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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2002

OR

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

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-13219

OCWEN FINANCIAL CORPORATION

(Exact name of Registrant as specified in our charter)

Florida

65-0039856

(State or other jurisdiction of
incorporation or organization)

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

1675 Palm Beach Lakes Boulevard
West Palm Beach, Florida

33401

(Address of principal executive office)

(Zip Code)

(561) 682-8000

(Registrant's telephone number, including area code)

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

Common Stock, \$.01 par value New York Stock Exchange (NYSE)
(Title of each class) (Name of each exchange on which registered)

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

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

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

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

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 March 14, 2003: \$112,625,597
(for purposes of this calculation affiliates include only directors and
executive officers of the registrant).

Number of shares of Common Stock, \$.01 par value, outstanding as of March 14,
2003: 67,339,773 shares

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Annual Report to
Shareholders for fiscal year ended December 31, 2002 are incorporated by
reference into Part I, Item 1 and Part II, Items 5-8 and portions of our
definitive Proxy Statement with respect to our Annual Meeting of Shareholders to
be held on May 15, 2003, and as filed with the Commission on or about March 28,
2003, are incorporated by reference into Part III, Items 10-13.

OCWEN FINANCIAL CORPORATION  
2002 FORM 10-K ANNUAL REPORT  
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FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, but not limited to the following:

- o estimates regarding the benefits of cost saving opportunities and quality workforce in India,
- o projections for staff reduction in the United States and growth in our India workforce,
- o predictions as to the potential business opportunities in global outsourcing,
- o predictions regarding sales of our commercial and affordable housing assets and
- o intentions related to the issuance of brokered deposits and other sources of financing.

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

- o general economic and market conditions,
- o prevailing interest or currency exchange rates,
- o availability of servicing rights for purchase,
- o governmental regulations and policies,
- o international political and economic uncertainty,
- o availability of adequate and timely sources of liquidity,
- o uncertainty related to dispute resolution and litigation and
- o real estate market conditions and trends.

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

PART I

ITEM 1 BUSINESS (Dollars in thousands)

GENERAL

Ocwen Financial Corporation ("OCN" or "the Company") is a financial services company headquartered in West Palm Beach, Florida. OCN is a Florida corporation that was organized in February 1988 in connection with the acquisition of Ocwen Federal Bank FSB (the "Bank"). OCN is a registered savings and loan holding company subject to regulation by the Office of Thrift

Supervision ("OTS"). The Bank is a wholly owned subsidiary of OCN and is also subject to regulation by the OTS, as our chartering authority, and by the Federal Deposit Insurance Corporation ("FDIC"), as a result of its membership in the Savings Association Insurance Fund, which insures the Bank's deposits to the maximum extent permitted by law. The Bank is also subject to regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve Board") and currently is a member of the Federal Home Loan Bank ("FHLB") of New York, one of the 12 regional banks that comprise the FHLB System.

#### SEGMENTS

In early 2000, we began the execution of our overall strategic plan to shift our business activities away from capital-intensive businesses involving the purchase or origination of loans, real estate and related assets toward less capital-intensive businesses that generate fee-based revenues. As a result, we generally ceased to originate or invest in assets in certain of our business segments ("non-core businesses") unless contractually committed. However, we continued to actively manage and resolve the remaining assets in these segments. Our primary fee-based business activity is servicing subprime residential mortgage loans for others. As of December 31, 2002, our core and non-core businesses were as follows:

Core Businesses	Non-Core Businesses
Residential Loan Servicing	Residential Discount Loans
Ocwen Technology Xchange ("OTX")	Commercial Finance
Ocwen Realty Advisors ("ORA")	Subprime Finance
Unsecured Collections	Affordable Housing

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

Our decision to change our strategy and to focus on fee-based earnings was driven by changes in the economy and in the markets we serve and in our perception of how to maximize the long-term value of the Company. The non-core residential discount loan business and commercial finance business involved the acquisition of non-performing loans at a discount to par value. The objective was to resolve the loan and return it to performing status in order to increase its value. Once the loan was reperforming, the exit strategy was to sell or securitize the loan for a profit. As the economy continued to expand throughout the late 1990's, however, the supply of non-performing loans decreased. As a result, the prices asked for non-performing loans increased, and consequently the profit margins on the business decreased. Additionally, the earnings patterns of the businesses could be erratic as they typically depended on the consummation of a few large sales transactions. Simultaneously, new competitors were entering the market that had access to large amounts of capital.

In the late 1990's we also began to originate subprime residential mortgage loans. However, the business attracted a substantial amount of new capital and competition increased. The competition from larger, better-capitalized companies put pressure on pricing relative to the rates and terms offered to subprime borrowers in general, and, as a result, profit margins declined. Simultaneously, interest rates began to decrease and the assumptions concerning prepayment speeds that had been used to price new loans turned out to be overly optimistic as mortgages prepaid more quickly than expected, adding additional risk to investments in this business line.

Consequently, we determined that our best course of action was to compete where we were strongest, that is, by using the technology and expertise we had developed over the years in managing our own portfolio of non performing residential and commercial loans and in servicing our own subprime loans and offering it to other institutions on a fee for service basis, as either a mortgage servicer or as a technology provider. We believe that these activities offer a more consistent earnings stream with a more attractive risk profile. Accordingly, in late 1999 and early 2000 we embarked on our current business strategy.

Segment results in recent years reflects growth in our residential loan servicing segment, continued investment in the development and marketing of our technology products at OTX, our exit from the subprime loan origination business (both in the US and the UK), our acquisition of Ocwen Asset Investment Corp.

PART I (Continued)

ITEM 1 BUSINESS (Dollars in thousands)

("OAC") in 1999, cessation of loan acquisitions and origination activity and our continuing resolution or disposition of those assets not associated with our core businesses. To date, the Residential Loan Servicing business has been profitable. Our Unsecured Collections business and ORA are profitable but smaller contributors to the bottom line. Both earn fee income for performing services for third parties. OTX markets several products to the real estate and mortgage industries. However, although we earn some fee income from sales of these products, they have not yet been sufficient for this business line to earn a profit.

A description of each of our businesses and the segments through which they are conducted follows.

Residential Loan Servicing

We acquire the servicing rights to performing, sub-performing and non-performing mortgage loans. At December 31, 2002, subprime mortgages represented approximately 86% of the total unpaid principal balance of the loans we serviced. We are entitled to service the mortgages because we purchased the servicing rights from the owners of the mortgages. These rights are typically specified in an agreement between the various parties to a mortgage securitization transaction, along with the obligations that we are required to perform as the mortgage servicer. Our largest source of revenue is the servicing fees we earn pursuant to the servicing agreements. Servicing fees are usually earned as a percentage of the unpaid principal amount of the mortgages that are being serviced. Typically, this fee is approximately 0.50% per year. The servicing fees are supplemented by related income, including late fees earned from borrowers who are delinquent in remitting their monthly mortgage payments. As servicer, we also have a variety of obligations that are also specified in the servicing agreement, including the obligation to service the mortgages according to accepted standards and to make advances to the securitization trust in the event that the borrowers are delinquent on their monthly remittances. The costs incurred in connection with performing these obligations includes the cost of servicing the loans and the interest expense incurred to finance the servicing rights and servicing advances incurred in connection with conducting the business, among others.

The servicing rights may be obtained by purchasing the mortgage servicing rights or entering into contracts to sub-service mortgage loans. The contracts may provide for a single bulk transfer of a servicing portfolio or the ongoing transfer of loans as they are originated or purchased by counterparties to the servicing contract. While the loans are transferred to us for servicing, the client retains ownership of the loans. The acquisition of servicing rights is generally structured as a two part bid process. A preliminary bid is provided to each potential client following a preliminary due diligence review of the loan portfolio, the seller's financial status, the strategic fit of the portfolio with our servicing capabilities and the portfolio's historical performance characteristics.

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

The Servicing Rights Purchase Agreement provides us with the legal right to service the designated mortgage loans. This agreement specifies the rights and obligations of both parties including, but not limited to, the use of custodial bank accounts, maintenance of hazard insurance and tax escrow funds and fund distribution processes, as well as the servicing fees and other terms of the servicing arrangement.

As of December 31, 2002, we serviced loans under approximately 275 servicing agreements for 21 clients.

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

rated the Bank as "Strong" as a Residential Subprime Servicer, Residential Special Servicer and Commercial Special Servicer. "Strong" represents Standard & Poor's highest ratings category. Moody's Investors Service has rated the Bank as "SQ1" as a Residential Subprime Servicer and as a Residential Special Servicer. "SQ1" represents Moody's Investors Services highest ratings category. Fitch Ratings has rated the Bank "RPS2" for Residential Subprime Servicing, "RSS2" for Residential Special Servicing and "CSS2" for Commercial Special Servicing. These represent Fitch's second highest categories, respectively.

We continue to grow and develop our residential servicing business as part of our change in strategic focus from capital intensive to fee-based businesses. As a result, we have seen steady growth in the average unpaid principal balance of residential loans we service for others from \$8,802,444 during 1999 to \$26,533,826 during 2002.

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#### PART I (Continued)

#### ITEM 1 BUSINESS (Dollars in thousands)

##### Ocwen Technology Xchange (OTX)

The OTX segment consists of the following three product lines: REALTransSM, REALServicingTM and REALSynergyTM. Each of these product lines serves a different market need, and each is at a different stage of maturity and commercial use.

On January 20, 1998, we acquired DTS Communications, Inc. ("DTS"), a real estate technology company located in San Diego, California. The acquisition was accounted for as a purchase. DTS was merged into OTX in 2000. DTS developed technology tools to automate real estate transactions. Our acquisition of DTS and its product served as the basis for the REALTrans system. Our REALTrans product is a web-based vendor management platform that facilitates the electronic fulfillment of real estate products and services necessary to process, approve and close residential mortgage loans, as well as to service them. We market this product to residential lenders and servicers and their associated vendors. By connecting these two parties with the REALTrans platform, we allow them to conduct business more effectively and efficiently. We earn transaction fee revenues from the vendors based on the products and services they provide to their lenders through this platform. We also earn revenues through annual membership fees. The transaction fees are recognized as revenue as incurred. The membership fees are deferred and recognized as revenue over the twelve-month membership period.

Among our customer base on the REALTrans platform are several of the top 35 residential mortgage lenders and over 4,000 vendors. These lenders account for a significant portion of the mortgage origination market. While we estimate that the eventual market opportunity for the REALTrans platform is between \$500,000 and \$1,000,000, the market is currently in an early stage of adopting this technology. Our primary competitor to this product line is a division of a company that offers proprietary vendor management products.

On November 6, 1997, we acquired AMOS, Inc. ("AMOS"), a Connecticut-based company engaged primarily in the development of residential mortgage loan servicing software. The acquisition was accounted for as a purchase. AMOS is a wholly-owned subsidiary of OTX. Our acquisition of AMOS and its products became the basis for the REALServicing software. Our REALServicing product is a comprehensive enterprise level residential mortgage loan servicing platform, which has been used by the Bank since January 2001. The REALServicing product suite also includes REALResolutionTM, a default management platform that provides end-to-end mortgage default processing support. The target market for this platform includes both prime and sub-prime residential mortgage loan servicers. We believe the market opportunity for our REALServicing and REALResolution products is between \$500,000 and \$1,000,000. While a single firm currently possesses nearly a 60% share of this market, we only require a modest market share to achieve profitability and sustain growth. Our policy is to recognize licensing fees related to our REALServicing product as revenue ratably over the life of the related licensing agreement.

On June 2, 1999, we acquired the assets of Synergy Software, LLC ("Synergy"), a developer of commercial and multifamily mortgage servicing systems and a wholly-owned subsidiary of OTX. The acquisition of Synergy's

product was the basis for the REALSynergy software. Our REALSynergy product is a comprehensive enterprise level commercial mortgage loan servicing platform. The target market for this platform includes domestic and international commercial mortgage loan servicers. The market in which REALSynergy competes is served by a limited number of companies. Our primary competitor is a division of a large, diversified public company. The REALSynergy product suite includes REALSAMMTM, the REALSynergy Asset Management Module, a web-enabled platform for the asset and default management of performing and non-performing commercial loans and real estate. REALSAMM is being introduced to selected international markets through a joint venture with Merrill Lynch. We recognize licensing fees related to our REALSynergy product as revenue ratably over the life of the related licensing agreements.

The losses incurred by OTX to date reflect our continuing efforts to develop and market our suite of technology solutions.

Ocwen Realty Advisors (ORA)

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

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

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#### PART I (Continued)

ITEM 1 BUSINESS (Dollars in thousands)

##### Unsecured Collections

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

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

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

##### Residential Discount Loans

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

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

The last acquisition of residential discount loans was made in 2000. Based on the relative insignificance of the non-core assets remaining in this business at December 31, 2002 (\$4,633), the remaining assets of this business and any related income or loss arising from their resolution will be included in the Corporate Items and Other segment beginning January 1, 2003.

## Commercial Finance

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

No new commercial assets have been purchased since 2000. Since then, this business has consisted of the management, repositioning and resolution of the remaining non-core assets. At December 31, 2002, we had \$190,602 of non-core assets, which consisted of 18 loan and real estate assets, and one unrated subordinate security. Of the 18 loans and real estate assets remaining in this segment at December 31, 2002, the five largest amounted to 74% of the total. Because of the concentration of value in these assets, it is difficult to project with certainty when final sales or resolutions will be completed or whether further losses may be incurred upon resolution. While we believe that additional sales will occur during 2003, it is probable that some of the larger properties will not be sold until 2004. We regularly assess the value of our remaining assets and provide additional loss reserves or impairment charges as appropriate.

We entered the commercial real estate business largely as a result of our acquisition of OAC in 1999. At December 31, 2002, only two properties remain: one shopping center and one office building.

## Affordable Housing

Historically, we invested in affordable housing properties primarily through limited partnerships for the purpose of obtaining Federal income tax credits pursuant to Section 42 of the Internal Revenue Code of 1986, as amended. 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 and meet certain conditions. A specified portion of the apartment units in a qualifying project may be rented only to qualified tenants for a period of fifteen years. If not, a portion of any previously claimed tax credits will be subject to recapture, including previously claimed tax credits associated with projects we have sold, as discussed below.

Beginning in 2000 we ceased making investments in these properties, except to complete those projects in which an investment had already been made. This reflects our change in strategic focus away from capital intensive lines of business and the fact that the volume of tax credits being generated was exceeding our ability to utilize them effectively. Since that time, we also began the process of marketing each of these properties for sale. At December 31, 2002, we had \$15,319 of investments in affordable housing properties remaining, plus an additional \$6,229 of loans outstanding to limited partnerships in which we have invested but which are not consolidated into our financial statements. While we cannot project sales with certainty, we believe that it is possible that the remaining properties will be sold before the end of 2003 and that new sources of financing will be established to repay the remaining loan balances.

## PART I (Continued)

### ITEM 1 BUSINESS (Dollars in thousands)

We regularly assess the carrying value of our remaining assets and provide additional loss reserves as appropriate. At December 31, 2002, we had recorded reserves equal to approximately 48% of the gross book value of the assets.

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 fifteen years after the year the tax credit is earned. 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 qualifying tenants, and tax credits are not dependent on a project's operating income or appreciation. Tax credits generally can be lost or



recaptured only if non-qualifying tenants are placed in units, ownership of the project is transferred or the project is destroyed and not rebuilt during a 15-year compliance period for the project. There can be no assurance that the multi-family residential projects owned by the low-income housing tax credit partnerships in which we have currently or previously invested will satisfy applicable criteria during the 15-year compliance period and that there will not be loss or recapture of a portion of the associated tax credits.

#### Subprime Finance

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

In August 1999, we closed our subprime residential loan origination offices and reassigned or terminated employees who were involved in loan origination and related management and support functions.

Through 1996, the Bank acquired subprime single family residential loans primarily through a correspondent relationship with Admiral Home Loan ("Admiral") and, to a lesser extent, correspondent relationships with three other financial services companies. Correspondent institutions originated loans based on guidelines provided by us and promptly sold the loans to us on a servicing-released basis. Through Ocwen Financial Services, Inc. ("OFS"), we acquired substantially all of the assets of Admiral in a transaction that closed on May 1, 1997. In connection with our acquisition of assets from Admiral, the Bank transferred its retail and wholesale subprime single family residential lending operations to OFS.

#### Corporate Items and Other

In this segment we report business activities that are individually insignificant, interest income on cash and cash equivalents, interest expense on corporate assets, gains and losses from debt repurchases, trading gains or losses associated with our collateralized mortgage obligation trading portfolio and general corporate expenses.

Additional financial information and related discussion regarding each of our segments appears under the captions "Segment Profitability" on pages 22 to 27 and "Note 27: Business Segment Reporting" on pages 113 to 115 of our 2002 Annual Report to Shareholders.

### PART I (Continued)

#### ITEM 1 BUSINESS (Dollars in thousands)

##### SOURCES OF FUNDS

General. The principal sources of funds that support our business activities are:

- |   |                          |   |                               |
|---|--------------------------|---|-------------------------------|
| o | Deposits                 | o | Payments received on loans    |
| o | Lines of credit          | o | and securities                |
| o | Match funded debt        | o | Proceeds from sales of assets |
| o | Securities sold under    | o | Servicing fees                |
|   | agreements to repurchase |   |                               |

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

- o Scheduled maturities of all certificates of deposit for 2003, 2004 and thereafter amount to \$269,315, \$78,467 and \$54,498, respectively.
- o Expiration of existing collateralized line of credit in April 2003.
- o Maturity of our match funded servicing advance funding facility in December 2003.
- o Maturity of a note and loan totaling \$47,710 in September and October

2003.

- o Potential extension of resolution and sale timelines for non-core assets in the current weak economic environment.
- o Ongoing cash requirements to fund operations of our holding company and OTX.
- o Cash requirements to fund our acquisition of additional servicing rights and related advances, as discussed immediately below.

In the last several years, our Residential Loan Servicing business has grown through the purchase of servicing rights. Servicing rights entitle the owner to earn servicing fees and various other types of ancillary income for performing functions that require staffing and significant cash advances and expenditures. In connection with these servicing rights, the servicer must make cash advances for delinquent principal and interest, taxes, insurance and various other items that are required to preserve the assets being serviced. Our ability to continue to grow our servicing business significantly depends on our ability to obtain additional financing to purchase new servicing rights and to fund servicing advances. We currently use a variety of sources of debt to finance these assets, including deposits and credit facilities with advance rates less than 100% of the underlying collateral. If we cannot replace or renew these sources as they mature or obtain additional sources of financing, we may be unable to acquire new servicing rights and make the associated advances. We closely monitor rates and terms of competing sources of funds on a regular basis and generally utilize the sources that are the most cost effective.

Deposits. Historically, a significant source of deposits for us has been certificates of deposit obtained primarily through national investment banking firms that, pursuant to agreements with us, solicit funds from their customers for deposit with the Bank ("brokered deposits"). Our brokered deposits are reported net of unamortized deferred fees, which have been paid to investment banking firms, and amounted to \$198,248 at December 31, 2002.

We plan to retain non-brokered deposits as a source of financing our operations while at the same time reducing our reliance on brokered deposits. We plan to reduce this reliance by using proceeds from the sale of non-core assets to pay off maturing brokered deposits and by diversifying our funding sources through obtaining credit facilities for servicing rights and advances. Our ability to continue to attract new non-brokered deposits and rollover existing non-brokered deposits depends largely on our ability to compete with interest rates offered by other banks in the northern New Jersey area. In 2002, we were able to increase the amount of non-brokered deposits outstanding. If we are unable to maintain the amount of non-brokered deposits outstanding and replace them with alternative sources of funds, it is likely that we would have to incur higher interest costs to fund our assets. We have not issued any new brokered certificates of deposit since 2000.

We obtain deposits from our office located in New Jersey through advertising, walk-ins and other traditional means. These deposits include non-interest bearing checking accounts, NOW and money market checking accounts and savings accounts but are primarily comprised of non-brokered certificates of deposit. At December 31, 2002, the deposits that were allocated to this office amounted to \$153,688 and comprised approximately 36% of our total deposits.

Lines of Credit. Under a revolving credit facility executed in April 2001 we have the right to pledge servicing advances as collateral for a loan up to \$100,000. The outstanding balance as of December 31, 2002 was \$78,511. The facility, if not renewed, will mature in April 2003.

PART I (Continued)

ITEM 1 BUSINESS (Dollars in thousands)

Match Funded Debt. Under a match funding agreement that we entered into on December 20, 2001, we are eligible to sell advances on loans serviced for others up to a maximum debt balance of \$200,000 at any one time. At December 31, 2002, we had \$106,797 of bonds-match funded agreements outstanding under this facility, which, if not renewed, will mature in December 2003. This would preclude our ability to finance further advances through this facility. The sales of advances did not qualify as sales for accounting purposes since we retained effective control of the advances. Therefore, we report them as secured

borrowings with pledges of collateral. We have accounted for additional sales under this facility in the same manner.

Securities Sold Under Agreements to Repurchase. We also obtain funds pursuant to securities sold under reverse repurchase agreements. Under these agreements, we sell securities (generally mortgage-backed and mortgage-related securities) under an agreement to repurchase such securities at a specified price at a later date. Reverse repurchase agreements have short-term maturities (typically 90 days or less) and are deemed to be financing transactions. All securities underlying reverse repurchase agreements are reflected as assets in our consolidated financial statements and are held in safekeeping by broker-dealers. We had no securities sold under agreements to repurchase at December 31, 2002.

Other. Our borrowings also include notes, subordinated debentures and other interest-bearing obligations. Additional information on our sources of funds appears under the captions "Liquidity, Commitments and Off-Balance Sheet Risks" on pages 65 to 67, "Deposits" on page 57, "Note 12: Deposits" on pages 98 to 99, "Note 14: Bonds - Match Funded Agreements" on page 99, "Note 15: Lines of Credit and Other Short-Term Borrowings" on page 100, "Risks Related to Financing" on page 18 and "Note 16: Notes, Debentures and Other Interest-Bearing Obligations" on pages 101 to 102 of the 2002 Annual Report to Shareholders and is incorporated herein by reference.

#### RISK FACTORS

There are a number of risk factors that relate to our business and that may directly or indirectly affect our results of operations and financial condition. A discussion of our principal risk factors appears under the caption "Overview of Risks and Related Critical Accounting Policies" on pages 16 to 20 of our 2002 Annual Report to Shareholders and is incorporated herein.

#### COMPETITION

A discussion of competition as it relates to our primary core businesses appears under the captions "Risk Related to Mortgage Servicing Rights" and "Risks Associated With Technology" on pages 18 and 19 of our 2002 Annual Report to Shareholders and is incorporated herein by reference.

#### SUBSIDIARIES

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

#### EMPLOYEES

As of December 31, 2002, we had a total of 1,871 employees, of which 1,028 were in our United States facilities and 843 were in our India operations centers. We have developed our India operations centers over the past two years in order to benefit from the cost savings opportunities and quality workforce available in that country.

In the United States, our operations are concentrated in our headquarters in West Palm Beach, which had 474 employees as of December 31, 2002, and our operations center in Orlando, which had 534 staff members as of December 31, 2002. Our Orlando facility has the capacity to house 950 employees on a single shift. In addition, we had 20 employees at various other locations in the United States. At this time, we estimate that we will experience a modest reduction of our staff in the United States during 2003.

In India, our operations are located in the cities of Bangalore and Mumbai. Of the 843 members of the staff in India as of December 31, 2002, 566 were in Bangalore and 277 were in Mumbai. Our India workforce can be summarized by business as follows:

- o 72% are engaged in activities for our Residential Loan Servicing business,
- o 9% support OTX and Technology Services,
- o 13% work in various other business units and
- o 6% represent various support functions, including Human Resources and Corporate Services, Accounting and Risk Management.

PART I (Continued)

ITEM 1 BUSINESS (Dollars in thousands)

We project additional growth in our India staff during 2003. The extent of this growth is dependent upon the growth of several of our new business initiatives, primarily Global Outsourcing. Global Outsourcing is a developing new business focused on providing business process outsourcing services to third parties.

Our employees are not represented by a collective bargaining agreement. We consider our employee relations to be satisfactory.

REGULATION

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

The Holding Company

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

Restrictions on Acquisitions. Savings and loan holding companies and their affiliates are prohibited from acquiring more than 5% of the voting shares, or from acquiring control, of any other savings association or savings and loan holding company, without prior approval of the OTS.

The Bank

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

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

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

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

Core Capital Requirement. 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 non-withdrawable accounts and pledged deposits. Deductions from core capital include certain intangibles, servicing assets and credit-enhancing interest-only strips.

Risk-Based Capital Requirement. A savings bank is allowed to include both core capital and supplementary capital in the calculation of its total

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PART I (Continued)

ITEM 1 BUSINESS (Dollars in thousands)

capital for purposes of the risk-based capital requirements, provided that the amount of supplementary capital included does not exceed the savings bank's core capital. Supplementary capital consists of certain capital instruments that do not qualify as core capital, including subordinated debt (such as the Bank's Debentures) that meets specified requirements and loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. In determining the required amount of risk-based capital, total assets, as well as residual interests (including certain off-balance sheet items that are converted to on-balance sheet credit equivalents using a conversion factor of 0% to 100%), are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights assigned by the OTS for principal categories of assets currently range from 0% to 200%, depending on the type of asset.

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

Prompt Corrective Action. Federal banking regulators have the authority to take "prompt corrective action" to resolve the problems of undercapitalized institutions. The regulations establish five categories with varying degrees of regulators' powers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." At December 31, 2002, the Bank was a "well capitalized" institution under the prompt corrective action regulations of the OTS; however, this classification is for limited purposes and may not be indicative of the Bank's financial condition. The regulations also permit the appropriate Federal banking regulator to downgrade an institution to the next lower category under certain circumstances. Depending upon the capital category of an institution, the regulators' corrective powers may affect capital and stock distributions, limits on asset growth, acquisitions and new lines of business, transactions with affiliates, the ability to accept brokered deposits and changes in officers and directors, among other things.

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

- o 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;
- o The branching powers of the association shall be restricted to those of a national bank; and
- o Payment of dividends by the association shall be subject to the rules regarding payment of dividends by a national bank.

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

Restrictions on Capital Distributions. The Bank is required to file a

notice with the OTS at least 30 days prior to paying a dividend, or making any payment to repurchase, redeem, retire or otherwise acquire debt instruments included in total risk-based capital (each a "capital distribution") if (a) it is not eligible for expedited treatment under the OTS application processing regulations, (b) the total amount of the Bank's capital distributions (including the proposed distribution) for the calendar year exceeds the Bank's net income for the year to date plus retained net income for the previous two years, (c) the Bank would not be "adequately capitalized" following the proposed capital distribution or (d) the proposed capital distribution would violate any applicable statute, regulation, or an agreement between the Bank and the OTS, or a condition imposed upon the Bank by an OTS-approved application or notice. The OTS may deny the Bank's application or disapprove our notice if the OTS determines that (a) the Bank will be "undercapitalized," "significantly undercapitalized" or "critically under capitalized," as defined in the OTS capital regulations, following the capital distribution, (b) the proposed capital distribution raises safety and soundness concerns or (c) the proposed capital distribution violates a prohibition contained in any statute, regulation or agreement between the Bank and the OTS or a condition imposed on the Bank in an application or notice approved by the OTS. The Bank is and intends to remain in compliance with these restrictions.

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

The Bank is currently and expects to remain in compliance with the loan-to-one borrower limitation.

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PART I (Continued)

ITEM 1 BUSINESS (Dollars in thousands)

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

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

Insider Loans. Savings banks are also subject to various limitations and reporting requirements on loans to insiders. These limitations require, among other things, that all loans or extensions of credit to insiders (generally executive officers, directors or 10% stockholders of the institution) or their "related interests" be made on substantially the same terms (including interest rates and collateral) as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with the general public and not involve more than the normal risk of repayment

or present other unfavorable features.

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

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

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

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires financial institutions regulated by the federal banking agencies to ascertain and help meet the credit needs of their delineated communities, including low- to moderate-income neighborhoods within those communities, while maintaining safe and sound banking practices. The regulatory agency assigns one of four possible ratings to an institution's CRA performance: outstanding, satisfactory, needs to improve and substantial noncompliance. The institution's regulator must consider its financial capacity and size, legal impediments, local economic conditions and demographics, including the competitive environment in which it operates. In 2002, the Bank received a "satisfactory" CRA rating from the OTS.

USA PATRIOT Act. Among other requirements, the USA PATRIOT Act requires savings banks to establish an anti-money laundering program and imposes limitations and due diligence requirements on private banking accounts and correspondent accounts with certain foreign nationals and foreign institutions. Also, the USA PATRIOT Act requires the federal banking agencies to adopt regulations that would require depository institutions, such as the Bank, to adopt customer identification programs. The federal banking agencies have not yet promulgated final customer identification program regulations.

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#### PART I (Continued)

#### ITEM 1 BUSINESS (Dollars in thousands)

Sarbanes-Oxley Act of 2002. In response to the recent series of regulatory enactments in furtherance of the provisions of the Sarbanes-Oxley Act, we have taken actions including, but not limited to:

- o Review of the responsibilities and reporting practices of our auditors,
- o Development of questionnaires to identify potential conflicts of interest,
- o Establishment of Disclosure Review and Nomination/Governance Committees,

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

#### FEDERAL TAXATION

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

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

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

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

Examinations. The most recent examination by the IRS of our Federal income tax return was of the tax return filed for 1996. The statute of limitations has run with respect to 1997 and all prior tax years. Thus, the Federal income tax returns for the years 1998 (due to a waiver of the statute of limitations) and 1999 through 2001 are open for examination. The Internal Revenue Service currently is completing an examination of the Company's Federal income tax returns for the years 1998 and 1999 and reviewing the tax years 1995 through 1997 as result of carryback claims filed. We do not anticipate any material adjustments as a result of any examination, although there can be no assurances in this regard.

#### PART I (Continued)

ITEM 1 BUSINESS (Dollars in thousands)

#### STATE TAXATION



OCN's income is subject to tax by the States of Florida and California, which have statutory tax rates of 5.5% and 10.84%, respectively, and its taxable income in these states is determined based on certain apportionment factors. We are taxed in New Jersey on income, net of expenses, earned in New Jersey at a statutory rate of 3.0%. The State of Florida currently is completing an examination of the Company's State income tax return for the years 1999 through 2001. No other state return of ours has been examined, and we have received no notification from any other state that intends to examine any of our tax returns. We do not anticipate any material adjustments as a result of any examination, although there can be no assurances in this regard.

ITEM 2. PROPERTIES (Dollars in thousands)

The following table sets forth information relating to our facilities at December 31, 2002:

Location	Owned/Leased	Net Book Value of Property or Leasehold Improvements
Executive offices:		
1675 Palm Beach Lakes Boulevard West Palm Beach, FL.....	Leased	\$ 2,249
Bank main office:		
2400 Lemoine Ave Fort Lee, NJ.....	Leased	\$ 8
Servicing center:		
12650 Ingenuity Drive Orlando, FL.....	Owned	\$ 21,925
Software development and servicing operations center:		
International Technology Park Bangalore, India.....	Leased	\$ 90
Spectrum Towers Mumbai, India.....	Leased	\$ 180
OTX offices (1):		
REALTrans office:		
5050 Avenida Encinas, Suite 200 Carlsbad, CA.....	Leased	\$ 95
REALServicing office:		
10 Research Parkway Wallingford, CT.....	Leased	\$ 21
REALSynergy office:		
Two Creekside Crossing 10 Cadillac Drive, Suite 350 Brentwood, TN.....	Leased	\$ 74

(1) OTX's main office is located in facilities provided by OCN.

PART I (Continued)

ITEM 3. LEGAL PROCEEDINGS (Dollars in thousands)

A description of material pending or recently settled legal proceedings to which OCN or its subsidiaries are a party follows:

On April 20, 1999, a complaint was filed on behalf of a putative class of public shareholders of the Company in the Circuit Court of the Fifteenth Judicial Circuit, Palm Beach County, Florida against OCN and OAC. On April 23, 1999, a complaint was filed on behalf of a putative class of public shareholders of OAC in the Circuit Court of the Fifteenth Judicial Circuit, Palm Beach County, Florida, against OAC and certain directors of OAC. The plaintiffs in both complaints sought to enjoin consummation of the acquisition of OAC by OCN. The cases were consolidated, and on September 13, 1999 a consolidated amended complaint was filed. The injunction was denied, and on October 14, 1999 OCN was dismissed as a party. Plaintiffs' remaining claims were for damages for alleged breaches of common law fiduciary duties. In October 2001, the parties reached an agreement in principle, which provides for a payment to plaintiffs in the amount of \$475 in complete settlement off all claims for damages and attorney's fees and costs. The agreement in principle also requires us to pay a share of certain

additional administrative costs attendant to the settlement, in an amount not yet determined. The agreement in principle is subject to the approval of the Court. This matter is not expected to have a material impact on our financial statements.

On June 3, 1999, Walton Street Capital, L.L.C. ("Walton") filed suit against OAC and Ocwen Partnership, L.P. in the Circuit Court of Cook County, Illinois. Walton has alleged that OAC committed an anticipatory breach of contract with respect to the proposed sale by OAC of all of its interest in its commercial mortgage-backed securities portfolio to Walton. Walton has claimed damages in an amount in excess of \$27,000 including prejudgment interest. As of October 20, 2000, both Walton and OAC filed motions for Summary Judgement. On December 21, 2000, the Circuit Court granted Walton's Limited Motion for Summary Judgement concerning liability. On February 20, 2001, Ocwen filed a motion for reconsideration requesting the Circuit Court vacate its order granting summary judgment to Walton. On January 29, 2002, after oral argument, the Circuit Court reversed its earlier ruling by vacating the order granting summary judgment. On October 25, 2002, the Circuit Court denied Walton's motion for summary judgement. The trial was scheduled to begin March 4, 2003. On March 3, 2003, the Parties entered into a settlement agreement under which defendants admitted no liability, and the case was dismissed with prejudice. The amount of the settlement was \$2,250, which is included in the financial results of 2002 based on the applicable accounting rules.

The former owners of Admiral Home Loan ("Claimants") filed a Demand for Arbitration against OCN and William C. Erbey claiming damages in the amount of \$21,250 arising out of a 1997 acquisition agreement pursuant to which a subsidiary of OCN acquired all the assets of Admiral Home Loan. The Claimants amended their Demand to include a claim for Civil Theft under Florida statutes for which treble damages are sought. An evidentiary hearing on the matter was concluded before a three-person arbitration panel on February 24, 2003. On March 11, 2003, the Parties submitted post-hearing findings of fact and conclusions of law to the arbitration panel, which has taken the matter under advisement. Although litigation is always uncertain, we believe the claims asserted in the Admiral Home Loan matter are without merit, and we have defended them vigorously.

We are also subject to various other ordinary routine pending litigation incidental to our business. Management is of the opinion that the resolution of these claims will not have a material adverse effect on the results of our operations or financial condition.

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

There were no matters submitted to a vote of stockholders during the quarter ended December 31, 2002.

### 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 120 of our 2002 Annual Report to Shareholders and is incorporated herein by reference.

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### PART II - (Continued)

#### ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Information required by this Item appears under the caption "Selected Consolidated Financial Information" on pages 12 to 15 of our 2002 Annual Report to Shareholders and is incorporated herein by reference. See Item 8 below and Part IV, Item 15 regarding our consolidated financial statements and notes.

#### 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 16 to 67 of our 2002 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item appears under the captions "Asset and Liability Management" on pages 59 to 64, "Note 1: Summary of Significant Accounting Policies" on pages 18 to 87 and "Note 19: Derivative Financial Instruments" on pages 104 to 105 of our 2002 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this Item appears on pages 70 to 119 in our 2002 Annual Report to Shareholders 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 our definitive Proxy Statement with respect to our Annual Meeting of Shareholders to be held on May 15, 2003 and as filed with the Commission on or about March 28, 2003 (the "2003 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 our 2003 Proxy Statement under the captions "Executive Compensation," "Board of Directors Compensation" and "Comparison of Cumulative Total Return" is incorporated herein by reference.

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

The information contained in our 2003 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

None.

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PART III - (Continued)

ITEM 14. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed in our reports under the Securities Exchange Act of 1934 ("Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to the management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Within 90 days prior to the date of filing of this Annual Report on Form 10-K and pursuant to Exchange Act Rule 13a - 15, we conducted an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and

procedures as defined in Exchange Act Rule 13a-14(c). Based upon the evaluation, the Chief Executive Officer along with the Chief Financial Officer concluded that our disclosure controls and procedures are effective, in all material respects, in timely alerting them to material information required to be included in our Exchange Act reports. Additionally, there have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we conducted the evaluation.

PART IV

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

- (a) 1 & 2 Financial Statements and Schedules. The following Consolidated Financial Statements of Ocwen Financial Corporation and Report of PricewaterhouseCoopers LLP, Independent Certified Public Accountants, are incorporated herein by reference from pages 70 to 119 of our Annual Report to Shareholders:

Report of Independent Certified Public Accountants

Consolidated Statements of Financial Condition at December 31, 2002 and 2001

Consolidated Statements of Operations for each of the three years in the period ended December 31, 2002

Consolidated Statements of Changes in Shareholders' Equity for each of the three years in the period ended December 31, 2002

Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2002

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2002

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.

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PART IV - (Continued)

- (a) 3 Exhibits.

- 2.1 Agreement of Merger dated as of July 25, 1999 among Ocwen Financial Corporation, Ocwen Asset Investment Corp. and Ocwen Acquisition Company (1)
- 3.1 Amended and Restated Articles of Incorporation (2)
- 3.2 Amended and Restated Bylaws (3)
- 4.0 Form of Certificate of Common Stock (2)
- 4.1 Form of Indenture between OCN and Bank One, Columbus, NA as Trustee (2)
- 4.2 Form of Note due 2003 (included in Exhibit 4.1) (2)
- 4.3 Certificate of Trust of Ocwen Capital Trust I (4)
- 4.4 Amended and Restated Declaration of Trust of Ocwen Capital Trust I (4)
- 4.5 Form of Capital Security of Ocwen Capital Trust I (included in Exhibit 4.4) (4)
- 4.6 Form of Indenture relating to 10.875% Junior Subordinated Debentures due 2027 of OCN (4)
- 4.7 Form of 10.875% Junior Subordinated Debentures due 2027 of OCN (included in Exhibit 4.6) (4)
- 4.8 Form of Guarantee of OCN relating to the Capital Securities of Ocwen Capital Trust I (4)
- 4.9 Form of Indenture between Ocwen Federal Bank FSB and The Bank of New York as Trustee (5)
- 4.10 Form of Subordinated Debentures due 2005 (5)
- 10.1 Ocwen Financial Corporation 1996 Stock Plan for Directors, as amended (6)

- 10.2 Ocwen Financial Corporation 1998 Annual Incentive Plan (7)
- 10.3 Compensation and Indemnification Agreement, dated as of May 6, 1999, between OAC and the independent committee of the Board of Directors (8)
- 10.4 Indemnity agreement, dated August 24, 1999, among OCN and OAC's directors (9)
- 10.5 Amended Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, dated October 26, 1999 (9)
- 10.6 First Amendment to Agreement, dated March 30, 2000 between HCT Investments, Inc. and OAIC Partnership I, L.P. (9)
- 10.7 Form of Employment Agreement, dated as of April 1, 2001, by and between Ocwen Financial Corporation and Arthur D. Ringwald (10)
- 11.1 Computation of earnings per share (11)
- 12.1 Ratio of earnings to fixed charges (filed herewith)
- 13.1 Excerpts from the Annual Report to Shareholders for the year ended December 31, 2002 (filed herewith)
- 21.0 Subsidiaries (filed herewith)
- 23.0 Consent of PricewaterhouseCoopers LLP (filed herewith)
- 24.0 Power of Attorney (filed herewith)
- 99.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 99.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

- (1) Incorporated by reference from a similarly described exhibit included with the Registrant's Current Report on Form 8-K filed with the Commission on July 26, 1999.
- (2) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-1 (File No. 333-5153) as amended, declared effective by the commission on September 25, 1996.
- (3) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998.
- (4) Incorporated by reference from the similarly described exhibit filed in connection with our Registration Statement on Form S-1 (File No. 333-28889), as amended, declared effective by the Commission on August 6, 1997.
- (5) Incorporated by reference from the similarly described exhibit filed in connection with Amendment No. 2 to Offering Circular on Form OC (on Form S-1) filed on June 7, 1995.

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PART IV - (Continued)

- (6) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-8 (File No. 333-44999), effective when filed with the Commission on January 28, 1998.
- (7) Incorporated by reference from the similarly described exhibit to our definitive Proxy Statement with respect to our 1998 Annual Meeting of Shareholders as filed with the Commission on March 31, 1998.
- (8) Incorporated by reference from OAC's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999.
- (9) Incorporated by reference from the similarly described exhibit included with the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000.
- (10) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on form 10-K for the year ended December 31, 2001.

(11) Incorporated by reference from "Note 18: Basic and Diluted Earnings per Share" on page 103 of our 2002 Annual Report to Shareholders.

(b) Reports on Form 8-K Filed during the Quarter Ended December 31, 2002

(1) A Form 8-K was filed by OCN on November 12, 2002 which contained a news release announcing our 2002 third quarter results and certain other information.

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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 our behalf by the undersigned, thereunto duly authorized.

OCWEN FINANCIAL CORPORATION

By: /s/ WILLIAM C. ERBEY

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

Date: March 28, 2003

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 28, 2003

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

/s/ BARRY N. WISH Date: March 28, 2003

-----  
Barry N. Wish, Director

/s/ W. C. MARTIN Date: March 28, 2003

-----  
W.C. Martin, Director

/s/ HON. THOMAS F. LEWIS Date: March 28, 2003

-----  
Hon. Thomas F. Lewis, Director

/s/ W. MICHAEL LINN Date: March 28, 2003

-----  
W. Michael Linn, Director

/s/ HERBERT B. TASKER Date: March 28, 2002

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Herbert B. Tasker, Director

/s/ WILLIAM H. LACY Date: March 28, 2003

-----  
Hon. William H. Lacy, Director

/s/ MARK S. ZEIDMAN Date: March 28, 2003

-----  
Mark S. Zeidman, Senior Vice President and  
Chief Financial Officer  
(principal financial officer)

/s/ ROBERT J. LEIST, JR. Date: March 28, 2003

-----  
Robert J. Leist, Jr., Vice President and  
Chief Accounting Officer

CERTIFICATIONS

I, William C. Erbey, certify that:

1. I have reviewed this annual report on Form 10-K of Ocwen Financial Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/ WILLIAM C ERBEY

-----  
William C. Erbey  
Chief Executive Officer

I, Mark S. Zeidman, certify that:

1. I have reviewed this annual report on Form 10-K of Ocwen Financial Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date:
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/ MARK S. ZEIDMAN

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Mark S. Zeidman  
Chief Financial Officer



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

	2002	2001	2000	1999	1998
	-----	-----	-----	-----	-----
Earnings:					
(Loss) income from continuing operations before income taxes and effect of change in accounting principle .....	\$ (82,057)	\$ (41,782)	\$ 21,139	\$ 23,293	\$ (32,366)
Less:					
(Losses) and undistributed income of equity investees ....	--	--	(5,280)	(9,154)	439
Add:					
Interest expensed and capitalized, except interest on deposits, and amortization of capitalized debt expenses .....	35,681	42,738	84,897	72,765	84,596
Interest on deposits .....	27,455	59,967	98,224	98,370	116,584
Interest component of rental expense .....	1,108	1,176	1,124	2,032	2,135
Total fixed charges (1) .....	64,244	103,881	184,245	173,167	203,315
Earnings for computation purposes .....	\$ (17,813)	\$ 62,099	\$ 210,664	\$ 205,614	\$ 170,510
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges:					
Including interest on deposits (2).....	(3)	(3)	1.14	1.19	(3)
Excluding interest on deposits (2).....	(3)	(3)	1.31	1.43	(3)

- (1) Fixed charges represent total interest expensed and capitalized, including and excluding interest on deposits, amortization of capitalized debt expenses, as well as the interest component of rental expense.
- (2) The ratios of earnings to fixed charges were computed by dividing (x) income from continuing operations before income taxes and effect of change in accounting principal, adjusted for losses and undistributed income of equity investees plus fixed charges by (y) fixed charges.
- (3) Due to our losses in 2002, 2001 and 1998, the ratio of earnings to fixed charges was less than 1:1. We would have had to have generated additional earnings of \$82,057, \$41,782 and \$32,805, respectively, to achieve a coverage of 1:1.

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## 11

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

The following tables present selected consolidated financial information of Ocwen Financial Corporation and its subsidiaries at the dates and for the years indicated. Our historical operations and balance sheet data at and for the years ended December 31, 2002, 2001, 2000, 1999, and 1998 have been derived from our audited financial statements. We have reclassified certain amounts included in the 2001, 2000, 1999 and 1998 selected consolidated financial information to conform to the 2002 presentation. The selected consolidated financial information should be read in conjunction with, and is qualified in its entirety by reference to, the information we have provided in our Consolidated Financial Statements and the Notes to Consolidated Financial Statements on pages 69 to 119.

	At or For the Years Ended December 31,				
	2002	2001	2000	1999 (1)	1998 (1)
<b>Balance Sheet Data</b>					
Total assets .....	\$1,222,242	1,711,150	\$2,249,420	\$3,281,674	\$3,301,083
Trading securities, at fair value (2) (3) .....	58,895	226,249	390,242	--	--
Securities available for sale, at fair value (3) .....	--	--	--	587,518	593,347
Affordable housing properties (2) (4) .....	15,319	102,069	142,812	150,989	144,164
Loans, net (2) .....	76,857	185,293	640,052	1,115,850	1,434,670
Match funded assets, net (5) .....	167,744	174,351	116,987	157,794	--
Investments in unconsolidated entities (6) .....	353	1,067	430	37,118	86,893
Real estate owned, net (2) .....	62,039	110,465	146,419	167,506	201,551
Investments in real estate and real estate held for sale (7) .....	58,676	130,314	145,431	268,241	36,860
Advances on loans and loans serviced for others (2) .....	266,356	283,183	277,055	162,548	108,078
Mortgage servicing rights (2) .....	171,611	101,107	51,426	11,683	7,060
Total liabilities .....	853,497	1,270,885	1,666,464	2,662,232	2,689,871
Deposits and escrows (8) .....	510,956	730,443	1,258,360	1,814,647	2,168,791
Bonds-match funded agreements (9) .....	147,071	156,908	107,050	141,515	--
Obligations outstanding under lines of credit (10)....	78,511	84,304	32,933	187,866	179,285
Notes, debentures and other interest-bearing obligations (11) .....	81,210	160,305	173,330	317,573	225,000
Stockholders' equity (12) .....	310,718	379,106	503,426	509,442	436,376
<b>Other Data</b>					
Average assets .....	\$1,435,131	\$1,983,584	\$3,108,367	\$3,187,683	\$3,574,780
Average equity .....	347,092	448,752	495,354	462,216	427,512
Return on average assets:					
Income (loss) before effect of change in accounting principle .....	(5.92)%	(6.29)%	0.07%	0.62%	(0.03)%
Net income (loss) .....	(4.79)	(6.29)	0.07	0.62	(0.03)
Return on average equity:					
Income (loss) before effect of change in accounting principle .....	(24.47)	(27.81)	0.44	2.78	(0.28)
Net income (loss) .....	(19.81)	(27.81)	0.44	4.29	(0.28)
Average equity to average assets .....	24.19	22.62	15.94	14.50	11.96
Net interest spread .....	0.99	1.36	2.13	4.57	3.90
Net interest margin .....	(3.62)	(1.03)	0.82	4.39	4.30
Efficiency ratio (13) .....	153.59	111.61	78.09	81.90	100.12
Bank regulatory capital ratios at end of period:					
Tangible .....	15.28	13.43	13.83	10.67	9.07
Core (Leverage) .....	15.51	13.64	13.83	10.67	9.07
Risk-based .....	21.71	23.33	21.83	19.12	17.26

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

	For the Years Ended December 31,				
	2002	2001	2000	1999 (1)	1998 (1)
<b>Operations Data</b>					
Net income (loss)	\$ (68,775)	\$ (124,782)	\$ 2,192	\$ 19,832	\$ (1,200)
Net interest income (expense) (14)	(18,527)	(9,958)	15,726	97,682	122,801
Provision for loan losses	13,629	15,666	15,177	6,710	18,509
Total non-interest income	134,475	173,419	201,979	140,500	103,465
Servicing and other fees (15)	141,991	134,597	97,080	76,018	59,163
Gain (loss) on interest-earning assets, net (16)	(3,485)	(3,949)	17,625	44,298	129,988
Gain (loss) on trading and match funded securities, net (3)	7,012	16,330	(3,971)	--	--
Impairment charges on securities available for sale (3)	--	--	(11,597)	(58,777)	(129,714)
Gain (loss) on other non-interest earning assets, net (17)	1,122	(1,054)	45,517	58,693	17,702
Net operating gains (losses) on investments in real estate (18)	(8,315)	5,581	27,579	820	(1,112)
Amortization of excess of net assets acquired over purchase price (19)	--	18,333	14,112	3,201	--
Gain (loss) on repurchase debt (11)	(1,461)	3,774	29,703	8,474	--
Equity in income (losses) of investments in unconsolidated entities (6)	215	304	(5,249)	(12,616)	(7,985)
Total non-interest expense (20)	178,089	182,446	170,009	195,068	226,529
Income tax expense (benefit) (21)	2,983	83,000	18,947	4,099	(30,699)
Effect of change in accounting principle (19)	16,166	--	--	--	--
<b>Earnings (loss) per share</b>					
<b>Basic and Diluted</b>					
Net income (loss) before effect of accounting change	\$ (1.26)	\$ (1.86)	\$ 0.03	\$ 0.31	\$ (0.02)
Effect of change in accounting principle, net of tax	\$ 0.24	\$ --	\$ --	\$ --	\$ --
Net income (loss)	\$ (1.02)	\$ (1.86)	\$ 0.03	\$ 0.31	\$ (0.02)
<b>Weighted average common shares outstanding</b>					
Basic	67,321,299	67,227,058	67,427,662	63,051,015	60,736,950
Diluted	67,321,299	67,227,058	67,464,043	63,090,282	60,736,950

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

Notes to Selected Consolidated Financial Information

- Financial data we have presented for 1999 and 1998 included our wholly-owned UK subsidiary, Ocwen UK Limited, formerly known as Ocwen UK plc ("Ocwen UK"). Ocwen UK was engaged in the subprime mortgage loan origination and servicing business, began operations on April 24, 1998 and was sold on September 30, 1999. Beginning in 1999, the financial data presented also included Ocwen Asset Investment Corp. ("OAC") which was acquired in October 1999. Previously, we accounted for our investment in OAC and its operating partnership subsidiary, Ocwen Partnership L.P. ("OPLP"), under the equity method.
- Beginning in late 1999 and early 2000, we ceased conducting the origination and acquisition of loans, real estate owned, investments in real estate, residual and subordinate trading securities and affordable housing properties. Since then, our results reflect the ongoing management and resolution of these assets. At the same time we shifted our focus toward growing fee-based businesses, primarily residential loan servicing and Ocwen Technology Xchange ("OTX"), our technology solutions business. As a result, our investment in mortgage servicing rights and servicing advances has grown, as well as the related residential servicing fees. Additionally, we have incurred losses in the development and marketing of OTX products. Those losses (pre-tax) amounted to \$(24,144), \$(36,392) and \$(33,951) during 2002, 2001 and 2000, respectively. See "Overview of Risks and Related Critical Accounting Policies" and "Results of Operations - Segment Profitability".
- On September 30, 2000 we changed our policy for securities available for sale and match funded securities to account for these securities as trading. For these securities, changes in fair value are reported in income in the period of change. Previously, we accounted for our securities as available for sale, and the unrealized gains and losses

for these securities were reported as a separate component of accumulated other comprehensive income in stockholders' equity.

- (4) Balances at December 31, 2002, 2001 and 2000 included \$4,458, \$49,893 and \$93,210, respectively, of affordable housing properties that we have entered into agreements to sell. Although these agreements resulted in the transfer of tax credits and operating results for these properties to the purchaser, they did not qualify as sales for accounting purposes. See "Changes in Financial Condition - Affordable Housing Properties".
- (5) Match funded assets at December 31, 1999 and 2000 were comprised solely of securitized loans and securities. Match funded assets at December 31, 2002 and 2001 also included \$121,702 and \$101,963 of loan servicing advances which were sold but did not qualify as a sale for accounting purposes. We have accounted for these transactions as secured borrowings with pledges of collateral. We acquired the match funded loans as a result of our acquisition of OAC. See "Changes in Financial Condition - Match Funded Assets".
- (6) Losses we incurred for 2000 related primarily to our investment in Kensington Group PLC (Kensington) in 1999. Losses for 1999 and 1998 related primarily to our investment in Kensington and our equity investments in OAC and OPLP, before their acquisition in October 1999.
- (7) Balances at December 31, 2002, 2001, 2000 and 1999 included \$51,588, \$78,544, \$75,080 and \$252,604, respectively, of properties that we acquired as a result of our acquisition of OAC. See "Changes in Financial Condition - Investments in Real Estate".
- (8) Since 2000, we have been reducing our reliance on brokered certificates of deposit as a source of funding. The amount of such deposits outstanding amounted to \$198,248, \$484,698 and \$968,432 at December 31, 2002, 2001 and 2000 respectively. We plan to maintain non-brokered deposits as a source of funding. See "Banking Operations" and "Liquidity, Commitments and Off-balance Sheet Risks".
- (9) Balances included bonds-match funded agreements we assumed as a result of our acquisition of OAC in 1999. At December 31, 2002 and 2001 the balance also included \$106,797 and \$91,766, respectively, collateralized by loan servicing advances. See "Changes in Financial Condition - Bonds-Match Funded Agreements".
- (10) Balance at December 31, 1999 included \$159,170 of lines of credit we acquired in connection with our acquisition of OAC. During 2000 we paid down these lines significantly as a result of real estate sales. See "Changes in Financial Condition - Obligations Outstanding Under Lines of Credit".
- (11) Balance at December 31, 1999 included \$140,487 of 11.5% Notes we acquired in connection with our acquisition of OAC. During 2000, we repurchased these Notes. During 2002, 2001, 2000 and 1999 we repurchased \$77,095, \$13,025, \$146,755 and \$54,150, respectively, of fixed rate debt with high interest rates. See "Changes in Financial Condition - Notes, Debentures and Other Interest-Bearing Obligations".
- (12) Stockholders' equity includes our issuance of 12,371,750 shares of common stock in the amount of \$96,809 in connection with our acquisition of OAC in 1999. We repurchased 1,388,300 shares of common stock for an aggregate of \$8,996 and 4,611,700 of common stock shares for an aggregate of \$30,691 during 2000 and 1999, respectively.
- (13) The efficiency ratio represents non-interest expense divided by the sum of net interest income before provision for loan losses and non-interest income.

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

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- (14) Net interest income for 1999 and 1998 included \$21,827 and \$12,048, respectively, earned by Ocwen UK prior to its sale.

- (15) Servicing and other fees earned during 1999 and 1998 included \$9,691 and \$8,359, respectively, attributed to Ocwen UK prior to its sale.
- (16) We recognized \$36,804 and \$109,601 of net gains in connection with the securitization of loans during 1999 and 1998, respectively. During the third quarter of 1999, we decided to structure future securitizations as financing transactions, thereby precluding our use of gain-on-sale accounting. The gains we earned from loan sales during 1999 and 1998 included \$8,940 and \$26,331, respectively, from Ocwen UK prior to its sale.
- (17) Net gains earned in 1999 included a \$50,371 gain from the sale of Ocwen UK. Net gains for 2000 included a gain of \$20,025 from the sale of our unconsolidated investment in Kensington on November 22, 2000. Kensington was engaged in the subprime mortgage loan origination business in the UK.
- (18) Results for 2002, 2001 and 2000, and to a lesser extent 1999, included operating income from real estate properties acquired as a result of our acquisition of OAC. Only two properties remain at December 31, 2002. Results for 2002, 2001 and 2000 also included equity in earnings related to certain loans acquired during the first quarter of 2000 which we account for as investments in real estate under the equity method. See "Results of Operations - Net Operating Gains on Investments in Real Estate".
- (19) Upon adoption of SFAS No. 142 effective January 1, 2002 we reversed the unamortized balance of the excess of net assets acquired over purchase price of \$18,333 and recorded \$3,333 of impairment charges on goodwill and intangible assets. These amounts have been reported as the effect of a change in accounting principle, net of an income tax benefit of \$1,166. See Note 1 to our Consolidated Financial Statements.
- (20) Non-interest expenses for 1999 and 1998 included \$36,114 and \$41,277, respectively, attributed to Ocwen UK prior to its sale.
- (21) Income tax expense we recorded for 2001, 2000 and 1999 included \$83,000, \$17,500 and \$2,500, respectively, of net provisions to increase the valuation allowance on prior years' deferred tax assets. No such provision was required for 2002. See "Results of Operations - Income Tax Expense (Benefit)".

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

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

Overview of Risks and Related Critical Accounting Policies

For the past several years, we have been undergoing a fundamental transition in the nature of our business. In late 1999 and early 2000, we began the execution of our overall strategic plan to shift our business activities away from capital-intensive businesses involving the purchase or origination of loans, real estate and related assets toward less capital-intensive businesses that generate fee-based revenues. As a result, we generally ceased to originate or invest in assets in certain of our business segments ("non-core businesses") unless contractually committed. However, we continued to actively manage and resolve the remaining assets in these segments. As of December 31, 2002, our core and non-core businesses were as follows:

Core Businesses

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Residential Loan Servicing  
Ocwen Technology Xchange ("OTX")  
Ocwen Realty Advisors ("ORA")  
Unsecured Collections

Non-Core Businesses

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Residential Discount Loans  
Commercial Finance  
Subprime Finance  
Affordable Housing

Additionally, we account for certain items of revenue and expense that are not directly related to a business unit in our Corporate Items and Other segment. Included in our Corporate Items and Other segment is interest income on short-term investments of cash and the related costs of financing these investments, certain unallocated costs of our Technology Services Division, gains and losses on the early retirement of debt and amortization of negative goodwill recorded from the acquisition of OAC.

Principal Risk Factors. The following is a discussion of the principal risk factors that relate to our businesses and that may affect future results.

Potential for Inconsistent Earnings. Our corporate strategy focuses on the growth of the servicing of assets owned by others and the development of exportable loan servicing technology for the mortgage and real estate industries. Our past financial performance may not be considered a reliable indicator of future performance and historical trends may not be reliable indicators of anticipated results or trends in future periods. In addition, there can be no assurance that we will be able to accomplish our strategic objectives as a result of changes in the nature of our operations over time or that such changes will not have a material adverse effect from time to time or generally on our business, financial condition or results of operations.

In addition to inconsistency in results caused by our entry into or exit from businesses in recent years, the consistency of our operating results has been and may continue to be significantly affected by inter-period variations in our current operations, including:

- o the amount of servicing rights acquired;
- o the amount of resolutions of discounted loans, particularly large multi-family residential and commercial real estate loans;
- o sales by us of loans and/or securities acquired from our securitization of loans in prior years.

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

Investment Risks. A component of our previous business strategy in the Residential Discount Loan and Subprime Finance non-core business lines was the acquisition, origination and securitization of residential mortgage loans. We had historically retained subordinate and residual interests in connection with the securitization of our loans and had acquired other residual interests in connection with our acquisition of OAC. The performance of these securities in prior years was negatively impacted by higher than expected prepayment speeds and credit losses experienced on the mortgage loans collateralizing the securities. We have reduced our exposure to loss on these investments by selling most of the portfolio. However, we remain subject to the risk of loss on our remaining securities primarily to the extent that future credit losses exceed expected credit losses.

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

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We continue to own loans and match funded loans relating to our non-core businesses. We believe that we have established adequate allowances for losses for each of our loans and match funded loans in accordance with generally accepted accounting principles. Future additions to these allowances, in the form of provisions for losses on loans and match funded loans, may be necessary, however, due to changes in economic conditions and the performance of these portfolios. There can be no assurance that we will not determine to further increase our allowances for losses on loans or adjust the carrying value of our real estate owned or other assets. Increases in our provisions for losses on loans would adversely affect our results of operations.

International Operations. We conduct business in the United States, and we have established two software development and servicing operations centers in

India. Through a joint venture, we have begun operations in Japan and Taiwan and are exploring additional international opportunities. Our foreign operations are subject to risks beyond those associated with our United States operations, including the following:

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

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

Retained Risk of Loans Sold. Historically, we purchased and originated loans that were subsequently pooled and securitized. While we no longer purchase, originate or securitize loans, we retain some degree of risk on substantially all loans sold. If it is later discovered that we breached a representation or warranty made at the time the loans were sold, we may be required to repurchase loans at a price equal to the then outstanding principal balance of the loan and any accrued and unpaid interest thereon. Additionally, we may be required to advance funds to the securitization trusts or to indemnify the trustee or the underwriters of a securitization under specific circumstances.

Importance of the Chief Executive Officer. William C. Erbey, our Chairman and Chief Executive Officer, has had and will continue to have a significant role in the development and management of our business. The loss of his services could have an adverse effect on us. We do not have an employment agreement with Mr. Erbey, and we currently do not maintain key man life insurance relating to Mr. Erbey or any of our other officers.

Control by Shareholders. As of March 14, 2003, our directors and executive officers and their affiliates collectively owned or controlled 42.03% of our outstanding common stock. This includes 28.30% owned or controlled by our Chairman and Chief Executive Officer, William C. Erbey, and 13.39% owned or controlled by our director and former Chairman, Barry N. Wish. As a result, these shareholders could influence or control virtually all matters requiring shareholder approval, including amendment of our Articles of Incorporation, the approval of mergers or similar transactions and the election of all directors.

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

(Dollars in thousands, except share data)

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Risks Related to Mortgage Servicing Rights. The primary risk associated with mortgage servicing rights is that they will lose a portion of their value as a result of higher than anticipated prepayments occasioned by declining interest rates or because of higher than anticipated delinquency rates occasioned by deteriorating credit conditions. Both our initial and ongoing valuations and the rate of amortization of mortgage servicing rights are significantly affected by interest rates, prepayment speeds and the payment performance of the underlying loans. In general, the value of mortgage servicing assets is affected by increased mortgage refinance activity which is influenced by changes in borrowers' credit ratings, shifts in value in the housing market and interest rates. While such assets tend to decrease in value as interest rates decrease, they tend to increase in value as interest rates increase. Adverse changes in general economic conditions could have an adverse effect on the value of our servicing rights and could impair our ability to successfully resolve loans. As of December 31, 2002, we held \$171,611 of mortgage servicing rights.

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

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

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

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

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

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



- o General economic conditions and the impact they have on the availability of credit.

An event of default, a negative ratings action by a rating agency, the perception of financial weakness resulting from continuing operating losses, a material increase in the cost of competing for deposits, an action by a regulatory authority or a restriction imposed on us as a function of a debt covenant that serves to limit our ability to borrow money, or a general deterioration in the economy that constricts the availability of credit may increase our cost of funds and make it difficult for us to renew existing credit facilities and obtain new lines of credit.

Risks Associated with Technology. The software industry is characterized by rapid change and uncertainty due to new and emerging technologies. OTX's ability to grow is dependent upon its ability to develop and introduce new products and enhance existing products to satisfy consumer demand for new technologies. Because the pace of change continues to accelerate and new opportunities for

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
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competitors arise, OTX's business planning is subject to substantial uncertainty. If we do not successfully identify new product opportunities and develop and bring new products to market in a timely and efficient manner, our OTX business will suffer. New platforms and products may gain popularity with customers, vendors and loan originators, reducing or eliminating the potential for OTX's future revenue.

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

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

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

Our exit from our capital intensive discount loan, real estate and affordable housing businesses is largely focused on the orderly disposition or resolution of the assets associated with these lines of business. The critical accounting policies that affect the measurement of these businesses are those

that determine the valuation of real estate and affordable housing assets as well as the determination of the allowance for loan losses.

Real estate-related assets include real estate owned, investments in real estate and investments in affordable housing properties. These assets are carried at different bases by asset class and at different amounts within each asset class. In addition, all of these assets are subject to ongoing impairment tests using various impairment methodologies that differ by asset class. In general, none of the assets have readily determinable fair values based on quoted market prices. In certain cases, we utilize appraisals or other market value estimates, in conjunction with estimates of completion costs or costs of disposition, to determine asset values. In other cases, we value these assets based on analyses of future cash flows. These cash flow analyses involve assumptions such as discount rates, anticipated rents received, etc. that are highly subject to management judgment and estimation. Our task of estimation is even more challenging given the current risks in the economic environment, which can result in material and sometimes rapid changes in valuation estimates. Individual assumptions between and within asset classes can vary significantly, with variances in assumptions resulting in substantially different asset values.

The allowance for loan losses is established and maintained at levels we deem adequate to cover losses resulting from the inability of borrowers to make contractually required loan payments. Estimates for loan losses are developed by analyzing historical loan losses, current trends in delinquencies and charge offs, plans for problem loan administration and resolution, the views of our regulators, changes in the size and composition of the loan portfolio, and peer group information. Where there is a question as to the impairment of specific loans, we obtain valuations of the property or other collateral securing the loan, and, if applicable, the borrower's current financial information. We also include in our estimates of inherent probable loan losses the impact of economic events, the outcome of which are uncertain. These events may include, but are not limited to, deterioration in general economic conditions, increases or decreases in overall lending rates, political conditions, legislation that directly and indirectly affects the banking industry, and regional economic conditions affecting specific geographical areas in which we conduct business.

Our most significant area of growth during the past year has been our residential loan servicing business, with increased transaction volumes during the past two years. Inherent in our growth of this business has been an increase in purchased mortgage servicing rights, an intangible asset representing the present value of the right to service loans in a portfolio. Therefore, the most critical

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
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accounting policy for this business line is the methodology we use to determine the value of mortgage servicing rights. Application of this methodology requires the development of a number of estimates, including anticipated amortization and periodic revaluation. Both our initial and ongoing valuations and the rate of amortization of mortgage servicing rights are significantly affected by interest rates, prepayment speeds and the payment performance of the underlying loans. In general, during periods of declining interest rates, the value of mortgage servicing assets declines due to increasing prepayments attributable to increased mortgage refinancing activity. We amortize mortgage servicing rights over the period of estimated net servicing income based on our projections of the amount and timing of future cash flows. The amount and timing of servicing asset amortization is adjusted periodically based on actual results and updated projections.

Our other significant core business line is OTX, our technology solutions business. At December 31, 2001 we had goodwill and intellectual property recorded as a result of the acquisitions of three predecessor technology companies, as well as capitalized software development costs for the period of early development, which ended in 1999. These assets are subject to periodic impairment tests, under which the determination of realization is dependent upon projected future income. The realizability of these assets is based primarily on product-by-product projections of future income, which involve a comparison of the projected undiscounted cash flows of the underlying

software products to the carrying amounts of the assets. Effective January 1, 2002 we adopted Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangibles. SFAS 142 prescribed a new methodology for performing the impairment analyses for goodwill and other intangibles, which is an approach based on fair value of the assets rather than undiscounted cash flows as used prior to adoption. The determination of market discount rates that are used in such an analysis is also subjective and may vary by product based on the type of product, stage of development and sales to date. As a result of our analysis of goodwill and tangible assets using the methodology prescribed by SFAS No. 142, we recorded impairment charges of \$3,333 concurrent with our adoption of SFAS No. 142. This impairment was reported as part of the effect of a change in accounting principle, net of a tax benefit of \$1,166. In addition, we conducted further impairment tests of goodwill at the end of 2002, which resulted in our recording additional impairment of \$2,231.

Another accounting policy that requires the use of estimates and the application of judgment is the determination of our overall tax provision and evaluating the realizability of the gross deferred tax assets in the near term. During 2001 we recorded an \$83,000 provision to increase the valuation allowance on our prior years' deferred tax assets. During 2002, we provided an additional valuation allowance equal to the amount of any deferred tax assets recorded during the year. As of December 31, 2002, our remaining net deferred tax asset amounted to \$8,387. The evaluation of the need for a valuation allowance takes into consideration our recent earnings history, current tax position and estimates of taxable income in the near term. The tax character (ordinary versus capital) and the carryforward periods of certain tax attributes (e.g., capital losses and tax credits) must also be considered. Significant judgment is required in considering the relative impact of negative and positive evidence related to realizability of the deferred tax assets. The determination of the amount of the aggregate valuation allowance is based on scenario analyses of the projected results of operations by line of business resulting in a range of potential valuation allowances, within which a final amount is determined.

#### Banking Operations

Ocwen Federal Bank FSB ("the Bank"), a wholly owned subsidiary, is a federally chartered savings bank. As such, it is subject to regulation, examination and supervision by the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC").

We operate one bank branch in Fort Lee, New Jersey. This location, which provides most of our retail banking services, is primarily focused on the issuance of retail certificates of deposit that serve as a supplementary source of financing for us. We do not conduct loan origination activities in the Fort Lee branch. In prior years, we had also issued brokered certificates of deposit from our offices in West Palm Beach, Florida. However, we ceased the issuance of brokered deposits in the summer of 2000 and have since paid off our maturing brokered deposits as they have come due.

We currently operate several of our core businesses primarily in the Bank: Residential Loan Servicing, ORA and portions of Unsecured Collections. In addition, our non-core Affordable Housing business operates in the Bank, as does a portion of our non-core Commercial Finance business. Despite the reduction in our reliance on brokered certificates of deposit as a funding source, the retail deposits issued by our banking operation continue to provide an important source of financing for these business activities. See "Liquidity, Commitments and Off-Balance Sheet Risks" for additional discussion of brokered and non-brokered deposits as a source of funding.

We have an active ongoing dialogue with the OTS regarding our various businesses and business plans, and we continue to be subject to a number of restrictions with respect to our future operations. Following the completion of the annual safety and soundness examination of the OTS in 2000, we submitted a written business plan and budget to the OTS regarding our plans for the business, primarily that of the Bank, over the next several years. The primary focus of that plan was the reduction in our non-core business activities and the reduction of our deposit liabilities and long-term debt obligations as we focused on the growth of our fee-based business activities.

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The initial plan was approved by the OTS in February 2001. Since that time, we submitted a revised plan to the OTS in April of 2002. Based on discussions with the OTS regarding the revised plan, we have committed to maintain our investment in mortgage servicing rights at approximately 60% of core capital (before any deduction thereto for servicing rights) at the Bank and 50% of stockholders' equity on a consolidated basis. We regularly review actual results as compared to our plan with the OTS on a less formal basis. At this time, we remain substantially in compliance with the plan as modified over time.

Although the plan is consistent with our current operating strategies, future compliance is subject to the uncertainties and risks associated with our business.

#### Workforce and Operational Capacity

As of December 31, 2002, we had a total of 1,871 employees, of which 1,028 were in our United States facilities and 843 were in our India operations centers. We have developed our India operations centers over the past two years in order to benefit from the cost savings opportunities and quality workforce available in that country.

In the United States, our operations are concentrated in our headquarters in West Palm Beach, which had 474 employees as of December 31, 2002, and our operations center in Orlando, which had 534 staff members as of December 31, 2002. Our Orlando facility has the capacity to house 950 employees on a single shift. In addition, we had 20 employees at various other locations in the United States. At this time, we estimate that we will experience a modest reduction of our staff in the United States during 2003.

In India, our operations are located in the cities of Bangalore and Mumbai. Of the 843 members of the staff in India as of December 31, 2002, 566 were in Bangalore and 277 were in Mumbai. Our India workforce can be summarized by business as follows:

- o 72% are engaged in activities for our Residential Loan Servicing business,
- o 9% support OTX and Technology Services,
- o 13% work in various other business units, and
- o 6% represent various support functions, including Human Resources and Corporate Services, Accounting and Risk Management.

We project additional growth in our India staff during 2003. The extent of this growth is dependent upon the growth of several of our new business initiatives, primarily Global Outsourcing. Global Outsourcing is a developing new business focused on providing business process outsourcing services to third parties.

#### Results of Operations

General. We recorded a net loss of \$(68,775) for 2002, as compared to a net loss of \$(124,782) for 2001 and net income of \$2,192 for 2000. Our loss per share was \$(1.02) for 2002, as compared with \$(1.86) for 2001 and earnings per share of \$0.03 for 2000. As discussed in "Overview of Risks and Related Critical Accounting Policies", during 2002 we continued our transition in business strategy from non-core businesses to core businesses.

Among the significant factors contributing to the decrease in our net loss between 2002 and 2001 was a decrease in income tax expense from \$83,000 to \$2,983. This decline in expense occurred because we determined during 2002 that we did not need to provide for an increase in the valuation allowance on prior years' deferred tax assets. In 2001, however, we recorded an \$83,000 increase in the valuation allowance for this purpose. The \$83,000 recorded in 2001 for this purpose compares to \$17,500 recorded in 2000 and is a principal factor in the decrease in net income (loss) between these years. Increases in servicing and other fees, decreases in net interest income (expense), declines in gain (loss) on other interest-bearing assets and lower net operating gains (losses) our investments in real estate are all consequences of our change in business strategy. These changes in our operating results for the past three years reflect significant transaction volume growth in our residential loan servicing businesses, continued investment in the development of our technology products,

cessation of loan origination and acquisition activities, continuing sales of those assets not associated with our core business segments, our acquisition of OAC in 1999 and our final exit from our UK operations in 2000. We discuss these changes in greater detail in our review of segment profitability, which follows.

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

(Dollars in thousands, except share data)

Segment Profitability. In general, we have ceased conducting any new business activities related to our non-core businesses, although we are actively engaged in the sale or other resolution of the remaining non-core assets. These assets are comprised of loans, real estate owned (REO), investments in real estate, securities held in our residual and subordinate trading portfolio and affordable housing properties. As of December 31, 2002, we held \$250,230 of non-core assets, compared to \$593,199 and \$1,178,944 of non-core assets at December 31, 2001 and 2000, respectively. The combined pre-tax results of our core business segments improved significantly in both 2002 and 2001. Pre-tax operating results of our non-core segments have declined on a combined basis during the past two years largely because of impairment charges and increased reserve levels on commercial and affordable housing assets. Losses in our Corporate Items segment have increased in the past two years largely due to nonrecurring gains in earlier periods, decreases in interest income on corporate assets and increased corporate expenses in 2002.

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

	Pre-Tax Income (Loss)		
	For the Years Ended December 31,		
	2002	2001	2000
Core businesses			
Residential Loan Servicing.....	\$ 31,974	\$ 34,591	\$ 19,188
OTX.....	(24,144)	(36,392)	(33,951)
Ocwen Realty Advisors.....	2,597	944	(86)
Unsecured Collections.....	4,006	(5,020)	(14,398)
	14,433	(5,877)	(29,247)
Non-core businesses			
Residential Discount Loans.....	763	(4,002)	21,140
Commercial Finance.....	(51,947)	(21,014)	17,178
Affordable Housing.....	(31,521)	(29,917)	(23,664)
Subprime Finance.....	14,536	13,155	(24,519)
	(68,169)	(41,778)	(9,865)
Corporate Items and Other.....	(28,321)	5,873	60,251
	\$ (82,057)	\$ (41,782)	\$ 21,139

	Total Assets	
	December 31,	
	2002	2001
Core businesses		
Residential Loan Servicing.....	\$ 579,114	\$492,561
OTX.....	6,172	13,231
Ocwen Realty Advisors.....	532	1,351
Unsecured Collections.....	296	--
	586,114	507,143
Non-Core Businesses		
Residential Discount Loans.....	44,833	117,051
Commercial Finance.....	196,269	364,013
Affordable Housing.....	62,093	132,724
Subprime Finance.....	41,949	82,325

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	345,144	696,113
Corporate Items and Other.....	290,984	570,894
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	\$1,222,242	\$1,711,150
	=====	=====

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

(Dollars in thousands, except share data)

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

	Non-Core Assets	
	December 31,	
	-----	-----
	2002	2001
	-----	-----
Non-Core Businesses		
Residential Discount Loans.....	\$ 4,633	\$ 56,329
Commercial Finance.....	190,602	356,736
Affordable Housing (1).....	21,548	119,284
Subprime Finance.....	33,447	60,850
	-----	-----
	\$ 250,230	\$593,199
	=====	=====

(1) At December 31, 2002 and 2001, properties with a carrying value of \$4,458 and \$49,893, respectively, are subject to sales contracts that have not yet met the accounting criteria for sales treatment.

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

Residential Loan Servicing. Through this core business we provide loan servicing, including asset management and resolution services, to third party owners of subprime residential mortgage and "high loan to value" loans for a fee. We acquire the rights to service loans and obtain such rights by purchasing them outright or by entering into sub-servicing contracts. Results for the past three years reflect significant growth in the volume of mortgage loans serviced as shown in the table below.

	-----	-----	-----
	2002	2001	2000
	-----	-----	-----
No. of loans at December 31.....	336,033	301,344	164,451
Unpaid principal balance at December 31.....	\$30,733,677	\$21,943,417	\$10,494,684
Average unpaid principal balance.....	\$26,533,826	\$15,727,659	\$ 9,835,132
	For the Years Ended December 31,		
	-----	-----	-----
Selected information	2002	2001	2000
	-----	-----	-----
Net interest expense.....	\$ 18,304	\$ 16,529	\$ 5,756
Servicing and other fees.....	118,250	117,583	82,020
Non-interest expense.....	69,746	68,383	59,215

- o The trend of increasing net interest expense reflects increases in the average balance of advances and servicing rights, which do not earn interest. See "Results of Operations - Net interest Income" for additional information regarding average balances.
- o In spite of the volume growth, pre-tax income declined in 2002 as compared to 2001 largely because of lower earnings on custodial account or float balances as a result of falling short-term interest rates. Earnings on float balances would have been approximately \$8,900 higher in 2002 as compared to 2001 had the average annual rate earned remained equal to that of 2001.

- o Non-interest expense increased by only \$1,363 or 2% in 2002 as compared to 2001 despite the fact that the number of assets we serviced increased. This in large part reflects reduced labor costs resulting from our expanding India operations. At December 31, 2002 we had approximately 621 active servicing staff in India as compared to 187 at December 31, 2001. Staffing levels in the United States for this segment declined by 487 during 2002. Non-interest expense for 2002 included a provision of \$1,000 recorded during the first quarter related to the settlement of a class action litigation claim.

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OTX. Through this core segment we provide technology solutions for the mortgage and real estate industries. OTX products include a residential loan servicing system (REALServicing), a commercial loan servicing system (REALSynergy) and an internet-based mortgage loan processing application and vendor management system (REALTrans). The losses incurred by this segment, which began its operations in 1998, are a result of our continuing investment in the development and marketing of these technology products. The decline in the loss incurred for 2002 as compared to 2001 is largely the result of ongoing cost reduction efforts, including expanded use of our India resources.

Selected information	For the Years Ended December 31,		
	2002	2001	2000
Non-interest income.....	\$ 6,522	\$ 2,149	\$ 2,424
Non-interest expense.....	30,667	38,542	35,655

- o The \$4,373 or 203% increase in non-interest income is primarily the result of intercompany revenue for REALServicing totaling \$3,490. Also contributing to the increase in 2002 was a \$1,177 increase in transaction fees resulting from an increase in REALTrans transaction volumes.
- o The \$7,875 or 20% decline in non-interest expenses in 2002 as compared to 2001 primarily reflects a \$7,632 decline in compensation and employee benefit costs. Non-interest expense for 2002 and 2001 also included payments of \$1,068 and \$3,185, respectively, related to the acquisition of a subsidiary in 1997. The payments in 2002 are the final payments related to this acquisition.

With the adoption of SFAS No. 142 effective January 1, 2002, we no longer amortize goodwill. We are, however, required to test goodwill for impairment at least annually. As a result of our annual impairment test in 2002, we wrote-off the remaining \$2,231 balance of goodwill associated with our REALServicing product. While we remain positive about the future sales potential of REALServicing, given the absence of sales in 2002, we concluded that this write-off was appropriate under the guidelines of SFAS No. 142.

Ocwen Realty Advisors. Through ORA we provide residential property valuation services, including for those loans that we service for others. Results for 2002 reflect an improvement in pre-tax profit of \$685 or 73% over 2001.

Selected information	For the Years Ended December 31,		
	2002	2001	2000
Non-interest income.....	\$ 14,080	\$ 11,913	\$ 12,738
Non-interest expense.....	11,483	10,968	12,824

Our increase profitability reflects two key factors:

- o An improved gross margin as valuation expenses declined from 71% of

revenues in 2001 to 67% in 2002

- o A 21% reduction in other operating costs achieved in part through expanded use of our India locations.

Unsecured Collections. This core business conducts collection activities for third party owners of unsecured receivables and for a portfolio of unsecured credit card receivables that we acquired at a discount in 1999 and 2000. We accounted for our collections of our unsecured credit card receivables portfolio under the cost recovery method through the end of 2001, when we reduced the net book value of our unsecured receivables to zero as a result of collections and additional reserves.

Selected information	For the Years Ended December 31,		
	2002	2001	2000
Provision for loan losses.....	\$ (278)	\$ 1,176	\$ 6,867
Non-interest income.....	10,652	3,058	1,480
Non-interest expense.....	6,925	7,042	8,908

Non interest income includes the following:

- o Collections of \$4,191 in 2002 on our unsecured receivable portfolio
- o Third party fees of \$6,461, \$2,500 and \$1,485 during 2002, 2001 and 2000, respectively.

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Residential Discount Loans. Results for this non-core segment reflect the sale and resolution of loans and real estate owned as part of our ongoing strategy to exit capital-intensive businesses. This segment consisted of operations to acquire at a discount and subsequently resolve sub-performing and non-performing residential mortgage loans. We completed our last acquisition of residential discount loans in 2000. See "Changes in Financial Condition - Loans, Net." This business held non-core assets of \$4,633 at December 31, 2002 including \$1,246 of loans, \$1,838 of real estate owned and \$1,549 of subordinate securities.

Selected information	For the Years Ended December 31,		
	2002	2001	2000
Net interest income after provisions for loan losses.....	\$ 8,367	\$ 9,065	\$ 25,186
Non-interest income			
Gain (loss) on interest earning assets, net.....	(2,720)	(644)	15,725
Gain (loss) on real estate owned, net.....	389	(6,623)	(11,164)
Non-interest expense.....	5,250	8,333	11,771

- o Net interest income after provision for loan losses has declined consistent with the decline in loans and securities as a result of sales, repayments and resolutions.
- o Gain (loss) on interest earning assets is primarily comprised of gains (losses) from the sale of loans.
- o The number of REO properties held has fallen to 49 at December 31, 2002 as compared to 380 and 1,287 properties at December 31, 2001 and 2000, respectively. Gain (loss) on REO, net, included provisions for losses in fair value of \$1,648, \$9,689 and \$17,508 during 2002, 2001 and 2000, respectively. See "Changes in Financial Condition - Real Estate Owned, Net".

Commercial Finance. Results for this non-core segment reflect our continuing exit from our loan and real estate businesses. We have not purchased



any commercial assets since 2000. With the exception of loans made to facilitate the sale of our own assets, we have also not originated any loans since 2000. See "Changes in Financial Condition - Loans, Net." Since then, this business has consisted of the management, repositioning, and resolution of the remaining non-core assets. At December 31, 2002, the \$190,602 of non-core assets remaining in this business consisted of 18 loan and real estate assets and an unrated subordinate security with a fair value of \$2,577. These 18 assets consisted of seven loans totaling \$69,196, six REO properties totaling \$60,153 and five investments in real estate totaling \$58,676. Of the 18 remaining assets, the five largest amount to \$138,799, or 74%, of the total. While we believe that additional sales will occur during 2003, it is probable that some properties will not be sold until 2004 or later.

We regularly assess the value of our remaining assets and provide additional loss reserves or impairment charges as appropriate. During 2002, we recorded a total of \$46,126 of impairment charges and loss provisions as compared to \$19,583 in 2001. Combined reserves on our remaining commercial loans and REO balances at December 31, 2002 amounted to 24% of the book value of such assets as compared to 9% at December 31, 2001.

Selected information	For the Years Ended December 31,		
	2002	2001	2000
Net interest expenses.....	\$ 7,627	\$ 3,220	\$ 8,203
Provision for loan losses.....	12,814	7,223	9,195
Non-interest income			
Gain (loss) on interest earning assets, net.....	(981)	(3,487)	1,210
(Loss) on real estate owned, net.....	(15,831)	(2,143)	(1,869)
Gain on other non-interest earning assets, net.....	995	45	22,949
Net operating gains (losses) on investments in real estate.....	(8,315)	5,666	27,282
Non-interest expense.....	11,636	13,941	19,503

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

(Dollars in thousands, except share data)

- o The increase in net interest expense is consistent with the decline in loans as a result of sales, repayments and resolutions as well as the growing proportion of assets in this segment that do not earn interest.
- o The provision for loan losses also increased in 2002, reflecting the increase in reserves on remaining assets noted earlier.
- o The loss on REO included provisions for losses in fair value of \$17,945, \$7,845 and \$7,761 during 2002, 2001 and 2000, respectively. Reserves on our six remaining commercial REO properties at December 31, 2002 amounted to 30% of book value. This compares to reserve levels of 15% of book value at December 31, 2001.
- o Gains on other non-interest earning assets earned in 2002 was primarily comprised of \$838 of gains resulting from the resolution of loans accounted for as investments in real estate. Gains recorded in 2000 consisted primarily of \$20,806 resulting from the sale of four office buildings we had acquired in connection with our acquisition of OAC in 1999.
- o Because of sales and impairment charges, net operating gains on investments in real estate have declined. Impairment charges we recorded to reduce our investments in real estate to net realizable value amounted to \$15,317, \$4,515 and \$704 during 2002, 2001 and 2000, respectively. See "Changes in Financial Condition - Investments in Real Estate".
- o Non-interest expense in 2002 included a provision of \$2,250 recorded during the fourth quarter to provide for the settlement of a lawsuit on March 3, 2003. See Note 28 to our Consolidated Financial Statements for additional information regarding this settlement.

Affordable Housing. Historically, we invested in affordable housing properties primarily through a series of limited partnerships. Except to complete those projects in which an investment had already been made, we ceased making investments in properties in 2000 as part of our shift in strategy to

fee-based businesses and because the volume of tax credits being generated was exceeding our ability to utilize them effectively. Since that time, we began marketing each of these properties for sale. As a result of sales and increased reserve levels, our investment in affordable housing properties had been reduced to \$15,319 at December 31, 2002 from \$102,069 at December 31, 2001. Of the remaining balance, \$4,458 are subject to sales contracts that have not yet met the accounting criteria for sales treatment. In addition, this segment has \$6,229 of loans outstanding for limited partnership properties that we do not consolidate in our financial statements. While we cannot project sales with certainty, we believe that it is possible that we will sell the remaining properties before the end of 2003 and that new sources of financing will be established to repay the remaining loan balances. We regularly assess the carrying value of our remaining assets and provide additional loss reserves as appropriate. During 2002, we recorded \$24,686 of these charges as compared to \$16,855 in 2001. At December 31, 2002, our combined reserves associated with affordable housing properties and loans amounted to 48% of the remaining book value of such assets as compared to 16% at December 31, 2001.

Selected earnings information	For the Years Ended December 31,		
	2002	2001	2000
Net interest expense.....	\$ 4,449	\$ 7,917	\$ 9,912
Provision for loan losses.....	3,392	1,207	(248)
Net operating losses on investments in certain affordable housing properties..	22,360	16,580	9,931

- o Net interest expense has declined primarily because internal interest charges have declined as affordable housing properties have been sold. This trend was offset in part by an increase in receivables, which also are not interest-bearing, arising from sales.
- o The provision for loan losses increased in 2002 in connection with the increases to our loss reserves during the year.
- o Net operating losses have increased primarily because of charges in the amount of \$17,350, \$15,587 and \$6,448 we recorded during 2002, 2001 and 2000, respectively, for estimated losses on the sale of the properties. The reserves associated with our remaining properties amounted to 50% at December 31, 2002 as compared to 17% at December 31, 2001. The operating loss for 2002 also included a \$3,944 charge to record a discount arising from the long-term sale of seven properties. We are accreting this discount to income over the term of the related receivable balance, which extends through September 2014. See "Changes in Financial Condition - Affordable Housing Properties."

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

Subprime Finance. We were engaged in domestic subprime residential loan origination prior to ceasing originations in August of 1999; however, we have continued to manage and resolve the remaining non-core assets. At December 31, 2002, the non-core assets remaining in this business consisted primarily of trading securities with a fair value of \$33,213. These securities are presently generating income and return of principal through cash flows.

Selected information	For the Years Ended December 31,		
	2002	2001	2000
Interest income.....	\$ 14,661	\$ 9,143	\$ 13,160
Interest expense.....	2,874	6,486	13,338
Non-interest income			
Gain (loss) on trading and match funded securities, net.....	7,287	14,247	(8,483)
Impairment charges on securities available for sale.....	--	--	(10,930)

- o The increase in interest income during 2002 as compared to 2001 is primarily the result of a \$4,805 increase in interest payments received

on single family subprime residual securities.

- o The decline in interest expense is consistent with the declines in securities and loan balances.

Corporate Items and Other. Pre-tax results for this segment include business activities that are individually insignificant, interest income on cash and cash equivalents, interest expense on corporate assets, gains and losses from debt repurchases, trading gains or losses associated with our collateralized mortgage obligation ("CMO") trading portfolio and general corporate expenses. The table below presents the more significant amounts included in each of the periods indicated.

Selected information	For the Years Ended December 31,		
	2002	2001	2000
Interest income.....	\$ 4,940	\$ 16,094	\$ 20,605
Interest expense.....	10,943	16,307	4,555
Distributions on Capital Trust Securities.....	6,287	7,131	11,381
Amortization of negative goodwill.....	--	18,333	14,112
Gain (loss) on debt repurchases.....	(1,461)	3,774	29,704
Corporate income (expense).....	(13,644)	(7,960)	1,740
Net income (loss) of other business units.....	(965)	(938)	(6,955)
Gain on sale of Kensington.....	--	--	20,025

- o Interest income in 2002 primarily reflects the impact of a declining short-term interest rate environment.
- o Net interest expense in 2002 declined primarily as a result of debt repurchases and the reduction in brokered deposits.
- o Corporate expenses in 2002 primarily included technology and communication expenses incurred in connection with the capacity expansion and migration of our corporate data centers.
- o The net loss of other business units in 2000 primarily reflect losses in our UK operations prior to their sale in late 2000.

See Note 27 to our Consolidated Financial Statements for additional information related to our operating segments.

Net Interest Income: 2002 versus 2001 and 2001 versus 2000. Net interest income (expense) is the difference between the interest income earned from our interest-earning assets and interest expense incurred on our interest-bearing liabilities. Net interest income (expense) is determined by net interest spread (i.e., the difference between the yield earned on our interest-earning assets and the rates incurred on our interest-bearing liabilities), the relative amount of interest-earning assets and interest-bearing liabilities and the degree of mismatch in the maturity and repricing characteristics of our interest-earning assets and interest-bearing liabilities.

In addition to interest income reported in this caption, we also earn interest on the balance of custodial accounts we hold in connection with our Residential Loan Servicing business. These amounts are reported as servicing fees and are not included in the following information. As discussed in "Segment Profitability - Residential Loan Servicing", our earnings on float balances were significantly reduced in 2002 as a result of the declining short-term interest rate environment. In 2002, our average float balance was \$484,000 and earned an average rate of 1.58%, while in 2001 our average balance was \$233,000 and earned an average rate of 3.41%.

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

Our net interest income and net interest margin have been declining since 1999. This trend reflects a decline in the ratio of interest-earning assets to interest-bearing liabilities, which has fallen from 98% in 1999 to 58% in 2002. Both our acquisition of OAC in 1999 and our change in strategic

direction from capital-intensive businesses to fee-based sources of income have contributed to an increase in the relative amount of non-interest-earning assets (such as real estate, advances on loans serviced for others and mortgage servicing rights) that are funded by interest-bearing liabilities. While we have disposed of many of our real estate assets acquired from OAC, we expect this trend to continue as we pursue our strategic transition and dispose of our remaining non-core assets, a portion of which are interest-bearing. The fact that a significant portion of our interest-bearing liabilities, namely notes, debentures and certificates of deposit, have high rates of fixed interest expense has also contributed to the declining trend of our interest income, as well as the declining trend of our net interest spread. In an effort to reduce interest expense we have repurchased a total of \$236,875 of fixed-rate debt during the past three years, including \$73,545 we redeemed in November 2002. See "Gain (Loss) on Repurchase of Debt" and "Changes in Financial Condition - Notes, Debentures and Other Interest-Bearing Obligations".

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

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

	Years Ended December 31,								
	2002			2001			2000		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
<b>Average Assets</b>									
Interest earning cash and other...	\$ 13,693	\$ 284	2.07%	\$ 10,159	\$ 743	7.31%	\$ 27,664	\$ 1,501	5.43%
Federal funds sold and repurchase agreements.....	152,588	2,629	1.72	200,329	7,328	3.66	128,079	8,700	6.79
<b>Trading securities:</b>									
CMOs (AAA-rated).....	88,543	2,057	2.32	126,284	7,464	5.91	83,633	5,568	6.66
Subordinates and residuals.....	44,272	14,523	32.80	97,051	11,401	11.75	24,167	2,631	10.89
<b>Securities available for sale:</b>									
CMOs (AAA-rated).....	--	--	--	--	--	--	427,427	27,693	6.48
Subordinates and residuals.....	--	--	--	--	--	--	114,492	14,815	12.94
Loans, net (1).....	146,671	11,279	7.69	433,830	46,090	10.62	974,195	112,886	11.59
Match funded loans and securities.....	66,233	6,463	9.76	103,320	10,345	10.01	143,452	11,022	7.68
<b>Total interest earning assets..</b>	<b>512,000</b>	<b>37,235</b>	<b>7.27</b>	<b>970,973</b>	<b>83,371</b>	<b>8.59</b>	<b>1,923,109</b>	<b>184,816</b>	<b>9.61</b>
<b>Non interest-earning cash.....</b>	<b>65,813</b>			<b>68,139</b>			<b>44,726</b>		
Affordable housing properties.....	57,692			123,747			147,110		
Real estate owned, net.....	88,913			128,371			176,828		
Investment in real estate and real estate held for sale.....	82,882			136,339			319,179		
<b>Advances on loans and loans serviced for others.....</b>	<b>267,572</b>			<b>303,382</b>			<b>191,642</b>		
Mortgage servicing rights.....	137,323			76,145			18,338		
Match funded advances on loans serviced for others.....	101,863			274			--		
Other assets.....	121,073			176,214			287,435		
<b>Total assets.....</b>	<b>\$1,435,131</b>			<b>\$1,983,584</b>			<b>\$3,108,367</b>		
<b>Average Liabilities and Stockholders' Equity</b>									
Interest-bearing demand deposits..	\$ 14,749	245	1.66%	\$ 10,377	398	3.84%	\$ 12,169	532	4.37%
Savings deposits.....	1,605	17	1.06	1,388	28	2.02	1,527	37	2.42
Certificates of deposit.....	473,793	27,193	5.74	920,668	59,541	6.47	1,520,493	97,655	6.42
<b>Total interest-bearing deposits</b>	<b>490,147</b>	<b>27,455</b>	<b>5.60</b>	<b>932,433</b>	<b>59,967</b>	<b>6.43</b>	<b>1,534,189</b>	<b>98,224</b>	<b>6.40</b>
<b>Securities sold under agreements to repurchase.....</b>	<b>12,774</b>	<b>236</b>	<b>1.85</b>	<b>19,500</b>	<b>529</b>	<b>2.71</b>	<b>167,337</b>	<b>10,729</b>	<b>6.41</b>
Bonds-match funded agreements.....	147,139	6,573	4.47	86,171	7,315	8.49	123,856	11,484	9.27
<b>Obligations outstanding under lines of credit.....</b>	<b>88,282</b>	<b>3,787</b>	<b>4.29</b>	<b>82,605</b>	<b>5,511</b>	<b>6.67</b>	<b>152,424</b>	<b>13,881</b>	<b>9.11</b>
Notes, debentures and other.....	149,931	17,711	11.81	169,812	20,007	11.78	284,193	34,772	12.24
<b>Total interest-bearing liabilities.....</b>	<b>888,273</b>	<b>55,762</b>	<b>6.28</b>	<b>1,290,521</b>	<b>93,329</b>	<b>7.23</b>	<b>2,261,999</b>	<b>169,090</b>	<b>7.48</b>
<b>Non interest-bearing deposits.....</b>	<b>6,187</b>			<b>12,900</b>			<b>9,367</b>		
Escrow deposits.....	90,612			73,326			114,254		
<b>Excess of net assets acquired over purchase price.....</b>	<b>1,478</b>			<b>28,866</b>			<b>51,486</b>		
Other liabilities.....	43,107			64,243			72,198		
<b>Total liabilities.....</b>	<b>1,029,657</b>			<b>1,469,856</b>			<b>2,509,304</b>		

Capital securities.....	57,812	64,976	103,709
Minority interest.....	570	--	--
Stockholders' equity.....	347,092	448,752	495,354
-----			
Total liabilities and stockholders' equity.....	\$1,435,131	\$1,983,584	\$3,108,367
-----			
Net interest income (expense).....	\$ (18,527)	\$ (9,958)	\$ 15,726
-----			
Net interest spread.....	0.99%	1.36%	2.13%
Net interest margin.....	(3.62)%	(1.03)%	0.82%
Ratio of interest-earning assets to interest-bearing liabilities.....	58%	75%	85%

(1) The average balances include non-performing loans, interest on which we recognize on a cash basis.

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(Dollars in thousands, except share data)

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

	Years Ended December 31,					
	2002 vs. 2001			2001 vs. 2000		
	Favorable (unfavorable) variance			Favorable (unfavorable) variance		
	Rate	Volume	Total	Rate	Volume	Total
-----						
<b>Interest-Earning Assets</b>						
Interest-bearing cash and other.....	\$ (657)	\$ 198	\$ (459)	\$ 405	\$ (1,163)	\$ (758)
Federal funds sold and repurchase agreements.....	(3,240)	(1,459)	(4,699)	(5,034)	3,662	(1,372)
<b>Trading securities:</b>						
CMOs (AAA-rated).....	(3,623)	(1,784)	(5,407)	(533)	2,429	1,896
Subordinates and residuals.....	11,909	(8,787)	3,122	(299)	9,069	8,770
<b>Securities available for sale:</b>						
CMOs (AAA-rated).....	--	--	--	(2,234)	(25,459)	(27,693)
Subordinates and residuals.....	--	--	--	(1,250)	(13,565)	(14,815)
Loans, net.....	(10,248)	(24,563)	(34,811)	(8,709)	(58,087)	(66,796)
Match funded loans and securities.....	(257)	(3,625)	(3,882)	2,855	(3,532)	(677)
-----						
Total interest-earning assets.....	(6,116)	(40,020)	(46,136)	(14,799)	(86,646)	(101,445)
-----						
<b>Interest-Bearing Liabilities</b>						
Interest-bearing demand deposits.....	280	(127)	153	61	73	134
Savings deposits.....	15	(4)	11	6	3	9
Certificates of deposit.....	6,088	26,260	32,348	(673)	38,787	38,114
-----						
Total interest-bearing deposits.....	6,383	26,129	32,512	(606)	38,863	38,257
<b>Securities sold under agreements to repurchase:</b>						
Bonds-match funded agreements.....	4,449	(3,707)	742	906	3,263	4,169
Obligations outstanding under lines of credit.....	2,081	(357)	1,724	3,085	5,285	8,370
Notes, debentures and other interest-bearing obligations.....	(52)	2,348	2,296	1,245	13,520	14,765
-----						
Total interest-bearing liabilities..	13,002	24,565	37,567	8,659	67,102	75,761
-----						
Favorable (unfavorable) variance.....	\$ 6,886	\$ (15,455)	\$ (8,569)	\$ (6,140)	\$ (19,544)	\$ (25,684)
-----						

2002 versus 2001. We incurred net interest expense before provision for loan losses of \$(18,527) for the year ended December 31, 2002 as compared to net interest expense of \$(9,958) for the year ended December 31, 2001, an unfavorable variance of \$8,569 or 86%. This variance was due to a decrease in the average balance of our interest-earning assets and a decrease in the net interest spread and margin, offset by a decrease in the average balance of our interest-bearing liabilities. The average balance of our interest-earning assets decreased by \$458,973 or 47% during 2002 and reduced interest income by \$(40,020). The average balance of our interest-bearing liabilities decreased by \$402,248 or 31% during 2002 and decreased interest expense by \$24,565. The net

impact of these volume changes resulted in a \$(15,455) unfavorable variance. The net interest spread decreased 37 basis points as a result of a 132 basis-point decrease in the weighted average yield on our interest-earning assets, offset by a 95 basis-point decrease in the weighted average rate on our interest-bearing liabilities. The net impact of these rate changes resulted in a \$6,886 favorable variance.

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

(Dollars in thousands, except share data)

As previously discussed in this section, the decline in the net interest margin is largely due to the decline in the ratio of interest-earning assets to interest-bearing liabilities. This trend is likely to persist as we continue our transition to fee-based businesses and dispose of interest-bearing non-core assets. Certain assets associated with our fee-based businesses, such as mortgage servicing rights and servicing advances, do not earn interest but are financed by interest-bearing debt.

The following table presents the change in average balances and yields for 2002 as compared to 2001 for each of our interest-earning asset categories:

For the Years Ended December 31,	Average Balance		Increase (Decrease) \$	Average Yield		Increase (Decrease) Basis Points
	2002	2001		2002	2001	
Interest earning cash and other.....	\$ 13,693	\$ 10,159	\$ 3,534	2.07%	7.31%	(524)
Federal funds sold and repurchase agreements.....	152,588	200,329	(47,741)	1.72	3.66	(194)
Trading securities						
CMOs (AAA-rated) and U.S. Treasury... notes.....	88,543	126,284	(37,741)	2.32	5.91	(359)
Subordinates and residuals.....	44,272	97,051	(52,779)	32.80	11.75	2,105
Loans.....	146,671	433,830	(287,159)	7.69	10.62	(293)
Match funded loans and securities.....	66,233	103,320	(37,087)	9.76	10.01	(25)
	\$ 512,000	\$ 970,973	\$ (458,973)	7.27%	8.59%	(132)

Interest income we earned on our loans decreased by \$34,811 or 76% during 2002 as compared to 2001 as a result of a \$287,159 or 66% decline in the average balance of our investment and a 293 basis-point decrease in the average yield. Sales, foreclosures, resolutions and the absence of acquisitions and originations have resulted in the declines in the average balance of loans during 2002. The yield on our loans is likely to fluctuate from period to period as a result of the timing of resolutions and the mix of the overall portfolio between performing and non-performing loans. Gains on the resolution of loans, which we report as interest income, declined to \$3,347 in 2002 as compared to \$10,652 in 2001. This decline primarily relates to single family loans, the balance of which declined significantly during 2001 and 2002 as a result of sales and resolutions. See "Changes in Financial Condition - Loans, Net."

Interest income we earned from our trading securities on a combined basis declined from \$18,865 in 2001 to \$16,580 in 2002, a \$2,285 or 12% decline. The decline in interest income is primarily due to a \$37,741 or 30% decline in our average investment in CMOs and a \$52,779 or 54% decline in our average investment in subordinates and residuals. The decline in the average balance of our CMOs during 2002 as compared to 2001 reflects a reduced need to hold these securities to meet the Qualified Thrift Lender requirements. The decline in the average balance of our subordinate and residuals during 2002 was primarily due to sales of subprime residuals and amortization. These declines were significantly offset by a 2,105 basis point increase in the yield on subordinates and residuals. This increase in yield was a result of sales of certain low-yielding unrated subprime residuals and an increase in interest payments received on our remaining subprime residual securities. Because CMOs have less cash flow variability, their average lives and yields to maturity are more stable, and therefore, CMOs are priced to yield less than classes of mortgage-related securities such as subordinates and residuals that are less stable. The decline in the average yield on CMOs during 2002 is primarily the result of declining interest rates and increased prepayments of the underlying mortgages which back the bonds.

Interest income we earned on match funded loans and securities

decreased \$3,882 or 38% in 2002 as compared to 2001. This decrease is primarily due to a \$37,087 or 36% decline in the average balances primarily as a result of principal repayments received on both the loans and securities. See "Changes in Financial Condition - Match Funded Assets".

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

(Dollars in thousands, except share data)

The following table presents the change in average balances and rates for 2002 as compared to 2001 for each of our interest-bearing liability categories:

For the Years Ended December 31,	Average Balance		Increase	Average Rate		Increase
	2002	2001	(Decrease)	2002	2001	(Decrease)
			\$			Basis Points
Interest-bearing deposits.....	\$ 490,147	\$ 932,433	\$ (442,286)	5.60%	6.43%	(83)
Securities sold under agreements to repurchase...	12,774	19,500	(6,726)	1.85	2.71	(86)
Bonds-match funded agreements.....	147,139	86,171	60,968	4.47	8.49	(402)
Obligations outstanding under lines of credit....	88,282	82,605	5,677	4.29	6.67	(238)
Notes, debentures and other.....	149,931	169,812	(19,881)	11.81	11.78	3
	<u>\$ 888,273</u>	<u>\$ 1,290,521</u>	<u>\$ (402,248)</u>	<u>6.28%</u>	<u>7.23%</u>	<u>(95)</u>

Interest expense we incurred on our interest-bearing deposits decreased \$32,512 or 54% during 2002 as compared to 2001 due to a \$442,286 or 47% decrease in the average balance and, to a lesser degree, an 83 basis point decline in the rate. The decline in the average balance resulted primarily from maturing brokered certificates of deposit. We did not issue any new brokered certificates of deposit during 2002 or 2001 and, at this time, do not intend to issue any such deposits in the foreseeable future. We plan to retain non-brokered deposits as a source of financing. See "Changes in Financial Condition - Deposits."

Interest expense we incurred on notes, debentures and other interest-bearing obligations decreased \$2,296 or 11% during 2002 as compared to 2001 primarily due to a \$19,881 or 12% decrease in the average balance. The decrease in the average balance is primarily due to repurchases of debt we made during 2002 and 2001. We repurchased \$77,095 of our notes and debentures during 2002, including \$73,545 we redeemed at a premium in November. During 2001, we repurchased \$13,025 of our notes. See "Gain (Loss) on Repurchases of Debt" and "Changes in Financial Condition - Notes, Debentures and Other Interest-Bearing Obligations."

Interest expense we incurred on obligations outstanding under our lines of credit decreased \$1,724 or 31% during 2002 as compared to 2001 due to a 238 basis-point decline in the average rate, offset in part by a \$5,677 or 7% increase in the average outstanding balance. Interest rates on our lines of credit are adjusted periodically based on changes in the London Interbank Offered Rate ("LIBOR"). The decline in the average rate is primarily due to declines in LIBOR. During 2001 and part of 2002, we used lines of credit to fund real estate investments and commercial construction loans. These lines expired and were repaid in May 2002. Beginning in April 2001, we entered into lines of credit to fund servicing advances we purchased in connection with the acquisition of loans serviced for others. Average balances outstanding under our lines of credit increased during 2002 primarily because of increases in our funding of residential loan servicing advances under a new line offset in part by the expiration and repayment of the lines collateralized by real estate and commercial loans. See "Changes in Financial Condition - Obligations Outstanding Under Lines of Credit."

2001 versus 2000. We incurred net interest expense before provision for loan losses of \$(9,958) for the year ended December 31, 2001 as compared to net interest income of \$15,726 earned for the year ended December 31, 2000, a decline of \$25,684 or 163%. The decrease was due to a decrease in the balance of our average interest-earning assets and a decrease in the net interest spread, offset by a decrease in the balance of our average interest-bearing liabilities. The average balance of our interest-earning assets decreased by \$952,136 or 50% during 2001 and reduced interest income by \$86,646. The average balance of our interest-bearing liabilities decreased by \$971,478 or 43% during 2001 and

decreased interest expense by \$67,102. The net impact of these volume changes resulted in a \$19,544 decrease in net interest income. The net interest spread decreased 77 basis points as a result of a 102 basis-point decrease in the weighted average rate on our interest-earning assets, offset by a 25 basis-point decrease in the weighted average rate on our interest-bearing liabilities. The net impact of these rate changes resulted in a \$6,140 decrease in net interest income.

As previously discussed in this section, the decline in the net interest margin is largely due to the decline in the ratio of interest-earning assets to interest-bearing liabilities. This trend is likely to persist as we continue our transition to fee-based businesses and dispose of interest-bearing non-core assets. Certain assets associated with our fee-based businesses, such as mortgage servicing rights and servicing advances, do not earn interest but are financed by interest-bearing debt.

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

The following table presents the change in average balances and yields for 2001 as compared to 2000 for each of our interest-earning asset categories:

For the Years Ended December 31,	Average Balance		Increase (Decrease) \$	Average Yield		Increase (Decrease) Basis Points
	2001	2000		2001	2000	
Interest earning cash and other.....	\$ 10,159	\$ 27,664	\$ (17,505)	7.31%	5.43%	188
Federal funds sold and repurchase agreements.....	200,329	128,079	72,250	3.66	6.79	(313)
Trading securities						
CMOs (AAA-rated).....	126,284	83,633	42,651	5.91	6.66	(75)
Subordinates and residuals.....	97,051	24,167	72,884	11.75	10.89	86
Securities available for sale						
CMOs (AAA-rated).....	--	427,427	(427,427)	--	6.48	(648)
Subordinates and residuals.....	--	114,492	(114,492)	--	12.94	(1,294)
Loans.....	433,830	974,195	(540,365)	10.62	11.59	(97)
Match funded loans and securities...	103,320	143,452	(40,132)	10.01	7.68	233
	\$ 970,973	\$ 1,923,109	\$ (952,136)	8.59%	9.61%	(102)

We earned interest income on our trading securities of \$18,865 during 2001 as compared to \$8,199 during 2000. Interest income we earned on securities available for sale amounted to \$0 during 2001 as compared to \$42,508 for 2000. On September 30, 2000 we changed our policy for securities available for sale and transferred those securities to the trading category. We believe that this treatment more appropriately reflects the impact on our results of operations arising from changes in the fair value of securities. The following presents the results of our securities portfolio, both trading and available for sale, on a combined basis for 2001 and 2000:

	CMOs			Subordinates and Residuals			Total		
	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield
2001:									
Trading securities.....	\$ 126,284	\$ 7,464	5.91%	\$ 97,051	\$ 11,401	11.75%	\$ 223,335	\$ 18,865	8.45%
2000:									
Trading securities.....	\$ 83,633	\$ 5,568	6.66%	\$ 24,167	\$ 2,631	10.89%	\$ 107,800	\$ 8,199	7.61%
Securities available for sale.....	427,427	27,693	6.48	114,492	14,815	12.94	541,919	42,508	7.84
	\$ 511,060	\$ 33,261	6.51%	\$ 138,659	\$ 17,446	12.58%	\$ 649,719	\$ 50,707	7.80%

As presented in the table above, interest income we earned from our securities portfolio on a combined basis declined from \$50,707 in 2000 to \$18,865 in 2001, a \$31,842 or 63% decline. The decline in interest income is primarily due to a \$384,776 or 75% decline in our average investment in CMOs and a \$41,608 or 30% decline in our average investment in subordinates and residuals. The decline in the average balance of our CMOs during 2001 reflects our planned reduction in the use of these securities to meet the Qualified



Thrift Lender requirements. The decline in the average balance of our subordinate and residuals during 2001 was primarily due to sales of subprime residuals and amortization. Because CMOs have less cash flow variability, their average lives and yields to maturity are more stable, and therefore, CMOs are priced to yield less than classes of mortgage-related securities such as subordinates and residuals that are less stable. Yield on the total portfolio of trading securities increased in 2001 as compared to 2000 because lower-yielding CMOs comprised a greater proportion of the portfolio in 2000.

Interest income we earned on our loans decreased by \$66,796 or 59% during 2001 as compared to 2000 as a result of a \$540,365 or 55% decline in the average balance of our investment and a 14 basis-point decrease in the average yield. Sales, foreclosures, resolutions and the absence of acquisitions resulted in the declines in the average balance of our discount loans during 2001. The yield on our discount loan portfolio is likely to fluctuate from period to period as a result of the timing of resolutions, particularly the resolution of large multi-family residential and commercial real estate loans, and the mix of the overall portfolio between performing and non-performing loans. See "Changes in Financial Condition - Loans, Net."

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The following table presents the change in average balances and rates for 2001 as compared to 2000 for each of our interest-bearing liability categories:

For the Years Ended December 31,	Average Balance		Increase (Decrease) \$	Average Rate		Increase (Decrease) Basis Points
	2001	2000		2001	2000	
Interest-bearing deposits.....	\$ 932,433	\$ 1,534,189	\$ (601,756)	6.43%	6.40%	3
Securities sold under agreements to repurchase...	19,500	167,337	(147,837)	2.71	6.41	(370)
Bonds-match funded agreements.....	86,171	123,856	(37,685)	8.49	9.27	(78)
Obligations outstanding under lines of credit....	82,605	152,424	(69,819)	6.67	9.11	(244)
Notes, debentures and other.....	169,812	284,193	(114,381)	11.78	12.24	(46)
	<u>\$ 1,290,521</u>	<u>\$ 2,261,999</u>	<u>\$ (971,478)</u>	<u>7.23%</u>	<u>7.48%</u>	<u>(25)</u>

Interest expense we incurred on our interest-bearing deposits decreased \$38,257 or 39% during 2001 as compared to 2000 due to a \$601,756 or 39% decrease in the average balance. The decline in the average balance resulted primarily from maturing brokered certificates of deposit. We did not issue any new brokered certificates of deposit during 2001 and, at this time, do not intend to issue any such deposits in the foreseeable future. The decline in average deposits is consistent with the 36% decline in average total assets as we continue our transition in business strategy from capital-intensive businesses to fee-based businesses. See "Changes in Financial Condition - Deposits."

Interest expense we incurred on securities we sold under agreements to repurchase declined \$10,200 or 95% during 2001 as a result of a \$147,837 or 88% decrease in the average balance and a 370 basis-point decline in the average rate. We have used securities sold under agreements to repurchase primarily to fund our purchases of CMOs, the average balance of which declined significantly during 2001.

Interest expense we incurred on bonds-match funded agreements declined \$4,169 or 36% during 2001 as compared to 2000 primarily as a result of a \$37,685 or 30% decline in the average balance outstanding. Interest expense on our bonds-match funded agreements is primarily comprised of interest we incurred on bonds-match funded agreements acquired as a result of our acquisition of OAC in October 1999 and on non-recourse notes, which resulted from our transfer of unrated residual securities in December 1999 in exchange for non-recourse notes. We have accounted for these transactions, which did not qualify as sales for accounting purposes, as secured borrowings with pledges of collateral. See "Changes in Financial Condition - Bonds - Match Funded Agreements."

Interest expense we incurred on obligations outstanding under our lines of credit decreased \$8,370 or 60% during 2001 as compared to 2000 due to a

\$69,819 or 46% decrease in the average balance and a 244 basis-point decline in the average rate. During 2001, we used lines of credit to fund real estate investments and commercial construction loans and, beginning in the second quarter of 2001, to fund servicing advances that were purchased in connection with the acquisition of loans serviced for others. Average balances outstanding under our lines of credit decreased during 2001 primarily because of sales of our real estate properties and commercial loans, offset in part by the funding of our residential loan servicing advances under new lines. See "Changes in Financial Condition - Obligations Outstanding Under Lines of Credit."

Interest expense we incurred on notes, debentures and other interest-bearing obligations decreased \$14,765 or 42% during 2001 as compared to 2000 primarily due to a \$114,381 or 40% decrease in the average balance. The decrease in the average balance is primarily due to repurchases of debt we made during 2001 and 2000. See "Changes in Financial Condition - Notes, Debentures and Other Interest-Bearing Obligations."

Provisions for Loan Losses. As of December 31, 2002, our total net loan balance was \$76,857 or 6.3% of total assets, as compared to \$185,293 or 10.8% of total assets as of December 31, 2001. Of the balance remaining at December 31, 2002, \$69,196 represents seven non-residential loans held in our Commercial Finance segment and \$6,229 represents three multi-family loans held in our Affordable Housing segment. Because of the small number of remaining loans, we are able to perform a specific risk assessment on each Commercial Finance and Affordable Housing loan. Our risk assessment of Commercial Finance loans includes a review of the underlying loan collateral, general and local economic conditions, property type risk, borrower's capacity and willingness to pay, and projections of prospective cash flows based on property-specific events. For loans held in our Affordable Housing business, we project the amounts to be realized from the disposition of the property to determine the appropriate allowance for loan losses. We also analyze the historical trends in the gains or losses on disposition and resolution of loans as compared to the allowance for loan losses at the time of disposition and resolution. The results of this analysis are also taken into consideration in evaluating the allowance for loan losses on the remaining loans. The allowance for loan losses is management's best estimate of probable inherent loan losses incurred as of December 31, 2002. Provisions we record for losses on our loans are charged to operations to maintain an allowance for losses on our loans and

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match funded loans at a level we consider adequate based upon an evaluation of known and inherent risks in such portfolios, as described above.

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

	2002	2001	2000
	-----	-----	-----
Loans			
Single family.....	\$ (2,274)	\$ 5,481	\$ (1,160)
Multi-family.....	4,684	260	1,945
Nonresidential.....	11,523	8,170	6,981
Other.....	(278)	1,567	7,504
	-----	-----	-----
	13,655	15,478	15,270
	-----	-----	-----
Match funded loans.....	(26)	188	(93)
	-----	-----	-----
	\$ 13,629	\$ 15,666	\$ 15,177
	=====	=====	=====

The decline in provision on single family loans in 2002 is primarily the result of sales of loans that were significantly reserved. The increase in the provision on multi-family loans is largely the result of increased reserve levels on affordable housing construction loans based on estimated permanent financing proceeds. The increased provision on nonresidential loans reflects an increase in reserve levels on our seven remaining loans. The provision for losses on other loans related to our unsecured credit card receivables, which we had fully reserved at December 31, 2001. As indicated in the table below, our

allowances as a percentage of loan value have been increased at December 31, 2002 and 2001.

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

	Allowance	Loan Balance	Allowance as a % of Loan Balance
	-----	-----	-----
December 31, 2002			
Loans			
Single family.....	\$ 154	\$ 1,584	9.72%
Multi-family.....	6,637	24,835	26.72
Nonresidential.....	13,970	71,199	19.62
Other.....	--	--	--
	-----	-----	-----
	20,761	97,618	21.27
Match funded loans.....	144	38,129	0.38
	-----	-----	-----
	\$ 20,905	\$ 135,747	15.40%
	=====	=====	
December 31, 2001			
Loans			
Single family.....	\$ 3,401	\$ 41,651	8.17%
Multi-family.....	2,186	29,754	7.35
Nonresidential.....	4,827	124,271	3.88
Other.....	--	31	--
	-----	-----	-----
	10,414	195,707	5.32
Match funded loans.....	170	53,123	0.32
	-----	-----	-----
	\$ 10,584	\$ 248,830	4.25%
	=====	=====	
December 31, 2000			
Loans			
Single family.....	\$ 3,493	\$ 227,071	1.54%
Multi-family.....	2,798	136,577	2.05
Nonresidential.....	8,210	282,433	2.91
Other.....	8,778	17,250	50.89
	-----	-----	-----
	23,279	663,331	3.51
Match funded loans.....	285	80,834	0.35
	-----	-----	-----
	\$ 23,564	\$ 744,165	3.17%
	=====	=====	

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For additional information regarding our allowance for loan losses on the above portfolios, see "Changes in Financial Condition - Allowances for Loan Losses." For information relating to our valuation allowance on real estate owned, see "Changes in Financial Condition - Real Estate Owned, Net."

Non-Interest Income. The following table sets forth the principal components of our non-interest income during the years indicated:

	2002	2001	2000
	-----	-----	-----
Servicing and other fees.....	\$ 141,991	\$ 134,597	\$ 97,080
Gain (loss) on interest-earning assets, net.....	(3,485)	(3,949)	17,625
Gain (loss) on trading and match funded securities, net.....	7,012	16,330	(3,971)
Impairment charges on securities available for sale.....	--	--	(11,597)
Gain (loss) on real estate owned, net.....	(15,719)	(9,256)	(14,904)
Gain (loss) on other non-interest earning assets, net.....	1,122	(1,054)	45,517
Net operating gains (losses) on investments in real estate.....	(8,315)	5,581	27,579
Amortization of excess of net assets acquired over purchase price.....	--	18,333	14,112
Gain (loss) on repurchase of debt.....	(1,461)	3,774	29,703
Equity in income (loss) of investment in unconsolidated entities..	215	304	(5,249)
Other income.....	13,115	8,759	6,084
	-----	-----	-----
	\$ 134,475	\$ 173,419	\$ 201,979
	=====	=====	=====

Servicing and Other Fees. Our servicing and other fees are primarily comprised of fees we earned from investors for servicing residential mortgage loans on their behalf. The increase in servicing fees is largely due to the growth in residential loans we service for others. The average unpaid principal balance of loans we service for others amounted to \$27,956,823, \$16,738,337 and

\$10,798,857 during 2002, 2001 and 2000, respectively. The following table sets forth the principal components of our servicing and other fees for the years indicated:

	2002	2001	2000
	-----	-----	-----
Loan servicing and related fees:			
Loan servicing fees.....	\$ 145,888	\$ 109,880	\$ 55,195
Late charges.....	29,035	21,326	14,890
Interest on custodial accounts (1).....	7,757	8,530	6,523
Special servicing fees (2).....	3,884	8,494	10,420
Compensating interest expense (3).....	(19,758)	(12,126)	(8,758)
Amortization of servicing rights (4).....	(58,153)	(29,841)	(10,036)
Other, net.....	4,067	6,361	10,333
	-----	-----	-----
	112,720	112,624	78,567
Other fees:			
Property valuation fees (ORA).....	14,204	11,789	10,630
Default servicing fees.....	4,418	3,917	3,040
Retail banking fees.....	5,063	2,690	1,526
Other.....	5,586	3,577	3,317
	-----	-----	-----
	\$ 141,991	\$ 134,597	\$ 97,080
	=====	=====	=====

- (1) Interest we earned on custodial accounts during the holding period between collection of borrower payments and remittance to investors. Although servicing volume has been increasing each year, interest we earned on custodial accounts has been adversely affected by declining interest rates.
- (2) Fees we earned under special servicing arrangements wherein we act as a special servicer for third parties, typically as part of a securitization. Under these arrangements, we service loans that become greater than 90 days past due and receive base special servicing fees plus incentive fees to the extent we achieve certain loss mitigation parameters. We have not entered into any new special servicing arrangements since the middle of 2001. As a result, special servicing fees have declined by \$4,610 or 54% in 2002 as compared to 2001.
- (3) A servicer of securitized loans is typically obligated to pay to the securitization trust the difference between a full month of interest and the interest collected on loans that are repaid before the end of a calendar month.
- (4) The increases in amortization reflect increases in our purchases of rights to service loans for others. See "Changes in Financial Condition - Mortgage Servicing Rights."

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

	Subprime Loans (1)		Other Loans		Total	
	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans
	-----	-----	-----	-----	-----	-----
December 31, 2002:						
Performing (2)						
Residential loans.....	\$26,817,731	282,926	\$1,089,109	17,204	\$27,906,840	300,130
Commercial loans and other.....	--	--	752,722	407	752,722	407
	-----	-----	-----	-----	-----	-----
	\$26,817,731	282,926	\$1,841,831	17,611	\$28,659,562	300,537
	=====	=====	=====	=====	=====	=====
Non-performing (2)						
Residential loans.....	\$ 2,565,823	31,626	\$ 261,014	4,277	\$ 2,826,837	35,903
Commercial loans.....	--	--	582,964	238	582,964	238
	-----	-----	-----	-----	-----	-----
	\$ 2,565,823	31,626	\$ 843,978	4,515	\$ 3,409,801	36,141
	=====	=====	=====	=====	=====	=====
Total loans serviced for others:						
Residential loans.....	\$29,383,554	314,552	\$1,350,123	21,481	\$30,733,677	336,033
Commercial loans and other.....	--	--	1,335,686	645	1,335,686	645
	-----	-----	-----	-----	-----	-----
	\$29,383,554	314,552	\$2,685,809	22,126	\$32,069,363	336,678

December 31, 2001						
Performing (2)						
Residential loans.....	\$18,068,542	242,664	\$ 919,639	18,074	\$18,988,181	260,738
Commercial loans and other.....	--	--	1,062,345	1,962	1,062,345	1,962
	\$18,068,542	242,664	\$1,981,984	20,036	\$20,050,526	262,700
Non-performing (2)						
Residential loans.....	\$ 2,638,235	35,585	\$ 317,001	5,021	\$ 2,955,236	40,606
Commercial loans.....	--	--	158,250	247	158,250	247
	\$ 2,638,235	35,585	\$ 475,251	5,268	\$ 3,113,486	40,853
Total loans serviced for others:						
Residential loans.....	\$20,706,777	278,249	\$1,236,640	23,095	\$21,943,417	301,344
Commercial loans and other.....	--	--	1,220,595	2,209	1,220,595	2,209
	\$20,706,777	278,249	\$2,457,235	25,304	\$23,164,012	303,553
December 31, 2000 (3)						
Performing (2)						
Residential loans.....	\$ 7,499,361	118,174	\$1,170,782	22,162	\$ 8,670,143	140,336
Commercial loans and other.....	--	--	798,873	278	798,873	278
	\$ 7,499,361	118,174	\$1,969,655	22,440	\$ 9,469,016	140,614
Non-performing (2)						
Residential loans .....	\$ 1,430,528	18,246	\$ 394,013	5,869	\$ 1,824,541	24,115
Commercial loans and other .....	--	--	66,967	24	66,967	24
	\$ 1,430,528	18,246	\$ 460,980	5,893	\$ 1,891,508	24,139
Total loans serviced for others:						
Residential loans.....	\$ 8,929,889	136,420	\$1,564,795	28,031	\$10,494,684	164,451
Commercial loans.....	--	--	865,840	302	865,840	302
	\$ 8,929,889	136,420	\$2,430,635	28,333	\$11,360,524	164,753

- (1) Subprime loans represent loans we service which were made by others to borrowers who generally did not qualify under guidelines of the Fannie Mae and Freddie Mac ("nonconforming loans").
- (2) Non-performing loans serviced for others have been delinquent for 90 days or more. Performing loans serviced for others are current or have been delinquent for less than 90 days.
- (3) Does not include approximately 38,500 loans with an unpaid principal balance of approximately \$1,027,600 that we acquired on December 31, 2000 but which we did not board in our loan servicing system until 2001.

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Gain (Loss) on Interest Earning Assets. The following table sets for the principal components of net gains (losses) we earned on our interest earning assets for the years indicated:

	2002	2001	2000
Gain (loss) on loan sales.....	\$ (4,105)	\$ (4,380)	\$ 12,084
Gain on security sales (1).....	--	--	4,983
Other.....	620	431	558
	\$ (3,485)	\$ (3,949)	\$ 17,625

- (1) Prior to the transfer of our securities from available for sale to trading on September 30, 2000.

Gain (Loss) on Trading and Match Funded Securities. The gain (loss) recorded on trading and match funded securities includes both unrealized gains and losses on securities to record them at fair value and realized gains and losses resulting from sales thereof. We changed our policy for securities available for sale and match funded securities to account for them as trading securities effective September 30, 2000. Realized gains from sales of trading securities totaled \$4,992 and \$11,117 during 2002 and 2001, respectively. See

Notes 1, 4 and 6 to our Consolidated Financial Statements.

Impairment Charges on Securities Available for Sale. Prior to our transfer of securities available for sale to trading on September 30, 2000, we recorded impairment charges on securities available as a result of declines in fair value that we deemed to be other-than-temporary. See "Changes in Financial Condition - Trading Securities" and Note 1 to our Consolidated Financial Statements.

Gain (Loss) on Real Estate Owned, Net. The following table sets forth the results of our real estate owned (which does not include investments in real estate, as discussed below) during the years indicated:

	2002	2001	2000
Gains on sales.....	\$ 3,103	\$ 14,111	\$ 22,515
Provision for losses in fair value.....	(19,685)	(17,766)	(26,674)
Operating income (expense), net (1).....	863	(5,601)	(10,745)
	\$ (15,719)	\$ (9,256)	\$ (14,904)

(1) Includes rental income and expenses associated with holding and maintaining the properties.

The results of our real estate owned for the periods presented above reflect significant declines in the number of properties owned as well as increased reserves on non-residential properties we have held for more than one year. See "Changes in Financial Condition - Real Estate Owned, Net" for additional information regarding real estate owned and the related provision for losses in fair value.

Gain (Loss) on Other Non-Interest Earning Assets. The following table sets forth the principal components of net gains (losses) we recorded on other non-interest earning assets for the years indicated:

	2002	2001	2000
Gain on sale of investments in real estate (1).....	\$ 995	\$ 45	\$ 22,949
Gain (loss) on sale of affordable housing properties.....	444	(956)	497
Gain on sale of Kensington.....	--	--	20,025
Other.....	(317)	(143)	2,046
	\$ 1,122	\$ (1,054)	\$ 45,517

(1) Gains in 2002 were primarily comprised of \$838 of gains resulting from the resolution of loans accounted for as investments in real estate. Gains recorded in 2000 consisted primarily of \$20,806 resulting from the sale of four office buildings we had acquired in connection with our acquisition of OAC in 1999.

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Net Operating Gains (Losses) on Investments in Real Estate. The following table sets forth the results of our investments in real estate during the years indicated:

	2002	2001	2000
Operating income, net (1).....	\$ 3,035	\$ 6,758	\$ 15,856
Equity in earnings of loans accounted for as investments in real estate (2).....	3,967	3,338	12,427
Impairment charges (3).....	(15,317)	(4,515)	(704)
	\$ (8,315)	\$ 5,581	\$ 27,579

- (1) The decrease in operating income from our investments in real estate during 2001 is primarily due to sales of properties during 2000, most of which we acquired in connection with our acquisition of OAC in October 1999.
- (2) The decline in equity in earnings related to certain loans we account for as investments in real estate during 2001 is primarily due to the repayment of loans during 2000, which generated significant resolution gains, and an increase in our non-performing loans in 2001.
- (3) In 2002, impairment charges principally represent write-downs totaling \$14,549 of the carrying value of our two remaining properties held for investment. In 2001, the charges represent the write-down of the carrying value of our investment in properties sold during 2002. See "Changes in Financial Condition - Investments in Real Estate" and "Changes in Financial Condition - Real Estate Held for Sale."

Amortization of Excess of Net Assets Acquired over Purchase Price. The amortization of excess of net assets acquired over purchase price resulted from our acquisition of OAC on October 7, 1999. Our acquisition resulted in an excess of net assets acquired over the purchase price of \$60,042, which we amortized on a straight-line basis through 2001. On January 1, 2002, upon adoption of Statement of Financial Accounting Standard ("SFAS") No. 142, we reversed the unamortized balance of \$18,333 to income as the effect of a change in accounting principle as required by this statement. See Note 1 to our Consolidated Financial Statements.

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

	2002 -----	2001 -----	2000 -----
10.875% Capital Securities due August 1, 2027:			
Face amount repurchased.....	\$ 4,910	\$ 18,371	\$ 30,470
Gain (loss).....	\$ 1,074	\$ 3,722	\$ 11,739
11.875% Notes due October 1, 2003:			
Face amount repurchased.....	\$ 43,550	\$ 13,025	\$ 3,800
Gain (loss).....	\$ (1,508)	\$ 52	\$ 439
11.5% Redeemable Notes due July 1, 2005:			
Face amount repurchased.....	\$ 45	\$ --	\$ 142,955
Gain (loss).....	\$ (2)	\$ --	\$ 17,526
12.00% Subordinated Debentures due June 15, 2005:			
Face amount repurchased.....	\$ 33,500	\$ --	\$ --
Gain (loss).....	\$ (1,025)	\$ --	\$ --
Total debt repurchases:			
Face amount repurchased.....	\$ 82,005	\$ 31,396	\$ 177,225
Gain (loss).....	\$ (1,461)	\$ 3,774	\$ 29,703

In November 2002 we exercised redemption options on three of our outstanding debt obligations for a combined debt reduction of \$73,545. As provided for in the terms of the indentures, we exercised our redemption option to call \$40,000 of our 11.875% Notes at a price of 102.969%, \$33,500 of our 12% Subordinated Debentures at a price of 102.667% and the remaining \$45 of our 11.5% Redeemable Notes at a price of 105.75%. As a result of these early redemptions at a premium, we incurred \$2,499 of loss, including the write-off of \$416 of unamortized issuance costs. See "Changes in Financial Condition - Notes, Debentures and Other Interest-Bearing Obligations" and "Company Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company" and Notes 16 and 17 to our Consolidated Financial Statements.

Other Income. See Note 25 to our Consolidated Financial Statements for a disclosure of the components of other income for 2002, 2001 and 2000. The increase in other income during 2002 as compared to 2001 is largely the result

of \$4,191 of collections of unsecured receivables that were accounted for under the cost recovery method until they had been reduced to zero as of December 31,

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2001 through collections and reserves. The increase in other income during 2001 as compared to 2000 was primarily due to consulting revenues generated by our joint venture in Jamaica and real estate commission income generated from the sale of our real estate owned properties during 2001.

Non-Interest Expense. The following table sets forth the principal components of our non-interest expense during the years indicated:

	2002	2001	2000
	-----	-----	-----
Compensation and employee benefits.....	\$ 77,778	\$ 84,914	\$ 83,086
Occupancy and equipment.....	11,843	11,577	12,005
Technology and communication costs.....	25,270	26,768	23,876
Loan expenses.....	12,605	15,811	13,051
Net operating losses on certain affordable housing properties.....	22,360	16,580	9,931
Amortization/writeoff of excess of purchase price over net assets acquired.....	2,231	3,112	3,124
Professional services and regulatory fees.....	16,383	14,749	12,829
Other operating expenses.....	9,619	8,935	12,107
	-----	-----	-----
	\$ 178,089	\$ 182,446	\$ 170,009
	=====	=====	=====

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

	2002	2001	2000
	-----	-----	-----
Salaries (1).....	\$ 53,746	\$ 58,012	\$ 58,580
Bonuses .....	7,904	9,544	8,876
Payroll taxes.....	4,352	4,763	4,834
Commissions.....	3,370	3,541	3,957
Insurance.....	2,668	2,682	2,736
Severance.....	2,316	1,701	778
Contract programmers.....	531	1,539	4,772
Relocation.....	759	1,049	1,165
Long-term incentive plan (2).....	--	--	(6,078)
Other.....	2,132	2,083	3,466
	-----	-----	-----
	\$ 77,778	\$ 84,914	\$ 83,086
	=====	=====	=====

(1) Salaries includes fees paid for the services of temporary employees.

(2) We suspended our long-term incentive plan in the first quarter of 2000 and reversed the related accrual at that time.

The \$7,136 decline in compensation and benefits in 2002 as compared to 2001 was primarily due to a \$5,906 combined decrease in salaries and bonuses. This decline in costs has occurred in spite of an increase in the average number of our employees and is due in large part to our ongoing globalization initiative to reduce labor costs through the migration of certain functions (primarily in support of our residential servicing business and OTX) to our offices in Bangalore and Mumbai, India. The average total number of our full-time employees (domestic and international combined) amounted to 1,790 and 1,536 during 2002 and 2001, respectively. The number of employees in just our India offices averaged 543 during 2002 as compared to 151 during 2001. Our plans for 2003 call for a continued increase in the number of our India employees. See "Workforce and Operational Capacity" for additional information regarding our operations and workforce in India. The decline in salaries and bonuses, in spite of the increase in the number of employees, is also the result of a change in the mix of our workforce in the United States to a greater concentration of clerical level employees. This change in mix has occurred as we have exited



capital-intensive businesses in favor of fee-based businesses, primarily residential loan servicing.

Excluding the reversal of our long-term incentive plan accrual in 2000, our compensation and employee benefits expense declined by \$4,250 in 2001 as compared to 2000. This decline was primarily due to a \$3,233 decline in contract programmer expense and resulted largely from a reduction in contract programmers assisting with the implementation of our residential loan servicing system, which was completed in January 2001. Although our average total number of employees increased from 1,288 during 2000 to 1,536 during 2001, salaries expense actually declined by \$568. As discussed in the paragraph above, this is primarily due to the cost savings resulting from our shift in workforce to India and the change in mix of our United States workforce resulting from our change in business strategy.

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

(Dollars in thousands, except share data)

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**Occupancy and Equipment.** Occupancy and equipment costs consist principally of rents, depreciation, mail and delivery expense and other costs of our office operations.

**Technology and Communication Costs.** Technology and communication costs consist primarily of depreciation on our computer hardware and software, technology-related consulting fees (primarily OTX), telephone expense and amortization of intellectual property and capitalized software development costs. Technology costs for 2002 and 2001 also included \$1,068 and \$3,185, respectively, of payments related to the acquisition of Amos, Inc., an OTX subsidiary, in 1997. The final payment due in connection with this acquisition was recorded in 2002. An increase in depreciation and leasing expense at OTX in 2002 as compared to 2001 was largely offset by a decline in document imaging costs. The increase in depreciation and leasing expense was largely the result of upgrades to our computer servers and other hardware, as well as new hardware purchased for expanding our India operations centers. The decline in imaging costs is primarily the result of high levels of contracted document imaging services incurred in 2001 in connection with several large loan servicing acquisitions we made during the year.

**Net Operating Losses on Certain Affordable Housing Properties.** Net operating losses we recorded on investments in certain affordable housing properties have increased during the past three years principally because of loss provisions we recorded in the amount of \$17,350, \$15,587 and \$6,448, respectively, for expected losses on the sale of properties. Losses for 2002 also include a \$3,944 charge to record a discount on a long-term sale of seven properties during the second quarter. We are accreting this discount to income over the term of the related receivable balance, which extends through 2014. See "Changes in Financial Condition - Affordable Housing Properties."

**Amortization of Excess of Purchase Price Over Net Assets Acquired ("Goodwill").** Goodwill amortization that we recognized during 2002, 2001 and 2000 related entirely to OTX. In accordance with the provisions of SFAS No. 142, which we adopted on January 1, 2002, we ceased amortization of the remaining balance of our goodwill beginning in 2002. However, we test our goodwill annually for impairment. As a result of our annual impairment testing in 2002, we wrote off the remaining \$2,231 of goodwill associated with the 1997 acquisition of Amos, Inc. See Note 1 to our Consolidated Financial Statements.

**Loan Expenses.** Loan expenses for 2002, 2001 and 2000 included \$9,463, \$8,426 and \$9,358, respectively, of appraisal fees incurred in connection with property valuation services we provided through ORA. Loan expenses also include other expenses incurred in connection with loans we own and those we service for others. Loan expenses for 2001 included a charge to write-off \$1,485 of deferred costs on commercial loans we owned.

**Professional Services and Regulatory Fees.** Professional services and regulatory fees are primarily comprised of non-technology related consulting fees, legal and audit fees and FDIC insurance. The increase in 2002 as compared to 2001 was primarily due to a \$4,201 increase in legal fees, offset in part by a \$2,186 decline in FDIC insurance and a \$519 decrease in consulting fees. Legal fees for 2002 included provisions totaling \$3,250 related to the settlement of

two litigation claims. See "Results of Operations - Segment Profitability - Residential Loan Servicing and - Commercial Finance" for additional information regarding the settlement of these claims. The decline in FDIC insurance was due to a decline in our deposit liabilities and a decline in the FDIC assessment rates. The increase in 2001 as compared to 2000 was primarily due to a \$1,651 increase in FDIC insurance resulting from an increase in the FDIC assessment rate offset in part by a decline in deposits.

Other Operating Expenses. Other operating expenses include travel and related costs, check processing and other deposit related costs, marketing costs, and amortization of deferred costs. See Note 26 to our Consolidated Financial Statements for a disclosure of the components of other operating expenses for 2002, 2001 and 2000.

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

Distributions on Company Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company. Cash distributions on our Capital Securities are payable semi-annually in arrears on February 1 and August 1 of each year at an annual rate of 10.875%. We recorded \$7,132, \$11,380, and \$13,111 of distributions to holders of the Capital Securities during 2001, 2000 and 1999, respectively. The decline in distributions is the result of repurchases we made during 2002, 2001 and 2000. See "Non-Interest Income - Gain (Loss) on Repurchase of Debt", Note 17 to our Consolidated Financial Statements and "Changes in Financial Condition - Company-Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company."

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

	2002	2001	2000
	-----	-----	-----
Income tax expense (benefit) on loss before taxes and effect of change in accounting principle.....	\$ (31,066)	\$ (23,348)	\$ 1,447
Provision for valuation allowance on current year's deferred tax asset....	34,049	23,348	--
Provision for valuation allowance on prior year's deferred tax asset.....	--	83,000	17,500
	-----	-----	-----
Income tax expense.....	2,983	83,000	18,947
Income tax benefit on effect of change in accounting principle.....	(1,166)	--	--
	-----	-----	-----
Total income tax expense.....	\$ 1,817	\$ 83,000	\$ 18,947
	=====	=====	=====

For 2002, 2001 and 2000 our effective tax rate before the provision for the deferred tax valuation allowance was 48.1%, 55.9% and 6.8% respectively, and reflected tax credits of \$2,685, \$2,078 and \$2,577, respectively, resulting from our investment in affordable housing properties.

The provision for deferred tax asset valuation allowance is a non-cash charge that we recorded to increase the aggregate valuation allowance, which amounted to \$199,270 and \$165,221 at December 31, 2002 and 2001, respectively. We estimated this valuation allowance based on our assessment of the portion of the deferred tax asset that more likely than not will not be realized.

See Note 20 to our Consolidated Financial Statements and "Changes in Financial Condition - Affordable Housing Properties."

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

Changes in Financial Condition

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

	December 31,		
	2002	2001	2000
Collateralized mortgage obligations and U.S. Treasury Notes			
Collateralized mortgage obligations (AAA-rated) (1).....	\$ 20,540	\$ 161,191	\$ 277,595
U.S. Treasury Notes.....	1,016	--	--
	\$ 21,556	\$ 161,191	\$ 277,595
Subordinates and residuals (2)			
Single family residential			
BB rated subordinates.....	\$ 599	\$ 625	\$ 4,563
B-rated subordinates.....	606	799	2,911
Unrated subordinates.....	344	1,008	9,361
Unrated subprime residuals.....	33,213	60,049	93,176
	34,762	62,481	110,011
Nonresidential unrated subordinates.....	2,577	2,577	2,636
	\$ 37,339	\$ 65,058	\$ 112,647

- (1) During the year ended December 31, 2002, our CMO trading securities declined \$140,651. This decline was primarily due to \$227,100 of maturities and principal repayments, offset in part by purchases of \$88,938. During 2001, the \$116,404 decline was primarily due to \$187,113 of maturities and principal repayments and \$116,715 of sales, offset in part by purchases of \$188,432.
- (2) During the year ended December 31, 2002, our subordinate and residual trading securities declined by \$27,719. This decline was primarily due to \$7,419 of maturities and principal repayments and \$26,438 of sales, partly offset by \$1,946 of net discount accretion. During 2001, the \$47,589 decline was primarily due to \$31,683 of sales, \$10,721 of maturities and principal repayments and \$7,416 of net premium amortization.

CMOs are like traditional debt instruments because they have stated principal amounts and traditionally defined interest-rate terms. Subordinate and residual interests in mortgage-related securities provide credit support to the more senior classes of the mortgage-related securities. Principal from the underlying mortgage loans generally is allocated first to the senior classes, with the most senior class having a priority right to the cash flow from the mortgage loans until its payment requirements are satisfied. To the extent that there are defaults and unrecoverable losses on the underlying mortgage loans, resulting in reduced cash flows, the most subordinate security will be the first to bear this loss. Because subordinate and residual interests generally have no credit support, to the extent there are realized losses on the mortgage loans comprising the mortgage collateral for such securities, we may not recover the full amount or, indeed, any of our initial investment in such subordinate and residual interests.

Subordinate and residual interests are affected by the rate and timing of payments of principal (including prepayments, repurchase, defaults and liquidations) on the mortgage loans underlying a series of mortgage-related securities. The rate of principal payments may vary significantly over time depending on a variety of factors, such as the level of prevailing mortgage loan interest rates and economic, demographic, tax, legal and other factors. Prepayments on the mortgage loans underlying a series of mortgage-related securities are generally allocated to the more senior classes of mortgage-related securities. Although in the absence of defaults or interest shortfalls all subordinates receive interest, amounts otherwise allocable to residuals generally are used to make payments on more senior classes or to fund a reserve account for the protection of senior classes until overcollateralization or the balance in the reserve account reaches a specified level. For residual interests in residential mortgage-backed securities, over-collateralization is the amount by which the collateral balance exceeds the sum of the bond principal amounts. Over-collateralization is achieved by applying monthly a portion of the interest payments of the underlying mortgages toward the reduction of the senior class certificate principal amounts, causing them to amortize more rapidly than the aggregate loan balance. Over-collateralization

represents the first tier of loss protection afforded to the non-residual holders. To the extent not consumed by losses on more highly rated bonds, over-collateralization is remitted to the residual holders. In periods of declining interest rates, rates of prepayments on mortgage loans generally increase, and if the rate of prepayments is faster than anticipated, then the yield on subordinates will be positively affected and the yield on residuals will be negatively affected.

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

We periodically assess the carrying value of our subordinate securities and residual securities retained. There can be no assurance that our estimates used to determine the value of subordinate securities and residual securities retained will remain appropriate for the life of each securitization. If actual loan prepayments or defaults exceed our estimates, the carrying value of our subordinate securities and residual securities retained may be decreased during the period in which we recognized the disparity. During 2000, and before our transfer of securities available for sale to trading, we recorded \$11,597 of impairment charges on our portfolio of subordinate and residual securities as a result of declines in value that we deemed to be "other- than- temporary."

The following table presents information regarding our trading subordinate and residual securities summarized by classification and rating at December 31, 2002:

Rating/Description	Fair Value	Percent Owned by Ocwen	Anticipated Yield to Maturity at Purchase (1)	Anticipated Yield to Maturity at 12/31/02 (2)	Coupon	Anticipated Weighted Average Remaining Life (3)
Single-family residential:						
BB-rated subordinates.....	\$ 599	100.00%	16.80%	6.93%	6.39%	2.66
B-rated subordinates.....	606	100.00	17.44	25.21	6.61	1.86
Unrated subordinates.....	344	100.00	15.01	24.10	7.02	0.03
Unrated subprime residuals.....	33,213	100.00	18.69	40.82	N/A	4.90
	-----					
	34,762					
Commercial:						
Unrated subordinates.....	2,577	100.00	22.15	12.10	N/A	1.35
	-----					
	\$ 37,339					
	-----					

- (1) Represents the effective yield from inception to maturity based on the purchase price and anticipated future cash flows under pricing assumptions.
- (2) Represents the effective yield based on the purchase price, actual cash flows received from inception until the respective date, and the then current estimate of future cash flows under the assumptions at the respective date. Changes in the December 31, 2002 anticipated yield to maturity from that originally anticipated are primarily the result of changes in prepayment assumptions and loss assumptions.
- (3) Represents the weighted average life based on the December 31, 2002 book value.

The following table sets forth the principal amount of mortgage loans by the geographic location of the properties securing the mortgages that underlie our trading subordinate and residual securities at December 31, 2002:

Description	U.K	California	New Jersey	New York	Texas	Other (1)	Total
Single family residential..	\$ 88,417	\$ 28,665	\$ 31,130	\$ 28,295	\$ 24,671	\$ 158,730	\$ 359,908
Commercial.....	--	15,382	--	--	--	41,991	57,373
Multi-family.....	--	--	202	--	--	228	430
	-----	-----	-----	-----	-----	-----	-----
Total.....	\$ 88,417	\$ 44,047	\$ 31,332	\$ 28,295	\$ 24,671	\$ 200,949	\$ 417,711
	=====	=====	=====	=====	=====	=====	=====
Percentage of total.....	21.17%	10.54%	7.50%	6.77%	5.91%	48.11%	100.00%

(1) Consists of properties located in 46 other states, none of which aggregated over \$17,197 in any one state.

See Note 1 and Note 4 to our Consolidated Financial Statements.

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

(Dollars in thousands, except share data)

Real Estate Held for Sale. Our real estate held for sale consisted of the following at the dates indicated:

	December 31,		
	2002	2001	2000
Shopping centers (1).....	\$ --	\$ --	\$ 22,670
Assisted living facilities (2).....	--	13,418	--
	\$ --	\$ 13,418	\$ 22,670

(1) During the fourth quarter of 2001, we transferred our shopping center in Bradenton, Florida to held for investment after the contract to sell the property was terminated. We recorded impairment charges of \$1,471 on this property during the second quarter of 2001. During the first quarter of 2001, we sold another shopping center located in Havre, Montana, which had a carrying value of \$1,034, for no gain.

(2) We transferred three assisted living facilities from held for investment during the third quarter of 2001. We recorded impairment charges of \$2,225 on these properties at the time of transfer based on anticipated sales proceeds. We sold these facilities during the first quarter of 2002 for a gain of \$669.

See "Changes in Financial Condition - Investments in Real Estate".

Investment in Real Estate. Our investment in real estate consisted of the following at the dates indicated:

	December 31,		
	2002	2001	2000
<b>Properties held for investment</b>			
Office buildings.....	\$ 27,602	\$ 32,132	\$ 32,112
Retail.....	9,090	29,637	9,515
Building improvements.....	17,387	17,513	11,346
Tenant improvements and lease commissions.....	2,795	4,537	1,744
Furniture and fixtures.....	30	52	52
	56,904	83,871	54,769
Accumulated depreciation.....	(5,316)	(5,327)	(2,359)
	51,588	78,544	52,410
<b>Loans accounted for as investments in real estate</b>			
Multi-family residential.....	--	--	97
Nonresidential.....	2,188	30,436	45,689
	2,188	30,436	45,786
<b>Properties held for lease</b>			
Land and land improvements	--	--	1,256
Building.....	--	--	15,641
Accumulated depreciation.....	--	--	(855)
	--	--	16,042
Investment in real estate partnerships.....	4,900	7,916	8,523
	\$ 58,676	\$ 116,896	\$ 122,761

Properties Held for Investment. Properties held for investment at December 31, 2002 consisted of one office building (approximately 60.61% leased) located in Jacksonville, Florida and one shopping center (approximately 68.57% leased) located in Halifax, Nova Scotia. The \$26,956 decline in the aggregate net carrying value of our properties held for investment during 2002 was primarily due to the sale of our shopping center in Bradenton, Florida, which had a carrying value of \$19,902, and impairment charges of \$14,459 to reduce the remaining properties to our estimate of their net realizable value, offset in part by \$8,771 of net capitalized improvements. These properties were acquired by us as a result of our acquisition of OAC. The increase in our investment during 2001 was due primarily to capitalized improvements and the transfer of our shopping center in Bradenton, Florida from held for sale.

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

Loans Accounted for as Investments in Real Estate. We acquired certain acquisition, development and construction loans in January 2000 in which we participate in the expected residual profits of the underlying real estate and where the borrower has not contributed substantial equity to the project. As such, we account for these loans under the equity method of accounting as though we have an investment in a real estate limited partnership. The decline in our investment during 2002 and 2001 is due primarily to repayments of loans. At December 31, 2002 the remaining balance consisted of one loan.

Properties Held for Lease. During the third quarter of 2001, we recorded an impairment charge of \$2,225 on our three assisted living facilities based on anticipated sales proceeds and transferred our investment to real estate held for sale.

Investment in Real Estate Partnerships. Consists of interests in two limited partnerships operating as real estate ventures, consisting of multi-family type properties.

See "Changes in Financial Condition - Real Estate Held for Sale" and Note 8 to our Consolidated Financial Statements.

Affordable Housing Properties. Historically, we invested in multi-family residential projects which have been allocated low-income housing tax credits under Section 42 of the Internal Revenue Code of 1986, as amended, by a state tax credit allocating agency. We ceased making new investments in 2000 as part of our shift in strategy to fee-based businesses and because the volume of tax credits being generated was exceeding our ability to utilize them effectively. Since that time, we also began marketing each of these properties for sale on an asset-by-asset basis. As a result, our investment in affordable housing properties had been declining during the past three years. The carrying values of our affordable housing investments are as follows at the dates indicated:

	December 31,		
	2002	2001	2000
Properties subject to sale agreements (1).....	\$ 4,458	\$ 49,893	\$ 93,210
Properties not yet sold.....	10,861	52,176	49,602
Total .....	\$ 15,319	\$ 102,069	\$ 142,812

(1) Certain of our properties are subject to sales agreements that resulted in the transfer of tax credits and operating results for these properties to the purchaser but did not qualify as sales for accounting purposes due to insufficient cash received or contingencies with respect to potential repurchase requirements.

The decline in our investment during 2002 and 2001 was due to sales and loss provisions to increase reserves, offset by additional investments to complete existing projects under construction. Loss provisions represent estimated losses from future sales or from sales that have not yet qualified as

such for accounting purposes and include revisions to completion cost estimates and modifications to projected sales results. During 2002, sales of \$73,087 (net of reserves) and loss provisions of \$17,350 exceeded additional investments of \$3,687. During 2001, sales totaled \$55,652 (net of reserves), loss provisions were \$15,587 and additional investments amounted to \$30,496.

Low-income housing tax credit partnerships in which we invest both as a limited and, through a subsidiary, as general partner are presented on a consolidated basis and totaled \$3,357, \$73,463 and \$74,228 at December 31, 2002, 2001 and 2000, respectively. We account for investments made on or after May 18, 1995, in which we invest solely as a limited partner, using the equity method. We account for limited partnership investments made prior to May 18, 1995 under the effective yield method as a reduction of income tax expense.

See Note 10 to our Consolidated Financial Statements.

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

Loans, Net. Our loans have been declining since 1998 as sales, resolutions and foreclosures more than offset acquisitions and originations. This reflects our strategy to dispose of assets associated with non-core business lines. Originations in 2002, 2001 and 2000 represent loans made to facilitate sales of real estate assets that we owned and fundings of pre-existing commitments on construction loans. Otherwise, we have not originated or acquired any loans since 2000.

Beginning in 2002, we combined all of our loan portfolio types into a single balance sheet caption and integrated the related disclosures. Those portfolios were discount loans, loans and loans available for sale. All prior periods presented have been reclassified to conform to the 2002 presentation.

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

	December 31,				
	2002	2001	2000	1999	1998
Principal balance					
Single family residential loans....	\$ 2,163	\$ 58,118	\$ 301,290	\$ 647,137	\$ 805,039
Multi-family residential loans.....	26,017	33,319	150,797	272,927	319,771
Nonresidential real estate loans:					
Office buildings.....	41,215	56,713	98,425	162,529	247,131
Hotels.....	11,668	38,576	102,120	113,444	137,038
Retail properties.....	27,500	47,492	85,924	105,247	21,230
Land.....	--	--	1	6,190	4,162
Other properties.....	1,388	807	36,511	87,148	180,072
	81,771	143,588	322,981	474,558	589,633
Other loans (1).....	--	31	17,287	17,874	8,649
	109,951	235,056	792,355	1,412,496	1,723,092
Unaccrued discount and deferred fees					
Single family residential loans....	(579)	(16,467)	(74,219)	(147,918)	(162,166)
Multi-family residential loans....	(837)	(650)	(5,341)	(38,602)	(21,908)
Nonresidential real estate loans....	(10,572)	(19,318)	(40,548)	(58,036)	(70,522)
Other loans.....	--	--	(37)	(996)	(397)
	(11,988)	(36,435)	(120,145)	(245,552)	(254,993)
Undisbursed loan funds.....	97,963	198,621	672,210	1,166,944	1,468,099
Allowance for loan losses.....	(345)	(2,914)	(8,879)	(24,654)	(7,099)
	(20,761)	(10,414)	(23,279)	(26,440)	(26,330)
	\$ 76,857	\$ 185,293	\$ 640,052	\$ 1,115,850	\$ 1,434,670

(1) Included \$17,188, \$17,664 and \$8,248 at December 31, 2000, 1999 and 1998, respectively, of charged-off unsecured credit card receivables which were acquired at a discount. Collections were accounted for under the cost recovery method through December 31, 2001, when we reduced the net book value of the receivables to zero as a result of collections and reserves.

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

(Dollars in thousands, except share data)

Contractual Principal Repayments. The following table sets forth certain information at December 31, 2002 regarding the dollar amount of loans maturing based on scheduled contractual amortization, as well as the dollar amount of loans which have fixed or adjustable interest rates. We report demand loans (loans having no stated schedule of repayments and no stated maturity) and overdrafts as due in one year or less. We have not reduced loan balances for (i) undisbursed loan proceeds, unearned fees and the allowance for loan losses or (ii) non-performing loans.

	Maturing in				
	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
Single family residential loans.....	\$ 132	\$ 46	\$ 139	\$ 1,846	\$ 2,163
Multi-family residential loans.....	25,158	859	--	--	26,017
Nonresidential real estate and land loans..	39,168	41,365	--	1,238	81,771
	<u>\$ 64,458</u>	<u>\$ 42,270</u>	<u>\$ 139</u>	<u>\$ 3,084</u>	<u>\$ 109,951</u>
Interest rate terms on amounts due:					
Fixed.....	\$ 27,015	\$ 42,120	\$ 60	\$ 2,432	\$ 71,627
Adjustable.....	37,443	150	79	652	38,324
	<u>\$ 64,458</u>	<u>\$ 42,270</u>	<u>\$ 139</u>	<u>\$ 3,084</u>	<u>\$ 109,951</u>

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.

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

(Dollars in thousands, except share data)

Activity in Loans. The following table sets forth the activity in our net loans during the periods indicated:

	Years Ended December 31,				
	2002	2001	2000	1999	1998
Amount					
Balance at beginning of period .....	\$ 185,293	\$ 640,052	\$ 1,115,850	\$ 1,434,670	\$ 1,877,516
Acquisitions (1)					
Single family residential .....	1,018	--	164,920	570,082	1,408,254
Multi-family residential .....	--	--	21,378	123,529	231,130
Nonresidential real estate .....	--	--	25,612	226,877	264,697
Other .....	--	--	10,030	17,414	14,699
	<u>1,018</u>	<u>--</u>	<u>221,940</u>	<u>937,902</u>	<u>1,918,780</u>
Originations (2)					
Single family residential .....	--	--	--	728,509	959,105
Multi-family residential .....	11,260	5,109	36,165	3,692	56,657
Nonresidential real estate .....	7,218	13,035	3,627	17,258	116,452
	<u>18,478</u>	<u>18,144</u>	<u>39,792</u>	<u>749,459</u>	<u>1,132,214</u>
Resolutions and repayments (3) .....	(50,965)	(139,232)	(312,856)	(541,286)	(844,749)
Loans transferred to real estate owned .....	(16,000)	(92,949)	(201,010)	(220,775)	(391,238)
Sales (4) .....	(77,636)	(343,262)	(369,630)	(1,237,178)	(2,354,836)
Decrease (increase) in undisbursed loan proceeds .....	2,569	5,965	15,774	(17,555)	15,111
Decrease (increase) in discount .....	24,447	83,710	125,406	9,441	85,078
Decrease (increase) in allowance .....	(10,347)	12,865	4,786	1,172	(3,206)
	<u>\$ 76,857</u>	<u>\$ 185,293</u>	<u>\$ 640,052</u>	<u>\$ 1,115,850</u>	<u>\$ 1,434,670</u>



	Years Ended December 31,				
	2002	2001	2000	1999	1998
Number of Loans					
Balance at beginning of period .....	931	4,282	8,765	12,425	15,194
Acquisitions (1)					
Single family residential .....	17	--	2,208	7,767	15,654
Multi-family residential .....	--	--	9	37	126
Nonresidential real estate .....	--	--	12	207	275
Other .....	--	--	2	6	8
	17	--	2,231	8,017	16,063
Originations (2)					
Single family residential .....	--	--	--	4,293	9,625
Multi-family residential .....	1	2	4	2	--
Nonresidential real estate .....	1	2	--	11	--
Other .....	1	--	--	--	--
	3	4	4	4,306	9,625
Resolutions and repayments (4) .....	(77)	(662)	(1,572)	(2,656)	(2,326)
Loans transferred to real estate owned .....	(21)	(747)	(2,455)	(2,534)	(3,278)
Sales (5) .....	(815)	(1,946)	(2,691)	(10,793)	(22,853)
Balance at end of period .....	38	931	4,282	8,765	12,425

(1) Acquisitions exclude certain commercial and multi-family loans which we account for as investments in real estate. See "Changes in Financial Condition - Investment in Real Estate." The decline in acquisitions reflect our strategic decision to exit non-core businesses and dispose of the related assets. Single family acquisitions in 2002 represent repurchases of loans previously sold. Acquisitions during 1999 included \$121,113 of loans we acquired as a result of our acquisition of OAC. Acquisitions of other loans during 2000, 1999 and 1998 consisted primarily of charged-off unsecured credit card receivables we acquired at a discount. Acquisitions of single family loans during 1998 included \$421,188 we purchased from the UK operations of Cityscape Financial Corp.

(2) Multi-family, nonresidential real estate and other originations in 2002, 2001 and 2000 represent loans made to facilitate sales of our own assets and fundings of construction loans we originated in prior years. Originations of single family loans during 1999 and 1998 included approximately \$509,800 and \$254,300, respectively, originated by Ocwen UK prior to its sale.

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(3) Resolutions and repayments consists of loans which we resolved in a manner which resulted in partial or full repayment of the loan to us, 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.

(4) Included securitizations of performing single family loans in 1999 and 1998.

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

	December 31,				
	2002	2001	2000	1999	1998
Non-performing loans (1)					
Single family.....	\$ 1,345	\$ 32,430	\$ 181,998	\$ 344,884	\$ 392,983
Multi-family.....	14,822	23,637	17,754	31,135	31,367
Commercial real estate and other.....	59,382	38,240	97,795	73,628	63,438
Total.....	\$ 75,549	\$ 94,307	\$ 297,547	\$ 449,647	\$ 487,788

Non-performing loans as a percentage of (1)

Total loans (2).....	77.39%	48.19%	44.86%	39.36%	33.39%
Total assets.....	6.18%	5.51%	13.23%	13.70%	14.78%

Allowance for loan losses as a percentage of:					
Total loans (2).....	21.27%	5.32%	3.51%	2.31%	1.80%
Non-performing loans (1).....	27.48%	11.04%	7.82%	5.88%	5.40%

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

See Note 5 our Consolidated Financial Statements

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

	December 31,		
	2002	2001	2000
Single family residential loans.....	\$ 38,129	\$ 53,123	\$ 80,834
Allowance for loan losses.....	(144)	(170)	(285)
Match funded loans, net.....	37,985	52,953	80,549
Match funded securities.....	8,057	19,435	36,438
Match funded advances on loans serviced for others:			
Principal and interest.....	66,524	65,705	--
Taxes and insurance.....	30,301	21,900	--
Other.....	24,877	14,358	--
	121,702	101,963	--
	\$ 167,744	\$ 174,351	\$ 116,987

We acquired single family residential match funded loans in connection with our acquisition of OAC. OAC had previously securitized these loans and transferred them to a real estate mortgage investment conduit on November 13, 1998. The transfer did not qualify as a sale for accounting purposes since we retained effective control of the loans transferred. Accordingly, we report the proceeds we received from the transfer as a secured borrowing with pledge of collateral (bonds-match funded agreements). Non-performing loans

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

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amounted to \$3,120, \$4,405 and \$2,831 at December 31, 2002, 2001 and 2000, respectively. The declines in the balance during 2002 and 2001 were due to repayment of loan principal.

Match funded securities resulted from our transfer of unrated residual securities to a trust on December 16, 1999 in exchange for non-recourse notes. The transfer did not qualify as a sale for accounting purposes since we retained effective control over the securities transferred. Accordingly, we reported the amount of proceeds that we received from the transfer as a secured borrowing with pledge of collateral (bonds-match funded agreements). The declines in the balance during 2002 and 2001 were primarily due to principal repayments. The following table presents information regarding our match funded securities summarized by classification and rating:

Fair Value	Percent Owned	Original Anticipated Yield to Maturity	Anticipated Yield to Maturity at 12/31/02 (1)	Coupon	Anticipated Weighted Average Remaining Life(2)
------------	---------------	---	--	--------	--

Unrated residuals.....	\$ 8,057	100.00%	17.47%	3.61%	N/A	6.44 years
------------------------	----------	---------	--------	-------	-----	------------

- (1) Changes in the December 31, 2002 anticipated yield to maturity from that originally anticipated are primarily the result of changes in prepayment assumptions and, to a lesser extent, loss assumptions.
- (2) Equals the weighted average duration based on the December 31, 2002 book value.

The following table sets forth the principal amount of mortgage loans by the geographic location of the property securing the mortgages that underlie our match funded securities at December 31, 2002:

Description	California	Florida	Illinois	New York	Oregon	Other (1)	Total
Single family residential.....	\$ 27,014	\$ 22,117	\$ 9,675	\$ 8,433	\$ 8,051	\$ 114,939	\$ 190,229
Multi-family.....	1,033	310	397	421	--	3,075	5,236
	\$ 28,047	\$ 22,427	\$ 10,072	\$ 8,854	\$ 8,051	\$ 118,014	\$ 195,465
Percentage of total.....	14.35%	11.47%	5.15%	4.53%	4.12%	60.38%	100.00%

- (1) Consists of properties located in 44 other states, none of which aggregated over \$6,943 in any one state.

Match funded advances on loans serviced for others resulted from our transfer of certain residential loan servicing related advances to a third party in exchange for cash. The transfer did not qualify as a sale for accounting purposes since we retained effective control of the advances. Accordingly, we report the amount of proceeds we received from the sale as a secured borrowing with pledge of collateral (bonds-match funded agreements.) See "Bonds-Match Funded Agreements" and Note 6 to our Consolidated Financial Statements.

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

	December 31,				
	2002	2001	2000	1999	1998
Amount					
Loans					
Single family residential loans.....	\$ 154	\$ 3,401	\$ 3,493	\$ 11,168	\$ 10,522
Multi-family residential loans.....	6,637	2,186	2,798	3,403	5,171
Nonresidential real estate loans.....	13,970	4,827	8,210	10,602	10,637
Other loans (1).....	--	--	8,778	1,267	--
	\$ 20,761	\$ 10,414	\$ 23,279	\$ 26,440	\$ 26,330
Match funded loans					
Single family residential loans.....	\$ 144	\$ 170	\$ 285	\$ 495	\$ --

- (1) Allowance for loan losses on other discount loans pertains to our charged-off unsecured credit card receivables acquired at a discount.

	December 31,				
	2002	2001	2000	1999	1998
Percentage of Loans to Total Loans					
Loans					
Single family residential loans.....	1.6%	21.3%	34.2%	43.7%	44.0%
Multi-family residential loans.....	25.4	15.2	20.6	18.4	19.9
Nonresidential real estate loans.....	73.0	63.5	42.6	36.5	35.5
Other loans.....	--	--	2.6	1.4	0.6
	100.0%	100.0%	100.0%	100.0%	100.0%

The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict our 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 our loans during the periods indicated:

	Years Ended December 31,				
	2002	2001	2000	1999	1998
Balance at beginning of period.....	\$ 10,414	\$ 23,279	\$ 26,440	\$ 26,330	\$ 27,188
Provision for loan losses.....	13,655	15,478	15,270	7,070	18,509
Charge-offs					
Single family residential loans.....	(974)	(5,964)	(7,132)	(4,417)	(14,786)
Multi-family residential loans.....	(233)	(872)	(2,550)	(912)	(2,648)
Nonresidential real estate loans.....	(2,549)	(11,654)	(9,386)	(2,687)	(2,888)
Other loans.....	--	(10,337)	--	(44)	(27)
Total charge-offs.....	(3,756)	(28,827)	(19,068)	(8,060)	(20,349)
Recoveries					
Single family residential loans.....	279	391	616	397	421
Nonresidential real estate loans.....	169	93	21	--	561
Total recoveries.....	448	484	637	397	982
Net charge-offs.....	(3,308)	(28,343)	(18,431)	(7,663)	(19,367)
Acquired allowance (OAC acquisition).....	--	--	--	703	--
Balance at end of period.....	\$ 20,761	\$ 10,414	\$ 23,279	\$ 26,440	\$ 26,330

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
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Real Estate Owned, Net. Real estate owned, net, has been declining since 1998 as sales more than offset loan foreclosures during those years. At December 31, 2002 our portfolio of real estate owned consisted of only 55 properties. Declines in our originations and acquisitions of loans (none since 2000) have contributed to the decline in foreclosures. Our real estate owned consists almost entirely of properties we acquired by foreclosure or deed-in-lieu thereof on loans we previously acquired at a discount.

The following table sets forth the composition of our real estate owned by property type at the dates indicated:

	December 31,				
	2002	2001	2000	1999	1998
Single family.....	\$ 1,886	\$ 16,424	\$ 56,679	\$ 78,172	\$ 98,831
Multi-family.....	--	--	150	2,602	20,130
Nonresidential.....	60,153	94,041	89,590	86,732	82,590
	\$ 62,039	\$ 110,465	\$ 146,419	\$ 167,506	\$ 201,551

The following tables set forth the activity in our real estate owned

during the years indicated:

	2002	2001	2000	1999	1998
Amount					
Balance at beginning of period.....	\$ 110,465	\$ 146,419	\$ 167,506	\$ 201,551	\$ 167,265
Properties acquired through foreclosure or deed-in-lieu thereof:					
Loans.....	16,000	92,949	201,010	220,775	391,238
Less discount transferred.....	(6,756)	(35,698)	(60,246)	(63,664)	(110,716)
Add advances transferred.....	248	6,790	11,741	13,308	16,551
	9,492	64,041	152,505	170,419	297,073
Capital improvements.....	2,298	12,737	6,775	37	808
Acquired in connection with acquisitions of loans.....	--	--	9,059	47,808	19,949
Sales.....	(53,670)	(111,776)	(188,465)	(250,453)	(280,565)
Increase in valuation allowance.....	(6,546)	(956)	(961)	(1,856)	(2,979)
Balance at end of period.....	\$ 62,039	\$ 110,465	\$ 146,419	\$ 167,506	\$ 201,551

	2002	2001	2000	1999	1998
Number of Properties					
Balance at beginning of period.....	391	1,298	1,672	1,999	1,505
Properties acquired through foreclosure or deed-in-lieu thereof.....	21	747	2,455	2,534	3,278
Acquired in connection with acquisitions of loans.....	--	--	171	931	303
Sales.....	(357)	(1,654)	(3,000)	(3,792)	(3,087)
Balance at end of period.....	55	391	1,298	1,672	1,999

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

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The following tables set forth the amount of time that we have held our real estate owned at the dates indicated:

December 31, 2002	Nonresidential		Single Family		Multi-family		Total	
	Net Book Value	Count	Net Book Value	Count	Net Book Value	Count	Net Book Value	Count
Holding Period								
One to six months.....	\$ --	--	\$ --	--	\$ --	--	\$ --	--
Seven to 12 months.....	--	--	176	3	--	--	176	3
13 to 24 months.....	18,616	4	609	19	--	--	19,225	23
Over 24 months.....	41,537	2	1,101	27	--	--	42,638	29
	\$ 60,153	6	\$ 1,886	49	\$ --	--	\$ 62,039	55

December 31, 2001	Nonresidential		Single Family		Multi-family		Total	
	Net Book Value	Count	Net Book Value	Count	Net Book Value	Count	Net Book Value	Count
Holding Period								
One to six months.....	\$ --	--	\$ 6,150	148	\$ --	--	\$ 6,150	148
Seven to 12 months.....	21,607	4	5,815	127	--	--	27,422	131
13 to 24 months.....	377	1	3,837	86	--	--	4,214	87
Over 24 months.....	72,057	6	622	19	--	--	72,679	25
	\$ 94,041	11	\$ 16,424	380	\$ --	--	\$ 110,465	391

December 31, 2000	Nonresidential		Single Family		Multi-family		Total	
	Net Book Value	Count	Net Book Value	Count	Net Book Value	Count	Net Book Value	Count
Holding Period								
One to six months.....	\$ 1,436	4	\$ 37,340	804	\$ --	--	\$ 38,776	808
Seven to 12 months.....	4,254	3	14,172	357	--	--	18,426	360
13 to 24 months.....	19,702	5	4,581	110	16	1	24,299	116
Over 24 months.....	64,198	7	586	6	134	1	64,918	14
	\$ 89,590	19	\$ 56,679	1,277	\$ 150	2	\$ 146,419	1,298

We actively manage our real estate owned. Our sales of real estate owned resulted in losses, net of the provision for loss, of \$(16,582), \$(3,655) and \$(4,159) during 2002, 2001 and 2000, respectively, which are included in determining our total net gain (loss) on real estate owned. Nonresidential real estate owned that we have held in excess of 24 months at December 31, 2002 primarily consisted of a single large retail shopping mall with a carrying value of \$41,000. As anticipated, this property migrated into the over 24 month category in 2000 because it was being repositioned for sale. Nonresidential properties held for 13 to 24 months as of December 31, 2002 consisted of four hotels, one of which was sold in January 2003 and had a carrying value of \$5,801. The average period during which we held the real estate owned which was sold during the years ended December 31, 2002, 2001 and 2000, was 13 months, 8 months and 7 months, respectively.

We value properties acquired through foreclosure or by deed-in-lieu thereof at the lower of amortized cost or fair value less costs of disposition. We periodically reevaluate properties included in the our real estate owned portfolio to determine that we are carrying them at the lower of cost or fair value less estimated costs to sell. We record holding and maintenance costs we incur related to properties as expenses in the period incurred. We recognize decreases in value in real estate owned after acquisition as a valuation allowance. We reflect subsequent increases related to the valuation of real estate owned as a reduction in the valuation allowance, but not below zero. We charge or credit to income, respectively, increases and decreases in the valuation allowance.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
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The following table sets forth the activity, in aggregate, in the valuation allowance on our real estate owned during the years indicated:

	2002	2001	2000	1999	1998
Balance at beginning of year.....	\$ 19,098	\$ 18,142	\$ 17,181	\$ 15,325	\$ 12,346
Provisions for losses.....	19,685	17,766	26,674	28,008	18,626
Charge-offs.....	(5,304)	(2,352)	(4,129)	(8,012)	(2,028)
Sales.....	(7,835)	(14,458)	(21,584)	(18,140)	(13,619)
Balance at end of year.....	\$ 25,644	\$ 19,098	\$ 18,142	\$ 17,181	\$ 15,325
Valuation allowance as a percentage of total gross real estate owned (1).....	29.25%	14.74%	11.02%	9.30%	7.07%

(1) The increase in this ratio since 1998 reflects an increasing valuation allowance and a declining balance of gross real estate owned. The valuation allowance has not declined proportionately primarily because of the large retail shopping mall we are repositioning for sale, as discussed above. The valuation allowance on this property amounted to \$21,053 at December 31, 2002.

See Note 7 to our Consolidated Financial Statements.

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

	December 31,		
	2002	2001	2000
Loans			
Taxes and insurance.....	\$ 136	\$ 2,214	\$ 11,168
Other.....	502	4,135	11,840
	638	6,349	23,008
Loans serviced for others			
Principal and interest.....	63,326	107,319	95,191

Taxes and insurance.....	117,937	99,972	64,159
Other.....	84,455	69,543	44,697
	-----	-----	-----
	265,718	276,834	204,047
	-----	-----	-----
	\$ 266,356	\$ 283,183	\$ 227,055
	=====	=====	=====

The decline in advances on loans reflects the decline in our investment in loans. See "Changes in Financial Condition - Loans, Net". The balances of advances on loans serviced for others do not include match funded advances that are transferred to a third party in a transaction that does not qualify as a sale for accounting purposes and that we account for as a secured borrowing. See "Changes in Financial Condition - Match Funded Assets".

Mortgage Servicing Rights. The unamortized balance of mortgage servicing rights is primarily residential. The increase in our investment reflects the growth of our residential loan servicing business through purchases of rights to service loans for others. See "Results of Operations - Non-Interest Income - Servicing and Other Fees" and Note 9 to our Consolidated Financial Statements.

	December 31,		
	2002	2001	2000
	-----	-----	-----
Balance at beginning of period.....	\$ 101,107	\$ 51,426	\$ 11,683
Purchases.....	128,891	79,522	49,779
Amortization.....	(58,153)	(29,841)	(10,036)
Sale.....	(234)	--	--
	-----	-----	-----
Balance at end of period.....	\$ 171,611	\$ 101,107	\$ 51,426
	=====	=====	=====

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
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At December 31, 2002, we serviced loans under approximately 275 servicing agreements for 21 clients. Purchases during 2002 were all residential and \$65,800 were acquired under flow agreements with third party lenders whereby we have committed to purchase newly originated mortgage servicing rights up to an agreed upon aggregate amount.

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

	December 31,		
	2002	2001	2000
	-----	-----	-----
Accounts receivable			
Affordable housing sales, net (1).....	\$ 40,299	\$ 13,230	\$ --
Trade, net (2).....	10,819	10,722	3,862
Other.....	4,665	5,288	2,445
	-----	-----	-----
	55,783	29,240	6,307
Rent receivable.....	1,586	1,647	3,215
Accrued interest receivable.....	734	3,481	6,896
Loan acquisition costs.....	--	--	2,988
Intangible assets, net.....	4,010	6,059	7,210
Goodwill, net.....	1,618	6,971	10,083
Deferred debt issuance costs, net.....	2,202	3,983	6,391
Investment securities, at cost.....	5,361	4,659	13,257
Deferred tax asset, net (3).....	8,387	8,411	95,991
Other.....	7,708	7,582	9,506
	-----	-----	-----
	\$ 87,389	\$ 72,033	\$ 161,844
	=====	=====	=====

(1) Represents uncollected proceeds from the sale of Affordable Housing Properties. See "Changes in Financial Condition - Affordable Housing

Properties".

- (2) Trade receivables are principally generated by the operations of our Residential Loan Servicing, OTX, Ocwen Realty Advisors and Unsecured Collections business segments.
- (3) Deferred tax assets are net of valuation allowances of \$199,270, \$165,221 and \$58,873, respectively. See "Results of Operations - Income Tax Expense (Benefit)".

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
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Deposits. Our deposits decreased during 2001 and 2000 primarily as a result of maturing brokered certificates of deposits. We did not issue any new brokered certificates of deposit during 2002 or 2001 and, at this time, do not intend to issue any such deposits in the foreseeable future. We plan to retain non-brokered deposits as a source of financing our operations.

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

	Years Ended December 31,								
	2002			2001			2000		
	Amount	Weighted Average Rate	% of Total Deposits	Amount	Weighted Average Rate	% of Total Deposits	Amount	Weighted Average Rate	% of Total Deposits
Non interest-bearing									
checking accounts.....	\$ 4,378	--%	1.0%	\$ 5,624	--%	0.8%	\$ 13,523	--%	1.1%
NOW and money market									
checking accounts.....	17,720	1.20%	4.2	15,479	1.44%	2.4	14,670	5.18%	1.2
Savings accounts.....	1,592	1.00%	0.4	1,287	1.25%	0.2	1,274	2.38%	0.1
	23,690		5.6	22,390		3.4	29,467		2.4
Certificates of deposit (1)(2)	402,917			636,037			1,176,566		
Unamortized deferred fees.....	(637)			(1,549)			(3,989)		
Total certificates of deposit...	402,280	4.89%	94.4	634,488	6.06%	96.6	1,172,577	6.34%	97.6
	\$ 425,970		100.0%	656,878		100.0%	\$1,202,044		100.0%

- (1) Included \$198,248, \$484,698 and \$968,432 at December 31, 2002, 2001 and 2000, respectively, of brokered deposits originated through national, regional and local investment banking firms which solicit deposits from their customers, all of which are non-cancelable. Certificates of deposit with a face value of \$18,194, which carry an interest rate of 6% and mature December 16, 2008, are callable on their semiannual interest payment dates with thirty days notice.
- (2) At December 31, 2002, 2001 and 2000, certificates of deposit with outstanding balances of \$100 or more amounted to \$125,451, \$82,771 and \$125,820, respectively. Of the \$125,451 of uninsured deposits at December 31, 2002, \$49,507 were from political subdivisions in New Jersey and were secured or collateralized as required under state law.

The following table sets forth remaining maturities for our term deposits in amounts of \$100 or more at December 31, 2002:

Matures within three months.....	\$ 47,505
Matures after three months through six months.....	28,782
Matures after six months through twelve months.....	34,258
Matures after twelve months.....	14,906
	-----
	\$125,451
	=====

Escrow Deposits on Loans and Loans Serviced for Others. Escrow deposits on our loans and loans we serviced for others amounted to \$84,986, \$73,565 and \$56,316 at December 31, 2002, 2001 and 2000, respectively. The balance consisted



principally of custodial deposit balances representing collections that we made from borrowers for the payment of taxes and insurance premiums on mortgage properties underlying loans that we serviced for others. The balance has increased principally because of an increase in loans we serviced for others. See "Results of Operations - Non-Interest Income - Servicing and Other Fees."

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

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

Collateral	Interest rate	December 31,		
		2002	2001	2000
Single family residential loans (1)	LIBOR plus 65-70 basis points	\$ 32,217	\$ 46,145	\$ 72,101
Unrated residual securities (1)	9.50%	8,057	18,997	34,949
Advances on loans serviced for others (2)	LIBOR plus 160 basis points	106,797	91,766	--
		<u>\$ 147,071</u>	<u>\$ 156,908</u>	<u>\$ 107,050</u>

- (1) The decline in the outstanding balance was primarily due to principal repayments.
- (2) Under the terms of the agreement, we are eligible to sell additional advances on loans serviced for others up to a maximum balance of \$200,000.

See "Changes in Financial Condition - Bonds-Match Funded Assets", "Liquidity, Commitments and Off-Balance Sheet Risks - Liquidity".

Notes, Debentures and Other Interest-Bearing Obligations. Notes, debentures and other interest-bearing obligations mature as follows:

	December 31,		
	2002	2001	2000
2003:			
11.875% Notes due October 1 (1)	\$ 43,475	\$ 87,025	\$ 100,050
Loan due September 30 (LIBOR plus 250 basis-points or a minimum of 8%) (2)	4,235	--	--
2004:			
Loan due May 24 (LIBOR plus 250 basis points) (2)	--	6,235	6,235
2005:			
12% Subordinated Debentures due June 15 (3)	33,500	67,000	67,000
11.5% Redeemable Notes due July 1 (4)	--	45	45
	<u>\$ 81,210</u>	<u>\$ 160,305</u>	<u>\$ 173,330</u>

- (1) On November 26, 2002 we exercised our redemption option and called \$40,000 of these notes at a price of 102.969%. Earlier during 2002, we repurchased \$3,550 of these notes in the open market. The \$13,025 decline in the outstanding balance during 2001 was due to repurchases in the open market.
- (2) In connection with the sale of three assisted living facilities during the third quarter of 2002, we repaid the loan due May 24, 2004 and entered into a new loan due September 30, 2003. The new loan is secured by the loan for \$9,153 that we made to facilitate the sale of the assisted living facilities. See "Changes in Financial Condition - Loans, Net" and "- Real Estate Held for Sale."

- (3) On November 26, 2002 we exercised our redemption option and called \$33,500 of these debentures at a price of 102.667%.
- (4) On November 5, 2002 we exercised our redemption option and called the remaining balance of these notes at a price of 105.75%.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
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Obligations Outstanding Under Lines of Credit. We have obtained secured line of credit arrangements from unaffiliated financial institutions as follows at the dates indicated:

Collateral	Balance Outstanding	Amount of Facility	Committed Amount	Maturity Date	Interest Rate(1)
December 31, 2002					
Advances on loans serviced for others.....	\$ 78,511	\$ 100,000	\$ 78,511	April 2003	LIBOR + 200 basis points
December 31, 2001					
Real estate investments and commercial loans.....	\$ 32,463	\$ 200,000	\$ 115,580	June 2002	LIBOR + 240 basis points
Advances on loans serviced for others.....	51,841	\$ 100,000	\$ 51,841	October 2002	LIBOR + 200 basis points
	\$ 84,304				
December 31, 2000					
Real estate investments and commercial loans.....	\$ 32,933	\$ 200,000	\$ 115,580	June 2001	LIBOR + 240 basis points

- (1) 1-month LIBOR was 1.38%, 1.87% and 6.57% at December 31, 2002, 2001 and 2000, respectively.

The lines of credit collateralized by real estate investments and commercial loans expired and were repaid in May 2002. Lines of credit secured by advances on loans serviced for others were entered into during April 2001 to fund advances purchased in connection with our acquisition of rights to services loans for others. See Note 15 to our Consolidated Financial Statements.

Company Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company ("Capital Securities"). The outstanding balance of the 10.875% Capital Securities amounted to \$56,249, \$61,159, \$79,530, respectively, at December 31, 2002, 2001 and 2000. During 2002, 2001 and 2000, we repurchased \$4,910, \$18,371 and \$30,470, respectively, of our Capital Securities in the open market. See "Results of Operations -Gain (loss) on Repurchase of Debt, Net of Taxes" and Note 19 to our Consolidated Financial Statements.

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

Stockholders' Equity. Stockholders' equity amounted to \$310,718 at December 31, 2002 as compared to \$379,106 at December 31, 2001 and \$503,426 at December 31, 2000. The \$68,388 and \$124,320 declines in equity during 2002 and 2001, respectively, were primarily due to the \$68,775 and \$124,782 of net loss we incurred for those years. See Consolidated Statements of Changes in Stockholders' Equity and Notes 1 and 22 to our Consolidated Financial

Statements.

#### Asset and Liability Management

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. Our objective is to attempt to control risks associated with interest rate and foreign currency exchange rate movements. In general, our strategy is to match our asset and liability balances within maturity categories and to manage our foreign currency rate exposure related to our investments in non-U.S. dollar functional currency operations to limit our exposure to earnings variations and variations in the value of our assets and liabilities as interest rates and foreign currency exchange rates change over time. Our Asset/Liability Management Committee (the "Committee"), which is composed of our officers, formulates and monitors our asset and liability management strategy in accordance with policies approved by our Board of Directors. The Committee meets to review, among other things, the sensitivity of the our assets and liabilities to interest rate changes and foreign currency exchange rate changes, the book and market values of assets and liabilities, unrealized gains and losses, including those attributable to hedging transactions, purchase and sale activity, and maturities of investments

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

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and borrowings. The Committee also approves and establishes pricing and funding decisions with respect to overall asset and liability composition.

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

The following table sets forth the estimated maturity or repricing of our interest-earning assets and interest-bearing liabilities at December 31, 2002. We determined the amounts of our assets and liabilities shown within a particular period in accordance with the contractual terms of the assets and liabilities, with the following exceptions:

- o We include adjustable-rate loans, performing discount loans, securities and FHLB advances in the period in which they are first scheduled to adjust and not in the period in which they mature.
- o Fixed-rate mortgage-related securities reflect prepayments that were estimated using a prepayment model, broker estimates and empirical data.
- o Non-performing discount loans reflect the estimated timing of resolutions that result in repayment to us.
- o NOW and money market checking deposits and savings deposits, which do not have contractual maturities, reflect estimated levels of attrition, which we based on detailed studies of each such category of deposit.
- o We exclude escrow deposits on loans and loans serviced for others and other non interest-bearing checking accounts, which amounted

to \$89,364 at December 31, 2002.

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

	December 31, 2002				
	Within Three Months	Four to Twelve Months	More Than One Year to Three Years	Three Years and Over	Total
<b>Rate-Sensitive Assets:</b>					
Interest-earning deposits.....	\$ 30,649	\$ --	\$ --	\$ --	\$ 30,649
Federal funds sold.....	85,000	--	--	--	85,000
Trading securities.....	12,991	14,954	15,408	15,542	58,895
Investment securities, net.....	5,361	--	--	--	5,361
Loans, net (1).....	36,178	13,165	27,222	292	76,857
Match funded assets, net (1)(2).....	1,494	17,198	14,603	12,747	46,042
<b>Total rate-sensitive assets.....</b>	<b>171,673</b>	<b>45,317</b>	<b>57,233</b>	<b>28,581</b>	<b>302,804</b>
<b>Rate-Sensitive Liabilities:</b>					
NOW and money market checking deposits.....	16,008	196	420	1,096	17,720
Savings deposits.....	112	228	451	801	1,592
Certificates of deposit.....	93,402	175,912	107,503	25,463	402,280
<b>Total interest-bearing deposits.....</b>	<b>109,522</b>	<b>176,336</b>	<b>108,374</b>	<b>27,360</b>	<b>421,592</b>
Bonds-match funded agreements.....	141,011	5,450	610	--	147,071
Obligations outstanding under lines of credit..	78,511	--	--	--	78,511
Notes, debentures and other.....	4,235	43,475	33,500	--	81,210
<b>Total rate-sensitive liabilities.....</b>	<b>333,279</b>	<b>225,261</b>	<b>142,484</b>	<b>27,360</b>	<b>728,384</b>
Interest rate sensitivity gap excluding financial instruments.....	(161,606)	(179,944)	(85,251)	1,221	(425,580)
<b>Financial Instruments:</b>					
Interest rate caps.....	--	--	--	--	--
Interest rate floors.....	--	592	--	--	592
<b>Total rate-sensitive financial instruments.....</b>	<b>--</b>	<b>592</b>	<b>--</b>	<b>--</b>	<b>592</b>
Interest rate sensitivity gap including financial instruments.....	\$ (161,606)	\$ (179,352)	\$ (85,251)	\$ 1,221	\$ (424,988)
Cumulative interest rate sensitivity gap (3)....	\$ (161,606)	\$ (340,958)	\$ (426,209)	\$ (424,988)	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets.....	(53.37)%	(112.60)%	(140.75)%	(140.35)%	
<b>As of December 31, 2001</b>					
Cumulative interest rate sensitivity gap (3)....	\$ (101,120)	\$ (186,507)	\$ (364,383)	\$ (405,605)	
Cumulative interest rate sensitivity gap on a percentage of total rate-sensitive assets.....	(14.06)%	(25.68)%	(50.18)%	(55.86)%	

- (1) Balances have not been reduced for non-performing loans.
- (2) Excludes match funded advances on loans serviced for others, which do not earn interest, of \$121,702 at December 31, 2002.
- (3) We have experienced an increasingly large negative interest rate sensitivity gap in recent years. This change has been the result of both our acquisition of OAC and our change in strategic focus away from capital-intensive businesses and into fee-based sources of income. The result has been an increase in the relative amount of our noninterest-bearing assets, such as real estate assets and loan servicing assets that are funded by interest-bearing liabilities. Consequently, the amount of the negative interest rate sensitivity gap may continue to increase as we continue our transition to fee-based businesses.

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(Dollars in thousands, except share data)

The OTS has established specific minimum guidelines for thrift institutions to observe in the area of interest rate risk as described in Thrift Bulletin No. 13a, "Management of Interest Rate Risk, Investment Securities, and Derivative Activities" ("TB 13a"). Under TB 13a, institutions are required to establish and demonstrate quarterly compliance with board-approved limits on interest rate risk that are defined in terms of net portfolio value ("NPV"), which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments. These limits specify the minimum net portfolio value ratio ("NPV Ratio") allowable under current interest rates and hypothetical interest rate scenarios. An institution's NPV Ratio for a given interest rate scenario is calculated by dividing the NPV that would result in that scenario by the present value of the institution's assets in that same scenario. The hypothetical scenarios are represented by immediate, permanent, parallel movements (shocks) in the term structure of interest rates of plus and minus 100, 200 and 300 basis points from the actual term structure observed at quarter end. The current NPV Ratio for each of the seven rate scenarios and the corresponding limits approved by the Board of Directors, as applied to Ocwen Financial Corporation and its subsidiaries, are as follows at December 31, 2002:

Rate Shock in basis points	Board Limits (minimum NPV Ratios)	Current NPV Ratios
+300	5.00%	30.38%
+200	6.00%	30.22%
+100	7.00%	30.06%
0	8.00%	29.91%
-100	7.00%	29.82%
-200	6.00%	29.77%
-300	5.00%	29.88%

The Committee also regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income or expense and NPV and evaluating such impacts against the maximum potential changes in net interest income and NPV that is authorized by the Board of Directors, as applied to Ocwen Financial Corporation and its subsidiaries. The following table quantifies the potential changes in net interest expense and net portfolio value should interest rates go up or down (shocked) 300 basis points, assuming the yield curves of the rate shocks will be parallel to each other. We calculate the cash flows associated with the loan portfolios and securities available for sale based on prepayment and default rates that vary by asset. We generate projected losses, as well as prepayments, based upon the actual experience with the subject pool, as well as similar, more seasoned pools. To the extent available, we use loan characteristics such as loan-to-value ratio, interest rate, credit history, prepayment penalty terms and product types to produce the projected loss and prepayment assumptions that are included in the cash flow projections of the securities. When we shock interest rates we further adjust these projected loss and prepayment assumptions. The base interest rate scenario assumes interest rates at December 31, 2002. Actual results of Ocwen Financial Corporation and its subsidiaries could differ significantly from the results estimated in the following table:

Rate Shock in basis points	Estimated Changes in	
	Net Interest	NPV
+300	91.68%	0.35%
+200	61.12%	0.23%
+100	30.56%	0.11%
0	0.00%	0.00%
-100	(30.56)%	0.12%
-200	(61.12)%	0.31%
-300	(91.68)%	1.02%

The following table shows our financial instruments that are sensitive

to changes in interest rates, categorized by expected maturity or repricing characteristics, and the fair values of those instruments at December 31, 2002:

Expected Maturity Date At December 31, 2002 (1)								
	2003	2004	2005	2006	2007	Thereafter	Total Balance	Fair Value
<b>Rate-Sensitive Assets:</b>								
Interest-earning deposits.....	\$ 30,649	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 30,649	\$ 30,649
Average interest rate.....	1.20%	--%	--%	--%	--%	--%	1.20%	
Federal funds.....	85,000	--	--	--	--	--	85,000	85,000
Average interest rate.....	1.25%	--%	--%	--%	--%	--%	1.25%	
Trading securities.....	27,946	8,486	6,922	4,364	3,006	8,171	58,895	58,895
Average interest rate.....	5.44%	14.49%	12.33%	13.91%	15.45%	18.56%	10.51%	
Investment securities, net	5,361	--	--	--	--	--	5,361	5,361
Average interest rate.....	0.84%	--%	--%	--%	--%	--%	0.84%	
Loans, net (2).....	49,342	26,971	251	171	16	106	76,857	89,957
Average interest rate.....	7.82%	10.52%	9.54%	9.57%	10.40%	10.24%	8.78%	
Match funded assets (2) (3).....	18,692	12,317	2,287	1,663	1,472	9,611	46,042	46,098
Average interest rate.....	7.62%	9.50%	9.50%	9.51%	12.00%	12.00%	7.68%	
<b>Total rate-sensitive assets.....</b>	<b>\$ 216,990</b>	<b>\$ 47,774</b>	<b>\$ 9,460</b>	<b>\$ 6,198</b>	<b>\$ 4,494</b>	<b>\$ 17,888</b>	<b>\$ 302,804</b>	<b>\$ 315,960</b>
<b>Rate-Sensitive Liabilities:</b>								
NOW and money market checking deposits.....	\$ 16,204	\$ 227	\$ 193	\$ 164	\$ 140	\$ 792	\$ 17,720	\$ 17,384
Average interest rate.....	1.46%	0.48%	0.48%	0.48%	0.48%	0.48%	1.37%	
Savings deposits.....	340	250	200	160	128	514	1,592	1,517
Average interest rate.....	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	
Certificates of deposit.....	269,315	78,467	29,036	1,528	3,945	19,989	402,280	416,082
Average interest rate.....	4.35%	5.86%	6.58%	5.30%	4.94%	5.94%	4.89%	
<b>Total interest-bearing deposits.....</b>	<b>285,859</b>	<b>78,944</b>	<b>29,429</b>	<b>1,852</b>	<b>4,213</b>	<b>21,295</b>	<b>421,592</b>	<b>434,983</b>
Bonds-match funded agreements.....	146,461	610	--	--	--	--	147,071	147,091
Average interest rate.....	3.14%	9.50%	--%	--%	--%	--%	3.16%	
Obligations outstanding under lines of credit.....	78,511	--	--	--	--	--	78,511	78,511
Average interest rate.....	3.44%	--%	--%	--%	--%	--%	3.44%	
Notes, debentures and other.....	47,710	--	33,500	--	--	--	81,210	82,749
Average interest rate.....	11.53%	--%	12.00%	--%	--%	--%	11.72%	
<b>Total rate-sensitive liabilities.....</b>	<b>\$ 558,541</b>	<b>\$ 79,554</b>	<b>\$ 62,929</b>	<b>\$ 1,852</b>	<b>\$ 4,213</b>	<b>\$ 21,295</b>	<b>\$ 728,384</b>	<b>\$ 743,334</b>

- (1) Expected maturities are contractual maturities adjusted for prepayments of principal. We use certain assumptions to estimate fair values and expected maturities. For assets, expected maturities are based upon contractual maturity, projected repayments and prepayments of principal. We base the prepayment experience reflected herein on our historical experience. Our average Constant Prepayment Rate ("CPR") is 18.40 and 27.17% on our 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 our historical experience.
- (2) We have not reduced balances for non-performing loans.
- (3) Excludes match funded advances on loans serviced for others, which do not earn interest, of \$121,702 at December 31, 2002.
- (4) The expected maturity or repricing dates of interest rate-sensitive assets and liabilities as of December 31, 2002, 2001 and 2000 compare as follows:

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

(Dollars in thousands, except share data)

	1st Year	2nd Year	3rd Year	4th Year	5th Year	Thereafter	Total
<b>Total rate-sensitive assets:</b>							
<b>2002</b>							
Amount.....	\$ 216,990	\$ 47,774	\$ 9,460	\$ 6,198	\$ 4,494	\$ 17,888	\$ 302,804
% of total.....	71.66%	15.78%	3.12%	2.05%	1.48%	5.91%	100.00%
<b>2001:</b>							
Amount.....	\$ 563,761	\$ 67,274	\$ 20,843	\$ 11,700	\$ 10,587	\$ 52,002	\$ 726,167
% of total.....	77.64%	9.26%	2.87%	1.61%	1.46%	7.16%	100.00%

Total rate-sensitive liabilities:

2002								
Amount.....	\$ 558,541	\$ 79,554	\$ 62,929	\$ 1,852	\$ 4,213	\$ 21,295	\$ 728,384	
% of total.....	76.69%	10.92%	8.64%	0.25%	0.58%	2.92%	100.00%	
2001:								
Amount.....	\$ 750,269	\$ 204,721	\$ 61,675	\$ 93,035	\$ 1,347	\$ 21,129	\$1,132,176	
% of total.....	66.27%	18.08%	5.45%	8.22%	0.12%	1.86%	100.00%	

We believe that the broad geographic distribution of our loans and match funded loans reduces the risks that would otherwise result from concentrating such loans in limited geographic areas. See Notes 5 and 6 to our Consolidated Financial Statements.

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

Interest Rate Risk Management. We have purchased amortizing caps and floors to hedge the interest rate exposure relating to our match funded loans and securities. An interest rate cap or interest rate floor is designed to provide protection against the interest rate on a floating-rate instrument rising above some level (cap) or falling below some level (floor). We had entered into caps and floors with an aggregate notional amount of \$111,799 and \$30,563, respectively, at December 31, 2002, as compared to caps and floors with an aggregate notional amount of \$125,933 and \$34,101, respectively, at December 31, 2001.

See the "Derivative Financial Instruments" section of Note 1 and the "Interest Rate Management" section of Note 19 to our Consolidated Financial Statements.

Foreign Currency Exchange Rate Risk Management. We have entered into foreign currency futures to hedge our net investment in foreign subsidiaries which own residual securities backed by residential loans originated in the UK ("UK residuals") and a shopping center located in Halifax, Nova Scotia (the "Nova Scotia shopping center"). Our principal exposure to foreign currency exchange rates exists with the British Pound versus the U.S. dollar and the Canadian Dollar versus the U.S. dollar. Our policy is to periodically adjust the amount of foreign currency derivative contracts that we have entered into in response to changes in our recorded investment in these foreign entities as well as to changes in our assets denominated in a foreign currency. Our net exposures are subject to gain or loss if foreign currency exchange rates fluctuate. See the "Derivatives Financial Instruments" section of Note 1 and the "Foreign Currency Management" section of Note 19 to our Consolidated Financial Statements (which are incorporated herein by reference).

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

Liquidity, Commitments and Off-Balance Sheet Risks

Liquidity. Our primary sources of funds for liquidity are:

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

We plan to retain non-brokered deposits as a source of financing our operations while at the same time reducing our reliance on brokered deposits. We plan to reduce this reliance by using proceeds from the sale of non-core assets to pay off maturing brokered deposits and by diversifying our funding sources

through obtaining credit facilities for servicing rights and advances. Our ability to continue to attract new non-brokered deposits and rollover existing non-brokered deposits depends largely on our ability to compete with interest rates offered by other banks in the northern New Jersey area. In 2002, we were able to increase the amount of non-brokered deposits outstanding. If we are unable to maintain the amount of non-brokered deposits outstanding and must replace them with alternative sources of funds, it is likely that we would have to incur higher interest costs to fund our assets.

In the last several years, our Residential Loan Servicing business has grown through the purchase of servicing rights. Servicing rights entitle the owner to earn servicing fees and other types of ancillary income and impose various obligations on the servicer. Among these are the obligation to make advances for delinquent principal and interest, taxes, insurance and various other items that are required to preserve the assets being serviced.

Our ability to continue to grow our servicing business depends in part on our ability to obtain additional financing to purchase new servicing rights and to fund servicing advances. We currently use a variety of sources of debt to finance these assets, including deposits and credit facilities with advance rates less than 100% of the underlying collateral. If we cannot replace or renew these sources as they mature or obtain additional sources of financing, we may be unable to acquire new servicing rights and make the associated advances.

Under a match funding agreement that we entered into on December 20, 2001, we are eligible to sell advances on loans serviced for others up to a maximum debt balance of \$200,000 at any one time. At December 31, 2002, we had \$106,797 of bonds-match funded agreements outstanding under this facility, which, if not renewed, will mature in December 2003. The sales of advances did not qualify as sales for accounting purposes; therefore, we report them as secured borrowings with pledges of collateral. We have accounted for additional sales under this facility in the same manner.

Under a revolving credit facility executed in April 2001 we have the right to pledge servicing advances as collateral for a loan up to \$100,000. The facility, if not renewed, will mature in April 2003.

At December 31, 2002, we also had \$180,264 of unrestricted cash and cash equivalents and \$18,666 of short duration CMOs which we could use to secure additional borrowings. At December 31, 2002, we were eligible to borrow up to an aggregate of \$50,000 from the FHLB of New York (based on the availability of acceptable collateral). We had no outstanding FHLB advances or securities we sold under agreements to repurchase from the FHLB at December 31, 2002.

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

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

- o Scheduled maturities of all certificates of deposit for 2003, 2004 and thereafter amount to \$269,315, \$78,467 and \$54,498, respectively.
- o Expiration of existing collateralized line of credit in April 2003.
- o Maturity of our match funded servicing advance funding facility in December 2003, as discussed above.
- o Maturity of a note and loan totaling \$47,710 in September and October 2003
- o Potential extension of resolution and sale timelines for non-core assets in the current weak economic environment.
- o Ongoing cash requirements to fund operations of our holding company and OTX.



- o Cash requirements to fund our acquisition of additional servicing rights and related advances.

We believe that our existing sources of liquidity, including internally generated funds, will be adequate to fund our planned activities for the foreseeable future, although there can be no assurances in this regard. As discussed above, we continue to evaluate other sources of liquidity, such as lines of credit from unaffiliated parties, match funded debt and other secured borrowings. See the "Short-Term Highly Liquid Investments," "Securities Sold Under Agreements to Repurchase," and "Derivative Financial Instruments" sections of Note 1 and Notes 15 and 16 to our Consolidated Financial Statements.

Our operating activities provided (used) \$251,350, \$51,083 and \$(22,508) of cash flows during 2002, 2001 and 2000, respectively. During 2002 and 2001 cash was generated from operating activities, despite the net losses recorded, for two reasons. First, the net losses included a significant amount of non-cash reserves and impairment charges. Second, our securities portfolio generated positive cash flow through sales and interest and principal payments.

Our investing activities provided cash flows totaling \$75,940, \$428,415 and \$767,186 during 2002, 2001 and 2000, respectively. During the foregoing years, cash flows from our investing activities were provided primarily from principal payments on our loans, maturities of and principal payments received on our securities available for sale (in 2000) and proceeds from sales of loans, securities available for sale, real estate held for sale and real estate owned. We used cash flows from our investing activities primarily to purchase mortgage servicing rights, loans and securities available for sale. The decline in net cash provided by investing activities is primarily due to a decline in principal payments received on loans, a decline in proceeds from sales of loans and REO and an increase in the amount of mortgage servicing rights purchased.

Our financing activities used cash flows of \$(395,698), \$(372,579) and \$(945,161) during 2002, 2001 and 2000, respectively. Cash flows related to our financing activities primarily resulted from maturing deposits, changes in obligations outstanding under lines of credit, repurchases of debt and issuance of match funded debt. A decline in the amount of maturing deposits during 2002 was offset by repayments of securities sold under agreements to repurchase, an increase in the repurchase of debt and a decline in proceeds from lines of credit as compared to 2001. Cash flows used in our financing activities decreased during 2001 as compared to 2000 primarily because we established a new line of credit agreement to fund advances on loans serviced for others that we acquired in connection with a servicing acquisition, and we entered into a new match funding agreement to fund current and future advances on loans serviced for others. We also repurchased less of our outstanding debt and repurchased none of our common stock during 2001.

On August 14, 2002, Standard & Poor's lowered its credit ratings of Ocwen Financial Corporation and its subsidiaries as follows:

- o The Long Term Counterparty credit rating and Senior Unsecured Debt rating of Ocwen Financial Corporation were both lowered from B to B-.
- o The rating on Ocwen Capital Trust's Capital Trust Securities was lowered from CCC to CCC-.
- o The Long Term Counterparty Credit Rating and Subordinated Debt ratings of Ocwen Federal Bank FSB were changed from BB- to B+ and from B to B-, respectively.

In its press release, Standard & Poor's stated that the ratings actions were in response to the \$50,198 loss we reported for the second quarter of 2002 and concern over the continuing risk associated with our remaining non-core assets. The second quarter 2002 loss was principally caused by additional reserves and impairment charges on non-core assets. This ratings action had no specific negative consequence to us. However, additional negative ratings actions may be damaging to our ability to attract new customers for our products and services, as well as our ability to obtain new sources and renew existing sources of funding.

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Commitments. At December 31, 2002, we had \$346 of commitments related to the funding of construction loans (including loans accounted for as investments in real estate). We believe that we have adequate resources to fund all such unfunded commitments to the extent required and that substantially all of such unfunded commitments will be funded during 2003. See Note 30 to our Consolidated Financial Statements.

Off-Balance Sheet Risks. In addition to commitments to extend credit, we are party to various off-balance sheet financial instruments in the normal course of our business to manage our interest rate risk and foreign currency exchange rate risk. See Note 21 to our Consolidated Financial Statements and "Asset and Liability Management" above.

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

#### Regulatory Capital and Other Requirements

See Note 23 to our Consolidated Financial Statements.

#### Recent Accounting Developments

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

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#### Forward-Looking Statements

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, but not limited to the following:

- o estimates regarding the benefits of cost saving opportunities and quality workforce in India,
- o projections for staff reduction in the United States and growth in our India workforce,
- o predictions as to the potential business opportunities in global outsourcing,
- o predictions regarding sales of our commercial and affordable housing assets, and
- o intentions related to the issuance of brokered deposits and other sources of financing.

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

- o general economic and market conditions,
- o prevailing interest or currency exchange rates,
- o availability of servicing rights for purchase,
- o governmental regulations and policies,
- o international political and economic uncertainty,
- o availability of adequate and timely sources of liquidity,

- o uncertainty related to dispute resolution and litigation, and
- o real estate market conditions and trends.

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

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[OCWEN LOGO]

Ocwen Financial Corporation

#### REPORT OF MANAGEMENT

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

To ensure that the financial statements are reliable, the Company established and maintains an effective system of internal accounting controls and procedures that provide reasonable assurance that assets are safeguarded and transactions are properly recorded and executed in accordance with corporate policy and management authorization. The Company believes its accounting controls provide reasonable assurance that errors or irregularities, which could be material to the financial statements, are prevented or would be detected within a timely period and corrected in the normal course of business.

PricewaterhouseCoopers LLP was engaged to perform an audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. Such standards include the evaluation of our accounting policies and procedures and the effectiveness of the related internal control system to determine the nature, timing and extent of their audit procedures. 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 and make recommendations on both administrative and accounting controls.

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

/s/ William C. Erbey

/s/ Mark S. Zeidman

William C. Erbey  
Chairman and Chief Executive Officer

Mark S. Zeidman  
Senior Vice President and  
Chief Financial Officer

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PRICEWATERHOUSECOOPERS LLP [GRAPHIC LOGO OMITTED]

222 Lakeview Avenue  
Suite 360  
West Palm Beach, FL 33401

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 comprehensive income, 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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2002, the Company changed its method of accounting for goodwill and intangible assets in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

PRICEWATERHOUSECOOPERS LLP  
 West Palm Beach, Florida  
 March 11, 2003

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

	December 31, 2002	December 31, 2001
	-----	-----
<b>Assets</b>		
Cash and amounts due from depository institutions.....	\$ 76,598	\$ 23,081
Interest earning deposits.....	30,649	111,574
Federal funds sold and repurchase agreements.....	85,000	126,000
Trading securities, at fair value		
Collateralized mortgage obligations (AAA-rated) and U.S. Treasury notes.....	21,556	161,191
Subordinates and residuals.....	37,339	65,058
Real estate held for sale.....	--	13,418
Investment in real estate.....	58,676	116,896
Affordable housing properties.....	15,319	102,069
Loans, net.....	76,857	185,293
Match funded assets.....	167,744	174,351
Real estate owned, net.....	62,039	110,465
Premises and equipment, net.....	44,268	44,589
Income taxes receivable.....	20,841	20,842
Advances on loans and loans serviced for others.....	266,356	283,183
Mortgage servicing rights.....	171,611	101,107
Other assets.....	87,389	72,033
	-----	-----
	\$ 1,222,242	\$ 1,711,150
	=====	=====
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits.....	\$ 425,970	\$ 656,878
Escrow deposits on loans and loans serviced for others.....	84,986	73,565
Securities sold under agreements to repurchase.....	--	79,405
Bonds - match funded agreements.....	147,071	156,908
Obligations outstanding under lines of credit.....	78,511	84,304
Notes, debentures and other interest-bearing obligations.....	81,210	160,305
Accrued interest payable.....	7,435	12,836
Excess of net assets acquired over purchase price.....	--	18,333
Accrued expenses, payables and other liabilities.....	28,314	28,351
	-----	-----
	853,497	1,270,885
	-----	-----
Minority interest in subsidiaries.....	1,778	--

Company obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company.....	56,249	61,159
Commitments and contingencies (Note 28)		
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; 67,339,773 and 67,289,313 shares issued and outstanding at December 31, 2002 and December 31, 2001, respectively.....	673	673
Additional paid-in capital.....	224,454	224,142
Retained earnings.....	85,637	154,412
Accumulated other comprehensive income (loss), net of taxes		
Net unrealized foreign currency translation gain (loss).....	(46)	(121)
Total stockholders' equity.....	310,718	379,106
	\$ 1,222,242	\$ 1,711,150

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

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

	For the Years Ended December 31,		
	2002	2001	2000
Net interest income			
Income .....	\$ 37,235	\$ 83,371	\$ 184,816
Expense.....	55,762	93,329	169,090
Net interest income (expense) before provision for loan losses....	(18,527)	(9,958)	15,726
Provision for loan losses.....	13,629	15,666	15,177
Net interest income (expense) after provision for loan losses.....	(32,156)	(25,624)	549
Non-interest income			
Servicing and other fees.....	141,991	134,597	97,080
Gain (loss) on interest earning assets, net.....	(3,485)	(3,949)	17,625
Gain (loss) on trading and match funded securities, net.....	7,012	16,330	(3,971)
Impairment charges on securities available for sale.....	--	--	(11,597)
Loss on real estate owned, net.....	(15,719)	(9,256)	(14,904)
Gain (loss) on other non-interest earning assets, net.....	1,122	(1,054)	45,517
Net operating gains (losses) on investments in real estate.....	(8,315)	5,581	27,579
Amortization of excess of net assets acquired over purchase price.	--	18,333	14,112
Gain (loss) on repurchase of debt.....	(1,461)	3,774	29,703
Equity in income (losses) of investments in unconsolidated entities.....	215	304	(5,249)
Other income.....	13,115	8,759	6,084
	134,475	173,419	201,979
Non-interest expense			
Compensation and employee benefits.....	77,778	84,914	83,086
Occupancy and equipment.....	11,843	11,577	12,005
Technology and communication costs.....	25,270	26,768	23,876
Loan expenses.....	12,605	15,811	13,051
Net operating losses on investments in certain affordable housing properties.....	22,360	16,580	9,931
Amortization/writeoff of excess of purchase price over net assets acquired.....	2,231	3,112	3,124
Professional services and regulatory fees.....	16,383	14,749	12,829
Other operating expenses.....	9,619	8,935	12,107
	178,089	182,446	170,009
Distributions on Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company.....	6,287	7,131	11,380
Income (loss) before income taxes and effect of change in accounting principle.....	(82,057)	(41,782)	21,139
Minority interest in net loss of consolidated subsidiary.....	(99)	--	--
Income tax expense.....	2,983	83,000	18,947
Income (loss) before effect of change in accounting principle....	(84,941)	(124,782)	2,192
Effect of change in accounting principle, net of taxes.....	16,166	--	--
Net income (loss).....	\$ (68,775)	\$ (124,782)	\$ 2,192
Earnings (loss) per share			
Basic			
Net income (loss) before effect of change in accounting principle.	\$ (1.26)	\$ (1.86)	\$ 0.03

Effect of change in accounting principle, net of taxes.....	0.24	--	--
Net income (loss).....	\$ (1.02)	\$ (1.86)	\$ 0.03
Diluted			
Net income (loss) before effect of change in accounting principle.	\$ (1.26)	\$ (1.86)	\$ 0.03
Effect of change in accounting principles.....	0.24	--	--
Net income (loss).....	\$ (1.02)	\$ (1.86)	\$ 0.03
Weighted average common shares outstanding			
Basic.....	67,321,299	67,227,058	67,427,662
Diluted.....	67,321,299	67,227,058	67,464,043

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

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

	For the Years Ended December 31,		
	2002	2001	2000
Net income (loss).....	\$ (68,775)	\$ (124,782)	\$ 2,192
Other comprehensive income (loss), net of taxes			
Change in unrealized gain on securities available for sale arising during the year.....	--	--	--
Less Reclassification adjustment.....	--	--	(163)
Net change in unrealized gain on securities available for sale (net of tax benefit of \$122 for 2000).....	--	--	(163)
Change in unrealized foreign currency translation adjustment arising during the year.....			
Less Reclassification adjustment for losses on foreign currency translation adjustment included in net income.....	75	(518)	389
Net change in unrealized foreign currency translation loss (net of tax benefit (expense) of \$(45), \$284 and \$(627) for 2002, 2001 and 2000, respectively).....	--	--	757
Other comprehensive income (loss).....	75	(518)	983
Comprehensive income (loss).....	\$ (68,700)	\$ (125,300)	\$ 3,175
Disclosure of reclassification adjustment			
Unrealized holding gains arising during the year on securities sold or impaired.....	\$ --	\$ --	\$ (7,394)
Add Adjustment for realized losses and impairment charges on securities available for sale included in net income.....	--	--	7,231
Net reclassification adjustment for gains recognized in other comprehensive income (loss) in prior years (net of tax benefit of \$122 for 2000) (1).....	\$ --	\$ --	\$ (163)
Unrealized foreign currency translation adjustment arising during the year.....			
Add Adjustment for realized foreign currency losses on the sale of the equity investment in a foreign entity and foreign subsidiary in 2000.....	\$ --	\$ --	\$ (131)
Net reclassification adjustment for foreign currency losses recognized in other comprehensive income (loss) in prior years (net of tax benefit of \$408 for 2000).....	--	--	888
Net reclassification adjustment for foreign currency losses recognized in other comprehensive income (loss) in prior years (net of tax benefit of \$408 for 2000).....	\$ --	\$ --	\$ 757

(1) In 2000, includes the adjustment related to the reclassification of securities available for sale to trading securities.

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

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 and 2000  
(Dollars in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total
	Shares	Amount				
Balances at December 31, 1999.....	68,571,575	\$ 686	\$ 232,340	\$ 277,002	\$ (586)	\$ 509,442
Net income.....	--	--	--	2,192	--	2,192
Repurchase and retirement of common stock....	(1,427,747)	(14)	(9,233)	--	--	(9,247)
Directors' compensation.....	8,535	--	56	--	--	56
Other comprehensive income, net of taxes						
Change in unrealized gain on securities available for sale.....	--	--	--	--	(163)	(163)
Change in unrealized foreign currency translation loss.....	--	--	--	--	1,146	1,146
Balances at December 31, 2000.....	67,152,363	672	223,163	279,194	397	503,426
Net loss.....	--	--	--	(124,782)	--	(124,782)
Exercise of common stock options.....	128,155	1	901	--	--	902
Directors' compensation.....	8,795	--	78	--	--	78
Other comprehensive income, net of taxes						
Change in accounting principle for derivative financial instruments.....	--	--	--	--	59	59
Reclassification of gain on derivative financial instruments to earnings.....	--	--	--	--	(59)	(59)
Change in unrealized foreign currency translation gain.....	--	--	--	--	(518)	(518)
Balances at December 31, 2001.....	67,289,313	673	224,142	154,412	(121)	379,106
Net loss.....	--	--	--	(68,775)	--	(68,775)
Exercise of common stock options.....	32,937	--	214	--	--	214
Directors' compensation.....	17,523	--	98	--	--	98
Other comprehensive income, net of taxes						
Change in unrealized foreign currency translation gain.....	--	--	--	--	75	75
Balances at December 31, 2002.....	67,339,773	\$ 673	\$ 224,454	\$ 85,637	\$ (46)	\$ 310,718

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

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

	For the Years Ended December 31,		
	2002	2001	2000
Cash flows from operating activities			
Net income (loss) .....	\$ (68,775)	\$ (124,782)	\$ 2,192
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities			
Net cash provided by trading activities .....	186,511	192,069	102,091
Premium amortization (discount accretion) on securities, net .....	1,469	7,337	8,493
Depreciation and amortization .....	70,040	24,461	17,662
Effect of change in accounting principle before taxes .....	(15,000)	--	--
Provision for loan losses .....	13,629	15,666	15,177
Provision for real estate owned .....	19,685	17,766	26,674
Gain on sale of investment in Kensington Group plc .....	--	--	(20,025)
Gain (loss) on interest-earning assets, net .....	3,485	3,949	(17,625)
(Gain) loss on trading and match funded securities .....	(7,178)	(16,330)	3,971
Impairment charges on securities available for sale .....	--	--	11,597
(Gain) loss on repurchase of debt .....	1,461	(3,774)	(29,704)
(Gain) loss on sale of other non-interest earning assets .....	(1,122)	1,054	(25,492)
Impairment charges on investment in real estate .....	15,317	4,515	704
Provisions for losses on affordable housing properties .....	21,294	15,587	6,448
Gain (loss) on sale of real estate owned .....	(3,103)	(14,111)	(22,515)
(Increase) decrease in income taxes receivable .....	1	9,419	(30,261)
(Decrease) in income taxes payable .....	--	--	(6,369)
(Increase) decrease in advances and match funded advances on loans and loans serviced for others .....	(4,945)	(165,123)	(67,638)
(Increase) decrease in other assets, net .....	23,900	99,606	41,124
Increase (decrease) in accrued expense, interest payable and other liabilities .....	(5,319)	(16,226)	(39,012)
Net cash provided (used) by operating activities .....	251,350	51,083	(22,508)

(Continued on next page)

The accompanying notes are an 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,		
	2002	2001	2000
Cash flows from investing activities			
Proceeds from sales of securities available for sale	--	--	553,589
Purchase of securities available for sale	--	--	(896,470)
Maturities of and principal payments received on securities available for sale	--	--	416,004
Proceeds from the sale of investment in Kensington Group plc	--	--	48,556
Principal payments received on match funded loans	16,490	30,552	26,595
Investment in affordable housing properties	(3,687)	(30,496)	(27,213)
Proceeds from sale of affordable housing properties	25,017	52,076	27,587
Purchase of mortgage servicing rights	(128,891)	(79,522)	(49,779)
Proceeds from sale of loans	60,118	288,387	315,709
Principal payments received on loans	45,014	102,071	277,262
Proceeds from sale of real estate held for investment	48,834	14,360	4,237
Investment in real estate held for investment	(7,042)	(7,996)	(34,057)
Proceeds from sale of real estate held for sale	14,087	1,000	232,811
Investment in real estate held for sale	--	--	(57,737)
Purchases, originations and funded commitments of loans held for investment, net	(21,722)	(25,326)	(231,275)
Capital improvements to real estate owned	(2,298)	(12,737)	(6,775)
Proceeds from sale of real estate owned	42,822	108,338	180,473
Purchase of real estate owned in connection with discount loan purchases	--	--	(9,059)
Additions to premises and equipment	(12,802)	(12,292)	(3,272)
Net cash provided by investing activities	75,940	428,415	767,186

(Continued on next page)

The accompanying notes are an 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,		
	2002	2001	2000
Cash flows from financing activities			
Decrease in deposits and escrow deposits on loans and loans serviced for others	(216,330)	(525,476)	(553,589)
Proceeds from (repayment of) securities sold under agreement to repurchase	(79,405)	79,405	(47,365)
(Repayment of) proceeds from obligations under lines of credit, net	(5,793)	51,371	(155,805)
Proceeds from issuance of bonds - match funded agreements	--	91,766	--
Repayments of bonds - match funded agreements	(10,275)	(43,144)	(33,002)
Repurchase of notes and subordinated debentures	(79,214)	(13,233)	(127,649)
Exercise of common stock options	214	901	--
Issuance of shares of common stock	98	78	56
Repurchase of Capital Securities, net	(3,796)	(14,247)	(18,811)
Repayment of other interest-bearing obligations, net	(1,197)	--	--
Repurchase of common stock	--	--	(8,996)
Net cash used by financing activities	(395,698)	(372,579)	(945,161)
Net increase (decrease) in cash and cash equivalents	(68,408)	106,919	(200,483)
Cash and cash equivalents at beginning of period	260,655	153,736	354,219
Cash and cash equivalents at end of period	\$ 192,247	\$ 260,655	\$ 153,736
Reconciliation of cash and cash equivalents at end of period			
Cash and amounts due from depository institutions	\$ 76,598	\$ 23,081	\$ 18,749
Interest-earning deposits	30,649	111,574	134,987
Federal funds sold and repurchase agreements	85,000	126,000	--
	\$ 192,247	\$ 260,655	\$ 153,736
Supplemental disclosure of cash flow information			
Cash paid during the period for			
Interest	\$ 61,163	\$ 75,834	\$ 179,564
Income tax refunds (payments)	2,444	(14,816)	18,829
Supplemental schedule of non-cash investing and financing activities			
Real estate owned acquired through foreclosure	9,492	64,041	152,505
Reclassification of properties from investment in real estate to			



real estate held for sale .....	--	(7,343)	174,480
Reclassification of securities available for sale to trading securities ....	--	--	496,295
Exchange of note receivable for real estate held for sale .....	9,153	--	19,000
Accounts receivable from sale of affordable housing properties .....	44,591	11,427	--

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

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002, 2001, AND 2000  
(Dollars in thousands, except share data)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Ocwen Financial Corporation ("OCN") is a financial services company whose primary business activities consist of the servicing and resolution of nonconforming, subperforming and nonperforming residential and commercial mortgage loans. We also specialize in the related development of loan servicing technology and software for the mortgage and real estate industries. Our consolidated financial statements include the accounts of OCN and its subsidiaries. We own directly and indirectly all of the outstanding common and preferred stock of our primary subsidiaries, Ocwen Federal Bank FSB (the "Bank"), Investors Mortgage Insurance Holding Company ("IMI"), Ocwen Technology Xchange, Inc. ("OTX"), Ocwen Asset Investment Corp. ("OAC") and Ocwen Financial Solutions Pvt. Ltd. We also own 99.6% of Ocwen Financial Services, Inc. ("OFS"), with the remaining 0.4% owned by the shareholders of Admiral Home Loan. In 2002, we formed Global Servicing Solutions, LLC ("GSS"). We own 70% of GSS with the remaining 30% owned by Merrill Lynch. We have eliminated all significant intercompany transactions and balances in consolidation.

The Bank is a federally chartered savings bank regulated by the Office of Thrift Supervision ("OTS").

Reclassification

Certain amounts included in our 2001 and 2000 consolidated financial statements have been reclassified to conform to the 2002 presentation.

Consolidated Statements of Cash Flows

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

Short-Term Highly Liquid Investments

Our short-term highly liquid investments generally consist of federal funds sold and assets we purchased under agreements to resell. We invest in these assets to maximize the return on liquid funds. At December 31, 2002, such investments amounted to \$85,000 of federal funds sold which had an overnight maturity. At December 31, 2001, we had \$126,000 such investments outstanding. The average balance of our investment in federal funds sold and assets purchased under agreements to resell amounted to \$152,588 and \$200,329 during 2002 and 2001, respectively.

The Federal Reserve System requires that the Bank maintain non-interest-earning cash reserves against certain of its transaction accounts and time deposit accounts. Such reserves totaled \$6,811 and \$5,040 at December 31, 2002 and 2001, respectively.

Securities

We report securities in our statement of financial condition at fair value. We determine fair value within a range based on third party dealer quotations, where available, and internal values, subject to an internal review process.

We currently account for our securities as trading. For these securities, we reported changes in fair value in income in the period of change. Through September 30, 2000, we accounted for the securities as available for sale, for which we reported the unrealized gains and losses as a separate component of accumulated other comprehensive income in stockholders' equity, subject to an evaluation for other-than-temporary impairment. For each security where we concluded that all or part of the decrease in value was other-than-temporary, we charged such amount to earnings, thereby establishing a new cost basis for the security.

#### Loans

We report loans at amortized cost, less an allowance for loan losses, discounts, deferred loan fees and undisbursed loan funds. We defer loan origination fees and certain direct loan origination costs and recognize them over the lives of the related loans as a yield adjustment that we include in interest income using the interest method applied on a loan-by-loan basis.

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
DECEMBER 31, 2002, 2001, AND 2000  
(Dollars in thousands, except share data)

For loans acquired, we accounted for the initial investment in these pools of loans based upon the pricing methodologies used to bid on the pool. We allocated the acquisition cost to each loan within the pool when we determined the bid price; we made these allocations based upon an analysis of the expected future cash flows of each individual loan. We accounted for the acquisition cost in the aggregate when we determined the bid price using assumptions concerning the expected future cash flows from groups of loans within the pool. For those single family residential mortgage loans that are brought current by the borrower and certain multi-family and commercial real estate loans that are current and that we believe will remain current, we accrete the remaining unamortized discount into interest income as a yield adjustment using the interest method over the contractual maturity of the loan. For all other loans, we report interest as cash is received. We report gains on the repayment and discharging of loans as interest income.

The resolution alternatives applied to loans are:

- o The borrower brings the loan current in accordance with original or modified terms
- o The borrower repays the loan or a negotiated amount
- o The borrower agrees to a deed-in-lieu of foreclosure, in which case we classify it as real estate owned and held for sale
- o We foreclose on the loan and the property is either acquired at the foreclosure sale by a third-party or by us, in which case it is classified as real estate owned and held for sale.

We accrue interest income as it is earned. We place loans on non-accrual status after being delinquent greater than 89 days or earlier if the borrower is deemed by management to be unable to continue performance. When we place a loan on non-accrual status, we reverse interest accrued but not received. In addition, we suspend the amortization of deferred loan fees when we place a loan on nonaccrual status. We return loans to accrual status only when we reinstate the loan and have no doubt regarding ultimate collectability.

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

#### Allowance for Loan Losses

We maintain the allowance for loan losses at a level that, based upon our evaluation of known and inherent risks in the portfolio, we consider adequate to provide for losses. We establish specific valuation allowances for impaired loans in the amount by which the carrying value, before allowance for probable losses, exceeds the fair value of collateral less costs to dispose on an individual loan basis. In the case of single family residential mortgage loans and consumer loans, we generally evaluate for impairment as homogeneous

pools of loans. We consider a loan to be impaired when, based upon current information and events, we believe that we will probably be unable to collect on a timely basis all amounts due according to the contractual terms of the loan agreement. We measure these impaired loans at the fair value of the collateral underlying the loans, less estimated disposal costs. We may leave impaired loans on accrual status during the period we are pursuing repayment of the loan. We place these loans on non-accrual status at such time that either: (i) the loans become 90 days delinquent; or (ii) we determine that the borrower is incapable of, or has ceased efforts toward, curing the cause of the non-payment. We recognize impairment losses through an increase in the allowance for loan losses and a corresponding charge to the provision for loan losses. When we either sell, transfer to real estate owned ("REO") or charge-off an impaired loan, we remove valuation allowance from the allowance for loan losses. Charge-offs occur when we consider loans, or a portion thereof, uncollectible and of such little value that we consider unwarranted their continuance as bankable assets. We base our ongoing evaluation of the allowance for loan losses upon an analysis of the portfolio, historical loss experience, economic conditions and trends, collateral values and other relevant factors. We may make subsequent adjustments to the allowance if these factors differ substantially from the assumptions used in making the evaluation.

#### Real Estate Owned

We value properties acquired through foreclosure at the lower of the adjusted cost basis of the loan or fair value less estimated costs of disposal of the property after the date of foreclosure. We periodically re-evaluate properties held to determine that we are carrying them at the lower of cost or fair value less estimated costs to dispose. We recognize sales proceeds and related costs with passage of title to the buyer and, in cases where we finance the sale, receipt of sufficient down payment. We report rental income related to properties as a part of loss on real estate owned, net, as earned. We report holding and maintenance costs related to properties as period costs as incurred. We record no depreciation expense related to the properties. We recognize decreases in the market value of foreclosed real estate after foreclosure as a valuation allowance on a property specific basis. We report subsequent increases in market value of the

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foreclosed real estate as reductions in the valuation allowance, but only to the extent the valuation allowance reaches zero. We charge or credit to income such changes in the valuation allowance.

#### Mortgage Servicing Rights

We acquire mortgage servicing rights, which we record at the price paid. We amortize mortgage servicing assets in proportion to and over the period of estimated net servicing income. We determine estimated net servicing income using the estimated future balance of the underlying mortgage loan portfolio which, absent new purchases, declines over time from prepayments and scheduled loan amortization. We adjust amortization prospectively in response to changes in estimated projections of future cash flows. We evaluate the mortgage servicing assets for impairment based on the fair value of the servicing assets by strata. We stratify the servicing assets based on loan type. We estimate fair value by discounting underlying loan cash flows using discount and prepayment rates that we believe market participants would use. To the extent the carrying value of the servicing assets exceeds their fair value by strata, we establish a valuation allowance, which we may adjust in the future, as the value of the servicing assets increase or decrease.

#### Mortgage Servicing Fees and Advances on Loans Serviced for Others

We receive fees from investors for servicing mortgage loans. We collect servicing fees, generally expressed as a percent of the unpaid principal balance, from the borrowers' payments. We also include late charge income and other ancillary fees, net of amortization of our servicing assets, in servicing income. During any period in which the borrower is not making payments, we are required under certain servicing agreements to advance our own funds to meet contractual principal and interest remittance requirements for certain

investors, pay property taxes and insurance premiums and process foreclosures. We generally recover such advances from borrowers for reinstated and performing loans and from investors for foreclosed loans. We record a charge to servicing income to the extent that we estimate that advances are uncollectible under provisions of the servicing contracts, taking into consideration historical loss and delinquency experience, length of delinquency and the amount of the advance.

#### Investment in Real Estate

We record investment in real estate at cost less accumulated depreciation. We review our investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

We compute depreciation on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	39 - 40 years
Tenant improvements	Lesser of lease term or useful life
Land improvements	20 years
Furniture, fixtures and equipment	5 - 10 years

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

In addition, we acquired certain acquisition, development and construction loans in which we participate in the residual profits of the underlying real estate, and the borrower had not contributed substantial equity to the project. As such, we account for these loans under the equity method of accounting as though we had made an investment in a real estate limited partnership.

We charge expenditures for repairs and maintenance to operations as incurred but capitalize significant improvements. We classify our leases as operating. We defer fees and costs incurred in the successful negotiation of leases and amortize them on a straight-line basis over the terms of the respective leases. We report rental income on a straight-line basis over the terms of the respective leases.

#### Investments in Affordable Housing Properties

Affordable housing partnerships own multi-family residential properties that have been allocated tax credits under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). The obligations of the partnership to sustain qualifying status of the

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properties covers a 15-year period; however, tax credits generally accrue over a 10-year period on a straight-line basis. We account for investments in affordable housing partnerships that we made on or after May 18, 1995 and in which we invest solely as a limited partner using the equity method. For our limited partnership investments made before this date, we record our receipt of income tax credits and other tax benefits on a level yield basis over the 15-year obligation period and report the tax credits and tax benefits net of amortization of our investment in the limited partnership as a reduction of income tax expense. We consolidate affordable housing partnerships in which we have invested as a limited partner, and through which a subsidiary acts as the general partner, and include them in our consolidated financial statements. For all investments in affordable housing partnerships made after May 18, 1995, we capitalize interest expense and certain direct costs incurred during the pre-operating period.

We report affordable housing properties for which we have entered into an agreement to sell at the lower of cost or fair value less costs to sell.

#### Excess of Cost over Net Assets Acquired

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

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

See "Current Accounting Pronouncements," below, for a discussion of the initial impact on our financial statements from the adoption of SFAS No. 142.

#### Premises and Equipment

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

Buildings	39 years
Land improvements	39 years
Furniture and fixtures	5 years
Computer hardware and software	3 years
Leasehold improvements	Life of the lease, with maximum lease term of 10 years.

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#### Capitalized Software Costs

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

#### Securities Sold Under Agreements to Repurchase

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

#### Excess of Net Assets Acquired over Purchase Price

The effects of our acquisition of OAC in 1999 resulted in a new basis of accounting reflecting fair values of assets and liabilities at the date of acquisition. We reported the excess of assets over the purchase price of acquired net assets resulting from the acquisition at cost and amortized it on a straight-line basis over the estimated future periods to be benefited. Effective January 1, 2002, we reversed the unamortized balance of the excess of net assets acquired over purchase price to income in accordance with the provisions of SFAS

## Derivative Financial Instruments

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

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

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

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

We recognize the ineffective portions of all hedges in our current period earnings.

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

On January 1, 2001, we adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137 and SFAS No. 138 (collectively, "SFAS No. 133") and recorded, net of tax, a cumulative effect adjustment in accumulated other comprehensive income to recognize at fair value the interest rate swap that was designated as a cash-flow hedging of an outstanding line of credit. The swap matured April 2001, and we have reclassified to earnings all of this transaction adjustment.

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Adoption of SFAS 133 did not have a material impact on our use of futures contracts to hedge the net investments in our foreign subsidiaries, as the SFAS 133 accounting is similar to the pre-existing accounting. In addition, adoption of SFAS 133 did not have an impact on our other risk management instruments that do not meet the hedge criteria as these derivatives were already accounted for at a fair value with changes in fair value recognized currently in earnings.

## Foreign Currency Translation

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

## Income Taxes

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

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

#### Investment in Unconsolidated Entities

We account for our investments in unconsolidated entities under the equity method of accounting. Under the equity method of accounting, we initially record an investment in the shares or other interests of an investee at the cost of the shares or interests acquired. Thereafter, we periodically increase (decrease) the investment by our proportionate share of the earnings (losses) of the investee and decrease it by the dividends or distributions that we receive from the investee.

#### Basic and Diluted Earnings Per Share

We calculate basic earnings per share based upon the weighted average number of shares of common stock outstanding during the year. We calculate diluted earnings per share based upon the weighted average number of shares of common stock outstanding and all dilutive potential common shares outstanding during the year. The computation of diluted earnings per share includes the impact of the exercise of the outstanding options to purchase common stock and assumes that the proceeds from such issuance are used to repurchase common shares at fair value. If the Company incurs a net loss for the period, we exclude common stock equivalents from the diluted calculation since the common stock equivalents would be antidilutive.

#### Comprehensive Income

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

#### Risks and Uncertainties

In the normal course of business, we encounter two significant types of risk: economic and regulatory. There are three main components of economic risk: credit risk, market risk and concentration of credit risk. Credit risk is the risk of default on our loan portfolios and derivative financial instruments that results from a borrower's inability or unwillingness to make contractually required payments. Market risk includes interest rate risk, foreign currency exchange rate risk and liquidity risk. We are exposed to interest rate risk to the degree that our interest-bearing liabilities mature or reprice at different speeds, or different bases, than our interest-earning assets. We are

exposed to foreign currency exchange rate risk in connection with our investment in non-U.S. dollar functional currency operations and to the extent our foreign exchange positions remain unhedged. Market risk also reflects the risk of declines in the valuation of trading securities, and in the value of the collateral underlying loans and the value of real estate held. Concentration of

credit risk refers to the risk that, if we extend a significant portion of the total outstanding credit to borrowers in a specific geographical area or industry or on the security of a specific form of collateral, we may experience disproportionately high levels of default and losses if those borrowers, or the value of such type of collateral, is adversely affected by economic or other factors that are particularly applicable to such borrowers or collateral.

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

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

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

#### Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which amends SFAS No. 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. Certain provisions of the statement were effective December 31, 2002. Management currently intends to continue to account for stock-based compensation under the intrinsic value method set forth in Accounting Principles Board ("APB") Opinion 25 and related interpretations. For this reason, the transition guidance of SFAS No. 148 does not have an impact on Ocwen's consolidated financial position or consolidated results of operations. The Statement does amend existing guidance with respect to required disclosures, regardless of the method of accounting used.

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



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	For the Years Ended December 31,		
	2002	2001	2000
Net income			
Net income (loss) as reported.....	\$ (68,775)	\$ (124,782)	\$ 2,192
Add stock-based compensation expense included in reported net income, net of tax.....	600	675	372
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of tax.....	(1,007)	(3,807)	(2,792)
Pro forma net income (loss).....	\$ (69,182)	\$ (127,914)	\$ (228)
Basic EPS			
As reported.....	\$ (1.022)	\$ (1.856)	\$ 0.033
Pro forma.....	(1.028)	(1.903)	(0.003)
Diluted EPS			
As reported.....	(1.022)	(1.856)	0.032
Pro forma.....	(1.028)	(1.903)	(0.003)

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

	For the Years Ended December 31,		
	2002	2001	2000
Expected dividend yield.....	0.00%	0.00%	0.00%
Expected stock price volatility.....	62.00	52.00	54.00
Risk-free interest rate.....	2.73%	4.23%	4.98%
Expected life of options.....	5 years	5 years	5 years

#### Current Accounting Pronouncements

We adopted the provisions of SFAS No. 142 effective January 1, 2002. As a result, we reversed the unamortized balance of the excess of net assets acquired over purchase price. This reversal resulted in a pre-tax credit to income of \$18,333 on January 1, 2002 that is reported as the effect of a change in accounting principle. In addition, upon the adoption of SFAS No. 142, we recognized impairment of \$3,333 on goodwill and intangible assets. This impairment charge, net of a tax benefit of \$1,166, was reported as a component of the effect of a change in accounting principle. We also recognized additional impairment of \$2,231 on goodwill during 2002. The elimination of goodwill amortization after the adoption of SFAS No. 142 positively impacted pretax net income by \$3,112 in 2002.

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The following tables present the pro forma effect on prior periods of the adoption of SFAS No. 142:

	For the Years Ended December 31,		
	2002	2001	2000
Income (loss) before effect of change in accounting principle .....	\$ (84,941)	\$ (124,782)	\$ 2,192
Adjustments related to adoption of SFAS No. 142			
Deduct amortization of negative goodwill .....	--	(18,333)	(14,112)
Add back amortization of goodwill, net of tax .....	--	2,023	2,031
Total adjustments .....	--	(16,310)	(12,081)
Adjusted loss before effect of change in accounting principle .....	\$ (84,941)	\$ (141,092)	\$ (9,889)
Net income (loss) .....	\$ (68,775)	\$ (124,782)	\$ 2,192
Adjustments related to adoption of SFAS No. 142			
Deduct amortization of negative goodwill .....	--	(18,333)	(14,112)
Add back amortization of good will, net of tax .....	--	2,023	2,031
Total adjustments .....	--	(16,310)	(12,081)

	\$ (68,775)	\$ (141,092)	\$ (9,889)
Earnings (loss) per share			
Income (loss) before effect of change in accounting principle .....	\$ (1.26)	\$ (1.86)	\$ 0.03
Adjustments related to adoption of SFAS No. 142			
Deduct amortization of negative goodwill .....	--	(0.27)	(0.21)
Add back amortization of goodwill, net of tax .....	--	0.03	0.03
Adjusted loss before effect of change in accounting principle .....	\$ (1.26)	\$ (2.10)	\$ (0.15)
Net income (loss) .....	(1.02)	\$ (1.86)	\$ 0.03
Adjustments related to adoption of SFAS No. 142			
Deduct amortization of negative goodwill .....	--	(0.27)	(0.21)
Add back amortization of goodwill, net of tax .....	--	0.03	0.03
Adjusted net loss .....	\$ (1.02)	\$ (2.10)	\$ (0.15)
Weighted average common shares outstanding .....	67,321,299	67,227,058	67,427,662

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 4 required that gains or losses from the extinguishment of debt, net of taxes, be reported as an extraordinary item in the statement of operations. We immediately adopted the provisions of SFAS No. 145 as they relate to the rescission of SFAS No. 4. Effective with the rescission of SFAS No. 4, gains or losses from the extinguishment of debt are reported as a component of non-interest income in the statement of operations. Results of operations for prior periods have been reclassified to conform with this presentation.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF 94-3). The principal difference between SFAS No. 146 and EITF 94-3 relates to SFAS No. 146's requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost as generally defined in EITF 94-3 was recognized at the date of an entity's commitment to an exit plan. We adopted the new standard effective January 1, 2003. The adoption of SFAS No. 146 did not have a material impact on our results of operations, financial positions or cash flows.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The interpretation elaborates on the disclosures to be made by a guarantor in its financial statements under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements

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of the Interpretation are effective and were adopted by Ocwen as of December 31, 2002, and require disclosure of the nature of the guarantee, the maximum potential amount of future payments that the guarantor could be required to make under the guarantee, and the current amount of the liability, if any, for the guarantor's obligations under the guarantee. The recognition requirements of the Interpretation were effective January 1, 2003. Management does not anticipate that the implementation of the recognition requirements of the Interpretation will have a significant effect on Ocwen's consolidated results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities". This interpretation provides guidance with respect to the identification of variable interest entities and when assets, liabilities, noncontrolling interests, and the results of operations of a variable interest entity need to be included in a company's consolidated financial statements. The Interpretation requires consolidation by business enterprises of variable interest entities in cases where the equity investment at risk is not sufficient to permit the entity to finance its

activities without additional subordinated financial support from other parties, which is provided through other interests that will absorb some or all of the expected losses of the entity, or in cases where the equity investors lack one or more of the essential characteristics of a controlling financial interest, which include the ability to make decisions about the entity's activities through voting rights, the obligation to absorb the expected losses of the entity if they occur, or the right to receive the expected residual returns of the entity if they occur. The Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. We are currently assessing the impact that the Interpretation will have on our consolidated financial position and consolidated results of operations. In particular, we are a limited partner in low income housing developments, which as previously discussed, are not included in our consolidated financial statements. We may be required to consolidate a portion of the investments effective July 1, 2003 to comply with Interpretation No. 46. As of December 31, 2002, our investment in such limited partnerships amounted to \$11,962 in five projects.

#### NOTE 2 ACQUISITION AND DISPOSITION TRANSACTIONS

On November 22, 2000, we sold our minority investment in Kensington Group plc ("Kensington") for proceeds, net of stamp duty and other fees, of approximately (pound)34,500 or \$48,600. As a result of the transaction, we recorded a pretax gain on sale of \$20,025.

#### NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair values reflected below are indicative of the interest rate environments as of December 31, 2002 and 2001, and do not take into consideration the effects of interest rate fluctuations. In different interest rate environments, fair value results can differ significantly, especially for certain fixed-rate financial instruments and non-accrual assets. In addition, the fair values presented do not attempt to estimate the value of our fee generating businesses and anticipated future business activities. In other words, they do not represent our value as a going concern. Furthermore, the differences between the carrying amounts and the fair values presented may not be realized.

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

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

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

#### Securities

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

#### Loans and Match Funded Loans and Securities

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

#### Advances on Loans and Loans Serviced for Others

We value advances we make on our loans and loans we service for others at their carrying amounts because they have no stated maturity, do not bear interest and we believe that there is no substantial risk of uncollectibility.

#### Deposits

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

#### Borrowings

We base the fair value of our bonds-match funded loan agreements, notes and debentures and Capital Securities on quoted market prices. The fair value of our other borrowings, including securities sold under agreements to repurchase and obligations outstanding under lines of credit, approximates carrying value because these borrowings are either short-term or bear interest at a rate that is adjusted regularly based on a market index.

#### Derivative Financial Instruments

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

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#### Loan Commitments, Letters of Credit and Guarantees

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

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

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Interest earning and non-interest earning cash.....	\$ 107,247	\$ 107,247	\$ 134,655	\$ 134,655
Federal funds sold and repurchase agreements.....	85,000	85,000	126,000	126,000
Trading securities.....	58,895	58,895	226,249	226,249
Loans, net.....	76,857	89,957	185,293	193,098
Match funded assets.....	167,744	167,800	174,351	172,306
Advances on loans and loans serviced for others.....	266,356	266,356	283,183	283,183
Financial liabilities				
Deposits.....	425,970	439,360	656,878	679,124
Escrow deposits on loans and loans serviced for others.....	84,986	84,986	73,565	73,565
Securities sold under agreements to repurchase.....	--	--	79,405	79,405
Bonds - match funded agreements.....	147,071	147,091	156,908	156,996
Obligations outstanding under lines of credit.....	78,511	78,511	84,304	84,304
Notes, debentures and other interest-bearing obligations.....	81,210	82,749	160,305	159,590
Capital Securities.....	56,249	44,998	61,159	50,762
Derivative financial instruments				
Caps and floors.....	592	592	404	404
British Pound futures.....	(793)	(793)	(235)	(235)
Canadian Dollar futures.....	78	78	353	353
Other				
Loan commitments.....	--	346	--	3,432
Letters of credit.....	--	210	--	210
Guarantees.....	--	467	--	7,035

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NOTE 4 Trading Securities

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

	2002	2001
Collateralized mortgage obligations (AAA-rated) and U.S. Treasury notes		
Collateralized mortgage obligations.....	\$ 20,540	\$ 161,191
U.S. Treasury notes.....	1,016	--
	<u>\$ 21,556</u>	<u>\$ 161,191</u>
Subordinates and residual securities		
Single family residential		
BB-rated subordinates.....	\$ 599	\$ 625
B-rated subordinates.....	606	799
Unrated subordinates.....	344	1,008
Unrated subprime residuals .....	33,213	60,049
	<u>34,762</u>	<u>62,481</u>
Nonresidential unrated subordinates.....	2,577	2,577
	<u>\$ 37,339</u>	<u>\$ 65,058</u>

At December 31, 2002, we had pledged securities from our portfolio of collateralized mortgage obligations (AAA-rated) and U.S. Treasury notes with a fair value of \$2,890 as security for certificates of deposit in excess of \$100 issued to municipalities in the State of New Jersey.

At December 31, 2002, we held securities with an aggregate fair value of \$1,874 that were issued by Freddie Mac.

A profile of the maturities of our trading securities at December 31, 2002 follows. Mortgage-backed securities are included based on their weighted-average maturities, reflecting anticipated future prepayments.

	Collateralized Mortgage Obligations and U.S. Treasury Notes		Subordinates and Residuals	
	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value
Due within one year.....	3.05%	\$ 21,556	23.30%	\$ 6,389

Due after 1 through 5 years.....	--	--	13.85	22,778
Due after 5 through 10 years.....	--	--	18.36	6,737
Due after 10 years.....	--	--	19.54	1,435
			-----	-----
			\$ 21,556	\$ 37,339
			=====	=====

Realized and unrealized gain on trading and match funded securities for the years ended December 31, 2002, and 2001 was comprised of the following:

	2002	2001
	-----	-----
Unrealized gain		
Trading securities.....	\$ 1,727	\$ 3,125
Match funded securities.....	293	2,088
	-----	-----
	2,020	5,213
	-----	-----
Realized gain		
Trading securities.....	4,992	11,117
Match funded securities.....	--	--
	-----	-----
	4,992	11,117
	-----	-----
	\$ 7,012	\$ 16,330
	=====	=====

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Our residual and subordinate securities classified as trading securities at December 31, 2002 include retained interests with a fair value of \$1,465 from securitizations of our loans completed in prior years. At December 31, 2001, trading securities included retained interests with a fair value of \$25,274. We have completed no securitizations of loans since 1999.

NOTE 5 LOANS

Our loans consisted of the following at December 31:

	2002	2001
	-----	-----
Single family residential loans.....	\$ 2,163	\$ 58,118
	-----	-----
Multi-family residential loans.....	26,017	33,319
	-----	-----
Nonresidential real estate loans		
Office buildings.....	41,215	56,713
Hotels.....	11,668	38,576
Retail properties.....	27,500	47,492
Other properties.....	1,388	807
	-----	-----
	81,771	143,588
	-----	-----
Other loans.....	--	31
	-----	-----
Total loans.....	109,951	235,056
	-----	-----
Unaccreted discount and deferred fees		
Single family residential loans.....	(579)	(16,467)
Multi-family residential loans.....	(837)	(650)
Commercial real estate loans.....	(10,572)	(19,318)
	-----	-----
	(11,988)	(36,435)
	-----	-----
Undisbursed loan funds.....	97,963	198,621
Allowance for loan losses.....	(345)	(2,914)
	-----	-----
	(20,761)	(10,414)
	-----	-----
	\$ 76,857	\$ 185,293
	=====	=====

Our loans are secured by mortgages on properties located throughout the United States. The following table sets forth the five states in which the

largest amount of properties securing our loans were located at December 31, 2002:

	Single Family Residential	Multi-family Residential	Nonresidential Real Estate and Other	Total
Wisconsin.....	\$ --	\$ --	\$ 33,437	\$ 33,437
New York.....	229	--	25,260	25,489
New Jersey.....	--	9,943	--	9,943
Florida.....	--	--	7,068	7,068
Texas.....	3	5,225	--	5,228
Other (1).....	1,352	10,012	5,434	16,798
	\$ 1,584	\$ 25,180	\$ 71,199	\$ 97,963

(1) Consists of properties located in 15 other states, none of which aggregated over \$4,795 in any one state.

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The following table presents a summary of our non-performing loans, allowance for loan losses and significant ratios for our loans at and for the years ended December 31:

	2002	2001	2000
<b>Non-performing loans</b>			
Single family residential.....	\$ 1,345	\$ 32,430	\$ 181,998
Multi-family residential.....	14,822	23,637	17,754
Nonresidential real estate and other.....	59,382	38,240	97,795
	\$ 75,549	\$ 94,307	\$ 297,547
<b>Allowance for loan losses</b>			
Balance, beginning of year.....	\$ 10,414	\$ 23,279	\$ 26,440
Provision for loan losses.....	13,655	15,478	15,270
Net charge-offs.....	(3,308)	(28,343)	(18,431)
	\$ 20,761	\$ 10,414	\$ 23,279
<b>Significant ratios</b>			
Non-performing loans as a percentage of			
Total loans.....	77.39%	48.19%	44.86%
Total assets.....	6.18	5.51	13.23
Allowance for loan losses as a percentage of			
Total loans.....	21.27%	5.32%	3.51%
Non-performing loans.....	27.48	11.04	7.82

If non-accrual loans had been current in accordance with their original terms, interest income for the years ended December 31, 2002, 2001 and 2000, would have been greater by approximately \$4,235, \$10,841 and \$32,724, respectively. We have accrued no interest on loans greater than 89 days past due.

The following table sets forth the geographic distribution of properties securing our non-accrual loans at December 31, 2002:

	Single Family Residential	Multi-family Residential	Nonresidential Real Estate and Other	Total
Wisconsin.....	--	\$ --	\$ 33,437	\$ 33,437
New York.....	119	--	25,260	25,379
New Jersey.....	--	9,597	--	9,597
Texas.....	3	5,225	--	5,228
Connecticut.....	75	--	485	560
Other (1).....	1,148	--	200	1,348
	\$ 1,345	\$ 14,822	\$ 59,382	\$ 75,549

- (1) Consists of properties located in 17 states, none of which aggregated over \$236 in any one state.

The following table presents information regarding our impaired loans at and for the years ended December 31:

	2002	2001
	-----	-----
Book value.....	\$ 43,035	\$ 5,362
Allowance for loan losses.....	(12,985)	(591)
Carrying value.....	\$ 30,050	\$ 4,771
	=====	=====
Average carrying value of impaired loans during the year.....	\$ 58,064	\$ 24,151

Impaired loans at December 31, 2002 consisted of one nonresidential loan and one multi-family loan. Impaired loans at December 31, 2001 consisted of seven nonresidential loans.

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NOTE 6 MATCH FUNDED ASSETS

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

	2002	2001
	-----	-----
Single family residential loans (1).....	\$ 38,129	\$ 53,123
Allowance for loan losses.....	(144)	(170)
Match funded loans, net.....	37,985	52,953
	-----	-----
Match funded securities (at fair value).....	8,057	19,435
	-----	-----
Match funded advances on loans serviced for others		
Principal and interest.....	66,524	65,705
Taxes and insurance.....	30,301	21,900
Other.....	24,877	14,358
	121,702	101,963
	-----	-----
	\$ 167,744	\$ 174,351
	=====	=====

- (1) Included \$3,120 and \$4,405 of non-performing loans at December 31, 2002 and 2001, respectively.

Match funded loans were acquired as a result of our acquisition of OAC in 1999. These loans were securitized and transferred by OAC to OAC Mortgage Residential Securities, Inc., a real estate mortgage investment conduit (the "Trust") on November 13, 1998. On that date, the Trust issued two classes of notes secured by the related group of mortgage loans. At December 31, 2002, Loan Group I consisted of approximately 281 mortgage loans with original terms of up to 30 years that are secured by first liens on single family residential properties. At that same date, Loan Group II consisted of approximately 173 mortgage loans with original terms of up to 30 years that are secured by first or second liens on single family residential properties. Upon the transfer, OAC received approximately \$173,900 of proceeds.

Each class of the notes is subject to redemption at our option at such time when the remaining aggregate principal balance of the loans has declined to less than 20% of the initial aggregate principal balance of the loans at the transfer date. The transfer of the loans to the trust did not qualify for sales treatment for accounting purposes, since OAC retained effective control of the



loans transferred. Accordingly, the proceeds received from the transfer are reported as a secured borrowing with pledge of collateral (bonds-match funded agreements) in our consolidated statement of financial condition. See Note 14.

Our match funded loans are secured by mortgages on properties located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing our loans were located at December 31, 2002:

Michigan.....	\$	6,344
Texas.....		3,319
California.....		2,786
Massachusetts.....		2,467
Florida.....		2,249
Other (1).....		20,964
		-----
	\$	38,129
		=====

(1) Consists of properties located in 36 other states, none of which aggregated over \$2,091 in any one state.

Match funded securities resulted from our transfer of four unrated residual securities to Ocwen NIMs Corp. on December 16, 1999 in exchange for \$43,000 in non-recourse notes (Series 1999-OAC1). Upon the transfer, we received approximately \$40,100 of proceeds.

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With respect to Ocwen NIMs Corp., we act as the special servicer for three of the underlying securitization trusts and as the master servicer for one of the underlying securitization trusts. In connection with our role as master servicer for one trust and as special servicer for the two of the other three trusts, we have the option to cause each trust to adopt a plan of complete liquidation at such time as the remaining aggregate principal balance of the loans in the trust is equal to or less than 10% of the initial aggregate principal balance of the loans at the date the trust was initiated. Through the exercise of these rights, we may cause the early redemption of the notes issued by Ocwen NIMs Corp. The transfer of the three securities by Ocwen to Ocwen NIMs Corp. did not qualify for sales treatment for accounting purposes, since we retained effective control over the securities transferred. Accordingly, the amount of proceeds from the transfer is reported as a secured borrowing with pledge of collateral (bonds-match funded agreements) in our consolidated statement of financial condition. See Note 14.

The following table summarizes the maturities of our match funded securities at December 31, 2002. Maturities are based on weighted-average unpaid principal balance and reflect anticipated future prepayments based on a consensus of dealers in the market.

	Fair Value
	-----
Due within one year.....	\$ 1,118
Due after 1 through 5 years.....	2,989
Due after 5 through 10 years.....	1,613
Due after 10 years.....	2,337
	-----
	\$ 8,057
	=====

Match funded advances on loans serviced for others resulted from the transfer of certain advances on loans serviced for others to a third party. According to the terms of transfer agreement, we retain the option, at any time, to purchase from the transferee up to 5% of the aggregate advances outstanding and the right to select the specific advances to be repurchased. Accordingly, we retain control of the advances and therefore the transfer did not qualify as a sale for accounting purposes. As a result, the proceeds we received from the transfer are reported as a secured borrowing with pledge of collateral (bonds-match funded agreements) in our consolidated statement of financial

condition. See Note 14.

NOTE 7 REAL ESTATE OWNED

Real estate owned, net of valuation allowance, is held for sale and comprised of the following property types at December 31:

	2002	2001
	-----	-----
Single family residential.....	\$ 1,886	\$ 16,424
Nonresidential real estate.....	60,153	94,041
	-----	-----
	\$ 62,039	\$ 110,465
	=====	=====

The following table sets forth by type of property certain geographical information related to our real estate owned at December 31, 2002:

	Single Family Residential		Nonresidential		Total	
	Amount	No. of Properties	Amount	No. of Properties	Amount	No. of Properties
	-----	-----	-----	-----	-----	-----
Florida.....	\$ --	--	\$ 41,000	1	\$ 41,000	1
Michigan.....	4	2	18,616	4	18,620	6
Pennsylvania.....	584	10	--	--	584	10
California.....	--	--	537	1	537	1
New York.....	354	2	--	--	354	2
Other (1).....	944	35	--	--	944	35
	-----	-----	-----	-----	-----	-----
	\$ 1,886	49	\$ 60,153	6	\$ 62,039	55
	-----	-----	-----	-----	-----	-----

(1) Consists of properties located in 18 other states, none of which aggregated over \$219 in any one state.

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

	2002	2001	2000
	-----	-----	-----
Balance at beginning of year.....	\$ 19,098	\$ 18,142	\$ 17,181
Provision for losses.....	19,685	17,766	26,674
Charge-offs.....	(5,304)	(2,352)	(4,129)
Sales.....	(7,835)	(14,458)	(21,584)
	-----	-----	-----
Balance at end of year.....	\$ 25,644	\$ 19,098	\$ 18,142
	=====	=====	=====

NOTE 8 INVESTMENT IN REAL ESTATE

Our investment in real estate consisted of the following at December 31:

	2002	2001
	-----	-----
Properties held for investment (1)		
Office buildings.....	\$ 27,602	\$ 32,132
Retail.....	9,090	29,637
Building improvements.....	17,387	17,513
Tenant improvements and lease commissions.....	2,795	4,537
Furniture and fixtures.....	30	52
	-----	-----
	56,904	83,871
Accumulated depreciation.....	(5,316)	(5,327)
	-----	-----
	51,588	78,544

Nonresidential loans accounted for as investments in real estate (2).....	2,188	30,436
Investment in real estate partnerships (3).....	4,900	7,916
	\$ 58,676	\$ 116,896

- (1) We acquired these properties as a result of our acquisition of OAC in 1999. Our properties held for investment at December 31, 2002 are comprised of one office building located in Jacksonville, Florida and one retail shopping center located in Halifax, Nova Scotia. During 2002, we sold our shopping center located in Bradenton, Florida. We recorded impairment charges of \$14,549 during 2002.
- (2) We acquired certain acquisition, development and construction loans in January 2000 in which we participate in the expected residual profits of the underlying real estate, and where the borrower has not contributed substantial equity to the project. As such we account for these loans under the equity method of accounting as though we had an investment in a real estate limited partnership.
- (3) Consists of interests in two limited partnerships operating as real estate ventures, consisting of multi-family type properties.

NOTE 9 MORTGAGE SERVICING

Under contractual servicing agreements with investors, we service mortgage and non-mortgage loans that we do not own. The total unpaid principal balance of such loans we serviced for others was \$32,069,363 and \$23,164,012 at December 31, 2002 and 2001, respectively, and is excluded from our consolidated statements of financial condition. We similarly exclude from our statements of financial condition funds representing collections of principal and interest we have received from borrowers that are on deposit with an unaffiliated bank. Those funds amounted to \$581,507 and \$324,027 at December 31, 2002 and 2001, respectively. Servicing fees and other servicing-related income we earned on loans we serviced for others, net of servicing rights amortization, amounted to \$112,720, \$112,624 and \$78,567 for the years ended December 31, 2002, 2001 and 2000, respectively. These net fees are included in servicing and other fees

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in our consolidated statements of operations. In general, these servicing agreements include guidelines and procedures for servicing the loans, including servicing, remittance and reporting requirements, among other provisions.

We earn servicing and sub-servicing income primarily on mortgage loans secured by real estate in 50 states. At December 31, 2002, the geographic distribution based on the unpaid principal balance of the loans we serviced was as follows:

	Amount (1)	No. of Loans (1)
California.....	\$ 9,846,539	66,078
Florida.....	2,022,733	25,075
New York.....	1,786,745	17,009
Illinois.....	1,705,760	14,600
Texas.....	1,548,019	23,547
Other (2).....	15,159,567	190,369
	\$ 32,069,363	336,678

- (1) Included 1,387 non-mortgage loans with an unpaid principal balance of \$236,866.
- (2) Consisted of loans in 45 other states, none of which aggregated over \$1,097,771 in any one state.

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

The following table summarizes the activity in our servicing rights for the years ended December 31:

	2002	2001
	-----	-----
Balance at the beginning of year.....	\$ 101,107	\$ 51,426
Purchases.....	128,891	79,522
Amortization.....	(58,153)	(29,841)
Sale.....	(234)	--
	-----	-----
Balance at the end of the year.....	\$ 171,611	\$ 101,107
	=====	=====

At December 31, 2002 and 2001, we estimated the fair value of our servicing rights to be \$219,600 and \$200,500, respectively.

Advances related to our loans serviced for others consisted of the following at December 31:

	2002	2001
	-----	-----
Principal and interest.....	\$ 63,326	\$ 107,319
Taxes and insurance.....	117,937	99,972
Other.....	84,455	69,543
	-----	-----
	\$ 265,718	\$ 276,834
	=====	=====

Advances related to our loans serviced for others do not include advances on our loan portfolios of \$638 and \$6,349 at December 31, 2002 and 2001, respectively. These advances also do not include advances reported as part of match funded assets. See Note 6.

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NOTE 10 AFFORDABLE HOUSING PROPERTIES

Our investments in affordable housing properties were as follows at December 31:

	2002	2001
	-----	-----
Investments solely as a limited partner made before May 18, 1995.....	\$ --	\$ 6,838
I		
Investments solely as a limited partner made on or after May 18, 1995.....	11,962	21,768
Investments both as a limited and, through subsidiaries, as a general partner...	3,357	73,463
	-----	-----
	\$ 15,319	\$ 102,069
	=====	=====

The qualified affordable housing projects underlying our investments in affordable housing properties are geographically located throughout the United States. At December 31, 2002, our largest single investment was \$6,474, which related to a project located in N. Wildwood, New Jersey.

We record income on our limited partnership investments made before May 18, 1995 under the level yield method as a reduction of income tax expense. This income amounted to \$521, \$388 and \$2,093 for the years ended December 31, 2002, 2001 and 2000, respectively. For 2000, we also recorded additional income tax expense of \$6,875 related to certain of our limited partnership investments made before May 18, 1995 resulting from the sale of those investments in advance of their maturity for tax credit purposes. As a result, we could not realize all of

the deferred tax benefit that had been previously recorded by us under the level yield method, and we reversed the related accrual for the excess benefits. For limited partnership investments made after May 18, 1995, and for investments as a limited and, through subsidiaries, as a general partner, we recognized tax credits of \$2,164, \$1,690 and \$7,359 for the years ended December 31, 2002, 2001 and 2000, respectively, and recorded a loss after depreciation of \$1,066, \$993 and \$3,483 from operations on the underlying real estate for the years ended December 31, 2002, 2001 and 2000, respectively.

Included in our gains on other non-interest earning assets, net, for the years ended December 31, 2002, 2001 and 2000, are gains (losses) of \$444, \$(956) and \$497, respectively, on the sales of affordable housing properties. The properties sold in 2002, 2001 and 2000 had carrying values, net of reserves, of \$73,087, \$55,652 and \$28,942, respectively.

During 2002 and 2001, we recorded charges of \$17,350 and \$15,587, respectively, to reserve for estimated losses from the sales of properties. We incurred an additional charge during 2002 of \$3,944 to record a discount on a long-term note receivable taken in consideration for the sale of seven properties. We are accreting this discount to income over the term of the related receivable balance, which extends through September 2014. During 2000, we entered into transactions to sell twenty-five of our low-income housing tax credit properties, together with the related tax credits. Although these transactions resulted in the transfer of tax credits and operating results for these properties to the purchasers, they did not qualify as sales for accounting purposes, primarily due to insufficient cash received at signing, as well as certain contingencies with respect to potential repurchase requirements. We recorded a charge to earnings during 2000 of \$6,448 reflecting the expected net loss to be incurred upon completion of these transactions. At December 31, 2002 and 2001, our investments in affordable housing properties included \$4,458 and \$49,893, respectively of properties subject to sales agreements that had not yet qualified as sales for accounting purposes.

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NOTE 11 PREMISES AND EQUIPMENT

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

	2002	2001
	-----	-----
Computer hardware and software.....	\$ 64,730	\$ 53,557
Buildings.....	19,530	19,270
Leasehold improvements.....	10,011	9,788
Land and land improvements.....	4,041	4,041
Furniture and fixtures.....	9,072	8,810
Office equipment.....	2,564	1,773
Less accumulated depreciation and amortization.....	(65,680)	(52,650)
	-----	-----
	\$ 44,268	\$ 44,589
	=====	=====

Depreciation expense amounted to \$12,985, \$11,398 and \$12,248 for 2002, 2001 and 2000, respectively (of which \$2,647, \$2,344 and \$2,353 for 2002, 2001 and 2000, respectively, related to computer software). Buildings represent our customer service and collection facility in Orlando, Florida.

NOTE 12 DEPOSITS

Our deposits consisted of the following at December 31:

	2002	2001
	-----	-----
Non-interest-bearing deposits.....	\$ 4,378	\$ 5,624
NOW and money market checking accounts.....	17,720	15,479
Savings accounts.....	1,592	1,287

	----- 23,690 -----	----- 22,390 -----
Certificates of deposit (1) (2).....	402,917	636,037
Unamortized deferred fees.....	(637)	(1,549)
	----- 402,280 -----	----- 634,488 -----
	\$ 425,970 =====	\$ 656,878 =====

(1) At December 31, 2002 and 2001, certificates of deposit, net of unamortized deferred fees, included \$198,248 and \$484,698, respectively, of brokered deposits originated through national, regional and local investment banking firms which solicit deposits from their customers, all of which are non-cancelable. We did not issue any new brokered certificates of deposit during 2002 or 2001 and, at this time, do not intend to issue any such deposits in the foreseeable future.

(2) At December 31, 2002 and 2001, certificates of deposit with outstanding balances of \$100 or more amounted to \$125,451 and \$82,771, respectively. Of the \$125,451 of uninsured deposits at December 31, 2002, \$49,507 were from political subdivisions in New Jersey and are secured or collateralized as required under state law.

The contractual remaining maturity of our certificates of deposit at December 31, 2002 is as follows:

Within one year.....	\$ 269,315
Within two years.....	78,467
Within three years.....	29,036
Within four years.....	1,528
Within five years.....	3,945
Thereafter.....	19,989
	----- \$ 402,280 =====

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We amortize deferred fees on certificates of deposit on a straight-line basis over the term of the respective certificates of deposit. Such amortization amounted to \$912, \$2,441 and \$4,419 for the years ended December 31, 2002, 2001 and 2000, respectively, and is included in interest expense on deposits. Interest expense we incurred by type of deposit account was as follows for the years ended December 31:

	----- 2002 -----	----- 2001 -----	----- 2000 -----
NOW accounts and money market checking.....	\$ 239	\$ 393	\$ 532
Savings.....	18	29	37
Certificates of deposit.....	27,198	59,545	97,655
	----- \$ 27,455 =====	----- \$ 59,967 =====	----- \$ 98,224 =====

Accrued interest payable on our deposits amounted to \$3,093 and \$6,858 at December 31, 2002 and 2001, respectively.

NOTE 13 ESCROW DEPOSITS ON LOANS AND LOANS SERVICED FOR OTHERS

Escrow deposits on loans we own and on loans we serviced for others consisted of the following at December 31:

	2002	2001
	-----	-----
Taxes and insurance payments held on loans serviced for others.....	\$ 67,007	\$ 65,009
Other escrow deposits.....	17,979	8,556
	-----	-----
	\$ 84,986	\$ 73,565
	=====	=====

NOTE 14 BONDS-MATCH FUNDED AGREEMENTS

Our bonds-match funded agreements are accounted for as secured borrowings with pledges of collateral and were comprised of the following at December 31:

Collateral	2002	2001
-----	-----	-----
Single family residential loans.....	\$ 32,217	\$ 46,145
Unrated residual securities.....	8,057	18,997
Advances on loans serviced for others.....	106,797	91,766
	-----	-----
	\$ 147,071	\$ 156,908
	=====	=====

Our bonds-match funded agreements are obligations secured by the collateral underlying the related match funded assets, and are repaid through the cash proceeds arising from those assets.

At December 31, 2002 and 2001, our bonds-match funded agreements had a weighted average interest rate of 3.13% and 3.97%, respectively. Accrued interest payable on our bonds-match funded agreements amounted to \$108 and \$97 at December 31, 2002 and 2001, respectively. We incurred interest expense on our bonds-match funded agreements of \$6,573, \$7,315 and \$11,484 during 2002, 2001 and 2000, respectively.

Our bonds-match funded agreements contain various qualitative and quantitative covenants that, among other things, establish requirements for the monitoring and reporting of specified financial transactions and reporting on defined events affecting the collateral underlying the agreements.

The facility underlying our bonds-match funded agreements collateralized by advances on loans serviced for others, if not renewed, will mature in December 2003. This would preclude our ability to finance further advances through this facility.

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NOTE 15 LINES OF CREDIT AND OTHER SHORT-TERM BORROWINGS

Through our subsidiaries we have obtained secured lines of credit from various unaffiliated financial institutions as follows:

Collateral	Balance Outstanding	Amount of Facility	Committed Amount	Maturity Date	Interest Rate(3)
-----	-----	-----	-----	-----	-----
December 31, 2002					
Advances on loans serviced for others (1).....	\$ 78,511	\$ 100,000	\$ 78,511	April 2003	LIBOR + 200 basis points
December 31, 2001					
Real estate investments and commercial loans (2).....	\$ 32,463	\$ 200,000	\$ 115,580	June 2002	LIBOR + 240 basis points
Advances on loans serviced for others (1).....	51,841	100,000	\$ 51,841	October 2002	LIBOR + 200 basis points
	-----				
	\$ 84,304				
	=====				

(1) This line was entered into during 2001 to fund servicing advances.

- (2) Acquired in connection with our acquisition of OAC.
- (3) LIBOR was 1.38% and 1.87% at December 31, 2002 and 2001, respectively.

The maximum month end amount of our borrowings under lines of credit was \$106,673 and \$119,648 for the years ended December 31, 2002 and 2001, respectively. The average balance of obligations outstanding under lines of credit was \$88,282 and \$82,604 during the years ended December 31, 2002 and 2001, respectively, and the weighted average interest rates were 4.29% and 6.67%, respectively.

Accrued interest payable on our obligations outstanding under lines of credit amounted to \$226 and \$171 at December 31, 2002 and 2001, respectively. Interest expense we incurred on our obligations outstanding under lines of credits amounted to \$3,787, \$5,511 and \$13,881 during 2002, 2001 and 2000, respectively.

In addition to our lines of credit listed above, through the Bank, we have the capacity to borrow from the Federal Home Bank of New York ("FHLB") up to an aggregate of \$50,000 (subject to the availability of acceptable collateral), at the prevailing market rate. This facility matures in March 2003. We had no advances from the FHLB during the years ended December 31, 2002 and 2001.

At December 31, 2002, we had \$0 of repurchase agreements outstanding as compared to \$79,405 at December 31, 2001. At December 31, 2001 repurchase agreements ranged in maturity from two to seven days and had interest rates ranging from 1.80% to 1.89%. The maximum month end amount of our borrowings through repurchase agreements was \$66,817 and \$92,095 during the years ended December 31, 2002 and 2001, respectively. The average balance of repurchase agreements outstanding was \$12,774 and \$19,500 during the years ended December 31, 2002 and 2001, respectively, and the weighted average interest rates were 1.84% and 2.71%, respectively.

As of December 31, the weighted average interest rates of our obligations outstanding under lines of credit and reverse repurchase agreements were as follows:

	2002	2001
	-----	-----
Lines of credit.....	3.38%	4.02%
Repurchase agreements.....	--%	1.87%

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NOTE 16 NOTES, DEBENTURES AND OTHER INTEREST-BEARING OBLIGATIONS

Our notes, debentures and other interest-bearing obligations mature as follows:

	December 31,	
	2002	2001
	-----	-----
2003		
11.875% Notes due October 1.....	\$ 43,475	\$87,025
Loan due September 30 (LIBOR plus 250 basis points or a minimum of 8%).....	4,235	--
2004		
Loan due May 24 (LIBOR plus 250 basis points).....	--	6,235
2005		
12% Subordinated Debentures due June 15.....	33,500	67,000
11.5% Notes due July 1.....	--	45
	-----	-----
	\$ 81,210	\$ 160,305
	=====	=====

In addition to the specific requirements discussed below, each of our notes and debentures contain qualitative and quantitative covenants that



establish, among other things, the maintenance of specified net worth and restrictions on future indebtedness, as well as the monitoring and reporting of various specified transactions or events.

We issued our 11.875% Notes due October 1, 2003, ("the Notes") in the original amount of \$125,000 with interest payable semiannually on April 1 and October 1. The Notes are unsecured general obligations and are subordinated in right of payment to the claims of creditors of our subsidiaries.

On November 26, 2002 we exercised our redemption option and called \$40,000 of the Notes at a price of 102.969%. We may redeem the remaining balance of the Notes at our option, in whole or in part, at a redemption price of 102.969% (expressed as a percentage of the principal amount) plus accrued and unpaid interest, if redeemed prior to the maturity on October 1, 2003. Earlier in 2002, we also repurchased \$3,550 of the Notes in the open market. We incurred a loss of \$1,508 on these transactions in 2002. During 2001, we repurchased \$13,025 of our Notes in the open market, resulting in gains of \$52.

The indenture governing the Notes requires that we 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 semiannual interest payment dates. We maintained an investment in cash and cash equivalents of \$5,172 and \$10,366 at December 31, 2002 and 2001, respectively, that is restricted for purposes of meeting this liquidity requirement. The indenture further provides that we 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.

In connection with the issuance of the Notes, we incurred certain costs that we capitalized and are amortizing on a straight-line basis over the life of the Notes. The unamortized balance of these issuance costs amounted to \$253 and \$1,185 at December 31, 2002 and 2001, respectively, and is included in other assets. Accrued interest payable on the Notes amounted to \$1,291 and \$2,583 at December 31, 2002 and 2001, respectively. We incurred interest expense on the Notes of \$9,681, \$11,465 and \$12,293 during 2002, 2001 and 2000 respectively.

The Bank issued its 12% Subordinated Debentures due 2005 (the "Debentures") in the original amount of \$100,000 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.

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The Bank may redeem the Debentures at any time at its option, 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
----	-----
2002 .....	102.667%
2003 .....	101.333%
2004 and thereafter.....	100.000%

On November 26, 2002 the Bank exercised its redemption option and called \$33,500 of the Debentures at a redemption price of 102.667%, resulting in a loss of \$1,025. During 1999, the Bank repurchased \$33,000 of its debentures in the open market, resulting in a gain of \$1,025. There were no repurchases during 2001 or 2000.

In connection with the issuance of the Debentures, the Bank incurred certain costs that we capitalized and are amortizing on a straight-line basis over the expected life of the Debentures. The unamortized balance of these issuance costs amounted to \$94 and \$617 at December 31, 2002 and 2001, respectively, and is included in other assets. Accrued interest payable on the

Debentures amounted to \$168 and \$335 at December 31, 2002 and 2001, respectively. We incurred interest expense on the Debentures of \$7,660, \$8,040 and \$8,040 during 2002, 2001 and 2000, respectively.

As a result of our acquisition of OAC in October 1999, we assumed the 11.5% Redeemable Notes (the "Redeemable Notes") due 2005, which OAC issued during 1998 in the original amount of \$150,000. During 2000, OAC repurchased in the open market \$44,930 of the outstanding balance of its Redeemable Notes. These repurchases resulted in gains of \$8,073. Additionally, on December 21, 2000, we acquired \$98,025 in aggregate principal outstanding of the Redeemable Notes pursuant to our tender offer and consent solicitation dated November 14, 2000. This repurchase resulted in a gain of \$9,452. On November 5, 2002 OAC exercised its redemption option and called the remaining \$45 balance at a price of 105.75%, resulting in a loss of \$2. We incurred interest expense on the Redeemable Notes of \$4, \$5 and \$13,680 during 2002, 2001 and 2000, respectively.

#### NOTE 17 CAPITAL SECURITIES

In August 1997, Ocwen Capital Trust ("OCT") issued \$125,000 of 10.875% Capital Securities (the "Capital Securities"). OCT invested the proceeds from issuance of the Capital Securities in 10.875% Junior Subordinated Debentures issued by OCN. The Junior Subordinated Debentures, which represent the sole assets of OCT, will mature on August 1, 2027. During 2002, 2001 and 2000, we repurchased \$4,910, \$18,371 and \$30,470, respectively, of our Capital Securities in the open market, resulting in gains of \$1,074, \$3,723 and \$11,739, respectively.

Holders of the Capital Securities are entitled to receive cumulative cash distributions accruing from the date of original issuance and payable semiannually in arrears on February 1 and August 1 of each year, commencing on February 1, 1998, at an annual rate of 10.875% of the liquidation amount of \$1,000 per Capital Security. OCN guarantees payment of distributions out of moneys held by OCT, and payments on liquidation of OCT or the redemption of Capital Securities, to the extent OCT has funds available. If Ocwen Financial Corporation does not make principal or interest payments on the Junior Subordinated Debentures, OCT will not have sufficient funds to make distributions on the Capital Securities, in which event the guarantee shall not apply to such distributions until OCT has sufficient funds available therefor. Accumulated distributions payable on the Capital Securities amounted to \$2,549 and \$2,771 at December 31, 2002 and 2001, respectively, and are included in accrued interest payable.

We have the right to defer payment of interest on the Junior Subordinated Debentures at any time or from time to time for a period not exceeding 10 consecutive semiannual periods with respect to each deferral period, provided that no extension period may extend beyond the stated maturity of the Junior Subordinated Debentures. Upon the termination of any such extension period and the payment of all amounts then due on any interest payment date, we may elect to begin a new extension period. Accordingly, there could be multiple extension periods of varying lengths throughout the term of the Junior Subordinated Debentures. If we defer interest payments on the Junior Subordinated Debentures, distributions on the Capital Securities will also be deferred, and we may not, nor may any of our subsidiaries, (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, their capital stock or (ii) make any payment of principal, interest or premium, if any, on or repay, repurchase or redeem any debt

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securities that rank pari passu with or junior to the Junior Subordinated Debentures. During an extension period, interest on the Junior Subordinated Debentures will continue to accrue at the rate of 10.875% per annum, compounded semiannually.

We may redeem the Junior Subordinated Debentures before maturity at our option, subject to the receipt of any necessary prior regulatory approval, (i) in whole or in part on or after August 1, 2007, at a redemption price equal to

105.438% of the principal amount thereof on August 1, 2007, declining ratably on each August 1 thereafter to 100% on or after August 1, 2017, plus accrued interest thereon, or (ii) at any time, in whole (but not in part), upon the occurrence and continuation of a special event (defined as a tax event, regulatory capital event or an investment company event) at a redemption price equal to the greater of (a) 100% of the principal amount thereof or (b) the sum of the present values of the principal amount and premium payable with respect to an optional redemption of such Junior Subordinated Debentures on August 1, 2007, together with scheduled payments of interest from the prepayment date to August 1, 2007, discounted to the prepayment date on a semiannual basis at the adjusted Treasury rate plus accrued interest thereon to the date of prepayment. The Capital Securities are subject to mandatory redemption, in whole or in part, upon repayment of the Junior Subordinated Debentures at maturity or their earlier redemption, in an amount equal to the amount of the related Junior Subordinated Debentures maturing or being redeemed and at a redemption price equal to the redemption price of the Junior Subordinated Debentures, plus accumulated and unpaid distributions thereon to the date of redemption.

For financial reporting purposes, we treat OCT as a subsidiary and, accordingly, the accounts of OCT are included in our consolidated financial statements. We eliminate intercompany balances and transactions with OCT, including the balance of Junior Subordinated Debentures outstanding, in our consolidated financial statements. We present the Capital Securities in a separate caption between liabilities and stockholders' equity in our consolidated statement of financial condition as "Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely Junior Subordinated Debentures of the Company." We report distributions on the Capital Securities in a separate caption immediately following non-interest expense in our consolidated statement of operations. We intend to continue this method of accounting in the future.

In connection with our issuance of the Capital Securities, we incurred certain costs that we capitalized and are amortizing over the term of the Capital Securities. The unamortized balance of these issuance costs amounted to \$1,841 and \$2,083 at December 31, 2002 and 2001, respectively, and are included in other assets.

NOTE 18 BASIC AND DILUTED EARNINGS PER SHARE

We are required to present both basic and diluted EPS on the face of our statement of operations. Basic EPS excludes common stock equivalents and is calculated by dividing net income by the weighted average number of common shares outstanding during the year. We calculate diluted EPS by dividing net income by the weighted average number of common shares outstanding, including the dilutive potential common shares related to outstanding stock options.

The following is a reconciliation of the calculation of basic EPS to diluted EPS for the years ended December 31:

	2002	2001	2000
	-----	-----	-----
Net income (loss).....	\$ (68,775)	\$ (124,782)	\$ 2,192
	=====	=====	=====
Basic EPS			
Weighted average shares of common stock.....	67,321,299	67,227,058	67,427,662
	=====	=====	=====
Basic EPS.....	\$ (1.02)	\$ (1.86)	\$ 0.03
	=====	=====	=====
Diluted EPS			
Weighted average shares of common stock.....	67,321,299	67,227,058	67,427,662
Effect of dilutive securities			
Stock options (1).....	--	--	36,381
	-----	-----	-----
	67,321,299	67,227,058	67,464,043
	=====	=====	=====
Diluted EPS.....	\$ (1.02)	\$ (1.86)	\$ 0.03
	=====	=====	=====

(1) Excludes the effect of all options in 2002 and 2001 because options are antidilutive in the event of a loss and the effect of 1,718,133 of options that are antidilutive for 2000 because their exercise price is greater than the market price of our stock at December 31, 2000.

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NOTE 19 DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative financial instruments for the purpose of managing our exposure to adverse fluctuations in interest and foreign currency exchange rates.

Because interest rate futures and foreign currency futures contracts are exchange traded, holders of these instruments look to the exchange for performance under these contracts and not the entity holding the offsetting futures contract, thereby minimizing the risk of nonperformance under these contracts. We are exposed to credit loss in the event of nonperformance by the counterparty to the interest rate and currency swaps and control this risk through credit monitoring procedures. The notional principal amount does not represent our exposure to credit loss.

Interest Rate Risk Management

In managing our interest rate risk, we enter into interest rate swaps from time to time. Under interest rate swaps, we agree with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional amount. The terms of the interest rate swaps provided for us to receive a floating rate of interest based on the London Interbank Offered Rate ("LIBOR") and to pay fixed interest rates. We used these interest rate swaps to alter the interest rate on LIBOR rate debt incurred to fund our acquisitions of real estate, subordinate and residual securities and securities sold under agreements to repurchase.

We are exposed to credit loss when we enter into interest rate swaps if: (i) the counterparty to the interest rate swap does not perform and (ii) the floating interest rate that we receive exceeds the fixed interest rate that we pay. All the counterparties had long-term debt ratings of A+ or above by Standard and Poor's and A1 or above by Moody's. Although a swap generally may not be sold or transferred without the consent of the counterparty, management does not believe that this consent would be withheld. Although none of our interest rate swaps were exchange-traded, there are a number of financial institutions which enter into these types of transactions as part of their day-to-day activities.

We had no interest rate swaps outstanding at December 31, 2002. Our swaps had the effect of increasing (decreasing) net interest income by \$2 and \$(148) for the years ended December 31, 2001 and 2000, respectively. During 2001 and 2000, we realized gains (losses) of \$(9) and \$575 on swaps that we included in net operating gains on investments in real estate.

We have purchased amortizing caps and floors to hedge our interest rate exposure relating to our match funded loans and securities. An interest rate cap or interest rate floor is designed to provide protection against the interest rate on a floating-rate instrument rising above some level (cap) or falling below some level (floor). The interest rate representing the cap or the floor is referred to as the "strike rate." We receive payments from the seller on caps when the current interest rate rises above the strike rate and on floors when the current interest rate falls below the strike rate. The amount received represents the difference between the current rate and the strike rate applied to the notional amount. The terms of our outstanding caps and floors at December 31, 2002 and 2001 are as follows:

	Notional Amount	Maturity	Index	Strike Rate	Fair Value
	-----	-----	-----	-----	-----
December 31, 2002					
Caps.....	\$ 111,799	October 2003	LIBOR 1-Month	7.00%	\$ --
Floors.....	30,563	October 2003	CMT 2-Year	4.35	592
					-----
					\$ 592
					=====
December 31, 2001					
Caps.....	\$ 125,933	October 2003	LIBOR 1-Month	7.00%	\$ 104
Floors.....	34,100	October 2003	CMT 2-Year	4.35	300

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During 2001, we determined that our caps and floors no longer qualified for hedge accounting. Unrealized gains included in earnings to record our caps and floors at fair value during 2002 and 2001 amounted to \$188 and \$404, respectively. Amortization of the caps and floors amounted to \$391 and \$1,172 during the years ended December 31, 2001 and 2000, respectively.

We purchased no swaptions, put options, U.S. Treasury futures contracts or US Agency futures contracts during 2002 or 2001. The following table summarizes our net realized gains and (losses) on the following financial instruments included in earnings for year ended December 31, 2000.

Swaptions and put options.....	\$	(374)
U.S. Treasury and Agency futures.....		(617)

The fair value of our interest rate swaps and caps and floors represents the estimated amount that we would receive or pay to terminate these agreements taking into account current interest rates. Market quotes are available for these agreements. The following table summarizes our use of interest rate risk management instruments:

	Notional Amount		
	Interest Rate Swaps	Caps	Floors
Balance, December 31, 2000.....	\$ 33,000	\$ 141,674	\$ 37,787
Maturities.....	(33,000)	(15,741)	(3,686)
Balance, December 31, 2001.....	--	125,933	34,101
Maturities.....	--	(14,134)	(3,538)
Balance, December 31, 2002.....	\$ --	\$ 111,799	\$ 30,563

Foreign Currency Exchange Rate Risk Management

We enter into foreign currency derivatives to hedge our investments in our foreign subsidiaries which own residual interests backed by residential loans originated in the UK ("UK residuals") and in our shopping center located in Halifax, Nova Scotia ("the Nova Scotia shopping center"). It is our policy to periodically adjust the amount of foreign currency derivative contracts we have entered into in response to changes in our investments in these assets. Currency futures are commitments to either purchase or sell foreign currency at a future date for a specified price.

We have determined that the local currency of our investment in UK residuals and our investment in the Nova Scotia Shopping Center is the functional currency. Our foreign currency derivative financial instruments qualify for hedge accounting. Accordingly, we include the gains or losses in the net unrealized foreign currency translation in accumulated other comprehensive income in stockholders' equity.

The following table sets forth the terms and values of our foreign currency financial instruments at December 31, 2002 and 2001:

	Position	Maturity	Notional Amount	Strike Rate	Fair Value
December 31, 2002					
Canadian Dollar currency futures.....	Short	March 2003	CS 11,400	0.6390	\$ 78

British Pound currency futures.....	Short	March 2003	(pound)	18,750	1.5599	(793)
						-----
						\$ (715)
						=====
December 31, 2001						
Canadian Dollar currency futures.....	Short	March 2002	C\$	34,000	0.6380	\$ 353
British Pound currency futures.....	Short	March 2002	(pound)	17,250	1.4350	(235)
						-----
						\$ 118
						=====

Before the sale of our equity investment in Kensington in 2000, we entered into a British Pound currency forward ("currency forward") with an AAA-rated counterparty to hedge our equity investment in Kensington. In connection with the sale of the equity investment in Kensington, the currency forward was closed in November 2000.

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NOTE 20 INCOME TAXES

The components of income tax expense (benefit) were as follows:

	Years Ended December 31,		
	2002	2001	2000
Current			
	-----	-----	-----
Federal.....	\$ 1,817	\$ --	\$ (24,744)
State.....	--	--	261
	-----	-----	-----
	1,817	--	(24,483)
	-----	-----	-----
Deferred			
Federal.....	(30,798)	(21,339)	25,714
State.....	(2,085)	(2,009)	216
Provision for valuation allowance on prior year's deferred tax asset.....	--	83,000	17,500
Provision for valuation allowance on current year's deferred tax asset.....	34,049	23,348	--
	-----	-----	-----
Income tax expense before change in accounting principle.....	2,983	83,000	18,947
Income tax expense on change of accounting principle.....	(1,166)	--	--
	-----	-----	-----
Total.....	\$ 1,817	\$ 83,000	\$ 18,947
	=====	=====	=====

Income tax expense before the effect of change in accounting principle differs from the amounts computed by applying the U.S. Federal corporate income tax rate of 35% as follows:

	Years Ended December 31,		
	2002	2001	2000
Expected income tax expense (benefit) at statutory rate.....	\$ (27,933)	\$ (14,532)	\$ 7,993
Differences between expected and actual expense (benefit)			
Excess of cost over net assets acquired, net.....	1,051	1,108	1,078
Excess of net assets acquired over purchase price.....	--	(6,416)	(4,939)
State tax (after Federal tax benefit).....	(1,355)	(1,306)	310
Low-income housing tax credits.....	(2,685)	(2,078)	(2,577)
Deferred tax asset valuation allowance current year tax benefit.....	34,049	23,348	--
Deferred tax asset valuation allowance prior year.....	--	83,000	17,500
Other.....	(144)	(124)	(418)
	-----	-----	-----
Actual income tax expense (benefit).....	\$ 2,983	\$ 83,000	\$ 18,947
	=====	=====	=====

For taxable years beginning before 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 \$42,400 of applicable excess reserves. As of December 31, 1996, the Bank had fully provided for the tax related to this recapture.

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 has had no material impact on the Bank's or OCN's operations or financial position.

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We have not recognized a deferred tax liability 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, 2002 and 2001, the amount of those reserves was approximately \$5,700. 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 as of:

	December 31,	
	2002	2001
Deferred Tax Assets		
Tax residuals and deferred income on tax residuals .....	\$ 4,506	\$ 3,176
State taxes .....	7,944	5,685
Accrued profit sharing .....	2,597	2,271
Accrued other liabilities .....	317	206
Interest expense related to discount loan portfolio .....	7,031	7,031
Valuation allowance on real estate owned .....	11,895	6,873
Gain on loan foreclosure .....	4,891	7,009
Bad debt and allowance for loan losses .....	14,936	11,021
Impairment on securities available for sale and unrealized gains and losses on trading securities .....	57,709	71,866
Mortgage servicing rights amortization .....	11,564	5,971
Goodwill amortization .....	1,267	451
Foreign currency exchange .....	1,075	1,068
Capital loss carryforward .....	9,347	4,160
Net operating loss carryforward .....	26,178	15,647
Partnership losses and low-income housing tax credits .....	51,078	40,782
Other .....	2,821	--
	-----	-----
	215,156	183,217
	-----	-----
Deferred Tax Liabilities		
Deferred interest income on discount loan portfolio .....	6,421	6,421
Research and development costs .....	1,078	1,294
Other .....	--	1,870
	-----	-----
	7,499	9,585
	-----	-----
Valuation allowances .....	207,657	173,632
	(199,270)	(165,221)
	-----	-----
Net deferred tax asset .....	\$ 8,387	\$ 8,411
	=====	=====

As of December 31, 2002, we had a deferred tax asset valuation allowance totaling \$199,270. This allowance is comprised of \$38,873 relating to built-in loss limitations arising from our acquisition of OAC and \$126,348 relating to our evaluation of the future realization of prior years deferred tax asset and \$34,049 related to the future realization of our current year tax benefit.

We conduct periodic evaluations to determine whether it is more likely than not that the deferred tax asset can be realized in future periods. Among the factors considered in this evaluation are estimates of future taxable income, the future reversal of temporary differences, tax character and the impact of tax planning strategies that can be implemented if warranted. As a result of this evaluation, we included in the tax provision an increase of \$34,049, \$106,348 and \$17,500 to the valuation allowance for 2002, 2001 and 2000 respectively.

Before our acquisition of OAC, OAC was a REIT for federal tax purposes and filed a REIT federal income tax return through October 20, 1999. We have included OAC in our consolidated federal income tax return since October 21, 1999. OAC had, at October 6, 1999, approximately \$131,567 of net unrealized built-in losses. Any such losses recognized within the five-year period beginning on October 7, 1999 (the "recognition period") are treated as pre-change losses and, as such, are subject to an annual limit as to the amount which may offset the taxable income of Ocwen Financial Corporation and its subsidiaries ("the IRC section 382 limitation"). A net unrealized built-in loss is an amount by which the tax basis of the corporation's assets at the time of the change in ownership exceeds the

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aggregate fair market value of those assets at that time. The IRC section 382 limitation is determined by multiplying the value of OAC's stock by the federal long-term tax-exempt rate and amounts to approximately \$5,700. If a deduction is denied for any recognized built-in loss in any post-change year, the loss is carried forward to subsequent years under rules similar to the standard loss carryforward rules. As a result of these limitations, we established a corresponding deferred tax asset valuation allowance at the acquisition date as part of purchase accounting in the amount of \$38,873.

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.

International Hotel Group ("IHG"), a wholly-owned subsidiary of IMI, and IHG's subsidiaries had at December 31, 2002, approximately \$1,079 of Separate Return Limitation Year ("SRLY") net operating loss carryforwards. The SRLY net operating loss carryforward can only offset the future taxable income of IHG and its subsidiaries. The \$1,079 operating loss carryforward will expire, if unused, in the year 2008. At December 31, 2002 we had net operating loss carryforwards of \$74,795, of which \$13,746 expire in 2018, \$10,771 expire in 2021 and \$50,278 expire in 2022. At December 31, 2002, we had tax credit carryforwards of \$37,291 related to our low-income housing tax credits, which expire in 2018, 2019, 2020, 2021 and 2022.

NOTE 21 EMPLOYEE BENEFIT AND COMPENSATION PLANS

We maintain a defined contribution plan to provide postretirement benefits to our eligible employees. We also adopted a number of compensation plans for certain of our employees. We designed these plans to facilitate a pay-for-performance policy, further align the interests of our officers and key employees with the interests of our shareholders and assist in the attraction



and retention of employees vital to our long-term success. These plans are summarized below.

#### Retirement Plan

We maintain a defined contribution 401(k) plan. We match 50% of each employee's contributions, limited to 2% of the employee's compensation. Our contributions to the 401(k) plan for the years ended December 31, 2002, 2001 and 2000, were \$593, \$613 and \$694, respectively.

In connection with our acquisition of Berkeley Federal Savings Bank in June 1993, the Bank assumed the obligations under a noncontributory defined benefit pension plan (the "Plan") covering substantially all employees upon their eligibility under the terms of the Plan. We froze and fully funded the Plan after the plan year ended December 31, 1993.

#### Annual Incentive Plan

The Ocwen Financial Corporation 1998 Annual Incentive Plan (the "AIP") is our primary incentive compensation plan for executives and other key employees. Under the terms of the AIP participants can earn cash and equity based awards as determined by the Compensation Committee. The awards are based on objective performance criteria established by the Committee, including growth in our core businesses, reduction in non-core assets, cost savings through Six Sigma initiatives and utilization of India operations and the achievement of other established performance goals. Non-qualified stock options to purchase our common stock are issued as part of the AIP and are granted pursuant to the Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan.

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The following table provides a summary of our stock option activity for the years ended December 31, 2002, 2001 and 2000, respectively, and stock options exercisable at the end of each of those year:

	2002		2001		2000	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year.....	4,655,269	\$ 9.01	3,424,594	\$ 13.11	2,013,201	\$ 14.09
Granted (1).....	634,228	1.87	1,584,093	7.67	1,617,461	4.09
Exercised.....	(32,937)	4.62	(128,156)	4.59	--	--
Forfeited.....	(542,856)	9.90	(225,262)	4.87	(206,068)	14.74
Outstanding at end of year.....	4,713,704	7.97	4,655,269	9.01	3,424,594	9.33
Exercisable at end of year.....	2,738,463	9.47	2,483,697	11.29	1,885,048	13.11

(1) The weighted average grant-date fair value was \$2.67 in 2002, \$8.36 in 2001 and \$5.84 in 2000.

The following table summarizes information about our stock options outstanding at December 31:

	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Exercise Price	Remaining Contractual Life	Number of Options	Weighted Average Exercise Price
2002.....	634,228	\$ 1.87	10	126,846	\$ 1.87
2001.....	1,446,257	7.85	9	424,272	5.79
2000.....	1,142,683	4.09	8	696,809	4.09
1999.....	190,594	6.25	7	190,594	6.25
1998.....	95,585	12.31	6	95,585	12.31
1997.....	586,935	20.35	5	586,935	20.35
1996.....	528,422	11.00	4	528,422	11.00

1995.....	89,000	2.88	3	89,000	2.88
	-----			-----	
	4,713,704	7.97		2,738,463	9.47
	=====			=====	

After the award of 634,228 options for 2002, 6,725,536 authorized shares remain and are available for future awards of stock options.

Stock options we awarded under the Former Plan have a one-year vesting period. Stock options we awarded under the AIP for 1998 and 1999 vest ratably over a three-year period. Stock options we awarded under the AIP for 2000 and thereafter vest ratably over a five-year period including the award year. The term of all options granted is ten years from the grant date. We treat the difference, if any, between the fair market value of our stock at the date of grant and the exercise price as compensation expense. We record compensation expense ratably over the vesting period of the grant. Included in compensation expense for the years ended December 31, 2002, 2001 and 2000 was \$923, \$1,038 and \$572, respectively, related to options granted below fair market value.

#### Long-Term Incentive Plan

In May 1998, our shareholders approved the Ocwen Financial Corporation Long-Term Incentive Plan (the "LIP"). Participation in the LIP was limited to officers and other key employees and designated subsidiaries that were selected by the LIP Administrator. We suspended the LIP in 2000 and reversed the related accrual of \$6,012 for 1999 and 1998. We recorded compensation expense of \$3,645 and \$2,367 in 1999 and 1998, respectively, under the LIP.

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#### NOTE 22 STOCKHOLDERS' EQUITY

On May 9, 2000, we announced that our Board of Directors authorized the repurchase of up to six million of our issued and outstanding shares of common stock. As of December 31, 2002, we had not repurchased any shares.

#### NOTE 23 REGULATORY REQUIREMENTS

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 and the regulations promulgated thereunder established certain minimum levels of regulatory capital for savings institutions subject to 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, 2002, the minimum regulatory capital requirements were:

- o Tangible and core capital of 1.50% and 3.00% of total adjusted assets, respectively, consisting principally of stockholders' equity, but excluding most intangible assets, such as goodwill and any net unrealized gains or losses on debt securities available for sale. Effective April 1, 1999, the OTS minimum core capital ratio provides that only those institutions with a Uniform Financial Institution Rating System rating of "1" are subject to a 3.00% minimum core capital ratio. All other institutions are subject to a 4.00% minimum core capital ratio.
- 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 8.00% of the value of risk-weighted assets.

At December 31, 2002 and 2001, the Bank was "well capitalized" under the prompt corrective action regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991. To be categorized as "well capitalized," the Bank must maintain minimum core capital, Tier 1 risk-based capital and risk-based capital ratios as set forth in the following table. The Bank's capital amounts and classification are subject to review by

federal regulators regarding components, risk-weightings and other factors. There are no conditions or events since December 31, 2002 that we believe have changed the Bank's category.

Following an examination by the OTS in late 1996 and early 1997, the Bank committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9.00% and 13.00%, respectively. The Bank continues to be in compliance with this commitment as well as with the regulatory capital requirements of general applicability (as indicated in the table below). 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.

We have an active ongoing dialogue with the OTS regarding our various businesses and business plans, and we continue to be subject to a number of restrictions with respect to our future operations. Following the completion of the annual safety and soundness examination of the OTS in 2000, we submitted a written business plan and budget to the OTS regarding our plans for the business, primarily that of the Bank, over the next several years. The primary focus of that plan was the reduction in our non-core business activities and the reduction of our deposit liabilities and long-term debt obligations as we focused on the growth of our fee-based business activities.

The initial plan was approved by the OTS in February 2001. Since that time, we submitted a revised plan to the OTS in April of 2002. Based on discussions with the OTS regarding the revised plan, we have agreed to limit our investment in mortgage servicing rights to approximately 60% of core capital (before any deduction thereto for servicing rights) at the Bank and 50% of stockholders' equity on a consolidated basis. We regularly review actual results as compared to our plan with the OTS on a less formal basis. At this time, we remain substantially in compliance with the plan as modified over time.

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The following table summarizes the Bank's actual and required regulatory capital at December 31, 2002 and 2001:

	Actual		Minimum For Capital Adequacy Purposes		To Be Well Capitalized For Prompt Corrective Action Provisions		Committed Capital Requirements
	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2002							
Stockholders' equity and ratio to total assets..	16.62%	\$ 161,242					
Non-includable subsidiary.....		(875)					
Disallowed deferred tax assets.....		(1,053)					
Disallowed servicing assets.....		(10,662)					
Tier 1 (core) capital and ratio to adjusted total assets.....	15.51%	148,652	4.00%	\$ 38,325	5.00%	\$ 47,907	9.00%
Non-mortgage servicing rights.....		(2,703)					
Tangible capital and ratio to tangible assets...	15.28%	\$ 145,949	1.50%	\$ 14,331			
Tier 1 capital, and ratio to risk-weighted assets.....	18.76%	\$ 148,652			6.00%	\$ 47,555	
Allowance for loan losses.....		10,019					
Qualifying subordinated debentures.....		13,400					
Tier 2 capital.....		23,419					
Total risk-based capital and ratio to risk-weighted assets.....	21.71%	\$ 172,071	8.00%	\$ 63,407	10.00%	\$ 79,259	13.00%
Total regulatory assets.....		\$ 969,945					
Adjusted total assets.....		\$ 958,133					
Tangible assets.....		\$ 955,430					
Risk-weighted assets.....		\$ 792,589					

=====							
December 31, 2001							
Stockholders' equity and ratio to total assets..	14.62%	\$ 204,640					
Non-includable subsidiary.....		(1,233)					
Disallowed deferred tax assets.....		(4,515)					
Disallowed servicing assets.....		(10,077)					
-----							
Tier 1 (core) capital and ratio to adjusted							
total assets.....	13.64%	188,815	4.00%	\$ 55,359	5.00%	\$ 69,199	9.00%
Non-mortgage servicing assets.....		(3,447)					
-----							
Tangible capital and ratio to tangible assets...	13.43%	\$ 185,368	1.50%	\$ 20,708			
=====							
Tier 1 capital and ratio to risk-weighted							
assets.....	18.41%	\$ 188,815			6.00%	\$ 61,546	
-----							
Allowance for loan losses.....		10,290					
Qualifying subordinated debentures.....		40,200					
-----							
Tier 2 capital.....		50,490					
-----							
Total risk-based capital and ratio to							
risk-weighted assets.....	23.33%	\$ 239,305	8.00%	\$ 82,062	10.00%	\$ 102,577	13.00%
=====							
Total regulatory assets.....		\$1,399,676					
=====							
Adjusted total assets.....		\$1,383,980					
=====							
Tangible assets.....		\$1,380,533					
=====							
Risk-weighted assets.....		\$1,025,775					
=====							

The OTS amended its capital distribution regulation effective April 1, 1999. Under the revised regulation, the Bank is required to file a notice with the OTS at least 30 days before making a capital distribution unless (a) it is not eligible for expedited treatment under the OTS application processing regulations, (b) the total amount of the Bank's capital distributions (including the proposed distribution) for the calendar year exceeds the Bank's net income for the year to date plus retained net income for the previous two years, (c) the Bank would not be "adequately capitalized" following the proposed distribution or (d) the proposed distribution would violate any applicable statute, regulation or agreement between the Bank and the OTS, or a condition imposed upon the Bank by an OTS-approved application or notice. If one of these four criteria is present, the Bank is required to file an application with the OTS at least 30 days before making the proposed

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capital distribution. The OTS may deny the Bank's application or disapprove its notice if the OTS determines that (a) the Bank will be "under capitalized," "significantly under capitalized" or "critically under capitalized," as defined in the OTS capital regulations, following the capital distribution, (b) the proposed capital distribution raises safety and soundness concerns or (c) the proposed capital distribution violates a prohibition contained in any statute, regulation or agreement between the Bank and the OTS or a condition imposed on the Bank in an application or notice approved by the OTS. The revised rule also amended the definition of "capital distribution" to include any payment to repurchase, redeem, retire or otherwise acquire debt instruments included in total risk-based capital.

In addition to these OTS regulations governing capital distributions, the indenture governing the 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.

NOTE 24 NET INTEREST INCOME (EXPENSE) BEFORE PROVISION FOR LOAN LOSSES

The following table presents the components of net interest income (expense) for each category of our interest-earning assets and interest-bearing liabilities for the years ended December 31:

	2002	2001	2000
	-----	-----	-----
Interest income			
Interest earning cash and other.....	\$ 284	\$ 743	\$ 1,501
Federal funds sold and repurchase agreements.....	2,629	7,328	8,700
Trading securities.....	16,580	18,865	8,200
Securities available for sale.....	--	--	42,507
Loans.....	11,279	46,090	112,886
Match funded loans and securities.....	6,463	10,345	11,022
	-----	-----	-----
	37,235	83,371	184,816
	-----	-----	-----
Interest expense			
Deposits.....	27,455	59,967	98,224
Securities sold under agreements to repurchase.....	236	529	10,729
Bonds - match funded agreements.....	6,573	7,315	11,484
Obligations outstanding under lines of credit.....	3,787	5,511	13,881
Notes, debentures and other interest-bearing obligations.....	17,711	20,007	34,772
	-----	-----	-----
	55,762	93,329	169,090
	-----	-----	-----
Net interest income (expense) before provision for loan losses.....	\$ (18,527)	\$ (9,958)	\$ 15,726
	=====	=====	=====

#### NOTE 25 OTHER INCOME

The following table presents the principal components of other income we earned during the years ended December 31:

	2002	2001	2000
	-----	-----	-----
Collections of credit card receivables (1).....	\$ 4,191	\$ --	\$ --
Software revenue (OTX).....	3,146	2,181	2,236
Brokerage commissions.....	2,112	1,386	--
Consulting fees.....	1,596	2,041	78
Other.....	2,070	3,151	3,770
	-----	-----	-----
	\$ 13,115	\$ 8,759	\$ 6,084
	=====	=====	=====

- (1) We recorded collections on charged-off unsecured credit card receivables that we have purchased from third parties on the cost recovery method through the end of 2001, at which time we reduced the net book value of these receivables to zero as a result of collections and reserves. In 2002, we recorded all collections on the receivables as other income.

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#### NOTE 26 OTHER OPERATING EXPENSES

The following table presents the principal components of other operating expenses we incurred during the years ended December 31:

	2002	2001	2000
	-----	-----	-----
Travel, lodging, meals and entertainment.....	\$ 2,585	\$ 2,508	\$ 2,864
Amortization of deferred costs.....	1,436	917	1,878
Deposit related expenses.....	1,198	897	531
Conferences and seminars.....	475	534	530
Investment and treasury services.....	340	272	332
Marketing.....	241	757	1,820
Acquisition expenses.....	21	330	1,912
Other.....	3,323	2,720	2,240
	-----	-----	-----
	\$ 9,619	\$ 8,935	\$ 12,107
	=====	=====	=====

NOTE 27 BUSINESS SEGMENT REPORTING

Public enterprises like ours are required to report financial and descriptive information about their reportable operating segments. An operating segment is defined as a component of an enterprise that (a) engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (c) for which discrete financial information is available.

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	Net Interest Income (Expense)	Provision for Loan Losses	Non-Interest Income	Non-Interest Expense	Pre-Tax Income (Loss)	Total Assets
At or for the year ended December 31, 2002						
Core businesses						
Residential Loan Servicing.....	\$ (18,304)	\$ --	\$ 120,024	\$ 69,746	\$ 31,974	\$ 579,114
OTX.....	1	--	6,522	30,667	(24,144)	6,172
Ocwen Realty Advisors.....	--	--	14,080	11,483	2,597	532
Unsecured Collections.....	--	(278)	10,652	6,925	4,006	296
	(18,303)	(278)	151,278	118,821	14,433	586,114
Non-core businesses						
Residential Discount Loans.....	6,068	(2,299)	(2,354)	5,250	763	44,833
Commercial Finance.....	(7,627)	12,814	(19,869)	11,636	(51,947)	196,269
Affordable Housing.....	(4,449)	3,392	1,308	24,989	(31,521)	62,093
Subprime Finance.....	11,787	--	7,395	4,646	14,536	41,949
	5,779	13,907	(13,520)	46,521	(68,169)	345,144
Corporate Items and Other.....	(6,003)	--	(3,283)	12,747	(28,321)	290,984
	\$ (18,527)	\$ 13,629	\$ 134,475	\$ 178,089	\$ (82,057)	\$1,222,242
At or for the year ended December 31, 2001						
Core businesses						
Residential Loan Servicing.....	\$ (16,529)	\$ --	\$ 119,503	\$ 68,383	\$ 34,591	\$ 492,561
OTX.....	--	--	2,149	38,542	(36,392)	13,231
Ocwen Realty Advisors.....	--	--	11,913	10,968	944	1,351
Unsecured Collections.....	140	1,176	3,058	7,042	(5,020)	--
	(16,389)	1,176	136,623	124,935	(5,877)	507,143
Non-core businesses						
Residential Discount Loans.....	15,125	6,060	(4,733)	8,333	(4,002)	117,051
Commercial Finance.....	(3,220)	7,223	3,369	13,941	(21,014)	364,013
Affordable Housing.....	(7,917)	1,207	(849)	19,945	(29,917)	132,724
Subprime Finance.....	2,657	--	13,742	3,244	13,155	82,325
	6,645	14,490	11,529	45,463	(41,778)	696,113
Corporate Items and Other.....	(214)	--	25,267	12,048	5,873	507,894
	\$ (9,958)	\$ 15,666	\$ 173,419	\$ 182,446	\$ (41,782)	\$1,711,150
At or for the year ended December 31, 2000						
Core businesses						
Residential Loan Servicing.....	(5,756)	--	84,158	59,215	19,188	256,675
OTX.....	(719)	--	2,424	35,655	(33,951)	20,462
Ocwen Realty Advisors (1).....	--	--	12,738	12,824	(86)	1,625
Unsecured Collections.....	(104)	6,867	1,480	8,908	(14,398)	8,417
	(6,579)	6,867	100,800	116,602	(29,247)	287,179
Non-core businesses						
Residential Discount Loans.....	24,549	(637)	7,725	11,771	21,140	397,446
Commercial Finance.....	(8,203)	9,195	54,080	19,503	17,178	635,601
Affordable Housing.....	(9,912)	(248)	702	14,702	(23,664)	171,070
Subprime Financing.....	(180)	--	(22,267)	2,072	(24,519)	134,477
	6,254	8,310	40,240	48,048	(9,865)	1,338,594
Corporate Items and Other.....	16,051	--	60,940	5,359	60,251	623,647
	\$ 15,726	\$ 15,177	\$ 201,980	\$ 170,009	\$ 21,139	\$2,249,420

(1) Non-interest income for the year ended December 31, 2000 included \$975 of intercompany revenues we have eliminated in consolidation.

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A brief description of our segments follows:

Core Businesses

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- o Residential Loan Servicing. Through this business we provide loan servicing including asset management and resolution services, to third party owners of subprime residential mortgage and "high loan to value" loans for a fee. We acquire the rights to service loans and obtain such rights by purchasing them outright or by entering into sub-servicing contracts.
- o OTX. Through this segment we provide technology solutions for the mortgage and real estate industries. OTX products include a residential loan servicing system (REALServicing), a commercial loan servicing system (REALSynergy) and an Internet based mortgage loan processing and vendor management system (REALTrans).
- o Ocwen Realty Advisors (ORA). Through ORA we provide residential property valuation services, including for those loans that we service for others.
- o Unsecured Collections. This core business conducts collection activities for third party owners of unsecured receivables and for a portfolio of unsecured credit card receivables that we acquired at a discount in 1999 and 2000.

Non-Core Businesses

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- o Residential Discount Loans. This segment consisted of operations to acquire at a discount and subsequently resolve sub-performing and non-performing residential mortgage loans. We completed our last acquisition of residential loans in 2000.
- o Commercial Finance. This segment comprised operations to acquire sub-performing commercial loans at a discount, as well as operations to invest in and reposition under performing real estate assets. No assets have been acquired since 2000; since that time, this business has consisted of the repositioning, management and resolution of the remaining assets.
- o Affordable Housing. Includes our investments, primarily through limited partnerships, in qualified low-income rental housing for the purpose of obtaining Federal income tax credits pursuant to Section 42 of the Code. Except to complete those projects in which an investment had already been made, we ceased making investments in properties in 2000.
- o Subprime Finance. In August 1999, we closed our domestic subprime origination business, which had been conducted primarily through OFS. Previously, activities of this segment included our acquisition and origination of single family residential loans to non-conforming borrowers. We have continued to manage and resolve the remaining non-core assets.

Corporate Items and Other

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This segment includes business activities that are individually insignificant, interest income on cash and cash equivalents, interest expense on corporate assets, gains and losses from debt repurchases, trading gains or losses associated with our collateralized mortgage obligation ("CMO") trading portfolio and general corporate expenses.

We allocate interest income and expense to each business segment for the investment of funds raised or funding of investments made taking into consideration the duration of such liabilities or assets. We also make allocations of non-interest expense generated by corporate support services to each business segment based upon our estimate of time and effort spent in the respective activity.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 DECEMBER 31, 2002, 2001, AND 2000  
 (Dollars in thousands, except share data)

NOTE 28 COMMITMENTS AND CONTINGENCIES

We lease certain premises under various non-cancelable operating leases with terms expiring at various times through 2006, exclusive of renewal option periods. Our annual aggregate minimum rental commitments under these leases are summarized as follows:

2003.....	\$	4,099
2004.....		3,276
2005.....		1,166
2006.....		71
Thereafter.....		--
		-----
Minimum lease payments .....	\$	8,612
		=====

We converted rental commitments for our facilities outside the United States of America to U.S. dollars using exchange rates in effect at December 31, 2002. Rent expense for the years ended December 31, 2002, 2001 and 2000 was \$3,326, \$3,533 and \$3,374, respectively.

At December 31, 2002, we had commitments of \$346 to fund construction loans (including loans accounted for as investments in real estate) secured by multi-family and commercial properties. In addition, we had commitments under outstanding letters of credit in the amount of \$210. Through our investment in subordinated securities and subprime residuals, which had a fair value of \$37,339 at December 31, 2002, we support senior classes of securities.

On April 20, 1999, a complaint was filed on behalf of a putative class of public shareholders of the Company in the Circuit Court of the Fifteenth Judicial Circuit, Palm Beach County, Florida against OCN and OAC. On April 23, 1999, a complaint was filed on behalf of a putative class of public shareholders of OAC in the Circuit Court of the Fifteenth Judicial Circuit, Palm Beach County, Florida, against OAC and certain directors of OAC. The plaintiffs in both complaints sought to enjoin consummation of the acquisition of OAC by OCN. The cases were consolidated, and on September 13, 1999 a consolidated amended complaint was filed. The injunction was denied, and on October 14, 1999 OCN was dismissed as a party. Plaintiffs' remaining claims were for damages for alleged breaches of common law fiduciary duties. In October 2001, the parties reached an agreement in principle, which provides for a payment to plaintiffs in the amount of \$475 in complete settlement off all claims for damages and attorney's fees and costs. The agreement in principle also requires us to pay a share of certain additional administrative costs attendant to the settlement, in an amount not yet determined. The agreement in principle is subject to the approval of the Court. This matter is not expected to have a material impact on our financial statements.

On June 3, 1999, Walton Street Capital, L.L.C. ("Walton") filed suit against OAC and Ocwen Partnership, L.P. in the Circuit Court of Cook County, Illinois. Walton has alleged that OAC committed an anticipatory breach of contract with respect to the proposed sale by OAC of all of its interest in its commercial mortgage-backed securities portfolio to Walton. Walton has claimed damages in an amount in excess of \$27,000 including prejudgment interest. As of October 20, 2000, both Walton and OAC filed motions for Summary Judgement. On December 21, 2000, the Circuit Court granted Walton's Limited Motion for Summary Judgement concerning liability. On February 20, 2001, Ocwen filed a motion for reconsideration requesting the Circuit Court vacate its order granting summary judgment to Walton. On January 29, 2002, after oral argument, the Circuit Court reversed its earlier ruling by vacating the order granting summary judgment. On October 25, 2002, the Circuit Court denied Walton's motion for summary judgement. The trial was scheduled to begin March 4, 2003. On March 3, 2003, the Parties entered into a settlement agreement under which defendants admitted no liability and the case was dismissed with prejudice. The amount of the settlement was \$2,250 which is included in the financial results of 2002 based on the applicable accounting rules.

The former owners of Admiral Home Loan ("Claimants") filed a Demand for



Arbitration against OCN and William C. Erbey claiming damages in the amount of \$21,250 arising out of a 1997 acquisition agreement pursuant to which a subsidiary of OCN acquired all the assets of Admiral Home Loan. The Claimants amended their Demand to include a claim for Civil Theft under Florida statutes for which treble damages are sought. An evidentiary hearing on the matter was concluded before a three-person arbitration panel on February 24, 2003. On March 11, 2003, the Parties submitted post-hearing findings of fact and conclusions of law to the arbitration panel which has taken the matter under advisement. Although litigation is always uncertain, we believe the claims asserted in the Admiral Home Loan matter are without merit and we have defended them vigorously.

We are subject to various other pending legal proceedings. In our opinion, the resolution of these other claims will not have a material effect on the consolidated financial statements.

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 DECEMBER 31, 2002, 2001, AND 2000  
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NOTE 29 PARENT COMPANY ONLY FINANCIAL INFORMATION

Condensed Statements of Financial Condition of Ocwen Financial Corporation

	December 31,	
	2002	2001
<b>Assets</b>		
Cash and cash equivalents.....	\$ 1,116	\$ 1,114
Cash held at Bank subsidiary.....	9,647	26,872
Investments in subsidiaries		
Bank subsidiary.....	158,471	198,813
Non-Bank subsidiaries.....	406,538	400,297
Advance due from Bank subsidiary.....	1,641	3,138
Investment in unconsolidated entity.....	263	113
Loan, net.....	8,009	--
Investment in real estate.....	--	1,797
Income taxes receivable.....	20,870	16,824
Mortgage servicing rights.....	64,996	--
Other assets.....	536	2,631
	\$ 672,087	\$ 651,599
<b>Liabilities and Stockholders' Equity</b>		
11.875% Note payable.....	\$ 43,475	\$ 87,025
Notes and debentures payable to non-Bank subsidiaries.....	135,486	131,251
Accrued interest payable to non-Bank subsidiaries.....	8,205	7,847
Advance due to non-Bank subsidiaries.....	144,300	20,515
Deferred tax liability.....	20,194	16,249
Other liabilities.....	9,709	9,606
	361,369	272,493
Stockholders' equity.....	310,718	379,106
	\$ 672,087	\$ 651,599

Condensed Statements of Operations of Ocwen Financial Corporation

	For the Years Ended December 31,		
	2002	2001	2000
Interest income.....	\$ 555	\$ 1,946	\$ 907
Interest income from subsidiaries			
Bank subsidiary.....	222	776	1,438
Non-Bank subsidiaries.....	--	--	2,394
Interest expense.....	9,681	11,465	12,293
Interest expense - non-Bank subsidiaries.....	14,628	14,387	14,518
	(23,532)	(23,130)	(22,072)
Provision for loan losses.....	1,144	1,495	7,504
	(24,676)	(24,625)	(29,576)
Net interest expense after provision for loan losses.....	3,970	562	22,938
Non-interest income.....	3,731	(18)	3,783
Servicing fee expense - Bank subsidiary.....	4,965	5,907	7,173
Equity in earnings (losses) in unconsolidated entities.....	142	--	(5,280)

Income (loss) before income taxes.....	(29,260)	(29,952)	(22,874)
Income tax expense (benefit).....	(1,658)	37,195	(16,108)
Income (loss) before equity in net income (losses) of subsidiaries	(27,602)	(67,147)	(6,766)
Equity in net income (losses) of subsidiaries			
Bank subsidiary.....	(40,341)	(57,590)	6,094
Non-bank subsidiaries.....	(832)	(45)	2,864
Net income (loss).....	\$ (68,775)	\$ (124,782)	\$ 2,192

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
DECEMBER 31, 2002, 2001, AND 2000  
(Dollars in thousands, except share data)

Condensed Statements of Cash Flows of Ocwen Financial Corporation

	For the Years Ended December 31,		
	2002	2001	2000
Cash flows from operating activities			
Net income (loss).....	\$ (68,775)	\$ (124,782)	\$ 2,192
Adjustments to reconcile net income to net cash (used) provided by operating activities			
Equity in (income) loss of Bank subsidiary.....	40,341	57,590	(6,094)
Equity in (income) loss of non-Bank subsidiaries.....	832	45	(2,864)
Equity in loss (income) of unconsolidated entity, net.....	(142)	--	5,280
Premium amortization, net.....	--	408	(3)
Provision for loan losses.....	1,144	1,495	7,504
Gain on repurchase of long-term debt.....	--	(53)	(439)
Gain on sale of real estate held for investment.....	--	--	(1,155)
Gain on sale of investment in Kensington Group plc.....	--	--	(20,025)
Decrease in deferred tax assets.....	3,945	38,624	21,988
Decrease in deferred tax liability.....	--	--	(50)
Decrease (increase) in other assets.....	3,351	(1,849)	(71)
Decrease (increase) in income taxes receivable.....	(4,046)	925	(2,556)
Decrease in income taxes payable.....	--	--	(637)
Increase (decrease) in accrued expenses and other liabilities.....	(578)	2,417	(5,305)
Net cash used by operating activities.....	(23,928)	(25,180)	(2,235)
Cash flows from investing activities			
Net investments in and advances (to) from subsidiaries.....	122,295	(33,731)	(21,967)
Purchase of mortgage servicing rights.....	(64,996)	--	--
Proceeds from sale of investment in Kensington Group plc.....	--	--	48,556
Distributions from (investment in) unconsolidated entity.....	--	--	3,143
Origination of loans.....	(9,153)	--	--
Principal payments received on loans.....	--	6,922	10,207
Purchase of loans.....	--	--	(9,730)
Decrease (increase) in investment in real estate.....	1,797	1,503	(2,145)
Net cash provided (used) by investing activities.....	49,943	(25,306)	28,064
Cash flows from financing activities			
Repurchase of notes.....	(43,550)	(13,233)	(3,361)
Exercise of common stock options.....	214	901	--
Issuance of shares of common stock.....	98	78	56
Repurchase of common stock.....	--	--	(8,996)
Net cash used by financing activities.....	(43,238)	(12,254)	(12,301)
Net increase (decrease) in cash and cash equivalents.....	(17,223)	(62,740)	13,528
Cash and cash equivalents at beginning of year.....	27,986	90,726	77,198
Cash and cash equivalents at end of year.....	\$ 10,763	\$ 27,986	\$ 90,726

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
DECEMBER 31, 2002, 2001, AND 2000  
(Dollars in thousands, except share data)

NOTE 30 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	Quarters Ended			
	December 31, 2002	September 30, 2002	June 30, 2002	March 31, 2002
Interest income.....	\$ 7,103	\$ 8,612	\$ 8,806	\$ 12,714
Interest expense.....	11,727	12,925	14,714	16,396
Provision for loan losses.....	3,119	(901)	10,732	679
Net interest income (expense) after provision for loan losses.....	(7,743)	(3,412)	(16,640)	(4,361)
Non-interest income.....	42,384	38,026	12,507	41,558
Non-interest expense.....	41,471	37,092	44,499	55,027
Distributions on Capital Securities.....	1,529	1,529	1,566	1,663
Income (loss) before income taxes and effect of change in accounting principle.....	(8,359)	(4,007)	(50,198)	(19,493)
Minority interest in net loss of subsidiaries.....	(99)	--	--	--
Income taxes expense (benefit).....	1,818	--	--	1,165
Income (loss) before effect of change in accounting principle.....	(10,078)	(4,007)	(50,198)	(20,658)
Effect of change in accounting principle, net of taxes...	--	--	--	16,166
Net income (loss).....	\$ (10,078)	\$ (4,007)	\$ (50,198)	\$ (4,492)
Earnings (loss) per share				
Basic and diluted.....	\$ (0.15)	\$ (0.06)	\$ (0.75)	\$ (0.07)

	Quarters Ended			
	December 31, 2001	September 30, 2001	June 30, 2001	March 31, 2001
Interest income.....	\$ 14,742	\$ 18,594	\$ 25,218	\$ 24,817
Interest expense.....	19,414	22,307	24,728	26,880
Provision for loan losses.....	(2,363)	(388)	10,297	8,120
Net interest income (expense) after provision for loan losses.....	(2,309)	(3,325)	(9,807)	(10,183)
Non-interest income.....	41,267	41,658	43,886	46,609
Non-interest expense.....	44,133	44,602	42,856	50,856
Distributions on Capital Securities.....	1,718	1,663	1,697	2,053
Income (loss) before income taxes.....	(6,893)	(7,932)	(10,474)	(16,483)
Minority interest in net loss of subsidiaries.....	--	--	--	--
Income taxes expense (benefit).....	--	65,000	10,967	7,033
Net income (loss).....	\$ (6,893)	\$ (72,932)	\$ (21,441)	\$ (23,516)
Earnings (loss) per share				
Basic and diluted.....	\$ (0.10)	\$ (1.08)	\$ (0.32)	\$ (0.35)

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## SHAREHOLDER INFORMATION

### Price Range of the Company's Common Stock

Our common stock is traded under the symbol "OCN" on the New York Stock Exchange ("NYSE"). The following table sets forth the high and low sales prices for our common stock, as traded on the NYSE:

	High	Low
	-----	-----
2002		
First quarter.....	\$ 8.48	\$ 6.47
Second quarter.....	7.50	5.31
Third quarter.....	5.80	2.67
Fourth quarter.....	3.05	2.28
2001		
First quarter.....	\$ 9.80	\$ 6.38
Second quarter.....	10.44	8.54
Third quarter.....	11.20	6.40
Fourth quarter.....	9.01	6.75

At the close of business on March 14, 2003, our common stock price was \$2.92.

We do not currently pay cash dividends on common stock and have no current plans to do so in the future. The timing and amount of future dividends, if any, will be determined by our Board of Directors and will depend, among other factors, upon our earnings, financial condition, cash requirements, the capital requirements of the Bank and other subsidiaries and investment

opportunities at the time any such payment is considered. In addition, the indentures relating to the Notes and the Junior Subordinated Debentures contain certain limitations on the payment of dividends by us.

As a holding company, the payment of any dividends by us will be significantly dependent on dividends and other payments received from our subsidiaries, including the Bank. For a description of limitations on our ability to pay dividends on our common stock and on the ability of the Bank to pay dividends, see Notes 16, 17 and 23 to our Consolidated Financial Statements.

#### Number of Holders of Common Stock

At March 14, 2003, 67,339,773 shares of our common stock were outstanding and held by approximately 1,267 holders of record. Such number of stockholders does not reflect the number of individuals or institutional investors holding our stock in nominee name through banks, brokerage firms and others.

## SIGNIFICANT DIRECT AND INDIRECT SUBSIDIARIES OF OCWEN FINANCIAL CORPORATION

Name	State of Organization
----	-----
Ocwen Federal Bank FSB	New Jersey
Ocwen Partnership, L.P.	Virginia
Ocwen Asset Investment Corp.	Florida
Ocwen General, Inc.	Virginia
Investors Mortgage Insurance Holding Company	Delaware
Ocwen Properties, Inc.	New York
Ocwen Capital Trust I	Delaware
Ocwen Asset Investment - UK, LLC	Delaware
Ocwen Technology Xchange, Inc.	Florida
Rocaille Acquisition Subsidiary, Inc.	Florida
Berkeley Realty Group, Inc	New Jersey
OAIC Halifax, LLC	Delaware
OAIC Jacksonville, LLC	Delaware
OAIC Mortgage Residential Holdings, LLC	Delaware
OAIC Commercial Assets, LLC	Florida
OAIC Financial Services, Inc.	Florida
AMOS, Inc	Connecticut
Residential Real Estate Solutions, Inc.	Florida

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 filed on January 27, 1998 (Registration No. 333-44999), Registration Statement on Form S-8 filed on August 25, 1998 (Registration No. 333-62217) and Registration Statement on Form S-3 filed on November 5, 1998 (Registration No. 333-64915) of Ocwen Financial Corporation of our report dated March 11, 2003 relating to the financial statements, which appears on page 70 of the 2002 Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP  
West Palm Beach, Florida  
March 28, 2003

POWER OF ATTORNEY

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KNOW ALL MEN BY THESE PRESENT, that each of the undersigned Directors of Ocwen Financial Corporation, a Florida corporation ("Corporation"), which is about to file with the Securities and Exchange Commission, Washington, D.C. 20549, under the provisions of the Securities Exchange Act of 1934, as amended, an Annual Report on Form 10-K ("Report") for the fiscal year ended December 31, 2002, hereby constitutes and appoints William C. Erbey as his true and lawful attorneys-in-fact and agents, and each of them with full power to act without the other in his stead, in any and all capacities, to sign the 2002 Annual Report of Ocwen Financial Corporation on Form 10-K and to file on behalf of the Corporation such Report and amendments with all exhibits thereto, and any and all other information and documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform any and all acts and things requisite and ratifying and confirming all that each said attorneys-in-fact and agents or any one of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands on the date indicated below:

Date: March 25, 2003	/s/ WILLIAM H. LACY ----- Name: William H. Lacy Title: Director
Date: March 25, 2003	/s/ THOMAS F. LEWIS ----- Name: Thomas F. Lewis Title: Director
Date: March 25, 2003	/s/ W. MICHAEL LINN ----- Name: W. Michael Linn Title: Director
Date: March 25, 2003	/s/ W. C. MARTIN ----- Name: W. C. Martin Title: Director
Date: March 25, 2003	/s/ HERBERT A. TASKER ----- Name: Herbert A. Tasker Title: Director
Date: March 25, 2003	/s/ BARRY N. WISH ----- Name: Barry N. Wish Title: Director

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

I, William C. Erbey, state and attest that:

- (1) I am the Chief Executive Officer of Ocwen Financial Corporation (the "Registrant").
- (2) I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
  - o the Annual Report on Form 10-K of the Registrant for the year ended December 31, 2002 (the "periodic report") containing financial statements fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
  - o the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ WILLIAM C. ERBEY  
-----  
Title: Chief Executive Officer  
Date: March 28, 2003

A signed original of this written statement required by Section 906 has been provided to Ocwen Financial Corporation and will be retained by Ocwen Financial Corporation and furnished to the Securities and Exchange Commission or its staff upon request.



CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

I, Mark S. Zeidman, state and attest that:

- (1) I am the Chief Financial Officer of Ocwen Financial Corporation (the "Registrant").
- (2) I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
  - o The Annual Report on Form 10-K of the Registrant for the year ended December 31, 2002 (the "periodic report") containing financial statements fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d); and
  - o the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ MARK S. ZEIDMAN  
-----  
Title: Chief Financial Officer  
Date: March 28, 2003

A signed original of this written statement required by Section 906 has been provided to Ocwen Financial Corporation and will be retained by Ocwen Financial Corporation and furnished to the Securities and Exchange Commission or its staff upon request.