in December 2002. Business Process Outsourcing provides outsourcing services to third parties including mortgage underwriting, data entry, call center services and mortgage research.
- Commercial Servicing. This segment includes the results of both our domestic and international servicing of commercial assets. Prior to 2004, domestic commercial servicing was reported as a component of the Commercial Finance segment (re-named Commercial Assets), and the results of our international operations were reported as a separate segment. International servicing is conducted through GSS. Results for 2002 primarily reflect a one time consulting project for the government of Jamaica as well as other precedent ventures.

Non-Core Businesses

- Residential Discount Loans. This segment consisted of operations to acquire at a discount and subsequently resolve sub-performing and non-performing residential mortgage loans. We completed our last acquisition of residential loans in 2000. Based on the relative insignificance of the non-core assets remaining in this segment, the remaining assets of this business and any related income or loss arising from their resolution have been included in the Corporate Items and Other segment beginning January 1, 2003.
- Commercial Assets. This segment comprised operations to acquire

sub-performing commercial loans at a discount, as well as operations to invest in and reposition under-performing real estate assets. No assets have been acquired since 2000; since that time, this business has consisted of the repositioning, management and resolution of the remaining non-core assets.

- Affordable Housing. Includes our investments, primarily through limited partnerships, in qualified low-income rental housing for the purpose of obtaining Federal income tax credits pursuant to Section 42 of the Code. Except to complete those projects in which an investment had already been made, we ceased making investments in properties in 2000.
- Subprime Finance. In August 1999, we closed our domestic subprime origination business, which had been conducted primarily through OFS. Previously, activities of this segment included our acquisition and origination of single family residential loans to non-conforming borrowers. We have continued to manage and resolve the remaining non-core assets, which consist primarily of unrated single family subprime residual securities.

Corporate Items and Other

This segment includes business activities that are individually insignificant (including BOK), interest income on cash and cash equivalents, interest expense on corporate assets, gains and losses from debt repurchases and general corporate expenses.

We allocate interest income and expense to each business segment for the investment of funds raised or funding of investments made. We also make allocations of non-interest expense generated by corporate support services to each business segment.

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	Non-Interest Revenue	Net Interest Income (Expense)	Provision for Loan Losses	Non-Interest Expense	Pre-Tax Income (Loss)	Total Assets
At or for the year ended December 31, 2004						
Core businesses:						
Residential Loan Servicing	\$ 128,726	\$ (19,397)	\$ --	\$ 93,515	\$ 15,814	\$ 694,175
OTX	16,352	--	--	20,214	(3,862)	4,430
Ocwen Realty Advisors	30,373	(71)	--	23,836	6,466	2,077
Ocwen Recovery Group	13,803	--	--	9,888	3,916	541
Business Process Outsourcing	9,493	(24)	--	7,264	2,205	2,502
Commercial Servicing	15,277	(12)	--	14,692	573	13,025
	214,024	(19,504)	--	169,409	25,112	716,750
Non-core businesses:						
Commercial Assets	(1,997)	(338)	(1,651)	4,324	(5,008)	24,149
Affordable Housing	230	(1,226)	(112)	2,372	(3,256)	36,715
Subprime Finance	(924)	13,763	--	2,271	10,568	35,519
	(2,691)	12,199	(1,763)	8,967	2,304	96,383
Corporate Items and Other	11,694	617	(118)	14,606	(2,178)	514,360
	\$ 223,027	\$ (6,688)	\$ (1,881)	\$ 192,982	\$ 25,238	\$ 1,327,493
At or for the year ended December 31, 2003						
Core businesses:						
Residential Loan Servicing	\$ 121,132	\$ (20,892)	\$ --	\$ 69,196	\$ 31,043	\$ 672,779
OTX	9,933	--	--	21,453	(11,520)	5,290
Ocwen Realty Advisors	18,804	(21)	--	13,351	5,432	1,056
Ocwen Recovery Group	12,140	--	--	6,840	5,300	323
Business Process Outsourcing	4,496	(5)	--	2,597	1,893	1,010
Commercial Servicing	6,998	(52)	--	11,151	(4,204)	5,241
	173,503	(20,970)	--	124,588	27,944	685,699
Non-core businesses:						
Commercial Assets	(1,192)	(7,217)	(3,095)	4,085	(9,399)	133,015
Affordable Housing	1,595	(2,767)	151	3,565	(4,888)	48,974
Subprime Finance	2,914	15,210	--	13,936	4,188	39,162
	3,317	5,226	(2,944)	21,586	(10,099)	221,151
Corporate Items and Other	677	1,150	260	11,327	(12,817)	333,268
	\$ 177,497	\$ (14,594)	\$ (2,684)	\$ 157,501	\$ 5,028	\$ 1,240,118
At or for the year ended December 31, 2002						
Core businesses:						

Residential Loan Servicing	\$ 120,024	\$ (18,304)	\$ --	\$ 69,746	\$ 31,974	\$ 579,115
OTX	6,522	1	--	30,667	(24,144)	6,172
Ocwen Realty Advisors	14,080	--	--	11,484	2,597	532
Ocwen Recovery Group	10,652	--	(278)	6,925	4,006	296
Business Process Outsourcing	206	--	--	88	118	6
Commercial Servicing	5,561	(51)	--	8,733	(3,223)	5,385
	-----	-----	-----	-----	-----	-----
	157,045	(18,354)	(278)	127,643	11,328	591,506
	-----	-----	-----	-----	-----	-----
Non-core businesses:						
Residential Discount Loans	(2,354)	6,068	(2,299)	5,250	763	44,759
Commercial Assets	(23,847)	(7,627)	12,814	5,458	(49,746)	196,249
Affordable Housing	864	(4,449)	3,392	24,544	(31,521)	62,092
Subprime Finance	7,395	11,787	--	4,646	14,536	41,950
	-----	-----	-----	-----	-----	-----
	(17,942)	5,779	13,907	39,898	(65,968)	345,050
	-----	-----	-----	-----	-----	-----
Corporate Items and Other	(5,091)	(5,952)	--	10,085	(27,417)	285,686
	-----	-----	-----	-----	-----	-----
	\$ 134,012	\$ (18,527)	\$ 13,629	\$ 177,626	\$ (82,057)	\$ 1,222,242
	=====	=====	=====	=====	=====	=====

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NOTE 27 COMMITMENTS AND CONTINGENCIES

We lease certain premises under various non-cancelable operating leases with terms expiring at various times through 2012, exclusive of renewal option periods. Our annual aggregate minimum rental commitments under these leases are summarized as follows:

2005	\$ 3,631
2006	2,626
2007	2,043
2008	1,164
Thereafter	2,615

Minimum lease payments	\$ 12,079
	=====

We converted rental commitments for our facilities outside the United States of America to U.S. dollars using exchange rates in effect at December 31, 2004. Rent expense for the years ended December 31, 2004, 2003 and 2002 was \$2,725, \$3,511 and \$3,326, respectively.

Through our investment in subordinated securities and subprime residuals, which had a fair value of \$39,527 at December 31, 2004, we support senior classes of securities.

Under the terms of the sales agreements entered into in connection with the sale of certain of our affordable housing properties, we have a commitment to fund cash deficits that may arise from the operations of those properties. The remaining term of these commitments ranges from two to five years. The obligation under these commitments was \$4,813 as of December 31, 2004. Any operating deficits we fund are supported by a promissory note to be repaid to us from future cash flows of the property. In addition, we have provided to the purchasers of certain affordable housing properties guaranties against the possible recapture of future tax credits. We have never experienced a recapture of tax credits on any of the affordable housing properties in which we invested or sold. We have not recognized these guaranties as a liability because the probability of recapture is considered remote.

OCN and certain of its affiliates, including the Bank, have been named as defendants in purported class action lawsuits brought in various federal and state courts challenging the Bank's mortgage servicing practices. On April 13, 2004 the United States Judicial Panel on Multi-District Litigation granted our petition to transfer and consolidate a number of the lawsuits into a single case to proceed in the United States District Court for the Northern District of Illinois under caption styled: In re Ocwen Federal Bank FSB Mortgage Servicing Litigation, MDL Docket No. 1604 (the "MDL Proceeding"). Additional similar lawsuits have been brought in other courts, some of which have been or may be transferred and consolidated in the MDL Proceeding.

The MDL Proceeding currently includes the following actions in which OCN and/or the Bank are defendants:

- (1) Patricia Antoine, et al v. Ocwen Federal Bank FSB, et al.,
case No. C-03-5503 (N.D.Cal.)
- (2) Deborah Bush v. Ocwen Federal Bank FSB, et al.,
Case No. 7:04-cv-02827 (N.D.Ala.)
- (3) Carolyn P. Calhoun v. Ocwen Federal Bank FSB, et al.,
Case No. 4:04-cv-00293 (N.D.Miss.)
- (4) Ralph Carreon Jr., et al. v. Ocwen Federal Bank FSB,
Case No. 5:03-5151 (Bankr. W.D.Tex.)
- (5) Stevie Cooper, et al. v. Ocwen Federal Bank FSB, et al.,
Case No. 1:04-cv-00639 (S.D.Ala.)
- (6) Mary Crosby v. Ocwen Federal Bank FSB, et al.,
Case No. 5:04-cv-02828 (N.D.Ala.)
- (7) Billy M. Dockery, et al. v. Ocwen Federal Bank FSB, et al.,
Case No. 7:04-cv-02830 (N.D.Ala.)
- (8) Thomas B. Doherty v. Ocwen Federal Bank FSB, et al.,
Case No. 04-cv-04880 (D.Minn.)
- (9) Unnatiben Gandabhai, et al. v. Ocwen Federal Bank FSB, et al.,
Case No. 3:04-2582 (N.D.Cal.)
- (10) Lizzie Hannah, et al. v. Ocwen Federal Bank FSB, et al.,
Case No. 7:04-cv-02833 (N.D.Ala.)
- (11) Kweku Hanson, et al v. Ocwen Federal Bank FSB, et al.,
Case No. 02-CV-860 (D.Conn.)
- (12) William Hearn, et al v. Ocwen Federal Bank FSB, et al.,
Case No. C-04-0291 (E.D.Cal.)
- (13) Stephanie Hunter, et al. v. Ocwen Federal Bank FSB, et al.,
Case No. 2:04-cv-02864 (N.D.Ala.)
- (14) Lula M. Jackson, et al v. Ocwen Federal Bank FSB, et al.,
Case No. C-03-0743 (N.D.Cal.)
- (15) Freddie Jones v. Ocwen Federal Bank FSB, et al.,
Case No. 4:04-cv-00294 (N.D.Miss.)
- (16) Marion Long v. Ocwen Federal Bank FSB, et al.,
Case No. 7:04-cv-02852 (N.D.Ala.)
- (17) Allie M. Maddox, et al v. Ocwen Federal Bank FSB, et al.,
Case No. CV-03-9515 (C.D.Cal.)

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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- (18) Jeannette E. Martinez v. Ocwen Federal Savings Bank FSB,
Case No. 1:04-296 (D.N.M.)
- (19) Michele McAuliffe, et al. v. U.S. Bank, N.A. as Trustee., et al.,
Case No. 03-C-1103 (N.D. Ill.)
- (20) George McDonald v. Ocwen Financial Corp., et al.,
Case No. 1:04-03673 (N.D.Cal.)
- (21) Al McZeal v. Ocwen Federal Bank FSB, et al.,
Case No. 4:04-1576 (S.D.Tex.)
- (22) Delores B. Moore v. Ocwen Federal Bank FSB, et al.,
Case No. 2:04-2612 (E.D. Pa.)
- (23) Timothy Napier, et al. v. Ocwen Federal Bank FSB, et al.,
Case No. 2:03-174 (E.D.Wash.)
- (24) William A. Soto, et al v. Ocwen Federal Bank FSB, et al.,
Case No. 02-C-6818 (N.D.Ill.)
- (25) Geneva Spires, et al v. Ocwen Financial Services, Inc., et al.,
Case No. C-03-5600 (N.D.Cal.)
- (26) Maggie Williams, et al. v. Ocwen Federal Bank FSB, et al.,
Case No. 4:04-cv-02869 (N.D.Ala.)
- (27) Thomas Wright, et al. v. Ocwen Federal Bank FSB, et al.,
Case No. 1:04-cv-00638 (S.D.Ala.)

On August 23, 2004, plaintiffs filed a Consolidated Complaint, setting forth claims contained in lawsuits consolidated in the MDL Proceeding. Those claims variously involve alleged violations of federal statutes, including the Real Estate Settlement Procedures Act and Fair Debt Collection Practices Act, and state deceptive trade practices statutes, and assert common law claims. The claims are based on various allegations of improper servicing practices, including (i) charging borrowers allegedly improper or unnecessary fees such as breach letter fees, hazard insurance premiums, foreclosure-related fees, late fees and property inspection fees; (ii) untimely posting and misapplication of borrower payments; and (iii) improperly treating borrowers as in default on

their loans. While some of the individual lawsuits had set forth specific damage allegations (e.g., the Gandabhai complaint (item 9 above) claimed actual damages of \$61; the Hanson complaint (item 11 above) claimed actual damages of \$150,000 and punitive and exemplary damages of \$1,500,000; the various Alabama and Mississippi cases generally alleged damages less than \$75 (items 2, 3, 5, 6, 7, 10, 13, 15, 16, 26 and 27 above)), the Consolidated Complaint in the MDL Proceeding does not set forth any specific amounts of claimed damages. The absence of any specification of damages in the Consolidated Complaint does not, however, preclude plaintiffs in the MDL Proceeding from requesting leave from the court to amend the Consolidated Complaint or from otherwise seeking damages should the matter proceed to trial.

On September 30, 2004, the Ocwen defendants filed various motions to dismiss, for summary judgment, to strike class allegations and to stay discovery. Briefing on these motions has recently closed. Discovery in the MDL Proceeding has been stayed pending resolution of the motions. No motion for class certification has been submitted by plaintiffs, and the Court has not indicated when any such motion would be permitted to be filed.

We cannot currently determine the ultimate outcome of the MDL Proceeding or the other matters described above and have not established a reserve in respect thereof. We believe the allegations in the MDL Proceeding and the other matters described above are without merit and will continue to vigorously defend against them.

On November 3, 2004, the trial judge in litigation brought by Cartel Asset Management, Inc. ("Cartel") against OCN, the Bank and OTX in federal court in Denver, Colorado entered final judgment in the amount of \$520 against OTX and nominal damages of two dollars against the Bank. No damages were entered against OCN. By the November 3, 2004 order, the judge reduced a prior jury verdict in the amount of \$9,320 after trial on this matter involving allegations of misappropriation of trade secrets and contract-related claims brought by a former vendor. The litigation does not relate to our core Residential Loan Servicing business practices. Notwithstanding the nominal damage award against the Bank, it was assessed a statutory award to Cartel of attorneys' fees in an additional amount of \$170, and the Bank and OTX were further assessed costs in the amount of \$9. Cartel and defendants are pursuing cross-appeals in the United States Court of Appeals for the Tenth Circuit. A reserve of \$1,000 had been established for this matter. We intend to continue to vigorously defend this matter.

On February 8, 2005, a jury in Circuit Court for Palm Beach County, Florida returned verdicts of \$1,000 and \$1,056 in compensatory damages in favor of two former employees of the Bank in a lawsuit against OCN and the Bank. The jury rejected plaintiffs' request for punitive damages. The plaintiffs brought claims under the Florida Civil Rights Act, the Florida Whistleblower Act and state tort law, arising out of an alleged invasion of privacy and related incidents allegedly committed by other former employees of the Bank in 1998 for which plaintiffs sought to hold the Ocwen defendants vicariously liable. We believe the verdicts, which have not yet been reduced to final judgments, are against the weight of evidence and contrary to law. Defendants have filed motions for a new trial and/or remittitur and, if necessary, will take an appeal to the Florida Court of Appeals for the Fourth District. We intend to continue to vigorously defend this matter.

On February 28, 2005, a jury in County Court for Nueces County, Texas, returned a verdict of \$140 in compensatory and statutory damages in favor of two borrowers whose mortgage loan was serviced by the Bank in a lawsuit arising out of a disputed foreclosure. The jury rejected plaintiffs' request for punitive damages. The verdict included \$2,900 for plaintiffs' attorneys' fees, an amount, which we believe is unsupported by the evidence and impermissibly excessive under the controlling legal authorities. The verdict has not yet been reduced to a final judgment. We are pursuing post-trial motions seeking to set aside or substantially reduce the attorneys' fees award and, if necessary, will take an appeal on that issue and perhaps other issues to the Texas Court of Appeals for the Thirteenth Judicial District. We intend to continue to vigorously defend this matter.

In light of the above-referenced developments in the Florida and Texas matters, we have established a reserve of \$3,000 in 2004.

On March 9, 2005, the Bank was served with a complaint filed in Superior Court for Los Angeles County, California, by Banco Popular North America, successor by merger to Quaker City Bank ("Banco Popular"), which claims to be a holder of residual interest in two mortgage loan trusts for which the Bank provides loan servicing. In this lawsuit, Banco Popular challenges the Bank's fee charges for recoveries on charged-off loans. The complaint variously alleges breach of contract, conversion, breach of fiduciary duty and fraud, and seeks declaratory and equitable relief, along with claimed compensatory damages in excess of \$3,000 and punitive damages in an unspecified amount. We believe the allegations are without merit and will vigorously defend this matter.

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

We continuously monitor the status of our litigation, including advice from external legal counsel, and perform periodic assessments of our litigation for potential accrual of litigation reserves and disclosure. We accrue a litigation reserve when it is probable that a liability had been incurred and the amount of loss can be reasonably estimated.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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 (Dollars in thousands, except share data)

NOTE 28 PARENT COMPANY ONLY FINANCIAL INFORMATION

CONDENSED STATEMENTS OF FINANCIAL CONDITION OF OCWEN FINANCIAL CORPORATION

	December 31,	
	2004	2003
	-----	-----
Assets		
Cash and cash equivalents	\$ 104,027	\$ 22
Cash held at bank subsidiary - OFB	1,272	19,708
Cash held at bank subsidiary - BOK	627	--
Investments in subsidiaries		
Bank subsidiary - OFB	207,491	178,838
Bank subsidiary - BOK	12,124	--
Non-bank subsidiaries	377,656	374,876
Advance due from bank subsidiary - OFB	13,578	3,345
Loan, net	--	7,134
Match funded assets	175,679	--
Investment in Capital Securities issued by OCT	68,751	68,751
Mortgage servicing rights	34,365	58,033
Income taxes receivable	57,610	21,217
Receivables and other assets	19,914	6,867
	-----	-----
	\$ 1,073,094	\$ 738,791
	=====	=====
Liabilities and Stockholders' Equity		
Match funded liabilities	\$ 149,341	\$ --
Secured borrowings	11,458	5,567
Debt securities (3.25% Convertible Notes)	175,000	--
Notes and debentures payable to non-bank subsidiaries	131,251	131,251
Accrued interest payable to non-bank subsidiaries	8,921	8,562
Advance due to non-bank subsidiaries	243,530	244,614
Deferred tax liability	8,569	20,645
Other liabilities	14,916	10,894
	-----	-----
Total liabilities	742,986	421,533
Stockholders' equity	330,108	317,258
	-----	-----
	\$ 1,073,094	\$ 738,791

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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 (Dollars in thousands, except share data)

CONDENSED STATEMENTS OF OPERATIONS OF OCWEN FINANCIAL CORPORATION

	For the Years Ended December 31,		
	2004	2003	2002
Servicing and related fees (1)	\$ 6,062	\$ 28,760	\$ 7,392
Non-interest revenue	8,034	3,333	2,528
Interest income	2,110	782	555
Interest income from subsidiaries			
Bank subsidiary - OFB	263	87	222
Non-bank subsidiaries	7,485	7,486	7,307
Interest expense	4,097	4,263	9,937
Interest expense - non bank subsidiaries	14,531	14,372	14,372
Net interest expense before provision for loan losses	(8,770)	(10,280)	(16,225)
Provision for loan losses	(887)	(125)	1,144
Net interest expense after provision for loan losses	(7,883)	(10,155)	(17,369)
Total revenue	6,213	21,938	(7,449)
Non-interest expense - non bank subsidiaries	3,754	1,625	96
Non-interest expense	11,585	19,525	3,636
Servicing fee expense - bank subsidiary - OFB	14,224	21,392	10,772
Income (loss) before income taxes	(23,350)	(20,604)	(21,953)
Income tax expense (benefit)	(50,704)	3	(1,658)
Income (loss) before equity in net income (losses) of subsidiaries	27,354	(20,607)	(20,295)
Equity in net income (losses) of subsidiaries			
Bank subsidiary - OFB	28,652	20,366	(40,341)
Bank subsidiary - BOK	(157)	--	--
Non-bank subsidiaries	1,875	5,013	(8,139)
Net income (loss)	\$ 57,724	\$ 4,772	\$ (68,775)

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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CONDENSED STATEMENTS OF CASH FLOWS OF OCWEN FINANCIAL CORPORATION

	For the Years Ended December 31,		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ 57,724	\$ 4,772	\$ (68,775)
Adjustments to reconcile net income to net cash (used) provided by operating activities			
Equity in (income) loss of Bank subsidiary - OFB	(28,652)	(20,366)	40,341
Equity in (income) loss of Bank subsidiary - BOK	157	--	--
Equity in (income) loss of non-bank subsidiary	(1,875)	(5,013)	8,139
Equity in loss (income) of unconsolidated entity, net	--	(38)	(142)
Amortization of mortgage servicing rights	32,991	35,889	9,125
Impairment charges on mortgage servicing rights	6,623	387	--
Provision for loan losses	(887)	(125)	1,144
(Increase) decrease in match funded advances on loans serviced for others	(175,679)	--	--
(Increase) decrease in income taxes receivable	(36,394)	(321)	(4,046)
(Increase) decrease in receivables	(4,619)	--	--
(Increase) decrease in other assets	(10,140)	(3,346)	3,297
Increase (decrease) in deferred tax liability	(12,076)	451	3,945
(Decrease) increase in accrued expenses and other liabilities	5,399	2,501	(578)
Other	2,794	--	--

Net cash provided (used) by operating activities	(164,634)	14,791	(7,550)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in and advances to subsidiaries	(13,797)	65,443	111,016
Purchase of mortgage servicing rights	(15,946)	(29,196)	(74,121)
Origination of loans	--	--	(9,153)
Principal payments received on loans	8,153	1,000	--
Proceeds from sale of real estate	--	--	1,797
Acquisition of subsidiaries	(10,680)	--	--
Net cash provided (used) by investing activities	(32,270)	37,247	29,539
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (repayment of) match funded agreements, net	149,341	--	--
Proceeds (repayments) of lines of credit and other secured borrowings, net	5,891	1,332	4,235
Issue (repayment) of debt securities, net	175,000	(43,475)	(43,550)
Exercise of common stock options	2,317	1,334	103
Repurchase of common stock	(49,449)	(2,262)	--
Net cash provided (used) by financing activities	283,100	(43,071)	(39,212)
Net increase (decrease) in cash and cash equivalents	86,196	8,967	(17,223)
Cash and cash equivalents at beginning of year	19,730	10,763	27,986
Cash and cash equivalents at end of year	\$ 105,926	\$ 19,730	\$ 10,763

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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NOTE 29 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	Quarters Ended			
	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Revenue	\$ 52,874	\$ 51,556	\$ 57,568	\$ 56,222
Non-interest expense	50,966	44,078	48,468	49,470
Income (loss) before minority interest and income taxes ..	1,908	7,478	9,100	6,752
Minority interest in net income (loss) of subsidiaries ...	(112)	18	(47)	(21)
Income tax expense (benefit)	(544)	(31,845)	55	11
Net income (loss)	\$ 2,565	\$ 39,305	\$ 9,092	\$ 6,762
Earnings (loss) per share				
Basic	\$ 0.04	\$ 0.61	\$ 0.13	\$ 0.10
Diluted (1)	\$ 0.04	\$ 0.53	\$ 0.13	\$ 0.10

	Quarters Ended			
	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Revenue	\$ 46,019	\$ 39,675	\$ 40,245	\$ 39,648
Non-interest expense	41,619	35,026	34,335	46,521
Distributions on Capital Securities	--	--	1,529	1,529
Income (loss) before minority interest and income taxes ..	4,400	4,649	4,381	(8,402)
Minority interest in net income (loss) of subsidiaries ...	(184)	28	(73)	(263)
Income tax expense (benefit)	130	6	305	307
Net income (loss)	\$ 4,454	\$ 4,615	\$ 4,149	\$ (8,446)
Earnings (loss) per share				
Basic	\$ 0.07	\$ 0.07	\$ 0.06	\$ (0.13)
Diluted	\$ 0.07	\$ 0.07	\$ 0.06	\$ (0.13)

- (1) The third quarter diluted EPS has been restated from \$0.60 to include the dilutive effect of the Contingent Convertible Notes issued during that quarter. This restatement is the result of a retroactive application of EITF 04-08, which became effective December 15, 2004.

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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, as traded on the NYSE:

	High -----	Low -----
2004		
First quarter	\$ 11.50	\$ 8.48
Second quarter	12.57	9.56
Third quarter	11.99	7.75
Fourth quarter	9.56	7.50
2003		
First quarter	\$ 3.40	\$ 2.71
Second quarter	4.87	3.13
Third quarter	5.09	4.12
Fourth quarter	8.88	4.60

At the close of business on March 10, 2005, our common stock price was \$8.04.

As a holding company, the payment of any dividends by us will be significantly dependent on dividends and other payments received from our subsidiaries, including the Bank, which may be affected by either restrictive covenants or regulatory limits. We do not currently pay cash dividends on 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 the Bank and other subsidiaries and investment opportunities at the time any such payment is considered. In addition, the indentures relating to the Junior Subordinated Debentures as well as the covenants relating to our lines of credit and other secured borrowings contain certain limitations on the payment of dividends by us. See Notes 15 and 16 to the Consolidated Financial Statements.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATES

Information regarding purchases of our own common stock during 2004 is as follows:

Period	Number of Shares	Average Share Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Maximum Number of Shares That May Yet Be Purchased under the Plans
Three months ended March 31	--	--	--	6,200,000
Three months ended June 30	--	--	--	6,200,000
Three months ended September 30 ...	5,481,100	\$ 9.02	5,481,100	5,568,900
Three months ended December 31	--	--	--	5,568,900
Total for the year	5,481,100			

(1) Shares were repurchased under the following plans:

- (a) A plan was announced May 9, 2000 to repurchase up to 6,000,000 shares of outstanding common stock.
- (b) A plan was announced May 16, 2003 to repurchase up to 700,000 shares of common stock to be used in connection with our annual incentive awards to employees. No shares remain to be repurchased under this plan.
- (c) A plan was announced July 27, 2004 to repurchase 4,850,000 shares of common stock using 25% of the gross proceeds from the sale of our Convertible Notes. See Note 21 to our Consolidated Financial Statements. No shares remain to be repurchased under this plan.

At March 10, 2005, 62,750,904 shares of our common stock were outstanding and held by approximately 1,270 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.

NEW YORK STOCK EXCHANGE SECTION 303A INFORMATION

On July 15, 2004, pursuant to Section 303A.12 of the New York Stock Exchange's listing standards, the Company's Chief Executive Officer certified to the New York Stock Exchange that he was not aware of any violation by the Company of the New York Stock Exchange corporate governance listing standards as of that date. Additionally, the Company filed with the SEC the CEO/CFO certifications required under Section 302 of the Sarbanes-Oxley Act as Exhibits to its Form 10-K.

SIGNIFICANT DIRECT AND INDIRECT SUBSIDIARIES OF OCWEN FINANCIAL CORPORATION

Name	State or Other Jurisdiction of Organization
-----	-----
Ocwen Federal Bank FSB (2)	New Jersey
RMSI, Inc (2)	New Jersey
Investors Mortgage Insurance Holding Company (1)	Delaware
Ocwen Properties, Inc. (1)	New York
Ocwen Asset Investment Corp. (1)	Florida
Ocwen General, Inc. (1)	Virginia
Ocwen Asset Investment - UK, LLC (2)	Delaware
Ocwen Partnership, L.P. (2)	Virginia
OAIC Halifax, LLC (2)	Delaware
Ocwen NIMS Corp. (2)	Florida
Ocwen Technology Xchange, Inc. (2)	Florida
REALTrans.Com, Inc. (2)	Florida
Residential Real Estate Solutions, Inc. (2)	Florida
Ocwen Capital Trust I (2)	Delaware
Ocwen Luxembourg, Sarl (1)	Luxembourg
Ocwen Asia Holdings Ltd. (1)	Mauritius
Ocwen Financial Solutions Private Limited (2)	India

(1) Holding company with no significant assets or operations

(2) Operating company

CONSENT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 filed on January 27, 1998 (Registration No. 333-44999), Registration Statement on Form S-8 filed on August 25, 1998 (Registration No. 333-62217), Registration Statement on Form S-3 filed on November 5, 1998 (Registration No. 333-64915), and Registration Statement on Form S-3 filed on October 12, 2004 (Registration No. 333-119698) of Ocwen Financial Corporation of our report dated March 15, 2005 relating to the financial statements, which appears in the 2004 Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP
West Palm Beach, Florida
March 16, 2005

CERTIFICATIONS

I, William C. Erbey, certify that:

1. I have reviewed this annual report on Form 10-K of Ocwen Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e), and 15d - 15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Reserved];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2005

/s/ William C. Erbey

William C. Erbey
Chief Executive Officer

CERTIFICATIONS

I, Robert J. Leist, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Ocwen Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Reserved];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2005

/s/ Robert J. Leist, Jr.

 Robert J. Leist, Jr., Vice President &
 Chief Accounting Officer and Acting
 Chief Financial Officer

CERTIFICATIONS

I, William C. Erbey, state and attest that:

- (1) I am the Chief Executive Officer of Ocwen Financial Corporation (the "Registrant").
- (2) I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
 - . the Annual Report on Form 10-K of the Registrant for the year ended December 31, 2004 (the "periodic report") containing financial statements fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
 - . the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ William C. Erbey

Title: Chief Executive Officer

Date: March 16, 2005

CERTIFICATIONS

I, Robert J. Leist, Jr., state and attest that:

- (1) I am the Acting Chief Financial Officer of Ocwen Financial Corporation (the "Registrant").
- (2) I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
 - . the Annual Report on Form 10-K of the Registrant for the year ended December 31, 2004 (the "periodic report") containing financial statements fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
 - . the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ Robert J. Leist, Jr.

Title: Vice President & Chief Accounting Officer and
Acting Chief Financial Officer

Date: March 16, 2005