

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 1997

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. 0-21341

OCWEN FINANCIAL CORPORATION

(Exact name of Registrant as specified in its charter)

FLORIDA

65-0039856

(State or other jurisdiction of incorporation or organization)

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

THE FORUM, SUITE 1000
1675 PALM BEACH LAKES BOULEVARD
WEST PALM BEACH, FLORIDA

33401

(Address of principal executive office)

(Zip Code)

(561) 681-8000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Not applicable.

Securities registered pursuant to Section 12 (g) of the Act:

COMMON STOCK, \$.01 PAR VALUE
(Title of each class)

NEW YORK STOCK EXCHANGE (NYSE)
(Name of each exchange on which registered)

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

Indicate by check mark 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.

Aggregate market value of the Common Stock, \$.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 February 27, 1998: \$902,378,460 (for purposes of this calculation affiliates include only directors and executive officers of the Company).

Number of shares of Common Stock, \$.01 par value, outstanding as of February 27, 1998: 60,708,520 shares

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 13, 1998 are incorporated by reference into Part III, Items 10-13. Portions of the Annual Report to Shareholders are incorporated by reference into Part II, Items 5-8.

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FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS CONTAINED HEREIN ARE NOT, AND CERTAIN STATEMENTS CONTAINED IN FUTURE FILINGS BY THE COMPANY WITH THE SECURITIES AND EXCHANGE COMMISSION, IN THE COMPANY'S PRESS RELEASES OR IN THE COMPANY'S OTHER PUBLIC OR SHAREHOLDER COMMUNICATIONS, MAY NOT BE BASED ON HISTORICAL FACTS AND ARE "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. FORWARD-LOOKING STATEMENTS WHICH ARE BASED ON VARIOUS ASSUMPTIONS (SOME OF WHICH ARE BEYOND THE COMPANY'S CONTROL), MAY BE IDENTIFIED BY REFERENCE TO A FUTURE PERIOD OR PERIODS, OR BY THE USE OF FORWARD-LOOKING TERMINOLOGY, SUCH AS "MAY," "WILL," "COULD," "BELIEVE," "EXPECT," "ANTICIPATE," "CONTINUE," "INTENDS," "PLANS," "PRESENTS," OR SIMILAR TERMS OR VARIATION ON THOSE TERMS, OR BY THE USE OF THE NEGATIVE OF SUCH TERMINOLOGY. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN FORWARD-LOOKING STATEMENTS DUE TO A VARIETY

OF FACTORS, INCLUDING, BUT NOT LIMITED TO, THOSE RELATED TO THE ECONOMIC ENVIRONMENT, PARTICULARLY IN THE MARKET AREAS IN WHICH THE COMPANY OPERATES, COMPETITIVE PRODUCTS AND PRICING, THE GROWTH OR DECLINE OF, AND THE AVAILABILITY OF PRODUCT TO PURCHASE IN, THE DISCOUNT LOAN INDUSTRY FISCAL AND MONETARY POLICIES OF THE U.S. OR U.K. GOVERNMENTS, CHANGES IN GOVERNMENT REGULATIONS AFFECTING FINANCIAL INSTITUTIONS AND REAL ESTATE INVESTMENT TRUSTS, INCLUDING REGULATORY FEES, CAPITAL REQUIREMENTS AND TAXATION, CHANGES IN PREVAILING INTEREST AND CURRENCY EXCHANGE RATES, ACQUISITIONS AND THE INTEGRATION OF ACQUIRED BUSINESSES, SOFTWARE INTEGRATION, DEVELOPMENT AND LICENSING, CREDIT INTEREST RATE AND OPERATIONAL RISK MANAGEMENT, ASSET/LIABILITY MANAGEMENT, THE FINANCIAL AND SECURITIES MARKETS AND THE AVAILABILITY OF AND COSTS ASSOCIATED WITH SOURCES OF LIQUIDITY. THE COMPANY DOES NOT UNDERTAKE, AND SPECIFICALLY DISCLAIMS ANY OBLIGATION, TO PUBLICLY RELEASE THE RESULTS OF ANY REVISIONS WHICH MAY BE MADE TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT THE OCCURRENCE OF ANTICIPATED OR UNANTICIPATED EVENTS OR CIRCUMSTANCES AFTER THE DATE OF SUCH STATEMENTS.

PART I

ITEM 1. BUSINESS

GENERAL

Ocwen Financial Corporation (the "Company") is a specialty financial services company which conducts business primarily through Ocwen Federal Bank FSB (the "Bank"), a federally-chartered savings bank and a wholly-owned subsidiary of the Company, and, to a lesser extent, through Ocwen Financial Services, Inc. ("OFS"), 93.7% owned subsidiary of the Company which acquired both the subprime single family residential lending operations previously conducted by the Bank and substantially all of the assets of Admiral Home Loan ("Admiral"), the Company's primary correspondent mortgage banking firm for subprime single family residential loans, in a transaction which closed on May 1, 1997. The Company, directly and through its non-bank subsidiaries, also conducts certain lending and investment activities.

The Company considers itself to be involved in the single business segment of providing financial services and conducts a variety of business activities within this segment. The Company's primary business activities currently consist of its subprime single family, small commercial and large commercial discount loan acquisition and resolution activities, commercial real estate lending activities, single family residential lending activities, mortgage loans for others, investments in a wide variety of mortgage-related securities and investments in low-income housing tax credit interests. In addition, the Company previously operated an automated banking division, the operations of which were discontinued in September 1995. The following table presents the contribution by business activity to the Company's net income for the years indicated.

	Year Ended December 31,					
	1997		1996		1995	
	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)					
Discount Loans:						
Single family residential loans	\$ 22,384	28%	\$ 12,580	25%	\$ 4,778	19%
Large commercial real estate loans	23,476	30	16,179	32	9,824	39
Small commercial real estate loans	5,194	7	3,687	7	4,395	17
Investment in low-income housing tax credits	9,353	12	7,269	14	3,538	14
Commercial real estate lending	11,802	15	3,785	8	3,041	12
Subprime single family residential lending	(1,526)	(2)	4,115	8	364	1
Mortgage loan servicing	3,780	5	2,559	5	175	1
Investment securities	5,615	7	2,226	4	2,454	10
Other	(1,146)	(2)	(2,258)	(3)	(3,102)	(13)
	<u>\$ 78,932</u>	<u>100%</u>	<u>\$ 50,142</u>	<u>100%</u>	<u>\$ 25,467</u>	<u>100%</u>

The Company's strategy focuses on what it believes to be the current trend toward the growth in the sale or outsourcing of servicing of nonperforming and underperforming loans by financial institutions and government agencies, particularly in the event that credit quality for some product lines (such as subprime mortgage loans) deteriorates. The Company's strategy also focuses on leveraging its technology infrastructure and core expertise to expand its activities into related business lines both for itself and on a fee basis for others. For example, the Company has acquired two software companies and formed a new corporation, Ocwen Asset Investment Corp. ("OAIC"), a Virginia corporation which elected to be taxed as a real estate investment trust ("REIT") for federal income tax purposes and which is managed by Ocwen Capital Corporation ("OCC"), a newly-formed, wholly-owned subsidiary of the Company.

In May 1997, OAIC successfully completed an initial public offering of its common stock, which resulted in net proceeds of \$283.8 million for its shares, inclusive of the amount contributed by Investors Mortgage Insurance Holding Company ("IMI"), a wholly-owned subsidiary of the Company. At December 31, 1997, IMI owned approximately 9.0% of the outstanding common stock of OAIC and had options to purchase an additional 10% of OAIC's common stock (one

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quarter of which vest annually over the next four years beginning in May 1998. Also at December 31, 1997, IMI owned 160,000 or 0.837% of the outstanding limited partnership units of Ocwen Partnership, L.P. ("OPLP"), the operating partnership formed to undertake the business of OAIC.

On November 6, 1997, the Company acquired Amos, Inc. ("Amos"), a Connecticut based company engaged primarily in the development of mortgage loan servicing software. Amos' products are Microsoft(R) Windows based, client/server architecture and feature real-time processing, year 2000 compliance, a scaleable database platform and strong workflow capabilities. The aggregate purchase price was \$9.7 million, including \$4.9 million which is contingent on Amos meeting certain software development performance criteria.

On January 20, 1998, the Company acquired DTS Communications, Inc. ("DTS"), a real estate technology company located in San Diego, California, for a purchase price of \$13.0 million in cash, common stock of the Company and repayment of certain indebtedness. DTS has developed technology tools to automate real estate transactions over the Internet. DTS has been recognized by Microsoft Corporation for the Microsoft(R) component-based architecture to facilitate electronic data interchange. The common stock of the Company issued in the acquisition was acquired from affiliates of the Company at the same price per share as was used to calculate the number of shares issued in the acquisition. DTS was recently honored as the recipient of this year's Inman Innovator Award for "Software Applications that help the Real Estate Industry be more efficient and speed up the Real Estate Transaction Process."

The Company plans to enhance both the Amos and DTS products by combining features from its proprietary software systems for loan default management and loss mitigation. Eventually, it is the Company's intention to make its advanced loan resolution technology available to third parties in the mortgage industry through the marketing of software licenses.

The Company is a registered savings and loan holding company subject to regulation by the Office of Thrift Supervision (the "OTS"). The Bank is 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 ("SAIF") which insures the Company's deposits up to the maximum extent permitted by law. The Bank is also subject to certain 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 which comprise the FHLB System.

RECENT TRANSACTIONS

On January 20, 1998, the Company acquired DTS (as discussed above).

On March 6, 1998, the Company acquired an approximately 35% interest in Norland Capital Group PLC, which trades as Kensington Mortgage Company ("Kensington"), for (POUND STERLING) 27.5 million, or approximately US\$45.4 million. Kensington Mortgage is a leading originator of non-conforming residential mortgages in the UK, with over (POUND STERLING) 400 million of total loans outstanding to over 8,000 borrowers as of December 1997. Founded in October of 1995, Kensington has become a major provider of residential home loans to UK borrowers who are unable to qualify for loans from traditional sources, such as building societies and banks. Kensington has the distinction of

being the only non-conforming originator on the UK Council of Mortgage Lenders, the trade association for the UK mortgage lending industry, whose 122 members collectively account for 98% of the residential mortgage lending in the UK. This council represents the UK's mortgage lenders, including banks, building societies and other residential mortgage lenders, to the government, Parliament, the media and other audiences.

On January 28, 1998, the Company, OAIC and Aames Financial Corporation ("Aames") announced that they had entered into a nonbinding letter of intent pursuant to which they are negotiating for OAIC to acquire subordinated residual interests with respect to mortgage loans originated or acquired by Aames through the first quarter of 1998 and for the Company to assume responsibility for the special servicing of nonperforming loans underlying such residuals. As the result of these negotiations, on March 19, 1998, OAIC announced that it had executed a definitive agreement with a Wall Street firm concerning the acquisition of a subordinate interest-only security for approximately \$14.3 million plus closing costs. Pursuant to related agreements, the Bank will be the special servicer with respect to the underlying loans.

On February 17, 1998, OAIC repurchased from IMI 175,000 shares of OAIC's common stock for an aggregate of approximately \$3.1 million, reducing IMI's ownership in OAIC to 8.12%. These shares were immediately resold to

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certain officers and directors of the Company and OAIC. As part of this transaction, IMI acquired 175,000 units from OPLP for approximately \$3.1 million, increasing IMI's ownership in OPLP to 1.736%.

On March 31, 1998, the Company announced that it had entered into definitive agreements for the acquisition of substantially all of the assets, and certain liabilities, of the United Kingdom operations of Cityscape Financial Corp. (Nasdaq SmallCap Market: CTYSC). The acquisition includes the purchase of Cityscape's UK whole loan portfolio, securitized loan residuals, and loan origination and servicing businesses for a price of approximately (POUND STERLING) 285 million, subject to adjustment as of closing based on an agreed upon formula (currently estimated to result in an upward or downward adjustment of approximately (POUND STERLING) 5 million). Closing, which is anticipated to occur in April, 1998, is subject to satisfaction of a number of conditions, including obtaining rating agency consents and various substitutions in connection with the transfer of the securitized residuals and related servicing rights (which will require the consents of the trustees of the several securitizations). As a result, there can be no assurance that the transaction will be consummated.

DISCOUNT LOAN ACQUISITION AND RESOLUTION ACTIVITIES

The Company believes that, under appropriate circumstances, the acquisition of nonperforming and underperforming mortgage loans at discounts offers significant opportunities to the Company. Discount loans generally have collateral coverage which is sufficiently in excess of the purchase price of the loan, such that successful resolutions can produce total returns which are in excess of an equivalent investment in performing mortgage loans.

The Company began its discount loan operations in 1991 and initially focused on the acquisition of single family residential loans. In 1994 the Company expanded this business to include the acquisition and resolution of discount multi-family residential and commercial real estate loans (together, unless the context otherwise requires, "commercial real estate loans"). Prior to entering the discount loan business, management of the Company had substantial loan resolution experience through former subsidiaries of the Company which had been engaged in the business of providing private mortgage insurance for residential loans. This experience assisted the Company in developing the procedures, facilities and systems which are necessary to appropriately evaluate and acquire discount loans and to resolve such loans in a timely and profitable manner. Management of the Company believes that the resources utilized by the Company in connection with the acquisition, servicing and resolution of discount real estate loans, which include proprietary technology and software, allow the Company to effectively manage an extremely data-intensive business and that, as discussed below, these resources have applications in other areas.

COMPOSITION OF THE DISCOUNT LOAN PORTFOLIO. At December 31, 1997, the Company's net discount loan portfolio amounted to \$1.43 billion or 47% of the Company's total assets. Substantially all of the Company's discount loan portfolio is secured by first mortgage liens on real estate.

The following table sets forth the composition of the Company's

discount loan portfolio by type of loan at the dates indicated:

	December 31,				
	1997	1996	1995	1994	1993
	(Dollars in Thousands)				
Single family residential loans	\$ 900,817	\$ 504,049	\$ 376,501	\$ 382,165	\$ 430,355
Multi-family residential loans	191,302	341,796	176,259	300,220	--
Commercial real estate loans	701,035 (1)	465,801 (1)	388,566	102,138	1,845
Other loans	1,865	2,753	2,203	911	1,316
Total discount loans	1,795,019	1,314,399	943,529	785,434	433,516
Unaccreted discount	(337,350) (2)	(241,908) (2)	(273,758)	(255,974)	(129,882)
Allowance for loan losses ..	(23,493)	(11,538)	--	--	--
Discount loans, net	\$ 1,434,176	\$ 1,060,953	\$ 669,771	\$ 529,460	\$ 303,634

(1) The balance at December 31, 1997 consisted of \$363.7 million of loans secured by office buildings, \$98.9 million of loans secured by hotels, \$106.8 million of loans secured by retail properties or shopping centers and \$131.6 million of loans secured by other properties. The balance at December 31, 1996 consisted of \$202.1 million of loans secured by office buildings, \$46.0 million of loans secured by hotels, \$138.6 million of loans secured by retail properties or shopping centers and \$79.1 million of loans secured by other properties.

(2) The balance at December 31, 1997 consisted of \$170.7 million on single family residential loans, \$46.0 million on multi-family residential loans, \$120.5 million on commercial real estate loans and \$0.2 million on other loans, respectively. The balance at December 31, 1996 consisted of \$92.2 million on single family residential loans, \$71.8 million on multi-family residential loans, \$77.6 million on commercial real estate loans and \$0.3 million on other loans, respectively.

The properties which secure the Company's discount loans are located throughout the United States. At December 31, 1997, the five states with the greatest concentration of properties securing the Company's discount loans were California, New Jersey, New York, Connecticut and Pennsylvania, which had \$311.1 million, \$220.9 million, \$201.5 million, \$103.7 million and \$95.5 million principal amount of discount loans (before unaccreted discount), respectively.

The Company believes that the relatively geographic distribution of its discount loan portfolio can reduce the risks associated with concentrating such loans in very limited more geographic areas, and that, due to its expertise, technology and software, and procedures, the geographic distribution of its discount loan portfolio does not place significantly greater burdens on the Company's ability to resolve such loans.

Discount loans may have net book values up to the Bank's loan-to-one borrower limitation. See "Business Regulation-The Bank-Loan-to-One Borrower."

ACQUISITION OF DISCOUNT LOANS. In the early years of the program, the Company acquired discount loans from the FDIC and the Resolution Trust Corporation ("RTC") primarily in auctions of pools of loans acquired by them from the large number of financial institutions which failed during the late 1980s and early 1990s. Although the RTC no longer is in existence and the banking and thrift industries have recovered from the problems experienced in the late 1980s and early 1990s, governmental agencies, particularly the Department of Housing and Urban Development ("HUD"), continue to be potential sources of discount loans. The Company obtains a substantial amount of discount loans from various private sector sellers, such as banks, savings institutions, mortgage companies, subprime lenders and insurance companies. At December 31, 1997, approximately 58% of the loans in the Company's discount loan portfolio had been acquired from the private sector.

The percentage of discount loans in the Company's discount loan portfolio acquired from private sector sellers has decreased in recent periods

as a result of the Company's acquisition of a substantial amount of discount loans from HUD. During the year ended December 31, 1997, the Company and a co-investor were the successful bidder to purchase from HUD 24,773 single family residential loans with an aggregate unpaid principal balance of \$1.55 billion and a purchase price of \$1.34 billion. The Company acquired \$771.6 million of these loans and the right to service all of such loans. In 1996, the Company and a co-investor were the successful bidder to purchase from HUD 4,591 single family residential loans with an aggregate unpaid principal balance of \$258.1 million and a purchase price of \$204.0 million. The Company acquired \$112.2 million of these loans and the right to service all of such loans. In 1996, the Company also acquired from HUD discount multi-family residential loans with an unpaid principal balance of \$225 million. The foregoing acquisitions were in addition to the acquisition of \$741.2 million gross principal amount of single family residential loans from HUD by BCBF, LLC (the "LLC"), a limited liability company formed in March 1996 between the Bank and BlackRock Capital Finance L.P. ("BlackRock"). See "Business-Investment in Joint Ventures."

Primarily as a result of acquisitions from HUD, during 1996 and 1997 the Company (including its pro rata interest in the LLC) was the second largest acquiror in the United States (behind Goldman Sachs' Whitehall Street Real Estate Fund) of distressed real estate assets worldwide and the largest acquiror in the U.S. of portfolios of such assets, according to statistics published by REAL ESTATE ALERT.

HUD loans are acquired by HUD pursuant to various assignment programs of the Federal Housing Administration ("FHA"). Under programs of the FHA, a lending institution may assign an FHA-insured loan to HUD because of an economic hardship on the part of the borrower which precludes the borrower from making the scheduled principal and interest payment on the loan. FHA-insured loans also are automatically assigned to HUD upon the 20th anniversary of the mortgage loan. In most cases, loans assigned to HUD after this 20-year period are performing under the original terms of the loan. Once a loan is assigned to HUD, the FHA insurance has been paid and the loan is no longer insured. As a result, none of the HUD loans are insured by the FHA.

A majority of the \$771.6 million of loans acquired from HUD during the year ended December 31, 1997 are subject to forbearance agreements after the servicing transfer date. During the forbearance period, borrowers are required to make a monthly payment which is based on their ability to pay and which may be less than the contractual monthly payment. Once the forbearance period is over, the borrower is required to make at least the contractual payment regardless of ability to pay. Virtually all of the foregoing loans acquired from HUD will reach the end of the forbearance period by the end of 1998. Prior purchases of loans from HUD by the Company (and the LLC) primarily included loans that were beyond the forbearance period.

Discount real estate loans generally are acquired in pools, although discount commercial real estate loans may be acquired individually. These pools generally are acquired in auctions or competitive bid circumstances in which the Company faces substantial competition. Although many of the Company's competitors have access to greater capital and have other advantages, the Company believes that it has a competitive advantage relative to many of its competitors as a result of its experience in managing and resolving discount loans, its large investment in the computer systems, technology

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and other resources which are necessary to conduct this business, its national reputation and the strategic relationships and contacts which it has developed in connection with these activities.

The Company generally acquires discount loans solely for its own portfolio. From time to time, however, the Company and one or more co-investors may submit a joint bid to acquire a pool of discount loans in order to enhance the prospects of submitting a successful bid. If successful, the Company and the co-investors generally allocate ownership of the acquired loans in an agreed upon manner, although in certain instances the Company and the co-investor may continue to have a joint interest in the acquired loans. In addition, from time to time the Company and a co-investor may acquire discount loans through a joint venture. See "Business-Investment in Joint Ventures."

Prior to making an offer to purchase a portfolio of discount loans, the Company conducts an extensive investigation and evaluation of the loans in the portfolio. Evaluations of potential discount loans are conducted primarily by the Company's employees who specialize in the analysis of nonperforming loans, often with further specialization based on geographic or collateral specific factors. The Company's employees regularly use third parties, such as brokers, who are familiar with a property's type and location, to assist them in

conducting an evaluation of the value of a collateral property, and depending on the circumstances, particularly in the case of commercial real estate loans, may use subcontractors, such as local counsel and engineering and environmental experts, to assist in the evaluation and verification of information and the gathering of other information not previously made available by a potential seller.

The Company determines the amount to be offered by it to acquire potential discount loans by using a proprietary modeling system and loan information database which focuses on the anticipated recovery amount and the timing and cost of the resolution of the loans. The amount offered by the Company generally is at a discount from both the stated value of the loan and the value of the underlying collateral which the Company estimates is sufficient to generate an acceptable return on its investment.

RESOLUTION OF DISCOUNT LOANS. After a discount loan is acquired, the Company utilizes its computer software systems to resolve the loan as expeditiously as possible in accordance with specified procedures. The various resolution alternatives generally include the following: (i) the borrower brings the loan current in accordance with original or modified terms, (ii) the borrower repays the loan or a negotiated amount of the loan, (iii) the borrower agrees to deed the property to the Company in lieu of foreclosure, in which case it is classified as real estate owned and held for sale by the Company, or (iv) the Company forecloses on the loan and the property is acquired at the foreclosure sale either by a third party or by the Company, in which case it is classified as real estate owned and held for sale by the Company. In addition, in the case of single family residential loans, assistance is provided to borrowers in the form of forbearance agreements under which the borrower either makes a monthly payment less than or equal to the original monthly payment or makes a monthly payment more than the contractual monthly payment to make up for arrearages.

In appropriate cases, the Company works with borrowers to resolve the loan in advance of foreclosure. One method is through forbearance agreements, which generally allow the borrower to pay the contractual monthly payment plus a portion of the arrearage each month, and other means. Although this strategy may result in an initial reduction in the yield on a discounted loan, the Company believes that it is advantageous because it (i) generally results in a higher resolution value than foreclosure; (ii) reduces the amount of real estate owned acquired by foreclosure or by deed-in-lieu thereof and related costs and expenses; (iii) enhances the ability of the Company to sell the loan in the secondary market, either on a whole loan basis or through securitizations (in which case the Company may continue to earn fee income from servicing such loans); and (iv) permits the borrower to retain ownership of the home and, thus, enhances relations between the Company and the borrower. As a result of the Company's current loan resolution strategy of emphasizing forbearance agreements and other resolutions in advance of foreclosure, the Company has been able to resolve 71% of its discount loans before foreclosure.

The general goal of the Company's asset resolution process is to maximize, in a timely manner, cash recovery on each loan in the discount loan portfolio. The Company generally anticipates a longer period (approximately 12 to 30 months) to resolve discount commercial real estate loans than discount single family residential loans because of their complexity and the wide variety of issues that may occur in connection with the resolution of such loans.

The Credit Committee of the Board of Directors of the Bank actively monitors the asset resolution process to identify discount loans which have exceeded their expected foreclosure period and real estate owned which has been held longer than anticipated. Plans of action are developed for each of these assets to remedy the cause for delay and are reviewed by the Credit Committee.

SALE OF DISCOUNT LOANS. From time to time the Company sells performing discount loans either on a whole loan basis or indirectly through the securitization of such loans and sale of the mortgage-related securities backed by them. During the years ended December 31, 1997, 1996 and 1995, respectively, the Company sold \$518.9 million, \$230.2 million and \$51.6 million of discount loans, respectively, which resulted in gains of \$60.4 million, \$15.3 million and \$6.0 million, respectively, including net securitization gains of \$53.1 million, \$7.9 million and \$0, respectively. Also during 1997, the LLC, as part of larger transactions involving the Company and an affiliate of Black Rock, completed the securitizations of 1,730 discount single family residential loans acquired from HUD in 1996 and 1995, with an unpaid principal balance of \$78.4 million and past due interest of \$22.5 million, which resulted in the Company recognizing indirect gains of \$14.0 million as a result of the Company's pro rata interest

in the LLC. The Company continues to service the loans for a fee and has retained interests in the related subordinate class of securities. For information concerning the foregoing securitizations and retained securities, see "Business-Investment Activities."

ACTIVITY IN THE DISCOUNT LOAN PORTFOLIO. The following table sets forth the activity in the Company's gross discount loan portfolio during the periods indicated:

	Year Ended December 31,									
	1997		1996		1995		1994		1993	
	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans
	(Dollars in Thousands)									
Balance at beginning of period.....	\$1,314,399	5,460	\$ 943,529	4,543	\$ 785,434	3,894	\$ 433,516	5,160	\$ 310,464	5,358
Acquisitions(1).....	1,776,773	17,703	1,110,887	4,812	791,195	2,972	826,391	2,781	294,359	2,412
Resolutions and repayments(2).....	(484,869)	(1,978)	(371,228)	(2,355)	(300,161)	(960)	(265,292)	(2,153)	(116,890)	(1,430)
Loans transferred to real estate owned...	(292,412)	(1,596)	(138,543)	(860)	(281,344)	(984)	(171,300)	(1,477)	(26,887)	(602)
Sales.....	(518,872)	(6,609)	(230,246)	(680)	(51,595)	(379)	(37,881)	(417)	(27,530)	(578)
Balance at end of period.....	\$1,795,019	12,980	\$1,314,399	5,460	\$ 943,529	4,543	\$ 785,434	3,894	\$ 433,516	5,160

(1) In 1997, acquisitions consisted of \$1.06 billion of single family residential loans, \$57.7 million of multi-family residential loans and \$657.0 million of commercial real estate loans. In 1996, acquisitions consisted of \$365.4 million of single family residential loans, \$310.4 million of multi-family residential loans, \$433.5 million of commercial real estate loans and \$1.5 million of other loans. The 1996 data does not include the Company's pro rata share of the \$741.2 million of discount loans acquired by the LLC (see Business Investment in Joint Ventures). In 1995, acquisitions consisted of \$272.8 million of single family residential loans, \$141.2 million of multi-family residential loans, \$374.9 million of commercial real estate loans and \$2.3 million of other loans. In 1994, acquisitions consisted of \$395.8 million of single family residential loans, \$315.5 million of multi-family residential loans and \$115.1 million of commercial real estate loans. In 1993, substantially all of the acquisitions were of single family residential loans.

(2) Resolutions and repayments consists of loans which were resolved in a manner which resulted in partial or full repayment of the loan to the Company, as well as principal payments on loans which 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.

For information relating to the activity in the Company's real estate owned which is attributable to the Company's discount loan acquisitions, see "Business-Asset Quality - Real Estate Owned."

PAYMENT STATUS OF DISCOUNT LOANS. The following table sets forth certain information relating to the payment status of loans in the Company's discount loan portfolio at the dates indicated.

	December 31,				
	1997	1996	1995	1994	1993
	(Dollars in Thousands)				
Loan status:					
Current.....	\$ 673,256	\$ 579,597	\$ 351,630	\$ 113,794	\$ 23,629
Past due 31 days to 89 days...	22,786	22,161	86,838	57,023	15,175
Past due 90 days or more (1)...	1,070,924	563,077	385,112	413,506	254,413
Acquired and servicing not yet transferred.....	28,053	149,564	119,949	201,111	140,299
	1,795,019	1,314,399	943,529	785,434	433,516

Unaccrued discount.....	(337,350)	(241,908)	(273,758)	(255,974)	(129,882)
Allowance for loan losses.....	(23,493)	(11,538)	--	--	--
	-----	-----	-----	-----	-----
	\$ 1,434,176	\$ 1,060,953	\$ 669,771	\$ 529,460	\$ 303,634
	=====	=====	=====	=====	=====

(1) Includes \$432.6 million and \$57.0 million of loans with forbearance agreements at December 31, 1997 and 1996, respectively, and \$638.3 million and \$506.1 million of loans without forbearance agreements at December 31, 1997 and 1996, respectively. Of the \$432.6 million of loans with forbearance agreements past due 90 days or more in accordance with original terms, \$184.5 million were current and \$131.8 million were past due 31 to 89 days under the terms of the forbearance agreements.

ACCOUNTING FOR DISCOUNT LOANS. The acquisition cost for a pool of discount loans is allocated to each individual loan within the pool based upon the Company's pricing methodology. Prior to January 1, 1997, the discount associated with all single family residential loans was recognized as a yield adjustment and was accreted into interest income using the interest method applied on a loan-by-loan basis once foreclosure proceedings were initiated, to the extent the timing and amount of cash flows could be reasonably determined. Effective January 1, 1997, the Company ceased accretion of discount on its nonperforming single family residential loans. The discount which is associated with a single family residential loan and certain multi-family residential and commercial real estate loans which are current or subsequently brought current by the borrower in accordance with the loan terms is accreted into the Company's interest income as a yield adjustment using the interest method over the contractual maturity of the loan. For all other loans interest is earned as cash is received.

Gains on the repayment and discharge of loans are recorded in interest income on discount loans. Upon receipt of title to property securing a discount loan, the loans are transferred to real estate owned.

Beginning in 1996, adjustments to reduce the carrying value of discount loans to the fair value of the property securing the loan are charged against the allowance for loan losses on the discount loan portfolio. Prior to 1996, such adjustments were charged against interest income on discount loans.

OTHER DISCOUNT LOAN ACTIVITIES. The Company believes that the procedures, facilities and systems which it has developed in connection with the acquisition and resolution of discount loans may be applied in other businesses. The Company commenced a program in 1995 to utilize this experience by financing the acquisition of discount loans by other institutions. During 1997 and 1996, the Company originated \$0 million and \$25.8 million, respectively, of portfolio finance loans, which had an aggregate balance of \$17.7 million at December 31, 1997. Portfolio finance loans generally have two-year terms, floating interest rates which adjust in accordance with a designated reference rate and a loan-to-value ratio which does not exceed the lesser of 90% of the purchase price or the estimated value of the collateral as determined by the Company, and may include terms which provide the Company with a participation interest in the profits from the resolution of the discount loan collateral. Portfolio finance loans are included in the Company's non-discount loan portfolio under the category of loan which is represented by the properties which secure the discount loans that collateralize the Company's portfolio finance loans. See "Business - Lending Activities."

The Company's discount loan acquisitions and resolution activities and related securitization activities also have contributed significantly to increases in the Company's loan servicing activities. See "Business-Loan Servicing Activities."

INVESTMENT IN JOINT VENTURES

At December 31, 1997, the Company's investment in joint ventures consisted solely of its investment in BCFL, L.L.C. ("BCFL"), a limited liability company formed in January 1997 between the Company and BlackRock to acquire multi-family loans. At December 31, 1996, the Company's investment in joint ventures consisted of its 50% investment in the LLC. On December 12, 1997, the LLC distributed all of its assets to the Company and its other 50% investor, BlackRock. Simultaneous to the distribution, the Company acquired BlackRock's portion of the distributed assets.

ACQUISITION OF HUD LOANS BY THE LLC. In April 1996, the LLC purchased 16,196 single family residential loans offered by HUD at an auction. Many of the loans, which had an aggregate unpaid principal balance of \$741.2 million at the date of acquisition, were not performing in accordance with their original terms or an applicable forbearance agreement. The aggregate purchase price paid to HUD amounted to \$626.4 million. All of the HUD loans acquired by the LLC were secured by first mortgage liens on single family residences.

In connection with the acquisition, the Company entered into an agreement with the LLC to service the HUD loans in accordance with its loan servicing and loan default resolution procedures. In return for such servicing, the Company received specific fees which were payable on a monthly basis. The Company did not pay any additional amount to acquire these servicing rights and, as a result, the acquisition of the right to service the HUD loans held by the LLC did not result in the Company's recording capitalized mortgage servicing rights for financial reporting purposes.

SECURITIZATION OF THE HUD LOANS. During 1997, the LLC, as part of larger transactions involving the Company and an affiliate of BlackRock, completed securitizations of 1,730 HUD loans held by it with an unpaid principal balance of \$78.4 million, past due interest of \$22.5 million and a net book value of \$60.6 million; and during 1996, the LLC completed a securitization of 9,825 HUD loans with an aggregate unpaid principal balance of \$419.4 million, past due interest of \$86.1 million and a net book value of \$394.2 million. The LLC recognized gains of \$14.0 million and \$69.8 million (including a gain of \$12.9 million on the sale in 1996 of \$79.4 million of securities to the Company) from the sale of the senior classes in the REMICs formed for purposes of these transactions in the years ended December 31, 1997 and 1996, respectively, of which \$7.0 million and \$34.9 million, respectively, were allocable to the Company as a result of its pro rata interest in the LLC and included in equity in earnings of joint venture.

ACCOUNTING FOR INVESTMENT IN JOINT VENTURES. The Company's investment in the LLC was accounted for under the equity method of accounting. Under the equity method of accounting, an investment in the shares or other interests of an investee is initially recorded at the cost of the shares or interests acquired and thereafter is periodically increased (decreased) by the investor's proportionate share of the earnings (losses) of the investee and decreased by all dividends received by the investor from the investee. The Company's investment in the LLC amounted to \$0 and \$67.9 million at December 31, 1997 and 1996, respectively. Because the LLC was a pass-through entity for federal income tax purposes, provisions for income taxes were established by each of the Company and its co-investor, and not the LLC. The Company recognized \$23.7 million and \$38.3 million of pre-tax income from its investment in the LLC for the years ended December 31, 1997 and 1996, respectively.

LENDING ACTIVITIES

COMPOSITION OF LOAN PORTFOLIO. At December 31, 1997, the Company's net loan portfolio amounted to \$266.3 million or 9% of the Company's total assets. Loans held for investment in the Company's loan portfolio are carried at amortized cost, less an allowance for loan losses, because the Company has the ability and presently intends to hold them to maturity.

The following table sets forth the composition of the Company's loan portfolio by type of loan at the dates indicated.

	December 31,				
	1997	1996	1995	1994	1993
	(Dollars in Thousands)				
Single family residential loans..	\$ 46,226	\$ 73,186	\$ 75,928	\$ 31,926	\$ 30,385
Multi-family residential loans...	71,382 (1)	67,842 (1)	49,047 (1)	1,800	39,352
Commercial real estate and land loans:					
Hotels (3)	89,362 (2)	200,311 (2)	125,791	19,659	14,237
Office buildings (3)	68,759	128,782	61,262	--	--
Land	2,858	2,332	24,904	1,315	4,448
Other	16,094	25,623	2,494	4,936	4,059
Total	177,073	357,048	214,451	25,910	22,744

Commercial non-mortgage	--	2,614	--	--	--
Consumer	244	424	3,223	1,558	3,639
	-----	-----	-----	-----	-----
Total loans	294,925	501,114	342,649	61,194	96,120
Undisbursed loan proceeds	(22,210)	(89,840)	(39,721)	--	--
Unaccrued discount	(2,721)	(5,169)	(5,376)	(3,078)	(6,948)
Allowance for loan losses	(3,695)	(3,523)	(1,947)	(1,071)	(884)
	-----	-----	-----	-----	-----
Loans, net	\$ 266,299	\$ 402,582	\$ 295,605	\$ 57,045	\$ 88,288
	=====	=====	=====	=====	=====

- (1) At December 31, 1997, 1996 and 1995, multi-family residential loans included \$33.3 million, \$36.6 million, and \$7.7 million of construction loans, respectively.
- (2) At December 31, 1997 and 1996, hotel loans included \$25.3 million and \$26.4 million of construction loans, respectively.
- (3) During 1997, payoffs of commercial real estate loans secured by hotels and office buildings totaled \$80.5 million and \$107.3 million, respectively.

The Company's lending activities are conducted on a nationwide basis and, as a result, the properties which secure its loan portfolio are located throughout the United States. At December 31, 1997, the five states in which the largest amount of properties securing loans in the Company's loan portfolio were New York, New Jersey, California, Maryland and Illinois, which had \$58.8 million, \$35.4 million, \$27.7 million, \$26.1 million and \$21.2 million of principal amount of loans, respectively. As noted above, the Company believes that the relatively geographic distribution of its loan portfolio can reduce the risks associated with concentrating such loans in more limited geographic areas.

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CONTRACTUAL PRINCIPAL REPAYMENTS. The following table sets forth certain information at December 31, 1997 regarding the dollar amount of loans maturing in the Company's loan portfolio based on scheduled contractual amortization, as well as the dollar amount of loans which have fixed or adjustable interest rates. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported as due in one year or less. Loan balances have not been reduced for (i) undisbursed loan proceeds, unearned discounts and the allowance for loan losses or (ii) nonperforming loans.

	Maturing in			
	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years
	-----	-----	-----	-----
	(Dollars in Thousands)			
Single family residential loans.....	\$ 4,999	\$ 1,789	\$ 8,094	\$ 31,344
Multi-family residential loans.....	24,454	29,227	3,979	13,722
Commercial real estate and land loans.	18,646	150,108	4,233	4,085
Consumer and other loans.....	21	224	--	--
	-----	-----	-----	-----
Total.....	\$ 48,120	\$ 181,348	\$ 16,306	\$ 49,151
	=====	=====	=====	=====
Interest rate terms on amounts due:				
Fixed.....	\$ 10,974	\$ 166,001	\$ 16,132	\$ 27,951
Adjustable.....	37,146	15,347	174	21,200
	-----	-----	-----	-----
	\$ 48,120	\$ 181,348	\$ 16,306	\$ 49,151
	=====	=====	=====	=====

Scheduled contractual principal repayments may not reflect the actual maturities of loans because of prepayments and, in the case of conventional mortgage loans, due-on-sale clauses. The average life of mortgage loans, particularly fixed-rate loans, tends to increase when current mortgage loan rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when rates on existing mortgages are substantially higher than current mortgage loan rates.

ACTIVITY IN THE LOAN PORTFOLIO. The following table sets forth the activity in the Company's loan portfolio during the periods indicated.

	Year Ended December 31,		
	1997	1996	1995
	(Dollars in Thousands)		
Balance at beginning of period.....	\$ 501,114	\$ 342,649	\$ 61,194
Originations:			
Single family residential loans.....	1,987	10,681	14,776
Multi-family residential loans.....	16,799	68,076	48,664
Commercial real estate loans.....	69,948	199,017	212,630
Commercial non-mortgage and consumer loans.....	1,140	3,366	207
Total loans originated.....	89,874	281,140	276,277
Purchases:			
Single family residential loans.....	78	305	29,833
Commercial real estate loans.....	--	--	2,245
Consumer loans.....	--	--	1,966
Total loans purchased.....	78	305	34,044
Sales	(2,346)	--	--
Loans transferred from available for sale.....	13,782	45	4,353
Principal repayments.....	(306,916)	(121,818)	(33,168)
Transfer to real estate owned.....	(661)	(1,207)	(51)
Net increase (decrease) in net loans.....	(206,189)	158,465	281,455
Balance at end of period.....	\$ 294,925	\$ 501,114	\$ 342,649

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LOANS AVAILABLE FOR SALE. In addition to loans acquired for investment, the Company also originates and purchases loans which it presently does not intend to hold to maturity. Such loans are designated as loans available for sale upon origination or purchase and generally are carried at the lower of cost or aggregate market value. At December 31, 1997, loans available for sale amounted to \$177.0 million or 6% of the Company's total assets.

The following table sets forth the composition of the Company's loans available for sale by type of loan at the dates indicated.

	December 31				
	1997	1996	1995	1994	1993
	(Dollars in thousands)				
Single family residential loans.....	\$ 176,554	\$ 111,980	\$ 221,927	\$ 16,825	\$ 30,217
Multi-family residential loans.....	--	13,657	28,694	83,845	44,919
Consumer loans.....	487	729	1,169	1,623	25,930
	177,041	\$ 126,366	\$ 251,790	\$ 102,293	\$ 101,066

Although the Company's loans available for sale are secured by properties located nationwide, currently a substantial majority of such loans are subprime single family residential loans originated primarily in the western states, particularly California, primarily as the result of Admiral having been located there prior to the acquisition of substantially all of its assets by OFS. As a result, \$35.2 million or 20% of the Company's loans available for sale at December 31, 1997 were secured by properties located in California, primarily as the result of Admiral having been located there prior to the acquisition of substantially all of its assets by OFS.

SINGLE FAMILY RESIDENTIAL LOANS. Since late 1994, the Company's lending activities have included the origination and purchase of single family residential loans to borrowers who because of prior credit problems, the absence of a credit history or other factors are unable or unwilling to qualify as borrowers for a single family residential loan under guidelines of the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC") ("conforming loans") and who have substantial equity in the properties which secure the loans. Loans to non-conforming borrowers are perceived by the Company as being advantageous because they generally have

higher interest rates and origination and servicing fees and generally lower loan-to-value ratios than conforming loans and because the Company's expertise in the servicing and resolution of nonperforming loans can be utilized in underwriting such loans, as well as to address loans acquired pursuant to this program which become nonperforming after acquisition.

Through 1996, the Company acquired subprime single family residential loans primarily through a correspondent relationship with Admiral and, to a lesser extent, correspondent relationships with three other financial services companies. Correspondent institutions originate loans based on guidelines provided by the Company and promptly sell the loans to the Company on a servicing-released basis.

In order to solidify and expand its sources of subprime single family residential loans, the Company, through OFS, acquired substantially all of the assets of Admiral in a transaction which closed on May 1, 1997. See "Business-Subsidiaries." At the time of acquisition, Admiral engaged in subprime lending on a retail and wholesale basis through eleven loan production offices located in California and independent mortgage brokers and correspondent lending institutions located in California and eleven other states. In connection with the Company's acquisition of assets from Admiral, the Bank transferred its retail and wholesale subprime single family residential lending operations to OFS, which included, among other things, transferring its rights under contracts with brokers and correspondent lending institutions and its rights and obligations under leases to six loan production offices recently opened by it, which are located in California, Illinois, Massachusetts, Oregon and Utah. OFS currently conducts its business on a retail and wholesale basis through 27 loan production offices located in seven states and plans to open an additional five such offices in 1998.

OFS' principal sources of funds consist of (i) four lines of credit with unaffiliated parties which aggregate \$650 million and are secured by the mortgage loans acquired with such lines and (ii) a \$30 million unsecured, subordinated credit facility provided by the Company to OFS at the time of the acquisition of substantially all of the assets of Admiral. The Company has adopted policies that set forth the specific lending requirements of the Company as they relate to the processing, underwriting, property appraisal, closing, funding and delivery of subprime loans. These policies include program descriptions which set forth four classes of loans, designated A, B, C and D. Class A loans generally relate to borrowers who have no or limited adverse incidents in their credit histories, whereas Class B, C and D loans relate to

increasing degrees of adverse incidents in the borrower's credit histories. Factors which are considered in evaluating a borrower in this regard are the presence or absence of a credit history, prior delinquencies in the payment of mortgage and consumer credit and personal bankruptcies.

The terms of the loan products offered by the Company directly or through its correspondents emphasize real estate loans which generally are underwritten with significant reliance on a borrower's level of equity in the property securing the loan, which may be an owner-occupied or, depending on the class of loan and its terms, a non-owner occupied property. Although the Company's guidelines require information in order to enable the Company to evaluate a borrower's ability to repay a loan by relating the borrower's income, assets and liabilities to the proposed indebtedness, because of the significant reliance on the ratio of the principal amount of the loan to the appraised value of the security property, each of the four principal classes of loans identified by the Company include products which permit reduced documentation for verifying a borrower's income and employment. Loans which permit reduced documentation generally require documentation of employment and income for the most recent six-month period, as opposed to the two-year period required in the case of full documentation loans. Although the Company reserves the right to verify a borrower's income, assets and liabilities and employment history, other than as set forth above, it generally does not verify such information through other sources.

The Company's strategy is to offer a broad range of products to its borrowers and its origination sources. Loans may have principal amounts which conform to the guidelines set by FHLMC or FNMA for conforming loans or principal amounts which significantly exceed these amounts (so called "jumbo loans"). Loans may have fixed or adjustable interest rates and terms ranging up to 30 years.

The following table sets forth the activity in the Company's net loans available for sale during the periods indicated:

	Year Ended December 31,		
	1997	1996	1995
	(Dollars in Thousands)		
Balance at beginning of period.....	\$ 126,366	\$ 251,790	\$ 102,293
Purchases:			
Single family residential.....	278,081	284,598	230,077
Multi-family residential.....	--	10,456	10,056
	278,081	295,054	240,133
Originations:			
Single family residential.....	316,101	9,447	360
Multi-family residential.....	--	--	24,810
	316,101	9,447	25,170
Sales.....	(501,079)	(395,999)	(100,104)
Increase in lower of cost or market reserve....	(1,034)	(2,455)	(118)
Loans transferred (to)/from loan portfolio.....	(13,674)	45	(4,353)
Principal repayments, net of capitalized interest.....	(22,151)	(27,845)	(11,231)
Transfer to real estate owned.....	(5,569)	(3,671)	--
Net increase (decrease) in loans.....	50,675	(125,424)	149,497
Balance at end of period.....	\$ 177,041	\$ 126,366	\$ 251,790

The Company purchased and originated a total of \$588.3 million of single family residential loans to non-conforming borrowers during 1997 and \$294.0 million of such loans during 1996. At December 31, 1997, the Company had \$167.0 million of subprime single family residential loans, which had a weighted average yield of 10.41%.

The Company generally intends to sell or securitize its subprime single family residential loans, and as a result, all of such loans were classified as available for sale at December 31, 1997. During 1997, the Company sold \$82.6 million of subprime single family residential loans for gains of \$3.3 million; during 1996 the Company sold \$161.5 million of such

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loans for gains of \$571,000; and during 1995 the Company sold \$25.3 million of subprime single family residential loans for gains of \$188,000. An additional \$415.8 million and \$211.2 million of loans were securitized and sold in public offerings underwritten by unaffiliated investment banking firms during 1997 and 1996, respectively, generating gains of \$18.8 million and \$7.2 million, respectively, upon the sale of the securities. The Company retained subordinate and REMIC residual securities in connection with these transactions. Such securities had an aggregate carrying value of \$41.8 million at December 31, 1997. See "Business-Investment Activities."

Although subprime loans generally have higher levels of default than conforming loans, the Company believes that the borrower's equity in the security property and its expertise in the area of resolution of nonperforming loans will continue to make its subprime borrower loan program a successful one notwithstanding such defaults and any resulting losses. There can be no assurance that this will be the case, however.

In addition to the Company's subprime single family residential loan programs, from time to time the Company purchases pools of single family residential loans for investment purposes. During 1995, the Company purchased \$29.8 million of loans which were primarily secured by properties located in the area surrounding the Bank's physical facility in northern New Jersey.

MULTI-FAMILY RESIDENTIAL AND COMMERCIAL REAL ESTATE LOANS. The Company's lending activities include the acquisition of loans secured by commercial real estate, particularly loans secured by hotels and office buildings, which the Company began originating in late 1994 and late 1995, respectively. Commercial real estate loans currently are made to finance the purchase and refinance of commercial properties, the refurbishment of distressed

properties and, recently, the construction of hotels. At December 31, 1997, the Company's loans secured by commercial real estate (and land) amounted to \$177.1 million and consisted primarily of \$89.4 million and \$68.8 million of loans secured by hotels and office buildings, respectively.

From time to time, the Company originates loans for the construction of multi-family residences, as well as bridge loans to finance the acquisition and rehabilitation of distressed multi-family residential properties. At December 31, 1997, the Company's multi-family residential loan portfolio included \$33.3 million of multi-family residential construction loans, of which \$21.1 million had been funded, and \$38.1 million of acquisition and rehabilitation loans, of which \$34.8 million had been funded.

From time to time the Company also originates loans secured by existing multi-family residences. Although the Company has deemphasized this type of lending in recent periods, it previously was active in the origination and securitization of such loans. During 1995, 1994 and 1993, the Company securitized multi-family residential loans acquired by it with an aggregate principal amount of \$83.9 million, \$346.6 million and \$67.1 million, respectively. The Company subsequently sold all of the securities backed by these loans.

The multi-family residential and commercial real estate loans acquired by the Company in recent periods generally have principal amounts between \$3.0 million and the Bank's loan-to-one-borrower limitation (see "Regulation-The Bank-Loans-to-One-Borrower") and are secured by properties which in management's view have good prospects for appreciation in value during the loan term. In addition, the Company currently is implementing a program to originate multi-family residential and commercial real estate loans with smaller principal amounts (generally up to \$3.0 million) and which may be secured by a wide variety of such properties.

The Company's large multi-family residential and commercial real estate loans generally have fixed interest rates, terms of two to five years and payment schedules which are based on amortization over 15 to 25 year periods. The maximum loan-to-value ratio generally does not exceed 80% of the stabilized value of the property and 88% of the total costs of the property in the case of construction, refurbishment or rehabilitation loans.

Multi-family residential and commercial real estate loans are secured by a first priority lien on the real property, all improvements thereon and, in the case of hotel loans, all fixtures and equipment used in connection therewith, as well as a first priority assignment of all revenue and gross receipts generated in connection with the property. The liability of a borrower on multi-family residential and commercial real estate loans generally is limited to the borrower's interest in the property, except with respect to certain specified circumstances.

In addition to stated interest, the large multi-family residential and commercial real estate loans originated by the Company commonly include provisions pursuant to which the borrower agrees to pay the Company as additional interest

on the loan an amount based on specified percentages (generally between 10-38%) of the net cash flow from the property during the term of the loan and/or the net proceeds from the sale or refinancing of the property upon maturity of the loan. Participating interests also may be obtained in the form of additional fees which must be paid by the borrower in connection with a prepayment of the loan, generally after an initial lock-out period during which prepayments are prohibited. The fees which could be payable by a borrower during specified periods of the loan consist either of fixed exit fees or yield maintenance payments, which are required to be paid over a specified number of years after the prepayment and are intended to increase the yield to the Company on the proceeds from the loan payoff to a level which is comparable to the yield on the prepaid loan. At December 31, 1997, the Company's loan portfolio included \$101.1 million of funded and unfunded loans in which the Company participates in the residual profits of the underlying real estate, of which \$89.0 million had been funded. The Company generally accounts for loans in which it participates in residual profits as loans and not as investments in real estate; however, because of concerns raised by the staff of the OTS in this regard, in December 1996 and during 1997 the Bank sold to the Company subordinated, participating interests in a total of eleven acquisition, development and construction loans, which interests had an aggregate principal balance of \$18.0 million. On a consolidated basis, eight of these loans, which amounted to \$64.3 million at December 31, 1997, were carried by the Company as investments in real estate.

The Bank (but not the Company) has agreed with the OTS to cease origination of mortgage loans with profit participation features in the underlying real estate, with the exception of existing commitments.

Construction loans generally have terms of three to four years and interest rates which float on a monthly basis in accordance with designated reference rates. Payments during the term of the loan may be made to the Company monthly on an interest-only basis. The loan amount may include an interest reserve which is maintained by the Company and utilized to pay interest on the loan during a portion of its term.

Construction loans are secured by a first priority lien on the real property, all improvements thereon and all fixtures and equipment used in connection therewith, as well as a first priority assignment of all revenues and gross receipts generated in connection with the property. Construction loans are made without pre-leasing requirements or any requirement of a commitment by another lender to "take-out" the construction loan by making a permanent loan secured by the property upon completion of construction. Disbursements on a construction loan are subject to a retainage percentage of 10% and are made only after evidence that available funds have been utilized by the borrower and are sufficient to pay for all construction costs through the date of the construction advance and funds remain in the construction budget and from sources other than the loan to complete construction of the project.

The Company generally requires the general contractor selected by the borrower, which along with the general construction contract is subject to the Company's review and approval, to provide payment and performance bonds issued by a surety approved by the Company in an amount at least equal to the costs which are estimated to be necessary to complete construction of the project in accordance with the construction contract. Moreover, the Company generally conducts site inspections of projects under construction at least bi-monthly and of completed projects at least semi-annually.

Multi-family residential, commercial real estate and construction lending generally are considered to involve a higher degree of risk than single family residential lending because such loans involve larger loan balances to a single borrower or group of related borrowers. In addition, the payment experience on multi-family residential and commercial real estate loans typically is dependent on the successful operation of the project, and thus such loans may be adversely affected to a greater extent by adverse conditions in the real estate markets or in the economy generally. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development and the estimated cost (including interest) of construction, as well as the availability of permanent take-out financing. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of value proves to be inaccurate, the Company may be confronted, at or prior to the maturity of the loan, with a project which, when completed, has a value which is insufficient to ensure full repayment. In addition to the foregoing, multi-family residential and commercial real estate loans which are not fully amortizing over their maturity and which have a balloon payment due at their stated maturity, as is generally the case with the Company's multi-family residential and commercial real estate loans, involve a greater degree of risk than fully amortizing loans because the ability of a borrower to make a balloon payment typically will depend on its ability either to timely refinance the loan or to timely sell the security property. The ability of a borrower to accomplish these results will be affected by a number of factors, including the level of available mortgage rates at the time of sale or refinancing, the financial condition and operating history of the borrower and the property which secures the loan, tax laws, prevailing economic conditions and the availability of financing for multi-family residential and commercial real estate generally.

LOAN SERVICING ACTIVITIES

During 1996, the Company developed a program to provide loan servicing and various other asset management and resolution services to third party owners of nonperforming assets, underperforming assets and subprime assets such as Class B, C and D single family residential mortgage loans. Servicing contracts entered into by the Company provide for the payment to the Company of specified fees and in some cases may include terms which allow the Company to participate in the profits resulting from the successful resolution of the assets being serviced.

The Bank has been approved as a loan servicer by HUD, FHLMC and FNMA. The Bank is rated a Tier 1 servicer and as a preferred servicer for high-risk

mortgages by FHLMC, the highest rating categories, and also is rated as a "strong" special servicer for commercial mortgage loans by Standard & Poor's, which also is the highest rating category. In addition, the Bank is the only servicer rated as a special servicer for residential mortgage loans.

The following tables set forth the number and amount of loans serviced by the Company for others at the dates indicated:

December 31, 1997								
Discount Loans		Subprime Loans		Other Loans		Total		
Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	
(Dollars in Thousands)								
Loans securitized and sold with recourse	\$ 624,591	11,148	\$ 555,914	4,976	\$ --	--	\$1,180,505	16,124
Loans serviced for third parties	1,682,764	23,181	2,352,352	29,911	294,198	1,092	4,329,314	54,184
	\$2,307,355	34,329	\$2,908,266	34,887	\$ 294,198	1,092	\$5,509,819	70,308

December 31, 1996								
Discount Loans		Subprime Loans		Other Loans		Total		
Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	
(Dollars in Thousands)								
Loans securitized and sold with recourse	\$ 204,586	4,796	\$ 202,766	1,879	\$ --	--	\$ 407,352	6,675
Loans serviced for third parties	1,209,535	22,511	6,784	60	294,427	917	1,510,746	23,488
	\$1,414,121	27,307	\$ 209,550	1,939	\$ 294,427	917	\$1,918,098	30,163

The increases in the number and amount of loans serviced by the Company for others in recent periods were primarily attributable to the Company's acquisition of rights to service discount loans acquired from HUD by BlackRock, directly and indirectly through the LLC, and servicing rights resulting from the securitization of both loans acquired from HUD by the Company and BlackRock, directly and indirectly through the LLC, and subprime single family residential loans held by the Company.

The Company generally does not purchase rights to service loans for others and, as a result, capitalized mortgage servicing rights amount to only \$5.7 million and \$2.4 million at December 31, 1997 and 1996, respectively. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 122 "Accounting for Mortgage Servicing Rights," the Company amortizes mortgage servicing rights over the estimated weighted average life of the loans and periodically evaluates its mortgage servicing rights for impairment based on the fair value of those rights, which is recognized through a valuation allowance.

ASSET QUALITY

The Company, like all financial institutions, is exposed to certain credit risks related to the value of the collateral that secures its loans and the ability of borrowers to repay their loans. Management of the Company closely monitors the Company's loan and investment portfolios and the Company's real estate owned for potential problems and reports to the Board of Directors at regularly scheduled meetings.

NONPERFORMING LOANS. It is the Company's policy to establish an allowance for uncollectible interest on loans in its loan portfolio and loans available for sale which are past due 90 days or more and to place such loans on non-accrual

status. As a result, the Company currently does not have any loans which are accruing interest but are past due 90 days or more. Loans also may be placed on non-accrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When a loan is placed on non-accrual status, previously accrued but unpaid interest is reversed by a charge to interest income.

The following table sets forth certain information relating to the Company's nonperforming loans in its loan portfolio at the dates indicated:

	December 31,				
	1997	1996	1995	1994	1993
	(Dollars in Thousands)				
Nonperforming loans (1):					
Single family residential loans.....	\$ 1,575	\$ 2,123	\$ 2,923	\$ 2,478	\$ 2,347
Multi-family residential loans.....	7,583(2)	106	731	152	664
Consumer and other loans.....	--	55	202	29	556
Total.....	<u>\$ 9,158</u>	<u>\$ 2,284</u>	<u>\$ 3,856</u>	<u>\$ 2,659</u>	<u>\$ 3,567</u>
Nonperforming loans as a percentage of:					
Total loans (3).....	3.36%	0.56%	1.27%	4.35%	3.71%
Total assets.....	0.30%	0.09%	0.20%	0.21%	0.27%
Allowance for loan losses as a percentage of:					
Total loans(3).....	1.37%	0.87%	0.65%(4)	1.84%	0.99%
Nonperforming loans.....	40.35%	154.24%	50.49%	40.28%	24.78%

- (1) The Company did not have any nonperforming loans in its loan portfolio which were deemed troubled debt restructurings at the dates indicated.
- (2) The increase in nonperforming multi-family residential loans during 1997 was primarily attributable to a \$7.4 million loan secured by a 127-unit condominium building located in New York, New York, which management believes is well collateralized.
- (3) Total loans is net of undisbursed loan proceeds.
- (4) The decrease in the allowance for loan losses as a percentage of total loans from 1994 was due to the significant increase in the loan portfolio in 1995 as a result of the purchase of single family residential loans and the origination of multi-family residential and commercial real estate loans.

The following table presents a summary of the Company's nonperforming loans in the loans available for sale portfolio at the dates indicated:

	December 31,				
	1997	1996	1995	1994	1993
	(Dollars in Thousands)				
Nonperforming loans:					
Single family loans.....	\$ 13,509	\$ 14,409	\$ 7,833	\$ --	\$ --
Consumer loans.....	25	36	100	120	884
Total.....	<u>\$ 13,534</u>	<u>\$ 14,445</u>	<u>7,933</u>	<u>\$ 120</u>	<u>\$ 884</u>
Nonperforming loans a percentage of:					
Total loans available for sale	7.64%	11.43%	3.2%	.12%	.87%
Total assets	.44%	.58%	.58%	.01%	.06%

For information relating to the payment status of loans in the Company's discount loan portfolio, see "Business-Discount Loan Acquisition and Resolution Activities."

REAL ESTATE OWNED. Properties acquired through foreclosure or by deed-in-lieu thereof are valued at the lower of amortized cost or fair value. Properties included in the Company's real estate owned portfolio are periodically re-evaluated to determine that they are being carried at the lower of cost or fair value less estimated costs to sell. Holding and maintenance costs related to properties are recorded as expenses in the period incurred. Deficiencies resulting from valuation adjustments to real estate owned subsequent to acquisition are recognized as a valuation allowance. Subsequent increases related to the valuation of real estate owned are reflected as a reduction in the valuation allowance, but not below zero. Increases and decreases in the valuation allowance are charged or credited to income, respectively. Accumulated valuation allowances amounted to \$12.3 million at December 31, 1997 as compared to \$11.5 million at December 31, 1996.

The following table sets forth certain information relating to the Company's real estate owned at the dates indicated.

	December 31,				
	1997	1996	1995	1994	1993
	(Dollars in Thousands)				
Discount loan portfolio:					
Single family residential.....	\$ 76,409	\$ 49,728	\$ 75,144	\$ 86,426	\$ 33,369
Multi-family residential	16,741	14,046	59,932	--	--
Commercial real estate	71,339	36,264	31,218	8,801	--
Total	164,489	100,038	166,294	95,227	33,369
Loan portfolio	357	592	262	1,440	128
Loans available for sale.....	2,419	3,074	--	--	--
Total	\$167,265	\$103,704	\$166,556	\$ 96,667	\$ 33,497

The following table sets forth certain geographical information by type of property at December 31, 1997 related to the Company's real estate owned.

	Single Family Residential		Multi-family Residential and Commercial		Total	
	Amount	No. of Properties	Amount	No. of Properties	Amount	No. of Properties
	(Dollars in Thousands)					
California.....	\$ 24,717	314	\$ 28,703	41	\$ 53,420	355
Florida.....	3,080	53	14,181	20	17,261	73
Connecticut.....	3,945	63	13,075	11	17,020	74
New York.....	11,099	216	2,101	13	13,201	229
New Jersey.....	7,536	105	3,555	12	11,091	117
Other.....	28,451(1)	604	26,822(2)	53	55,272	657
Total.....	\$ 78,828	1,355	\$ 88,437	150	\$ 167,265	1,505

- (1) Consists of properties located in 40 other states, none of which aggregated over \$5.6 million in any one state.
- (2) Consists of properties located in 20 other states, none of which aggregated over \$7.5 million in any one state.

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The following table sets forth the activity in the real estate owned during the periods indicated.

	Year Ended December 31,					
	1997		1996		1995	
	Amount	No. of Properties	Amount	No. of Properties	Amount	No. of Properties
	(Dollars in Thousands)					
Balance at beginning of period....	\$ 103,704	825	\$ 166,556	1,070	\$ 96,667	1,018
Properties acquired through foreclosure or deed-in-lieu thereof	205,621	1,656	102,098	918	185,174	970
Acquired in connection with acquisitions of discount loans..	38,486	545	2,529	12	24,617	311
Sales	(179,693)	(1,521)	(160,592)	(1,175)	(139,233)	(1,229)
Change in allowance	(853)	--	(6,887)	--	(669)	--
Balance at end of period	\$ 167,265	1,505	\$ 103,704	825	\$ 166,556	1,070

The following table sets forth the amount of time that the Company had held its real estate owned at the dates indicated.

December 31,

	1997	1996	1995
	(Dollars in Thousands)		
One to two months.....	\$ 83,144	\$ 17,695	\$ 25,398
Three to four months.....	28,912	15,291	22,672
Five to six months.....	20,929	14,348	25,742
Seven to 12 months.....	23,621	13,004	76,782
Over 12 months.....	10,659	43,366	15,962
	-----	-----	-----
	\$ 167,265	\$ 103,704	\$ 166,556
	=====	=====	=====

The average period during which the Company held the \$179.7 million, \$160.6 million and \$139.2 million of real estate owned which was sold during the years ended December 31, 1997, 1996 and 1995, respectively, was 9 months, 11 months and 8 months, respectively.

Although the Company evaluates the potential for significant environmental problems prior to acquiring or originating a loan, there is a risk for any mortgage loan, particularly a multi-family residential and commercial real estate loan, that hazardous substances or other environmentally restricted substances could be discovered on the related real estate. In such event, the Company might be required to remove such substances from the affected properties or to engage in abatement procedures at its sole cost and expense. There can be no assurance that the cost of such removal or abatement will not substantially exceed the value of the affected properties or the loans secured by such properties, that the Company would have adequate remedies against the prior owners or other responsible parties or that the Company would be able to resell the affected properties either prior to or following completion of any such removal or abatement procedures. If such environmental problems are discovered prior to foreclosure, the Company generally will not foreclose on the related loan; however, the value of such property as collateral will generally be substantially reduced, and as a result, the Company may suffer a loss upon collection of the loan.

From time to time, the Company makes loans to finance the sale of real estate owned. At December 31, 1997, such loans amounted to \$8.4 million and consisted of \$4.4 million of single family residential loans, \$3.7 million of multi-family residential loans and \$339,000 of commercial loans. All of the Company's loans to finance the sale of real estate owned were performing in accordance with their terms at December 31, 1997.

CLASSIFIED ASSETS. OTS regulations require that each insured savings association classify its assets on a regular basis. In addition, in connection with examinations of insured associations, OTS examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: "substandard," "doubtful" and "loss." Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility

of loss. An asset classified as a loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. Another category designated "special mention" also must be established and maintained for assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification as substandard, doubtful or loss but do possess credit deficiencies or potential weaknesses deserving management's close attention. Assets classified as substandard or doubtful require the institution to establish general allowances for loan losses. If an asset or portion thereof is classified as a loss, the insured institution must either establish specific allowances for loan losses in the amount of 100% of the portion of the asset classified as a loss or charge off such amount. In this regard, the Company establishes required reserves and charges off loss assets as soon as administratively practicable. General loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses do not qualify as regulatory capital.

In 1996, based upon discussions with the OTS and as a result of an OTS

bulletin issued on December 13, 1996 entitled "Guidance on the Classification and Regulatory Reporting of Certain Delinquent Loans and Other Credit Impaired Assets," the Company has classified all discount loans that are 90 or more days contractually past due, not otherwise classified, as special mention and all real estate owned, not otherwise classified, as special mention. The Company also modified its policy for classifying nonperforming discount loans and real estate owned related to its discount loan portfolio ("nonperforming discount assets") to take into account both the holding period of such assets from the date of acquisition and the ratio of book value to market value of such assets. All nonperforming discount assets which are held 15 months or more after the date of acquisition are classified substandard; nonperforming discount assets held 12 months to less than 15 months from the date of acquisition are classified as substandard if a ratio of book value to market value is 80% or more; and nonperforming discount assets held less than 12 months from the date of acquisition are classified as substandard if they have a ratio of book value to market value of more than 85%. In addition, nonperforming discount assets which are performing for a period of time subsequent to acquisition by the Company are classified as substandard at the time such loans become nonperforming. The Company also modified its classified assets policy to classify all real estate owned which is not cash flowing and which has been held for more than 15 months and three years as substandard and doubtful, respectively. The Company's past experience indicates that classified discount assets do not necessarily correlate to probability or severity of loss.

Excluding assets which have been classified loss and fully reserved by the Company, the Company's classified assets at December 31, 1997 under the above policy consisted of \$404.1 million of assets classified as substandard and \$577,000 of assets classified as doubtful. In addition, at the same date, \$616.1 million of assets were designated as special mention.

Substandard assets at December 31, 1997 under the above policy consisted primarily of \$242.4 million of loans and real estate owned related to the Company's discount single family residential loan program, \$150.5 million of loans and real estate owned related to the Company's discount commercial real estate loan program and \$9.7 million of subprime single family residential loans. Special mention assets at December 31, 1997 under the policy consisted primarily of \$559.3 million and \$56.8 million of loans and real estate owned related to the Company's discount single family residential and discount commercial real estate loan programs, respectively.

ALLOWANCES FOR LOSSES. The Company maintains an allowance for loan losses for each of its loan and discount loan portfolios at a level which management considers adequate to provide for potential losses in each portfolio based upon an evaluation of known and inherent risks in such portfolios.

The following table sets forth the breakdown of the allowance for loan losses on the Company's loan portfolio and discount loan portfolio by loan category and the percentage of loans in each category to total loans in the respective portfolios at the dates indicated:

	December 31,									
	1997		1996		1995		1994		1993	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)									
Loan portfolio:										
Single family residential										
loans.....	\$ 512	15.7%	\$ 520	14.6%	\$ 346	22.2%	\$ 615	52.2%	\$ 174	31.6%
Multi-family residential										
loans.....	2,163	24.2	673	13.5	683	14.3	--	2.9	333	40.9
Commercial real estate										
loans.....	1,009	60.0	2,299	71.3	875	62.6	218	42.3	218	23.7
Commercial non-mortgage										
loans.....	--	--	11	0.5	--	--	--	--	--	--
Consumer loans.....	11	0.1	20	0.1	43	0.9	238	2.6	159	3.8
Total.....	\$ 3,695	100.0%	\$ 3,523	100.0%	\$ 1,947	100.0%	\$ 1,071	100.0%	\$ 884	100.0%
Discount loan										
portfolio(l):										
Single family residential										
loans.....	\$15,017	50.2%	\$ 3,528	38.4%	\$ --	--%	\$ --	--%	\$ --	--%
Multi-family residential										
loans.....	2,616	10.7	3,124	26.0	--	--	--	--	--	--
Commercial real estate										
loans.....	5,860	39.0	4,886	35.4	--	--	--	--	--	--
Other loans.....	--	0.1	--	0.2	--	--	--	--	--	--

Total.....	\$23,493	100.0%	\$11,538	100.0%	\$ --	--%	\$ --	--%	\$ --	--%
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

(1) The Company did not maintain an allowance for loan losses on its discount loan portfolio prior to 1996.

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

The following table sets forth an analysis of activity in the allowance for loan losses relating to the Company's loan portfolio during the periods indicated:

	Year Ended December 31,				
	1997	1996	1995	1994	1993

	(Dollars in Thousands)				
Balance at beginning of period....	\$ 3,523	\$ 1,947	\$ 1,071	\$ 884	\$ 752
Provision for loan losses.....	325	1,872	1,121	--	--
Charge-offs:					
Single family residential loans	(100)	(261)	(131)	(302)	(150)
Multi-family residential loans..	--	(7)	--	--	(170)
Commercial real estate loans....	--	--	(40)	--	--
Consumer loans.....	(53)	(28)	(92)	(170)	(16)
Total charge-offs.....	(153)	(296)	(263)	(472)	(336)
Recoveries:					
Single family residential loans	--	--	3	410	346
Multi-family residential loans..	--	--	--	--	--
Commercial real estate loans....	--	--	15	--	--
Consumer loans.....	--	--	--	249	122
Total recoveries.....	--	--	18	659	468
Net (charge-offs) recoveries...	(153)	(296)	(245)	187	132
Balance at end of period.....	\$ 3,695	\$ 3,523	\$ 1,947	\$ 1,071	\$ 884
	=====	=====	=====	=====	=====
Net charge-offs (recoveries) as a percentage of average loan portfolio, net.....	0.04%	0.09%	0.19%	(0.28)%	(0.10)%

The following table sets forth an analysis of activity in the allowance for loan losses relating to the Company's discount loan portfolio during the periods indicated:

	Year Ended December 31,	
	1997	1996

	(Dollars in Thousands)	
Balance at beginning of period	\$ 11,538	\$ --
Provision for loan losses	31,894	20,578
Charge-offs:		
Single family residential loans	(13,281)	(7,009)
Multi-family residential loans	(2,056)	(704)
Commercial real estate loans	(5,012)	(1,503)
Other loans	--	--
Total charge-offs	(20,349)	(9,216)
Recoveries:		
Single family residential loans	410	176
Multi-family residential loans	--	--
Commercial real estate loans	--	--
Consumer loans	--	--
Total recoveries	410	176
Net (charge-offs)	(19,939)	(9,040)
Balance at end of period	\$ 23,493	\$ 11,538
	=====	=====
Net charge-offs as a percentage of average		

discount loan portfolio 1.55% 1.34%

INVESTMENT ACTIVITIES

GENERAL. The investment activities of the Company currently include investments in mortgage-related securities, investment securities and low-income housing tax credit interests. The investment policy of the Company, which is established by the Investment Committee and approved by the Board of Directors, is designed primarily to provide a portfolio of diversified instruments while seeking to optimize net interest income within acceptable limits of interest rate risk, credit risk and liquidity.

MORTGAGE-BACKED AND RELATED SECURITIES. From time to time, the Company invests in mortgage-backed and mortgage-related securities. Although mortgage-backed and mortgage-related securities generally yield less than the loans that back such securities because of costs associated with their payment guarantees or credit enhancements, such securities are more liquid than individual loans and may be used to collateralize borrowings of the Company. Other mortgage-backed and mortgage-related securities indirectly bear the risks of the underlying loans, such as prepayment risk (interest-only securities) and credit risk (subordinated interests), and are generally less liquid than individual loans.

Mortgage-related securities include senior and subordinate regular interests and residual interests in collateralized mortgage obligations ("CMOs"), including CMOs which have qualified as REMICs. The regular interests in some CMOs are like traditional debt instruments because they have stated principal amounts and traditionally defined interest-rate terms. Purchasers of certain other interests in REMICs are entitled to the excess, if any, of the issuer's cash inflows, including reinvestment earnings, over the cash outflows for debt service and administrative expenses. These interests may include instruments designated as residual interests, which represent an equity ownership interest in the underlying collateral, subject to the first lien of the investors in the other classes of the REMIC.

A senior-subordinated structure often is used with CMOs to provide credit enhancement for securities which are backed by collateral which is not guaranteed by FNMA, FHLMC or the Government National Mortgage Association ("GNMA"). These structures divide mortgage pools into two risk classes: a senior class and one or more subordinated classes. The subordinated classes provide protection to the senior class. When cash flow is impaired, debt service goes first to the holders of senior classes. In addition, incoming cash flows also may be held in a reserve fund to meet any future shortfalls of cash flow to holders of senior classes. The holders of subordinated classes may not receive any principal repayments until the holders of senior classes have been paid and, when appropriate, until a specified level of funds has been contributed to the reserve fund.

Interest-only and principal-only securities are so-called stripped mortgage-related securities, in which interest coupons may be stripped from a mortgage-related security to create an interest-only ("IO") strip, where the investor receives all of the interest cash flows and none of the principal, and a principal-only ("PO") strip, where the investor receives all of the principal cash flows and none of the interest. Inverse floating rate interest-only ("Inverse IO") securities also have coupons which are stripped from a mortgage-related security. However, Inverse IOs have coupons whose interest rates change inversely with, and often as a multiple of, a specialized index such as the one-month London Interbank Offered Rate ("LIBOR").

The following table sets forth the fair value of the Company's mortgage-backed and related securities available for sale at the dates indicated.

	December 31,		
	1997	1996	1995
	(Dollars in Thousands)		
Mortgage-related securities:			
Single family residential:			
CMOs (AAA-rated).....	\$ 160,451	\$ 73,935	\$ 138,831
Interest only:			

AAA-rated.....	13,863	1,173	--
FHLMC.....	64,745	47,571	2,182
FNMA.....	59,715	49,380	9,592
GNMA.....	29,766	--	--
Principal only.....	--	--	8,218
Subordinates.....	67,830	19,164	27,310
PAC securities	--	--	574
REMIC residuals.....	15,693	20,560	472
Futures contracts and swaps.....	(94)	(1,921)	(1,598)
	-----	-----	-----
Total.....	411,969	209,862	185,581
	-----	-----	-----
Multi-family residential and commercial:			
Interest only:			
AAA-rated.....	1,030	83,590	103,932
FNMA.....	--	--	5,261
Non-investment grade.....	3,477	3,799	--
Subordinates.....	14,048	57,534	42,954
Futures contracts.....	--	(780)	(248)
	-----	-----	-----
Total.....	18,555	144,143	151,899
	-----	-----	-----
Total.....	\$ 430,524	\$ 354,005	\$ 337,480
	=====	=====	=====

At December 31, 1997, the carrying value of the Company's investment in IO strips amounted to \$172.6 million. The Company invests in IO strips and PO strips from time to time based on its capital position, interest rate risk profile and the market for such securities. IO strips and PO strips exhibit considerably more price volatility than mortgages or ordinary mortgage pass-through securities, due in part to the uncertain cash flows that result from changes in the prepayment rates of the underlying mortgages. In the case of IO strips in particular, increased prepayments of the underlying mortgages as a result of a decrease in market interest rates or other factors can result in a loss of all or part of the purchase price of such security, although IO strips relating to mortgage-related securities backed by multi-family residential and commercial real estate loans (which amounted to \$4.5 million of the \$172.6 million of IO strips owned by the Company at December 31, 1997) generally have provisions which prohibit and/or provide economic disincentives to prepayments for specified periods. The Company generally attempts to offset the interest rate risk associated with a particular IO strip or PO strip by purchasing other securities. At December 31, 1997, all of the Company's IO strips were either issued by FHLMC, FNMA or GNMA or rated AAA by national rating agencies, with the exception of IO securities with an aggregate carrying value of \$3.5 million, which were rated investment grade below this level.

The Company generally retains subordinate securities, subordinate IOs and REMIC residual securities, which are certificated, related to its securitization of loans. Subordinate securities, subordinate IOs and REMIC residual

securities retained represent the present value of the right to the excess cash flows generated by the securitized loans that represent the difference between (a) principal and interest at the stated rate paid by borrowers and (b) the sum of (i) principal and pass-through interest paid to third-party investors, (ii) trustee fees, (iii) third-party credit enhancement fees (if applicable), (iv) stipulated servicing fees and (v) estimated loan portfolio losses. The Company's right to receive this excess cash flow may begin after certain reserve requirements have been met, which are specific to each securitization and may be used as a means of credit enhancement. The Company determines the present value of anticipated cash flows at the time each securitization transaction closes, utilizing valuation assumptions appropriate for each particular transaction.

The significant valuation assumptions are related to the anticipated average lives of the loans sold, the anticipated prepayment speeds and the anticipated credit losses related thereto. In order to determine the present value of this excess cash flow, the Company currently applies a discount rate of between 18% and 28% to the projected cash flows.

The annual prepayment rate of the securitized loans is a function of full and partial prepayments and defaults. The Company makes assumptions as to the prepayment rates of the underlying loans, which the Company believes are reasonable, in estimating fair values of the subordinate securities, subordinate

IOs and REMIC residual securities retained. During fiscal 1997, the Company utilized proprietary prepayment curves generated by the Company (reaching an approximate maximum annual rate of 28%).

In its estimates of annual loss rates, the Company utilizes assumptions that it believes are reasonable. The Company estimates annual losses of between 0.25% and 1.20% of the underlying loans.

The Company classifies its subordinate securities, subordinate IOs and REMIC residual securities retained as available for sale securities in accordance with SFAS No. 115. Securities available for sale are carried at fair value with the net unrealized gains or losses reported as a separate component of stockholders' equity, net of tax. The determination of fair value is based on the previously mentioned valuation basis and on broker valuation estimates. The subordinate securities, subordinate IOs and REMIC residual securities retained are amortized based on the interest method.

The Company retains the right to service loans it originates or purchases and then subsequently securitizes. Fees for servicing loans are based on a stipulated percentage which is equal to between 0.50% and 0.60% of the unpaid principal balance of the underlying loans. The Company recognizes a servicing asset as part of its gain on securitized loan sales.

The Company periodically assesses the carrying value of its subordinate securities, subordinate IOs and REMIC residual securities retained as well as the servicing assets for impairment. There can be no assurance that the Company's estimates used to determine the gain on securitized loan sales, subordinate securities, subordinate IOs and REMIC residual securities retained and servicing assets valuations will remain appropriate for the life of each securitization. If actual loan prepayments or defaults exceed the Company's estimates, the carrying value of the Company's subordinate securities, subordinate IOs and REMIC residual securities retained and/or servicing assets may be decreased or the Company may increase its allowance for possible credit losses on loans sold through a charge against earnings during the period management recognizes the disparity. Other factors may also result in a writedown of the Company's subordinate securities, subordinate IOs and REMIC residual securities retained in subsequent periods. As of December 31, 1997 the Company determined that no such impairment existed.

At December 31, 1997, the carrying value of the Company's investment in subordinate classes of mortgage-related securities amounted to \$81.9 million, and included \$62.8 million of subordinated classes of mortgage-related securities acquired in connection with the securitization activities of the Company and \$19.1 million acquired from the LLC in 1996 in connection with its securitization of HUD loans. During 1997, the Company acquired \$50.1 million of subordinate classes of mortgage-related securities, all of which were acquired in connection with the Company's securitizations of loans. For additional information see "Business - Discount Loan Acquisition and Resolution Activities - Activity in the Discount Loan Portfolio" and "Business - Lending Activities-Single Family Residential Loans." At December 31, 1997, the Company's subordinate securities supported senior classes of securities having an outstanding principal balance of \$1.77 billion. Because of their subordinate position, subordinate classes of mortgage-related securities involve more risk than the other classes.

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During 1996, the Company retained residual securities in REMICs which were formed in connection with the securitization and sale of \$211.2 million of subprime single family residential loans in two underwritten public offerings as partial payment for the loans sold by it. These REMIC residual securities had a carrying value of \$15.7 million at December 31, 1997 and supported senior classes of securities having an outstanding principal balance of \$135.6 million, which provide credit support similar to the senior-subordinated structure. Cash flows supporting the REMIC residuals are generated by the amount by which the interest collected on the underlying mortgage loans exceeds the interest due on the senior securities. See "Business - Lending Activities - Single family Residential Loans."

The Company generally does not intend to purchase subordinate classes of mortgage-related securities created by unaffiliated parties. The Company may retain subordinated classes resulting from the securitization of assets held by it directly or indirectly through the Bank and investments in joint ventures, although it is intended that any such securities held by the Bank will be distributed to the Company as a dividend subject to its ability to declare such dividends under applicable limitations.

Under a regulatory bulletin issued by the OTS, a federally-chartered savings institution such as the Bank generally may invest in "high risk" mortgage securities only to reduce its overall interest rate risk and after it has adopted various policies and procedures, although under specified circumstances such securities also may be acquired for trading purposes. A "high risk" mortgage security for this purpose generally is any mortgage-related security which meets one of three tests which are intended to measure the average life or price volatility of the security in relation to a benchmark fixed rate, 30-year mortgage-backed pass-through security. At December 31, 1997, the Bank held mortgage-related securities with a carrying value of \$141.1 million (amortized cost of \$137.0 million) which were classified as "high-risk" mortgage securities by the OTS.

The expected actual maturity of a mortgage-backed and related security is shorter than its stated maturity due to prepayments of the underlying mortgages. Prepayments that are faster than anticipated may shorten the life of the security and adversely affect its yield to maturity. The yield is based upon the interest income and the amortization of any premium or accretion of any discount related to the mortgage-backed and related security. Prepayments on mortgage-backed and related securities have the effect of accelerating the amortization of premiums and accretion of discounts, which decrease and increase interest income, respectively. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Similarly, during periods of increasing interest rates, refinancing generally decreases, thus lengthening the estimated maturity of mortgage loans.

INVESTMENT SECURITIES. At December 31, 1997, investment securities consisted primarily of the Company's investment in OAIC and a required investment in FHLB stock and investments in other common stocks. Non-marketable equity securities held for investment are stated at cost because the Company has the ability and the intent to hold them to maturity. Marketable equity securities are designated as available for sale and are carried at market value based on quoted market prices. Net unrealized gains or losses are reported as a separate component of stockholders' equity. Unrealized losses on securities that reflect a decline in value which is other than temporary, if any, are charged to earnings.

The following table sets forth the Company's investment securities at the dates indicated.

	December 31,		
	1997	1996	1995
	(Dollars in Thousands)		
Marketable equity securities:			
Other common stocks (1).....	\$ 46,272	\$ --	\$ --
Non-marketable equity securities:			
U.S. Government securities.....	--	--	10,036
FHLB stock(2).....	10,825	8,798	8,520
Limited partnership interests (3).....	2,470	103	109
Total.....	\$ 59,567	\$ 8,901	\$ 18,665

(1) Balance at December 31, 1997 consisted primarily of 1,715,000 shares of stock of OAIC.

(2) As a member of the FHLB of New York, the Bank is required to purchase and maintain stock in the FHLB of New York in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts and similar obligations at the beginning of each year or 5% of borrowings, whichever is greater.

(3) Balance at December 31, 1997 consisted primarily of 160,000 limited partnership units of OPLP.

TRADING SECURITIES. When securities are purchased with the intent to resell in the near term, they are classified as trading securities and reported on the Company's consolidated statement of financial condition as a separately identified trading account. Securities in this account are carried at current market value. All trading securities are marked-to-market, and any increase or decrease in unrealized appreciation or depreciation is included in the Company's consolidated statements of operations.

Under guidelines approved by the Board of Directors of the Company, the Company is authorized to hold a wide variety of securities as trading securities, including U.S. Government and agency securities and mortgage-backed and mortgage-related securities. The Company also is authorized by such guidelines to use various hedging techniques in connection with its trading activities, as well as to effect short sales of securities, pursuant to which the Company sells securities which are to be acquired by it at a future date. Under current guidelines, the amount of securities held by the Company in a trading account may not exceed on a gross basis the greater of \$200 million or 15% of the Company's total assets, and the total net amount of securities (taking into account any related hedge or buy/sell agreement relating to similar securities) may not exceed the greater of \$150 million or 10% of total assets.

The Company's securities held for trading at December 31, 1996 amounted to \$75.6 million and represented one AAA-rated CMO which was sold in January 1997. The Company held no securities for trading at December 31, 1997.

INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS. The Company invests in low-income housing tax credit interests primarily through limited partnerships for the purpose of obtaining Federal income tax credits pursuant to Section 42 of the Code, which provides a tax credit to investors in qualified low-income rental housing that is constructed, rehabilitated or acquired after December 31, 1986. To be eligible for housing tax credits, a property generally must first be allocated an amount of tax credits by the tax credit allocating agency, which in most cases also serves as the housing finance agency, of the state in which the property is located. If the property is to be constructed or rehabilitated, it must be completed and placed in service within a specified time, generally within two years after the year in which the tax credit allocation is received. A specified portion of the apartment units in a qualifying project may be rented only to qualified tenants for a period of 15 years, or a portion of any previously claimed tax credits will be subject to recapture, as discussed below.

At December 31, 1997, the Company's investment in low-income housing tax credit interests amounted to \$128.6 million or 4% of total assets, as compared to \$93.3 million or 4% of total assets at December 31, 1996. The Company's

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investments in low-income housing tax credit interests are made by the Company indirectly through subsidiaries of the Company, which may be a general partner and/or a limited partner in the partnership.

In accordance with a 1995 pronouncement of the Emerging Issues Task Force, the Company's accounting for investments in low-income housing tax credit partnerships in which it acts solely as a limited partner, which amounted to \$78.6 million in the aggregate at December 31, 1997, depends on whether the investment was made on or after May 18, 1995.

Low-income housing tax credit partnerships in which the Company, through a subsidiary, acts as a general partner, are presented on a consolidated basis. At December 31, 1997, the Company's investment in low-income housing tax credit interests included \$50.0 million of assets related to low-income housing tax credit partnerships in which a subsidiary of the Company acts as a general partner. At December 31, 1997, the Company had commitments to make \$2.1 million of additional investments in such partnerships.

The Company also makes loans to low-income housing tax credit partnerships in which it has invested to construct the affordable housing project owned by the partnerships. At December 31, 1997, the Company had \$37.6 million of construction loans outstanding to low-income housing tax credit partnerships and commitments to fund an additional \$9.9 million of such loans. Approximately \$7.3 million of such funded construction loans at December 31, 1997 were made to partnerships in which subsidiaries of the Company acted as the general partner and thus were consolidated with the Company for financial reporting purposes. The risks associated with these construction loans generally

are the same as those made by the Company to unaffiliated third parties. See "Business-Lending Activities".

The affordable housing projects owned by the low-income housing tax credit partnerships in which the Company had invested at December 31, 1997 are geographically located throughout the United States. At December 31, 1997, the Company's largest funded investment in a low-income housing tax credit interest was a \$9.7 million investment in a partnership which owned a 170-unit qualifying project located in Racine, Wisconsin, and the Company's largest unfunded investment in such a partnership was a \$9.0 million commitment to fund equity and debt investments in a partnership which will construct a 96-unit qualifying project in Knoxville, Tennessee, of which \$1.3 million of equity and \$849,000 of debt was funded as of such date.

At December 31, 1997, the Company had invested in or had commitments to invest in 43 low-income housing tax credit partnerships, of which 31 had been allocated tax credits. The Company estimates that the investment in low-income housing tax credit interests in which it had invested at December 31, 1997 will provide approximately \$217.3 million of tax credits.

During 1997, the Company sold an investment in a low-income housing tax credit interest which had a carrying value of \$15.7 million for a gain of \$6.3 million. During 1996, the Company sold \$19.8 million of its investments in low-income housing tax credit interests for a gain of \$4.9 million. Depending on available prices, its ability to utilize tax credits and other factors, the Company may seek to sell other of its low-income housing tax credit interests in the future.

The ownership of low-income housing tax credit interests produces two types of tax benefits. The primary tax benefit flows from the low-income housing tax credits under the Code which are generated by the ownership and operation of the real property in the manner required to obtain such tax credits. These credits may be used to offset Federal income tax on a dollar for dollar basis but may not offset the alternative minimum tax; tax credits thus may reduce the overall Federal income tax to an effective rate of 20%. In addition, the operation of the rental properties produces losses for financial statement and tax purposes in the early years and sometimes throughout the anticipated ownership period. These tax losses may be used to offset taxable income from other operations and thereby reduce income tax which would otherwise be paid on such taxable income.

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 claimed reduce the tax payments computed based upon taxable income to not less than the alternative minimum tax computed for that year or any year not more than three years before or 15 years after the year the tax credit is earned. The taxpayer Relief Act of 1997 changed the tax credit carryback period from 3 years to 1 year and the carry forward period from 15 years to 20 years for credits that become available for use in years beginning after December 31, 1997. Tax credits are realized even if units in the project do not continue to be occupied once the units in the project have been initially rented to a qualifying tenant, and tax credits are not dependent on a project's operating income or appreciation. Tax credits can be claimed over a ten-year period and 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. The Company has established specific investment criteria for investment in multi-family residential projects which have been allocated tax credits, which require, among other things, a third party developer of the project and/or the seller of the interest therein to provide a guarantee against loss or recapture of tax credits and to maintain appropriate insurance to fund rebuilding in case of destruction of the project. Notwithstanding the Company's efforts, there can be no assurance that the multi-family residential projects owned by the low-income housing tax credit partnerships in which it has invested will satisfy applicable criteria during the 15-year compliance period and that there will not be loss or recapture of the tax credits associated therewith.

Investments made pursuant to the affordable housing tax credit program of the Code are subject to numerous risks resulting from changes in the Code. For example, the Balanced Budget Act of 1995, which was vetoed by the President of the United States in December 1995 for reasons which were unrelated to the tax credit program, generally would have established a sunset date for the affordable housing tax credit program of the Code for housing placed in service after December 31, 1997 and would have required a favorable vote by Congress to

extend the credit program. Although this change would not have impacted the Company's existing investments, other potential changes in the Code, which have been discussed from time to time, could reduce the benefits associated with the Company's existing investments in low-income housing tax credit interests, including the replacement of the current graduated income taxation provisions in the Code with a "flat tax" based system and increases in the alternative minimum tax, which cannot be reduced by tax credits. Management of the Company is unable to predict whether any of the foregoing or other changes to the Code will be subject to future legislation and, if so, what the contents of such legislation will be and its effects, if any, on the Company.

SOURCES OF FUNDS

GENERAL. Deposits, FHLB advances, reverse repurchase agreements, securities financings, maturities, resolutions and principal repayments on securities and loans and proceeds from the sale of securities, loans and real estate owned held for sale currently are the principal sources of funds for use in the Company's investment and lending activities and for other general business purposes. Management of the Company closely monitors rates and terms of competing sources of funds on a regular basis and generally utilizes the sources which are the most cost effective.

DEPOSITS. The primary source of deposits for the Company currently is brokered certificates of deposit obtained primarily through national investment banking firms which, pursuant to agreements with the Company, solicit funds from their customers for deposit with the Company ("brokered deposits"). Such deposits obtained through national investment banking firms amounted to \$1.34 billion or 68% of the Company's total deposits at December 31, 1997. In addition, during 1995, the Company commenced a program to obtain certificates of deposit from customers of regional and local investment banking firms which are made aware of the Company's products by the Company's direct solicitation and marketing efforts. At December 31, 1997, \$251.9 million or 13% of the Company's deposits were obtained in this manner through over 140 regional and local investment banking firms. The Company also solicits certificates of deposit from institutional investors and high net worth individuals identified by the Company. At December 31, 1997, \$177.9 million or 9% of the Company's total deposits consisted of deposits obtained by the Company from such efforts.

The Company's brokered deposits at December 31, 1997 were net of \$11.7 million of unamortized deferred fees. The amortization of deferred fees is computed using the interest method and is included in interest expense on certificates of deposit.

The Company believes that the effective cost of brokered and other wholesale deposits is more attractive to the Company than deposits obtained on a retail basis from branch offices after the general and administrative expense associated with the maintenance of branch offices is taken into account. Moreover, brokered and other wholesale deposits generally give the Company more flexibility than retail sources of funds in structuring the maturities of its deposits and in matching liabilities with comparably maturing assets. At December 31, 1997, \$840.5 million or 46% of the Company's certificates of deposits were scheduled to mature within one year.

Although management of the Company believes that brokered and other wholesale deposits are advantageous in certain respects, such funding sources, when compared to retail deposits attracted through a branch network, are generally more sensitive to changes in interest rates and volatility in the capital markets and are more likely to be compared by the investor to competing investments. In addition, such funding sources may be more sensitive to significant changes in the financial condition of the Company. There are also various regulatory limitations on the ability of all but well-capitalized insured financial institutions to obtain brokered deposits. See "Regulation The Bank - Brokered Deposits." These

limitations currently are not applicable to the Company because the Bank is a well-capitalized financial institution under applicable laws and regulations. See "Regulation - The Bank - Regulatory Capital Requirements." There can be no assurances, however, that the Company will not become subject to such limitations in the future.

As a result of the Company's reliance on brokered and other wholesale deposits, significant changes in the prevailing interest rate environment, in the availability of alternative investments for individual and institutional investors or in the Company's financial condition, among other factors, could affect the Company's liquidity and results of operations much more significantly

than might be the case with an institution that obtained a greater portion of its funds from retail or core deposits attracted through a branch network.

In addition to brokered and other wholesale deposits, the Company obtains deposits from its office located in Bergen County, New Jersey. These deposits include non-interest bearing checking accounts, NOW and money market checking accounts, savings accounts and certificates of deposit and are obtained through advertising, walk-ins and other traditional means. At December 31, 1997, the deposits which were allocated to this office amounted to \$60.7 million or 3% of the Company's deposits.

The following table sets forth information related to the Company's deposits at the dates indicated.

	December 31,					
	1997		1996		1995	
	Amount	Avg. Rate	Amount	Avg. Rate	Amount	Avg. Rate
	(Dollars in Thousands)					
Non-interest bearing						
checking accounts.....	\$ 130,372	--%	\$ 96,563	--%	\$ 48,482	--%
NOW and money market						
checking accounts.....	27,624	4.73	22,208	2.99	17,147	3.37
Savings accounts.....	1,664	2.30	2,761	2.30	3,471	2.30
	159,660		121,532		69,100	
Certificates of deposit(1)....	1,834,899		1,809,098		1,440,240	
Unamortized deferred fees.....	(11,737)		(10,888)		(7,694)	
Total certificates of deposit.	1,823,162	6.00	1,798,210	5.80	1,432,546	5.68
Total deposits.....	\$1,982,822	5.95	\$1,919,742	5.47	\$1,501,646	5.46

(1) At December 31, 1997, 1996 and 1995, certificates of deposit issued on an unsecured basis amounted to \$133.7 million, \$147.5 million and \$80.0 million, respectively. Of the \$133.7 million of unsecured deposits at December 31, 1997, \$98.1 million were from political subdivisions in New Jersey and secured or collateralized as required under state law.

The following table sets forth, by various interest rate categories, the certificates of deposit in the Company at the dates indicated.

	December 31,		
	1997	1996	1995
	(Dollars in Thousands)		
2.99% or less.....	\$ 841	\$ 1,442	\$ 222
3.00-3.50%.....	--	4	39
3.51-4.50.....	41	1,149	42,751
4.51-5.50.....	292,192	595,730	454,653
5.51-6.50.....	1,300,463	990,621	660,745
6.51-7.50.....	229,134	208,774	273,655
7.51-8.50.....	491	490	481
	\$ 1,823,162	\$ 1,798,210	\$ 1,432,546

The following table sets forth the amount and maturities of the certificates of deposit in the Company at December 31, 1997.

Six Months and Less	Over Six Months and Less than One Year	One Year Through Two Years	Over Two Years	Total
(Dollars in Thousands)				

2.99% or less.....	\$ 813	\$ --	\$ 28	\$ --	\$ 841
3.00-3.50%.....	--	--	--	--	--
3.51-4.50.....	24	--	11	6	41
4.51-5.50.....	172,733	32,710	42,758	43,991	292,192
5.51-6.50.....	288,206	287,208	260,386	464,663	1,300,463
6.51-7.50.....	28,568	30,201	73,151	97,214	229,134
7.51-8.50.....	--	--	295	196	491
	-----	-----	-----	-----	-----
	\$ 490,344	\$ 350,119	\$ 376,629	\$ 606,070	\$ 1,823,162
	=====	=====	=====	=====	=====

At December 31, 1997, the Company had \$194.5 million of certificates of deposit in amounts of \$100,000 or more outstanding maturing as follows: \$97.7 million within three months; \$28.4 million over three months through six months; \$19.4 million over six months through 12 months; and \$49.0 million thereafter.

For additional information related to the Company's deposits, see Note 15 to the Consolidated Financial Statements included in Item 8 hereof.

BORROWINGS. Through the Bank, the Company obtains advances from the FHLB of New York upon the security of certain of its residential first mortgage loans, mortgage-backed and mortgage-related securities and other assets, including FHLB stock, provided certain standards related to the creditworthiness of the Bank have been met. FHLB advances are available to member financial institutions such as the Bank for investment and lending activities and other general business purposes. FHLB advances are made pursuant to several different credit programs, each of which has its own interest rate, which may be fixed or adjustable, and range of maturities.

The Company also obtains funds pursuant to securities sold under reverse repurchase agreements. Under these agreements, the Company sells 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 the Company's consolidated financial statements and are held in safekeeping by broker-dealers.

Beginning in 1997, borrowings of the Company include lines of credit obtained by OFS, as follows: (i) a \$200.0 million secured line of credit from Morgan Stanley Mortgage Capital Inc., (ii) a \$50.0 million secured line of credit from Texas Commerce Bank National Association, (iii) a \$200.0 million secured line of credit from Merrill Lynch and (iv) a \$200.0 million secured line of credit from Lehman Commercial Paper, Inc. An aggregate of \$118.3 million was outstanding to OFS under these lines of credit at December 31, 1997, which have interest rates which float in accordance with a designated prime rate.

The Company's borrowings also include notes, subordinated debentures and other interest-bearing obligations. At December 31, 1997, this category of borrowings consisted primarily of \$100.0 million of 12% Subordinated Debentures issued by the Bank in June 1995 and due 2005 (the "Debentures") and \$125.0 million of 11.875% Notes due 2003 (the "Notes") issued by the Company through a public offering on September 25, 1996 and due 2003. Historically, from time to time, the Company privately has raised funds by issuing short-term notes to certain executives and stockholders of the Company. Such notes were repaid during 1996 and amounted to \$8.6 million at December 31, 1995.

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The following table sets forth information relating to the Company's borrowings and other interest-bearing obligations at the dates indicated.

	December 31,		
	1997	1996	1995
	-----	-----	-----
	(Dollars in Thousands)		
FHLB advances	\$ --	\$ 399	\$ 70,399
Reverse repurchase agreements	108,250	74,546	84,761
Obligations outstanding under lines of credit	118,304	--	--
Notes, debentures and other interest bearing obligations:			
Notes	125,000	125,000	--
Debentures	100,000	100,000	100,000
Hotel mortgages payable	--	573	8,427
Short-term notes	1,975	--	8,627
	-----	-----	-----

226,975	225,573	117,054
-----	-----	-----
\$453,529	\$300,518	\$272,214
=====	=====	=====

The following table sets forth certain information relating to the Company's short term borrowings having average balances during any of the reported periods of greater than 30% of stockholders' equity at the end of the reported period.

	At or for the Year Ended December 31,		
	1997	1996	1995
	-----	-----	-----
	(Dollars in Thousands)		
FHLB ADVANCES:			
Average amount outstanding during the period....	\$ 9,482	\$ 71,221	\$ 14,866
Maximum month-end balance outstanding			
during the period.....	\$ 399	\$ 81,399	\$ 100,399
Weighted average rate:			
During the period.....	5.46%	5.69%	7.57%
At end of period.....	--%	7.02%	5.84%
OBLIGATIONS OUTSTANDING UNDER LINES OF CREDIT:			
Average amount outstanding during the period....	\$ 84,272	\$ --	\$ --
Maximum month-end balance outstanding			
during the period.....	\$ 267,095	\$ --	\$ --
Weighted average rate:			
During the period.....	6.62%	--%	--%
At end of period.....	6.32%	--%	--%

COMPUTER SYSTEMS AND USE OF TECHNOLOGY

The Company believes that its use of information technology has been a key factor in achieving success in the acquisition, management and resolution of discount loans and believes that this technology also has applicability to other aspects of its business which involve servicing intensive assets, including subprime residential mortgage lending, servicing of nonperforming or underperforming loans for third parties and asset management services.

In addition to its standard industry software applications which have been customized to meet the Company's requirements, the Company has internally developed fully integrated proprietary applications designed to provide decision support, automation of decision execution, tracking and exception reporting associated with the management of nonperforming and underperforming loans. The Company also has deployed: a predictive dialing solution which permits the Company to direct the calls made by its collectors and increases the productivity of the department; an interactive voice response system which provides automated account information to customers; a document imaging system which permits immediate access to pertinent loan documents; and a data warehouse which permits corporate data to be shared on a centralized basis for decision support. The Company is also implementing electronic commerce which further automates the Company's communications with its third party service providers.

The Company's proprietary systems result in a number of benefits including consistency of service to customers, reduced training periods for employees, resolution decisions which evaluate on an automated basis the optimal means to maximize the net resolution proceeds (which may include a variety of resolution alternatives including placing the borrowers on forbearance plans, pursuing a pre-approved sale of the property, or completing foreclosure proceedings), the ability to effect foreclosure as quickly as possible within state-specific foreclosure timelines and the management of third party service providers to ensure quality of service. The federal mortgage agencies and credit-rating agencies have established a variety of measurements for approved servicers, against which the Company compares favorably. See "Business-Loan Servicing Activities."

Through its document imaging system, the Company is able to produce complete foreclosure packages within minutes. The Company believes that the industry standard generally is to prepare a complete foreclosure package within sixty days. Delays in the time to resolution result in increased third party costs, opportunity costs and direct servicing expenses. As a result, the Company

has designed its systems and procedures to move a loan through the foreclosure process in a timely manner.

The Company has invested in a sophisticated computer infrastructure to support its software applications. The Company uses an IBM RISC AS400 and NetFrame and COMPAQ Proliant file servers as its primary hardware platform. The Company uses CISCO Routers, Cabletron Hubs and chassis with fiber optic cabling throughout and between buildings so as to achieve the highest performance. The Company also has deployed a DAVOX predicative dialer which currently has capacity for 120 seats. The Company's document imaging system currently stores 6 million images. The Company's systems have significant capacity for expansion and upgrade.

The Company protects its proprietary information by developing, maintaining and enforcing a comprehensive set of information security policies; by having each employee execute an intellectual property agreement with the Company, which among other things, prohibits disclosure of confidential information and provides for the assignment of developments; by affixing a copyright symbol to copies of any of the Company's proprietary information to which a third party has access; by emblazoning the start-up screen of any of the Company's proprietary software with the Company's logo and a copyright symbol; by having third-party contract employees and consultants execute a contract with the Company which contains, among other things, confidentiality and assignment provisions; and by otherwise limiting third-party access to the Company's proprietary information.

ECONOMIC CONDITIONS

GENERAL. The success of the Company is dependent to a certain extent upon the general economic conditions in the geographic areas in which it conducts substantial business activities. Adverse changes in national economic conditions or in the economic conditions of regions in which the Company conducts substantial business likely would impair the ability of the Company to collect on outstanding loans or dispose of real estate owned and would otherwise have an adverse effect on its business, including the demand for new loans, the ability of customers to repay loans and the value of both the collateral pledged to the Company to secure its loans and its real estate owned. Moreover, earthquakes and other natural disasters could have similar effects. Although such disasters have not significantly adversely affected the Company to date, the availability of insurance for such disasters in California, in which the Company conducts substantial business activities, is severely limited. At December 31, 1997, the Company had loans with an unpaid balance aggregating \$375.1 million (including loans available for sale) secured by properties located in California and \$48.3 million of the Company's real estate owned was located in California, which collectively represent 13.8% of the Company's total assets at such date.

EFFECTS OF CHANGES IN INTEREST RATES. The Company's operating results depend to a large extent on its net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with its interest-bearing liabilities. Changes in the general level of interest rates can affect the Company's net interest income by affecting the spread between the Company's interest-earning assets and interest-bearing liabilities, as well as, among other things, the ability of the Company to originate loans; the value of the Company's interest-earning assets and its ability to realize gains from the sale of such assets; the average life of the Company's interest-earning assets; the value of the Company's mortgage servicing rights; and the Company's ability to obtain deposits in competition with other available investment alternatives. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond the control of the Company. The Company actively monitors its assets and liabilities and employs a hedging strategy which seeks to limit the effects of changes in interest rates on its operations. Although management believes that the maturities of the Company's assets currently are well balanced in relation to its liabilities (based on various estimates as to how changes

in the general level of interest rates will impact its assets and liabilities), there can be no assurance that the profitability of the Company would not be adversely affected during any period of changes in interest rates.

COMPETITION

The businesses in which the Company is engaged generally are highly competitive. The acquisition of discount loans is particularly competitive, as

acquisitions of such loans are often based on competitive bidding. The Company also encounters significant competition in connection with its other lending activities, its investment and in its deposit-gathering activities. Many of the Company's competitors are significantly larger than the Company and have access to greater capital and other resources. In addition, many of the Company's competitors are not subject to the same extensive federal regulations that govern federally-insured institutions such as the Bank and their holding companies. As a result, many of the Company's competitors have advantages over the Company in conducting certain businesses and providing certain services.

SUBSIDIARIES

Set forth below is a brief description of the operations of the Company's significant non-banking subsidiaries.

IMI. Through subsidiaries, IMI owns an interest in the Westin Hotel in Columbus, Ohio, residential units in cooperative buildings which are acquired in connection with the foreclosure on loans held by the Bank or by deed-in-lieu thereof, as well as other real estate related ventures. During 1997, IMI sold a 69% partnership interest in the Westin Hotel for a small gain. At December 31, 1997, IMI also owned 9% of the outstanding common stock of OAIC.

OFS. OFS was formed by the Company under Florida law in October 1996 for the purposes of purchasing substantially all of the assets of Admiral, the Company's primary correspondent mortgage banking firm for subprime single family residential loans, and assuming all of the Bank's subprime single family residential lending operations. Under the terms of the acquisition, a transaction which closed on May 1, 1997, the Company agreed to pay Admiral \$6.8 million and to transfer to Admiral 20% of the voting stock of OFS. In addition, OFS assumed specified liabilities of Admiral in connection with this transaction, including a \$3.0 million unsecured loan which was made by the Bank to Admiral at the time OFS entered into the asset acquisition agreement with Admiral, which loan was repaid with the proceeds from a \$30.0 million unsecured, subordinated credit facility provided by the Company to OFS at the time of the closing of such acquisition. On December 3, 1997, Ocwen purchased 2,705 additional shares of common stock of OFS for \$15.0 million, increasing its ownership percentage from 80% to 93.7%. See "Business- Lending Activities-Single Family Residential Loans."

OCC. OCC is a wholly-owned subsidiary of the Company which was formed under Florida law to manage the day-to-day operations of OAIC, subject to supervision by OAIC's Board of Directors. The directors and executive officers of OCC consist solely of William C. Erbey, Chairman, President and Chief Executive Officer, and other executive officers of the Company. OAIC is a Virginia corporation which elected to be taxed as a REIT under the Code. In May 1997, OAIC conducted an initial public offering of 17,250,000 shares of its common stock, which resulted in net proceeds of \$238.8 million, inclusive of the \$27.9 million contributed by the Company for an additional 1,875,000 shares, or 9.8% of the outstanding shares of OAIC common stock. The OAIC common stock is traded on the Nasdaq National Market under the symbol "OAIC."

Pursuant to a management agreement between OCC and OAIC, and subject to supervision by OAIC's Board of Directors, OCC formulates operating strategies for OAIC, arranges for the acquisition of assets by OAIC, arranges for various types of financing for OAIC, monitors the performance of OAIC's assets and provides certain administrative and managerial services in connection with the operation of OAIC. For performing these services, OCC receives (i) a base management fee in an amount equal to 1% of total assets per annum, calculated and paid quarterly based upon the average invested assets, as defined, by OAIC, which is intended to cover OCC's cost of providing management services to the Company, and (ii) a quarterly incentive fee in an amount equal to the product of (A) 25% of the dollar amount by which (1)(a) funds from operations, as defined, per share of OAIC common stock plus (b) gains (or minus losses) from debt restructuring and sales of property per share of OAIC common stock, exceeds (2) an amount equal to (a) the weighted average of the initial public offering price per share of the OAIC common stock and the prices per share of any secondary offerings of OAIC common stock by OAIC multiplied by (b) the ten-year U.S. Treasury rate plus 5% per annum, multiplied by (B) the weighted average number of shares of OAIC common stock outstanding. The Board of Directors of OAIC may adjust the base management fee in the future if necessary to align the fee more closely with the actual costs of

such services. OCC also may be reimbursed for the costs of certain due diligence tasks performed by it on behalf of OAIC and will be reimbursed for the out-of-pocket expenses incurred by it on behalf of OAIC.

Recently, the Company transferred the lending operations associated with its large multi-family residential and commercial real estate loans to OCC. To date, OCC has emphasized originating loans for OAIC (in order to enable OAIC to invest the proceeds from the initial public offering of OAIC's common stock) and not the Company.

EMPLOYEES

At December 31, 1997 the Company had 990 full time employees. The employees are not represented by a collective bargaining agreement. Management considers the Company's employee relations to be satisfactory.

REGULATION

Financial institutions and their holding companies are extensively regulated under federal and state laws. As a result, the business, financial condition and prospects of the Company can be materially affected not only by management decisions and general economic conditions, but also by applicable statutes and regulations and other regulatory pronouncements and policies promulgated by regulatory agencies with jurisdiction over the Company and the Bank, such as the OTS and the FDIC. The effect of such statutes, regulations and other pronouncements and policies can be significant, cannot be predicted with a high degree of certainty and can change over time. Moreover, such statutes, regulations and other pronouncements and policies are intended to protect depositors and the insurance funds administered by the FDIC and not stockholders or holders of indebtedness which are not insured by the FDIC.

The enforcement powers available to Federal banking regulators are substantial and include, among other things, the ability to assess civil monetary penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions must be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

The following discussion and other references to and descriptions of the regulation of financial institutions contained herein constitute brief summaries thereof as currently in effect. This discussion is not intended to constitute, and does not purport to be, a complete statement of all legal restrictions and requirements applicable to the Company and the Bank and all such descriptions are qualified in their entirety by reference to applicable statutes, regulations and other regulatory pronouncements.

THE COMPANY

GENERAL. The Company is a registered savings and loan holding company under the Home Owner's Loan Act (the "HOLA"). As such, the Company is subject to regulation, supervision and examination by the OTS.

ACTIVITIES RESTRICTION. There are generally no restrictions on the activities of a savings and loan holding company, such as the Company, which holds only one subsidiary savings institution. However, if the Director of the OTS determines that there is reasonable cause to believe that the continuation by a savings and loan holding company of an activity constitutes a serious risk to the financial safety, soundness or stability of its subsidiary savings institution, the Director may impose such restrictions as are deemed necessary to address such risk, including limiting: (i) payment of dividends by the savings institution; (ii) transactions between the savings institution and its affiliates; and (iii) any activities of the savings institution that might create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings institution. Notwithstanding the above rules as to permissible business activities of unitary savings and loan holding companies, if the savings institution subsidiary of such a holding company fails to meet the qualified thrift lender ("QTL") test set forth in OTS regulations, then such unitary holding company shall become subject to the activities and restrictions applicable to multiple savings and loan holding companies and, unless the savings institution requalifies as a QTL within one year thereafter, shall register as, and become subject to the restriction applicable to, a bank holding company. See "The Bank-Qualified Thrift Lender Test."

If the Company were to acquire control of another savings institution other than through merger or other business combination with the Bank, the Company would thereupon become a multiple savings and loan holding company. Except where such acquisition is pursuant to the authority to approve emergency thrift acquisition and where each subsidiary

savings institution meets the QTL test, as set forth below, the activities of the Company and any of its subsidiaries (other than the Bank or other subsidiary savings institutions) would thereafter be subject to further restrictions. Among other things, no multiple savings and loan holding company or subsidiary thereof which is not a savings institution generally shall commence or continue for a limited period of time after becoming a multiple savings and loan holding company or subsidiary thereof any business activity, other than: (i) furnishing or performing management services for a subsidiary savings institution; (ii) conducting an insurance agency or escrow business; (iii) holding, managing, or liquidating assets owned by or acquired from a subsidiary savings institution; (iv) holding or managing properties used or occupied by a subsidiary savings institution; (v) acting as trustee under deeds of trust; (vi) those activities authorized by regulation as of March 5, 1987 to be engaged in by multiple savings and loan holding companies; or (vii) unless the Director of the OTS by regulation prohibits or limits such activities for savings and loan holding companies, those activities authorized by the Federal Reserve Board as permissible for bank holding companies. Those activities described in clause (vii) above also must be approved by the Director of the OTS prior to being engaged in by a multiple savings and loan holding company.

RESTRICTIONS ON ACQUISITIONS. Except under limited circumstances, savings and loan holding companies are prohibited from acquiring, without prior approval of the Director of the OTS: (i) control of any other savings institution or savings and loan holding company or substantially of the assets thereof; or (ii) more than 5% of the voting shares of a savings institution or holding company thereof which is not a subsidiary. Except with the prior approval of the Director of the OTS, no director or officer of a savings and loan holding company, or person owning or controlling by proxy or otherwise more than 25% of such company's stock, may acquire control of any savings institution, other than a subsidiary savings institution, or of any other savings and loan holding company.

The Director of the OTS may approve acquisitions resulting in the formation of a multiple savings and loan holding company which controls savings institutions in more than one state only if: (i) the multiple savings and loan holding company involved controls a savings institution which operated a home or branch office located in the state of the institution to be acquired as of March 5, 1987; (ii) the acquiror is authorized to acquire control of the savings institution pursuant to the emergency acquisition provisions of the Federal Deposit Insurance Act ("FDIA"); or (iii) the statutes of the state in which the institution to be acquired is located specifically permit institutions to be acquired by state-chartered savings institutions located in the state where the acquiring entity is located (or by a holding company that controls such state-chartered savings institutions).

RESTRICTIONS ON TRANSACTIONS WITH AFFILIATES. Transactions between the Company or any of its non-bank subsidiaries and the Bank are subject to various restrictions, which are described below under "The Bank-Affiliate Transactions."

THE BANK

GENERAL. The Bank is a federally-chartered savings bank organized under the HOLA. As such, the Bank is subject to regulation, supervision and examination by the OTS. The deposit accounts of the Bank are insured up to applicable limits by the SAIF administered by the FDIC and, as a result, the Bank also is subject to regulation, supervision and examination by the FDIC.

The business and affairs of the Bank are regulated in a variety of ways. Regulations apply to, among other things, insurance of deposit accounts, capital ratios, payment of dividends, liquidity requirements, the nature and amount of the investments that the Bank may make, transactions with affiliates, community and consumer lending laws, internal policies and controls, reporting by and examination of the Bank and changes in control of the Bank.

INSURANCE OF ACCOUNTS. Pursuant to legislation enacted in September 1996, a fee was required to be paid by all SAIF-insured institutions at the rate of \$0.657 per \$100 of deposits held by such institutions at March 31, 1995. The money collected recapitalized the SAIF reserve to the level of 1.25% of insured deposits as required by law. In September 1996, the Bank recorded a pre-tax accrual of \$7.1 million for this assessment, which was subsequently paid in November 1996. The recapitalization of the SAIF has resulted in lower deposit insurance premiums for most SAIF-insured financial institutions, including the Bank.

Insured institutions also are required to share in the payment of interest on the bonds issued by a specially created government entity ("FICO"),

the proceeds of which were applied toward resolution of the thrift industry crisis in the 1980s. Beginning on January 1, 1997, in addition to the insurance premiums paid by SAIF-insured institutions to maintain the SAIF reserve at its required level pursuant to the current risk classification system, SAIF-insured institutions pay deposit

insurance premiums at the annual rate of 6.4 basis points of their insured deposits and BIF-insured institutions will pay deposit insurance premiums at the annual rate of 1.3 basis points of their insured deposits towards the payment of interest on the FICO bonds.

Under the current risk classification system, institutions are assigned to one of three capital groups which are based solely on the level of an institution's capital--"well capitalized," "adequately capitalized" and "undercapitalized"--which are defined in the same manner as the regulations establishing the prompt corrective action system under Section 38 of the FDIA, as discussed below. These three groups are then divided into three subgroups, which are based on supervisory evaluations by the institution's primary federal regulator, resulting in nine assessment classifications. Assessment rates currently range from 0 basis points for well capitalized, healthy institutions to 27 basis points for undercapitalized institutions with substantial supervisory concerns.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. 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. Management is aware of no existing circumstances which would result in termination of the Bank's deposit insurance.

REGULATORY CAPITAL REQUIREMENTS. Federally-insured savings associations are subject to three capital requirements of general applicability: a tangible capital requirement, a core or leverage capital requirement and a risk-based capital requirement. All savings associations currently are required to maintain tangible capital of at least 1.5% of adjusted total assets (as defined in the regulations), core capital equal to 3% of adjusted total assets and total capital (a combination of core and supplementary capital) equal to 8% of risk-weighted assets (as defined in the regulations). For purposes of the regulation, tangible capital is core capital less all intangibles other than qualifying purchased mortgage servicing rights, of which the Bank had \$4.9 million at December 31, 1997. Core capital includes common stockholders' equity, non-cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries and certain nonwithdrawable accounts and pledged deposits. Core capital generally is reduced by the amount of a savings association's intangible assets, other than qualifying mortgage servicing rights.

A savings association 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 association's core capital. Supplementary capital consists of certain capital instruments that do not qualify as core capital, including subordinated debt (such as the Bank's Debentures) which meets specified requirements, and general valuation 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, including certain off-balance sheet items, 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 100%, depending on the type of asset.

OTS policy imposes a limitation on the amount of net deferred tax assets under SFAS No. 109 that may be included in regulatory capital. (Net deferred tax assets represent deferred tax assets, reduced by any valuation allowances, in excess of deferred tax liabilities.) Application of the limit depends on the possible sources of taxable income available to an institution to realize deferred tax assets. Deferred tax assets that can be realized from the following generally are not limited: taxes paid in prior carryback years and future reversals of existing taxable temporary differences. To the extent that

the realization of deferred tax assets depends on an institution's future taxable income (exclusive of reversing temporary differences and carryforwards), or its tax-planning strategies, such deferred tax assets are limited for regulatory capital purposes to the lesser of the amount that can be realized within one year of the quarter-end report date or 10% of core capital. The Bank's regulatory capital at December 31, 1997, has been reduced by \$536,000 of disallowed deferred tax assets in excess of the OTS limit.

In August 1993, the OTS adopted a final rule incorporating an interest-rate risk component into the risk-based capital regulation. Under the rule, an institution with a greater than "normal" level of interest rate risk will be subject to a deduction of its interest rate risk component from total capital for purposes of determining whether it has met the risk-based capital requirement. As a result, such an institution will be required to maintain additional capital in order to comply with the risk-based capital requirement. Although the final rule was originally scheduled to be effective as of January 1994, the

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OTS has indicated that it will delay invoking its interest rate risk rule until appeal procedures are implemented and evaluated. The OTS has not yet established an effective date for the capital deduction. Management of the Company does not believe that the adoption of an interest rate risk component to the risk-based capital requirement will adversely affect the Bank if it becomes effective in its current form.

In April 1991, the OTS proposed to modify the 3% of adjusted total assets core capital requirement in the same manner as was done by the Comptroller of the Currency for national banks. Under the OTS proposal, only savings associations rated composite 1 under the CAMEL rating system will be permitted to operate at the regulatory minimum core capital ratio of 3%. For all other savings associations, the minimum core capital ratio will be 3% plus at least an additional 100 to 200 basis points, which will increase the core capital ratio requirement from 4% to 5% of adjusted total assets or more. In determining the amount of additional capital, the OTS will assess both the quality of risk management systems and the level of overall risk in each individual savings association through the supervisory process on a case-by-case basis.

PROMPT CORRECTIVE ACTION. Federal law provides the Federal banking regulators with broad power to take "prompt corrective action" to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Under regulations adopted by the Federal banking regulators, an institution shall be deemed to be: (i) "well capitalized" if it has a total risk-based capital ratio of 10.0% or more, has a Tier I risk-based capital ratio of 6.0% or more, has a Tier I leverage capital ratio of 5.0% or more and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, a Tier I risk-based capital ratio of 4.0% or more and a Tier I leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized," (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, a Tier I risk-based capital ratio that is less than 4.0% or a Tier I leverage capital ratio that is less than 4.0% (3.0% under certain circumstances), (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, a Tier I risk-based capital ratio that is less than 3.0% or a Tier I leverage capital ratio that is less than 3.0%, and (v) "critically undercapitalized" if it has a ratio of tangible equity to adjusted total assets that is equal to or less than 2.0%. The regulations also permit the appropriate Federal banking regulator to downgrade an institution to the next lower category (provided that a significantly undercapitalized institution may not be downgraded to critically undercapitalized) if the regulator determines: (i) after notice and opportunity for hearing or response, that the institution is in an unsafe or unsound condition or (ii) that the institution has received (and not corrected) a less-than-satisfactory rating for any of the categories of asset quality, management, earnings or liquidity in its most recent exam. At December 31, 1997, the Bank was a "well capitalized" institution under the prompt corrective action regulations of the OTS.

Depending upon the capital category to which an institution is assigned, the regulators' corrective powers, many of which are mandatory in certain circumstances, include: prohibition on capital distributions; prohibition on payment of management fees to controlling persons; requiring the

submission of a capital restoration plan; placing limits on asset growth; limiting acquisitions, branching or new lines of business; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions with affiliates; restricting the interest rates that the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and, ultimately, appointing a receiver for the institution.

QUALIFIED THRIFT LENDER TEST. All savings associations are required to meet the QTL test set forth in the HOLA and regulations of the OTS thereunder to avoid certain restrictions on their operations. A savings association that does not meet the QTL test set forth in the HOLA and implementing regulations must either convert to a bank charter or comply with the following restrictions on its operations: (i) 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; (ii) the branching powers of the association shall be restricted to those of a national bank; (iii) the association shall not be eligible to obtain any advances from its FHLB; and (iv) payment of dividends by the association shall be subject to the rules regarding payment of dividends by a national bank. Upon the expiration of three years from the date the association ceases to be a QTL, it must cease any activity and not retain any investment not permissible for a national bank and immediately repay any outstanding FHLB advances (subject to safety and soundness considerations). The Bank met the QTL test throughout 1997.

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RESTRICTIONS ON CAPITAL DISTRIBUTIONS. The OTS has promulgated a regulation governing capital distributions by savings associations, which include cash dividends, stock redemptions or repurchases, cash-out mergers, interest payments on certain convertible debt and other transactions charged to the capital account of a savings association as a capital distribution. Generally, the regulation creates three tiers of associations based on regulatory capital, with the top two tiers providing a safe harbor for specified levels of capital distributions from associations so long as such associations notify the OTS and receive no objection to the distribution from the OTS. Associations that do not qualify for the safe harbor provided for the top two tiers of associations are required to obtain prior OTS approval before making any capital distributions.

Tier I associations may make the highest amount of capital distributions, and are defined as savings associations that, before and after the proposed distribution, meet or exceed their fully phased-in regulatory capital requirements. Tier I associations may make capital distributions during any calendar year equal to the greater of: (i) 100% of net income for the calendar year-to-date plus 50% of its "surplus capital ratio" at the beginning of the calendar year; and (ii) 75% of its net income over the most recent four-quarter period. The "surplus capital ratio" is defined to mean the percentage by which the association's ratio of total capital to assets exceeds the ratio of its fully phased-in capital requirement to assets, and "fully phased-in capital requirement" is defined to mean an association's capital requirement under the statutory and regulatory standards applicable on December 31, 1994, as modified to reflect any applicable individual minimum capital requirement imposed upon the association. At December 31, 1997, the Bank was a Tier I association under the OTS capital distribution regulation.

In December 1994, the OTS published a notice of proposed rulemaking to amend its capital distribution regulation. Under the proposal, the three tiered approach contained in existing regulations would be replaced and institutions would be permitted to make capital distributions that would not result in their capital being reduced below the level required to remain "adequately capitalized," as defined above under "Prompt Corrective Action."

LOAN-TO-ONE BORROWER. Under applicable laws and regulations, the amount of loans and extensions of credit which may be extended by a savings institution such as the Bank to any one borrower, including related entities, generally may not exceed the greater of \$500,000 or 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 also may be made to a borrower if the loans are fully secured by readily marketable securities. 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.

At December 31, 1997, the Bank's unimpaired capital and surplus amounted to \$405.1 million, resulting in a general loans-to-one borrower limitation of \$60.8 million under applicable laws and regulations. See "Business-Discount Loan Acquisition and Resolution Activities-Composition of the Discount Loan Portfolio" and "Lending Activities-Composition of Loan Portfolio."

BROKERED DEPOSITS. Under applicable laws and regulations, an insured depository institution may be restricted in obtaining, directly or indirectly, funds by or through any "deposit broker," as defined, for deposit into one or more deposit accounts at the institution. The term "deposit broker" generally includes any person engaged in the business of placing deposits, or facilitating the placement of deposits, of third parties with insured depository institutions or the business of placing deposits with insured depository institutions for the purpose of selling interests in those deposits to third parties. In addition, the term "deposit broker" includes any insured depository institution, and any employee of any insured depository institution, which engages, directly or indirectly, in the solicitation of deposits by offering rates of interest (with respect to such deposits) which are significantly higher than the prevailing rates of interest on deposits offered by other insured depository institutions having the same type of charter in such depository institution's normal market area. As a result of the definition of "deposit broker," all of the Bank's brokered deposits, as well as possibly its deposits obtained through customers of regional and local investment banking firms and the deposits obtained from the Bank's direct solicitation efforts of institutional investors and high net worth individuals, are potentially subject to the restrictions described below. Under FDIC regulations, well-capitalized institutions are subject to the no-brokered deposit limitations, while adequately-capitalized institutions are able to accept, renew or roll over brokered deposits only: (i) with a waiver from the FDIC; and (ii) subject to the limitation that they do not pay an effective yield on any such deposit which exceeds by more than (a) 75 basis points, the effective yield paid on deposits of comparable size and maturity in such institution's normal market area for deposits accepted in its normal market area or (b) by 120% for retail deposits and 130% for wholesale deposits, respectively, of the current yield on comparable maturity U.S. Treasury obligations for deposits accepted outside the institution's normal market area. Undercapitalized institutions are not permitted to accept brokered deposits and may not

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solicit deposits by offering an effective yield that exceeds by more than 75 basis points, the prevailing effective yields on insured deposits of comparable maturity in the institution's normal market area or in the market area in which such deposits are being solicited. At December 31, 1997, the Bank was a well-capitalized institution which was not subject to restrictions on brokered deposits. See "Business - Sources of Funds - Deposits."

LIQUIDITY REQUIREMENTS. All savings associations are required to maintain an average daily balance of liquid assets, which include specified short-term assets and certain long-term assets, equal to a certain percentage of the sum of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. The liquidity requirement may vary from time to time (between 4% and 10%) depending upon economic conditions and savings flows of all savings associations. In November 1997, the OTS amended its liquidity regulations to, among other things, provide that a savings association shall maintain liquid assets of not less than 4% of the amount of its liquidity base at the end of the preceding calendar quarter as well as to provide that each savings association must maintain sufficient liquidity to ensure its safe and sound operation. Prior to November 1997, the required liquid asset ratio was 5%. Historically, the Bank has operated in compliance with these requirements.

AFFILIATE TRANSACTIONS. Under federal law and regulation, transactions between a savings association and its affiliates are subject to quantitative and qualitative restrictions. Affiliates of a savings association include, among other entities, companies that control, are controlled by or are under common control with the savings association. As a result, the Company, OAIC and the Company's non-bank subsidiaries are affiliates of the Bank.

Savings associations are restricted in their ability to engage in "covered transactions" with their affiliates. In addition, covered transactions between a savings association and an affiliate, as well as certain other transactions with or benefiting an affiliate, must be on terms and conditions at least as favorable to the savings association as those prevailing at the time for comparable transactions with non-affiliated companies. Savings associations are required to make and retain detailed records of transactions with affiliates.

Notwithstanding the foregoing, a savings association 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. Savings associations also are prohibited from purchasing or investing in securities issued by an affiliate, other than shares of a subsidiary.

Savings associations 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.

COMMUNITY INVESTMENT AND CONSUMER PROTECTION LAWS. In connection with its lending activities, the Bank is subject to a variety of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. Included among these are the Federal Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, Truth-in-Lending Act, Equal Credit Opportunity Act, Fair Credit Reporting Act and the Community Reinvestment Act.

SAFETY AND SOUNDNESS. Other regulations include: (i) real estate lending standards for insured institutions, which provide guidelines concerning loan-to-value ratios for various types of real estate loans; (ii) risk-based capital rules to account for interest rate risk, concentration of credit risk and the risks posed by "non-traditional activities;" (iii) rules requiring depository institutions to develop and implement internal procedures to evaluate and control credit and settlement exposure to their correspondent banks; and (iv) rules addressing various "safety and soundness" issues, including operations and managerial standards, standards for asset quality, earnings and stock valuations, and compensation standards for the officers, directors, employees and principal stockholders of the insured institution.

FEDERAL TAXATION

GENERAL. The Company and all of its subsidiaries currently file, and expect to continue to file, a consolidated Federal income tax return based on a calendar year. Prior to October 1, 1996, IMI and its subsidiaries filed a separate

Federal consolidated tax return. Consolidated returns have the effect of eliminating inter-company transactions, including dividends, from the computation of taxable income.

For taxable years beginning prior to January 1, 1996, a savings institution, such as the Bank, that met certain definitional tests relating to the composition of its assets and the sources of its income (a "qualifying savings institution") was permitted to establish reserves for bad debts and to claim annual tax deductions for additions to such reserves. A qualifying savings institution was permitted to make annual additions to such reserves based on the institution's loss experience. Alternatively, a qualifying savings institution could elect, on an annual basis, to use the "percentage of taxable income" method to compute its addition to its bad debt reserve on qualifying real property loans (generally, loans secured by an interest in improved real estate). The percentage of taxable income method permitted the institution to deduct a specified percentage of its taxable income before such deduction, regardless of the institution's actual bad debt experience, subject to certain limitations. From 1988 to 1995, the Bank has claimed bad debt deductions under the percentage of taxable income method because that method produced a greater deduction than did the experience method.

On August 20, 1996, President Clinton signed the Small Business Job Protection Act ("the Act") into law. One provision of the Act repealed the reserve method of accounting for bad debts for savings institutions effective for taxable years beginning after 1995 and provided for recapture of a portion of the reserves existing at the close of the last taxable year beginning before January 1, 1996. For its tax years beginning on or after January 1, 1996, the Bank is required to account for its bad debts under the specific charge-off method. Under this method, deductions may be claimed only as and to the extent that loans become wholly or partially worthless.

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, the Company acquires REMIC residuals or retains residual securities in REMICs which were formed by the Company 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 the Company in the first several years of the REMIC and equal amounts of tax deductions thereafter. The Company receives cash payments in connection with the acquisition of tax residuals to compensate the Company for the time value of money associated with the tax payments related to these securities and the costs of modeling, recording, monitoring and reporting the securities. The Company defers all fees received and recognizes such fees in interest income on a level yield basis over the expected life of the deferred tax asset related to tax residuals. The Company also adjusts the recognition in interest income of fees deferred based upon the changes in the actual prepayment rates of the underlying mortgages held by the REMIC and periodic reassessments of the expected life of the deferred tax asset related to tax residuals. At December 31, 1997, the Company's gross deferred tax assets included \$3.5 million which was attributable to the Company's tax residuals and related deferred income.

INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS. For a discussion of the tax effects of investments in low-income housing tax credit interests, see "Business-Investment Activities-Investment in Low-Income Housing Tax Credit Interests."

EXAMINATIONS. The most recent examination by the IRS of the Company's Federal income tax return was of the tax return filed for 1993. The statute of limitations has run out with respect to 1993 and all prior tax years. Thus, the Federal income tax returns for the years 1994 through 1997 are open for examination. The Internal Revenue Service currently is completing an examination of the Company's Federal income tax return for 1994; management of the Company does not anticipate any material adjustments as a result of this examination, although there can be no assurances in this regard. No state return of the Company has been examined, and no notification has been received by the Company that any state intends to examine any of the Company's tax returns.

STATE TAXATION

The Company's income is subject to tax by the States of Florida and California, which have statutory tax rates of 5.5% and 11.3%, respectively, and is determined based on certain apportionment factors. The Company is taxed in New Jersey on income, net of expenses, earned in New Jersey at a statutory rate of 3.0%.

ITEM 2. PROPERTIES

At December 31, 1997, the Company conducted business from its executive and administrative offices located in West Palm Beach, Florida and a full-service banking office located in northern New Jersey.

The following table sets forth information relating to the Company's executive and main offices at December 31, 1997.

Location	Owned/Leased	Net Book Value of Property or Leasehold Improvements (Dollars in Thousands)
Executive Offices: 1675 Palm Beach Lakes Blvd. West Palm Beach, FL.....	Leased	\$ 6,021

In addition to the above offices, OFS maintains 27 loan production offices in 7 states, including 18 offices in California. These offices are operated pursuant to leases with up to three-year terms, each of which can be readily replaced on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

None.

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

None.

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 71 of the Annual Report to Stockholders and is incorporated herein by reference.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL INFORMATION

Information required by this Item appears under the caption "Selected Consolidated Financial Information" on pages 1 to 2 of the Annual Report to Stockholders and is incorporated herein by reference.

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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 4 to 20 of the Annual Report to Stockholders and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item appears under the caption "Asset and Liability Management" on pages 15 to 17 of the Annual Report to Stockholders and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS

Information required by this Item appears on pages 22 to 70 in the Annual Report to Stockholders and is incorporated herein by reference.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in the Company's 1998 Proxy Statement under the captions "Election of Directors -- Nominees for Director," "Executive Officers Who Are Not Directors," and "Security Ownership of Certain Beneficial Owners -- Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in the Company's 1998 Proxy Statement under

the captions "Executive Compensation," other than under the sub-caption "Report of the Nominating and Compensation Committee," and "Board of Directors Compensation" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained in the Company's 1998 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners -- Beneficial Ownership of Common Stock" is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained in the Company's 1998 Proxy Statement under the caption "Certain Relationships and Related Transactions" is incorporated herein by reference.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

EXHIBITS

- 3.1 Amended and Restated Articles of Incorporation (1)
- 3.2 Bylaws (1)
- 4.0 Form of Certificate of Common Stock (1)
- 4.1 Form of Indenture between the Company and Bank One, Columbus, NA as Trustee (1)
- 4.2 Form of Note due 2003 (included in Exhibit 4.1) (1)
- 4.3 Certificate of Trust of Ocwen Capital Trust I (3)
- 4.4 Amended and Restated Declaration of Trust of Ocwen Capital Trust I (3)
- 4.5 Form of Capital Security of Ocwen Capital Trust I (4)
- 4.6 Form of Indenture relating to 10 7/8% Junior Subordinated Debentures due 2027 of the Company (3)
- 4.7 Form of 10 7/8% Junior Subordinated Debentures due 2027 of the Company (4)
- 4.8 Form of Guarantee of the Company relating to the Capital Securities of Ocwen Capital Trust I (3)
- 4.9 Form of Indenture between the Company and The Bank of New York as Trustee
- 4.10 Form of Subordinated Debentures due 2005 (included in Exhibit 4.2) (5)
- 10.1 Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, as amended (1)
- 10.2 Annual Incentive Plan (1)
- 10.3 Ocwen Financial Corporation 1996 Stock Plan for Directors, as amended (2)
- 10.4 Ocwen Financial Corporation 1998 Annual Incentive Plan (6)
- 10.5 Ocwen Financial Corporation Long-Term Incentive Plan (6)
- 11.1 Computation of earnings per share (7)
- 13.1 Annual Report to Stockholders for the year ended December 31, 1997
- 21.0 Subsidiaries (see "Business-General")
- 23.0 Consent of Price Waterhouse LLP
- 27.1 Financial Data Schedule - For the year ended December 31, 1997
- 27.2 Amended Financial Data Schedule - For the year ended December 31, 1996
- 27.3 Amended Financial Data Schedule - For the period ended September 30, 1996
- 27.4 Amended Financial Data Schedule - For the period ended March 31, 1997
- 27.5 Amended Financial Data Schedule - For the period ended June 30, 1997
- 27.6 Amended Financial Data Schedule - For the period ended September 30, 1997
- 99.0 BCBF, L.L.C. December 31, 1997 audited financial statements

(1) Incorporated by reference to the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-1, File No. 333-5153, declared effective by the commission on September 25, 1996.

(2) Incorporated by reference to the similarly described exhibit included with the Registrants Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.

- (3) Incorporated by reference to the similarly identified exhibit filed in connection with the Company's Registration Statement on Form S-1 (File No. 333-28889), as amended, declared effective by the Commission on August 6, 1997.
- (4) Incorporated by reference to similarly described exhibit included with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.
- (5) Incorporated by reference to the similarly described exhibit filed in connection with Amendment No. 2 to Offering Circular on Form OC (on Form S-1) filed on June 7, 1995.
- (6) Incorporated by reference to the similarly described exhibit to the Company's Definitive Proxy Statement with respect to the Company's 1998 Annual Meeting as filed with the Commission on March 31, 1998.
- (7) Computation of earnings per share appears on page 55 in the Annual Report to Stockholders and is incorporated herein by reference.

The Company's management contracts or compensatory plans or arrangements consist of Exhibits No. 10.1, 10.2, 10.3, 10.4 and 10.5.

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FINANCIAL STATEMENTS AND SCHEDULES. The following Consolidated Financial Statements of Ocwen Financial Corporation and Report of Price Waterhouse LLP, Independent Certified Public Accountants are incorporated by reference to pages 22 to 70 of the Company's Annual Report to Stockholders:

Report of Independent Certified Public Accountants

Consolidated Statements of Financial Condition at December 31, 1997 and 1996

Consolidated Statements of Operations for each of the three years in the period ended December 31, 1997

Consolidated Statements of Changes in Stockholders' Equity for each of the three years in the period ended December 31, 1997

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1997

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.

REPORTS ON FORM 8-K FILED DURING THE QUARTER ENDED DECEMBER 31, 1997.

- (1) A Form 8-K was filed by the Company on October 30, 1997 which contained a news release announcing the Company's financial results for the three and nine months ended September 30, 1997.
- (2) A Form 8-K/A was filed by the Company on November 21, 1997 which contained the news release announcing the Company's financial results for the three and nine months ended September 30, 1997 dated October 27, 1997 and originally filed on October 30, 1997, amended for changes to reflect the final financial information as determined in connection with the filing by the Company of its Form 10-Q for the quarter ended September 30, 1997, including the retroactive adjustment for the 2-for-1 stock split approved by the Board of Directors on October 29, 1997.

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SIGNATURES

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 its behalf by the undersigned, thereunto duly authorized.

OCWEN FINANCIAL CORPORATION

By: /s/ William C. Erbey

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

Date: March 31, 1998

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 Date: March 31, 1998

William C. Erbey, Chairman of the Board,
Chief Executive Officer and President
(principal executive officer)

/s/ Barry N. Wish Date: March 31, 1998

Barry N. Wish, Director

/s/ W.C. Martin Date: March 31, 1998

W.C. Martin, Director

/s/ Howard H. Simon Date: March 31, 1998

Howard H. Simon, Director

/s/ Hon. Thomas F. Lewis Date: March 31, 1998

Hon. Thomas F. Lewis, Director

/s/ Mark S. Zeidman Date: March 31, 1998

Mark S. Zeidman, Chief Financial Officer
(principal financial and accounting officer)

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial data of the Ocwen Financial Corporation and its subsidiaries ("Ocwen" or the "Company") at the dates and for the periods indicated. The historical operations and balance sheet data at and for the years ended December 31, 1997, 1996, 1995, 1994 and 1993 have been derived from financial statements audited by Price Waterhouse LLP, independent certified public accountants. The selected consolidated financial data should be read in conjunction with, and is qualified in its entirety by reference to, the information in the Consolidated Financial Statements and related notes set forth elsewhere herein.

	Year Ended December 31,				
	1997	1996	1995 (1)	1994 (1)	1993 (2)
(Dollars in Thousands, Except per share data)					
Operations Data:					
Interest income.....	\$ 272,531	\$ 193,894	\$ 137,275	\$131,458	\$ 78,923
Interest expense.....	156,289	116,160	84,060	62,598	35,306
Net interest income.....	116,242	77,734	53,215	68,860	43,617
Provision for loan losses (3).....	32,218	22,450	1,082	--	--
Net interest income after provision for loan losses.....	84,024	55,284	52,133	68,860	43,617
Gains on sales of interest earning assets, net.....	82,212	21,682	6,916	5,727	8,386
Servicing fees and other charges.....	25,881	4,682	2,870	4,786	3,738
Gain on sale of branch offices.....	--	--	5,430	62,600	--
Income (loss) on real estate owned, net.....	7,277	3,827	9,540	5,995	(1,158)
Fees on financing transactions (4).....	--	--	--	--	15,340
Other non-interest income.....	8,498	7,112	6,385	2,467	9,566
Total non-interest income.....	123,868	37,303	31,141	81,575	35,872
Non-interest expense.....	126,793	69,606	45,573	68,858	41,859
Distributions on capital securities.....	5,249	--	--	--	--
Equity in earnings of investment in joint venture (5)....	23,688	38,320	--	--	--
Income taxes.....	(21,309)	(11,159)	(4,562)	(29,724)	(10,325)
Minority interest in net loss of consolidated subsidiary.....	703	--	--	--	--
Income from continuing operations.....	78,932	50,142	33,139	51,853	27,305
Discontinued operations (6).....	--	--	(7,672)	(4,514)	(2,270)
Extraordinary gains.....	--	--	--	--	1,538
Cumulative effect of a change in accounting principle....	--	--	--	--	(1,341)
Net income.....	\$ 78,932	\$ 50,142	\$ 25,467	\$ 47,339	\$ 25,232
Income from continuing operations per share (16):					
Basic.....	\$ 1.40	\$ 0.99	\$ 0.64	\$ 0.81	\$ 0.42
Diluted.....	\$ 1.39	\$ 0.94	\$ 0.60	\$ 0.76	\$ 0.40
Net income per share (16):					
Basic.....	\$ 1.40	\$ 0.99	\$ 0.49	\$ 0.74	\$ 0.38
Diluted.....	\$ 1.39	\$ 0.94	\$ 0.46	\$ 0.70	\$ 0.37

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	December 31,				
	1997	1996	1995 (1)	1994 (1)	1993 (2)
(Dollars in Thousands)					
Balance Sheet Data:					
Total assets	\$3,069,165	\$2,483,685	\$1,973,590	\$1,226,403	\$1,396,677
Securities available for sale (7)	430,524	354,005	337,480	187,717	527,183
Loans available for sale (7) (8)	177,041	126,366	251,790	102,293	101,066
Investment securities, net	59,567	8,901	18,665	17,011	32,568
Mortgage-related securities held for investment, net	--	--	--	91,917	121,550
Loan portfolio, net (8)	266,299	402,582	295,605	57,045	88,288
Discount loan portfolio (8)	1,434,176	1,060,953	669,771	529,460	303,634
Investment in low-income housing tax credit interests	128,614	93,309	81,362	49,442	16,203
Real estate owned, net (9)	167,265	103,704	166,556	96,667	33,497
Investment in joint ventures (15)	1,056	67,909	--	--	--
Excess of purchase price over net assets acquired, net	15,560	--	--	--	10,467
Deposits	1,982,822	1,919,742	1,501,646	1,023,268	871,879
Borrowings and other interest-bearing obligations	453,529	300,518	272,214	25,510	373,792
Capital securities	--	--	--	--	--
Stockholders' equity (10)	419,692	203,596	139,547	153,383	111,831
Other Data:					
Average assets (11)	\$2,835,514	\$2,013,283	\$1,521,368	\$1,714,953	\$1,152,655
Average equity	290,030	161,332	121,291	119,500	97,895
Return on average assets (11) (12):					
Income from continuing operations	2.78%	2.35%	2.18%	3.02%	2.37%

Net income	2.78	2.35	1.67	2.76	2.19
Return on average equity (12):					
Income from continuing operations	27.22	31.08	27.32	43.39	27.89
Net income	27.22	31.08	21.00	39.61	25.77
Average equity to average assets	10.23	8.01	7.97	6.97	8.49
Net interest spread	4.81	5.46	5.25	4.86	4.05
Net interest margin	4.91	4.84	4.54	4.75	4.30
Efficiency ratio (13)	48.06	45.38	54.00	45.77	52.66
Nonperforming loans to loans at end of period (14).....	3.39	0.56	1.27	4.35	3.71
Allowance for loan losses to loans at end of period (14).....	1.37	0.87	0.65	1.84	0.99
Bank regulatory capital ratios at end of period:					
Tangible	10.66	9.33	6.52	11.28	5.25
Core (Leverage)	10.66	9.33	6.52	11.28	6.00
Risk-based	14.83	12.85	11.80	14.74	13.31
Number of full-service offices at end of period	1	1	1	3	28

NOTES TO SELECTED CONSOLIDATED FINANCIAL INFORMATION

- (1) Financial data at December 31, 1995 and 1994 reflects the Company's sale of two and twenty-three branch offices, respectively, which resulted in the transfer of deposits of \$111.7 million and \$909.3 million, respectively, and resulted in a gain on sale of \$5.4 million and \$62.6 million during 1995 and 1994, respectively. Operations data for 1995 and 1994 reflects the gains from these transactions. Exclusive of these gains and related income taxes and profit sharing expense, the Company's income from continuing operations would have been \$30.3 million and \$24.0 million during 1995 and 1994, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations."
- (2) Balance sheet data at December 31, 1993 reflects the merger of Berkeley Federal Savings Company ("Old Berkeley") into the Bank on June 3, 1993, and operations data for the year ended December 31, 1993 reflects the operations of Old Berkeley from the date of merger. This transaction was accounted for using the purchase method of accounting.
- (3) The provision for loan losses in 1997 and 1996 consists primarily of \$31.9 million and \$20.6 million, respectively, related to the Company's discount loan portfolio. Beginning in the first quarter of 1996, the Company began recording general valuation allowances on discount loans. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations-Provision for Loan Losses."
- (4) Represents a portion of the amounts paid to the Company in connection with the Company's acquisition of certain mortgage-related securities which generate taxable income in the first several years of the instrument's life and tax losses of an equal amount thereafter, but have minimal or no cash flows. Commencing in 1994, such amounts are deferred and recognized in interest income on a level yield basis over the expected life of that portion of the deferred tax asset which relates to tax residuals.
- (5) Relates to the Company's investment in BCBF, L.L.C. (the "LLC"), a 50% owned joint venture formed between the Bank and BlackRock Capital Finance ("BlackRock") to acquire loans from the Department of Housing and Urban Development ("HUD") in April 1996.
- (6) In September 1995, the Company announced its decision to dispose of its automated banking division, which was substantially complete at December 31, 1995. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Discontinued Operations" and Note 3 to the Consolidated Financial Statements.
- (7) Securities available for sale are carried at market value. Loans available for sale are carried at the lower of cost or market value.
- (8) The discount loan portfolio consists of mortgage loans purchased at a discount to the unpaid debt, most of which were nonperforming or subperforming at the date of acquisition. The loan portfolio and loans available for sale consist of other loans which were originated or purchased by the Company for investment or for potential sale, respectively. Data related to discount loans does not include discount loans held by the LLC.
- (9) Real estate owned consists of properties acquired by foreclosure or by deed-in-lieu thereof on loans and is primarily attributable to the

Company's discount loan acquisition and resolution business.

- (10) Reflects the Company's repurchase of 8,815,060 shares of its common stock during 1995 for an aggregate of \$42.0 million.
- (11) Includes the Company's pro rata share of the average assets held by the LLC.
- (12) Exclusive of a one-time assessment to recapitalize the Savings Association Insurance Fund (the "SAIF") in 1996 and of gains from the sales of branch offices in 1995 and 1994 and related income taxes and profit sharing expense, (i) return on average assets on income from continuing operations amounted to 2.54% and 2.00% and 1.40% during 1996, 1995 and 1994, respectively, and (ii) return on average equity on income from continuing operations amounted to 33.35%, 25.02% and 20.06% during 1996, 1995 and 1994, respectively.
- (13) The efficiency ratio represents non-interest expense divided by the sum of net interest income before provision for loan losses, non-interest income and equity in earnings of investment in joint venture. Exclusive of the SAIF assessment in 1996 and gains from the sales of branch offices in 1995 and 1994 and related profit sharing expense, the efficiency ratio amounted to 41.33%, 56.34% and 64.14% during 1996, 1995 and 1994, respectively.
- (14) Nonperforming loans and total loans do not include loans in the Company's discount loan portfolio or loans available for sale.
- (15) Relates to the Company's investment in BCFL, L.L.C. ("BCFL"), a limited liability corporation in which the Company has a 10% interest which was formed in January 1997 with BlackRock to acquire multi-family residential loans from HUD, at December 31, 1997 and the LLC at December 31, 1996. At December 31, 1996, the net discount loans, which were available for sale, held by the LLC amounted to \$110.7 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Changes in Financial Condition - Investment in Joint Ventures."
- (16) All per share amounts have been adjusted retroactively to reflect the 10-for-1 stock split in 1996 and the 2-for-1 stock split in 1997. In addition, all per share amounts have been adjusted for the adoption of Statement of Financial Accounting Standards No. 128, "Earnings per share." See Note 23 to the Consolidated Financial Statements.

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

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

Results of Operations

GENERAL. The Company recorded net income of \$78.9 million for 1997, compared with \$50.1 million for 1996 and \$25.5 million for 1995. Diluted earnings per share were \$1.39 for 1997, as compared with \$0.94 for 1996 and \$0.46 for 1995.

The Company has emphasized discount loan acquisition and resolution activities and a variety of other mortgage lending activities, which generally reflect the Company's focus on business lines which offer the potential for greater returns without increased risk of loss. As a result of the Company's business strategy, the average balance of the Company's discount loan portfolio (which does not include the Company's pro rata share of discount loans held by LLC), loan portfolio and loans available for sale have increased as follows:

Year Ended December 31,					
1997		1996		1995	
Average Balance	% of Average Assets	Average Balance	% of Average Assets	Average Balance	% of Average Assets
-----	-----	-----	-----	-----	-----

(Dollars in Thousands)

Average Assets:

Federal funds sold and repurchase agreements.....	\$ 163,671	\$ 8,959	5.47%	\$ 84,997	\$ 4,681	5.51%	\$ 55,256	\$ 3,502	6.34%
Securities held for trading.....	3,295	248	7.53	21,291	1,216	5.71	--	--	--
Securities available for sale(1).....	299,558	28,545	9.53	284,433	26,932	9.47	211,559	18,391	8.69
Loans available for sale(2).....	171,837	18,368	10.69	175,078	17,092	9.76	167,011	15,608	9.35
Investment securities and other(3)....	36,905	4,061	11.00	36,264	3,990	11.00	46,440	4,033	8.68
Mortgage-related securities held for investment.....	--	--	--	--	--	--	77,257	4,313	5.58
Loan portfolio (1).....	410,863	54,701	13.31	328,378	36,818	11.21	130,901	15,430	11.79
Discount loan portfolio	1,283,020	157,649	12.29	675,345	103,165	15.28	483,204	75,998	15.73
Total interest earning assets, interest income.....	2,369,149	272,531	11.50	1,605,786	193,894	12.07	1,171,628	137,275	11.72
Non-interest earning cash.....	14,843			6,372			17,715		
Allowance for loan losses.....	(22,001)			(11,250)			(1,180)		
Investment in low-income housing tax credit interests	96,096			83,110			63,925		
Investment in joint ventures.....	34,777			46,193			--		
Real estate owned.....	131,007			137,250			144,348		
Other assets.....	211,643			145,822			124,932		
Total assets.....	\$2,835,514			\$ 2,013,283			\$1,521,368		

Average Liabilities and

Stockholders' Equity:									
Interest-bearing demand deposits.....	\$ 31,719	1,220	3.85	\$ 33,167	620	1.87	\$ 31,373	1,031	3.29
Savings deposits.....	2,121	49	2.31	3,394	78	2.30	20,370	451	2.21
Certificates of deposit.....	1,964,351	120,801	6.15	1,481,197	93,075	6.28	1,119,836	70,371	6.28
Total interest-bearing deposits.....	1,998,191	122,070	6.11	1,517,758	93,773	6.18	1,171,579	71,853	6.13
Securities sold under agreements to repurchase.....	16,717	1,000	5.98	19,581	1,101	5.62	16,754	951	5.68
Securities sold but not yet purchased. Advances from the Federal Home Loan Bank	--	--	--	--	--	--	17,149	1,142	6.66
Obligations outstanding under lines of credit	9,482	518	5.46	71,221	4,053	5.69	14,866	1,126	7.57
Notes, debentures and other interest bearing obligations.....	84,272	5,578	6.62	--	--	--	--	--	--
Total interest-bearing liabilities, interest expense.....	228,233	27,123	11.88	148,282	17,233	11.62	78,718	8,988	11.42
Non-interest bearing deposits.....	23,224			10,938			19,960		
Escrow deposits.....	78,986			41,306			4,073		
Other liabilities	106,379			42,865			76,978		
Total liabilities.....	2,545,484			1,851,951			1,400,077		
Stockholders' equity	290,030			161,332			121,291		
Total liabilities and stockholders' equity	\$2,835,514			\$ 2,013,283			\$1,521,368		
Net interest income.....	\$ 116,242			\$ 77,734			\$ 53,215		
Net interest spread.....		4.81%			5.46%			5.25%	
Net interest margin.....		4.91%			4.84%			4.54%	
Ratio of interest-earning assets to interest-bearing liabilities ...	101%			91%			90%		

- (1) Excludes effect of unrealized gains or losses on securities available for sale, net of taxes.
- (2) The average balances of loans available for sale and the loan portfolio include nonperforming loans, interest on which is recognized on a cash basis.
- (3) Interest income from investment securities and other includes interest income attributable to that portion of the Company's deferred tax asset which relates to tax residuals. See Note 21 to the Consolidated Financial Statements. If the average balance of the deferred tax asset related to tax residuals was included in the average balance of investment securities and other, the weighted average yield would have been 10.88%, 7.34% and 5.93% during 1997, 1996 and 1995, respectively.

The following table describes the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and expense during the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided 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. Changes attributable to both volume and rate have been allocated proportionately to the change due to volume and the change due to rate.

Year Ended December 31,

	1997 vs. 1996			1996 vs. 1995		
	Increase (Decrease) Due To			Increase (Decrease) Due To		
	Rate	Volume	Total	Rate	Volume	Total
(Dollars in Thousands)						
Interest-Earning Assets:						
Federal funds sold and repurchase agreements	\$ (29)	\$ 4,307	\$ 4,278	\$ (507)	\$ 1,686	\$ 1,179
Securities available for sale	173	1,440	1,613	1,757	6,784	8,541
Securities held for trading	297	(1,265)	(968)	608	608	1,216
Loans available for sale	1,597	(321)	1,276	713	771	1,484
Mortgage-related securities held for investment	--	--	--	--	(4,313)	(4,313)
Loan portfolio	7,642	10,241	17,883	(788)	22,176	21,388
Discount loan portfolio	(23,426)	77,910	54,484	(2,235)	29,402	27,167
Investment securities and other	--	71	71	947	(990)	(43)
Total interest-earning assets	(13,746)	92,383	78,637	495	56,124	56,619
Interest-Bearing Liabilities:						
Interest-bearing demand deposits	628	(28)	600	(467)	56	(411)
Savings deposits	--	(29)	(29)	17	(390)	(373)
Certificates of deposit	(2,026)	29,752	27,726	(3)	22,707	22,704
Total interest-bearing deposits	(1,398)	29,695	28,297	(453)	22,373	21,920
Securities sold under agreements to repurchase	67	(168)	(101)	(9)	159	150
Securities sold but not yet purchased	--	--	--	--	(1,142)	(1,142)
Advances from the Federal Home Loan Bank	(156)	(3,379)	(3,535)	(345)	3,272	2,927
Obligations outstanding under lines of credit	--	5,578	5,578	--	--	--
Notes, debentures and other interest bearing obligations	397	9,493	9,890	163	8,082	8,245
Total interest-bearing liabilities	(1,090)	41,219	40,129	(644)	32,744	32,100
Increase (decrease) in net interest income	\$ (12,656)	\$ 51,164	\$ 38,508	\$ 1,139	\$ 23,380	\$ 24,519

1997 VERSUS 1996

The Company's net interest income before provision for loan losses of \$116.2 million increased \$38.5 million or 50% during 1997 as compared to the prior year. This increase resulted from a \$78.6 million or 41% increase in interest income due to a \$763.4 million or 48% increase in average interest-earning assets during 1997, offset in part by a 57 basis point decrease in the weighted average yield earned. The increase in interest income was offset in part by a \$40.1 million or 35% increase in interest expense due to a \$580.1 million or 33% increase in the Company's average interest-bearing liabilities.

Interest income on the discount loan portfolio increased by \$54.5 million or 53% in 1997 versus 1996 as a result of a \$607.7 million or 90% increase in the average balance of the discount loan portfolio, which was offset in part by a 299 basis point decrease in the weighted average yield earned. The decline in the yield during 1997, as compared to 1996, is primarily attributable to an increase in the average balance of single family discount loans as a result of acquisitions from HUD and the Company's decision to cease accretion of discount on nonperforming single family residential discount loans effective January 1, 1997. Discount accretion on nonperforming single family discount loans amounted to \$4.6 million or 69 basis points in yield during 1996. The Company believes that the yield earned on its single family residential discount loan portfolio in 1997 remained below

the yield earned in the prior year also due to its current strategy of attempting to work with borrowers to either (i) bring their loans current, (ii) modify the terms of their loans, (iii) enter into forbearance agreements that require the borrower to make monthly payments greater than or equal to scheduled payment amounts or (iv) refinance the loans with the Company. This resolution strategy results in lower initial yields as compared to borrowers paying off their loans in full or in part and, to the extent the loans are ultimately sold, will result in a significant portion of the earnings being reflected in gains on sales of interest earning assets. In addition, the majority of the single family HUD loans acquired by the Company in February and September 1997 are currently under a HUD forbearance plan whereby the borrower makes payments based upon ability to pay for a specific period of time, which generally results in a lower effective yield than the contract rate. Once this period is over the borrower

must make at least its contractual mortgage payment or the Company can pursue foreclosure or other actions. The yield on the overall discount loan portfolio is also likely to continue to fluctuate from year to year as a result of the timing of resolutions, particularly the resolution of large multifamily residential and commercial real estate loans, and the mix of the overall portfolio between paying and nonpaying loans.

Interest income on the loan portfolio increased by \$17.9 million or 49% in 1997 from 1996 primarily due to \$12.3 million of additional interest received in connection with the payoff of ten loans secured by hotel and office properties and, to a lesser extent, an increase in the average balance of the loan portfolio for 1997 of \$82.5 million or 25% over that of 1996.

Interest income on federal funds sold and repurchase agreements increased \$4.3 million or 91% during 1997 as compared to 1996 primarily as a result of a \$78.7 million or 93% increase in the average balance.

Interest expense on deposits increased \$28.3 million or 30% during 1997 as compared to 1996, and reflects the Company's continued use of certificates of deposit to fund its asset growth. The average amount of the Company's certificates of deposits increased from \$1.48 billion during 1996 to \$1.96 billion during 1997.

Interest expense on notes, debentures and other interest-bearing obligations increased by \$9.9 million or 57% during 1997 as compared to 1996 primarily due to the issuance of \$125.0 million of 11.875% Notes (the "Notes") in September 1996.

Also contributing to the increase in interest expense during 1997 is the interest expense on lines of credit established at Ocwen Financial Services, Inc. ("OFS") (see "Changes in Financial Condition - Obligations Outstanding Under Lines of Credit"), which amounted to \$5.6 million during 1997, as compared to \$0 during 1996 and 1995. OFS, a recently formed, 93.7% owned subsidiary of the Company, acquired substantially all of the assets of Admiral Home Loan ("Admiral"), the Company's primary correspondent mortgage banking firm for subprime single family loans.

1996 VERSUS 1995

The Company's net interest income before provision for loan losses increased by \$24.5 million or 46.1% during 1996, as compared to the prior year. This increase resulted from a \$56.6 million or 41% increase in interest income due to a \$434.2 million or 37% increase in average interest-earning assets and, to a lesser extent, a 35 basis point increase in the weighted average yield on such assets. The increase in interest income was offset in part by a \$32.1 million or 38% increase in interest expense due to a \$457.8 million or 35% increase in average interest-bearing liabilities, primarily certificates of deposit, Federal Home Loan Bank ("FHLB") advances, notes and debentures, and to a lesser extent, a 14 basis point increase in the weighted average rate paid on interest-bearing liabilities. The Company's net interest margin increased to 4.84% in 1996 from 4.54% in 1995.

The increase in interest income during 1996, as compared to the prior year, reflects substantial increases in the average balances of the discount loan portfolio, loan portfolio and securities available for sale. Beginning in 1996, adjustments to reduce the carrying value of discount loans to the fair value of the property securing the loan are charged against the allowance for loan losses on the discount loan portfolio. Prior to 1996, such adjustments were charged against interest income on discount loans. Had charge-offs on discount loans been included as a reduction of interest income in 1996, the weighted average yield on the discount loan portfolio would have been 13.9%.

The average balance of the Company's interest-bearing liabilities increased substantially during 1996, as compared to the prior year, as a result of a \$361.4 million or 32% increase in the average balance of certificates of deposit, a \$56.4 million or 379% increase in the average balance of FHLB advances and a \$69.6 million or 88% increase in the average balance of notes and debentures, which reflect the Company's reliance on brokered and other wholesale certificates of deposit and advances from the FHLB as a source of funds, the Company's issuance of the Notes in September 1996 and the Bank's issuance of 12% Subordinated Debentures (the "Debentures") in June 1995, respectively.

PROVISIONS FOR LOAN LOSSES. Provisions for losses on loans are charged to operations to maintain an allowance for losses on both the loan portfolio and the discount loan portfolio at a level which management considers adequate based

upon an evaluation of known and inherent risks in such loan portfolios. Management's periodic evaluation is based on an analysis of both the discount loan portfolio and the loan portfolio, historical loss experience, current economic conditions and other relevant factors.

Provisions for loan losses amounted to \$32.2 million, \$22.5 million and \$1.1 million during the years ended December 31, 1997, 1996 and 1995, respectively. The increase in provisions for loan losses in 1997 was largely due to an \$11.3 million increase in the provision for losses on the discount loan portfolio, which occurred primarily as a result of a \$607.7 million or 90% increase in the average balance of the discount loan portfolio during 1997 as compared to 1996. The increase in provisions for losses in 1996 was primarily attributable to a change in methodology for valuing discount loans, which was adopted by the Company effective January 1, 1996. Pursuant to this change in methodology, the Company establishes provisions for losses on discount loans as

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necessary to maintain an allowance for losses at a level which management believes reflects the inherent losses which may have occurred but have not yet been specifically identified, and records all charge-offs on the discount loan portfolio, net of recoveries, against the allowance for losses on discount loans. Prior to 1996, provisions for losses on loans were not established in connection with the discount loan portfolio because adjustments to reduce the carrying value of discount loans to the lower of amortized cost or the fair market value of the properties securing the loans discounted at the effective interest rate, which amounted to \$5.0 million in 1995, were recorded in interest income on discount loans. Provisions for losses on the discount loan portfolio amounted to \$31.9 million and \$20.6 million during 1997 and 1996, respectively, and net charge-offs on the discount loan portfolio amounted to \$20.3 million and \$9.2 million during the same respective years.

Provisions for losses on the loan portfolio amounted to \$325,000, \$1.9 million and \$1.1 million during the years ended December 31, 1997, 1996 and 1995, respectively. Net charge-offs on the loan portfolio amounted to \$153,000, \$296,000 and \$245,000 during the years ended December 31, 1997, 1996 and 1995, respectively.

Although management utilizes its best judgment in providing for possible loan losses, there can be no assurance that the Company will not increase its provisions for possible loan losses in subsequent periods. Changing economic and business conditions, fluctuations in local markets for real estate, future changes in nonperforming asset trends, material upward movements in market interest rates or other factors could affect the Company's future provisions for loan losses. In addition, the Office of Thrift Supervision ("OTS"), as an integral part of its examination process, periodically reviews the adequacy of the Company's allowance for losses on loans and discount loans and as a result, may require the Company to recognize changes to such allowances for losses based on its judgment about information available to it at the time of examination.

NON-INTEREST INCOME. Non-interest income increased \$86.6 million or 232% in 1997 as compared to 1996. Exclusive of the \$5.4 million gain from the sale of branch offices in 1995, non-interest income increased by \$11.5 million or 45% in 1996. The increase in non-interest income during 1997 was primarily attributable to gains from the sale of interest-earning assets and servicing fees and other charges. The increase in non-interest income during 1996 was primarily due to gains from the sale of interest-earning assets.

The following table sets forth the principal components of the Company's non-interest income during the years indicated.

	Year Ended December 31,		
	1997	1996	1995
	(Dollars in Thousands)		
Servicing fees and other charges.....	\$ 25,881	\$ 4,682	\$ 2,870
Gains on sales of interest-earning assets, net.....	82,212	21,682	6,916
Income on real estate owned, net.....	7,277	3,827	9,540
Other income.....	8,498	7,112	6,385
Subtotal.....	123,868	37,303	25,711
Gain from sale of branch offices.....	--	--	5,430
Total.....	\$ 123,868	\$ 37,303	\$ 31,141

Servicing fees and other charges increased in 1997 and 1996 primarily as a result of increases in loan servicing and related fees as a result of the Company's increase in loans (primarily subprime and nonperforming) serviced for others. During 1997 and 1996, the average unpaid principal balance of loans serviced for others amounted to \$3.11 billion and \$887.9 million, respectively.

The following table sets forth the Company's loans serviced for others at December 31, 1997 and 1996.

December 31, 1997								
Discount Loans		Subprime Loans		Other Loans		Total		
Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	
(Dollars in Thousands)								
Loans securitized and sold with recourse..	\$ 624,591	11,148	\$ 555,914	4,976	\$ --	--	\$1,180,505	16,124
Loans serviced for third parties	1,682,764	23,181	2,352,352	29,911	294,198	1,092	4,329,314	54,184
	\$2,307,355	34,329	\$2,908,266	34,887	\$ 294,198	1,092	\$5,509,819	70,308

December 31, 1996								
Discount Loans		Subprime Loans		Other Loans		Total		
Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	
(Dollars in Thousands)								
Loans securitized and sold with recourse..	\$ 204,586	4,796	\$ 202,766	1,879	\$ --	--	\$ 407,352	6,675
Loans serviced for third parties	1,209,535	22,511	6,784	60	294,427	917	1,510,746	23,488
	\$1,414,121	27,307	\$ 209,550	1,939	\$ 294,427	917	\$1,918,098	30,163

Net gains on sales of interest-earning assets in 1997 were primarily comprised of \$71.9 million of net gains recognized in connection with the securitization of single family subprime loans, single family discount loans and small commercial discount loans, as presented in the table below. Additionally, the Company recorded a \$2.6 million gain on the sale of mortgage-related securities to Oaic, \$2.7 million of gains from the sales of single family subprime loans and \$3.5 million of gains from sales of certain large commercial loans in the Company's discount loan portfolio.

Net gains on sales of interest-earning assets in 1996 were primarily comprised of a \$5.4 million gain from the sale of 256 single family loans in the Company's discount loan portfolio which had been brought current in accordance with their terms, a \$4.5 million gain from the sale of discount commercial real estate loans and, as presented in the table below, \$15.2 million of net gains in connection with the securitization of single family subprime loans and large discount commercial real estate loans.

Net gains on sales of interest-earning assets in 1995 were primarily comprised of a \$6.0 million gain from the sale of loans in the Company's discount loan portfolio which had been brought current in accordance with their terms and, as presented in the table below, a \$1.6 million gain in connection with the securitization of multi-family residential loans.

The following table sets forth the Company's net gains recognized in connection with the securitization of loans during 1997, 1996 and 1995.

Loans Securitized				
Type of Loans	Principal	No. of Loans	Book Value of Securities Retained (1)	Net Gain
1997:				
Single family discount.....	\$ 418,795	6,295	\$ 20,635	\$ 51,137
Single family subprime.....	415,830	3,640	25,334	18,802
Small commercial discount.....	62,733	302	4,134	1,994
	\$ 897,358	10,237	\$ 50,103	\$ 71,933
1996:				
Large commercial discount.....	\$ 164,417	25	\$ 8,384	\$ 7,929
Single family subprime.....	211,204	1,180	18,236	7,232
	\$ 375,621	1,205	\$ 26,620	\$ 15,161

1995:	-----	-----	-----	-----
Multi-family.....	\$ 83,875	25	\$ --	\$ 1,606
	=====	=====	=====	=====

(1) Consists of subordinated and/or residual securities resulting from the Company's securitization activities, which had a carrying value of \$78.5 million at December 31, 1997.

Gains on sale of interest-earning assets (as well as other assets, such as real estate owned, as discussed below) generally are dependent on various factors which are not necessarily within the control of the Company, including market and economic conditions. As a result, there can be no assurance that the gains on sale of interest-earning assets (and other assets) reported by the Company in prior periods will be reported in future periods or that there will not be substantial inter-period variations in the results from such activities.

The following table sets forth the results of the Company's real estate owned (which does not include investments in real estate, as discussed below) during the years indicated, which were primarily related to the discount loan portfolio.

	Year Ended December 31,		
	1997	1996	1995
	(Dollars in Thousands)		
Gains on sales	\$ 30,651	\$ 22,835	\$ 19,006
Provision for losses in fair value...	(13,450)	(18,360)	(10,510)
Rental income (carrying costs), net..	(9,924)	(648)	1,044
	-----	-----	-----
Income on real estate owned, net.....	\$ 7,277	\$ 3,827	\$ 9,540
	=====	=====	=====

For additional information relating to the Company's real estate owned, see "Changes in Financial Condition - Real Estate Owned."

Other income for 1997 and 1996 included gains in the amount of \$6.3 million and \$4.9 million, respectively, realized in connection with the sale of certain of the Company's investments in low-income housing tax credit projects. See "Changes in Financial Condition - Investments in Low-Income Housing Tax Credit Interests." Other income for 1995 includes a \$4.7 million gain realized on the sale of one of the two hotels owned by the Company. A 69% partnership interest in the second hotel was sold in 1997 for a minimal gain. See "Changes in Financial Condition - Investment in Real Estate."

The Company realized a \$5.4 million gain from the sale of two branch offices and \$111.7 million of related deposits at the end of 1995 and a \$62.6 million gain from the sale of twenty-three branch offices and \$909.3 million of related deposits at the end of

1994. The Company sold these branch offices and the related deposit liabilities because of the premiums which could be obtained for such deposits under existing market and economic conditions and because the Company believed that it could replace these deposits with other sources of funds, such as brokered and other wholesale deposits, FHLB advances and reverse repurchase agreements, which management generally believes have an effective cost to the Company which is more attractive than the deposits obtained from branch offices after the general and administrative expense associated with such offices is taken into account.

NON-INTEREST EXPENSE. Non-interest expense increased \$57.2 million or 82% during 1997 and \$24.0 million or 53% during 1996. The increase in non-interest expense in 1997 was primarily attributable to an increase of 474 in the average number of employees which resulted in a \$38.5 million or 99% increase in compensation and employee benefits, an \$8.7 million or 98% increase in occupancy and equipment expense and an \$11.8 million or 79% increase in other operating expenses. The increase in non-interest expense in 1996 was primarily related to a \$14.2 million or 57% increase in employee compensation and benefits and the SAIF assessment of \$7.1 million.

The following table sets forth the principal components of the Company's non-interest expense during the periods indicated.

	Year Ended December 31,		
	1997	1996	1995
	(Dollars in Thousands)		
Compensation and employee benefits	\$ 77,573	\$ 39,043	\$ 24,797
Occupancy and equipment	17,657	8,921	8,360
Net operating loss (income) on investment in real estate and certain low-income housing tax credit interests	4,792	(425)	337
SAIF assessment	--	7,140	--
Other operating expenses	26,771	14,927	12,079
Total	<u>\$126,793</u>	<u>\$ 69,606</u>	<u>\$ 45,573</u>

The increases in compensation and employee benefits in 1997 and 1996 reflect an increase in the average number of employees from 344 during 1995 to 398 during 1996 to 872 during 1997. In addition, profit sharing expense increased by \$8.6 million and \$8.4 million during 1997 and 1996, respectively.

The increase in occupancy and equipment expense of \$8.7 million in 1997 was primarily related to a \$3.4 million increase in general office and equipment expenses, a \$3.1 million increase in data processing costs and a \$1.3 million increase in rent expense, all largely attributable to the increase in leased loan and production office space and to the increase in the number of full-time employees discussed above.

Other operating expenses increased by \$11.8 million in 1997, primarily as a result of a \$2.9 million increase in loan related expenses (primarily as a result of the Company's increased investment in loans), a \$2.6 million increase in professional fees, a \$1.4 million increase in due diligence costs, a \$1.4 million reserve established on a receivable and \$1.1 million of certain other one-time charges offset in part by a \$1.5 million decline in FDIC insurance premiums (primarily due to a reduction in assessment rates as a result of the recapitalization of the SAIF in 1996). See Note 25 to the Consolidated Financial Statements for a disclosure of the components of other operating expenses.

DISTRIBUTIONS ON COMPANY-OBLIGATED, MANDATORILY REDEEMABLE SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY. In August 1997, Ocwen Capital Trust I ("OCT"), a wholly-owned subsidiary of the Company, issued \$125.0 million of 10 7/8% Capital Securities. Cash distributions on the Capital Securities accrue from the date of original issuance and are payable semi-annually in arrears on February 1 and August 1 of each year, commencing on February 1, 1998, at an annual rate of 10 7/8% of the liquidation amount of \$1,000 per Capital Security. Through December 31, 1997, the Company has accrued \$5.2 million of distributions payable to holders of the Capital Securities. See Note 18 to the Consolidated Financial Statements and "Changes in Financial Condition - Company-Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company."

EQUITY IN EARNINGS OF INVESTMENT IN JOINT VENTURE. Equity in earnings of investment in joint venture relates to the LLC. The Company's \$23.7 million of earnings from the LLC during 1997 consisted of 50% of the net income of the LLC before deduction of the Company's 50% share of loan servicing fees, which are paid 100% to the Company, and the recapture of \$5.1 million of valuation allowances established in 1996 by the Company on its equity investment in the LLC as a result of the resolution and securitization of loans. The Company's 50% pro rata share of the LLC's income during 1997 consisted primarily of \$4.5 million of interest income on discount loans and \$14.0 million of gains on the sale of discount loans, including the securitizations of HUD loans in March and December of 1997. All of the assets of the LLC were distributed at the end of 1997.

The Company's equity in earnings of LLC amounted to \$38.3 million in 1996 and included 50% of the net income of the LLC before deduction of the Company's 50% share of loan servicing fees, which are paid 100% to the Company, 50% of the gain on sale of loan servicing rights which the Company acquired from the LLC, \$7.6 million in provision for losses on the equity investment in the LLC and a \$460,000 gain on sale of future contracts used to hedge the loans securitized. The Company's 50% pro rata share of the LLC's income in 1996 consisted primarily of \$10.1 million of net interest income on discount loans and \$35.6 million of

gains on sales of discount loans. The Company has recognized 50% of the loan servicing fees not eliminated in consolidation in

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servicing fees and other charges. See "Changes in Financial Condition - Investment in Joint Ventures" and Note 2 to the Consolidated Financial Statements.

INCOME TAX EXPENSE. Income tax expense on the Company's income from continuing operations amounted to \$21.3 million, \$11.2 million and \$4.6 million during 1997, 1996 and 1995, respectively. The Company's effective tax rate amounted to 21.4%, 18.2% and 12.1% during 1997, 1996 and 1995, respectively. The Company's low effective tax rates in 1997, 1996 and 1995 were primarily attributable to the tax credits resulting from the Company's investment in low-income housing tax credit interests, which amounted to \$14.9 million, \$9.3 million and \$7.7 million during 1997, 1996 and 1995, respectively. Exclusive of the above amounts, the Company's effective tax rate amounted to 36.4%, 33.4% and 32.6% during 1997, 1996 and 1995, respectively. See "Changes in Financial Condition - Investments in Low Income Housing Tax Credit Interests."

DISCONTINUED OPERATIONS. In September 1995, the Company announced its decision to dispose of its automated banking division, which generally emphasized the installation of automated teller machines and automated banking centers in a wide variety of locations which were not associated with branch offices of the Company, as well as the development and installation of an automated multi-application card system for the distribution of financial products and services to members of a college or university population. As a result of this decision, an after-tax loss on disposal of \$3.2 million was recorded, which consisted of a net loss of \$2.0 million on the sale of assets and a loss of \$1.2 million incurred from related operations until the sale and disposition, which was substantially completed at December 31, 1995. Losses from the operations of the discontinued division prior to discontinuance, net of tax, amounted to \$4.5 million during 1995. See Note 3 to the Consolidated Financial Statements.

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CHANGES IN FINANCIAL CONDITION

The following table sets forth information relating to certain of the Company's assets and liabilities at the dates indicated.

	December 31,		Increase (Decrease)	
	1997	1996	Dollars	Percent
	(Dollars in Thousands)			
ASSETS:				
Securities held for trading.....	\$ --	\$ 75,606	\$ (75,606)	(100)%
Securities available for sale.....	430,524	354,005	76,519	22
Loans available for sale.....	177,041	126,366	50,675	40
Loan portfolio, net.....	266,299	402,582	(136,283)	(34)
Discount loan portfolio, net.....	1,434,176	1,060,953	373,223	35
Investment in low-income housing tax credit interests.....	128,614	93,309	35,305	38
Investment in joint ventures.....	1,056	67,909	(66,853)	(98)
Real estate owned, net.....	167,265	103,704	63,561	61
Investment in real estate.....	65,972	41,033	24,939	61
Deferred tax asset.....	45,148	5,860	39,288	670
Total assets.....	3,069,165	2,483,685	585,480	24
LIABILITIES:				
Deposits.....	1,982,822	1,919,742	63,080	3
Securities sold under agreements to repurchase.....	108,250	74,546	33,704	45
Notes, debentures and other.....	226,975	225,573	1,402	1
Obligations outstanding under lines of credit..	118,304	--	118,304	--
Capital securities.....	125,000	--	125,000	--
Total liabilities.....	2,523,430	2,280,089	243,341	11
Stockholders' equity.....	419,692	203,596	216,096	106

SECURITIES HELD FOR TRADING. The Company held \$75.6 million in single family collateralized mortgage obligations ("CMO") for trading at December 31, 1996. This security, which was sold in January 1997, was acquired from the LLC in connection with the LLC's securitization of a portion of the HUD Loans. See

"Investment in Joint Ventures" and Note 2 to the Consolidated Financial Statements.

SECURITIES AVAILABLE FOR SALE. Securities available for sale increased by \$76.5 million or 22% during 1997 primarily as a result of the purchase of \$196.2 million of interest only securities ("IO"), \$175.4 million of CMOs and the acquisition of \$50.1 million of subordinate securities. All of the subordinate securities were acquired in connection with the Company's securitization of loans. These acquisitions were offset in part by the repayment of \$43.2 million of CMOs, the sale of \$122.0 million, \$44.2 million and \$37.2 million of IOs, CMOs and multi-family subordinates, respectively, \$59.2 million of net premium amortization on IOs and a \$25.0 million increase in net unrealized losses. See Note 6 to the Consolidated Financial Statements.

LOANS AVAILABLE FOR SALE. Loans available for sale, which are comprised primarily of subprime single family residential loans, increased by \$50.7 million or 40% during 1997. The increase in 1997 occurred primarily as a result of purchases and originations of \$594.2 million of single family residential loans, offset in part by sales of \$501.1 million and principal repayments of \$22.2 million of such loans. Of the single family loans sold during 1997, \$415.8 million were due to the Company's securitization of such loans.

At December 31, 1997, nonperforming loans available for sale amounted to \$13.5 million or 7.6% of total loans available for sale, as compared to \$14.4 million or 11.4% at December 31, 1996. Nonperforming loans available for sale consist primarily of subprime single family residential loans, reflecting the higher risks associated with such loans. During 1997 and 1996, respectively, the Company recorded a \$2.1 million and \$1.6 million reduction in the carrying value of these loans to record them at the lower of cost or fair market value.

LOAN PORTFOLIO, NET. The Company's net loan portfolio decreased by \$136.3 million or 34% during 1997 primarily as a result of significant payoffs of commercial real estate loans secured by hotel and office buildings. From December 31, 1996 to December 31, 1997, commercial real estate and land loans decreased by \$180.0 million, including a \$110.9 million and a \$60.0 million decrease in loans secured by hotels and office buildings, respectively.

Nonperforming loans amounted to \$9.2 million or 3.4% of total loans at December 31, 1997, as compared to \$2.3 million or 0.6% of total loans at December 31, 1996. At December 31, 1997, nonperforming loans consisted primarily of \$7.6 million of multi-family residential loans. The Company's allowance for loan losses amounted to 40.4% and 154.2% of nonperforming loans at December 31, 1997 and 1996, respectively. See Note 8 to the Consolidated Financial Statements.

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DISCOUNT LOAN PORTFOLIO, NET. The discount loan portfolio increased \$373.2 million or 35% during 1997. During 1997, discount loan acquisitions having an unpaid principal balance of \$1.78 billion, which included \$771.6 million of single family residential loans acquired from HUD, more than offset \$484.9 million of resolutions and repayments, \$292.4 million of transfers to real estate owned and \$518.9 million of sales. Of the discount loans sold during 1997, \$416.5 million were due to the Company's securitization of performing discount loans. See Note 9 to the Consolidated Financial Statements.

At December 31, 1997, discount loans which were performing in accordance with original or modified terms amounted to \$1.01 billion or 56.4% of the gross discount loan portfolio, as compared to \$579.6 million or 44.1% at December 31, 1996. The Company's allowance for losses on its discount loan portfolio amounted to \$23.5 million or 1.6% at December 31, 1997, as compared to \$11.5 million or 1.1% at December 31, 1996. The Company did not maintain an allowance for losses on its discount loan portfolio prior to 1996.

INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS. In 1993, the Company commenced a program to invest in multi-family residential projects which have been allocated low-income housing tax credits under Section 42 of the Internal Revenue Code by a state tax credit allocating agency. At December 31, 1997, the Company had \$128.6 million of investments in low-income housing tax credit interests, as compared to \$93.3 million at December 31, 1996.

Investments by the Company in low-income housing tax credit interests made on or after May 18, 1995 in which the Company invests solely as a limited partner, which amounted to \$47.2 million at December 31, 1997, are accounted for

using the equity method in accordance with the consensus of the Emerging Issues Task Force through Issue Number 94-1. Limited partnership investments made prior to May 18, 1995, which amounted to \$31.4 million at December 31, 1997, are accounted for under the effective yield method as a reduction of income tax expense. Low-income housing tax credit partnerships in which the Company invests as both a limited and, through a subsidiary, a general partner, amounted to \$50.0 million at December 31, 1997 and are presented on a consolidated basis. See Note 13 to the Consolidated Financial Statements.

INVESTMENT IN JOINT VENTURES. From time to time the Company and a co-investor acquire discount loans by means of a co-owned joint venture. At December 31, 1997, the Company's \$1.1 million investment in joint venture, net consisted of a 10% interest in BCFL, a limited liability company which was formed by the Company and BlackRock in January 1997 to acquire discount multi-family residential loans from HUD. In December 1997, the LLC distributed its assets to the Company and its other 50% investor, BlackRock. Simultaneous with the distribution, the Company acquired BlackRock's portion of the distributed assets. See Note 2 to the Consolidated Financial Statements.

REAL ESTATE OWNED, NET. Real estate owned, net, consists almost entirely of properties acquired by foreclosure or deed-in-lieu thereof on loans in the Company's discount loan portfolio. Such properties amounted to \$164.5 million or 98.3% of total real estate owned at December 31, 1997 and consisted of \$76.4 million, \$16.7 million and \$71.3 million of properties attributable to single family residential loans, multi-family residential loans and commercial real estate loans, respectively. Real estate owned increased by \$63.6 million or 61% during 1997 as a result of increases in single family and multi-family real estate owned attributable to the discount loan portfolio.

The Company actively manages its real estate owned. During 1997, the Company sold 1,521 properties with a carrying value of \$179.7 million as compared to the sale of 1,175 properties with a carrying value of \$160.6 million during 1996 and 1,229 properties with a carrying value of \$139.2 million during 1995. These sales resulted in gains, net of the provision for loss, of \$17.2 million, \$4.5 million and \$8.5 million during 1997, 1996 and 1995, respectively, which are included in determining the Company's income (loss) on real estate owned. See Note 10 to the Consolidated Financial Statements.

INVESTMENT IN REAL ESTATE. In conjunction with its multi-family residential and commercial real estate lending business activities, the Company has made certain acquisition, development and construction loans in which the Company participates in the expected residual profits of the underlying real estate and the borrower has not made an equity contribution substantial to the overall project. As such, the Company accounts for these loans under the equity method of accounting as though it has made an investment in a real estate limited partnership. The Company's investment in such loans amounted to \$62.0 million at December 31, 1997, as compared to \$24.9 million at December 31, 1996.

The Company also has invested, indirectly, in The Westin Hotel (the "Westin") located in Columbus, Ohio. The Company's investment in such property decreased to \$1.4 million at December 31, 1997 from \$16.1 million at December 31, 1996 primarily as a result of the Company's sale of a 69% partnership interest in the Westin on July 15, 1997 for a minimal gain.

DEFERRED TAX ASSET. At December 31, 1997, the deferred tax asset, net of deferred tax liabilities, amounted to \$45.1 million, an increase of \$39.2 million from the \$5.9 million deferred tax asset at December 31, 1996. At December 31, 1997, the gross deferred tax asset amounted to \$49.5 million and consisted primarily of \$3.5 million related to tax residuals, \$5.6 million of gains on loan foreclosures, \$3.2 million mark-to-market and reserves on real estate owned properties, \$9.8 million of loan loss reserves, \$4.0 million of reserves on securities available for sale, \$2.0 million of contingency reserves, \$3.2 million of accrued profit sharing expense, \$7.7 million of deferred interest expense on the discount loan portfolio and \$6.7 million mark-to-market on securities available for sale. The gross deferred tax liability amounted to \$4.4 million and consisted primarily of \$2.3 million of deferred interest income on the discount loan portfolio. At December 31, 1996, the gross tax asset amounted to \$15.1 million, and consisted primarily of \$3.7 million related to tax residuals, \$3.5 million of mark-to-market and reserves on real estate owned and \$3.9 million of deferred interest expense on the discount loan portfolio and the gross deferred tax liability amounted to \$9.2

million and consisted primarily of \$4.6 million of deferred interest income on the discount loan portfolio and \$2.1 million of mark-to-market on certain securities available for sale.

As a result of the Company's earnings history, current tax position and taxable income projections, management believes that the Company will generate sufficient taxable income in future years to realize the deferred tax asset which existed at December 31, 1997. In evaluating the expectation of sufficient future taxable income, management considered future reversals of temporary differences and available tax planning strategies that could be implemented, if required. A valuation allowance was not required at December 31, 1997 because it was management's assessment that, based on available information, it is more likely than not that all of the deferred tax asset will be realized. A valuation allowance will be established in the future to the extent of a change in management's assessment of the amount of the net deferred tax asset that is expected to be realized. See Note 21 to the Consolidated Financial Statements.

DEPOSITS. Deposits increased \$63.1 million or 3% during 1997 primarily as a result of brokered deposits obtained through national investment banking firms which solicit deposits from their customers, which amounted to \$1.34 billion at December 31, 1997, as compared to \$1.22 billion at December 31, 1996. Deposits obtained as a result of the Company's direct solicitation and marketing efforts to regional and local investment banking firms and institutional investors and high net worth individuals amounted to \$429.8 million at December 31, 1997 as compared to \$540.6 million at December 31, 1996. See Note 15 to the Consolidated Financial Statements.

NOTES, DEBENTURES AND OTHER INTEREST-BEARING OBLIGATIONS. Notes, debentures and other interest-bearing obligations of \$227.0 million at December 31, 1997 increased \$1.4 million during 1997 and consist primarily of the \$125.0 million of 11.875% Notes issued by the Company in 1996 and the \$100.0 million of 12% Debentures issued by the Bank in 1995. See Note 17 to the Consolidated Financial Statements.

OBLIGATIONS OUTSTANDING UNDER LINES OF CREDIT. Obligations outstanding under lines of credit amounted to \$118.3 million at December 31, 1997 and represent borrowings under new lines of credit established at OFS during 1997. These lines of credit have a one-year term with interest rates that float in accordance with a designated prime rate (see "Liquidity, Commitments and Off-Balance Sheet Risks").

COMPANY-OBLIGATED, MANDATORILY REDEEMABLE SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY. In August 1997, OCT, a wholly owned subsidiary of Ocwen, issued \$125.0 million of 10 7/8% Capital Securities. Proceeds from issuance of the Capital Securities were invested in 10 7/8% Junior Subordinated Debentures issued by Ocwen. The Junior Subordinated Debentures, which represent the sole assets of the Trust, will mature on August 1, 2027. Intercompany transactions between OCT and the Company, including the Junior Subordinated Debentures, are eliminated in the consolidated financial statements of the Company.

Through December 31, 1997, the Company had accrued \$5.2 million of distributions payable to holders of the Capital Securities. See Note 18 to the Consolidated Financial Statements.

STOCKHOLDERS' EQUITY. Stockholders' equity increased \$216.1 million or 106% during 1997. The increase in stockholder's equity during 1997 was primarily due to \$78.9 million of net income and \$142.0 million of net proceeds in connection with the sale of 3,450,000 shares of common stock, offset in part by an \$8.5 million decrease in unrealized gain on equity securities and securities available for sale. The \$64.0 million increase in stockholders' equity during 1996 was primarily due to \$50.1 million of net income earned during 1996, a \$4.9 million increase in unrealized gain on securities available for sale and a \$13.0 million increase in common stock and additional paid-in capital in connection with the issuance of 2,928,830 shares of common stock as a result of the exercise of vested stock options by certain of the Company's and the Bank's current and former officers and directors. These increases more than offset the loans made to certain of such officers and directors to fund their exercise of the stock options, which had an unpaid principal balance of \$0 and \$3.8 million at December 31, 1997 and 1996, respectively.

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. It is the objective of the Company to attempt to control risks associated with interest rate movements. In general, management's strategy is to match asset and liability balances within maturity categories to limit the Company's exposure to earnings variations and variations in the value of assets and liabilities as interest rates change over time. The Company's asset and liability management strategy is formulated and monitored by the Asset/Liability Committee, which is comprised of directors and officers of the Bank, in accordance with policies approved by the Board of Directors of the Bank. The Asset/Liability Committee meets regularly to review, among other things, the sensitivity of the Company's assets and liabilities to interest 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 Asset/Liability Committee also approves and establishes pricing and funding decisions with respect to the Company's overall asset and liability composition.

The Asset/Liability Committee is authorized to utilize a wide variety of off-balance sheet financial techniques to assist it in the management of interest rate risk. These techniques include interest rate exchange agreements, pursuant to which the parties exchange the difference between fixed-rate and floating-rate interest payments on a specified principal amount (referred to as the "notional amount") for a specified period, without the exchange of the underlying principal amount. Interest rate exchange agreements are utilized by the Company to protect against the decrease in value of a fixed-rate asset or the increase in borrowing cost from a short-term, fixed-rate liability, such as reverse repurchase agreements, in an increasing interest rate environment. At December 31, 1997, the Company had entered into interest rate exchange agreements with an aggregate notional amount of \$36.9 million. Interest rate exchange agreements had the effect of increasing (decreasing) the Company's net interest income by \$(198,000), \$(58,000) and \$358,000 during 1997, 1996 and 1995, respectively. See Note 20 to the Consolidated Financial Statements.

The Company also enters into interest rate futures contracts, which are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may be settled in cash or through delivery. Eurodollar futures contracts have been sold by the Company to hedge the repricing or maturity risk of certain short duration mortgage-related securities, and U.S. Treasury futures contracts have been sold by the Company to offset declines in the market value of its fixed-rate loans and certain fixed-rate mortgage-backed and related securities available for sale in the event of an increasing interest rate environment. At December 31, 1997 the Company had no outstanding Eurodollar futures contracts. At December 31, 1996, the Company had entered into Eurodollar futures (short) contracts with an aggregate notional amount of \$405.0 million. At December 31, 1997 and 1996, the Company had entered into U.S. Treasury futures (short) contracts with an aggregate notional amount of \$194.5 million and \$165.1 million, respectively. Futures contracts had the effect of increasing (decreasing) the Company's net interest income by \$2.0 million, \$(729,000) and \$(619,000) during 1997, 1996 and 1995, respectively. In addition, futures contracts had the effect of decreasing the Company's non-interest income by \$4.8 million, \$4.1 million and \$3.3 million during the years ended December 31, 1997, 1996 and 1995, respectively. See Note 20 to the Consolidated Financial Statements.

The Asset/Liability Committee's methods for evaluating interest rate risk include an analysis of the Company's 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 the Company's interest-earning assets and interest-bearing liabilities at December

31, 1997. 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 (i) adjustable-rate loans, performing discount loans, securities and FHLB advances are included in the period in which they are first scheduled to adjust and not in the period in which they mature, (ii) fixed-rate, mortgage-related securities reflect estimated prepayments, which were estimated based on analyses of broker estimates, the results of a prepayment model utilized by the Company and empirical data, (iii) nonperforming discount loans reflect the estimated timing of resolutions which result in repayment to the Company, (iv) fixed-rate loans reflect scheduled contractual amortization, with no estimated prepayments, (v) NOW and money market checking deposits and savings deposits, which do not have contractual maturities, reflect estimated levels of attrition, which are based on detailed studies of each such category of deposit by the Company, and (vi) escrow deposits and other non-interest bearing checking accounts, which amounted to \$130.4 million at December 31, 1997, are excluded. Management believes that these assumptions approximate actual experience and considers them reasonable; however, the interest rate sensitivity of the Company's assets and liabilities in the table could vary substantially if different assumptions are used or actual experience differs from the historical experience on which the assumptions are based.

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December 31, 1997					
	Within Three Months	Four to Twelve Months	More than One Year to Three Years	Three Years and Over	Total
(Dollars in Thousands)					
Rate-Sensitive Assets:					
Interest-earning cash	\$ 140,001	\$ --	\$ --	\$ --	\$ 140,001
Securities available for sale	42,763	150,736	130,694	106,331	430,524
Loans available for sale(1)	19,045	64,904	83,406	9,686	177,041
Investment securities, net	--	--	--	59,567	59,567
Loan portfolio, net(1)	113,372	31,298	39,922	81,707	266,299
Discount loan portfolio, net	199,115	373,111	349,201	512,749	1,434,176
Total rate-sensitive assets	514,296	620,049	603,223	770,040	2,507,608
Rate-Sensitive Liabilities:					
NOW and money market checking deposits	7,277	3,072	6,101	11,174	27,624
Savings deposits	84	227	448	905	1,664
Certificates of deposit	277,966	562,498	610,872	371,826	1,823,162
Total interest-bearing deposits	285,327	565,797	617,421	383,905	1,852,450
Securities sold under agreement to repurchase	108,250	--	--	--	108,250
Obligations outstanding under lines of credit	118,304	--	--	--	118,304
Notes, debentures and other interest bearing obligations	1,975	--	--	225,000	226,975
Total rate-sensitive liabilities	513,856	565,797	617,421	608,905	2,305,979
Interest rate sensitivity gap before off-balance sheet financial instruments	440	54,252	(14,198)	161,135	201,629
Futures contracts and interest rate swap	189,274	(14,487)	(30,827)	(143,960)	--
Interest rate sensitivity gap	\$ 189,714	\$ 39,765	\$ (45,025)	\$ 17,175	\$ 201,629
Cumulative interest rate sensitivity gap	\$ 189,714	\$ 229,479	\$ 184,454	\$ 201,629	\$ 201,629
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets	7.57%	9.15%	7.36%	8.04%	8.04%

(1) Balances have not been reduced for nonperforming loans.

Although the interest rate sensitivity gap analysis is a useful measurement and contributes toward effective asset and liability management, it is difficult to predict the effect of changing interest rates based solely on that measure. As a result, the Asset/Liability Committee also regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity ("MVPE"), which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and MVPE that is authorized by the Board of Directors of the Bank.

The following table sets forth at December 31, 1997 the estimated percentage change in the Company's net interest income over a four-quarter period and MVPE based upon the indicated changes in interest rates, assuming an instantaneous and sustained uniform change in interest rates at all maturities.

Estimated Changes in

Change (in Interest Rates)	Net Interest Income	MVPE
+400	(10.5)%	(11.4)%
+300	(5.1)	(5.3)
+200	7.6	0.3
+100	4.3	3.3
0	--	--
-100	(18.7)	(12.2)
-200	(35.5)	(15.2)
-300	(33.9)	(13.9)
-400	(33.8)	(12.3)

The negative estimated changes in MVPE for -100 to -400 and for +300 and +400 changes in interest rates as well as in net interest income for +300 and +400 changes in interest rates are attributable to the Company's sensitivity to changes in interest rates. Such sensitivity stems from the Company's investments in IO-stripped and inverse IO-stripped mortgage-backed securities (together "IO strips"). IO strips exhibit considerably more price volatility than mortgage or ordinary mortgage pass-through securities, due in part to the uncertain cash flows that result from changes in the prepayment rates of the underlying mortgages. In the case of IO strips, increased prepayments of the underlying mortgages as a result of a decrease in market interest rates or other factors can result in a loss of all or part of the purchase price of such security.

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Management of the Company believes that the assumptions used by it to evaluate the vulnerability of the Company's operations to changes in interest rates approximate actual experience and considers them reasonable; however, the interest rate sensitivity of the Company's assets and liabilities and the estimated effects of changes in interest rates on the Company's net interest income and MVPE could vary substantially if different assumptions are used or actual experience differs from the historical experience on which they are based.

The following table shows the Company's financial instruments that are sensitive to changes in interest rates, categorized by expected maturity, and the instruments' fair values at December 31, 1997. Market-rate-sensitive instruments are generally defined as on and off balance sheet derivatives and other financial instruments.

	Expected Maturity Date At December 31, 1997 (1)						Total Balance	Fair Value
	1998	1999	2000	2001	2002	Thereafter		
	(Dollars in Thousands)							
Rate-Sensitive Assets:								
Interest-earning cash.....	\$ 140,001	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 140,001	\$ 140,001
Average interest rate	4.46%	--	--	--	--	--	4.46%	--
Securities available for sale	195,526	93,302	36,275	23,049	14,999	67,373	430,524	430,524
Average interest rate	8.58%	10.10%	13.84%	13.56%	13.97%	14.66%	10.76%	--
Loans available for sale(2)	77,994	37,376	14,443	10,952	8,648	27,628	177,041	184,884
Average interest rate	9.37%	9.20%	9.48%	9.50%	9.47%	9.40%	9.36%	--
Investment securities, net	--	--	--	--	--	59,567	59,567	59,567
Average interest rate	--	--	--	--	--	--	--	--
Loan portfolio, net(2)	111,323	30,348	41,540	63,914	4,865	14,309	266,299	281,850
Average interest rate	9.10%	9.07%	9.04%	9.01%	8.99%	8.97%	9.06%	--
Discount loan portfolio, net	457,624	262,918	122,206	63,511	45,038	482,879	1,434,176	1,657,222
Average interest rate	8.71%	8.79%	8.83%	8.86%	8.85%	8.81%	8.78%	--
Total rate-sensitive assets	\$ 982,468	\$423,944	\$214,464	\$ 161,426	\$ 73,550	\$ 651,756	\$2,507,608	\$2,754,048
Rate-Sensitive Liabilities:								
NOW and money market checking								
deposits	\$ 10,349	\$ 3,384	\$ 2,717	\$ 2,183	\$ 1,754	\$ 7,237	\$ 27,624	\$ 72,233
Average interest rate	3.45%	3.33%	3.32%	3.31%	3.30%	3.21%	3.34%	--
Savings deposits	311	249	199	159	128	618	1,664	1,589
Average interest rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	--
Certificates of deposit	840,463	376,607	234,265	225,497	145,995	335	1,823,162	1,865,196
Average interest rate	5.82%	6.11%	6.10%	6.11%	6.39%	6.53%	6.00%	--
Total interest-bearing deposits...	851,123	380,240	237,181	227,839	147,877	8,190	1,852,450	1,939,018
Securities sold under agreement								
to repurchase	108,250	--	--	--	--	--	108,250	108,250
Average interest rate	5.93%	--	--	--	--	--	5.93%	--
Obligations outstanding under								
lines of credit	118,304	--	--	--	--	--	118,304	118,304
Average interest rate	6.59%	--	--	--	--	--	6.59%	--
Notes, debentures and other	1,975	--	--	--	--	225,000	226,975	255,538
Average interest rate	7.06%	--	--	--	--	11.93%	11.89%	--
Total rate-sensitive liabilities...	\$1,079,652	\$380,240	\$237,181	\$ 227,839	\$ 147,877	\$ 233,190	\$ 2,305,979	\$2,421,110

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- (1) Expected maturities are contractual maturities adjusted for prepayments of principal. The Company uses certain assumptions to estimate fair values and expected maturities. For assets, expected maturities are based upon contractual maturity, projected repayments and prepayments of principal. The prepayment experience reflected herein is based on the Company's historical experience. The Company's average Constant Prepayment Rate ("CPR") is 12.6% and 16.7% on its fixed-rate and adjustable-rate portfolios, respectively, for interest-earning assets (excluding investment securities, which do not have prepayment features). The actual maturities of these instruments could vary substantially if future prepayments differ from the Company's historical experience.
 - (2) Balances have not been reduced for nonperforming loans.

The Company believes that the broad geographic distribution of its discount loan portfolio and loan portfolio reduces the risks associated with concentrating such loans in limited geographic areas. See Note 8 and Note 9 to the Consolidated Financial Statements.

Liquidity, Commitments and Off-Balance Sheet Risks

Liquidity is a measurement of the Company's ability to meet potential cash requirements, including ongoing commitments to fund deposit withdrawals, repay borrowings, fund investment, loan acquisition and lending activities, make corporate acquisitions and fund other general business purposes. The primary sources of funds for liquidity currently consist of deposits, FHLB advances, reverse repurchase agreements, lines of credit and maturities and principal payments on loans and securities and proceeds from sales thereof. Another significant source of asset liquidity is the ability to securitize assets such as discount loans and subprime

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loans, as well as the direct sale of such loans.

Sources of liquidity include certificates of deposit obtained primarily from wholesale sources. At December 31, 1997, the Company had \$1.82 billion of certificates of deposit, including \$1.34 billion of brokered certificates of deposit obtained through national investment banking firms, all of which are non-cancelable. At the same date, scheduled maturities of certificates of deposit during the 12 months ending December 31, 1998 and 1999 and thereafter amounted to \$840.5 million, \$376.6 million and \$606.1 million, respectively. Brokered and other wholesale deposits generally are more responsive to changes in interest rates than core deposits and, thus, are more likely to be withdrawn from the Company upon maturity as changes in interest rates and other factors are perceived by investors to make other investments more attractive. Management of the Company believes that it can adjust the rates paid on certificates of deposit to retain deposits in changing interest rate environments and that brokered and other wholesale deposits can be both a relatively cost-effective and stable source of funds. There can be no assurance that this will continue to be the case in the future, however.

Sources of borrowings include FHLB advances, which are required to be secured by single family and/or multi-family residential loans or other acceptable collateral, and reverse repurchase agreements. At December 31, 1997, the Company had no FHLB advances outstanding, was eligible to borrow up to an aggregate of \$647.9 million from the FHLB of New York (subject to availability of acceptable collateral) and had \$68.2 million of single family residential loans, approximately \$9.0 million of multi-family residential loans and \$26.1 million of loans secured by hotel properties which could be pledged as security for such advances. At the same date, the Company had contractual relationships with six brokerage firms and the FHLB of New York pursuant to which it could obtain funds from reverse repurchase agreements and had \$326.2 million of unencumbered mortgage-related securities which could be used to secure such borrowings. At present, the Company has no outstanding FHLB advances due to the availability of other less costly sources of funding, a circumstance which the Company evaluates on a regular basis.

The liquidity of the Company includes lines of credit obtained by OFS subsequent to its assumption of the subprime lending activities of the Bank and acquisition of substantially all of the assets of Admiral, as follows: (i) a \$200.0 million secured line of credit from Morgan Stanley Mortgage Capital Inc., of which \$100 million was committed, (ii) a \$50.0 million secured line of credit

from Texas Commerce Bank National Association, (iii) a \$200 million secured line of credit from Merrill Lynch, of which \$100 million was committed, and (iv) a \$200 million secured line of credit from Lehman Commercial Paper, Inc., of which \$100 million was committed. An aggregate of \$118.3 million was outstanding to OFS under these lines of credit at December 31, 1997, which have interest rates which float in accordance with a designated prime rate. In addition, the Company has provided a \$30.0 million unsecured, subordinated credit facility to OFS, of which \$30.0 million was outstanding at December 31, 1997. At present OFS intends to continue to seek appropriate leverage with respect to its underlying business, and thus, will seek additional lines of credit as its assets warrant.

The Company believes that its existing sources of liquidity, including internally generated funds, will be adequate to fund planned activities for the foreseeable future, although there can be no assurances in this regard. Moreover, the Company continues to evaluate other sources of liquidity, such as lines of credit from unaffiliated parties, which will enhance the management of its liquidity and the costs thereof.

The Company's operating activities provided cash flows of \$114.3 million and of \$101.4 million during 1997 and 1996, respectively, and used cash flows of \$189.4 million during 1995. During the foregoing years, cash resources were provided primarily by net income and proceeds from sales of loans available for sale, and cash resources were used primarily to purchase and originate loans available for sale.

The Company's investing activities used cash flows totaling \$493.7 million, \$558.3 million and \$474.5 million during 1997, 1996 and 1995, respectively. During the foregoing years, cash flows from investing activities were provided primarily by principal payments on discount loans and loans held for investment, maturities of and principal payments received on securities available for sale and proceeds from sales of discount loans, securities available for sale and real estate owned, and cash flows from investing activities were primarily utilized to purchase and originate discount loans and loans held for investment and purchase securities available for sale.

The Company's financing activities provided cash flows of \$479.5 million, \$454.5 million and of \$681.8 million during 1997, 1996 and 1995, respectively. Cash flows from financing activities were primarily related to changes in the Company's deposits, issuance of common stock and the Capital Securities in 1997, issuance of the Notes in 1996, issuance of the Debentures in 1995 and advances from FHLB. Cash flows used by financing activities were primarily utilized to repay advances from the FHLB and reverse repurchase agreements and include the transfer of deposits in connection with the sale of branch offices in 1995.

The Bank is required under applicable federal regulations to maintain specified levels of "liquid" investments in qualifying types of U.S. government, federal agency and other investments having maturities of five years or less. Current OTS regulations require that a savings association maintain liquid assets of not less than 4% of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. Monetary penalties may be imposed for failure to meet applicable liquidity requirements. The Bank's liquidity, as measured for regulatory purposes, averaged, 5.6%, 8.8% and 12.9% during the years ended December 31, 1997, 1996 and 1995, respectively, and amounted to 5.0% at December 31, 1997.

At December 31, 1997, the Company had \$182.1 million of unfunded commitments related to the purchase and origination of loans. Management of the Company believes that the Company has adequate resources to fund all such unfunded commitments to the extent

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required and that substantially all of such unfunded commitments will be funded during 1998. See Note 27 to the Consolidated Financial Statements. In addition, management of the Company believes it has adequate resources to fund its anticipated employee and facility expansion needs.

In addition to commitments to extend credit, the Company is party to various off-balance sheet financial instruments in the normal course of the Company's business in order to manage its interest rate risk. See "Asset and Liability Management" above and Note 27 to the Consolidated Financial Statements.

The Company conducts business with a variety of financial institutions and

other companies in the normal course of business, including counterparties to its off-balance sheet financial instruments. The Company is subject to potential financial loss if the counterparty is unable to complete an agreed upon transaction. The Company seeks to limit counterparty risk through financial analysis, dollar limits and other monitoring procedures.

Regulatory Capital and Other Requirements

Federally-insured institutions such as the Bank are required to maintain minimum levels of regulatory capital. These standards generally must be as stringent as the comparable capital requirements imposed on national banks. In addition to regulatory capital requirements of general applicability, a federally-chartered savings association such as the Bank may be required to meet individual minimum capital requirements established by the OTS on a case-by-case basis upon a determination that a savings association's capital is or may become inadequate in view of its circumstances.

In connection with an examination of the Bank in late 1996 and early 1997, the staff of the OTS expressed concern about many of the Bank's non-traditional operations, which generally are deemed by the OTS to involve higher risk, certain of the Bank's accounting policies and the adequacy of the Bank's capital in light of the Bank's lending and investment strategies. The activities which were of concern to the OTS included the Bank's subprime single family residential lending activities, the Bank's origination of acquisition, development and construction loans with terms which provide for shared participation in the results of the underlying real estate, the Bank's discount loan activities, which involve significantly higher investment in nonperforming and classified assets than the majority of the savings and loan industry, and the Bank's investment in subordinated classes of mortgage-related securities issued in connection with the Bank's asset securitization activities and otherwise.

Following the above-referenced examination, the Bank committed to the OTS to maintain a core capital (leverage) 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 as well as the regulatory capital requirements of general applicability, as indicated in Note 24 to the Consolidated Financial Statements. Based on discussions with the OTS, the Bank believes that this commitment does not affect its status as a "well-capitalized" institution, assuming the Bank's continued compliance with the regulatory capital requirements required to be maintained by it pursuant to such commitment.

Although the Bank has expressed disagreement with the level of risk perceived by the OTS in its business, the Bank has taken various other actions to address OTS concerns with respect to its risk profile, including the following: (i) the sale to the Company in 1996 of subordinated, participating interests in a total of eleven acquisition, development and construction loans, which interests had an aggregate principal balance of \$16.9 million; (ii) the cessation of originating mortgage loans with profit participation features in the underlying real estate, with the exception of existing commitments, which consisted of commitments for nine loans with an aggregate principal amount of \$79.2 million at December 31, 1997; (iii) the transfer of its subprime single family residential lending operations and its large multi-family residential and commercial real estate lending operations to OFS and OCC, respectively; (iv) an agreement (a) to discontinue the purchase of subordinate classes of mortgage-related securities created by unaffiliated parties, (b) to sell the five such securities held by it at March 31, 1997 (aggregate book value of \$32.0 million), which was completed by a sale to OAIC on May 19, 1997 (at a gain of \$2.6 million to the Company), and (c) subject to the requirements of the OTS capital distribution regulation, to dividend to the Company all subordinate mortgage-related securities acquired by the Bank in connection with its securitization activities, including two subordinate securities with an aggregate book value of \$19.5 million which were dividended to the Company in June 1997 and one subordinate security and one residual security with an aggregate book value of \$14.4 million which were dividended to the Company in November 1997; (v) the establishment as of December 31, 1996 of requested write downs of cost basis, which amounted to \$7.2 million, against loans and securities resulting from its investment in loans acquired from HUD; (vi) an agreement to employ a senior officer to head its Credit Management Department and to take other steps to improve the effectiveness of its independent asset review function; and (vii) an agreement to provide the OTS with certain reports on a regular basis. In addition to the foregoing, and based on discussions with the OTS, the Company modified certain of its accounting policies in a manner which will result in more conservative recognition of income. Specifically, the Company (i) ceased accreting into interest income discount on nonperforming

residential loans, effective January 1, 1997; (ii) discontinued the capitalization of period expenses to real estate owned, effective January 1, 1997; and (iii) an agreement to classify as doubtful for regulatory purposes all real estate owned which are not generating cash flow and which has been held for more than three years. If the new policy on accretion of discount on nonperforming residential loans had been applied in 1996 and 1995, the Company's income from continuing operations before income taxes, as adjusted for related profit sharing expense, would have decreased by approximately \$1.4 million and \$1.1 million, respectively. If the new policy on capitalization of period expenses on real estate owned had been adopted in 1996 and 1995, the Company's income from continuing operations before income taxes, as adjusted for related profit sharing expense, would have increased by approximately \$610,000 in 1996 and would have decreased by approximately \$2.3 million in 1995. In light of the foregoing, the Company does not believe that the above-referenced accounting changes had a material effect on the Company's financial condition or results of operations.

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Although the above individual regulatory capital requirements have been agreed to by the OTS, there can be no assurance that in the future the OTS will agree to a decrease in such requirements or will not seek to increase such requirements or will not impose these or other individual regulatory capital requirements in a manner which affects the Bank's status as a "well-capitalized" institution under applicable laws and regulations.

Recent Accounting Developments

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

Year 2000 Date Conversion

The Company has begun to coordinate the identification, evaluation, and implementation of changes to computer systems and applications necessary to achieve a year 2000 date conversion with no effect on customers or disruption to business operations. These actions are necessary to ensure that the systems and applications will recognize and process the year 2000 and beyond. Major areas of potential business impact have been identified and dimensioned, and initial conversion efforts are underway. The Company also is communicating with customers, financial institutions and others with which it does business to identify and coordinate year 2000 conversion issues. The Company expects its year 2000 conversion will be completed on a timely basis. The cost of achieving year 2000 compliance, which will be largely incurred through 1998, is estimated to range from \$300,000 to \$600,000, and will be charged to expense as incurred.

Forward-Looking Statements

CERTAIN STATEMENTS CONTAINED IN THIS ANNUAL REPORT ARE NOT, AND CERTAIN STATEMENTS CONTAINED IN FUTURE FILINGS BY THE COMPANY WITH THE SECURITIES AND EXCHANGE COMMISSION, IN THE COMPANY'S PRESS RELEASES OR IN THE COMPANY'S OTHER PUBLIC OR SHAREHOLDER COMMUNICATIONS, MAY NOT BE BASED ON HISTORICAL FACTS AND ARE "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. FORWARD-LOOKING STATEMENTS WHICH ARE BASED ON VARIOUS ASSUMPTIONS (SOME OF WHICH ARE BEYOND THE COMPANY'S CONTROL), MAY BE IDENTIFIED BY REFERENCE TO A FUTURE PERIOD OR PERIODS, OR BY THE USE OF FORWARD-LOOKING TERMINOLOGY, SUCH AS "MAY," "WILL," "COULD," "BELIEVE," "EXPECT," "ANTICIPATE," "CONTINUE," "INTENDS," "PLANS," "PRESENTS," "OR SIMILAR TERMS OR VARIATION ON THOSE TERMS, OR BY THE USE OF THE NEGATIVE OF SUCH TERMINOLOGY. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN FORWARD-LOOKING STATEMENTS DUE TO A VARIETY OF FACTORS, INCLUDING, BUT NOT LIMITED TO, THOSE RELATED TO THE ECONOMIC ENVIRONMENT, PARTICULARLY IN THE MARKET AREAS IN WHICH THE COMPANY OPERATES, COMPETITIVE PRODUCTS AND PRICING, THE GROWTH OR DECLINE OF, AND THE AVAILABILITY OF PRODUCT TO PURCHASE IN, THE DISCOUNT LOAN INDUSTRY FISCAL AND MONETARY POLICIES OF THE U.S. OR U.K. GOVERNMENTS, CHANGES IN GOVERNMENT REGULATIONS AFFECTING FINANCIAL INSTITUTIONS AND REAL ESTATE INVESTMENT TRUSTS, INCLUDING REGULATORY FEES, CAPITAL REQUIREMENTS AND TAXATION, CHANGES IN PREVAILING INTEREST AND CURRENCY EXCHANGE RATES, ACQUISITIONS AND THE INTEGRATION OF ACQUIRED BUSINESSES, SOFTWARE INTEGRATION, DEVELOPMENT AND LICENSING, CREDIT INTEREST RATE AND OPERATIONAL RISK MANAGEMENT, ASSET/LIABILITY MANAGEMENT, THE FINANCIAL AND SECURITIES MARKETS AND THE AVAILABILITY OF AND COSTS ASSOCIATED WITH SOURCES OF LIQUIDITY. THE COMPANY DOES NOT UNDERTAKE, AND

SPECIFICALLY DISCLAIMS ANY OBLIGATION, TO PUBLICLY RELEASE THE RESULTS OF ANY REVISIONS WHICH MAY BE MADE TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT THE OCCURRENCE OF ANTICIPATED OR UNANTICIPATED EVENTS OR CIRCUMSTANCES AFTER THE DATE OF SUCH STATEMENTS.

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REPORT OF MANAGEMENT

OCWEN
[LOGO]

The management of Ocwen is responsible for the preparation and fair presentation of the financial statements and other financial information contained in this annual report. The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and include amounts based on management's best estimates and judgments. Nonfinancial information included in this annual report has also been prepared by management and is consistent with the consolidated financial statements. In the opinion of management, the consolidated financial statements fairly reflect the Company's financial position, results of operations and cash flows.

To assure that financial information is reliable and assets are safeguarded, management has established and maintains an effective system of internal accounting controls and procedures that provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets against loss from unauthorized use or disposition and the prevention and detection of errors and irregularities on a timely basis.

Price Waterhouse LLP conducts its audit of the consolidated financial statements in accordance with generally accepted auditing standards. Such standards include the evaluation of internal accounting controls to establish a basis for developing the scope of its examination of the consolidated financial statements. In addition to the use of independent certified public accountants, the Company maintains a professional staff of internal auditors who conduct financial, procedural and special audits. To ensure their independence, both Price Waterhouse LLP and the internal auditors have direct access to the Audit Committee of the Board of Directors.

The Audit Committee, which consists solely of independent directors of the Company, makes recommendations to the Board of Directors concerning the appointment of the independent certified public accountants and meets with Price Waterhouse LLP and the internal auditors to discuss the results of their audits, the Company's internal accounting controls and financial reporting matters.

/s/ WILLIAM C. ERBEY

William C. Erbey
Chairman, Chief Executive Officer
and President

/s/ MARK S. ZEIDMAN

Mark S. Zeidman
Senior Vice President and
Chief Financial Officer

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OCWEN FINANCIAL CORPORATION

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Telephone 954 463 6280

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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 changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Ocwen Financial Corporation (the "Company") and its subsidiaries at December 31, 1997 and 1996 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. 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 generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 the opinion expressed above.

/s/ PRICE WATERHOUSE LLP

PRICE WATERHOUSE LLP

Fort Lauderdale, Florida
January 27, 1998

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITIONS
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	December 31,	
	1997	1996
	-----	-----
Assets		
Cash and amounts due from depository institutions	\$ 12,243	\$ 6,878
Interest earning deposits	140,001	13,341
Federal funds sold and repurchase agreements	--	32,000
Securities held for trading	--	75,606
Securities available for sale, at market value	430,524	354,005
Loans available for sale, at lower of cost or market	177,041	126,366
Investment securities, net	59,567	8,901
Loan portfolio, net	266,299	402,582
Discount loan portfolio, net	1,434,176	1,060,953
Investments in low-income housing tax credit interests	128,614	93,309
Investment in joint ventures	1,056	67,909
Real estate owned, net	167,265	103,704
Investment in real estate	65,972	41,033
Premises and equipment, net	21,542	14,619
Income taxes receivable	--	15,115
Deferred tax asset	45,148	5,860
Excess of purchase price over net assets acquired, net	15,560	--
Principal, interest and dividends receivable	17,284	16,821
Escrow advances on loans	47,888	27,409
Other assets	38,985	17,274
	-----	-----
	\$ 3,069,165	\$ 2,483,685
	=====	=====
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	\$ 1,982,822	\$ 1,919,742
Advances from the Federal Home Loan Bank	--	399
Securities sold under agreements to repurchase	108,250	74,546
Obligations outstanding under lines of credit	118,304	--
Notes, debentures and other interest bearing obligations	226,975	225,573
Accrued interest payable	32,238	24,843
Income taxes payable	3,132	--
Accrued expenses, payables and other liabilities	51,709	34,986
	-----	-----
Total liabilities	2,523,430	2,280,089

Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company	125,000	--
Minority interest	1,043	--
Commitments and Contingencies (Note 27)		
Stockholders' Equity:		
Preferred stock, \$.01 par value; 20,000,000 shares authorized; 0 shares issued and outstanding	--	--
Common stock, \$.01 par value; 200,000,000 shares authorized; 60,565,835 and 53,488,340 shares issued and outstanding at December 31, 1997 and 1996, respectively	606	535
Additional paid-in capital	164,751	22,990
Retained earnings	259,349	180,417
Unrealized (loss) gain on securities available for sale and equity securities, net of taxes	(5,014)	3,486
Notes receivable on exercise of common stock options	--	(3,832)
Total stockholders' equity	419,692	203,596
	<u>\$ 3,069,165</u>	<u>\$ 2,483,685</u>

THE ACCOMPANYING NOTES ARE INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITIONS
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	For the years ended December 31,		
	1997	1996	1995
Interest income:			
Federal funds sold and repurchase agreements.....	\$ 8,959	\$ 4,681	\$ 3,502
Securities available for sale.....	28,545	26,932	18,391
Securities held for trading.....	248	1,216	--
Loans available for sale.....	18,368	17,092	15,608
Mortgage-related securities held for investment.....	--	--	4,313
Loans.....	54,701	36,818	15,430
Discount loans.....	157,649	103,165	75,998
Investment securities and other.....	4,061	3,990	4,033
	<u>272,531</u>	<u>193,894</u>	<u>137,275</u>
Interest expense:			
Deposits.....	122,070	93,773	71,853
Securities sold under agreements to repurchase.....	1,000	1,101	951
Securities sold but not yet purchased.....	--	--	1,142
Advances from the Federal Home Loan Bank.....	518	4,053	1,126
Obligations outstanding under lines of credit.....	5,578	--	--
Notes, debentures and other interest bearing obligations.....	27,123	17,233	8,988
	<u>156,289</u>	<u>116,160</u>	<u>84,060</u>
Net interest income before provision for loan losses.....	116,242	77,734	53,215
Provision for loan losses.....	32,218	22,450	1,082
Net interest income after provision for loan losses.....	<u>84,024</u>	<u>55,284</u>	<u>52,133</u>
Non-interest income:			
Servicing fees and other charges.....	25,881	4,682	2,870
Gains on sales of interest earning assets, net.....	82,212	21,682	6,916
Gains from sale of branch offices.....	--	--	5,430
Gain on real estate owned, net.....	7,277	3,827	9,540
Gain on sale of real estate held for investment.....	--	--	4,658
Other income.....	8,498	7,112	1,727
	<u>123,868</u>	<u>37,303</u>	<u>31,141</u>
Non-interest expense:			
Compensation and employee benefits.....	77,573	39,043	24,797
Occupancy and equipment.....	17,657	8,921	8,360
Net operating loss (income) on investments in real estate and certain low-income housing tax credit interests.....	4,792	(425)	337
Savings Association Insurance Fund recapitalization assessment.....	--	7,140	--
Other operating expenses.....	26,771	14,927	12,079
	<u>126,793</u>	<u>69,606</u>	<u>45,573</u>
Distributions on Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company.....	5,249	--	--
Equity in earnings of investment in joint venture.....	23,688	38,320	--
Income from continuing operations before income taxes.....	99,538	61,301	37,701
Income tax expense.....	(21,309)	(11,159)	(4,562)
Minority interest in net loss of consolidated subsidiary.....	703	--	--
Income from continuing operations.....	<u>78,932</u>	<u>50,142</u>	<u>33,139</u>
Discontinued operations:			
Loss from operations of discontinued divisions to September 30, 1995 net of tax benefits of \$2,321 for 1995.....	--	--	(4,468)
Loss on disposal of divisions, net of tax benefit of \$1,776.....	--	--	(3,204)
Net income	<u>\$ 78,932</u>	<u>\$ 50,142</u>	<u>\$ 25,467</u>
Basic earnings per share:			
Income from continuing operations.....	\$ 1.40	\$ 0.99	\$ 0.64
Discontinued operations, net of tax benefit.....	--	--	(0.15)

Net income.....	\$ 1.40	\$ 0.99	\$ 0.49
Diluted earnings per share:			
Income from continuing operations.....	\$ 1.39	\$ 0.94	\$ 0.60
Discontinued operations, net of tax benefit.....	--	--	(0.14)
Net income.....	\$ 1.39	\$ 0.94	\$ 0.46
Weighted average common shares outstanding:			
Basic.....	56,185,956	50,556,572	51,712,415
Diluted.....	56,836,484	53,378,882	55,538,160

THE ACCOMPANYING NOTES ARE 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, 1997, 1996 AND 1995
(Dollars in Thousands, except share data)

	Common Shares	Stock Amount	Additional paid-in capital	Retained earnings	Unrealized gain (loss) on securities available for sale, net of taxes	Notes receivable on exercise of common stock options	Total
Balances at December 31, 1994.....	64,389,420	\$ 644	\$ 13,330	\$ 142,230	\$ (2,821)	\$ --	\$ 153,383
Net Income.....	--	--	--	25,467	--	--	25,467
Repurchase of common stock options.....	--	--	(132)	--	--	--	(132)
Exercise of common stock options.....	865,240	8	1,412	--	--	--	1,420
Repurchase of common stock.....	(17,630,120)	(176)	(4,399)	(37,422)	--	--	(41,997)
Change in unrealized gain (loss) on securities, net of taxes.....	--	--	--	--	1,406	--	1,406
Balances at December 31, 1995.....	47,624,540	476	10,211	130,275	(1,415)	--	139,547
Net Income.....	--	--	--	50,142	--	--	50,142
Repurchase of common stock options.....	--	--	(177)	--	--	--	(177)
Exercise of common stock options.....	5,857,660	59	12,933	--	--	--	12,992
Issuance of common stock.....	6,140	--	23	--	--	--	23
Notes receivable on exercise of common stock options, net of repayments.....	--	--	--	--	--	(3,832)	(3,832)
Change in unrealized gain (loss) on securities, net of taxes.....	--	--	--	--	4,901	--	4,901
Balances at December 31, 1996.....	53,488,340	535	22,990	180,417	3,486	(3,832)	203,596
Net Income.....	--	--	--	78,932	--	--	78,932
Issuance of common stock.....	6,906,198	69	141,934	--	--	--	142,003
Repurchase of common stock options.....	--	--	(3,208)	--	--	--	(3,208)
Exercise of common stock options.....	171,297	2	3,035	--	--	--	3,037
Repayment of notes receivable on exercise of common stock options, net of advances.....	--	--	--	--	--	3,832	3,832
Change in unrealized gain (loss) on securities, net of taxes.....	--	--	--	--	(8,500)	--	(8,500)
Balances at December 31, 1997.....	60,565,835	\$ 606	\$ 164,751	\$ 259,349	\$ (5,014)	\$ --	\$ 419,692

THE ACCOMPANYING NOTES ARE INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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

	For the years ended December 31,		
	1997	1996	1995
Cash flows from operating activities:			
Net income.....	\$ 78,932	\$ 50,142	\$ 25,467
Adjustments to reconcile net income to net cash provided by operating activities:			
Net cash provided from trading activities.....	132,600	(60,881)	2,949
Proceeds from sales of loans available for sale.....	519,163	397,606	100,104
Purchases of loans available for sale.....	(278,081)	(295,054)	(271,210)
Origination of loans available for sale.....	(316,101)	(9,447)	(2,829)
Principal payments received on loans available for sale.....	22,240	26,689	10,103
Premium amortization (discount accretion), net.....	63,506	11,640	(2,401)
Depreciation and amortization.....	10,865	7,646	3,755
Provision for loan losses.....	32,218	22,450	1,082
Gains on sales of interest earning assets, net.....	(82,212)	(21,682)	(6,955)
Loss on sales of premises and equipment.....	--	97	3,002
Gain on sale of low-income housing tax credit interests.....	(6,298)	(4,861)	--
Gain on sale of real estate owned, net.....	(17,201)	(4,475)	(8,496)
Gain on sales of branch offices.....	--	--	(5,430)
Gain on sale of real estate held for investment.....	--	--	(4,658)
Decrease (increase) in principal, interest and dividends receivable.....	(463)	(2,277)	(6,484)
Decrease (increase) in income taxes receivable.....	18,247	(14,110)	(11,030)

(Increase) decrease in deferred tax asset	(39,288)	16,403	(1,568)
(Increase) decrease in escrow advances	(20,479)	(6,255)	914
Increase in other assets	(27,501)	(12,037)	(14,064)
Increase (decrease) in accrued expenses, interest payable and other liabilities	24,118	(226)	(1,677)
Net cash provided (used) by operating activities	114,265	101,368	(189,426)
Cash flows used by investing activities:			
Proceeds from sales of securities available for sale	202,670	175,857	836,247
Purchases of securities available for sale	(415,822)	(233,858)	(934,179)
Maturities of and principal payments received on securities available for sale	46,084	28,756	21,639
Maturities of and principal payments received on securities held for investment	--	10,006	17,545
Purchase of investment securities	(42,166)	(276)	--
Acquisition of subsidiaries	(11,635)	--	--
Purchase of low-income housing tax credit interests	(54,573)	(34,240)	(29,280)
Proceeds from sales of low-income housing tax credit interests	22,026	24,667	--
Proceeds from sales of discount loans	500,151	190,616	38,942
Proceeds from sale of real estate held for investment	14,905	--	25,193
Proceeds from sales of loans held for investment	2,384	14,883	--
Purchase and originations of loans held for investment, net of undisbursed loan funds	(138,884)	(237,525)	(270,600)
Purchase of discount loans	(1,464,611)	(925,850)	(547,987)
Decrease (increase) in investment in joint ventures	66,853	(67,909)	--
Principal payments received on loans held for investment	291,998	119,923	36,859
Principal payments received on discount loans	382,781	244,205	214,626
Purchase of and capital improvements to real estate held for investment..	(39,844)	(29,946)	--
Proceeds from sales of real estate owned	196,180	169,084	148,225
Purchase of real estate owned in connection with discount loan purchases	(38,486)	(1,628)	(24,617)
Additions to premises and equipment	(13,744)	(5,243)	(12,207)
Other, net	--	227	5,067
Net cash used by investing activities	(493,733)	(558,251)	(474,527)

(Continued on next page)

THE ACCOMPANYING NOTES ARE 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,		
	1997	1996	1995
Cash flows from financing activities:			
Increase in deposits	63,080	414,728	585,335
Increase (decrease) in securities sold under agreements to repurchase	33,704	(10,215)	84,761
Proceeds from issuance of notes, debentures and other interest bearing obligations, net of repayments	1,402	125,000	107,615
Proceeds from issuance of obligations under lines of credit	118,304	--	--
Repayment of obligations assumed in connection with acquisition of subsidiary	(3,000)	--	--
Payment of debt issuance costs	--	(5,252)	(3,301)
Payments on advances from Federal Home Loan Bank	(399)	(146,000)	(105,000)
Payments and repurchase of notes and mortgages payable	--	(8,798)	(10,672)
Repayments (originations) of loans made to executive officers, net ...	3,832	(3,832)	--
Exercise of common stock options	3,037	12,993	1,420
Advances from the Federal Home Loan Bank	--	76,000	170,000
Proceeds from issuance of Capital Trust Securities	125,000	--	--
Payment of Capital Trust Securities issuance costs	(4,262)	--	--
Issuance of shares of common stock, net	142,003	--	--
Sales of deposits	--	--	(111,686)
Premium received on sales of deposits	--	--	5,492
Repurchase of common stock options and common stock	(3,208)	(177)	(42,129)
Other	--	23	--
Net cash provided by financing activities	479,493	454,470	681,835
Net increase (decrease) in cash and cash equivalents	100,025	(2,413)	17,882
Cash and cash equivalents at beginning of period	52,219	54,632	36,750
Cash and cash equivalents at end of period	\$ 152,244	\$ 52,219	\$ 54,632
Reconciliation of cash and cash equivalents at end of period:			
Cash and amounts due from depository institutions	\$ 12,243	\$ 6,878	\$ 4,200
Interest earning deposits	140,001	13,341	50,432
Federal funds sold and repurchase agreements	--	32,000	--
	\$ 152,244	\$ 52,219	\$ 54,632
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	\$ 148,895	\$ 115,015	\$ 72,626
Income taxes	\$ 28,228	\$ 4,725	\$ 12,858

	=====	=====	=====
Supplemental schedule of non-cash investing and financing activities:			
Exchange of discount loans and loans available for sale for securities	\$ 897,358	\$ 375,621	\$ 83,875
	=====	=====	=====
Real estate owned acquired through foreclosure	\$ 205,621	\$ 102,140	\$ 185,001
	=====	=====	=====
Transfer of mortgage-related securities from held for investment to available for sale	\$ --	\$ --	\$ 73,706
	=====	=====	=====

THE ACCOMPANYING NOTES ARE INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Ocwen Financial Corporation ("Ocwen" or the "Company") is a financial services holding company engaged primarily in the acquisition, servicing and resolution of nonperforming and underperforming mortgage loans ("discount loans"), multi-family residential and commercial real estate lending activities, subprime single family residential lending activities and various investment activities including mortgage related securities and, low-income housing tax credit interests. The Company's consolidated financial statements include the accounts of Ocwen and its subsidiaries. The Company owns directly and indirectly all of the outstanding common and preferred stock of its primary subsidiaries, Ocwen Federal Bank FSB (the "Bank") and, Investors Mortgage Insurance Holding Company ("IMI"). Ocwen also owns 93.7% of Ocwen Financial Services ("OFS"), with the remaining 6.3% owned by Admiral Home Loan ("Admiral") and reported in the consolidated financial statements as a minority interest. All significant intercompany transactions and balances have been eliminated in consolidation.

The Bank is a federally chartered savings bank regulated by the Office of Thrift Supervision ("OTS"). IMI's primary subsidiaries are engaged in hotel operations and other real estate related ventures. OFS is engaged in subprime single family residential lending activities.

Reclassification

Certain amounts included in the 1996 and 1995 consolidated financial statements have been reclassified in order to conform to the 1997 presentation.

Consolidated Statements of Cash Flows

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

Trading Activities

From time to time, the Company purchases investment and mortgage-backed and related securities into its trading account. In addition, securities acquired and sold shortly thereafter resulting from the securitization of loans available for sale are accounted for as the sale of loans and the purchase and sale of trading securities. Securities held for trading purposes are carried at market value with the unrealized gains or losses included in gains on sales of interest earning assets, net.

Securities Available for Sale

Certain mortgage-related securities are designated as assets available for sale because the Company does not intend to hold them to maturity. Securities available for sale are carried at market value with the net unrealized gains or

losses reported as a separate component of stockholders' equity. Unrealized losses on securities that reflect a decline in value which is other than temporary, if any, are charged to earnings. At disposition, the realized net gain or loss is included in earnings on a specific identification basis. The amortization of premiums and accretion of discounts are computed using the interest method after considering actual and estimated prepayment rates, if applicable. Actual prepayment experience is periodically reviewed and effective yields are recalculated when differences arise between prepayments originally anticipated and amounts actually received plus anticipated future prepayments.

During December 1995, in conjunction with a transition provision provided by the Financial Accounting Standards Board pertaining to the classification of securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities", the Company transferred all of its mortgage-related securities held for investment, with a book value of \$75,194 and a market value of \$73,706 to securities available for sale.

Investment Securities

Non-marketable equity securities held for investment are stated at cost because the Company has the ability and the intent to hold them to maturity.

Investments in marketable equity securities are designated as available for sale and are carried at market value based on quoted market prices. Net unrealized gains or losses are reported as a separate component of stockholders' equity. Unrealized losses on securities that reflect a decline in value which is other than temporary, if any, are charged to earnings.

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Loan Available for Sale and Held for Investment

Loans originated or purchased by the Company which the Company presently does not intend to hold to maturity are designated as loans available for sale upon origination or purchase and are stated at the lower of cost, after considering deferred loan fees and costs, or aggregate market value. Upon the sale of a loan, any unamortized deferred loan fees, net of costs, are included in the gain or loss on sale of interest earning assets. Gains and losses on disposal of such assets are computed on a specific identification basis.

Loans held for investment are stated at amortized cost, less an allowance for loan losses, because the Company has the ability and the intent to hold them to maturity.

Interest income is accrued as it is earned. Loans are placed 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 a loan is placed on non-accrual status, interest accrued but not received is reversed. While a loan is on non-accrual status, interest is recognized only as cash is received. Loans are returned to accrual status only when the loan is reinstated and ultimate collectibility of future interest is no longer in doubt.

Loan origination fees and certain direct loan origination costs are deferred and recognized over the lives of the related loans as a yield adjustment and included in interest income using the interest method applied on a loan-by-loan basis.

Allowance for Estimated Loan Losses on Loan Portfolio

The allowance for estimated loan losses is maintained at a level that management, based upon an evaluation of known and inherent risks in the portfolio, considers adequate to provide for potential losses. Specific valuation allowances are established for impaired loans in the amount by which the carrying value, before allowance for estimated losses, exceeds the fair value of collateral less costs to dispose on an individual loan basis, except for single family residential mortgage loans and consumer loans which are generally evaluated for impairment as homogeneous pools of loans. The Company considers a loan to be impaired when, based upon current information and events,

it believes that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. The Company measures these impaired loans at the fair value of the loans' underlying collateral less estimated disposal costs. Impaired loans may be left on accrual status during the period the Company is pursuing repayment of the loan. These loans are placed on non-accrual status at such time that the loans either: (i) become 90 days delinquent; or (ii) the Company determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment. Impairment losses are recognized through an increase in the allowance for loan losses and a corresponding charge to the provision for loan losses. When an impaired loan is either sold, transferred to REO or charged off, any related valuation allowance is credited to the allowance for loan losses. Charge-offs occur when loans, or a portion thereof, are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. General valuation allowances are also established for the inherent risks in the loan portfolio which have occurred but have yet to be specifically identified. Management's periodic evaluation of the allowance for estimated loan losses is based upon an analysis of the portfolio, historical loss experience, economic conditions and trends, collateral values and other relevant factors. Future adjustments to the allowance may be necessary if economic conditions and trends, collateral values and other relevant factors differ substantially from the assumptions used in making the evaluation.

Discount Loan Portfolio

Certain mortgage loans, for which the borrower is not current as to principal and interest payments or which there is a reason to believe the borrower will be unable to continue to make its scheduled principal and interest payments, are acquired at a discount. The Company accounts for its initial investment in a pool of loans based upon the pricing methodologies used to bid on the pool. The acquisition cost is allocated to each loan within the pool when the bid price was determined based upon an analysis of the expected future cash flows of each individual loan. The acquisition cost is accounted for in the aggregate when the bid price was determined using assumptions concerning the expected future cash flows from groups of loans within the pool. Prior to January 1, 1997, the discount associated with all single family residential loans was recognized as a yield adjustment and accreted into interest income using the interest method applied on a loan-by-loan basis once foreclosure proceedings are initiated, to the extent the timing and amount of cash flows could be reasonably determined. Effective January 1, 1997, the Company ceased accretion of discount on its nonperforming discount single family residential loans. For those single family residential mortgage loans which are brought current by the borrower and certain multi-family and commercial real estate loans which are current and the Company believes will remain current, the remaining unamortized discount is accreted into interest income as a yield adjustment using the interest method over the contractual maturity of the loan. For all other loans, interest is reported as cash is received. Gains on the repayment and discharging of loans are reported as interest income. In situations where the collateral is foreclosed upon, the loans are transferred to real estate owned upon receipt of title to the property and accretion of the related discount is discontinued.

Real Estate Owned

Properties acquired through foreclosure are valued at the lower of the adjusted cost basis of the loan or fair value less estimated costs of disposal of the property at the date of foreclosure. Properties held are periodically re-evaluated to determine that they are being carried at the lower of cost or fair value less estimated costs to dispose. Sales proceeds and related costs are recognized with passage of title to the buyer and, in cases where the Company finances the sale, receipt of sufficient down payment. Rental income related to properties is reported as income as earned. Holding and maintenance costs related to properties are reported as period costs as incurred. No depreciation expense related to properties has been recorded. Decreases in market value of foreclosed real estate subsequent to foreclosure are recognized as a valuation allowance on a property specific basis. Subsequent increases in market value of the foreclosed real estate are reflected as reductions in the valuation

allowance, but not below zero. Such changes in the valuation allowance are charged or credited to income.

Valuation Allowances on Discount Loans and Real Estate Owned

Beginning in the first quarter of 1996, the Company began recording general valuation allowances on discount loans and real estate owned to reflect the inherent losses which have occurred but have yet to be specifically identified. Management has established the valuation allowances based upon historical loss experience, economic conditions and trends, collateral values and other relevant factors. Previously, the Company recorded specific valuation allowances on real estate owned. Also beginning in 1996, the Company began recording losses and charge-offs on discount loans against the allowance for loan losses. Previously, these amounts were deducted from interest income.

Investment in Real Estate

In conjunction with its multi-family and commercial lending business activity, the Company has made certain acquisition, development and construction loans in which the Company participates in the residual profits of the underlying real estate and the borrower has not made an equity contribution substantial to the overall project. As such, the Company accounts for these loans under the equity method of accounting as though it has made an investment in a real estate limited partnership.

The Company also has invested indirectly, through its IMI subsidiaries, in certain hotel properties and other real estate related ventures.

Investments in Low-income Housing Tax Credit Interests

Low-income housing tax credit partnerships own multi-family residential properties which have been allocated tax credits under the Internal Revenue Code. The obligations of the partnership to sustain qualifying status of the properties covers a 15-year period; however, tax credits accrue over a 10-year period on a straight-line basis. Investments by the Company in low-income housing tax credit partnerships made on or after May 18, 1995 in which the Company invests solely as a limited partner, are accounted for using the equity method in accordance with the consensus of the Emerging Issues Task Force through issue number 94-1. For the Company's limited partnership investments made prior to this date, the Company records its receipt of income tax credits and other tax benefits on a level yield basis over the 15-year obligation period and reports the tax credits and tax benefits net of amortization of its investment in the limited partnership as a reduction of income tax expense. Low-income housing tax credit partnerships in which the Company has invested as a limited partner, and through a subsidiary acts as the general partner, are presented on a consolidated basis. For all investments in low-income housing tax credit partnerships made after May 18, 1995, the Company capitalizes interest expense and certain direct costs incurred during the pre-operating period.

Excess of Cost Over Net Assets Acquired

The excess of purchase price over net assets of acquired businesses is stated at cost and is amortized on a straight-line basis over the estimated future periods to be benefited. The carrying value of cost in excess of net assets acquired is reviewed for impairment whenever events or changes in circumstances indicate that it may not be recoverable. If such an event occurred, the Company would prepare projections of future results of operations for the remaining amortization period. If such projections indicated that the cost in excess of net assets acquired would not be recoverable, the Company's carrying value of such asset would be reduced by the estimated excess of such value over projected income. No such impairment existed at December 31, 1997.

Premises and Equipment

Premises and equipment are carried at cost and, except for land, are depreciated over their estimated useful lives on the straight-line method. The estimated useful lives of the related assets range from 3 to 10 years.

Interest Rate Risk Management Activities

The Company manages its exposure to interest rate movements by seeking to match asset and liability balances within maturity categories, both directly and through the use of derivative financial instruments. These derivative instruments include interest rate swaps ("swaps") and interest rate futures

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contracts that are designated and effective as hedges, as well as swaps that are designated and effective in modifying the interest rate and/or maturity characteristics of specified assets or liabilities.

The net interest received or paid on swaps is reflected as interest income or expense of the related hedged position. Gains and losses resulting from the termination of swaps are recognized over the shorter of the remaining contract lives of the swaps or the lives of the related hedged positions or, if the hedged positions are sold, are recognized in the current period as gains on sales of interest earning assets, net. Gains and losses on futures contracts are deferred and amortized over the terms of the related assets or liabilities and reflected as interest income or expense of the related hedged positions. If the hedged positions are sold, any unamortized deferred gains or losses on futures contracts are recognized in the current period as gains on sales of interest earning assets, net. Interest rate contracts are carried at fair value.

Income Taxes

The Company files consolidated Federal income tax returns with its subsidiaries. Consolidated income tax is allocated among the subsidiaries participating in the consolidated returns as if each subsidiary of the Company, which has one or more subsidiaries, filed its own consolidated return.

The Company accounts 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 basis of assets and liabilities. Additionally, deferred taxes are adjusted for subsequent tax rate changes.

Investment in Joint Ventures

In March 1996, the Company and BlackRock Capital Finance L.P. ("BlackRock") formed BCBF, L.L.C. (the "LLC"), a limited liability corporation, to acquire loans from the U.S. Department of Housing and Urban Development ("HUD"). The Company and BlackRock each owned 50% of the LLC. In December 1997, the LLC distributed all of its assets to the Company and BlackRock. Simultaneous to the distribution, the Company acquired BlackRock's portion of the distributed assets. In January 1997, BCFL, L.L.C. ("BCFL"), a limited liability company, was formed by the Company and BlackRock to acquire discount multi-family residential loans from HUD.

The Company's investment in the LLC is accounted for under the equity method of accounting. Under the equity method of accounting, an investment in the shares or other interests of an investee is initially recorded at the cost of the shares or interests acquired and thereafter is periodically increased (decreased) by the investor's proportionate share of the earnings (losses) of the investee and decreased by all dividends received by the investor from the investee. The Company's investment in BCFL is accounted for under the cost method.

The Company services all loans on behalf of the LLC for a fee, and all intercompany transactions between the Company and the LLC are eliminated for financial reporting purposes to the extent of the Company's ownership in the LLC.

Basic and Diluted Earnings Per Share

Basic earnings per share is calculated based upon the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share is calculated 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 and assumes that the proceeds from such issuance are used to repurchase common shares at fair value.

Risks and Uncertainties

In the normal course of business, the Company encounters two significant types of risk: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from a borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of loans held for sale, securities available for sale and purchased mortgage servicing rights due to changes in interest rates or other market factors, including the rate of prepayments of principal and the value of the collateral underlying loans and the valuation of real estate held by the Company.

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.

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The preparation of financial statements in conformity with generally accepted accounting principles requires management to 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 susceptible to significant change in the near or medium term relate to the determination of the allowance for losses on loans and discount loans.

Recent Accounting Standards

On January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which requires that the fair value of employee stock-based compensation plans be recorded as a component of compensation expense in the statement of operations as of the date of grant of awards related to such plans or that the impact of such fair value on net income and earnings per share be disclosed on a pro forma basis in a footnote to financial statements for awards granted after December 15, 1994, if the accounting for such awards continues to be in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". The Company has elected to continue such accounting under the provisions of APB No. 25 and has disclosed the pro forma information as required in Note 23.

On January 1, 1997, the Company adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 125 (i) sets forth the criteria for (a) determining when to recognize financial and servicing assets and liabilities; and (b) accounting for transfers of financial assets as sales or borrowings; and (ii) requires (a) liabilities and derivatives related to a transfer of financial assets to be recorded at fair value; (b) servicing assets and retained interests in transferred assets carrying amounts be determined by allocating carrying amounts based on fair value; (c) amortization of servicing assets and liabilities be in proportion to net servicing income; (d) impairment measurement based on fair value; and (e) pledged financial assets to be classified as collateral. SFAS No. 125 provides implementation guidance for assessing isolation of transferred assets and for accounting for transfers of partial interests, servicing of financial assets, securitizations, transfers of sales-type and direct financing lease receivables, securities lending transactions, repurchase agreements including "dollar rolls", "wash sales", loan syndications and participations, risk participations in banker's acceptances, factoring arrangements, transfers of receivables with recourse and extinguishments of liabilities. In December 1996, the FASB issued SFAS No. 127, "Deferral of the Effective Date of FASB Statement No. 125", which delayed implementation of certain provisions of SFAS No. 125.

In February 1997, the FASB issued SFAS No. 128, "Earnings per Share." SFAS No. 128 simplifies the standards found in APB No. 15 for computing earnings per share ("EPS") and makes them comparable to international standards. Under SFAS No. 128, the Company is required to present both basic and diluted EPS on the face of its statements of operations. Basic EPS, which replaces primary EPS required by APB No. 15 for entities with complex capital structures, excludes common stock equivalents and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS gives effect to all dilutive potential common shares that were outstanding during the period. SFAS No. 128 is effective for financial statements for both interim and annual periods ending after December 15, 1997 with earlier application not permitted. The Company adopted SFAS No. 128 effective December 31, 1997. All prior period EPS data has been restated.

In February 1997, the FASB also issued SFAS No. 129, "Disclosure of Financial Information About Capital Structure". SFAS No. 129 supersedes capital structure disclosure requirements found in previous accounting pronouncements and consolidates them into one statement for ease of retrieval and greater visibility for non-public entities. These disclosures are required for financial statements for periods ending after December 15, 1997. As SFAS No. 129 makes no changes to previous accounting pronouncements as those pronouncements applied to the Company, the adoption of SFAS No. 129 had no impact on the Company's results of operations and financial condition.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires the inclusion of comprehensive income, either in a separate statement for comprehensive income, or as part of a combined statement of income and comprehensive income in a full-set of general-purpose financial statements. Comprehensive income is defined as 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. SFAS No. 130 requires that comprehensive income be presented beginning with net income, adding the elements of comprehensive income not included in the determination of net income, to arrive at comprehensive income. SFAS No. 130 also requires that an enterprise display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the statement of financial position. SFAS No. 130 is effective for the Company's fiscal year beginning January 1, 1998. SFAS No. 130 requires the presentation of information already contained in the Company's financial statements and therefore is not expected to have an impact on the Company's financial position or results of operation.

In June 1997, the FASB also issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the reporting of information about operating segments by public business enterprises in their

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annual and interim financial reports issued to shareholders. SFAS No. 131 requires that a public business enterprise report financial and descriptive information, including profit or loss, certain specific revenue and expense items, and segment assets, about its reportable operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. SFAS No. 131 is effective for financial statements for periods beginning after December 15, 1997. SFAS No. 131 is a disclosure requirement and therefore is not expected to have an effect on the Company's financial position or results of operations.

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NOTE 2 ACQUISITION AND DISPOSITION TRANSACTIONS

During 1997, the Company consolidated its subprime single family lending operations within OFS in connection with its acquisition of substantially all of the assets of Admiral in a transaction which closed on May 1, 1997. The excess of purchase price over net assets acquired related to this transaction, which amounted to \$10,826, net of accumulated amortization of \$504 at December 31, 1997, is amortized on a straight-line basis over a period of 15 years.

On November 6, 1997, the Company acquired AMOS, Inc., a Connecticut based company engaged primarily in the development of mortgage loan servicing software. AMOS' products are Microsoft(R) Windows(R) based, client/server architecture and feature real-time processing, year 2000 compliance, a scaleable database platform and strong workflow capabilities. The aggregate purchase price was \$9.7 million, including \$4.9 million which is contingent on AMOS, Inc. meeting certain software development performance criteria. The excess of purchase price over net assets acquired related to this transaction, which amounted to \$4,735, net of accumulated amortization of \$53 at December 31, 1997, is amortized on a straight-line basis over a period of 15 years.

The Company's investment in joint ventures include investments in BCFL and the LLC. The Company owns a 10% interest in BCFL and a 50% interest in the LLC. BCFL was formed to acquire multifamily loans. At December 31, 1997, the Company's 10% investment, which is accounted for under the cost method, amounted to \$1,056.

On December 12, 1997, the LLC distributed all of its assets to the Company and its other 50% investor, BlackRock. Simultaneously, the Company acquired BlackRock's portion of the distributed assets. The Company's 50% investment in the LLC amounts to \$0 and \$67,909, net of a valuation allowance of \$0 and \$5,114, at December 31, 1997 and 1996, respectively.

The Company's equity in earnings of the LLC of \$23,688 and \$38,320 for the years ended December 31, 1997 and 1996, respectively, include 50% of the net income of the LLC before deduction of the Company's 50% share of loan servicing fees which are paid 100% to the Company. Equity in earnings for 1997 also includes the recapture of \$5,114 of valuation allowances established in 1996 by the Company on its equity investment in the joint venture as a result of the resolution and securitization of loans. Equity in earnings for 1996 includes a provision for losses on the Company's equity investment in the joint venture of \$7,614. The Company has recognized 50% of the loan servicing fees not eliminated in consolidation in servicing fees and other charges. Because the LLC is a pass-through entity for federal income tax purposes, provisions for income taxes were established by each of the Company and its co-investor, and not the LLC.

Set forth below are the statements of financial condition of the LLC at the dates indicated, and statements of operations for the periods indicated.

BCBF, L.L.C.
STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	1997	1996
	(Dollars in Thousands)	
Assets:		
Cash	\$ --	\$ 10
Loans held for sale, at lower of cost or market value	--	110,702
Real estate owned, net of valuation allowance of \$0 and \$511 at December 31, 1997 and 1996, respectively	--	25,595
Other assets	--	10,526
	\$ --	\$146,833
	=====	=====
Liabilities and Owners' Equity		
Liabilities:		

Accrued expenses, payables and other liabilities	\$ --	\$ 787
	-----	-----
Total liabilities	--	787
	-----	-----
Owners' Equity:		
Ocwen Federal Bank FSB	--	73,023
BlackRock Capital Finance L.P.	--	73,023
	-----	-----
Total owners' equity	--	\$146,046
	-----	-----
	\$ --	\$146,833
	=====	=====

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BCBF, L.L.C.
STATEMENTS OF OPERATIONS

	For the Period January 1, 1997 Through December 31, 1997	For the Period March 13, 1996 Through December 31, 1996
	-----	-----
Interest income	\$ 8,928	\$ 38,647
Interest expense	--	18,503
	-----	-----
Net interest income	8,928	20,144
	-----	-----
Non-interest income:		
Gain on sale of loans held for sale	27,994	71,156
Gain on sale of loan servicing rights.....	--	1,048
Loss on real estate owned, net	(93)	(130)
Loan fees	23	50
	-----	-----
	27,924	72,124
Operating expenses:		
Loan servicing fees	1,850	5,743
Other loan expenses	13	273
	-----	-----
	1,863	6,016
	-----	-----
Net income	\$ 34,989	\$ 86,252
	=====	=====

In October 1996, the LLC securitized 9,825 loans with an unpaid principal balance of \$419,382, past due interest of \$86,131 and a net book value of \$394,234. Proceeds from sales of the related securities by the LLC amounted to \$466,806. In March 1997, as part of a larger transaction involving the Company and an affiliate of BlackRock, the LLC securitized 1,196 loans with an unpaid principal balance of \$51,714, past due interest of \$14,209 and a net book value of \$40,454. Proceeds from the sale of the related securities amounted to \$58,866. In December 1997, as part of a larger transaction involving the Company and BlackRock, the LLC securitized 534 loans with an unpaid principal balance of \$26,644, past due interest of \$8,303 and a net book value of \$20,139. Proceeds from the sale of the related securities amounted to \$30,178. The Company continues to service the securitized loans and is paid a servicing fee.

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NOTE 3 DISCONTINUED OPERATIONS

In September 1995, the Company announced its decision to dispose of its automated banking division and related activities. As a result of this decision, a loss of \$3,204, net of tax benefit of \$1,776 was recorded consisting of a net loss of \$1,954 on the sale of assets and a loss of \$1,250 incurred from related operations until the sales and dispositions, both of which were substantially complete at December 31, 1995. Losses from operations of the discontinued division, net of tax, amounted to \$4,468 for the nine months ended September 30, 1995. Gross revenues from the automated banking division and related activities for the year ended December 31, 1995 amounted to \$1,822.

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NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS

Substantially all of the Company's assets, liabilities and off-balance sheet instruments and commitments are considered financial instruments. For the majority of the Company's 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. It should be noted that 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, 1997 and 1996 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 the Company's fee generating businesses and anticipated future business activities. In other words, they do not represent the Company's value as a going concern. Furthermore, the differences between the carrying amounts and the fair values presented may not be realized because, except as indicated, the Company generally intends to hold these financial instruments to maturity and realize their recorded values.

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 the financial condition of the Company.

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

Cash and cash equivalents have been valued 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.

Investments and Mortgage-Backed and Related Securities

For investments and mortgage-backed and related securities, fair value equals quoted price, if available. For securities for which a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments.

Loans and Discount Loans

The fair value of performing whole loans is estimated based upon quoted market prices for similar whole loan pools. The fair value of the discount loan portfolio is estimated 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.

Low-Income Housing Tax Credit Interests

The fair value of the investments in low-income housing tax credit interests is estimated by discounting the future tax benefits expected to be realized from these investments using discount rates at which similar investments were being made on or about the respective financial statement dates.

Deposits

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

Borrowings

The fair value of the Company's notes and debentures and capital securities are based upon quoted market prices. The fair value of the Company's other borrowings is estimated based upon the discount value of the future cash flows expected to be paid on such borrowings using estimated market discount rates that reflect the borrowings of others with similar terms and maturities.

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Risk Management Instruments

The fair value of interest rate swap agreements is the estimated amount that the Company would receive or pay to terminate the swap agreements at the reporting date taking into account interest rates and the credit worthiness of the swap counterparties on or about the respective financial statement dates. Market quotes are used to estimate the fair value of interest rate futures contracts.

Loan Commitments

The fair value of loan commitments is estimated considering the difference between interest rates on or about the respective financial statement dates and the committed rates.

Real Estate Owned

Real estate, although not a financial instrument, is an integral part of the Company's business. The fair value of real estate is estimated based upon appraisals, broker price opinions and other standard industry valuation methods, less anticipated selling costs.

The carrying amounts and the estimated fair values of the Company's financial instruments and real estate owned are as follows:

	December 31, 1997		December 31, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS:				
Cash and cash equivalents.....	\$ 152,244	\$ 152,244	\$ 52,219	\$ 52,219
Securities held for trading.....	--	--	75,606	75,606
Securities available for sale.....	430,524	430,524	354,005	354,005
Loans available for sale.....	177,041	184,884	126,366	128,784
Investment securities.....	59,567	59,567	8,901	8,901
Loan portfolio, net.....	266,299	281,850	402,582	410,934
Discount loan portfolio, net.....	1,434,176	1,657,222	1,060,953	1,140,686
Investments in low-income housing tax credit interests.....	128,614	151,130	93,309	113,850
Real estate owned, net.....	167,265	212,443	103,704	130,221
FINANCIAL LIABILITIES:				
Deposits.....	1,982,822	2,024,857	1,919,742	1,934,717
Advances from the Federal Home Loan Bank Securities sold under agreements to repurchase.....	--	--	399	399
	108,250	108,250	74,546	74,546
Obligations outstanding under lines of credit Notes, debentures and other interest bearing obligations.....	118,304	118,304	--	--
	226,975	255,538	225,573	246,511
Capital securities.....	125,000	135,313	--	--
OTHER:				
Loan commitments.....	225,569	225,569	194,128	194,128

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NOTE 5 SECURITIES HELD FOR TRADING

The Company held no securities for trading at December 31, 1997. The book and fair values and gross unrealized gains and losses for the Company's securities held for trading at December 31, 1996 were as follows:

	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations.....	\$ 75,526	\$ --	\$ (140)	\$ 75,386
Futures contracts.....	--	220	--	220
	\$ 75,526	\$ 220	\$ (140)	\$ 75,606

The Company traded assets totaling \$1,023,965, \$373,723 and \$93,942 in aggregate sales proceeds during the years ended December 31, 1997, 1996 and 1995, respectively, primarily in connection with the Company's securitizations of loans, resulting in realized net gains of \$72,214, \$14,645 and \$2,949 for the years ended December 31, 1997, 1996 and 1995, respectively. Unrealized gains on securities held for trading and included in gains on sales of interest earning assets amounted to \$0, \$80 and \$0, respectively, in 1997, 1996 and 1995.

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NOTE 6 SECURITIES AND LOANS AVAILABLE FOR SALE

The amortized cost, fair value and gross unrealized gains and losses on the Company's securities and loans available for sale are as follows at the periods ended:

Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
----------------	------------------------	-------------------------	------------

DECEMBER 31, 1997:

Mortgage-related securities:					
Single family residential:					
AAA-rated collateralized mortgage obligations.....					
	\$ 160,347	\$ 195	\$ (91)	\$ 160,451	
	FHLMC interest only.....	73,214	219	(8,688)	64,745
	FNMA interest only.....	71,215	829	(12,329)	59,715
	GNMA interest only.....	35,221	--	(5,455)	29,766
	AAA-rated interest only.....	14,700	19	(856)	13,863
	Subordinates.....	62,247	6,587	(1,004)	67,830
	REMIC residuals.....	17,267	--	(1,574)	15,693
	Swaps.....	--	--	(94)	(94)
	-----	-----	-----	-----	-----
	434,211	7,849	(30,091)	411,969	

Multi-family and commercial:					
	AAA-rated interest only.....	1,008	229	(207)	1,030
	Non-investment grade interest only.....	2,743	734	--	3,477
	Subordinates.....	12,107	2,047	(106)	14,048
	-----	-----	-----	-----	-----
	15,858	3,010	(313)	18,555	
	-----	-----	-----	-----	-----
	\$ 450,069	\$ 10,859	\$ (30,404)	\$ 430,524	
=====					
Loans:					
	Single family residential.....	\$ 176,554	\$ 7,843	\$ --	\$ 184,397
	Consumer loans.....	487	--	--	487
	-----	-----	-----	-----	-----
	\$ 177,041	\$ 7,843	\$ --	\$ 184,884	
=====					

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
	-----	-----	-----	-----	
DECEMBER 31, 1996:					
Mortgage-related securities:					
Single-family residential:					
AAA-rated collateralized mortgage obligations.....					
	\$ 74,224	\$ 227	\$ (516)	\$ 73,935	
	FHLMC interest only.....	46,735	963	(127)	47,571
	FNMA interest only.....	48,573	1,315	(508)	49,380
	AAA-rated interest only.....	1,166	27	(20)	1,173
	Subordinates.....	15,550	3,614	--	19,164
	REMIC residuals.....	19,211	1,349	--	20,560
	Futures contracts.....	--	19	(1,940)	(1,921)
	-----	-----	-----	-----	
	205,459	7,514	(3,111)	209,862	

Multi-family and commercial:					
	AAA-rated interest only.....	82,996	1,353	(759)	83,590
	Non-investment grade interest only.....	3,620	205	(26)	3,799
	Subordinates.....	56,500	1,856	(822)	57,534
	Futures contracts.....	--	--	(780)	(780)
	-----	-----	-----	-----	
	143,116	3,414	(2,387)	144,143	
	-----	-----	-----	-----	
	\$ 348,575	\$ 10,928	\$ (5,498)	\$ 354,005	
=====					
Loans:					
	Single family residential.....	111,980	\$ 2,948	\$ (970)	\$ 113,958
	Multi-family residential.....	13,657	305	--	13,962
	Consumer loans.....	729	143	(8)	864
	-----	-----	-----	-----	
	\$ 126,366	\$ 3,396	\$ (978)	\$ 128,784	
=====					

A profile of the maturities of securities available for sale at December 31, 1997 follows. Mortgage-backed securities are included based on their weighted-average maturities, reflecting anticipated future prepayments based on a consensus of dealers in the market.

	Amortized Cost	Fair Value
	-----	-----
Due within one year.....	\$ 120,839	\$ 120,700
Due after 1 through 5 years.....	246,204	223,873
Due after 5 through 10 years.....	79,322	81,655
Due after 10 years.....	3,704	4,296
	-----	-----
	\$ 450,069	\$ 430,524
	=====	=====

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Gross realized gains and losses, proceeds on sales, premiums amortized against and discounts accreted to income were as follows during the periods ended December 31:

	1997	1996	1995
	-----	-----	-----
Securities:			
Gross realized gains.....	\$ 9,637	\$ 4,323	\$ 1,266
Gross realized losses.....	(3,591)	(3,757)	(2,079)
	-----	-----	-----
Net realized gains (losses).....	\$ 6,046	\$ 566	\$ (813)
	=====	=====	=====
Proceeds on sales.....	\$ 202,670	\$ 175,857	\$ 836,247
	=====	=====	=====
Premiums amortized against interest income.....	\$ 73,019	\$ 23,508	\$ 5,188
Discounts accreted to interest income.....	\$ (6,734)	(3,261)	(3,135)
	-----	-----	-----
Net premium amortization.....	\$ 66,285	\$ 20,247	\$ 2,053
	=====	=====	=====
Loans:			
Gross realized gains.....	\$ 4,069	\$ 2,150	\$ 1,817
Gross realized losses.....	(1,662)	(3,152)	--
	-----	-----	-----
Net realized gains (losses).....	\$ 2,407	\$ (1,002)	\$ 1,817
	=====	=====	=====
Proceeds on sales.....	\$ 519,163	\$ 397,606	\$ 100,104
	=====	=====	=====

One security in the available for sale portfolio, with a market value of \$12,334, is pledged as collateral to the State of New Jersey in connection with the Bank's sales of certificates of deposit over \$100 to New Jersey municipalities. Additionally, certain mortgage-related securities are pledged as collateral for securities sold under agreements to repurchase (see Note 16).

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NOTE 7 INVESTMENT SECURITIES

The book and fair values and gross unrealized gains and losses on the Company's investment securities are as follows at December 31:

	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	-----	-----	-----	-----
1997:				
Marketable Equity Securities:				
Other common stocks.....	\$ 38,545	\$ 9,638	\$ (1,911)	\$ 46,272
Non-marketable Equity Securities:				
Federal Home Loan Bank stock.....	10,825	--	--	10,825
Limited partnership interests.....	2,470	--	--	2,470
	-----	-----	-----	-----
	\$ 51,840	\$ 9,638	\$ (1,911)	\$ 59,567
	=====	=====	=====	=====
1996:				
Non-marketable Equity Securities:				
Federal Home Loan Bank stock.....	\$ 8,798	\$ --	\$ --	\$ 8,798
Limited partnership interests.....	103	--	--	103
	-----	-----	-----	-----
	\$ 8,901	\$ --	\$ --	\$ 8,901
	=====	=====	=====	=====

Included in interest income on investment securities and other for the periods ended December 31, 1997, 1996 and 1995 are \$1,603, \$1,767 and \$1,388, respectively, of deferred fees accreted on tax residuals (see Note 21).

As a member of the FHLB system, the Bank is required to maintain an investment in the capital stock of the FHLB in an amount at least equal to the

greater of 1% of residential mortgage assets, 5% of outstanding borrowings (advances) from the FHLB, or 0.3% of total assets. FHLB capital stock is generally pledged to secure FHLB advances.

The Company's investment in other common stocks at December 31, 1997 is primarily comprised of 1,715,000 shares of stock in OAIC with a book value and fair value of \$25,519 and \$35,158, respectively.

Dividends earned on FHLB stock and other common stocks amounted to \$2,000, \$567 and \$505 during 1997, 1996 and 1995, respectively.

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NOTE 8 LOAN PORTFOLIO

The Company's loan portfolio consisted of the following at December 31:

	1997	1996
	-----	-----
Carrying value:		
Single family residential.....	\$ 46,226	\$ 73,186
Multi-family residential:		
Permanent.....	38,105	31,252
Construction.....	33,277	36,590
	-----	-----
Total multi-family residential.....	71,382	67,842
	-----	-----
Commercial real estate:		
Hotel:		
Permanent.....	64,040	173,947
Construction.....	25,322	26,364
Office	68,759	128,782
Land	2,858	2,332
Other	16,094	25,623
	-----	-----
Total commercial real estate.....	177,073	357,048
	-----	-----
Commercial non-mortgage.....	--	2,614
	-----	-----
Consumer	244	424
	-----	-----
Total loans.....	294,925	501,114
Undisbursed loan funds.....	(22,210)	(89,840)
Unaccreted discount.....	(2,721)	(5,169)
Allowance for loan losses.....	(3,695)	(3,523)
	-----	-----
Loans, net.....	\$ 266,299	\$ 402,582
	=====	=====

At December 31, 1997 the Company had \$4,382 of single family residential loans and \$3,686 of multi-family residential loans outstanding, at market interest rates and terms, which were issued to facilitate the sale of the Company's real estate owned and real estate held for development.

Included in the loan portfolio at December 31, 1997 and 1996 are \$101,126 and \$315,871 respectively, of loans in which the Company participates in the residual profits of the underlying real estate, of which \$88,954 and \$233,749, respectively, have been funded. The Company records any residual profits as part of interest income when received.

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The following table presents a summary of the Company's nonperforming loans, allowance for loan losses and significant ratios at and for the years ended December 31:

	1997	1996	1995
	-----	-----	-----

Nonperforming loans:			
Single family residential.....	\$ 1,575	\$ 2,123	\$ 2,923
Multi-family.....	7,583	106	731
Consumer.....	--	55	202
	-----	-----	-----
	\$ 9,158	\$ 2,284	\$ 3,856
	-----	-----	-----
Allowance for loan losses:			
Balance at beginning of year.....	\$ 3,523	\$ 1,947	\$ 1,071
Provision for loan losses.....	325	1,872	1,121
Charge-offs.....	(153)	(296)	(263)
Recoveries.....	--	--	18
	-----	-----	-----
Balance at end of year.....	\$ 3,695	\$ 3,523	\$ 1,947
	=====	=====	=====
Significant ratios:			
Nonperforming loans as a percentage of:			
Loans.....	3.36%	0.56%	1.27%
Total assets.....	0.30%	0.09%	0.20%
Allowance for loan losses as a percentage of:			
Loans.....	1.39%	0.87%	0.65%
Nonperforming loans.....	40.35%	154.24%	50.49%
Net charge-offs (recoveries) as a percentage of average loans.	0.04%	0.09%	0.19%

If non-accrual loans had been current in accordance with their original terms, interest income for the years ended December 31, 1997, 1996 and 1995 would have been approximately \$515, \$214 and \$322 higher, respectively. No interest has been accrued on loans greater than 89 days past due.

At December 31, 1997, the Company had no investment in impaired loans as defined in accordance with SFAS No. 114, and as amended by SFAS No. 118.

The loan portfolio is geographically located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing the Company's loans were located at December 31, 1997.

	Singe Family Residential	Multi-family Residential	Commercial Real Estate	Consumer	Total
	-----	-----	-----	-----	-----
New York.....	\$ 3,871	\$ 31,835	\$ 23,068	\$ --	\$ 58,774
New Jersey.....	27,433	5,448	2,544	9	35,434
California.....	2,771	4,763	20,213	--	27,747
Maryland.....	140	--	26,008	--	26,148
Illinois.....	56	--	21,098	--	21,154
Other.....	11,955	29,336	84,142	235	125,668
	-----	-----	-----	-----	-----
Total.....	\$ 46,226	\$ 71,382	\$ 177,073	\$ 244	\$ 294,925
	=====	=====	=====	=====	=====

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NOTE 9 DISCOUNT LOAN PORTFOLIO

The Company has acquired, through private sales and auctions, mortgage loans at a discount because the borrowers are either not current as to principal and interest payments or there is doubt as to the borrowers' ability to pay in full the contractual principal and interest. The Company estimates the amounts it will realize through foreclosure, collection efforts or other resolution of each loan and the length of time required to complete the collection process in determining the amounts it will bid to acquire such loans.

The resolution alternatives applied to the discount loan portfolio are (i) the borrower brings the loan current in accordance with original or modified terms; (ii) the borrower repays the loan or a negotiated amount; (iii) the borrower agrees to a deed-in-lieu of foreclosure, in which case it is classified as real estate owned and held for sale by the Company and (iv) the Company forecloses on the loan and the property is either acquired at the foreclosure sale by a third-party or by the Company, in which case it is classified as real estate owned and held for sale. The Company periodically reviews the discount loan portfolio performance to ensure that nonperforming loans are carried at the lower of amortized cost or net realizable value of the underlying collateral and the remaining unaccreted discount is adjusted accordingly. Upon receipt of title to the property, the loans are transferred to real estate owned.

The Company's discount loan portfolio consists of the following at December 31:

	Carrying Value	
	1997	1996
Loan type:		
Single family residential.....	\$ 900,817	\$ 504,049
Multi-family residential.....	191,302	341,796
Commercial real estate.....	701,035	465,801
Other.....	1,865	2,753
Total discount loans.....	1,795,019	1,314,399
Unaccreted discount.....	(337,350)	(241,908)
Allowance for loan losses.....	(23,493)	(11,538)
Discount loans, net.....	\$ 1,434,176	\$ 1,060,953

The following table sets forth the payment status at December 31 of the loans in the Company's gross discount loan portfolio:

	December 31, 1997		December 31, 1996	
	Principal Amount	Percentage of Loans	Principal Amount	Percentage of Loans
Loans without Forbearance Agreements:				
Current.....	\$ 670,115	37.33%	\$ 572,043	43.52%
Past due 31 to 89 days.....	21,098	1.18	19,458	1.48
Past due 90 days or more.....	638,319	35.56	506,113	38.51
Acquired and servicing not yet transferred..	28,053	1.56	149,564	11.38
Subtotal.....	1,357,585	75.63	1,247,178	94.89
Loans with Forbearance Agreements:				
Current.....	3,140	0.18	7,554	0.57
Past due 31 to 89 days.....	1,688	0.09	2,703	0.21
Past due 90 days or more.....	432,606(1)	24.10	56,964	4.33
Subtotal.....	437,434	24.37	67,221	5.11
Total.....	\$ 1,795,019	100.00%	\$ 1,314,399	100.00 %

(1) Includes \$316.3 million of loans which were less than 90 days past due under the terms of the forbearance agreements at December 31, 1997, of which \$184.5 million were current and \$131.8 million were past due 31 to 89 days.

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A summary of income on discount loans is as follows for the years ended December 31:

	1997	1996	1995
Interest Income:			
Realized.....	\$ 157,649	\$ 97,174	\$ 70,807
Accreted and unrealized.....	--	5,991	5,191
	\$ 157,649	\$ 103,165	\$ 75,998
Gains on Sales:			
Realized gains on sales.....	\$ 4,215	\$ 7,393	\$ 6,008
Proceeds on sales.....	\$ 500,151	\$ 190,616	\$ 38,942

Proceeds on sales of discount loans during 1997 and 1996 include non-cash proceeds related to the exchange of discount loans for securities in connection with the Company's securitization activities (see Note 5).

The following table sets forth the activity in the Company's gross discount loan portfolio during the years ended December 31:

	1997	1996	1995
	-----	-----	-----
Principal balance at beginning of year.....	\$ 1,314,399	\$ 943,529	\$ 785,434
Acquisitions.....	1,776,773	1,110,887	791,195
Resolutions and repayments.....	(484,869)	(371,228)	(300,161)
Loans transferred to real estate owned.....	(292,412)	(138,543)	(281,344)
Sales.....	(518,872)	(230,246)	(51,595)
	-----	-----	-----
Principal balance at end of year	\$ 1,795,019	\$ 1,314,399	\$ 943,529
	=====	=====	=====

The discount loan portfolio is geographically located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing the Company's discount loans were located at December 31, 1997:

	Single family Residential	Multi-family Residential	Commercial Real Estate and Other	Total
	-----	-----	-----	-----
California.....	\$ 160,042	\$ 59,473	\$ 91,627	\$ 311,142
New Jersey.....	80,442	3,430	137,026	220,898
New York.....	98,248	9,527	93,677	201,452
Connecticut.....	54,802	21,856	27,074	103,732
Pennsylvania.....	39,616	52,599	3,329	95,544
Other.....	467,667	44,417	350,167	862,251
	-----	-----	-----	-----
Total.....	\$ 900,817	\$ 191,302	\$ 702,900	\$ 1,795,019
	=====	=====	=====	=====

The following schedule presents a summary of the Company's allowance for loan losses and significant ratios for its discount loans at and for the years ended December 31:

	1997	1996	1995
	-----	-----	-----
Allowance for loan losses:			
Balance at beginning of year.....	\$ 11,538	\$ --	\$ --
Provision for loan losses.....	31,894	20,578	--
Charge-offs.....	(20,349)	(9,216)	--
Recoveries.....	410	176	--
	-----	-----	-----
Balance at end of year.....	\$ 23,493	\$ 11,538	\$ --
	=====	=====	=====
Significant ratios:			
Allowances for loan losses as a percentage of discount loan portfolio, net.....	1.64%	1.09%	--%
Net charge-offs (recoveries) as a percentage of average discount loans	1.55%	1.34%	--%

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NOTE 10 REAL ESTATE OWNED

Real estate owned, net of allowance for losses, is held for sale and consists of the following at December 31:

1997	1996
-----	-----

Discount loan portfolio:		
Single family residential.....	\$ 76,409	\$ 49,728
Multi-family residential.....	16,741	14,046
Commercial real estate.....	71,339	36,264
	-----	-----
Total discount loan portfolio.....	164,489	100,038
Loan portfolio.....	357	592
Loans available for sale.....	2,419	3,074
	-----	-----
	\$ 167,265	\$ 103,704
	=====	=====

The following schedule presents the activity, in aggregate, in the valuation allowances on real estate owned for the years ended December 31:

	1997	1996	1995
	-----	-----	-----
Balance at beginning of year.....	\$ 11,493	\$ 4,606	\$ 3,937
Provision for losses.....	13,450	18,360	10,510
Charge-offs and sales.....	(12,597)	(11,473)	(9,841)
	-----	-----	-----
Balance at end of year.....	\$ 12,346	\$ 11,493	\$ 4,606
	=====	=====	=====

The following table sets forth the results of the Company's investment in real estate owned, which were primarily related to the discount loan portfolio, during the years ended December 31:

	1997	1996	1995
	-----	-----	-----
Gains on sales.....	\$ 30,651	\$ 22,835	\$ 19,006
Provision for losses.....	(13,450)	(18,360)	(10,510)
(Carrying costs) rental income, net.....	(9,924)	(648)	1,044
	-----	-----	-----
	\$ 7,277	\$ 3,827	\$ 9,540
	=====	=====	=====

NOTE 11 INVESTMENT IN REAL ESTATE

	December 31,	
	-----	-----
	1997	1996
	-----	-----
Loans accounted for as investments in real estate:		
Multi-family residential.....	\$ 61,967	\$ 24,946
Nonresidential.....	2,369	--
Hotels.....	1,426	16,087
Other.....	210	--
	-----	-----
	\$ 65,972	\$ 41,033
	=====	=====

During 1997, the Company sold a 69% partnership interest in the one hotel it owned and operated.

NOTE 12 MORTGAGE SERVICING RIGHTS

The Company services for other investors mortgage loans which it does not own. The total amount of such loans serviced for others was \$5,509,819 and \$1,918,098 at December 31, 1997 and 1996, respectively. Servicing fee income on such loans amounted to \$22,056, \$2,414 and \$493 for the years ended December 31,

1997, 1996 and 1995, respectively.

The unamortized balance of mortgage servicing rights, which are included in other assets, is as follows at December 31:

	1997	1996
Unamortized balance.....	\$ 7,369	\$ 4,048
Valuation allowance.....	(1,630)	(1,630)
	\$ 5,739	\$ 2,418

Periodically, the Company evaluates the recoverability of mortgage servicing rights based on the projected value of future net servicing income. Future prepayment rates are estimated based on current interest rates and various portfolio characteristics, including loan type, interest rate, and market prepayment estimates. If the estimated recovery is lower than the current amount of mortgage servicing rights, a reduction to mortgage servicing rights is recorded through an increase in the valuation allowance. Valuation allowances were established through charges to servicing fees and other charges during 1996 primarily as a result of higher than projected prepayment rates.

NOTE 13 INVESTMENTS IN LOW INCOME HOUSING TAX CREDIT INTERESTS

The carrying value of the Company's investments in low-income housing tax credit interests are as follows at December 31:

	1997	1996
Investments solely as a limited partner made prior to May 18, 1995.....	\$ 31,418	\$ 55,595
Investments solely as a limited partner made on or after May 18, 1995.....	47,153	12,887
Investments as both a limited and, through subsidiaries, general partner.....	50,043	24,827
	\$ 128,614	\$ 93,309

The qualified affordable housing projects underlying the Company's investments in low-income housing tax credit interests are geographically located throughout the United States. At December 31, 1997, the Company's largest single investment was \$9,693 which is in a project located in Racine, Wisconsin.

Income on the Company's limited partnership investments made prior to May 18, 1995, is recorded under the level yield method as a reduction of income tax expense, and amounted to \$6,846, \$8,144 and \$7,709 for the years ended December 31, 1997, 1996 and 1995, respectively. Had these investments been accounted for under the equity method, net income would have been reduced by \$2,779, \$2,223 and \$2,798 for the years ended December 31, 1997, 1996 and 1995, respectively. For limited partnership investments made after May 18, 1995, and for investments as a limited and, through subsidiaries, general partner, the Company recognized tax credits of \$8,035 and \$1,186 for the years ended December 31, 1997 and 1996, respectively, and recorded a loss of \$4,935 and \$636 from operations of the underlying real estate after depreciation for the years ended December 31, 1997 and 1996, respectively.

Other liabilities include \$0 and \$9,105 at December 31, 1997 and 1996, respectively, representing contractual obligations to fund certain limited partnerships which invest in low-income housing tax credit interests.

Included in other income for the years ended December 31, 1997 and 1996 are gains of \$6,298 and \$4,861, respectively, on the sales of certain investments in low-income housing tax credit interests which had carrying values of \$15,728 and \$19,806, respectively, at time of sale.

NOTE 14 PREMISES AND EQUIPMENT

	December 31,	
	1997	1996
Land	\$ 773	\$ 485
Leasehold improvements.....	7,664	5,999
Office and computer equipment.....	28,675	15,950
Less accumulated depreciation and amortization.....	(15,570)	(7,815)
	<u>\$ 21,542</u>	<u>\$ 14,619</u>

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NOTE 15 DEPOSITS

The Company's deposits consist of the following at December 31:

	1997		1996	
	Weighted Average Rate	Book Value	Weighted Average Rate	Book Value
Non-interest bearing deposits.....	--%	\$ 130,372	--%	\$ 96,563
NOW and money market				
checking accounts.....	4.73	27,624	2.99	22,208
Savings accounts.....	2.30	1,664	2.30	2,761
		<u>159,660</u>		<u>121,532</u>
Certificates of deposit.....		1,834,899		1,809,098
Unamortized deferred fees.....		(11,737)		(10,888)
	6.00	<u>1,823,162</u>	5.80	<u>1,798,210</u>
Total deposits.....	5.95	<u>\$ 1,982,822</u>	5.47	<u>\$ 1,919,742</u>

At December 31, 1997 and 1996, certificates of deposit include \$1,607,043 and \$1,572,081, respectively, of deposits originated through national, regional and local investment banking firms which solicit deposits from their customers, all of which are non-cancelable. Additionally, at December 31, 1997 and 1996, \$133,738 and \$147,488, respectively, of certificates of deposit were issued on an uninsured basis. Of the \$133,738 of uninsured deposits at December 31, 1997, \$98,069 were from political subdivisions in New Jersey and secured or collateralized as required under state law. Non-interest bearing deposits include \$96,518 and \$82,885 of advance payments by borrowers for taxes, insurance and principal and interest collected but not yet remitted in accordance with loan servicing agreements at December 31, 1997 and 1996, respectively.

The contractual maturity of the Company's certificates of deposit at December 31, 1997 follows:

CONTRACTUAL REMAINING MATURITY:

Within one year.....	\$ 840,463
Within two years.....	376,628
Within three years.....	234,244
Within four years.....	225,479
Within five years.....	146,013
Thereafter.....	335
	<u>\$ 1,823,162</u>

The amortization of the deferred fees of \$6,619, \$5,384 and \$4,729 for the years ended December 31, 1997, 1996 and 1995, respectively, is computed using the interest method and is included in interest expense on certificates of deposit. The interest expense by type of deposit account is as follows for the years

ended December 31:

	1997	1996	1995
	-----	-----	-----
NOW accounts and money market checking.....	\$ 1,220	\$ 620	\$ 1,031
Savings	49	78	451
Certificates of deposit.....	120,801	93,075	70,371
	-----	-----	-----
	\$ 122,070	\$ 93,773	\$ 71,853
	=====	=====	=====

Accrued interest payable on deposits amounted to \$21,967 and \$18,249 at December 31, 1997 and 1996, respectively.

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NOTE 16 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company periodically enters into sales of securities under agreements to repurchase the same securities (reverse repurchase agreements). Fixed coupon reverse repurchase agreements with maturities of three months or less are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the accompanying consolidated statements of financial condition. All securities underlying reverse repurchase agreements are reflected as assets in the accompanying consolidated statements of financial condition and are held in safekeeping by broker/dealers.

	Year Ended December 31,		
	-----	-----	-----
	1997	1996	1995
	-----	-----	-----
Other information concerning securities sold under agreements to repurchase:			
Balance at end of year	\$108,250	\$ 74,546	\$ 84,761
Accrued interest payable at end of year	\$ 306	\$ 12	\$ 153
Weighted average interest rate at end of year	6.06%	5.46%	5.70%
Average balance during the year	\$ 16,717	\$ 19,581	\$ 16,754
Weighted average interest rate during the year	5.98%	5.62%	5.68%
Maximum month-end balance	\$108,250	\$ 84,321	\$ 84,761

Mortgage-related securities at amortized cost of \$121,371 and a market value of \$120,168 were posted as collateral for securities sold under agreements to repurchase at December 31, 1997.

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NOTE 17 NOTES, DEBENTURES AND OTHER INTEREST BEARING OBLIGATIONS

Notes, debentures and other interest bearing obligations mature as follows:

	December 31,	
	-----	-----
	1997	1996
	-----	-----

1998:		
7.063% note due January 31.....	1,975	--
2003:		
11.875% notes due October 1.....	125,000	125,000
2005:		
12% subordinated debentures due June 15.....	100,000	100,000
2014:		
0 - 8.5% mortgage loan due December 1.....	--	573
	-----	-----
	\$ 226,975	\$ 225,573
	=====	=====

On June 12, 1995, the Bank issued \$100,000 of 12% Subordinated Debentures due 2005 (the "Debentures") with interest payable semiannually on June 15 and December 15. The Debentures are unsecured general obligations of the Bank and are subordinated in right of payment to all existing and future senior debt.

The Debentures may not be redeemed prior to June 15, 2000, except as described below. On or after such date, the Debentures may be redeemed at any time at the option of the Bank, in whole or in part, together with accrued and unpaid interest, if any, on not less than 30 nor more than 60 days notice at the following redemption prices (expressed as a percentage of the principal amount), if redeemed during the twelve month period beginning June 15 of the years indicated below:

Year	Redemption Price
-----	-----
2000	105.333%
2001	104.000%
2002	102.667%
2003	101.333%
2004 and thereafter	100.000%

In addition, the Bank may redeem, at its option, up to \$35,000 principal amount of the Debentures at any time prior to June 15, 1998 with the net cash proceeds received by the Bank from one or more public equity offerings at a purchase price of 112.000% of the principal amount thereof, plus accrued and unpaid interest.

In connection with the issuance of the Debentures, the Bank incurred certain costs which have been capitalized and are being amortized on a straight-line basis over the expected life of the Debentures. The unamortized balance of these issuance costs amounted to \$2,319 and \$2,745, at December 31, 1997 and 1996, respectively, and is included in other assets. Accrued interest payable on the Debentures amounted to \$500 at December 31, 1997 and 1996, and is included in accrued expenses, payables and other liabilities.

On September 25, 1996, the Company completed the public offering of \$125,000 aggregate principal of 11.875% Notes due October 1, 2003 ("the Notes") with interest payable semi-annually on April 1 and October 1. The Notes are unsecured general obligations of the Company and are subordinated in right of payment to the claims of creditors of the Company and the Company's subsidiaries.

The Notes may not be redeemed prior to October 1, 2001 except as described below. On or after such date, the Notes may be redeemed at any time at the option of the Company, in whole or in part, at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest, if redeemed during the twelve-month period beginning October 1 of the years indicated below:

Year	Redemption Price
-----	-----
2001	105.938%
2002	102.969%

In addition, the Company may redeem, at its option, up to 35% of the original aggregate principal amount of the Notes at any time and from time to time until October 1, 1999 with the net cash proceeds received by the Company from one or more public or private equity offerings at a redemption price of 111.875% of the principal amount thereof, plus accrued and unpaid interest.

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The indenture governing the Notes requires the Company to maintain, at all times when the Notes are not rated in an investment grade category by one or more nationally recognized statistical rating organizations, unencumbered liquid assets with a value equal to 100% of the required interest payments due on the Notes on the next two succeeding semi-annual interest payment dates. The Company maintained a \$15,000 investment in cash and cash equivalents at December 31, 1997 and 1996 that is restricted for purposes of meeting this liquidity requirement. The indenture further provides that the Company shall not sell, transfer or otherwise dispose of shares of common stock of the Bank or permit the Bank to issue, sell or otherwise dispose of shares of its common stock unless in either case the Bank remains a wholly-owned subsidiary of the Company.

Proceeds from the offering of the Notes amounted to approximately \$120,156 (net of underwriting discount). On September 30, 1996, the Company contributed \$50,000 of such proceeds to the Bank to support future growth. The remainder of the proceeds retained by the Company have been available for general corporate purposes, with the exception of the liquidity maintenance requirement described above.

In connection with the issuance of the Notes, the Company incurred certain costs which have been capitalized and are being amortized on a straight-line basis over the life of the Notes. The unamortized balance of these issuance costs amounted to \$4,647 and \$5,252 at December 31, 1997 and 1996, respectively, and is included in other assets. Accrued interest payable on the Notes amounted to \$3,711 and \$3,752 at December 31, 1997 and 1996, respectively, and is included in accrued expenses, payables and other liabilities.

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NOTE 18 CAPITAL SECURITIES

In August 1997, OCT, issued \$125.0 million of 10 7/8% Capital Securities (the "Capital Securities"). Proceeds from issuance of the Capital Securities were invested in 10 7/8% Junior Subordinated Debentures issued by Ocwen. The Junior Subordinated Debentures, which represent the sole assets of OCT, will mature on August 1, 2027.

Holder of the Capital Securities will be entitled to receive cumulative cash distributions accruing from the date of original issuance and payable semi-annually in arrears on February 1 and August 1 of each year, commencing on February 1, 1998, at an annual rate of 10 7/8% of the liquidation amount of \$1,000 per Capital Security. Payment of distributions out of moneys held by OCT, and payments on liquidation of OCT or the redemption of Capital Securities, are guaranteed by the Company to the extent OCT has funds available. If the Company 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 therefor. Accumulated distributions payable on the Capital Securities amounted to \$5,249 at December 31, 1997 and is included in accrued interest payable.

The Company has 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 semi-annual 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, the Company 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 interest payments on the Junior Subordinated Debentures are deferred, distributions on the Capital Securities will also be deferred and the Company may not, and may not permit any subsidiary of the Company to, (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, the Company's 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 7/8% per annum, compounded semi-annually.

The Junior Subordinated Debentures are redeemable prior to maturity at the option of the Company, 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 semi-annual 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.

For financial reporting purposes, OCT is treated as a subsidiary of the Company and, accordingly, the accounts of OCT are included in the consolidated financial statements of the Company. Intercompany transactions between OCT and the Company, including the Junior Subordinated Debentures, are eliminated in the consolidated financial statements of the Company. The Capital Securities are presented as a separate caption between liabilities and stockholders' equity in the consolidated statement of financial condition of the Company as "Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company". Distributions on the Capital Securities are recorded as a separate caption immediately following non-interest expense in the consolidated statement of operations of the Company. The Company intends to continue this method of accounting going forward.

In connection with the issuance of the Capital Securities, the Company incurred certain costs which have been capitalized and are being amortized over the term of the Capital Securities. The unamortized balance of these issuance costs amounted to \$4,262 at December 31, 1997 and is included in other assets.

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NOTE 19 BASIC AND DILUTED EARNINGS PER SHARE

The Company is required to present both basic and diluted EPS on the face of its statement of operations. Basic EPS, which replaced primary EPS required by APB 15, is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding and the dilutive potential common shares related to outstanding stock options. The following is a reconciliation of the calculation of basic EPS to diluted EPS.

	1997	1996	1995
	-----	-----	-----
Net income.....	\$ 78,932	\$ 50,142	\$ 25,467
	=====	=====	=====
Basic EPS:			
Weighted average shares of common stock.....	56,185,956	50,556,572	51,712,415
	=====	=====	=====
Basic EPS.....	\$ 1.40	\$ 0.99	\$ 0.49
	=====	=====	=====
Diluted EPS:			
Weighted average shares of common stock.....	56,185,956	50,556,572	51,712,415
Effect of dilutive securities:			

Stock options	650,528	2,822,310	3,825,745
	-----	-----	-----
	56,836,484	53,378,882	55,538,160
	=====	=====	=====
Diluted EPS.....	\$ 1.39	\$ 0.94	\$ 0.46
	=====	=====	=====

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NOTE 20 INTEREST RATE RISK MANAGEMENT INSTRUMENTS

In managing its interest rate risk, the Company on occasion enters into swaps. Under swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The terms of the swaps provide for the Company to receive a floating rate of interest based on the London Interbank Offered Rate ("LIBOR") and to pay fixed interest rates. The notional amount of the swap outstanding at December 31, 1997 is amortized (i.e., reduced) monthly based on estimated prepayment rates. The terms of the outstanding swap, at December 31, 1997 and 1996 are as follows:

Maturity	Notional Amount	LIBOR Index	Fixed Rate	Floating Rate at End of Year	Fair Value
-----	-----	-----	-----	-----	-----
December 31, 1997	\$ 36,860	1-Month	6.18%	5.69%	\$ (94)
December 31, 1996	\$ 45,720	1-Month	6.18%	5.67%	\$ (103)

The 1-month LIBOR was 5.72% on December 31, 1997. The interest expense or benefit of the swaps had the effect of increasing (decreasing) net interest income by \$(198), \$(58) and \$358 for the years ended December 31, 1997, 1996 and 1995, respectively.

The Company also enters into short sales of Eurodollar and U.S. Treasury interest rate futures contracts as part of its overall interest rate risk management activity. Interest rate futures contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may be settled in cash or through delivery. The Eurodollar futures contracts have been sold by the Company to hedge the maturity risk of certain short duration mortgage-related securities. U.S. Treasury futures have been sold by the Company to hedge the risk of a reduction in the market value of fixed rate mortgage loans and certain fixed rate mortgage-backed and related securities available for sale in a rising interest rate environment.

Terms and other information on interest rate futures contracts sold short are as follows:

	Maturity	Notional Principal	Fair Value
	-----	-----	-----
December 31, 1997:			
U.S. Treasury futures.....	1998	\$ 194,500	\$ 1,996
December 31, 1996:			
Eurodollar futures.....	1997	\$ 365,000	\$ (558)
	1998	40,000	(87)
U.S. Treasury futures.....	1997	165,100	498

The following table summarizes the Company's use of interest rate risk management instruments.

Notional Amount	
-----	-----
Short	Short

	Swaps	Eurodollar Futures	U.S. Treasury Futures
	-----	-----	-----
Balance, December 31, 1995.....	\$ --	\$ 412,000	\$ 11,100
Purchases.....	47,350	564,000	3,362,400
Maturities.....	(1,630)	--	--
Terminations.....	--	(571,000)	(3,208,400)
	-----	-----	-----
Balance, December 31, 1996.....	45,720	405,000	165,100
Purchases.....	--	--	966,400
Maturities.....	(8,860)	--	--
Terminations.....	--	(405,000)	(937,000)
	-----	-----	-----
Balance, December 31, 1997.....	\$ 36,860	\$ --	\$ 194,500
	=====	=====	=====

Because interest rate 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 Company is exposed to credit loss in the event of nonperformance by the counterparty to the swap and controls this risk through credit monitoring procedures. The notional principal amount does not represent the Company's exposure to credit loss.

U.S. Treasury Bills with a carrying value of \$2,055 and \$3,138 and a fair value of \$2,055 and \$3,138 were pledged by the Company as security for the obligations under these swaps and interest rate futures contracts at December 31, 1997 and 1996, respectively.

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NOTE 21 INCOME TAXES

Total income tax expense (benefit) was allocated as follows:

	Years Ended December 31,		
	1997	1996	1995
	-----	-----	-----
Income from continuing operations.....	\$ 21,309	\$ 11,159	\$ 4,562
Discontinued operations.....	--	--	(4,097)
Benefit of tax deduction in excess of amounts recognized for financial reporting purposes related to employee stock options reflected in stockholders' equity.....	(1,965)	(2,987)	(375)
	-----	-----	-----
	\$ 19,344	\$ 8,172	\$ 90
	=====	=====	=====

The components of income tax expense (benefit) attributable to income from continuing operations were as follows:

	Years Ended December 31,		
	1997	1996	1995
	-----	-----	-----
Current:			
Federal.....	\$ 42,482	\$ (6,844)	\$ 1,673
State.....	3,579	(576)	5,011
	-----	-----	-----
	46,061	(7,420)	6,684
Deferred:			
Federal.....	(23,085)	16,616	1,762
State.....	(1,667)	1,963	(3,884)
	-----	-----	-----
	(24,752)	18,579	(2,122)
	-----	-----	-----
Total.....	\$ 21,309	\$ 11,159	\$ 4,562
	=====	=====	=====

Income tax expense differs from the amounts computed by applying the U.S.

Federal corporate income tax rate of 35% as follows:

	Years Ended December 31,		
	1997	1996	1995
Expected income tax expense at statutory rate.....	\$ 34,838	\$ 21,455	\$ 13,196
Differences between expected and actual tax:			
Excess of cost over net assets acquired adjustments.....	(30)	(76)	(76)
Tax effect of utilization of net operating loss.....	(906)	(1,782)	(1,380)
State tax (after Federal tax benefit).....	1,243	901	733
Low-income housing tax credits.....	(14,881)	(9,330)	(7,709)
Adjustments resulting from IRS audit.....	921	--	--
Other.....	124	(9)	(202)
	-----	-----	-----
Actual income tax expense.....	\$ 21,309	\$ 11,159	\$ 4,562
	=====	=====	=====

For taxable years beginning prior to January 1, 1996, a savings institution that met certain definitional tests relating to the composition of its assets and the sources of its income (a "qualifying savings institution") was permitted to establish reserves for bad debts and make annual additions thereto under the experience method. Alternatively, a qualifying savings institution could elect, on an annual basis, to use the percentage of taxable income method to compute its allowable addition to its bad debt reserve on qualifying real property loans (generally loans secured by an interest in improved real estate). The applicable percentage was 8% for tax periods after 1987. The Bank utilized the percentage of taxable income method for these years.

On August 20, 1996, President Clinton signed the Small Business Job Protection Act (the "Act") into law. One provision of the Act repealed the reserve method of accounting for bad debts for savings institutions effective for taxable years beginning after 1995. The Bank, therefore, was required to use the specific charge-off method on its 1996 and subsequent federal income tax returns. The Bank will be required to recapture its "applicable excess reserves", which are its federal tax bad debt reserves in excess of the base year reserve amount described in the following paragraph. The Bank will include one-sixth of its applicable excess reserves in taxable income in each year from 1996 through 2001. As of December 31, 1995, the Bank had approximately \$42.4 million of applicable excess reserves. As of December 31, 1996, the Bank had fully provided for the tax related to this recapture.

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The base year 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. The enactment of this legislation is expected to have no material impact on the Bank's or the Company's operations or financial position.

In accordance with SFAS No. 109 "Accounting for Income Taxes," a deferred tax liability has not been recognized for the tax bad debt base year reserves of the Bank. The base year reserves are generally the balance of reserves as of December 31, 1987 reduced proportionately for reductions in the Bank's loan portfolio between that date and December 31, 1995. At December 31, 1997 and 1996, the amount of those reserves was approximately \$5.7 million. This reserve could be recognized in the future under the conditions described in the preceding paragraph.

The net deferred tax asset was comprised of the following:

December 31,	
1997	1996
-----	-----

Deferred Tax Assets:

Tax residuals and deferred income on tax residuals.....	\$ 3,497	\$ 3,712
State taxes.....	2,203	552
Application of purchase accounting.....	655	1,503
Accrued profit sharing.....	3,234	1,422
Accrued other liabilities.....	2,495	420
Deferred interest expense on discount loan portfolio.....	7,685	3,989
Mark-to-market and reserves on REO properties.....	3,187	3,513
Gain on loan foreclosure.....	5,635	--
Bad debt and loan loss reserves.....	9,770	--
Reserves on securities held for sale.....	4,007	--
Other.....	495	--
	-----	-----
	42,863	15,111
	-----	-----

Deferred Tax Liabilities:

Bad debt and loan loss reserves.....	--	810
Deferred interest income on discount loan portfolio.....	2,254	4,632
Partnership losses.....	1,386	1,205
Other.....	763	500
	-----	-----
	4,403	7,147
	-----	-----
Mark-to-market on certain mortgage-backed and related securities available for sale.....	6,688	(2,104)
	-----	-----
	45,148	5,860
	-----	-----
Deferred tax asset valuation allowance.....	--	--
	-----	-----
Net deferred tax assets.....	\$ 45,148	\$ 5,860
	=====	=====

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. As a result of the manner in which REMIC residual interests are treated for tax purposes, at December 31, 1997, 1996 and 1995, the Company had approximately \$0, \$10,228 and \$55,000, respectively, of net operating loss carryforwards for tax purposes.

IMI, a wholly owned subsidiary of the Company, had at December 31, 1997 approximately \$9,680 of Separate Return Limitation Year ("SRLY") net operating loss carryforward. These SRLY net operating loss carryforwards can only offset IMI future taxable income. Net operating loss carryforward of \$8,044 and \$1,636 will expire, if unused, in years 2005 and 2007, respectively. In addition, International Hotel Group ("IHG"), a wholly owned subsidiary of IMI, and IHG's subsidiaries had at December 31, 1997 approximately \$828 of SRLY net operating loss carryforwards. The SRLY net operating loss carryforward can only offset IHG and its subsidiaries' future taxable income. The \$828 operating loss carryforward will expire, if unused, in the year 2008.

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As a result of the Company's earnings history, current tax position and taxable income projections, the Company believes that it will generate sufficient taxable income in future years to realize the net deferred tax asset position as of December 31, 1997. In evaluating the expectation of sufficient future taxable income, the Company considered future reversals of temporary differences and available tax planning strategies that could be implemented, if required.

A valuation allowance was not required as of December 31, 1997 and 1996 as it was the Company's assessment that, based on available information, it is more likely than not that all of the deferred tax asset will be realized. A valuation allowance will be established in the future to the extent of a change in the Company's assessment of the amount of the net deferred tax asset that is

expected to be realized.

NOTE 22 RETIREMENT PLAN

The Company maintains a defined contribution 401(k) plan. The Company matches 50% of each employee's contributions, limited to 2% of the employee's compensation.

In connection with its 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. The Plan was frozen for the plan year ended December 31, 1993 and has been fully funded.

The Company's combined contributions to 401(k) plan in the years ended December 31, 1997, 1996 and 1995 were \$368, \$258 and \$248, respectively.

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NOTE 23 STOCKHOLDERS' EQUITY

On July 12, 1996 stockholders of the Company approved an amendment to the Company's articles of incorporation to increase the authorized number of common shares from 20,000,000 to 200,000,000 shares, to increase the authorized number of preferred shares from 250,000 to 20,000,000 shares and to decrease the par value of the authorized preferred shares from \$1.00 to \$0.01 per share. On July 30, 1996, the Company's Board of Directors declared a 10-for-1 stock split for each share of common stock then outstanding in the form of a stock dividend which was paid to holders of record on July 31, 1996. On October 29, 1997, the Company's Board of Directors approved a 2-for-1 stock split of its issued and outstanding common stock. The stock split was effected through the distribution of authorized but unissued shares of its common stock on November 20, 1997, to holders of record of its common stock at the close of business on November 12, 1997. All references in the consolidated financial statements to the number of shares and per share amounts have been adjusted retroactively for the recapitalization and the stock splits.

During September 1996, 2,928,830 shares of common stock were issued in connection with the exercise of vested stock options by certain of the Company's and the Bank's current and former officers and directors. The Company loaned \$6,654 to certain of such officers to fund their exercise of the stock options. Such notes, which are presented as a reduction of shareholders' equity, had an unpaid principal balance of \$0 and \$3,832 at December 31, 1997 and 1996, respectively, bear interest at 10.5% per annum, are payable in two equal installments on March 1, 1998 and March 1, 1999 and are secured by the related shares of common stock. These notes were repaid during 1997.

On September 25, 1996, certain stockholders of Ocwen completed an initial public offering of 2,300,000 shares of Ocwen common stock. At that time, the Company's common stock began trading on the NASDAQ National Market System under the symbol "OCWEN". Prior to this offering, there had been no public trading market for the common stock. The Company did not receive any of the proceeds from this common stock offering.

On August 12, 1997, the Company completed a secondary stock offering to the public of 3,450,000 shares which resulted in net proceeds of \$141,898. Effective August 1, 1997, shares of the Company's common stock began trading on the New York Stock Exchange ("NYSE") under the symbol "OCN". Upon effectiveness of the NYSE listing, the Company delisted its common stock from NASDAQ.

During 1995, the Company repurchased from stockholders and retired 8,815,060 shares of common stock for the aggregate price of \$41,997.

In December 1991, as part of its annual incentive compensation plan, the Company adopted a Non-Qualified Stock Option Plan (the "Stock Plan"). The Stock Plan provides for the issuance of stock options to key employees to purchase

shares of common stock at prices less than the fair market value of the stock at the date of grant.

	Options Granted	Exercise Price	Options Exercised	Forfeited or Repurchased	Options Vested
1995:.....	594,760	\$ 2.880	194,232	231,148	169,380
1995:.....	14,220	0.472	--	--	14,220
1996:.....	1,147,370	11.000	--	63,158	1,084,212
1997:.....	1,083,794	20.350	--	--	--

The difference between the fair market value of the stock at the date of grant and the exercise price is treated as compensation expense. Included in compensation expense is \$5,514, \$2,725, and \$65 for the years ended December 31, 1997, 1996 and 1995, respectively, related to options granted.

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The Company adopted SFAS No. 123 during 1996. In accordance with the provisions of SFAS No. 123, the Company has retained its current accounting method for its stock-based employee compensation plans under the provisions of APB 25. However, entities continuing to apply APB 25 are required to disclose pro forma net income and earnings per share as if the fair value method of accounting for stock-based employee compensation plans as prescribed by SFAS No. 123 had been utilized. The following is a summary of the Company's pro forma information:

	Years ending December 31,	
	1997	1996
Net income (as reported).....	\$ 78,932	\$ 50,142
Pro forma net income.....	\$ 72,668	\$ 47,777
Earnings per share (as reported):		
Basic.....	\$ 1.40	\$ 0.99
Diluted.....	\$ 1.39	\$ 0.94
Pro forma earnings per share:		
Basic.....	\$ 1.29	\$ 0.95
Diluted.....	\$ 1.28	\$ 0.90

The fair value of the option grants were estimated using the Black-Scholes option-pricing model with the following assumptions:

	Years ending December 31,	
	1997	1996
Expected dividend yield.....	0.00%	0.00%
Expected stock price volatility.....	48.00%	21.00%
Risk-free interest rate.....	5.71%	6.20%
Expected life of options.....	5 years	5 years

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The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and the regulations promulgated thereunder established certain minimum levels of regulatory capital for savings institutions subject to OTS supervision. The Bank must follow specific capital guidelines stipulated by the OTS which 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. At December 31, 1997, the minimum regulatory capital requirements were:

- o Tangible and core capital of 1.5 percent and 3 percent of total adjusted assets, respectively, consisting principally of stockholders' equity, but excluding most intangible assets, such as goodwill and any net unrealized holding gains or losses on debt securities available for sale.
- o Risk-based capital consisting of core capital plus certain subordinated debt and other capital instruments and, subject to certain limitations, general valuation allowances on loans receivable, equal to 8 percent of the value of risk-weighted assets.
- o At December 31, 1997, the Bank was "well capitalized" under the prompt corrective action ("PCA") regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). 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 table below. The Bank's capital amounts and classification are subject to review by federal regulators about components, risk-weightings and other factors. There are no conditions or events since December 31, 1997 that management believes have changed the institution's category.

The following tables summarize the Bank's actual and required regulatory capital at December 31, 1997 and 1996.

DECEMBER 31, 1997

	Actual		Minimum For Capital Adequacy Purposes		To Be Well Capitalized For Prompt Corrective Action Provisions		Agreed Upon Capital Requirements
	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Stockholders' equity, and ratio to total assets.	10.62%	276,277					
Net unrealized loss on certain available for sale securities		2,378					
Excess mortgage servicing rights and deferred tax assets		(1,029)					
Tangible capital, and ratio to adjusted total assets	10.66%	\$ 277,626	1.50%	\$ 39,060			
Tier 1 (core) capital, and ratio to adjusted total assets	10.66%	\$ 277,626	3.00%	\$ 78,120	5.00%	\$ 130,200	9.00%
Tier 1 capital, and ratio to risk-weighted assets....	10.17%	\$ 277,626			6.00%	\$ 163,837	
Allowance for loan and lease losses.....		27,436					
Subordinated debentures.....		100,000					
Tier 2 Capital.....		127,436					
Total risk-based capital, and ratio to risk-weighted assets	14.83%	\$ 405,062	8.00%	\$ 218,449	10.00%	\$ 273,062	13.00%
Total regulatory assets.....		\$ 2,602,642					
Adjusted total assets.....		\$ 2,603,991					
Risk-weighted assets.....		\$ 2,730,616					

	Actual		Minimum For Capital Adequacy Purposes		To Be Well Capitalized For Prompt Corrective Action Provisions	
	Ratio	Amount	Ratio	Amount	Ratio	Amount
Stockholders' equity, and ratio to total assets.....	9.49%	\$ 228,153				
Net unrealized gain on certain available for sale securities		(3,526)				
Excess mortgage servicing rights.....		(242)				
Tangible capital, and ratio to adjusted total assets.	9.33%	\$ 224,385	1.50%	\$ 36,057		
		-----		-----		
Tier 1 (core) capital, and ratio to adjusted total assets	9.33%	\$ 224,385	3.00%	\$ 72,114	5.00%	\$ 120,190
		-----		-----		-----
Tier 1 capital, and ratio to risk-weighted assets....	8.47%	\$ 224,385			6.00%	\$ 159,011
		-----				-----
Allowance for loan and lease losses.....		16,057				
Subordinated debentures.....		100,000				

Tier 2 Capital.....		116,057				

Total risk-based capital, and ratio to risk-weighted assets	12.85%	\$ 340,442	8.00%	\$ 212,014	10.00%	\$ 265,018
		-----		-----		-----
Total regulatory assets.....		\$ 2,405,188				

Adjusted total assets.....		\$ 2,403,790				

Risk-weighted assets.....		\$ 2,650,175				

The OTS has promulgated a regulation governing capital distributions. The Bank is considered to be a Tier 1 association under this regulation because it met or exceeded its fully phased-in capital requirements at December 31, 1996. A Tier 1 association that before and after a proposed capital distribution meets or exceeds its fully phased-in capital requirements may make capital distributions during any calendar year equal to the greater of (i) 100% of net income for the calendar year to date plus 50% of its "surplus capital ratio" at the beginning of the year or (ii) 75% of its net income over the most recent four-quarter period. In order to make these capital distributions, the Bank must submit written notice to the OTS 30 days in advance of making the distribution.

In addition to these OTS regulations governing capital distributions, the indenture governing the Bank's debentures limits the declaration or payment of dividends and the purchase or redemption of common or preferred stock in the aggregate to the sum of 50% of consolidated net income and 100% of all capital contributions and proceeds from the issuance or sale (other than to a subsidiary) of common stock, since the date the Debentures were issued (see Note 17).

In connection with an examination of the Bank in late 1996 and early 1997, the staff of the OTS expressed concern about many of the Bank's non-traditional operations, which generally are deemed by the OTS to involve higher risk, certain of the Bank's accounting policies and the adequacy of the Bank's capital in light of the Bank's lending and investment strategies. The activities which were of concern to the OTS included the Bank's subprime single family residential lending activities, the Bank's origination of acquisition, development and construction loans with terms which provide for shared participation in the results of the underlying real estate, the Bank's discount loan activities, which involve significantly higher investment in nonperforming and classified assets than the majority of the savings and loan industry, and the Bank's investment in subordinated classes of mortgage-related securities issued in connection with the Bank's asset securitization activities and otherwise.

Although the Bank has expressed disagreement with the level of risk perceived by the OTS in its business, the Bank has taken various other actions to address OTS concerns with respect to its risk profile, including the following: (i) the sale to the Company in 1996 of subordinated, participating interests in a total of eleven acquisition, development and construction loans, which interests had an aggregate principal balance of \$16,949; (ii) the cessation of originating mortgage loans with profit participation features in the underlying real estate, with the exception of existing commitments, which consisted of commitments for nine loans with an aggregate principal amount of \$79,197 at December 31, 1997; (iii) the transfer of its subprime single family residential lending operations and its large multi-family residential and commercial real estate lending operations to OFS and OCC, respectively; (iv) an agreement (a) to discontinue the purchase of subordinate classes of mortgage-related securities created by unaffiliated parties, (b) to sell the five such securities held by it at March 31, 1997 (aggregate book value of \$32.0 million), which was completed by a sale to OAIC on May 19, 1997 (at a gain of

\$2.6 million to the Company), and (c) subject to the requirements of the OTS capital distribution regulation, to dividend to the Company all subordinate mortgage-related securities acquired by the Bank in connection with its securitization activities, including two subordinate securities with an aggregate book value of \$19.5 million which were dividend to the Company in June 1997 and one subordinate security and one residual security with an aggregate book value of \$14.4 million which were dividend to the Company in November 1997; (v) the establishment as of December 31, 1996 of requested write downs of cost basis, which amounted to \$7.2 million, against loans and securities resulting from its investment in loans acquired from HUD; (vi) an agreement to employ a senior officer to head its Credit Management Department and to take other steps to improve the effectiveness of

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its independent asset review function; and (vii) an agreement to provide the OTS with certain reports on a regular basis. In addition to the foregoing, and based on discussions with the OTS, the Company modified certain of its accounting policies in a manner which will result in more conservative recognition of income. Specifically, the Company (i) ceased accreting into interest income discount on nonperforming residential loans, effective January 1, 1997; (ii) discontinued the capitalization of period expenses to real estate owned, effective January 1, 1997; and (iii) agreed to classify as doubtful for regulatory purposes all real estate owned which are not generating cash flow and which have been held for more than three years. If the new policy on accretion of discount on nonperforming residential loans had been applied in 1996 and 1995, the Company's income from continuing operations before income taxes, as adjusted for related profit sharing expense, would have decreased by approximately \$1.4 million and \$1.1 million, respectively. If the new policy on capitalization of period expenses on real estate owned had been adopted in 1996 and 1995, the Company's income from continuing operations before income taxes, as adjusted for related profit sharing expense, would have increased by approximately \$610,000 in 1996 and would have decreased by approximately \$2.3 million during 1995. In light of the foregoing, the Company does not believe that the above-referenced accounting changes had a material effect on the Company's financial condition or results of operations.

In connection with the foregoing actions, the Bank also committed to the OTS to maintain a core capital ratio and a total risk-based capital ratio of at least 9% and 13%, respectively, effective June 30, 1997. Although these individual regulatory capital requirements have been agreed to by the OTS, there can be no assurance that in the future the OTS will agree to a decrease in such requirements or will not seek to increase such requirements or will not impose these or other individual regulatory capital requirements in a manner which affects the Bank's status as a "well-capitalized" institution under applicable laws and regulations.

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NOTE 25 OTHER EXPENSES

	Years Ended December 31,		
	1997	1996	1995
OTHER OPERATING EXPENSES:			
Loan related expenses	\$ 7,014	\$ 4,111	\$ 2,383
Professional fees	4,909	2,293	1,884
Travel, lodging, meals and entertainment	2,636	1,522	1,151
Due diligence costs	1,977	564	784
FDIC insurance	1,593	3,098	2,212
Amortization of offering costs	1,302	622	234
Marketing	774	701	968

Conferences and seminars.....	666	295	173
Corporate insurance.....	611	441	410
Investment and treasury services.....	458	438	387
OTS assessment.....	375	293	257
Deposit related expenses.....	255	91	304
Other.....	4,201	458	932
	-----	-----	-----
	\$ 26,771	\$ 14,927	\$ 12,079
	=====	=====	=====

Included in the 1996 results of operations is a non-recurring expense of \$7,140 related to the Federal Deposit Corporation's ("FDIC") assessment to recapitalize the Savings Association Insurance Fund ("SAIF") as a result of federal legislation passed into law on September 30, 1996.

NOTE 26 BUSINESS LINE REPORTING

The Company considers itself to be involved in the single business segment of providing financial services and conducts a variety of business activities within this segment. Such activities are as follows:

	Net Interest Income	Non-Interest Income (1)	Net Income (Loss)	Total Assets
	-----	-----	-----	-----
DECEMBER 31, 1997:				
Discount Loans:				
Single family residential loans	\$ (8,293)	\$ 68,829	\$ 22,384	\$ 844,164
Large Commercial	33,684	20,299	23,476	582,877
Small Commercial	15,749	1,949	5,194	288,029
Investment in low-income housing tax credits	(4,311)	6,053	9,353	128,614
Commercial lending	29,152	(1,634)	11,802	253,496
Subprime single family lending	7,170	17,533	(1,526)	225,813
Mortgage loan servicing	3,128	26,966	3,780	13,411
Investment securities	12,814	6,902	5,615	642,335
Other	(5,069)	659	(1,146)	90,426
	-----	-----	-----	-----
	\$ 84,024	\$ 147,556	\$ 78,932	\$ 3,069,165
	=====	=====	=====	=====
DECEMBER 31, 1996:				
Discount Loans:				
Single family residential loans	\$ 3,787	\$ 34,095	\$ 12,580	\$ 650,261
Large Commercial	14,046	21,745	16,179	516,622
Small Commercial	11,993	(189)	3,687	283,466
Investment in low-income housing tax credits	(3,857)	4,470	7,269	93,309
Commercial lending	14,843	(389)	3,785	402,582
Subprime single family lending	4,787	6,423	4,115	128,878
Mortgage loan servicing	1,697	7,495	2,559	5,020
Investment securities	15,783	(2,244)	2,226	342,801
Other	(7,795)	4,217	(2,258)	60,746
	-----	-----	-----	-----
	\$ 55,284	\$ 75,623	\$ 50,142	\$ 2,483,685
	=====	=====	=====	=====

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DECEMBER 31, 1995:

Discount Loans:				
Single family residential loans.....	\$ 14,889	\$ 2,507	\$ 4,778	\$ 360,742
Large Commercial.....	12,986	12,953	9,824	376,823
Small Commercial.....	8,864	2,436	4,395	173,114
Investment in low-income housing tax credits.....	(3,549)	1,923	3,538	81,362
Commercial lending.....	5,839	362	3,041	256,166
Subprime single family lending.....	2,333	(291)	364	224,722
Mortgage loan servicing.....	192	2,717	175	2,263
Investment securities.....	9,377	4,708	2,454	410,777
Other.....	1,202	3,826	(3,102)	87,621
	-----	-----	-----	-----
	\$ 52,133	\$ 31,141	\$ 25,467	\$ 1,973,590
	=====	=====	=====	=====

(1) Non-interest income includes \$23,688 and \$38,320 of equity in earnings of investment in joint venture for the years ended December 31, 1997 and 1996, respectively.

The Company's discount loan activities include asset acquisition, servicing and resolution of single family residential, large commercial and small commercial loans and the related real estate owned. Investment in low-income housing tax credits includes the Company's 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. Low-income housing tax credits and benefits of \$14,881, \$9,330 and \$7,709 are included as credits against income tax expense for the years ended December 31, 1997, 1996 and 1995, respectively. Commercial lending includes the Company's origination of multi-family and commercial real estate loans held for investment and the origination and purchase of multi-family residential loans available for sale. Subprime single family lending includes the Company's acquisition and origination of single family residential loans to non-conforming borrowers, which began in late 1994 and which are recorded as available for sale, and the Company's historical loan portfolio of single family residential loans held for investment. Mortgage loan servicing includes the Company's fee-for-services business of providing loan servicing, including asset management and resolution services, to third-party owners of nonperforming, underperforming and subprime assets. Investment securities includes the results of the securities portfolio, whether available for sale, trading or investment, other than REMIC residuals and subordinate interests related to the Company's securitization activities which have been included in the related business activity.

Interest income and expense have been allocated to each business segment for the investment of funds raised or funding of investments made at an interest rate based upon the Treasury swap yield curve taking into consideration the actual duration of such liabilities or assets. Allocations of non-interest expense generated by corporate support services were made to each business segment based upon management's estimate of time and effort spent in the respective activity. As such, the resulting net income amounts represent estimates of the contribution of each business activity to the Company.

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NOTE 27 COMMITMENTS AND CONTINGENCIES

Certain premises are leased under various noncancellable operating leases with terms expiring at various times through 2006, exclusive of renewal option periods. The annual aggregate minimum rental commitments under these leases are summarized as follows:

1998.....	\$ 3,833
1999.....	3,687
2000.....	2,954
2001.....	2,598
2002.....	2,508
2003-2006.....	5,974

Minimum lease payments.....	\$ 21,554
	=====

Rent expense for the years ended December 31, 1997, 1996 and 1995 was \$2,877, \$1,563 and \$1,601, respectively, which are net of sublease rentals of \$0, \$0 and \$68, respectively.

At December 31, 1997 the Company was committed to purchase \$9,848 of commercial discount loans. The Company also had commitments to originate (i) \$29,956 of loans secured by multi-family residential buildings, (ii) \$16,798 of mortgage loans secured by office buildings, (iii) \$5,125 of loans secured by hotel properties and (iv) \$120,368 of loans secured by single family residential buildings. In connection with its 1993 acquisition of Berkeley Federal Savings Bank, the Company has a recourse obligation of \$2,720 on single family residential loans sold to the Federal Home Loan Mortgage Corporation ("FHLMC").

The Company, through its investment in subordinated securities and REMIC residuals, which had a carrying value of \$97,571 at December 31, 1997, supports senior classes of securities having an outstanding principal balance of \$1,905,171.

At December 31, 1996 the Company was committed to lend up to \$5,744 under outstanding unused lines of credit. The Company also had commitments to originate (i) \$105,490 of loans secured by multi-family residential buildings (ii) \$19,849 of loans secured by office buildings, (iii) \$55,949 of loans secured by hotel properties and (iv) \$12,840 of loans secured by land. In connection with its acquisition of Berkeley Federal Savings Bank, the Company had a recourse obligation of \$3,486 on single family residential loans sold to the Federal Home Loan Mortgage Corporation. The Company, through its investment in subordinated securities which had a carrying value of \$76,699 at December 31, 1996, supports senior classes of securities having an outstanding principal balance of \$1,453,573.

The Company is subject to various pending legal proceedings. Management is of the opinion that the resolution of these claims will not have a material effect on the consolidated financial statements.

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NOTE 28 PARENT COMPANY ONLY FINANCIAL INFORMATION

CONDENSED STATEMENTS OF FINANCIAL CONDITION:

	December 31,	
	1997	1996
ASSETS		
Cash and cash equivalents	\$ 62,586	\$ 32,348
Securities available for sale, at market value	116,943	13,062
Investment securities, net	11,115	--
Investment in bank subsidiary	272,401	221,094
Investments in non-bank subsidiaries	120,059	29,657
Loan portfolio, net	7,285	12,365
Discount loan portfolio, net	48,413	--
Investment in real estate	10,675	9,680
Income taxes receivable	13,739	10,003
Deferred tax asset	6,636	--
Other assets	11,063	5,618
	\$680,915	\$333,827
	=====	=====
LIABILITIES		
Notes payable	\$250,000	\$125,000
Securities sold under agreements to repurchase	3,075	--
Deferred tax liability	--	194
Other liabilities	15,008	5,037
	268,083	130,231
	=====	=====
Stockholders' Equity		
Total stockholders' equity	412,832	203,596
	\$680,915	\$333,827
	=====	=====

CONDENSED STATEMENTS OF OPERATIONS:

	Years Ended December 31,		
	1997	1996	1995

Interest income	\$ 10,019	\$ 1,645	\$ 401
Non-interest income	--	266	8
	10,019	1,911	409
Interest expense	(20,367)	(4,406)	(654)
Non-interest expense	(3,942)	(1,131)	(277)
Loss before income taxes	(14,290)	(3,626)	(522)
Income tax benefit	5,083	2,925	1,533
(Loss) income before equity in net income of subsidiaries	(9,207)	(701)	1,011
Equity in net income of bank subsidiary	88,598	49,186	24,773
Equity in net (loss) income of non-bank subsidiaries	(459)	1,657	(317)
Net income	\$ 78,932	\$ 50,142	\$ 25,467

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CONDENSED STATEMENTS OF CASH FLOWS:

	For The Years Ended December 31,		
	1997	1996	1995
Cash flows from operating activities:			
Net income	\$ 78,932	\$ 50,142	\$ 25,467
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Equity in income of bank subsidiary	(88,598)	(49,186)	(24,773)
Equity in (income) loss of non-bank subsidiaries	459	(1,657)	317
Premium amortization, net	11,467	--	--
Increase in deferred tax assets	(6,830)	--	--
(Increase) decrease in other assets	(5,662)	4,067	(2,254)
Increase in income taxes receivable	(3,736)	(10,003)	--
Increase (decrease) in accrued expenses, payables and other liabilities	9,970	(3,286)	5,209
Net cash provided (used) by operating activities	(3,998)	(9,923)	3,966
Cash flows from investing activities:			
Purchase of securities available for sale	(146,643)	(13,125)	--
Maturities of and principal payments received on securities available for sale	579	63	--
Net distributions from (investments in) bank subsidiary	37,291	(49,707)	39,216
Net (investments in) distributions from non-bank subsidiaries	(86,599)	5,410	(10,450)
Proceeds from sales of securities available for sale	15,574	--	--
Purchase of securities held for investment	(11,115)	--	--
Purchase of discount loans	(48,413)	--	--
Proceeds from sales of loans held for investment	5,080	--	--
Purchase of real estate held for investment	(995)	(9,680)	--
Purchase of loans held for investment	--	(11,845)	(520)
Net cash provided (used) by investing activities	(235,241)	(78,884)	28,246
Cash flows from financing activities:			
Proceeds from issuance of notes and debentures	120,738	125,000	7,615
Payment of debt issuance costs	--	(5,252)	--
Repayment of notes payable	--	(8,628)	--
Increase in securities sold under agreements to repurchase ..	3,075	--	--
Repayments (originations) of loans to executive officers, net	3,832	(3,832)	--
Exercise of common stock options	3,037	12,993	1,420
Issuance of shares of common stock	142,003	--	--
Repurchase of common stock options and common stock	(3,208)	(177)	(42,129)
Other	--	23	--
Net cash provided (used) by financing activities	269,477	120,127	(33,094)

Net increase (decrease) in cash and cash equivalents	30,238	31,320	(882)
Cash and cash equivalents at beginning of year	32,348	1,028	1,910
Cash and cash equivalents at end of year	\$ 62,586	\$ 32,348	\$ 1,028

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997, 1996 and 1995
(Dollars in Thousands, except share data)

NOTE 29 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	Quarters Ended			
	December 31, 1997	September 30, 1997	June 30, 1997	March 31, 1997
Interest income	\$ 73,736	\$ 77,326	\$ 66,942	\$ 54,527
Interest expense	(40,313)	(39,944)	(38,868)	(37,164)
Provision for loan losses	(10,479)	(4,088)	(7,909)	(9,742)
Net interest income after provision for loan losses	22,944	33,294	20,165	7,621
Non-interest income	43,798	25,431	33,289	21,351
Non-interest expense	(41,798)	(31,219)	(31,080)	(22,697)
Distributions on Company-obligated mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company	(3,399)	(1,850)	--	--
Equity in earnings of investment in joint venture	7,468	546	1,301	14,372
Income before income taxes	29,013	26,202	23,675	20,647
Income taxes (expense) benefit	(6,398)	(6,179)	(5,126)	(3,606)
Minority interest in net loss of consolidated subsidiary	319	142	243	--
Net income	\$ 22,934	\$ 20,165	\$ 18,792	\$ 17,041
Earnings per share:				
Basic	\$ 0.38	\$ 0.35	\$ 0.35	\$ 0.32
Diluted	\$ 0.37	\$ 0.35	\$ 0.35	\$ 0.31

	Quarters Ended			
	December 31, 1996	September 30, 1996	June 30, 1996	March 31, 1996
Interest income	\$ 50,292	\$ 44,145	\$ 51,501	\$ 47,956
Interest expense	(33,907)	(27,217)	(26,904)	(28,132)
Provision for loan losses	(3,611)	(4,469)	(4,963)	(9,407)
Net interest income after provision for loan losses	12,774	12,459	19,634	10,417
Non-interest income	10,795	15,146	8,069	3,292
Non-interest expense	(22,520)	(21,531)	(13,871)	(11,683)
Equity in earnings of investment in joint venture	33,103	4,139	1,078	0
Income before income taxes	34,152	10,213	14,910	2,026
Income taxes (expense) benefit	(9,092)	(157)	(2,913)	1,003
Net income	\$ 25,060	\$ 10,056	\$ 11,997	\$ 3,029
Earnings per share:				
Basic	\$ 0.47	\$ 0.19	\$ 0.25	\$ 0.06
Diluted	\$ 0.46	\$ 0.19	\$ 0.23	\$ 0.06

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SHAREHOLDER INFORMATION

Price Range of the Company's Common Stock

The Company's common stock was traded on The NASDAQ Stock Market's National Market ("NASDAQ") from September 25, 1996 until July 31, 1997 under the symbol "OCWN" and has been traded on the New York Stock Exchange ("NYSE") since August 1, 1997 under the symbol "OCN." There was no established market for the common

stock prior to September 25, 1996. The following table sets forth for the indicated periods the high and low bid prices (for the period through July 31, 1997) and high and low sales prices (for the period beginning August 1, 1997) for the common stock, as traded on such market and exchange. The share price information below has been retroactively adjusted to reflect the 2-for-1 stock split effective November 20, 1997 to stockholders of record on November 12, 1997.

	High -----	Low -----
1996		
Third quarter (from September 25).....	\$ 10.5000	\$ 9.5000
Fourth quarter.....	15.2500	10.1250
1997		
First quarter.....	\$ 17.3750	\$ 12.6250
Second quarter.....	16.4375	12.7500
Third quarter.....	22.6250	15.7500
Fourth quarter.....	28.8125	21.0000

At the close of business on February 27, 1998, the Company's common stock price was \$30.00.

The Company does not currently pay cash dividends on the common stock and has no current plans to do so in the future. In the future, the timing and amount of dividends, if any, will be determined by the Board of Directors of the Company and will depend, among other factors, upon the Company's 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 Notes and the Junior Subordinated Debentures contain certain limitations on the payment of dividends by the Company.

As a holding company, the payment of any dividends by the Company will be significantly dependent on dividends and other payments received by the Company from its subsidiaries, including the Bank. For a description of limitations on the ability of the Company to pay dividends on the common stock and on the ability of the Bank to pay dividends on its capital stock to the Company, see Notes 17, 18 and 24 to the Consolidated Financial Statements. The Company has not paid any cash dividends on its common stock in recent years.

Number of Holders of Common Stock

At February 27, 1998, 60,708,520 shares of Company common stock were outstanding and held by approximately 1,431 holders of record. Such number of stockholders does not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms and others.

CORPORATE INFORMATION

Corporate Headquarters

Ocwen Financial Corporation
 The Forum, Suite 1000
 1675 Palm Beach Lakes Blvd.
 West Palm Beach, Florida 33401
 (561) 681-8000

Annual Meeting

The Annual Meeting of Ocwen Shareholders will be held on May 13, 1998.

1675 Palm Beach Lakes Blvd.
 West Palm Beach, Florida 33401

Investor Relations

All investor inquiries may be directed to or copies of Ocwen Form 10-K may be obtained from:

Investor Relations
Ocwen Financial Corporation
The Forum, Suite 1003
1675 Palm Beach Lakes Blvd.
West Palm Beach, Florida 33401
(561) 681-8400

Listing

The common stock of Ocwen Financial Corporation is listed on the NYSE. Its symbol is "OCN".

Registrar and Transfer Agent

Transfer Agent for Stock

The Bank of New York
Shareholder Relations Department 11E
P.O. Box 11258
Church Street Station
New York, NY 10286
(800) 524-4458

Send certificates for transfer and address change notices to:

The Bank of New York
Receive and Deliver Department 11W
P.O. Box 11002
Church Street Station
New York, NY 10286

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CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Registration No. 333-44999) of Ocwen Financial Corporation of our report dated January 27, 1998 relating to the consolidated balance sheets of Ocwen Financial Corporation and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of earnings, cash flows and shareholders' equity and financial data schedule for each of the years in the three year period ended December 31, 1997, which report is included as Exhibit 13.1 and Exhibits 27.1 through 27.2 (financial data schedules) of Ocwen Financial Corporation's Annual Report on Form 10-K. We further consent to the incorporation by reference in the Registration Statement on Form S-8 (Registration No. 333-44999) of our report dated January 27, 1998 relating to the statement of financial condition of BCBF, L.L.C. as of December 31, 1997 and 1996 and the statements of operations, changes in owners' equity and cash flow for each of the periods March 13, 1996 through December 31, 1996 and January 1, 1997 through December 31, 1997, which report is included as Exhibit 99.0 of Ocwen Financial Corporation's Annual Report on form 10-K.

/s/ PRICE WATERHOUSE LLP

PRICE WATERHOUSE LLP
Fort Lauderdale, Florida
January 27, 1998

BCBF, L.L.C.
 FINANCIAL STATEMENTS
 DECEMBER 31, 1997 AND 1996

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Partners of BCBF, L.L.C.

In our opinion, the accompanying statements of financial condition and the related statements of operations, of changes in owners' equity and of cash flows present fairly, in all material respects, the financial position of BCBF, L.L.C. (the "Company") at December 31, 1997 and 1996, and the results of its operations and its cash flows for the year ended December 31, 1997 and for the period from March 13, 1996 through December 31, 1996, in conformity with generally accepted accounting principles. 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 audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit 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 audit provides a reasonable basis for the opinion expressed above.

/s/ Price Waterhouse LLP

 Price Waterhouse LLP

Fort Lauderdale, Florida

January 27, 1998

BCBF, L.L.C.
 STATEMENTS OF FINANCIAL CONDITION
 (DOLLARS IN THOUSANDS)

	December 31,	
	-----	-----
	1997	1996
	-----	-----
Assets:		
Cash	\$ --	\$ 10
Loans held for sale, at lower of cost or market value	--	110,702
Real estate owned, net	--	25,595
Other assets	--	10,526

	-----	-----
	\$ --	\$146,833
	=====	=====
Liabilities and Owners' Equity:		
Liabilities:		
Accrued expenses, payables and other liabilities...	\$ --	\$ 787
	-----	-----
Total liabilities	--	787
	-----	-----
Owner's Equity:		
Ocwen Federal Bank FSB	--	73,023
BlackRock Capital Finance L.P.	--	73,023
	-----	-----
Total owners' equity	--	146,046
	-----	-----
	\$ --	\$146,833
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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BCBF, L.L.C.
STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS)

	For the Period January 1, 1997 Through December 31, 1997	For the Period March 13, 1996 Through December 31, 1996
	-----	-----
Interest income.....	\$ 8,928	\$ 38,647
Interest expense.....	--	(18,503)
	-----	-----
Net interest income.....	8,928	20,144
	-----	-----
Non-interest income:		
Gain on sale of loans held for sale.....	27,994	71,156
Gain on sale of loan servicing rights.....	--	1,048
Loss on real estate owned, net.....	(93)	(130)
Loan fees.....	23	50
	-----	-----
	27,924	72,124
	-----	-----
Non-interest expense:		
Loan servicing fees.....	1,850	5,743
Other loan expenses.....	13	273
	-----	-----
	1,863	6,016
	-----	-----
Net income.....	\$ 34,989	\$ 86,252
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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BCBF, L.L.C.
STATEMENTS OF CHANGES IN OWNERS' EQUITY
FOR THE PERIOD JANUARY 1, 1997 THROUGH DECEMBER 31, 1997
AND THE PERIOD MARCH 13, 1996 THROUGH DECEMBER 31, 1996
(DOLLARS IN THOUSANDS)

	Ocwen Federal Bank FSB	BlackRock Capital Finance L.P.	Total
	-----	-----	-----
Contributions of capital.....	\$ 66,204	\$ 66,204	\$ 132,408
Net income.....	43,126	43,126	86,252
Distributions of cash.....	(16,534)	(16,534)	(33,068)
Distributions of securities.....	(19,773)	(19,773)	(39,546)
	-----	-----	-----
Balances at December 31, 1996.....	73,023	73,023	146,046
Net income.....	17,494	17,495	34,989
Distribution of securities.....	(1,989)	(1,989)	(3,978)
Distributions of cash.....	(77,576)	(77,577)	(155,153)
Liquidating distribution.....	(10,952)	(10,952)	(21,904)
	-----	-----	-----
Balances at December 31, 1997.....	\$ --	\$ --	\$ --
	=====	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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BCBF, L.L.C.
STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	For the Period January 1, 1997 Through December 31, 1997	For the Period March 13, 1996 Through December 31, 1996
	-----	-----
Cash flows from operating activities:		
Net income	\$ 34,989	\$ 86,252
Adjustments to reconcile net income to net cash provided by (used) in operating activities:		
Provision for losses on real estate owned	1,110	636
Gain on sale of loans held for sale	(27,994)	(71,156)
Gain on sale of real estate owned	(6,619)	(775)
Gain on sale of loan servicing rights	--	(1,048)
Purchase of loans held for sale	--	(626,400)
Proceeds from sale of loans held for sale, net	89,044	466,806
Principal repayments on loans held for sale	3,478	42,210
Proceeds from sale of real estate owned	57,359	4,364
Proceeds from sale of loan servicing rights	--	1,048
Decrease (increase) in other assets	4,563	(2,054)
(Decrease) increase in accrued expenses, payables and other liabilities	(787)	787
	-----	-----
Net cash provided (used) in operating activities	155,143	(99,330)
	-----	-----
Cash flows from financing activities:		

Proceeds from note payable	--	473,042
Repayment of note payable	--	(473,042)
Proceeds from capital contributions	--	132,408
Distributions of capital	(155,153)	(33,068)
	-----	-----
Net cash (used) provided by financing activities	(155,153)	99,340
	-----	-----
Net (decrease) increase in cash and cash equivalents	(10)	10
Cash and cash equivalents at beginning of period	10	--
	-----	-----
Cash and cash equivalents at end of period	\$ --	\$ 10
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ --	\$ (18,503)
	=====	=====
Supplemental schedule of non-cash activities:		
Exchange of loans for mortgage-backed securities	\$ 60,593	\$ 394,234
	=====	=====
Real estate owned acquired through foreclosure	\$ 37,059	\$ 29,820
	=====	=====
Distribution of securities to Partners	\$ (3,978)	\$ (39,546)
	=====	=====
Liquidating distribution of non-cash assets to Partners	\$ (21,904)	\$ --
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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BCBF, L.L.C.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996
(DOLLARS IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

BCBF, L.L.C. (the "LLC") is a limited liability company formed on March 13, 1996 between Ocwen Federal Bank FSB ("Ocwen") and BlackRock Capital Finance L.P. ("BlackRock"), or collectively, the "Partners". The Partners each have a 50% interest in the LLC and share equally in net income or loss.

On March 22, 1996, the LLC was notified by the Department of Housing and Urban Development ("HUD") that it was the successful bidder to purchase 16,196 single-family residential loans offered by HUD at an auction (the "HUD Loans"). On April 10, 1996 the LLC consummated the acquisition of the HUD Loans, which had an aggregate unpaid principal balance of \$741,176 for a purchase price of \$626,400. The purchase was financed by \$117,647 in equity contributions, \$35,711 of proceeds from the LLC's concurrent sale of 1,631 HUD Loans and the proceeds from a \$473,042 note payable from an unaffiliated party. No significant activity occurred prior to April 10, 1996.

On December 12, 1997, the LLC distributed all of its assets to Ocwen and BlackRock. No significant activity occurred subsequent to this date.

STATEMENT OF CASH FLOWS

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, interest and non-interest bearing deposits and all highly liquid debt instruments purchased with an original maturity of three months or less.

HUD LOANS HELD FOR SALE

The HUD Loans purchased by the LLC were designated as held for sale because it was the LLC's intent to securitize and sell the majority of these loans. Loans held for sale are carried at the lower of aggregate cost or market value. Market value is determined based upon current market yields at which

recent pools of similar mortgages have been traded. There was no allowance for market value losses on loans held for sale at December 31, 1996.

All of the HUD Loans were secured by first mortgage liens on single-family residences. The HUD Loans were acquired by HUD pursuant to various assignment programs of the Federal Housing Authority ("FHA"). Under programs of the FHA, a lending institution may assign an FHA-insured loan to HUD because of an economic hardship on the part of the borrower which precludes the borrower from making the scheduled principal and interest payments on the loan. FHA-insured loans are also automatically assigned to HUD upon the 20th anniversary of the mortgage loan. In most cases, loans assigned to HUD after this 20 year period are performing under the original terms of the loan. Once a loan is assigned to HUD, the FHA insurance has been paid and the loan is no longer insured. As a result, none of the HUD Loans were insured by the FHA.

The HUD Loans were purchased by the LLC at a substantial discount to the unpaid principal balance of the loans as many of the HUD Loans were not performing in accordance with the original terms of the loans or an applicable forbearance agreement. The cost of acquiring the pool of loans was allocated to each individual loan within the pool based on the LLC's pricing methodology. Loans are considered performing if they are less than 90 days past due based on the original terms of the mortgage loan. Interest

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BCBF, L.L.C.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996
(DOLLARS IN THOUSANDS)

income on performing loans is recognized on the accrual method. Interest income on all other loans is recognized on a cash basis due to the uncertainty of collection. Gains and losses on the repayment and the discharging of loans are also reported as part of interest income. In situations where the collateral is foreclosed upon, the loans are transferred to real estate owned upon receipt of title to the property.

REAL ESTATE OWNED

Properties acquired through foreclosure or deed-in-lieu of foreclosure were valued at the lower of the adjusted basis of the loan or fair value less estimated costs of disposal of the property at the date of foreclosure. Properties held are periodically re-evaluated to determine that they are being carried at the lower of cost or fair value less estimated costs to dispose. All of the LLC's real estate owned was held for sale. Gains and losses on the sale of REO are recognized with the passage of title and all risks of ownership to the buyer. Rental income related to properties is reported as income as earned. Holding and maintenance costs related to properties are reported as period costs as incurred. No depreciation expense related to foreclosed real estate held for sale is recorded. Decreases in market value of foreclosed real estate subsequent to foreclosure are recognized as a valuation allowance on a property specific basis. Subsequent increases in market value of the foreclosed real estate are reflected as reductions in the valuation allowance, but not below zero. Such changes in the valuation allowance are charged or credited to income. Additional valuation allowances are also established for the inherent risks in the real estate owned portfolio which have yet to be specifically identified.

INCOME TAXES

Because the LLC is a pass-through entity for federal income tax purposes, provisions for income taxes are established by each of the Partners and not the LLC.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 ADOPTION OF RECENTLY ISSUED ACCOUNTING STANDARDS

On January 1, 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 125 (i) sets forth the criteria for (a) determining when to recognize financial and servicing assets and liabilities; and (b) accounting for transfers of financial assets as sales or borrowings; and (ii) requires (a) liabilities and derivatives related to a transfer of financial assets to be recorded at fair value; (b) servicing assets and retained interests in transferred assets carrying amounts be determined by allocating carrying amounts based on fair value; (c) amortization of servicing assets and liabilities be in proportion to net servicing income; (d) impairment measurement based on fair value; and (e) pledged financial assets to be classified as collateral. SFAS No. 125 provides implementation guidance for assessing isolation of transferred assets and for accounting for transfers of partial interests, servicing of financial assets, securitizations, transfers of sales-type and direct financing lease receivables, securities lending transactions, repurchase agreements including "dollar rolls", "wash sales", loan syndications and participations, risk participations in banker's acceptances, factoring arrangements, transfers of receivables with recourse and extinguishments of liabilities. In December 1996, the FASB issued SFAS No. 127, "Deferral of the Effective Date of FASB Statement No. 125", which delayed implementation of certain provisions of SFAS No. 125.

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BCBF, L.L.C.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996
(DOLLARS IN THOUSANDS)

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

Substantially all of the LLC's assets at December 31, 1996 were considered financial instruments. The LLC had no assets or liabilities at December 31, 1997. For loans held for sale, 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 the estimated cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise.

The fair values reflected below are indicative of the interest rate environments as of December 31, 1996 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 the LLC's future business activities. In other words, they do not represent the LLC's 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 values. Therefore, while disclosure of estimated fair values of financial instruments is required, readers are cautioned in using this data for purposes of evaluating the financial condition of the LLC.

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

Cash and cash equivalents have been valued 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.

LOANS HELD FOR SALE

The HUD Loans, which were designated held for sale, have been valued at

their carrying amount which approximates fair value given that the assumptions used to value such loans at their date of purchase have remained relatively constant.

REAL ESTATE OWNED

Real estate owned, although not a financial instrument, is an integral part of the LLC's loan business. The fair value of real estate owned was estimated based upon appraisals, broker price opinions and other standard industry valuation methods, less anticipated selling costs.

BCBF, L.L.C.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1997 AND 1996
 (DOLLARS IN THOUSANDS)

As mentioned above, on December 12, 1997, the LLC distributed all of its assets to Ocwen and BlackRock. The carrying amounts and the estimated fair values of the LLC's financial instruments and real estate owned at December 31, 1996 were as follows:

	CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS:		
Cash and cash equivalents.....	\$ 10	\$ 10
Loans held for sale.....	110,702	110,702
Real estate owned, net.....	25,595	31,738

NOTE 4 HUD LOAN PORTFOLIO

The LLC acquired the HUD Loans through an auction at a discount with the intent of securitizing and selling the majority of the loans. Because many of the mortgage loan borrowers were either not current as to principal and interest payments or there was doubt as to their ability to pay in full the contractual principal and interest, the LLC estimated the amounts expected to be realized through foreclosure, collection efforts or other resolution of each HUD loan and the length of time required to complete the collection process in determining the amount it bid to acquire the HUD Loans.

At December 31, 1997, the LLC had no loans outstanding, having previously distributed all assets to its Partners. At December 31, 1996 the LLC's HUD Loan portfolio, which was designated held for sale, consisted of the following:

Unpaid principal balance.....	\$ 159,405
Discount.....	(48,703)
	\$ 110,702
	=====

The following table sets forth information relating to the payment status of the HUD Loans at December 31, 1996:

	Amount	% of HUD Loans
Loans without Forbearance Agreements:		
Past due less than 31 days.....	\$ 6,709	4.21%
Past due 31 to 90 days.....	3,011	1.89
Past due 90 days or more.....	84,509	53.02
	94,229	59.12
	-----	-----
Loans with Forbearance Agreements:		
Past due less than 31 days.....	4,867	3.05
Past due 31 to 90 days.....	5,168	3.24
Past due 90 days or more.....	55,141	34.59
	-----	-----

	65,176	40.88
	-----	-----
Total.....	\$ 159,405	100.00%
	=====	=====

BCBF, L.L.C.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996
(DOLLARS IN THOUSANDS)

Forbearance agreements are agreements entered into by HUD or the LLC with the borrower for the repayment of delinquent payments over a period and for forbearance from foreclosure during the term for such agreement. HUD forbearance agreements are generally twelve months in duration and the borrower may be granted up to a maximum of three consecutive twelve month plans. Under the terms of the contract governing the sale of the HUD Loans, the LLC and Ocwen, as the servicer of the loans, are obligated to comply with the terms of the HUD forbearance agreements, which may be written or oral in nature, until the term of the forbearance agreement expires or there is a default under the forbearance agreement.

The HUD loans at December 31, 1996 were geographically located throughout the United States and Puerto Rico. The following table sets forth the five states in which the largest amount of properties securing the LLC's discounted loans were located at December 31, 1996:

Texas.....	\$ 30,382
California.....	26,596
Connecticut.....	11,729
Maryland.....	9,487
Colorado.....	9,018
Other	72,193

Total.....	\$ 159,405
	=====

NOTE 5 MORTGAGE LOAN SALES AND SECURITIZATION OF MORTGAGE LOANS

In March 1997, as part of a larger transaction involving Ocwen and an affiliate of BlackRock, the LLC securitized 1,196 loans with an unpaid principal balance of \$51,714, past due interest of \$14,209 and a net book value of \$40,454. Net proceeds from the sale of the related securities amounted to \$58,866. In December 1997, as part of a larger transaction involving Ocwen and BlackRock, the LLC securitized 534 loans with an unpaid principal balance of \$26,644, past due interest of \$8,303 and a net book value of \$20,139. Net proceeds from the sale of the related securities amounted to \$30,178.

In April 1996, the LLC sold 1,631 loans with an unpaid principal balance of \$61,885 and a net book value of \$34,388 for \$35,711 resulting in a gain on sale of loans of \$1,323.

In October 1996, the LLC securitized 9,825 loans with an unpaid principal balance of \$419,382 and a net book value of \$394,234. Certain of the mortgage related securities created from the securitization were sold in October 1996 for \$431,095, resulting in a gain of \$69,833 which includes a gain of \$12,863 on the sale of \$79,411 of securities directly to Ocwen. Certain other mortgage related securities created from the securitization were distributed to the Partners at their allocated book values which amounted to \$39,546.

NOTE 6 REAL ESTATE OWNED

Real estate owned, net of valuation allowances, is held for sale. At December 31, 1997, the LLC held no real estate owned, having previously distributed all assets to its Partners. At December 31, 1996, the LLC's real estate owned portfolio, acquired through foreclosure or deed-in-lieu of foreclosure, consisted of the following:

Single-family residential.....	\$ 26,106
--------------------------------	-----------

Valuation allowance.....	(511)

Real estate owned, net.....	\$ 25,595
	=====

10

BCBF, L.L.C.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996
(DOLLARS IN THOUSANDS)

The following schedule presents the activity in the valuation allowance on real estate owned for the indicated periods:

	For the Period January 1, 1997 Through December 31, 1997	For the Period March 13, 1996 through December 31, 1996
	-----	-----
Balance, beginning of period.....	\$ 511	\$ --
Provision for losses.....	1,110	636
Charge-offs and sales.....	(1,621)	(125)
	-----	-----
Balance, end of period.....	\$ --	\$ 511
	=====	=====

Real estate owned is geographically located throughout the United States and Puerto Rico. The following table sets forth the five states with the largest amount of properties owned by the LLC at December 31, 1996:

Texas	\$ 7,782
California.....	6,992
Maryland.....	2,692
Virginia.....	1,318
Georgia.....	1,274
Other	5,537

Total.....	\$ 25,595
	=====

The following table sets forth the results of the LLC's investment in real estate owned during the following periods:

	For the Period January 1, 1997 Through December 31, 1997	For the Period March 13, 1996 through December 31, 1996
	-----	-----
DESCRIPTION:		
Gains on sales.....	\$ 6,619	\$ 775
Provision for losses.....	(1,110)	(636)
Carrying costs, net of rental income.....	(5,602)	(269)
	-----	-----
Loss on real estate owned, net.....	\$ (93)	\$ (130)
	=====	=====

NOTE 7 NOTE PAYABLE ACQUISITION DEBT

In April 1996, the LLC financed the acquisition of the HUD Loans with the proceeds from a \$473,042 note payable from an unaffiliated party. Interest on the note payable was payable monthly and accrued at a rate equal to LIBOR plus 2.25%. The note payable, which was scheduled to mature in January 1997, was

secured by a first position lien on the HUD Loans purchased. The cash proceeds from the sale of securities resulting from the securitization of the 9,825 HUD Loans in October, 1996 and additional capital contributions by the Partners were used to fully repay the note payable in 1996.

BCBF, L.L.C.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1997 AND 1996
 (DOLLARS IN THOUSANDS)

NOTE 8 RELATED PARTY TRANSACTIONS

In connection with the LLC's acquisition of the HUD Loans, Ocwen entered into an agreement with the LLC to service the HUD Loans in accordance with its loan servicing and loan default resolution procedures. In return for such servicing, Ocwen received specified fees which were payable on a monthly basis. For the year ended December 31, 1997 and for the period from March 13, 1996 to December 31, 1996, Ocwen earned \$1,850 and \$5,743 in such servicing fees, respectively.

As the servicer for the HUD Loans, Ocwen was responsible for the collection of the payments due from borrowers and the payment of certain costs incurred in connection with the operation and maintenance of real estate owned properties. A cash settlement was made monthly between Ocwen and the LLC for the net of such collections and payments. At December 31, 1996, \$5,447 was due from Ocwen and is included in other assets. Such amount was paid by Ocwen to the LLC in January, 1997.

In connection with the 1996 securitization transactions (see Note 5), the LLC sold \$79,411 of securities to Ocwen for a gain of \$12,863. Additionally, also in 1996, the LLC sold certain rights to service the securitized loans to Ocwen for \$1,048.

NOTE 9 DISTRIBUTION OF ASSETS

On December 12, 1997, in accordance with the decision of the Partners, the assets of the LLC were distributed as follows:

	Ocwen	BlackRock	Total
	-----	-----	-----
Cash.....	\$ 5	\$ 5	\$ 10
Loans held for sale at book value.....	4,501	4,501	9,002
Real estate owned at book value.....	5,402	5,402	10,804
Amount due from loan servicer.....	295	295	590
Escrow advances.....	537	537	1,074
Other advances.....	212	212	424
	-----	-----	-----
	\$ 10,952	\$ 10,952	\$ 21,904
	=====	=====	=====

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This schedule contains summary financial information extracted from Ocwen Financial Corporation's consolidated statement of financial condition and statement of operations and is qualified in its entirety by reference to such financial statements.

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<NAME>

Ocwen Financial Corp.

<MULTIPLIER>

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<F1> Tag 18 includes Loans Available for Sale of \$177,041 Loan Portfolio of \$266,299 and Discount Loan Portfolio of \$1,434,176.

<F2> Tag 19 includes allowance for loan losses on loan portfolio of \$3,695 and on discount loan portfolio of \$23,493.

<F3> Tag 30 includes Interest Income on Loans Available for Sale of \$18,368. Loans of \$54,701 and Discount Loans of \$157,649.

<F4> Tag 39 includes Non-interest expense of \$126,793 and Distributions on Company-Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company of \$5,249.

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<F1> Tag 18 includes loans available for sale of \$126,366 loan portfolio of \$402,582 and discount loan portfolio of \$1,060,953.

<F2> Tag 19 includes allowances for loan losses on loan portfolio of \$3,523 and on discount loan portfolio of \$11,538.

<F3> Tag 30 includes interest income on loans available for sale of \$17,092, Loans of \$36,818, and discount loans of \$103,165.

<F4> Tag 45 EPS-Primary has been restated in accordance with SFAS No. 128, "Earnings per Share" and for the 2-for-1 stock split approved by the Company's Board of Directors on October 29, 1997.

<F5> Tag 46 EPS-Diluted has been restated in accordance with SFAS No. 128, "Earnings per Share" and for the 2-for-1 stock split approved by the Company's Board of Directors on October 29, 1997.

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Ocwen Financial Corp.

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<F1> Tag 18 includes Loans Available for sale of \$70,248 Loan Portfolio of \$369,651 and Discounted Loan Portfolio of \$906,084.

<F2> Tag 19 includes Allowance for Loan Losses on Loans Available for Sale of \$1,196 on Loan Portfolio of \$3,400 and on Discounted Loan Portfolio of \$11,604.

<F3> Tag 45 EPS-Primary has been restated in accordance with SFAS No. 128, "Earnings per Share" and for the 2-for-1 stock split approved by the Company's Board of Directors on October 29, 1997.

<F4> Tag 46 EPS-Diluted has been restated in accordance with SFAS No. 128, "Earnings per Share" and for the 2-for-1 stock split approved by the Company's Board of Directors on October 29, 1997.

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<F1> Tag 18 includes loans available for sale of \$88,511 loan portfolio of \$422,232 and discount loan portfolio of \$1,280,972.

<F2> Tag 19 includes allowance for loan losses on portfolio of \$4,834 and on discount loan portfolio of \$16,808.

<F3> Tag 45 EPS-Primary has been restated in accordance with SFAS No. 128, "Earnings per Share" and for the 2-for-1 stock split approved by the Company's Board of Directors on October 29, 1997.

<F4> Tag 46 EPS-Diluted has been restated in accordance with SFAS No. 128, "Earnings per Share" and for the 2-for-1 stock split approved by the Company's Board of Directors on October 29, 1997.

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<F1> Tag 18 includes loans available for sale of \$103,627 loan portfolio of \$433,663 and discount loan portfolio of \$1,295,120.

<F2> Tag 19 includes allowance for loan losses of loan portfolio of \$4,974 and on discount loan portfolio of \$19,851.

<F3> Tag 45 EPS-Primary has been restated in accordance with SFAS No. 128, "Earnings per Share" and for the 2-for-1 stock split approved by the Company's Board of Directors on October 29, 1997.

<F4> Tag 46 EPS-Diluted has been restated in accordance with SFAS No. 128, "Earnings per Share" and for the 2-for-1 stock split approved by the Company's Board of Directors on October 29, 1997.

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<F1> Tag 18 includes loan available for sale of \$190,012 loan portfolio of \$392,523 and discount loan portfolio of \$1,471,251.

<F2> Tag 19 includes allowance for loan losses on loan portfolio of \$4,734 and on discount loan portfolio of \$18,337.

<F3> Tag 24 includes \$141,188 in lines of credit which have a one year term.

<F4> Tag 30 interest income on loans available for sale of \$11,091 loans of \$37,991 and discount loans of \$116,840.

<F5> Tag 39 includes non-interest expense of \$84,995 and distributions on company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the company of \$1,850.

<F6> Tag 45 EPS-Primary has been restated in accordance with SFAS No. 128, "Earnings per Share" and for the 2-for-1 stock split approved by the Company's Board of Directors on October 29, 1997.

<F7> Tag 46 EPS-Diluted has been restated in accordance with SFAS No. 128, "Earnings per Share" and for the 2-for-1 stock split approved by the Company's Board of Directors on October 29, 1997.

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