

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

OR

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

Commission File No. 1-13219

OCWEN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Florida

65-0039856

(State or other jurisdiction
Of incorporation or organization)

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

1675 Palm Beach Lakes Boulevard, West Palm Beach, Florida 33401

(Address of principal executive offices) (Zip Code)

(561) 682-8000

(Registrant's telephone number, including area code)

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

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

Number of shares of Common Stock, \$0.01 par value, outstanding as of
November 5, 2004: 62,735,478 shares.

OCWEN FINANCIAL CORPORATION

FORM 10-Q

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PART I - FINANCIAL INFORMATION
ITEM 1. INTERIM FINANCIAL STATEMENTS (Unaudited)

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

	September 30, 2004	December 31, 2003
	-----	-----
ASSETS		
Cash and amounts due from depository institutions	\$ 189,446	\$ 215,764
Interest earning deposits	52,541	324
Trading securities, at fair value		
Investment grade securities	98,179	6,679
Subordinates and residuals	40,310	42,841
Real estate	68,480	103,943
Affordable housing properties	8,356	7,410
Loans, net	11,459	28,098
Match funded assets	108,328	130,087
Premises and equipment, net	39,000	41,944
Advances on loans and loans serviced for others	345,945	374,769
Mortgage servicing rights	135,319	166,495
Receivables	114,500	88,157
Other assets	73,623	33,607
	-----	-----
Total assets	\$ 1,285,486	\$ 1,240,118
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	\$ 412,117	\$ 446,388
Escrow deposits	146,074	116,444
Bonds - match funded agreements	97,712	115,394
Lines of credit and other secured borrowings	35,502	150,384
Debt securities	231,249	56,249
Accrued interest payable	3,083	4,789
Accrued expenses, payables and other liabilities	31,529	31,926
	-----	-----
Total liabilities	957,266	921,574
	-----	-----
Minority interest in subsidiaries	1,296	1,286
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY		
Common stock, \$.01 per value; 200,000,000 shares authorized; 62,719,552 and 67,467,220 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	627	675
Additional paid-in capital	181,071	225,559
Retained earnings	145,568	90,409
Accumulated other comprehensive income (loss), net of taxes	(342)	615
	-----	-----
Total stockholders' equity	326,924	317,258
	-----	-----
Total liabilities and stockholders' equity	\$ 1,285,486	\$ 1,240,118
	=====	=====

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

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

	Three Months		Nine Months	
For the periods ended September 30,	2004	2003	2004	2003
REVENUE				
Servicing and related fees	\$ 34,587	\$ 35,651	\$ 115,310	\$ 101,703
Vendor management fees	13,614	7,722	40,442	21,721
Gain (loss) on trading and match funded securities, net	(171)	159	1,688	2,924
Valuation gains (losses) on real estate	(165)	(686)	(3,990)	(6,695)
Gain (loss) on sales of real estate	311	316	(149)	408
Operating income (losses) from real estate	444	1,269	1,017	3,461
Gain (loss) on debt repurchases	--	(441)	--	(445)
Other income	4,995	2,852	16,599	5,550
Non-interest revenue	53,615	46,842	170,917	128,627
Interest income	4,988	4,071	15,555	17,826
Interest expense	7,141	10,823	22,040	29,554
Net interest income (expense) before provision for loan losses..	(2,153)	(6,752)	(6,485)	(11,728)
Provision for loan losses	(94)	415	(913)	(2,670)
Net interest income (expense) after provision for loan losses...	(2,059)	(7,167)	(5,572)	(9,058)
Total revenue	51,556	39,675	165,345	119,569
NON-INTEREST EXPENSE				
Compensation and employee benefits	21,300	17,667	64,229	52,505
Occupancy and equipment	3,981	3,254	11,999	8,769
Technology and communication costs	6,190	5,583	19,476	14,577
Loan expenses	6,885	3,835	22,272	10,836
Loss (gain) on investments in affordable housing properties	(100)	4	(179)	319
Professional services and regulatory fees	3,187	2,510	16,328	21,854
Other operating expenses	2,635	2,173	7,890	7,023
Non-interest expense	44,078	35,026	142,015	115,883
Distributions on Capital Securities	--	--	--	3,058
Income (loss) before minority interest and income taxes	7,478	4,649	23,330	628
Minority interest in net income (loss) of subsidiaries	18	28	(50)	(308)
Income tax expense (benefit)	(31,845)	6	(31,779)	618
Net income (loss)	\$ 39,305	\$ 4,615	\$ 55,159	\$ 318
EARNINGS (LOSS) PER SHARE				
Basic	\$ 0.61	\$ 0.07	\$ 0.83	\$ 0.005
Diluted	\$ 0.60	\$ 0.07	\$ 0.81	\$ 0.005
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	64,637,454	66,865,412	66,853,296	67,148,447
Diluted	65,813,457	67,880,310	68,146,122	67,864,096

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

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

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Net income (loss)	\$ 39,305	\$ 4,615	\$ 55,159	\$ 318
Other comprehensive income (loss), net of taxes:				
Change in unrealized foreign currency translation adjustment arising during the period (1)	43	(294)	(957)	221
Comprehensive income (loss)	\$ 39,348	\$ 4,321	\$ 54,202	\$ 539
	=====	=====	=====	=====

(1) Net of tax benefit (expense) of \$181 and \$(149) for the three months ended September 30, 2004 and 2003, respectively, and \$769 and \$(201) for the nine months ended September 30, 2004 and 2003, respectively.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004
(Dollars in thousands)

	Common Stock		Additional	Retained	Accumulated	
	Shares	Amount	Paid-in	Earnings	Other	Total
	-----	-----	-----	-----	Income (loss),	-----
			Capital		Net of Taxes	
Balances at December 31, 2003	67,467,220	\$ 675	\$ 225,559	\$ 90,409	\$ 615	\$ 317,258
Net income	--	--	--	55,159	--	55,159
Issuance of restricted common stock to directors and employees	210,098	2	712	--	--	714
Exercise of common stock options	523,334	5	4,194	--	--	4,199
Repurchase of common stock	(5,481,100)	(55)	(49,394)	--	--	(49,449)
Other comprehensive loss, net of taxes	--	--	--	--	(957)	(957)
Balances at September 30, 2004	62,719,552	\$ 627	\$ 181,071	\$ 145,568	\$ (342)	\$ 326,924
	=====	=====	=====	=====	=====	=====

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

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

For the nine months ended September 30,	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 55,159	\$ 318
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Net cash provided by trading activities	(87,084)	20,474
Premium amortization (discount accretion) on securities, net	(1,608)	1,847
Amortization of servicing rights	71,173	68,677
Depreciation and other amortization	10,354	10,069
Provision for loan losses	(913)	(2,670)
Valuation (gains) losses on real estate	3,990	6,695
(Gain) loss on trading and match funded securities	(1,688)	(2,924)
(Gain) loss on sale of real estate	149	(408)
(Gain) loss on repurchases of debt	--	445
(Increase) decrease in advances and match funded advances on loans and loans serviced for other	28,457	(109,808)
(Increase) decrease in receivables and other assets, net	(66,359)	(326)
Increase (decrease) in accrued expense, interest payable and other liabilities, net	(2,103)	2,910
Other, net	(1,891)	3,878
Net cash provided (used) by operating activities	7,636	(823)
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal payments received on match funded loans	7,559	10,991
Acquisitions of match funded loans	(7,119)	--
Proceeds from sale of match funded loans	21,592	--
Proceeds from sale of affordable housing properties	327	2,245
Proceeds from sale of loans	--	30,347
Purchase of mortgage servicing rights	(39,997)	(78,971)
Principal payments received on loans	29,661	28,166
Purchases, originations and funded commitments of loans, net	(16,007)	(6,225)
Capital improvements to real estate	(2,536)	(5,357)
Proceeds from sale of real estate	18,910	10,024
Additions to premises and equipment	(6,166)	(9,195)
Acquisition of subsidiary	1,376	--
Net cash provided (used) by investing activities	7,600	(17,975)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in deposits and escrow deposits	(4,641)	48,961
Proceeds from (repayment of) lines of credit and other secured borrowings, net	(94,882)	94,000
Proceeds from (repayment of) bonds - match funded agreements, net	(17,682)	(33,286)
Issuance of notes	175,000	--
Repurchase and repayment of notes and subordinated debentures	--	(33,945)
Exercise of common stock options	2,317	15
Repurchase of common stock	(49,449)	(2,262)
Net cash provided (used) by financing activities	10,663	73,483
Net increase (decrease) in cash and cash equivalents	25,899	54,685
Cash and cash equivalents at beginning of period	216,088	192,247
Cash and cash equivalents at end of period	\$ 241,987	\$ 246,932

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

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

For the nine months ended September 30,	2004	2003
-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and amounts due from depository institutions	\$ 189,446	\$ 118,820
Interest-earning deposits	52,541	28,112
Federal funds sold and repurchase agreements	--	100,000
	-----	-----
	\$ 241,987	\$ 246,932
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for		
Interest	\$ 23,746	\$ 30,164
	=====	=====
Income tax refunds (payments)	\$ 1	\$ (688)
	=====	=====
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Assumption of line of credit by purchaser of real estate	\$ 20,000	\$ --
	=====	=====
ACQUISITION OF BUSINESSES		
Estimated fair value of assets acquired (1)	\$ (20,986)	\$ --
Estimated fair value of liabilities assumed	10,743	--
	-----	-----
Cash paid	(10,243)	--
Less cash acquired	11,619	--
	-----	-----
Net cash acquired (paid) for assets	\$ 1,376	\$ --
	=====	=====

(1) Including goodwill of approximately \$6,100 resulting from the acquisition. See Note 9.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(Dollars in thousands)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements. Ocwen Financial Corporation's ("OCN") interim consolidated financial statements include the accounts of OCN and its subsidiaries. OCN owns directly and indirectly all of the outstanding common and preferred stock of its primary subsidiaries, Ocwen Federal Bank FSB (the "Bank"), Investors Mortgage Insurance Holding Company, Ocwen Technology Xchange, Inc. ("OTX"), Ocwen Asset Investment Corp. ("OAC") and Ocwen Financial Solutions, Private Limited ("India"). OCN also owns 70% of Global Servicing Solutions, LLC ("GSS") with the remaining 30% minority interest held by ML IBK Positions, Inc. ("Merrill Lynch"). We have eliminated all significant intercompany transactions and balances in consolidation.

In our opinion, the accompanying unaudited financial statements contain all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of our financial condition at September 30, 2004 and December 31, 2003, the results of our operations for the three and nine months ended September 30, 2004 and 2003, our comprehensive income (loss) for the three and nine months ended September 30, 2004 and 2003, our changes in stockholders' equity for the nine months ended September 30, 2004 and our cash flows for the nine months ended September 30, 2004 and 2003. The results of operations and other data for the three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for any other interim periods or the entire year ending December 31, 2004. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2003. Certain reclassifications have been made to the prior periods' interim consolidated financial statements to conform to the September 30, 2004 presentation.

In preparing the consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the statements of financial condition and revenues and expenses for the periods covered. Material estimates that are particularly significant in the near or medium term relate to our determination of allowances for loans, servicing advances, and receivables, as well as our valuation of securities, real estate, affordable housing properties, servicing rights, intangibles and deferred tax assets. Actual results could differ from those estimates and assumptions.

NOTE 2 CURRENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). 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 certain cases. The factors to be considered in making this determination include the adequacy of the equity of the entity and the nature of the risks, rights and rewards of the equity investors in the entity. The Interpretation applied immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. Due to significant implementation concerns, the FASB modified the wording of FIN 46 and issued FIN 46R in December of 2003. FIN 46R deferred the effective date for the provisions of FIN 46 to entities other than Special Purpose Entities ("SPEs") until financial statements are issued for periods ending after March 15, 2004. SPEs are subject to the provisions of either FIN 46 or FIN 46R as of December 15, 2003. This Interpretation does not have a material impact on our financial statements.

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

EITF Issue 04-8 will have an impact on our diluted earnings per share computations because of the \$175,000 of 3.25% Contingent Convertible Senior Unsecured Notes we issued on July 28, 2004 (see Note 3 below). Beginning with our 2004 annual financial statements, we will include the potential shares of stock associated with our contingently convertible debt in diluted earnings per share computations (if dilutive) using the if-converted method regardless of whether any of the contingent features have been met. For the three and nine months ended September 30, 2004, we have excluded the potential shares of stock associated with our contingently convertible debt from diluted earnings per share computations in accordance with accounting guidance currently in effect. Had we included the potential shares of stock associated with our contingently convertible debt, diluted earnings per share for the three and nine months ended

September 30, 2004 would have been \$0.53 and \$0.79, respectively, a decrease of \$0.07 and \$0.02, respectively, from reported diluted earnings per share.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2004
(Dollars in thousands)

NOTE 3 DEBT SECURITIES

Convertible Notes. On July 28, 2004, OCN issued \$175,000 aggregate principal amount of 3.25% Contingent Convertible Senior Unsecured Notes due 2024 ("Convertible Notes") in a private placement under the Securities Act of 1933, as amended. The Convertible Notes are senior unsecured obligations of Ocwen Financial Corporation and bear interest at the rate of 3.25% per year. Interest is payable on February 1 and August 1 of each year, beginning on February 1, 2005. The Convertible Notes will mature on August 1, 2024.

Holders may convert all or a portion of their notes into shares of our common stock under the following circumstances: (1) at any time during any calendar quarter commencing after September 30, 2004, if the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the calendar quarter prior to such quarter is greater than 125% of the conversion price per share of common stock on such last day; (2) subject to certain exceptions, during the five business day period after any five-consecutive-trading-day period in which the trading price per \$1 principal amount of the notes for each day of the five-consecutive-trading-day period was less than 98% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of \$1 principal amount of the notes; (3) if the notes have been called for redemption; (4) upon the occurrence of specified corporate transactions; or (5) if we elect at our sole discretion to permit conversion following the implementation of EITF Issue 04-8.

The conversion rate will be 82.1693 shares of our common stock per \$1 principal amount of the notes, subject to adjustment. Events that may cause the conversion rate to be adjusted, as more fully described in the related indenture agreement, primarily relate to cash dividends or other distributions to holders of our common stock. Upon conversion, we may at our option choose to deliver, in lieu of our common stock, cash or a combination of cash and common stock as described herein.

Beginning August 1, 2009, we may redeem all or a portion of the notes for cash for a price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest, if any.

Holders may require us to repurchase all or a portion of their notes for cash on August 1, 2009, August 1, 2014, and August 1, 2019 or upon the occurrence of a "fundamental change" at a repurchase price equal to 100% of the principal amount of the notes to be repurchased plus accrued and unpaid interest, if any. A "fundamental change", as further defined in the indenture agreement, is deemed to have occurred upon a change of control or a termination of trading in our common stock.

In connection with our issuance of the Convertible Notes, we incurred certain costs that we capitalized and are amortizing over the period from the date of issuance to August 1, 2009, the first date at which holders may require us to repurchase their notes. The unamortized balance of these issuance costs amounted to approximately \$5,800 at September 30, 2004.

In privately negotiated transactions concurrent with the private placement of the Convertible Notes, we used 25% of the gross proceeds from the sale of the Convertible Notes to repurchase 4,850,000 shares of our common stock at a price of \$9.02 per share. We used the remaining proceeds, net of underwriting discount and other expenses, primarily to repay maturing deposits and other liabilities, to increase our cash and to invest in short-term AAA-rated securities.

Capital Securities. In August 1997, Ocwen Capital Trust ("OCT") issued \$125,000 of 10.875% Capital Securities (the "Capital Securities"). OCT invested the proceeds from issuance of the Capital Securities in 10.875% Junior Subordinated Debentures issued by OCN. The Junior Subordinated Debentures, which represent the sole assets of OCT, will mature on August 1, 2027. Prior to our adoption of SFAS No. 150 on July 1, 2003, we presented the Capital Securities in a separate caption between liabilities and stockholders' equity in our consolidated statement of financial condition as "Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely Junior Subordinated Debentures of the Company", and distributions on the Capital Securities were reported in a separate caption immediately following non-interest expense in our consolidated statement of operations. Effective with our adoption of SFAS No. 150, the Capital Securities are presented as a liability in the consolidated statement of financial condition as a component of notes. At the same time, we began reporting distributions of the Capital Securities as a component of interest expense in the consolidated statement of operations.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2004
(Dollars in thousands)

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 per Capital Security. OCN guarantees payment of distributions out of moneys held by OCT, and payments on liquidation of OCT or the redemption of Capital Securities, to the extent OCT has funds available. If Ocwen Financial Corporation does not make principal or interest payments on the Junior Subordinated Debentures, OCT will not have sufficient funds to make distributions on the Capital Securities, in which event the guarantee shall not apply to such distributions until OCT has sufficient funds available therefore. Distributions on Capital Securities amounted to \$1,529 in the third quarter of both 2004 and 2003 (\$4,587 for the year to date periods). Accumulated distributions payable on the Capital Securities amounted to \$1,020 and \$2,549 at September 30, 2004 and December 31, 2003, 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 and dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, their capital stock of (ii) make any payment of principal, interest or premium, if any, on or repay, repurchase or redeem any debt securities that rank pari passu with or junior to the Junior Subordinated Debentures. During an extension period, interest on the Junior Subordinated Debentures will continue to accrue at the rate of 10.875% per annum, compounded semiannually.

We may redeem the Junior Subordinated Debentures before maturity at our option, subject to the receipt of any necessary prior regulatory approval, (i) in whole or in part on or after August 1, 2007, at a redemption price equal to 105.438% of the principal amount 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.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2004
(Dollars in thousands)

NOTE 4 FOREIGN CURRENCY EXCHANGE RATE RISK MANAGEMENT

We have entered into foreign currency derivatives to hedge our investments in foreign subsidiaries that own residual interests backed by residential loans originated in the UK ("UK residuals") and a 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 the Nova Scotia Shopping Center is the functional currency. Our foreign currency derivative financial instruments were designated as hedges. Accordingly, we include the gains or losses in the net unrealized foreign currency translation in accumulated other comprehensive income in stockholders' equity. The following table sets forth the terms and values of these foreign currency financial instruments at September 30, 2004 and December 31, 2003:

	Position	Maturity	Notional Amount		Strike Rate	Fair Value

September 30, 2004						

Canadian Dollar currency futures	Short	December 2004	C\$	13,000	0.7713	\$ (269)
British Pound currency futures	Short	December 2004	(POUND)	17,500	1.7690	(583)

						\$ (852)
						=====
December 31, 2003						

Canadian Dollar currency futures	Short	June 2004	C\$	10,000	0.7660	\$ (34)
British Pound currency futures	Short	June 2004	(POUND)	16,500	1.7292	(737)

						\$ (771)
						=====

Because foreign currency futures contracts are exchange traded, holders of these instruments look to the exchange for performance under these contracts and not the entity holding the offsetting futures contract, thereby minimizing the risk of nonperformance under these contracts. The notional principal amount does not represent our exposure to credit loss.

NOTE 5 REGULATORY REQUIREMENTS

The Bank, as a federal savings bank organized under the Home Owners' Loan Act, and OCN, as a registered savings and loan holding company under the Act, are subject to extensive federal and state regulation under the Act and other federal and state laws. Our primary regulatory authority is the U.S. Office of Thrift Supervision ("OTS"). As such, the OTS periodically conducts an examination of the Bank and its business practices.

On April 19, 2004, the Bank and the OTS entered into a Supervisory Agreement (the "Agreement"). The Agreement memorializes various loan servicing and customer service practices, some of which the Bank had previously adopted and some of which it has implemented on a going-forward basis. Under the Agreement, the Bank will continue to maintain and further develop its Office of Consumer Ombudsman, an initiative implemented effective January 1, 2004. The Agreement acknowledges that the Bank no longer assesses delinquent borrower attorneys' fees for issuing notices of default. Beginning with the effective date of the Agreement, the Bank will no longer charge delinquent borrowers a fee for providing forbearance plans in lieu of foreclosures. The Agreement also establishes the procedures to be followed to determine whether appropriate hazard insurance is in place before placing insurance on behalf of the borrower. Those procedures include some already implemented by the Bank, as well as new requirements, including that the second notice shall be sent to borrowers by certified mail. The Bank will not place the borrower's loan in default, assess fees or initiate foreclosure proceedings solely due to the borrower's nonpayment of insurance premiums. The Agreement also provides that the Bank agrees "to utilize best efforts" to provide borrowers or their agents pay-off quotes within five business days and sets forth new guidelines regarding documentation of charges on such pay-off quotes.

The Bank also is required to meet a number of deadlines and submit reports relating to its implementation of the Agreement. While we do not expect that compliance with the Agreement will have a material adverse impact on our financial condition, results of operations or cash flows, we do not know whether the OTS or other regulatory agencies will seek to implement additional measures relating to the Bank's servicing practices, including with respect to the matters that are the subject of the Agreement. Accordingly, there can be no assurance that any such measures, if implemented, would not have a material adverse effect on our financial condition, results of operations or cash flows.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2004
(Dollars in thousands)

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 and the regulations promulgated thereunder established certain minimum levels of regulatory capital for savings institutions subject to regulation by the OTS. As a federally chartered savings bank regulated by the OTS, the bank must follow specific capital guidelines stipulated by the OTS. These guidelines involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items. An institution that fails to comply with its regulatory capital requirements must obtain OTS approval of a capital plan and can be subject to a capital directive and certain restrictions on its operations.

At September 30, 2004, the Bank was "well capitalized" under the prompt corrective action regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991. To be categorized as "well capitalized", the Bank must maintain minimum core capital, Tier 1 risk-based capital and risk-based capital ratios as set forth in the following table. The Bank's capital amounts and classification are subject to review by federal regulators regarding components, risk-weightings and other factors. There are no conditions or events since September 30, 2004 that we believe have changed the Bank's category.

Since 1997, the Bank has committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9.00% and 13.00%, respectively. The Bank continues to be in compliance with this commitment as well as with the regulatory capital requirements of general applicability (as indicated in the table below). In addition during 2002, we committed to maintain our investment in mortgage servicing rights at approximately 50% of stockholders' equity on a consolidated basis and 60% of core capital (before any deduction thereto for mortgage servicing rights) at the Bank. On a consolidated basis, our investment in mortgage servicing rights is below the committed level and represented 41% of stockholder's equity at September 30, 2004. At the Bank, mortgage servicing rights are also below the committed level, amounting to 46% of core capital at September 30, 2004.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2004
(Dollars in thousands)

The following table summarized the Bank's actual and required regulatory capital at September 30, 2004:

	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
Shareholders' equity, and ratio to total assets	21.97%	\$ 200,987					
Disallowed mortgage servicing rights		(8,117)					
Disallowed deferred tax assets		(21,639)					
Non-includable subsidiary		(807)					
Intangible assets (1)		(2,866)					
Tier 1 (core) capital and ratio to adjusted total assets	19.01%	167,558	4.00%	\$ 35,258	5.00%	\$ 44,072	9.00%
Non-mortgage servicing rights		(1,217)					
Tangible capital and ratio to tangible assets.....	18.90%	\$ 166,341	1.50%	\$ 13,203			
Tier 1 capital and ratio to risk-weighted assets.....	25.44%	\$ 167,558			6.00%	\$ 39,524	
Tier 2 capital - Allowance for loan losses		4,653					
Real estate required to be deducted (2)		(44,169)					
Total risk-based capital and ratio to risk-weighted assets	19.44%	\$ 128,042	8.00%	\$ 52,698	10.00%	\$ 65,873	13.00%
Total regulatory assets		\$ 914,889					
Adjusted total assets		\$ 881,444					
Tangible assets		\$ 880,227					
Risk-weighted assets		\$ 658,728					

(1) Unamortized balance of computer software.

(2) Retail shopping mall, which we originally acquired in satisfaction of a debt and have held in excess of five years. This property was subsequently sold in a transaction which closed in November 2004.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2004
(Dollars in thousands)

NOTE 6 NET INTEREST INCOME (EXPENSE) BEFORE PROVISION FOR LOAN LOSSES

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Interest income:				
Interest earning cash and other	\$ 371	\$ 79	\$ 709	\$ 224
Federal funds sold and repurchase agreements	677	341	1,420	1,078
Trading securities	3,447	2,748	11,000	12,372
Loans	221	213	1,391	1,321
Match funded loans and securities	272	690	1,035	2,831
	4,988	4,071	15,555	17,826
Interest expense:				
Deposits	3,124	4,009	10,839	13,408
Securities sold under agreements to repurchase	--	--	--	3
Bonds - match funded agreements	1,143	1,075	3,239	3,640
Lines of credit and other secured borrowings	148	1,927	2,178	4,103
Notes and debentures	2,726	3,812	5,784	8,400
	7,141	10,823	22,040	29,554
Net interest income (expense) before provision for loan losses	\$ (2,153)	\$ (6,752)	\$ (6,485)	\$ (11,728)

NOTE 7 INCOME TAX EXPENSE (BENEFIT)

The following table provides details of our income tax expense (benefit) for the periods indicated:

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Income tax expense (benefit) on income (loss) before taxes	\$ 3,074	\$ 1,035	\$ 7,350	\$ (957)
Provision for valuation allowance on current year's deferred tax asset	2,066	(1,029)	(2,144)	1,575
	5,140	6	5,206	618
Partial reversal of valuation allowance on prior year's deferred tax asset	(36,985)	--	(36,985)	--
Total income tax expense (benefit)	\$ (31,845)	\$ 6	\$ (31,779)	\$ 618

The \$36,985 reduction in the valuation allowance on the prior year's deferred tax asset is a result of refund claims filed with the IRS that reduced our gross deferred tax asset and increased our income tax receivable balance by the same amount. These refund claims, which were affirmed in writing by the IRS agent during the third quarter of 2004, arose because of changes in the tax law that allowed us to carry back net operating losses from 2001 and 2002 to taxes paid in earlier years. Reversal of all or a portion of the remaining valuation allowance, which amounted to \$162,314 at September 30, 2004, may occur in the future based on the results of our operations. The provision for deferred tax asset valuation allowance is a non-cash charge that we recorded to increase the aggregate valuation allowance. We estimated this valuation allowance based on our assessment of the portion of the deferred tax asset that will more likely than not be realized.

Excluding foreign taxes, non-economic tax residual payments and the valuation allowance reduction, our federal effective tax rate was 20% and (162)% for the year to date periods of 2004 and 2003, respectively, and reflected tax credits of \$3,507 and \$1,795, respectively. Although we have substantial unused tax credits available to reduce the liability arising from income taxes on our current year income, tax credits can be used to reduce income tax expense only to the corporate alternative minimum tax rate of 20% of taxable income.

NOTE 8 BUSINESS SEGMENT REPORTING

An operating segment is defined as a component of an enterprise (a) that engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available. A brief description of our segments follows.

Core Businesses

- . Residential Loan Servicing. Through this business, we provide for a fee, loan servicing, including asset management and resolution services, to third party owners of subprime residential mortgage and "high loan-to-value loans". We acquire the rights to service loans by purchasing them outright or by entering into sub-servicing contracts.
- . OTX. Through this segment we provide technology solutions for the mortgage and real estate industries. OTX products include a residential loan servicing system (REALServicing(TM)), a commercial loan servicing system (REALSynergy(TM)) and an internet-based mortgage loan processing application and vendor management system (REALTrans(TM)).
- . Ocwen Realty Advisors (ORA). Through ORA we provide residential property valuation services to external customers in the wholesale lending community as well as for our own residential real estate transactions.
- . Ocwen Recovery Group (formerly Unsecured Collections). This business conducts collection activities for third party owners of unsecured receivables and for a portfolio of unsecured credit card receivables that we acquired at a discount in 1999 and 2000.
- . Business Process Outsourcing. This business segment began operation in December 2002. Business Process Outsourcing provides outsourcing services, including data processing, call center maintenance, mortgage research and others, to third parties and leverages the operational capacity of our facilities in India.
- . Commercial Servicing. This segment now includes the results of both our domestic and international servicing of commercial assets, including commercial real estate loans, corporate loans and unsecured loans. Previously, domestic commercial servicing was included as a component of the Commercial Finance Segment, and the results of our international operations were reported as a separate segment. International servicing is conducted through GSS, our joint servicing venture with Merrill Lynch.

Non-Core Businesses

- . Commercial Assets. This segment comprised operations to acquire sub-performing commercial loans at a discount, as well as operations to invest in and reposition under-performing real estate assets. No assets have been acquired since 2000. Since then, this business has consisted of the management, repositioning and resolution of the remaining loan and real estate assets.
- . Affordable Housing. Includes our investments, primarily through limited partnerships, in qualified low-income rental housing for the purpose of obtaining Federal income tax credits pursuant to Section 42 of the Internal Revenue Code of 1986, as amended. Except to complete those projects in which an investment had already been made, we ceased making investments in properties in 2000.
- . Subprime Finance. In August 1999, we closed our domestic subprime origination business. Previously, activities of this segment included our acquisition and origination of single-family residential loans to non-conforming borrowers. We have continued to manage and resolve the remaining non-core assets, which consist primarily of unrated single-family subprime residual securities.

Corporate Items and Other

This segment includes business activities that are individually insignificant, interest income on cash and cash equivalents, interest expense on corporate assets, gains and losses from debt repurchases and general corporate expenses.

We allocate interest income and expense to each business segment for the investment of funds raised or funding of investments made. We also make allocations of non-interest expense generated by corporate support services to each business segment.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2004
(Dollars in thousands)

Financial information for our segments is as follows for the dates indicated:

	Total Assets	
	September 30, 2004	December 31, 2003
-----	-----	-----
Core businesses:		
Residential Loan Servicing	\$ 641,186	\$ 672,779
OTX	5,636	5,290
Ocwen Realty Advisors	3,540	1,056
Ocwen Recovery Group	425	323
Business Process Outsourcing	2,161	1,010
Commercial Servicing	9,232	5,241
	-----	-----
	662,180	685,699
	-----	-----
Non-core businesses:		
Commercial Assets	81,219	133,015
Affordable Housing	37,382	48,974
Subprime Finance	35,927	39,162
	-----	-----
	154,528	221,151
	-----	-----
Corporate Items and Other	468,778	333,268
	-----	-----
	\$ 1,285,486	\$ 1,240,118
	=====	=====

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

	Non-Core Assets	
	September 30, 2004	December 31, 2003
-----	-----	-----
Non-core businesses:		
Commercial Assets	\$ 78,627	\$ 126,401
Affordable Housing	12,020	13,955
Subprime Finance	35,909	38,973
Corporate Items and Other	2,049	2,963
	-----	-----
	\$ 128,605	\$ 182,292
	=====	=====

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2004
(Dollars in thousands)

	Non-Interest Revenue	Net Interest Income (Expense)	Provision for Loan Losses	Non-Interest Expense	Pre-Tax Income (Loss) (1)

For the three months ended September 30, 2004					

Core businesses:					
Residential Loan Servicing	\$ 29,438	\$ (4,238)	\$ --	\$ 21,820	\$ 3,380
OTX	2,959	--	--	5,092	(2,133)
Ocwen Realty Advisors	7,042	(21)	--	5,542	1,478
Ocwen Recovery Group	3,299	--	--	2,591	708
Business Process Outsourcing	2,551	(6)	--	1,858	687
Commercial Servicing	3,334	(4)	--	3,267	63
	-----	-----	-----	-----	-----
	48,623	(4,269)	--	40,170	4,183
	-----	-----	-----	-----	-----
Non-core businesses:					
Commercial Assets	(259)	(378)	--	1,208	(1,845)
Affordable Housing	--	(356)	1	531	(888)
Subprime Finance	(241)	2,818	--	462	2,116
	-----	-----	-----	-----	-----
	(500)	2,084	1	2,201	(617)
	-----	-----	-----	-----	-----
Corporate Items and Other	5,492	32	(95)	1,707	3,912
	-----	-----	-----	-----	-----
	\$ 53,615	\$ (2,153)	\$ (94)	\$ 44,078	\$ 7,478
	=====	=====	=====	=====	=====
For the three months ended September 30, 2003					

Core businesses:					
Residential Loan Servicing	\$ 30,292	\$ (5,300)	\$ --	\$ 16,832	\$ 8,159
OTX	2,891	--	--	5,244	(2,353)
Ocwen Realty Advisors	4,687	(5)	--	3,526	1,156
Ocwen Recovery Group	2,952	--	--	1,812	1,140
Business Process Outsourcing	1,877	(2)	--	872	1,004
Commercial Servicing	1,477	(17)	--	2,571	(1,111)
	-----	-----	-----	-----	-----
	44,176	(5,324)	--	30,857	7,995
	-----	-----	-----	-----	-----
Non-core businesses:					
Commercial Assets	1,165	(1,853)	393	943	(2,025)
Affordable Housing	1,385	(630)	1	757	(3)
Subprime Finance	107	2,007	--	395	1,720
	-----	-----	-----	-----	-----
	2,657	(476)	394	2,095	(308)
	-----	-----	-----	-----	-----
Corporate Items and Other	9	(952)	21	2,074	(3,038)
	-----	-----	-----	-----	-----
	\$ 46,842	\$ (6,752)	\$ 415	\$ 35,026	\$ 4,649
	=====	=====	=====	=====	=====

(1) Income (loss) before minority interest and income taxes.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2004
(Dollars in thousands)

	Non-Interest Revenue	Net Interest Income (Expense)	Provision for Loan Losses	Non-Interest Expense	Pre-Tax Income (Loss) (1)

For the three months ended September 30, 2004					

Core businesses:					
Residential Loan Servicing	\$ 98,278	\$ (14,777)	\$ --	\$ 69,738	\$ 13,763
OTX	12,846	--	--	15,216	(2,370)
Ocwen Realty Advisors	23,638	(46)	--	18,580	5,013
Ocwen Recovery Group	9,958	--	--	6,959	2,998
Business Process Outsourcing	6,899	(14)	--	5,094	1,791
Commercial Servicing	10,302	(6)	--	10,236	60
	-----	-----	-----	-----	-----
	161,921	(14,843)	--	125,823	21,255
	-----	-----	-----	-----	-----
Non-core businesses:					
Commercial Assets	(2,302)	(159)	(764)	3,198	(4,895)
Affordable Housing	17	(1,238)	(28)	1,853	(3,047)
Subprime Finance	1,043	8,809	--	1,610	8,243
	-----	-----	-----	-----	-----
	(1,242)	7,412	(792)	6,661	301
	-----	-----	-----	-----	-----
Corporate Items and Other	10,238	946	(121)	9,531	1,774
	-----	-----	-----	-----	-----
	\$ 170,917	\$ (6,485)	\$ (913)	\$ 142,015	\$ 23,330
	=====	=====	=====	=====	=====
For the nine months ended September 30, 2003					

Core businesses:					
Residential Loan Servicing	\$ 89,685	\$ (15,125)	\$ --	\$ 48,752	\$ 25,808
OTX	7,898	--	--	16,224	(8,327)
Ocwen Realty Advisors	13,414	(14)	--	9,634	3,766
Ocwen Recovery Group	8,457	--	--	5,035	3,422
Business Process Outsourcing	2,629	(2)	--	1,620	1,007
Commercial Servicing	4,412	(50)	--	7,638	(3,276)
	-----	-----	-----	-----	-----
	126,495	(15,191)	--	88,903	22,400
	-----	-----	-----	-----	-----
Non-core businesses:					
Commercial Assets	(2,256)	(6,250)	(3,064)	3,251	(8,692)
Affordable Housing	1,530	(2,278)	149	2,710	(3,608)
Subprime Finance	2,570	10,867	--	13,417	20
	-----	-----	-----	-----	-----
	1,844	2,339	(2,915)	19,378	(12,280)
	-----	-----	-----	-----	-----
Corporate Items and Other	288	1,124	245	7,602	(9,492)
	-----	-----	-----	-----	-----
	\$ 128,627	\$ (11,728)	\$ (2,670)	\$ 115,883	\$ 628
	=====	=====	=====	=====	=====

(1) Income (loss) before minority interest and income taxes.

NOTE 9 ACQUISITION

On September 30, 2004, we acquired Bankhaus Oswald Kruber KG ("BOK") for the U.S. dollar equivalent of \$9,015 (7,250 euros), plus acquisition costs. The initial purchase price is subject to final adjustment. BOK holds a universal banking license issued by the German Federal Financial Supervisory Agency and is a member of the German Deposit Protection Fund and the Association of Private German Banks. BOK, which is headquartered in Berlin, with a branch office in Frankfurt, was established in 1924. Our preliminary estimate of the excess of the purchase price over the fair value of the net assets acquired (goodwill) related to this transaction is approximately \$6,100. The purchase price information as disclosed may subsequently be adjusted to reflect changes in the purchase price and allocations thereof. The net assets acquired consisted primarily of cash and cash equivalents and receivables, net of customer deposits.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2004
(Dollars in thousands)

NOTE 10 COMMITMENTS AND CONTINGENCIES

OCN and certain of its affiliates, including the Bank, have been named as defendants in a number of purported class action lawsuits challenging the Bank's mortgage servicing practices. The lawsuits allege that the defendants violated federal and state statutes, including the federal Real Estate Settlement Procedures Act, Fair Debt Collection Practices Act and state deceptive trade practices statutes, and assert common law claims. The lawsuits seek actual and punitive damages, and injunctive and other relief. These lawsuits have been consolidated into a single proceeding before the United States District Court for the Northern District of Illinois, under caption styled: In re Ocwen Federal Bank FSB Mortgage Servicing Litigation, MDL Docket No. 1604. The consolidated action is at an early stage of proceedings, and the court has not yet considered a motion for class certification. We are defending and intend to continue to defend the consolidated action vigorously. While the outcome of litigation is always uncertain, we believe that we have meritorious legal and factual defenses to all of the claims in the consolidated action.

On July 9, 2004, a jury rendered a verdict of \$9,320, which included both actual and punitive components, against Ocwen, the Bank and OTX in litigation brought by Cartel Asset Management, Inc. ("Cartel") in federal court in Denver, Colorado. Cartel alleged trade secret and contract-related claims arising out of real estate valuation services performed from 1997 through the first quarter of 2001, at which time we ceased doing business with Cartel. On July 16, 2004, the judge in the Cartel litigation ordered a new trial on damages on the ground that the testimony of plaintiff's damages expert should have been, but was not, excluded. On November 3, 2004, the judge reversed his prior order requiring a new trial on damages and instead entered a final judgment with a reduced damage award to Cartel of \$520. The judge also reduced Cartel's request for attorneys' fees from \$570 to \$170. It is not known whether Cartel intends to appeal the trial judge's rulings. We are currently considering issues for a possible appeal or cross-appeal. The lawsuit does not involve challenges to our core Residential Loan Servicing business practices.

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars in thousand, except share data)

GENERAL

OCN is a diversified financial services company with headquarters in West Palm Beach, Florida, and a presence in Canada, China, Germany, India, Japan and Taiwan. We are engaged in a variety of businesses related to residential and commercial mortgage servicing, real estate asset management, asset recovery, global outsourcing and the marketing and sales of technology solutions to third parties.

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 to execute a 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 invest in assets in certain of our business segments ("non-core businesses") unless we were contractually committed to do so. However, we continue actively to manage and resolve the remaining assets in these segments. As of September 30, 2004, our core and non-core businesses were as follows:

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

In addition to our business segments, we use our Corporate Items and Other segment to account for certain items of revenue and expense that are not directly related to a business unit. We include in our Corporate Items and Other segment interest income on cash and cash equivalents, interest expense on corporate assets, gains and losses from debt repurchases and general corporate expenses.

Principal Risk Factors. We included a discussion of the principal risk factors that relate to our businesses and may affect future results on pages 14 through 17 of Management's Discussion and Analysis of Operations and Financial Conditions in our Annual Report on Form 10-K for the year ended December 31, 2003.

Critical Accounting Policies. Our strategies to exit non-core businesses and expand our 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, and an understanding of these policies is fundamental to understanding Management's Discussion and Analysis of Results of Operations and Financial Condition. We summarize our more subjective and complex accounting policies as they relate to our overall business strategy on pages 17 and 18 of Management's Discussion and Analysis of Results of Operations and Financial Condition in our Annual Report on Form 10-K for the year ended December 31, 2003. We discuss our significant accounting policies in detail in Note 1 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2003.

BANKING OPERATIONS

The Bank operates one bank branch in Fort Lee, New Jersey. This location, which provides most of our retail banking services, is primarily focused on the issuance of retail certificates of deposit that currently serve as a source of financing for us. We do not conduct loan origination activities in the Fort Lee branch.

We currently operate several of our core businesses primarily in the Bank: Residential Loan Servicing, ORA, the domestic operations of Commercial Servicing and portions of Ocwen Recovery Group. In addition, our non-core Affordable Housing business operates in the Bank, as does a portion of our non-core Commercial Assets business.

As described in Note 5 to our Interim Consolidated Financial Statements, we have committed to the OTS to maintain our investment in mortgage servicing rights at approximately 60% of core capital at the Bank (before any deduction thereto for mortgage servicing rights) and 50% of stockholders' equity on a consolidated basis. These commitments effectively limit the size of our Residential Loan Servicing business. Consistent with our strategy of growing that business, we are currently exploring the possibility of the Bank terminating its status as a federal savings bank under OTS and FDIC supervision, which would, among other things, eliminate these restrictions on our growth. If we were to go forward with this process, which we refer to as "debanking," we would dissolve the Bank and continue its non-depository businesses, including its mortgage servicing business, under another subsidiary of our company, which would be licensed where necessary at the state level. Should debanking occur, we would no longer be a savings-and-loan holding company and would no longer be able to take deposits in the United States or benefit from federal preemption.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

No final determination has yet been made with respect to whether we will pursue this strategy. Were we to decide to do so, our ability to debank would be subject to a number of contingencies, many of which are beyond our control, including approvals by the OTS with respect to applications for a voluntary dissolution as well as sales of the Bank's deposits to third parties. There can be no assurance that we ultimately would be successful in debanking.

The following discussion of our consolidated financial condition, results of operations, capital resources and liquidity should be read in conjunction with the Interim Consolidated Financial Statements and related Notes included in Item 1.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information at the dates and for the periods indicated.

	September 30, 2004	December 31, 2003	Increase (Decrease)	
			\$	%
Financial Condition Data				
Total assets	\$ 1,285,486	\$ 1,240,118	\$ 45,368	4%
Trading securities, at fair value	\$ 138,489	\$ 49,520	\$ 88,969	180%
Real estate	\$ 68,480	\$ 103,943	\$ (35,463)	(34)%
Loans, net	\$ 11,459	\$ 28,098	\$ (16,639)	(59)%
Match funded assets, net	\$ 108,328	\$ 130,087	\$ (21,759)	(17)%
Advances on loans and loans serviced for others ...	\$ 345,945	\$ 374,769	\$ (28,824)	(8)%
Mortgage servicing rights	\$ 135,319	\$ 166,495	\$ (31,176)	(19)%
Receivables	\$ 114,500	\$ 88,157	\$ 26,343	30%
Other assets	\$ 73,623	\$ 33,607	\$ 40,016	119%
Total liabilities	\$ 957,266	\$ 921,574	\$ 35,692	4%
Deposits	\$ 412,117	\$ 446,388	\$ (34,271)	(8)%
Escrow deposits	\$ 146,074	\$ 116,444	\$ 29,630	25%
Bonds-match funded agreements	\$ 97,712	\$ 115,394	\$ (17,682)	(15)%
Lines of credit and other secured borrowings	\$ 35,502	\$ 150,384	\$ (114,882)	(76)%
Notes and debentures (1)	\$ 231,249	\$ 56,249	\$ 175,000	311%
Stockholders' equity	\$ 326,924	\$ 317,258	\$ 9,666	3%

	For the Three Months Ended September 30,			
	2004	2003	Favorable/(Unfavorable)	
			\$	%
Operations Data				
Net income (loss)	\$ 39,305	\$ 4,615	\$ 34,690	752%
Non-interest revenue	\$ 53,615	\$ 46,842	\$ 6,773	14%
Net interest income (expense) (1)	\$ (2,153)	\$ (6,752)	\$ 4,599	68%
Provision for loan losses	\$ (94)	\$ 415	\$ 509	123%
Non-interest expense	\$ 44,078	\$ 35,026	\$ (9,052)	(26)%
Income tax expense (benefit)	\$ (31,845)	\$ 6	\$ 31,851	530,850%
Net income (loss) per share:				
Basic	\$ 0.61	\$ 0.07	\$ 0.54	771%
Diluted	\$ 0.60	\$ 0.07	\$ 0.53	757%

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

	For the Nine Months Ended September 30,		Favorable/(Unfavorable)	
	2004	2003	\$	%
Operations Data				
Net income (loss)	\$ 55,159	\$ 318	\$ 54,841	17,246%
Non-interest revenue	\$ 170,917	\$ 128,627	\$ 42,290	33%
Net interest income (expense) (1)	\$ (6,485)	\$ (11,728)	\$ 5,243	45%
Provision for loan losses	\$ (913)	\$ (2,670)	\$ (1,757)	(66)%
Non-interest expense	\$ 142,015	\$ 115,883	\$ (26,132)	(23)%
Distributions on Capital Securities (1)	\$ --	\$ 3,058	\$ 3,058	100%
Income tax expense (benefit)	\$ (31,779)	\$ 618	\$ 32,397	5,242%
Net income (loss) per share:				
Basic	\$ 0.83	\$ 0.005	\$ 0.825	16,500%
Diluted	\$ 0.81	\$ 0.005	\$ 0.805	16,100%

(1) Effective with our adoption of SFAS No. 150 on July 1, 2003, we reclassified our \$56,249 balance of 10.875% Capital Securities to notes. Distributions for the three and nine months ended September 30, 2004 amounted to \$1,529 and \$4,587, respectively, and are included with interest expense. Distributions for the three months ended September 30, 2003 were \$1,529 and are also included with interest expense.

RESULTS OF OPERATIONS

General. We recorded net income of \$39,305 for the third quarter of 2004, as compared to \$4,615 for the third quarter of 2003. Year to date, we recorded net income of \$55,159 for 2004 as compared to \$318 for the same period of 2003. Net income for 2004 reflects an income tax benefit of \$31,845 for the third quarter resulting primarily from the partial reversal of the valuation allowance we had established on our deferred tax asset in prior years. See "Results of Operations - Income Tax Expense (Benefit)" for a detailed discussion of our income taxes.

Our core businesses recorded combined pre-tax income of \$4,183 in the third quarter of 2004, a decrease of \$3,812 or 48% as compared to the third quarter of 2003. Year to date, pre-tax income from our core businesses amounted to \$21,255, a decrease of \$1,145 or 5% compared to the same period of 2003. Declines in Residential Loan Servicing income during the 2004 periods were partially offset by improvements in the operating results of OTX and other core businesses. Our non-core business segments recorded a pre-tax loss of \$(617) in the third quarter of 2004 as compared to \$(308) for the third quarter of 2003. Year to date, our non-core businesses recorded pre-tax income of \$301, an improvement of \$12,581 over the loss incurred for the same period in 2003. The improvement in the combined results of our year-to-date non-core segments is largely due to the \$10,000 charge in the first quarter of 2003, related to settlement of the Admiral Home Loan arbitration. Results of our Corporate Items and Other segment for the 2004 periods improved over the 2003 periods and included \$2,730 and \$6,476 of interest income on federal tax refund claims for the three and nine months ended September 30, 2004, respectively. We discuss these segment results in detail in our review of segment profitability, which follows.

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, securities held in our residual and subordinate trading portfolio and affordable housing properties.

The following is a discussion of pre-tax income (loss) before minority interest and income taxes for each of our core and non-core reportable business segments.

CORE BUSINESSES

Residential Loan Servicing. Through this business, we provide for a fee, loan servicing, including asset management and resolution services, to third party owners of subprime and "high loan to value" residential mortgage loans. Subprime residential mortgages comprise the vast majority of loans we service. We acquire the rights to service loans by purchasing them outright or by entering into sub-servicing contracts. As shown in the table below, results reflect a decline in the average volume of mortgage loans serviced during the third quarter of 2004 as compared to 2003, and an increase in the average volume serviced year to date 2004 as compared to 2003. In addition we have continued to experience earnings pressure resulting from low interest rates and high prepayments in our servicing portfolio. Not only do prepayments result in the loss of future servicing fees, they also result in increases to the rate at which we amortize our servicing rights. Prepayments also create an obligation for us to remit a final month of interest to the investor.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

Selected information

	2004	2003
Number of loans at September 30	327,562	355,446
Unpaid principal balance at September 30	\$ 34,365,953	\$ 37,109,678
Average unpaid principal balance for the following periods:		
Three months ended September 30	\$ 34,347,201	\$ 36,436,563
Nine months ended September 30	\$ 35,696,362	\$ 32,632,084

	Three Months		Nine Months	
For the periods ended September 30,	2004	2003	2004	2003
Pre-tax income (loss)	\$ 3,380	\$ 8,159	\$ 13,763	\$ 25,808
Net interest expense	\$ 4,238	\$ 5,300	\$ 14,777	\$ 15,125
Servicing and related fees:				
Fees	\$ 57,479	\$ 63,143	\$ 187,859	\$ 178,678
Amortization of servicing rights ...	\$ (22,504)	\$ (25,272)	\$ (71,173)	\$ (68,677)
Compensating interest expense	\$ (8,728)	\$ (8,658)	\$ (25,839)	\$ (22,278)
Non-interest expense	\$ 21,820	\$ 16,832	\$ 69,738	\$ 48,752

- . The decline in the unpaid principal balance and number of loans we service for others in the period since September 30, 2003 is the result of a continued high level of runoff due to prepayments, and a more cautious acquisition strategy we adopted given the uncertainty of prepayment speeds in the current environment.
- . The decline in fees in the third quarter of 2004, as compared to the third quarter of 2003, is primarily the result of a decline in the average volume of loans serviced for others and a greater concentration of sub-servicing business. Sub-servicing contracts provide for lower servicing fees but do not require the purchase of servicing rights. This decline in average volume is the result of high prepayment rates and reduced purchases of servicing rights. Year to date 2004, fees have increased as compared to 2003 primarily due to the increase in the average volume of loans serviced. For the three and nine month periods of 2004, earnings on float balances have increased as compared to the 2003 periods due to higher average collection account balances, but these earnings remain low due to low short-term interest rates. The yield we earned on float balances averaged 1.57% and 1.14% during the third quarter of 2004 and 2003, respectively, and 1.08% and 1.13% for the year to date periods of 2004 and 2003, respectively. See "Non-interest Revenue - Servicing and Related Fees" for a detail of the principal components of servicing and related fees.
- . Although the rate of amortization on servicing rights has been increasing in response to increased actual and projected prepayment volumes, amortization expense declined during the third quarter of 2004 as compared to 2003, primarily as a result of a reduction in purchases of servicing rights in recent periods. The balance of mortgage servicing rights declined \$31,176 during the nine months ended September 30, 2004 as amortization exceeded purchases. See "Changes in Financial Condition - Mortgage Servicing Rights."
- . The increase in compensating interest expense on loans repaid before the end of a calendar month reflect higher prepayments in our servicing portfolio.
- . The increase in non-interest expense reflects costs associated with the property management contract we entered into with The U.S. Department of Veteran's Affairs ("the VA") in September 2003 and our reassumption in the fourth quarter of 2003 of certain collection activities, which were previously outsourced to a third-party vendor. The total number of employees in this business segment averaged 1,519 and 1,266 during the third quarter of 2004 and 2003, respectively, and 1,486 and 1,267 for the year to date periods of 2004 and 2003, respectively. Our workforce in India assigned to this segment averaged 857 and 675 during the third quarter of 2004 and 2003, respectively, and 796 and 658 for the year to date periods of 2004 and 2003, respectively.
- . Non-interest expense for 2004 also reflects a \$1,393 increase in the provision for uncollectible advances and other servicing related receivables recorded during the first quarter.

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).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

Selected information

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Pre-tax income (loss)	\$ (2,133)	\$ (2,353)	\$ (2,370)	\$ (8,327)
Non-interest revenue	\$ 2,959	\$ 2,891	\$ 12,846	\$ 7,898
Non-interest expense	\$ 5,092	\$ 5,244	\$ 15,216	\$ 16,224

Non-interest revenue for 2004 includes \$2,900 of one-time fees (primarily documentation fees) earned during the second quarter associated with a service contract for the use of our REALServicing system.

Ocwen Realty Advisors. Through ORA we provide residential property valuation services to external customers in the wholesale lending community as well as our own residential real estate transactions.

Selected information

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Pre-tax income (loss)	\$ 1,478	\$ 1,156	\$ 5,013	\$ 3,766
Property valuation fees	\$ 7,042	\$ 4,688	\$ 23,638	\$ 13,414
Non-interest expense:				
Appraisal expenses	\$ 4,415	\$ 2,865	\$ 16,525	\$ 7,697
Other	\$ 1,127	\$ 661	\$ 2,055	\$ 1,937
Gross margin	\$ 2,627	\$ 1,823	\$ 7,113	\$ 5,717

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

Ocwen Recovery Group. This core business conducts collection activities for third party owners of unsecured receivables and for a portfolio of unsecured credit card receivables that we acquired at a discount in 1999 and 2000. On collections for third party owners, we generally earn a fee based upon a percentage of the amount collected. 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. Beginning in 2002, income on that portfolio is recognized as cash is collected.

Selected information

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Pre-tax income (loss)	\$ 708	\$ 1,140	\$ 2,998	\$ 3,422
Non-interest revenue:				
Third-party collection fees	\$ 2,660	\$ 2,236	\$ 8,264	\$ 6,138
Recoveries of unsecured credit card receivables owned ...	\$ 492	\$ 691	\$ 1,457	\$ 2,237
Other	\$ 147	\$ 25	\$ 237	\$ 82
Non-interest expense	\$ 2,591	\$ 1,812	\$ 6,959	\$ 5,035

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

Business Process Outsourcing. Business Process Outsourcing provides outsourcing services, including data processing, call center maintenance, mortgage research and others, to third parties and leverages the operational capacity of our facilities in India. This Business segment began operations in December 2002. Results reflect the initiation of new outsourcing contracts in the third quarter of 2003.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

Selected information

	Three Months		Nine Months	
	-----		-----	
For the periods ended September 30,	2004	2003	2004	2003
-----	-----	-----	-----	-----
Pre-tax income (loss)	\$ 687	\$ 1,004	\$ 1,791	\$ 1,007
Non-interest revenue	\$ 2,551	\$ 1,877	\$ 6,899	\$ 2,629
Non-interest expense	\$ 1,858	\$ 872	\$ 5,094	\$ 1,620

Commercial Servicing. This segment now includes the results of both our domestic and international servicing of commercial assets. Previously, domestic commercial servicing was included as a component of the Commercial Finance segment, and the results of our international operations were reported as a separate segment. Results for the prior periods have been restated to conform to this presentation. International servicing is conducted through GSS, our joint servicing venture with Merrill Lynch. As of the end of 2003, our two offices in Tokyo, Japan and Taipei, Taiwan were fully operational. We are also in the process of establishing servicing offices in other locations, including Canada and Germany. We have established consulting operations in the United Kingdom and China. At September 30, 2004, this segment serviced a total of 9,190 loans with an aggregate unpaid principal balance of \$12,379,390, the majority of which were serviced by our office in Japan.

Selected information

	Three Months		Nine Months	
	-----		-----	
For the periods ended September 30,	2004	2003	2004	2003
-----	-----	-----	-----	-----
Pre-tax income (loss)	\$ 63	\$ (1,111)	\$ 60	\$ (3,276)
Servicing and related fees	\$ 3,178	\$ 1,371	\$ 10,089	\$ 4,001
Non-interest expense	\$ 3,267	\$ 2,571	\$ 10,236	\$ 7,638

- . The results for the 2004 periods as compared to 2003 primarily reflect growth in our international servicing of commercial assets through GSS. See "Non-Interest Revenue - Servicing and Related Fees."

Non-Core Businesses

Commercial Assets. 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. 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 September 30, 2004 the non-core assets remaining in this business consisted of six loan and real estate assets and one unrated subordinate security with a fair value of \$3,525. These six assets consisted of one loan with a carrying value of \$7,134 and five real estate assets totaling \$67,968. We have entered into contracts to sell three of the remaining real estate assets. One of these transactions involves the sale of our shopping mall located in Florida, which had a carrying value of \$44,169 at September 30, 2004, and closed in November 2004. The other two transactions have not yet closed and involve the sales of our shopping center in Nova Scotia and our hotel in Michigan, which had an aggregate carrying value of \$15,075 at September 30, 2004. These transactions are subject to due diligence and other contingencies.

Selected information

	Three Months		Nine Months	
	-----		-----	
For the periods ended September 30,	2004	2003	2004	2003
-----	-----	-----	-----	-----
Pre-tax income (loss)	\$ (1,845)	\$ (2,025)	\$ (4,895)	\$ (8,692)
Net interest income (expense)	\$ (378)	\$ (1,853)	\$ (159)	\$ (6,250)
Provision for loan losses	\$ --	\$ 393	\$ (764)	\$ (3,064)
Non-interest revenue	\$ (259)	\$ 1,165	\$ (2,302)	\$ (2,256)
Non-interest expense	\$ 1,208	\$ 943	\$ 3,198	\$ 3,251

- . The decline in net interest expense reflects a decline in real estate assets, which do not earn interest but are financed with interest-bearing liabilities. Also, for the nine months ended September 30, 2004 we recorded \$719 of interest income on our unrated subordinate security. We first began receiving cash flow from this security in the second quarter of 2004.
- . Non-interest revenue for 2004 includes impairment charges on our real estate assets of \$175 and \$3,952 for the three and nine month periods, respectively. Year to date impairment charges for 2003 were \$5,526, all

of which was recorded in the second quarter.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

- Year to date non-interest revenue for 2004 also includes a \$948 unrealized gain on the unrated subordinate security, reflecting the probability of receiving additional cash flows in the future.
- The negative provision for loan losses in 2003 primarily resulted from the recovery of reserves on loan sales during the second quarter. See "Provisions for Loan Losses".

Affordable Housing. Historically, we invested in affordable housing properties primarily through a series of limited partnerships. Except to complete those projects in which an investment had already been made, we ceased making investments in properties in 2000 as part of our shift in strategy to fee-based businesses and because the volume of tax credits being generated was exceeding our ability to utilize them effectively. Since that time, we have been marketing these properties for sale. Our investment in affordable housing properties consists of four properties and amounted to \$8,356 and \$7,410 at September 30, 2004 and December 31, 2003, respectively. In addition, this segment has \$3,664 of loans outstanding to limited partnership properties that we do not consolidate in our financial statements. During the second quarter we entered into a contract to sell three of the remaining properties, which had an aggregate net carrying value of \$2,434 at September 30, 2004. This transaction closed in October 2004. We anticipate 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. Our combined reserves associated with affordable housing properties and loans amounted to 55% of the remaining book value of such assets at both September 30, 2004 and December 31, 2003.

Subprime Finance. We were engaged in domestic subprime residential lending prior to ceasing originations in August of 1999; however, we have continued to manage and resolve the remaining non-core assets. At September 30, 2004, the non-core assets remaining in this business consisted primarily of unrated single-family subprime residual trading securities with a fair value of \$35,834. These securities are presently generating income and return of principal through cash flows. See "Changes in Financial Condition - Trading Securities".

Selected information

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Pre-tax income (loss)	\$ 2,116	\$ 1,720	\$ 8,243	\$ 20
Interest income	\$ 3,030	\$ 2,500	\$ 9,674	\$ 11,987
Interest expense	\$ 211	\$ 493	\$ 865	\$ 1,120
Gain (loss) on trading securities, net ..	\$ (278)	\$ 111	\$ 47	\$ 2,577
Non-interest expense	\$ 462	\$ 395	\$ 1,610	\$ 13,417

- The decrease in interest income year to date 2004 as compared to 2003 is largely the result of a decline in cash flow distributions received on our U.K. unrated single-family subprime residual securities.
- The \$11,807 decline in non-interest expense year to date 2004 as compared to 2003 is primarily due to the \$10,000 charge recorded during the first quarter of 2003 related to the conclusion of the Admiral Home Loan arbitration.

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 income on our income tax refund receivable, interest expense on corporate assets, gains and losses from debt repurchases, and general corporate expenses. The table below presents the more significant amounts included in each of the periods indicated.

Selected information

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Pre-tax income (loss)	\$ 3,912	\$ (3,038)	\$ 1,774	\$ (9,492)
Net interest income (expense).....	\$ 32	\$ (952)	\$ 946	\$ (1,935)
Non-interest expense.....	\$ 1,707	\$ 2,074	\$ 9,531	\$ 7,602
Non-interest revenue.....	\$ 5,492	\$ 9	\$ 10,238	\$ 288

- Effective with our adoption of SFAS No. 150 effective July 1, 2003, distributions on our Capital securities are reported in the consolidated statement of operations as interest expense beginning in the third quarter of 2003. For purposes of this analysis, net interest expense includes distributions on Capital Securities for all periods.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

- Non-interest revenue includes \$2,730 and \$6,476 of interest income recognized during the three and nine month periods of 2004, respectively, on federal income tax refund claims. See "Changes in Financial Condition - Receivables" for additional information regarding these claims.

See Note 8 to the Interim Consolidated Financial Statements, for additional information related to our operating segments.

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

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Servicing and related fees	\$ 34,587	\$ 35,651	\$ 115,310	\$ 101,703
Vendor management fees	13,614	7,722	40,442	21,721
Gain (loss) on trading and match funded securities, net ...	(171)	159	1,688	2,924
Valuation gains (losses) on real estate	(165)	(686)	(3,990)	(6,695)
Gain (loss) on sales of real estate	311	316	(149)	408
Operating income (losses) from real estate	444	1,269	1,017	3,461
Gain (loss) on debt repurchases	--	(441)	--	(445)
Other income	4,995	2,852	16,599	5,550
	<u>\$ 53,615</u>	<u>\$ 46,842</u>	<u>\$ 170,917</u>	<u>\$ 128,627</u>

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

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Residential Loan Servicing:				
Loan servicing and related fees:				
Loan servicing fees (1)	\$ 38,991	\$ 44,059	\$ 128,292	\$ 122,021
Late charges	9,653	9,188	31,200	27,234
Interest on custodial accounts (2)	4,958	3,255	10,721	7,529
Compensating interest expense (3)	(8,728)	(8,658)	(25,839)	(22,278)
Amortization of servicing rights (4) ...	(22,504)	(25,272)	(71,173)	(68,677)
Other, net	(1,780)	260	1,808	5,100
	<u>20,590</u>	<u>22,832</u>	<u>75,009</u>	<u>70,929</u>
Other fees:				
Default servicing fees	291	1,014	1,629	3,007
Retail banking fees	2,102	1,979	6,551	5,531
Other	3,264	3,388	7,658	8,256
	<u>26,247</u>	<u>29,213</u>	<u>90,847</u>	<u>87,723</u>
Other Segments (5):				
Loan servicing and related fees:				
Loan servicing fees	3,026	2,666	9,419	7,134
Other, net (6)	4,197	2,890	11,494	5,650
	<u>7,223</u>	<u>5,556</u>	<u>20,913</u>	<u>12,784</u>
Other fees	1,117	882	3,550	1,196
	<u>8,340</u>	<u>6,438</u>	<u>24,463</u>	<u>13,980</u>
	<u>\$ 34,587</u>	<u>\$ 35,651</u>	<u>\$ 115,310</u>	<u>\$ 101,703</u>

- (1) The decline in residential loan servicing fees during the third quarter of 2004 as compared to 2003 primarily reflects a decline in the average balance of residential loans we serviced for others and a greater proportion of subservicing contracts, which generate lower servicing fees. The average unpaid principal balance of loans serviced by our Residential Loan Servicing segment declined from \$36,436,563 during the third quarter of 2003 to \$34,347,201 for the third quarter of 2004. On a year to date basis, residential loan servicing fees increased as the average balance of loans serviced increased from \$32,632,084 for the nine months ended September 30, 2003 to \$35,696,362 for the same period

of 2004. See "Segment Results - Residential Loan Servicing".

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

- (2) Interest we earned on custodial accounts during the holding period between collection of borrower payments and remittance to investors. These custodial accounts are held by an unaffiliated bank and are excluded from our statement of financial condition. The average balances held in these custodial accounts were approximately \$1,259,700 and \$1,142,200 for the third quarter of 2004 and 2003, respectively. Year to date, the balances in these accounts averaged \$1,322,200 and \$890,400 for 2004 and 2003, respectively.
- (3) A servicer of securitized loans is typically obligated to pay 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. The increase in compensating interest expense reflects an increase in loan prepayments.
- (4) The increase in amortization expense year to date 2004 as compared to 2003 reflects an increase in the rate of amortization due to the increase in actual and projected prepayment rates on subprime residential mortgage loans. In spite of the increased rate of amortization, the amount of amortization expense recorded during the third quarter of 2004 declined as compared to 2003 as a result of a decline in purchases of servicing rights. See "Changes in Financial Condition - Mortgage Servicing Rights".
- (5) Other segments primarily includes Commercial Servicing, Ocwen Recovery Group and Business Process Outsourcing. See "Segment Results" for additional discussion regarding loan servicing and related fees for these segments.
- (6) Includes \$2,551 and \$1,877 of fees earned by our Business Process Outsourcing segment for the third quarter of 2004 and 2003, respectively. Year to date, these fees amounted to \$6,899 and \$2,629 for 2004 and 2003, respectively. See "Segment Results - Business Process Outsourcing".

The following table sets forth loans we serviced at the dates indicated. 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.

	Loans (1)		REO (2)		Total	
	Amount	Count	Amount	Count	Amount	Count
Residential Loan Servicing						

September 30, 2004:						
Performing.....	\$ 28,793,177	257,094	\$ --	--	\$ 28,793,177	257,094
Non-performing	4,091,480	49,865	1,481,295	20,603	5,572,775	70,468
	\$ 32,884,657	306,959	\$ 1,481,295	20,603	\$ 34,365,952	327,562
	=====	=====	=====	=====	=====	=====
December 31, 2003:						
Performing.....	\$ 32,413,747	293,007	\$ --	--	\$ 32,413,747	293,007
Non-performing	4,306,047	52,585	977,564	14,000	5,283,611	66,585
	\$ 36,719,794	345,592	\$ 977,564	14,000	\$ 37,697,358	359,592
	=====	=====	=====	=====	=====	=====
Commercial Servicing						

September 30, 2004:						
Performing.....	\$ 698,378	360	\$ --	--	\$ 698,378	360
Non-performing	11,533,634	8,782	147,378	48	11,681,012	8,830
	\$ 12,232,012	9,142	\$ 147,378	48	\$ 12,379,390	9,190
	=====	=====	=====	=====	=====	=====
December 31, 2003:						
Performing.....	\$ 461,276	264	\$ --	--	\$ 461,276	264
Non-performing	12,148,555	7,434	85,290	40	12,233,845	7,474
	\$ 12,609,831	7,698	\$ 85,290	40	\$ 12,695,121	7,738
	=====	=====	=====	=====	=====	=====

- (1) At September 30, 2004 we serviced 241,473 subprime loans with a total unpaid principal balance of \$28,372,285, as compared to 257,089 subprime loans with an unpaid principal balance of \$30,563,123 at December 31, 2003. Subprime loans represent residential loans we service which were made by others to borrowers who generally did not qualify under guidelines of the Fannie Mae and Freddie Mac ("nonconforming loans"). The decline in residential loans serviced at September 30, 2004 as compared to December 31, 2003 is the result of high prepayment rates and reduced purchases of servicing rights.
- (2) Includes \$984,956 and \$480,388 of residential REO properties serviced for the VA at September 30, 2004 and December 31, 2003, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

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

Gain (Loss) on Trading and Match Funded Securities, Net. Gain (loss) on trading and match funded securities, net, includes both unrealized gains (losses) on securities and realized gains (losses) resulting from sales thereof. The year to date gains for 2004 include an unrealized gain of \$948 on our commercial unrated subordinate security. The year to date gains for 2003 were primarily the result of net unrealized gains of \$2,577 on our unrated subprime residual and subordinate securities.

Valuation Gains (Losses) on Real Estate. We regularly assess the value of our remaining real estate assets and provide additional loss reserves or impairment charges as appropriate. The losses for the three and nine months ended September 30, 2004, included impairment charges of \$175 and \$3,952, respectively. Year to date 2003, such charges were \$5,526 and were recognized during the second quarter. See "Changes in Financial Condition - Real Estate."

Operating Income (Loss) from Real Estate. Operating results of our real estate include rental income, depreciation expense and operating expenses associated with holding and maintaining the properties. The decline in operating income in 2004 as compared to 2003 is largely due to sales of commercial real estate properties. Only five commercial real estate assets remain at September 30, 2004. See "Changes in Financial Condition-Real Estate."

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

	Three Months		Nine Months	
For the periods ended September 30,	2004	2003	2004	2003
Residential Loan Servicing	\$ 2	\$ --	\$ 320	\$ 4
OTX (1)	1,101	551	6,480	1,226
Ocwen Recovery Group (2)	514	721	1,542	2,331
Commercial Servicing	140	105	170	412
Commercial Assets	26	662	96	731
Affordable Housing	--	730	--	812
Subprime Finance	38	(3)	999	(3)
Corporate Items and Other (3)	3,174	86	6,992	37
	<u>\$ 4,995</u>	<u>\$ 2,852</u>	<u>\$ 16,599</u>	<u>\$ 5,550</u>
	=====	=====	=====	=====

(1) Includes \$2,900 of one-time fees earned during the second quarter, primarily documentation fees, associated with a service contract for the use of our REALServicing system. See "Segment Results - OTX".

(2) Primarily comprised of collections of credit card receivables accounted for under the cost recovery method. See "Segment Results - Ocwen Recovery Group".

(3) Includes \$2,730 and \$6,476 of interest income recorded during the three and nine months ended September 30, 2004, respectively, on federal tax refund claims due from the Internal Revenue Service ("IRS"). Our policy is to recognize interest income on income tax receivable balances upon receipt of a written finding from the IRS agent that validates our claim. See "Changes in Financial Condition - Receivables".

Net Interest Income (Expense). Net interest income (expense) is the difference between the interest income earned from our interest-earning assets and the 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 a component of servicing fees and are not included in the following information.

Our net interest income and net interest margin began declining in 2000 and have been negative since 2001. This trend reflects a decline in the ratio of interest-earning assets to interest-bearing liabilities, which has fallen from 98% for 1999 to 57% for the third quarter of 2004. 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. We expect the trend of net interest expense and

negative net interest margin to continue as we dispose of our remaining non-core assets, a portion of which are interest-bearing, and increase non-interest-earning assets of our core businesses. While it has no impact on consolidated net income, the reclassification of our 10.875% Capital Securities to interest-bearing liabilities on July 1, 2003 as a result of our adoption of SFAS No. 150 has also had a negative impact on net interest income, margin and spread. At the same time, our redemption of the remaining \$33,065 balance of 12% subordinated debentures on September 30, 2003, the repayment of the remaining \$43,475 of 11.875% notes on October 1, 2003 (the maturity date) and the continuing reduction in brokered certificates of deposit all have had a positive impact on net interest income, spread and margin.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

The following table sets forth, for the periods 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 periods:

For the three months ended September 30,	2004			2003		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
Average Assets:						
Interest-earning cash and other	\$ 100,819	\$ 371	1.47%	\$ 46,556	\$ 79	0.68%
Federal funds sold and repurchase agreements	196,827	677	1.38%	136,617	341	1.00%
Trading securities (1):						
Investment grade securities	54,627	145	1.06%	6,909	(4)	(0.23)%
Subordinates and residuals	41,814	3,302	31.59%	41,663	2,752	26.42%
Loans (2)	17,161	221	5.15%	42,974	213	1.98%
Match funded loans and securities (3)	18,178	272	5.99%	29,845	690	9.25%
Total interest earning assets	429,426	4,988	4.65%	304,564	4,071	5.35%
Advances on loans and loans serviced for others	338,364			337,463		
Mortgage servicing rights	133,807			187,848		
Match funded advances on loans serviced for others	104,481			124,513		
Other non-interest earning assets	264,848			380,917		
Total assets	\$ 1,270,926			\$ 1,335,305		
Average Liabilities and Stockholders Equity:						
Interest-bearing demand deposits	\$ 19,537	31	0.63%	\$ 16,788	49	1.17%
Savings deposits	1,602	3	0.75%	1,618	3	0.74%
Certificates of deposit (4)	396,652	3,090	3.12%	387,470	3,957	4.08%
Total interest-bearing deposits	417,791	3,124	2.99%	405,876	4,009	3.95%
Bonds-match funded agreements (5)	110,426	1,143	4.14%	129,572	1,075	3.32%
Lines of credit and other secured borrowings (6)	41,204	148	4.88%	148,573	1,927	5.19%
Debt securities (7)	180,443	2,726	6.04%	132,422	3,812	11.51%
Total interest-bearing liabilities	749,864	7,141	4.00%	816,443	10,823	5.30%
Escrow deposits	142,451			119,126		
Other non-interest bearing liabilities	63,928			91,102		
Total liabilities	956,243			1,026,671		
Minority interest	1,280			1,411		
Stockholders' equity	313,403			307,223		
Total liabilities and stockholders' equity	\$ 1,270,926			\$ 1,335,305		
Net interest income (expense)		\$ (2,153)			\$ (6,752)	
Net interest spread			0.65%			0.05%
Net interest margin			(2.01)%			(8.87)%
Ratio of interest-earning assets to interest-bearing liabilities	57%			37%		

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

For the nine months ended September 30,	2004			2003		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
Average Assets:						
Interest-earning cash and other	\$ 77,701	\$ 709	1.22%	\$ 29,396	\$ 224	1.02%
Federal funds sold and repurchase agreements	163,625	1,420	1.16%	125,697	1,078	1.14%
Trading securities (1):						
Investment grade securities	21,506	176	1.09%	11,176	(92)	(1.10)%
Subordinates and residuals	42,199	10,824	34.20%	38,340	12,464	43.35%
Loans (2)	29,865	1,391	6.21%	79,264	1,321	2.22%
Match funded loans and securities (3)	21,282	1,035	6.48%	41,319	2,831	9.14%
Total interest earning assets	356,178	15,555	5.82%	325,192	17,826	7.31%
Advances on loans and loans serviced for others	341,504			302,718		
Mortgage servicing rights	147,470			176,972		
Match funded advances on loans serviced for others	105,080			121,013		
Other non-interest earning assets	293,415			360,267		
Total assets	\$ 1,243,647			\$ 1,286,162		
Average Liabilities and Stockholders Equity:						
Interest-bearing demand deposits	\$ 21,416	130	0.81%	\$ 16,808	170	1.35%
Savings deposits	1,641	9	0.73%	1,533	9	0.78%
Certificates of deposit (4)	438,442	10,700	3.25%	397,664	13,229	4.44%
Total interest-bearing deposits	461,499	10,839	3.13%	416,005	13,408	4.30%
Securities sold under agreements to repurchase	--	--	--%	333	3	1.20%
Bonds-match funded agreements (5)	113,849	3,239	3.79%	136,470	3,640	3.56%
Lines of credit and other secured borrowings (6)	68,286	2,178	4.25%	121,495	4,103	4.50%
Debt securities (7)	97,647	5,784	7.90%	95,422	8,400	11.74%
Total interest-bearing liabilities	741,281	22,040	3.96%	769,725	29,554	5.12%
Escrow deposits	131,586			101,867		
Other non-interest bearing liabilities	48,912			68,139		
Total liabilities	921,779			939,731		
Capital Securities (7)	--			37,499		
Minority interest	1,313			1,529		
Stockholders' equity	320,555			307,403		
Total liabilities and stockholders' equity	\$ 1,243,647			\$ 1,286,162		
Net interest income (expense)		\$ (6,485)			\$ (11,728)	
Net interest spread			1.86%			2.19%
Net interest margin			(2.43)%			(4.81)%
Ratio of interest-earning assets to interest-bearing liabilities	48%			42%		

(1) The increase in the average yield on subordinates and residual securities in the third quarter of 2004 is largely the result of higher interest on our U.K. unrated single-family subprime residual securities. Year to date 2004, interest on these securities was less than the year to date 2003 period, resulting in a lower average yield. The increase in our average investment in subordinates and residuals is primarily due to the transfer in the second quarter of 2003 of securities previously reported as match funded, as noted in (3) below, offset in part by principal repayments.

(2) The decline in the average balance of loans is a result of sales, resolutions and repayments; (primarily commercial loans) coupled with minimal acquisitions and originations. This reflects our strategic decision to exit non-core businesses and dispose of the related assets. The average balances include non-performing loans, interest on which is recognized on a cash basis. The increase in yields for the 2004 periods reflects a decline in non-performing loans.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

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- (3) The decline in the average balance of match funded loans and securities was primarily the result of principal repayments received on the loans and the sale of the remaining single family loans at the end of the third quarter of 2004 in connection with the redemption of the related match funded debt. In addition we transferred the match funded securities to residual trading securities during the second quarter of 2003 as a result of the repurchase and retirement of the related match funded debt.
- (4) The increase in the average balance of certificates of deposits resulted primarily from an increase in non-brokered certificates of deposit, offset in part by maturing brokered certificates of deposit. We have not issued any new brokered certificates of deposit since 2000. The decline in the average rate earned on deposits reflects the replacement of maturing brokered certificates of deposit with non-brokered certificates of deposit that have lower rates of interest because of the current interest rate environment. See "Changes in Financial Condition - Deposits".
- (5) The decline in the average balance of bonds-match funded agreements is due primarily to principal repayments, and the redemption at the end of the third quarter 2004 of the match funded debt secured by single family loans (as noted in (3) above). In addition, in the second quarter of 2003 the match funded debt related to the match funded unrated residual securities was repurchased and retired as noted above.
- (6) The decline in the average balance of lines of credit and other secured borrowings is due to repayments and maturities. See "Changes in Financial Condition - Lines of Credit and Other Secured Borrowings".
- (7) The increase in the average balance of debt securities outstanding resulted in part from the transfer of our \$56,249 of 10.875% Capital Securities to debt securities effective with the adoption of SFAS No. 150 on July 1, 2003, offset in part by repurchases and maturities of debt securities during September and October of 2003. Distributions on Capital Securities are included in interest expense on debt securities effective with the adoption of SFAS No. 150. In addition, on July 28, 2004, we issued \$175,000 of 3.25% Contingent Convertible Senior Unsecured Notes due 2024. See "Changes in Financial Condition - Debt Securities" and Note 3 to the Interim Consolidated Financial Statements. The declines in average rates for the 2004 periods are primarily the result of our issuance of the \$175,000 of 3.25% Convertible Notes referred to above.

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

For the periods ended September 30,	Three Months			Nine Months		
	2004 vs. 2003			2004 vs. 2003		
	Favorable (Unfavorable) Variance			Favorable (Unfavorable) Variance		
	Rate	Volume	Total	Rate	Volume	Total
Interest Income from Interest-Earning Assets						
Interest earning cash and other	\$ 146	\$ 146	\$ 292	\$ 52	\$ 433	\$ 485
Federal funds sold and repurchase agreements ...	155	181	336	19	323	342
Trading securities:						
Investment grade securities	91	58	149	299	(31)	268
Subordinates and residuals	540	10	550	(2,810)	1,170	(1,640)
Loans	192	(184)	8	1,273	(1,203)	70
Match funded loans and securities	(198)	(220)	(418)	(674)	(1,122)	(1,796)
Total interest income from interest-earning assets	926	(9)	917	(1,841)	(430)	(2,271)
Interest Expense on Interest-Bearing Liabilities						
Interest-bearing demand deposits	25	(7)	18	79	(39)	40
Savings deposits	--	--	--	1	(1)	--
Certificates of deposit	959	(92)	867	3,793	(1,264)	2,529
Total interest-bearing deposits	984	(99)	885	3,873	(1,304)	2,569
Securities sold under agreements to repurchase	--	--	--	--	3	3
Bonds-match funded agreements	(242)	174	(68)	(226)	627	401
Lines of credit and other secured borrowings ...	136	1,643	1,779	217	1,708	1,925
Notes and debentures	2,184	(1,098)	1,086	2,808	(192)	2,616
Total interest expense on interest-bearing liabilities	3,062	620	3,682	6,672	842	7,514
Favorable (unfavorable) variance, net	\$ 3,988	\$ 611	\$ 4,599	\$ 4,831	\$ 412	\$ 5,243

Provisions for Loan Losses. At September 30, 2004, our total net loan balance was \$11,459 or 0.9% of total assets. Of this balance, \$7,134 represents one non-residential loan held in our Commercial Assets segment and \$3,664 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 loan in the Commercial Assets and Affordable Housing segments. Our risk assessment of loans in the Commercial Assets segment 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 September 30, 2004.

The following table presents the provisions for loan losses by business segment for the periods indicated:

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Loans:				
Commercial Assets	\$ --	\$ 393	\$ (764)	\$ (3,064)
Affordable Housing	1	1	(28)	149
Corporate Items and Other	(6)	65	(27)	286
	(5)	459	(819)	(2,629)
Match funded loans:				
Corporate Items and Other	(89)	(44)	(94)	(41)
	\$ (94)	\$ 415	\$ (913)	\$ (2,670)

The negative loan loss provision for 2004 primarily reflects a reduction in non-performing loans in the Commercial Assets segment. Our allowance for loan losses as a percentage of non-performing loans has increased from 38.7% at December 31, 2003 to 66.9% at September 30, 2004. Overall, our allowance as a percentage of loans increased from 23.2% at December 31, 2003 to 33.0% at September 30, 2004. The negative provision that we recorded during 2003 results primarily from the recovery of reserves on sales of loans in the Commercial

Assets segment during the second quarter. For additional information, see
"Changes in Financial Condition - Loans, Net" and "Allowance for Loan Losses".

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

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

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Compensation and employee benefits	\$ 21,300	\$ 17,667	\$ 64,229	\$ 52,505
Occupancy and equipment	3,981	3,254	11,999	8,769
Technology and communication costs	6,190	5,583	19,476	14,577
Loan expenses	6,885	3,835	22,272	10,836
Loss (gain) on investments in affordable housing properties	(100)	4	(179)	319
Professional services and regulatory fees ...	3,187	2,510	16,328	21,854
Other operating expenses	2,635	2,173	7,890	7,023
	<u>\$ 44,078</u>	<u>\$ 35,026</u>	<u>\$ 142,015</u>	<u>\$ 115,883</u>

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

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Salaries (1)	\$ 14,643	\$ 12,487	\$ 43,339	\$ 36,116
Bonuses (2)	2,673	2,364	7,882	7,607
Payroll taxes	899	837	3,601	2,861
Commissions	1,374	597	3,941	1,398
Insurance	556	554	1,784	1,628
Severance	33	89	1,012	906
Other (3)	1,122	739	2,670	1,989
	<u>\$ 21,300</u>	<u>\$ 17,667</u>	<u>\$ 64,229</u>	<u>\$ 52,505</u>

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

(2) Bonus expense includes compensation related to employee incentive awards of restricted stock and stock options.

(3) Other consists primarily of recruiting expenses, matching contributions to our 401(K) plan and fees paid to directors.

The increase in compensation and benefits in the 2004 periods as compared to the 2003 periods is primarily due to increases in salaries and commissions. The increase in salaries and commissions has occurred primarily because of an increase in the average number of our full-time employees, both in the U.S. and our India offices. Our total combined workforce (domestic and international) averaged 2,935 employees in the third quarter of 2004 as compared to 2,120 for the third quarter of 2003. For the year to date periods, our total number of employees averaged 2,754 and 1,983 in 2004 and 2003, respectively. An average of approximately 1,822 and 1,225 employees were based in our India locations during the third quarter of 2004 and 2003, respectively. For the nine months ended September 30, 2004 and 2003, our India workforce averaged 1,642 and 1,054, respectively. Our reassumption of certain collection activities in the Residential Loan Servicing segment, which were previously outsourced to a third-party vendor, contributed to the growth in headcount and resulting increase in salaries and commissions. Severance for 2004 includes a one-time payment of \$750 during the first quarter to the former president of OTX in accordance with the terms of his employment agreement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

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

	Three Months		Nine Months	
For the periods ended September 30,	2004	2003	2004	2003
Postage and mailing	\$ 1,491	\$ 1,304	\$ 4,332	\$ 3,380
Rent	691	904	2,079	2,640
Depreciation	649	687	2,017	2,080
Other (1)	1,150	359	3,571	669
	\$ 3,981	\$ 3,254	\$ 11,999	\$ 8,769
	=====	=====	=====	=====

(1) The increase in other occupancy and equipment costs is primarily the result of our reassuming certain collection activities in our Residential Loan Servicing segment during the fourth quarter of 2003 that were previously performed by a third party vendor.

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

	Three Months		Nine Months	
For the periods ended September 30,	2004	2003	2004	2003
Depreciation:				
Hardware	\$ 1,469	\$ 1,545	\$ 4,564	\$ 5,191
Software	716	597	2,150	1,830
Other	215	135	504	348
	2,400	2,277	7,218	7,369
Telecommunications	1,725	1,506	5,013	4,272
Contract service and maintenance	761	1,030	2,381	2,362
Other (1)	1,304	770	4,864	574
	\$ 6,190	\$ 5,583	\$ 19,476	\$ 14,577
	=====	=====	=====	=====

(1) The increase in other technology and communication costs is largely due to our reassuming certain collection activities in our Residential Loan Servicing segment during the fourth quarter of 2003 that were previously performed by a third party vendor.

Loan Expenses. Loan expenses are primarily comprised of appraisal fees incurred in connection with property valuation services we provided through ORA, which amounted to \$4,415 and \$2,865 for the three months ended September 30, 2004 and 2003, respectively. For the nine month periods of 2004 and 2003, these appraisal fees were \$16,525 and \$7,697, respectively. The increase in ORA appraisal fees in the 2004 periods reflects an increase in the volume of property appraisals completed, primarily in connection with the VA contract. See "Segment Profitability - Ocwen Realty Advisors" for additional discussion of these costs. Loan expenses also include other miscellaneous expenses incurred in connection with loans we own and those we service for others.

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

	Three Months		Nine Months	
For the periods ended September 30,	2004	2003	2004	2003
Legal fees and settlements (1)	\$ 1,109	\$ 1,143	\$ 9,437	\$ 16,351
Consulting fees (non-technology)	547	433	1,805	1,655
Audit and accounting fees	610	65	1,742	982
Corporate insurance	380	289	1,178	1,125
Other	541	580	2,166	1,741
	\$ 3,187	\$ 2,510	\$ 16,328	\$ 21,854
	=====	=====	=====	=====

(1) The \$6,914 decline in legal fees and settlements in the nine months ended September 30, 2004 as compared to 2003 is primarily the result of a \$10,000 charge recorded during the first quarter of 2003 in connection with the arbitration award to the former owners of Admiral Home Loan.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

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

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Bad debt expense (1)	\$ 850	\$ 59	\$ 2,619	\$ 256
Travel, lodging, meals and entertainment ..	815	695	2,430	2,010
Amortization of deferred costs	325	223	749	900
Deposit related expense	224	303	548	700
Other	421	893	1,544	3,157
	<u>\$ 2,635</u>	<u>\$ 2,173</u>	<u>\$ 7,890</u>	<u>\$ 7,023</u>
	=====	=====	=====	=====

(1) Bad debt expense for 2004 includes a provision of \$1,393 recorded during the first quarter for estimated uncollectible servicing advances and other receivables related to our Residential Loan Servicing segment.

Distributions on Company Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company. Cash distributions on the 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 \$1,529 of such distributions to holders of the Capital Securities during the three months ended September 30, 2004 and 2003, and distributions of \$4,587 during the nine months ended September 30, 2004 and 2003. Effective July 1, 2003 with our adoption of SFAS No. 150, these distributions are reported in the consolidated statement of operations as interest expense. See Note 3 to the Interim Consolidated Financial Statements.

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

For the periods ended September 30,	Three Months		Nine Months	
	2004	2003	2004	2003
Income tax expense (benefit) on income (loss) before taxes	\$ 3,074	\$ 1,035	\$ 7,350	\$ (957)
Provision for valuation allowance on current year's deferred tax asset	2,066	(1,029)	(2,144)	1,575
	<u>5,140</u>	<u>6</u>	<u>5,206</u>	<u>618</u>
Partial reversal of valuation allowance on prior year's deferred tax asset	(36,985)	--	(36,985)	--
Total income tax expense (benefit)	<u>\$ (31,845)</u>	<u>\$ 6</u>	<u>\$ (31,779)</u>	<u>\$ 618</u>
	=====	=====	=====	=====

The \$36,985 reduction in the valuation allowance on the prior year's deferred tax asset is a result of refund claims filed with the IRS that reduced our gross deferred tax asset and increased our income tax receivable balance by the same amount. These refund claims, which were affirmed in writing by the IRS agent during the third quarter of 2004, arose because of changes in the tax law that allowed us to carry back net operating losses from 2001 and 2002 to taxes paid in earlier years. See "Receivables" for additional information regarding our refund claims and related income taxes receivable. Reversal of all or a portion of the remaining valuation allowance, which amounted to \$162,314 at September 30, 2004, may occur in the future based on the results of our operations. The provision for deferred tax asset valuation allowance is a non-cash charge that we recorded to increase the aggregate valuation allowance. We estimated this valuation allowance based on our assessment of the portion of the deferred tax asset that will more likely than not be realized.

Excluding foreign taxes, non-economic tax residual payments and the valuation allowance reduction, our federal effective tax rate was 20% and (162)% for the year to date periods of 2004 and 2003, respectively, and reflected tax credits of \$3,507 and \$1,795, respectively. Although we have substantial unused tax credits available to reduce the liability arising from income taxes on our current year income, tax credits can be used to reduce income tax expense only to the corporate alternative minimum tax rate of 20% of taxable income.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, 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:

	September 30, 2004	December 31, 2003
	-----	-----
Investment grade securities:		
U.S. government and sponsored enterprise securities	\$ 1,651	\$ 6,679
Auction rate securities (AAA-rated)	96,528	--
	-----	-----
	\$ 98,179	\$ 6,679
	=====	=====
Subordinates and residuals:		
Single family residential		
BB-rated subordinates	\$ 259	\$ 579
B-rated subordinates	460	580
Unrated subordinates	232	222
Unrated subprime residuals	35,834	38,883
	-----	-----
	36,785	40,264
Commercial unrated subordinates	3,525	2,577
	-----	-----
	\$ 40,310	\$ 42,841
	=====	=====

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

The following table presents information regarding our subordinate and residual trading securities summarized by classification and rating at September 30, 2004:

RATING/DESCRIPTION (1)	PERCENT OWNED BY OCWEN	ANTICIPATED YIELD TO MATURITY AT PURCHASE (2) (3)	ANTICIPATED YIELD TO MATURITY AT 09/30/2004 (2) (4)	COUPON	ANTICIPATED WEIGHTED AVERAGE REMAINING LIFE (2) (5)
Residential:					
BB-rated subordinates	100.00%	19.23%	10.75%	6.75%	3.53
B-rated subordinates	100.00%	17.14%	18.14%	5.86%	1.85
Unrated subordinates	100.00%	13.97%	40.33%	6.64%	0.15
Unrated subprime residuals	100.00%	17.23%	10.40%	N/A	4.32
Commercial:					
Unrated subordinates	25.00%	22.15%	14.23%	N/A	1.83

(1) Refers to the credit rating designated by the rating agency for each securitization transaction. Classes designated "A" have a superior claim on payment to those rated "B." Additionally, multiple letters have a superior claim to designations with fewer letters. Thus, for example, "BBB" is superior to "BB," which in turn is superior to "B." The lower class designations in any securitization will receive interest payments after senior classes and will experience losses before any senior class. The lowest potential class designation is "unrated" which, if included in a securitization, will always receive interest last and experience losses first.

(2) Subordinate and residual securities do not have a contractual maturity but are paid down over time as cash distributions are received. Because they do not have a stated maturity, we disclose the weighted average life of these securities.

(3) Represents the effective yield from inception to maturity based on the purchase price and anticipated future cash flows under pricing assumptions.

(4) Represents the effective yield based on the purchase price, actual cash flows received from inception until the respective date, and the then current estimate of future cash flows under the assumptions at the respective date. Changes in the September 30, 2004 anticipated yield to maturity from that originally anticipated are primarily the result of changes in prepayment assumptions and loss assumptions.

(5) Represents the weighted average life in years based on the September 30, 2004 book value.

The mortgages that underlie our trading subordinate and residual securities, which totaled \$305,344 at September 30, 2004, are secured by properties located in forty-nine states and the United Kingdom. The aggregate value of mortgages in any one state or country did not exceed \$52,078.

Real Estate. Our real estate totaled \$68,480 or 5.3% of total assets at September 30, 2004 and consisted of the following at the dates indicated:

	September 30, 2004	December 31, 2003
Properties:		
Office building	\$ --	\$ 41,467
Retail	57,002	57,321
Hotel	6,206	6,171
Single family residential	512	882
	63,720	105,841
Accumulated depreciation	(3,964)	(7,118)
	59,756	98,723
Investment in real estate partnerships	8,724	5,220
	\$ 68,480	\$ 103,943
	=====	=====

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

Properties. Properties at September 30, 2004 consisted primarily of one shopping center located in Halifax, Nova Scotia, one shopping mall located in Florida and one hotel located in Michigan. The shopping mall, which had a carrying value of \$44,169 at September 30, 2004, and the hotel were originally acquired as a result of loan foreclosures. The \$38,967 decline in the carrying value of our properties during the nine months ended September 30, 2004 was primarily due to the sale of our office building, which had a carrying value of \$37,553 at December 31, 2003, and \$2,847 of charges we recorded to reflect declines in fair value. We have entered into contracts to sell all three of our commercial properties. The sale of our shopping mall in Florida closed in November 2004, while the sales of our other two properties have not yet closed and are subject to due diligence and other contingencies.

Investment in Real Estate Partnerships. Our investment at both September 30, 2004 and December 31, 2003 consisted of interests in two limited partnerships operating as real estate ventures, consisting of multi-family type properties. At December 31, 2003 we also had loans with combined net book value of \$4,771 (\$6,811 before discount and allowance for loan losses) due from one of the real estate ventures. During the first quarter of 2004 our loans to the venture were forgiven in exchange for an increased investment in the partnership. During the three and nine months ended September 30, 2004, we recorded impairment charges of \$121 and \$1,105, respectively, related to one of our partnership interests. See "Loans, Net" below.

Loans, Net. Our total net investment in loans of \$11,459 at September 30, 2004 represents 0.9% of total assets. Originations in 2004 represent loans we made to facilitate sales of real estate assets we owned. The decline in our investment reflects our strategy to dispose of these non-core assets.

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

	September 30, 2004	December 31, 2003
Commercial Assets:		
Hotels	\$ --	\$ 10,600
Multifamily residential	8,153	14,964
	8,153	25,564
Unaccreted discount and deferred fees	--	(1,015)
Allowance for loan losses	(1,019)	(3,786)
	7,134	20,763
Affordable Housing:		
Multifamily residential (1)	8,016	10,924
Unsecured	200	200
	8,216	11,124
Allowance for loan losses	(4,552)	(4,579)
	3,664	6,545
Corporate Items and Other:		
Single family residential	1,158	1,307
Unaccreted discount and deferred fees	(422)	(412)
Allowance for loan losses	(75)	(105)
	661	790
Loans, net	\$ 11,459	\$ 28,098
	=====	=====

(1) Loans we made to affordable housing properties in which we have invested as a limited partner but do not consolidate in our financial statements.

Our mortgage loans at September 30, 2004 are secured by mortgages on property located in 14 states throughout the United States, none of which aggregated over \$3,773 in any one state.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

Activity in Loans. The following table sets forth our loan activity at the dates indicated:

Balance at December 31, 2003	\$ 28,098
Originations and repurchases (1)	16,033
Resolutions and repayments (2)	(29,662)
Other (3)	(6,841)
Decrease (increase) in discount and deferred fees	1,005
Decrease (increase) in allowance for loan losses	2,826

Balance at September 30, 2004	\$ 11,459
	=====

- (1) Originations represent loans made to facilitate sales of our own assets and fundings of construction loans we originated in prior years. Originations include a loan in the amount of \$15,500 made during the first quarter to facilitate the sale of our office building in Jacksonville, Florida. This loan was repaid during the second quarter. See "Real Estate". Repurchases represent acquisitions of single-family residential discount loans previously sold.
- (2) Resolutions and repayments consists of loans that were 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 that have not been resolved.
- (3) As discussed in the "Real Estate" section, our loans to a real estate partnership in which we also had an equity ownership interest were converted to an increased investment in the partnership.

The following table sets forth certain information related to our non-performing loans at the dates indicated:

	September 30, 2004	December 31, 2003
	-----	-----
Non-performing loans (1)	\$ 8,439	\$ 21,898
Non-performing loans as a percentage of: (1)		
Total loans (2)	49.3%	59.9%
Total assets	0.7%	1.8%
Allowance for loan losses as a percentage of:		
Total loans (2)	33.0%	23.2%
Non-performing loans (1)	66.9%	38.7%

- (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 unaccrued discount, unamortized deferred fees and undisbursed loan funds.

See "Changes in Financial Condition - Allowance for Loan Losses" below for additional information regarding the allowance for loan losses.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

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

	September 30, 2004				December 31, 2003			
	Allowance		Loan Balance		Allowance		Loan Balance	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	-----	-----	-----	-----	-----	-----	-----	-----
Loans:								
Commercial Assets	\$ 1,019	18.1%	\$ 8,153	47.7%	\$ 3,786	44.7%	\$ 24,549	67.1%
Affordable Housing	4,552	80.6%	8,216	48.0%	4,579	54.1%	11,124	30.4%
Corporate Items and Other ..	75	1.3%	736	4.3%	105	1.2%	895	2.5%
	-----	-----	-----	-----	-----	-----	-----	-----
	\$ 5,646	100.0%	\$ 17,105	100.0%	\$ 8,470	100.0%	\$ 36,568	100.0%
	=====	=====	=====	=====	=====	=====	=====	=====
Match funded loans:								
Corporate Items and Other ..	\$ --	--%	\$ --	--%	\$ 94	100.0%	\$ 24,393	100.0%
Commercial Servicing	--	--%	2,173	100.0%	--	--%	--	--%
	-----	-----	-----	-----	-----	-----	-----	-----
	\$ --	--%	\$ 2,173	100.0%	\$ 94	100.0%	\$ 24,393	100.0%
	=====	=====	=====	=====	=====	=====	=====	=====

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

The following table sets forth an analysis of activity in the allowance for losses relating to our loans and match funded loans at the dates indicated:

Balance at December 31, 2003	\$ 8,564
Provision for loan losses	(913)
Charge-offs	(2,005)

Balance at September 30, 2004	\$ 5,646
	=====

Match Funded Assets. Match funded assets are comprised of the following at the dates indicated:

	September 30, 2004	December 31, 2003
	-----	-----
Match funded advances on loans serviced for others:		
Principal and interest	\$ 54,678	\$ 54,516
Taxes and insurance	30,598	30,176
Other	20,879	21,096
	-----	-----
	106,155	105,788
	-----	-----
Commercial loans	2,173	--
Single family residential loans	--	24,393
Allowance for loan losses	--	(94)
	-----	-----
Match funded loans, net	2,173	24,299
	-----	-----
	\$ 108,328	\$ 130,087
	=====	=====

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

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

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

Advances on Loans and Loans Serviced for Others. Advances consisted of the following at the dates indicated:

	September 30, 2004	December 31, 2003
Loans	\$ 352	\$ 436
Loans serviced for others	345,593	374,333
	<u>\$ 345,945</u>	<u>\$ 374,769</u>

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 the extent that we estimate that advances are uncollectible, taking into consideration the age and nature of the advance and our historical loss experience, among other factors. 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 "Match Funded Assets".

Mortgage Servicing Rights. The unamortized balance of our mortgage servicing rights is primarily related to residential assets. Our investment decreased by \$31,176 during the nine months ended September 30, 2004 as amortization exceeded purchases. The rate of amortization reflects increased projected prepayment volumes on subprime residential mortgage loans. The following table sets forth the activity in our mortgage servicing rights at the dates indicated:

Balance at December 31, 2003	\$ 166,495
Purchases (1)	39,997
Amortization	(71,173)
Balance at September 30, 2004	<u>\$ 135,319</u>

(1) Purchases for the nine months ended September 30, 2003 totaled \$78,971. The decline in the 2004 period reflects the more cautious acquisition strategy that we adopted given the uncertainty of prepayment speeds in the current environment. In addition, we have commitments with the OTS to maintain our investment in mortgage servicing rights at certain levels. See Note 5 to the Interim Consolidated Financial Statements and "General - Banking Operations" for additional information regarding these commitments.

At September 30, 2004, we serviced loans under approximately 338 servicing agreements for 22 investors. Purchases during the nine months ended September 30, 2004 were all for residential assets.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

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

	September 30, 2004	December 31, 2003
Residential Loan Servicing (1)	\$ 19,738	\$ 18,564
OTX	3,033	1,442
Ocwen Realty Advisors	3,469	962
Ocwen Recovery Group	289	260
Business Process Outsourcing	2,131	969
Commercial Servicing	2,120	1,324
Commercial Assets	507	2,848
Affordable Housing (2)	15,767	25,581
Corporate Items and Other (3)	67,446	36,207
	<u>\$ 114,500</u>	<u>\$ 88,157</u>
	=====	=====

- (1) Consist principally of fees earned and reimbursable expenses due from investors.
- (2) Primarily represents payments in future years of proceeds from the sale of investments in affordable housing properties, net of an unaccreted discount of \$2,171 and \$2,901 at September 30, 2004 and December 31, 2003, respectively. Balances are net of reserves for doubtful accounts. The decline in the balance during 2004 is primarily due to scheduled installment payments received.
- (3) Includes \$55,526 and \$21,465 at September 30, 2004 and December 31, 2003, respectively, of federal tax refund claims, which are pending approval that is required by the Joint Committee on taxation of the U.S. Congress before the claims can be paid. We have received written findings from the IRS agent that validate the \$55,526 of claims due to us. These claims have been sent to the Joint Committee for final review and approval of the payment to us. The receivables balance at September 30, 2004 also includes accrued interest of \$6,476 on the federal tax refund claims. At December 31, 2003, the receivables balance for this segment also included amounts related to our overnight collection account activities.

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

	September 30, 2004	December 31, 2003
Loans held for resale (1)	\$ 12,060	\$ --
Interest earning insurance collateral deposits (2) ..	8,865	8,813
Deferred debt related costs, net (3)	8,609	3,114
Deferred tax assets, net (4)	8,209	7,547
Goodwill, net (5)	7,732	1,618
Investments (6)	7,079	4,293
Deposits on purchases of mortgage servicing rights ..	1,716	--
Capitalized software development costs, net	1,446	2,599
Other (7)	17,907	5,623
	<u>\$ 73,623</u>	<u>\$ 33,607</u>
	=====	=====

- (1) Loans originated in response to requests from Residential Loan Servicing customers to refinance their mortgage. Only loans with sales commitments prior to closing are originated under this program. During October 2004, approximately \$10,900 of these loans were sold.
- (2) These deposits were required in order to obtain surety bonds for affordable housing properties that we sold before the end of the fifteen-year tax credit amortization period, and on which we have previously claimed tax credits on our income tax returns. The surety bond is necessary in order to avoid the recapture of those tax credits previously claimed.
- (3) The \$5,495 increase in net deferred debt related costs during the nine months ended September 30, 2004 is primarily the result of capitalized costs directly related to our issuance of the \$175,000 Convertible Notes on July 28, 2004. The unamortized balance of these issuance costs amounted to \$5,832 at September 30, 2004. See Note 3 to our Interim Consolidated Financial Statements for additional information regarding the Convertible Notes.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

- (4) Deferred tax assets are net of valuation allowances of \$162,314 and \$201,445 at September 30, 2004 and December 31, 2003, respectively. See "Results of Operations - Income Tax Expense (Benefit)".
- (5) The increase in goodwill during 2004 is the result of our acquisition on September 30, 2004 of Bankhaus Oswald Kruber KG, a bank located in Germany. The purchase price, plus acquisition costs, exceeded the net assets acquired by approximately \$6,100. For additional information regarding this acquisition, see Note 9 to our Interim Consolidated Financial Statements.
- (6) The \$2,786 increase in the balance during the nine months ended September 30, 2004 primarily represents an investment by the Bank in a mutual fund that invests in assets that meet the requirements under the Community Reinvestment Act.
- (7) Includes \$13,961 and \$1,128 of miscellaneous other assets and prepaid expenses of the Residential Loan Servicing segment at September 30, 2004 and December 31, 2003, respectively.

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

	September 30, 2004			December 31, 2003		
	Amount	Weighted Average Rate	% of Total Deposits	Amount	Weighted Average Rate	% of Total Deposits
Non-interest bearing checking accounts..	\$ 16,007	--%	3.9%	\$ 4,879	--%	1.1%
NOW and money market checking accounts..	20,835	0.75%	5.0%	18,313	0.90%	4.1%
Savings accounts	1,645	0.75%	0.4%	1,657	1.00%	0.4%
	38,487		9.3%	24,849		5.6%
Certificates of deposit (1) (2)	373,630			421,657		
Unamortized deferred fees	--			(118)		
Total certificates of deposit	373,630	3.09%	90.7%	421,539	3.41%	94.4%
	\$ 412,117		100.0%	\$ 446,388		100.0%
	=====		=====	=====		=====

- (1) Included \$40,114 and \$84,393 at September 30, 2004 and December 31, 2003, respectively, of brokered deposits originated through national, regional and local investment banking firms that solicit deposits from their customers, all of which are non-cancelable.
- (2) At September 30, 2004 and December 31, 2003, certificates of deposit with outstanding balances of \$100 or more amounted to \$144,724 and \$142,408, respectively. Of those deposits at September 30, 2004, \$8,800 were from political subdivisions in New Jersey and were secured or collateralized as required under state law. The basic insured amount of a depositor is \$100. Deposits maintained in different categories of legal ownership are separately insured.

The following table sets forth the remaining maturities of our time deposits with balances of \$100 or more at September 30, 2004:

Matures within three months	\$ 47,907
Matures after three months through six months	51,076
Matures after six months through twelve months	10,139
Matures after twelve months	35,602

	\$ 144,724
	=====

Escrow Deposits. Escrow deposits on our loans and loans we serviced for others amounted to \$146,074 and \$116,444 at September 30, 2004 and December 31, 2003, respectively. The balance consisted principally of custodial deposit balances representing collections that we made from borrowers for the payment of taxes and insurance premiums on mortgage properties underlying loans that we serviced for others. Such balances amounted to \$124,337 and \$96,924 at September 30, 2004 and December 31, 2003, respectively. See "Results of Operations - Non-Interest Income - Servicing and Related Fees".

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

Bonds-Match Funded Agreements. Bonds-match funded agreements represent proceeds received from transfers of loans and advances on 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 borrowing with pledges of collateral. See "Match Funded Assets" for additional details regarding these transactions. Bonds-match funded agreements were comprised of the following at the dates indicated:

Collateral (Interest Rate)	Interest Rate	September 30, 2004	December 31, 2003
Advances on loans serviced for others (1)	LIBOR plus 175 basis points	\$ 95,539	\$ 94,967
Commercial loans		2,173	--
Single family loans (2)	LIBOR plus 65-70 basis points	--	20,427
		<u>\$ 97,712</u>	<u>\$ 115,394</u>
		=====	=====

(1) 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.

(2) During the third quarter of 2004, we exercised our option to redeem the bonds-match funded agreements that were secured by single family loans. See "Match Funded Assets".

Lines of Credit and Other Secured Borrowings. We have obtained secured borrowings from unaffiliated financial institutions as follows:

Borrowing Type	Collateral	Maturity	Interest Rate (1)	September 30, 2004	December 31, 2003
Line of credit	Advances on loans serviced for others (2)	March 2004	LIBOR + 200 basis points	\$ --	\$ 68,548
Secured loan	Trading securities - UK unrated subprime residual securities (3)	November 2004	LIBOR + 275 basis points	3,888	11,562
Installment notes	Purchased mortgage servicing rights	July 2004	2.81%	--	2,332
Line of credit	Advances on loans serviced for others	(4)	LIBOR + 200 basis points	--	9,386
Term loan	Loan receivable	(4)	LIBOR + 250 basis points	--	3,235
Senior secured credit agreement	Purchased mortgage servicing rights and advances on loans serviced for others (5)	April 2005	LIBOR + 162.5 or 225 basis points	19,114	35,321
Mortgage note	Real estate - office building	(6)	LIBOR + 350 basis points, floor of 5.75%	--	20,000
Senior secured credit agreement	Purchased mortgage servicing rights	December 2005	LIBOR + 250 basis points	12,500	--
				<u>\$ 35,502</u>	<u>\$ 150,384</u>
				=====	=====

(1) 1-month LIBOR was 1.84% and 1.12% at September 30, 2004 and December 31, 2003, respectively.

(2) This line was fully repaid during the first quarter of 2004 and was not renewed upon maturity.

(3) The outstanding principal balance has been reduced through the assignment of principal and interest payments received on the unrated subprime residual securities.

(4) This borrowing was repaid prior to its contractual maturity.

(5) Subsequent to December 31, 2003, the original maturity date of April 2004 was extended to April 2005, and the maximum amount of borrowing under this facility was increased from \$60,000 to \$70,000.

(6) We sold our office building in January 2004, and the buyer assumed this note at that time.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

Each of our credit facilities provides qualitative and quantitative covenants that establish, among other things, the maintenance of specified net worth and liquidity, and restrictions on future indebtedness, as well as the monitoring and reporting of various specified transactions or events.

Debt Securities. Notes consist of the following at the dates indicated:

	September 30, 2004	December 31, 2003
	-----	-----
3.25% Contingent Convertible Senior Unsecured		
Notes due August 1, 2024	\$ 175,000	\$ --
10.875% Capital Securities due August 1, 2027 (1)...	56,249	56,249
	-----	-----
	\$ 231,249	\$ 56,249
	=====	=====

On July 28, 2004, OCN issued \$175,000 aggregate principal amount of 3.25% Contingent Convertible Senior Unsecured Notes due 2024 ("Convertible Notes") in a private placement under the Securities Act of 1933, as amended. The Convertible Notes are senior unsecured obligations and bear interest at the rate of 3.25% per year. Interest is payable on February 1 and August 1 of each year, beginning on February 1, 2005. The Convertible Notes will be convertible at the option of the holder thereof under certain circumstances into shares of our common stock at an initial conversion rate of 82.1693 shares per \$1 principal amount of the Convertible Notes, subject to adjustment. Upon conversion, we may at our option choose to deliver, in lieu of common stock, cash or a combination of cash and common stock. See Note 3 to our Interim Consolidated Financial Statements for additional details regarding the Convertible Notes.

(1) See Note 3 to our Interim Consolidated Financial Statements for additional details regarding the Capital Securities.

Stockholders' Equity. Stockholders' equity increased \$9,666 during the nine months ended September 30, 2004. The increase was primarily due to net income of \$55,159 and the issuance of common stock resulting from exercises of stock options, offset by our repurchase of 5,481,100 shares of common stock in the amount of \$49,449 during the third quarter. See the Consolidated Statements of Changes in Stockholders' Equity in the Interim Consolidated Financial Statements.

Information regarding purchases of our own securities during the nine months ended September 30, 2004 is as follows:

Period	Number of Shares	Average Share Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans (1) (2)	Maximum Number of Shares That May Yet Be Purchased under The Plans
-----	-----	-----	-----	-----
July 28 - 30, 2004	4,876,300	\$ 9.02	4,876,300	173,700
August 2 - 31, 2004	275,300	\$ 8.67	173,700	--
September 1 - 23, 2004	329,500	\$ 9.34	--	--
	-----		-----	
Total	5,481,100		5,050,000	
	=====		=====	

(1) Shares were repurchased under the following plans:

- (a) A plan was announced July 27, 2004 to repurchase 4,850,000 shares of common stock using 25% of the gross proceeds from the sale of our Convertible Notes. See Note 3 to our Interim Consolidated Financial Statements. As of September 30, 2004, no shares remain to be repurchased under this plan.
- (b) A plan was announced May 16, 2003 to repurchase up to 700,000 shares of common stock to be used in connection with our annual incentive awards to employees. As of September 30, 2004, no shares remain to be repurchased under this plan.

(2) We repurchased 431,100 shares under an unannounced plan to repurchase up to 1,000,000 shares of common stock. These purchases were made in open market transactions.

LIQUIDITY, COMMITMENTS AND OFF-BALANCE SHEET RISKS

Our primary sources of funds for liquidity are:

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

At September 30, 2004, we had \$228,819 of unrestricted cash and cash

equivalents and \$98,179 of short-term investment grade securities. Unrestricted cash and cash equivalents and short-term investment grade securities combined represented 25% of total assets at September 30, 2004. Under certain of our credit facilities we are required to maintain minimum liquidity levels. We closely monitor our liquidity position and ongoing funding requirements. Among the risks and challenges associated with our funding activities are the following:

- . Scheduled maturities of all certificates of deposit for the twelve months ending September 30, 2005, the twelve months ending September 30, 2006 and thereafter amount to \$248,337, \$79,560 and \$45,733, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

- . Potential extension of resolution and sale timelines for non-core assets.
- . Ongoing cash requirements to fund operations of our holding company.
- . Cash to fund our acquisition of additional servicing rights and related advances.

While we have not issued brokered deposits since mid-2000, which amounted to \$40,114 at September 30, 2004, we continue to use non-brokered deposits as a source of funding. Our reliance on deposits has been reduced through sales of non-core assets, and by diversifying our funding sources, including obtaining credit facilities for servicing rights and advances. If, as described under "Banking Operations," we cease to control a federal savings bank, we would no longer be able to rely on non-brokered deposits obtained through the Bank as a source of funding.

Alternative sources of corporate funding that have been secured in recent months include the following:

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

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

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

- . Under a match funding agreement that we entered into on December 20, 2001, we are eligible to sell advances on loans serviced for others up to a maximum debt balance of \$200,000 at any one time. At September 30, 2004, we had \$95,539 of bonds-match funded agreements outstanding under this facility, which will mature in January 2006. The sales of advances do not qualify as sales for accounting purposes; therefore, we report them as secured borrowings with pledges of collateral.
- . In April 2003, we also entered into a \$60,000 secured credit agreement that may be used to fund servicing advances and acquisitions of servicing rights. The agreement matured in April 2004 and was renewed through April 2005. The size of the facility was increased to \$70,000. At September 30, 2004, we had a balance outstanding under this agreement of \$19,114.
- . In December 2003, we entered into a \$12,500 secured credit agreement under which any borrowings are collateralized by mortgage servicing rights. In January 2004, we borrowed \$12,500 under this facility, which is the balance outstanding as of September 30, 2004.
- . In addition to the credit agreements above, we are currently in the process of closing a securitization transaction involving approximately \$100,000 of our servicing 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 notes, lines of credit from unaffiliated parties, match funded debt and other secured borrowings.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in thousand, except share data)

Our operating activities provided (used) \$7,636 and \$(823) of cash flows during the nine months ended September 30, 2004 and 2003, respectively. The improvement in operating cash flows in 2004 primarily relates to advances on loans serviced for others, as collections exceeded new advances, offset in large part by a decline in cash related to trading activities that largely resulted from our purchases of short term AAA-rated auction rate securities during the third quarter. During the nine month period of 2003, new advances on loans serviced for others exceeded collections.

Our investing activities provided (used) cash flows totaling \$7,600 and \$(17,975) during the nine months ended September 30, 2004 and 2003, respectively. During the foregoing periods, cash flows from our investing activities were provided primarily from principal payments on loans and match funded loans, as well as proceeds from sales of loans and real estate. We used cash flows from our investing activities primarily to purchase mortgage servicing rights and fund loans to facilitate the sales of real estate assets. Purchases of mortgage servicing rights during the nine month period of 2004 have declined as compared to the same period of 2003 thereby reducing the amount of cash used for investing activities.

Our financing activities provided cash flows of \$10,663 and \$73,483 during the nine months ended September 30, 2004 and 2003, respectively. Proceeds from our issuance of the \$175,000 Convertible Notes in 2004 was largely offset by repayment of credit lines and match funded debt and our repurchase of 5,481,100 shares of our common stock. The financing cash flows for 2003 primarily represent proceeds from lines of credit and an increase in deposits, offset in part by repayments of match funded debt and repurchases of notes and debentures.

See the Consolidated Statements of Cash Flows in the Interim Consolidated Financial Statements for additional details regarding cash flows during the nine months ended September 30, 2004 and 2003.

Commitments. We believe that we have adequate resources to meet our contractual obligations as they come due. Such contractual obligations include our Convertible Notes, Capital Trust Securities, lines of credit and other secured borrowings, certificates of deposit and operating leases. See Note 10 to our Interim Consolidated Financial Statements regarding our commitments and contingencies.

Off-Balance Sheet Risks. We are party to off-balance sheet financial instruments in the normal course of our business to manage our foreign currency exchange rate risk. See Note 4 to our Interim Consolidated Financial Statements and "Asset and Liability Management".

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

REGULATORY CAPITAL AND OTHER REQUIREMENTS

See Note 5 to our Interim Consolidated Financial Statements.

RECENT ACCOUNTING DEVELOPMENTS

For information relating to the effects of our adoption of recent accounting standards, see Note 2 to our Interim Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
(Dollars in thousands)

ASSET AND LIABILITY MANAGEMENT

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. Our objective is to control risks associated with interest rate and foreign currency exchange rate movements. Our Asset/Liability Management Committee (the "Committee"), which is composed of certain of our officers, formulates and monitors our asset and liability management strategy in accordance with policies approved by our Board of Directors. The Committee meets to review, among other things, the sensitivity of our assets and liabilities to interest rate changes and foreign currency exchange rate changes, the book and market values of assets and liabilities, unrealized gains and losses, including those attributable to hedging transactions, purchase and sale activity, and maturities of investments and borrowings. The Committee also approves and establishes pricing and funding decisions with respect to overall asset and liability composition.

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

The following table sets forth the estimated maturity or repricing of our interest-earning assets and interest-bearing liabilities at September 30, 2004. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual terms of the assets and liabilities, except:

- . Securities are included in the period in which they are first scheduled to adjust and not in the period in which they mature,
- . Fixed-rate mortgage-related reflect prepayments that were estimated based on analyses of broker estimates, the results of a prepayment model we use and empirical data,
- . NOW and money market checking deposits and savings deposits, which do not have contractual maturities, reflect estimated levels of attrition, which are based on our detailed studies of each such category of deposit and,
- . Escrow deposits and other non interest-bearing checking accounts, which amounted to \$162,081 at September 30, 2004, are excluded.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - (Continued)
(Dollars in thousands)

September 30, 2004					
	Within Three Months	Four to Twelve Months	More Than One Year to Three Years	Three Years and Over	Total
Rate-Sensitive Assets (1):					
Interest-earning deposits	\$ 52,541	\$ --	\$ --	\$ --	\$ 52,541
Trading securities	102,816	6,400	14,843	14,430	138,489
Investments	4,288	2,519	--	--	6,807
Loans, net (2)	1,060	7,566	1,159	1,674	11,459
Match funded loans (2) (3)	2,173	--	--	--	2,173
Total rate-sensitive assets	162,878	16,485	16,002	16,104	211,469
Rate-Sensitive Liabilities:					
NOW and money market checking deposits	18,913	221	472	1,229	20,835
Savings deposits	112	236	467	830	1,645
Certificates of deposit	110,653	137,735	118,141	7,101	373,630
Total interest-bearing deposits	129,678	138,192	119,080	9,160	396,110
Bonds-match funded agreements	97,712	--	--	--	97,712
Lines of credit and other secured borrowings	35,502	--	--	--	35,502
Notes and debentures	--	--	--	231,249	231,249
Total rate-sensitive liabilities	262,892	138,192	119,080	240,409	760,573
Interest rate sensitivity gap (4)	\$ (100,014)	\$ (121,707)	\$ (103,078)	\$ (224,305)	\$ (549,104)
Cumulative interest rate sensitivity gap (5)	\$ (100,014)	\$ (221,721)	\$ (324,799)	\$ (549,104)	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets ...	(47.29)%	(104.85)%	(153.59)%	(259.66)%	
As of December 31, 2003:					
Cumulative interest rate sensitivity gap (5)	\$ (372,312)	\$ (505,845)	\$ (615,111)	\$ (657,002)	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets ...	(349.48)%	(474.82)%	(577.38)%	(616.71)%	

(1) Excludes balances in the collection accounts of our Residential Loan Servicing business. These balances, which totaled approximately \$946,000 at September 30, 2004, are not included in our statements of financial condition and earn interest at short term rates. This interest is included as a component of servicing fees. See "Segment Results - Residential Loan Servicing".

(2) We have not reduced balances for any non-performing loans.

(3) Excludes match funded advances on loans serviced for others, which do not earn interest, of \$106,155 at September 30, 2004.

(4) We had no rate -sensitive derivative financial instruments outstanding at September 30, 2004.

(5) We have experienced a large negative interest rate sensitivity gap in recent years. The negative interest rate sensitivity gap reflects the economics of our Residential Loan Servicing business. Servicing advances, the largest asset class on our balance sheet, is not sensitive to changes in interest rates. However, we finance servicing advances with interest rate sensitive liabilities.

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 NVP Ratio for a given interest rate scenario is calculated by dividing the NPV that would result in that scenario by the present value of the institution's assets in that same scenario. The hypothetical scenarios are represented by immediate, permanent, parallel movements (shocks) in the term structure of interest rates of plus 100, 200 and 300 basis points and minus 100 basis points from the actual term structure observed at quarter end. The current NPV Ratio for each of the five rate scenarios and the corresponding limits approved by the Board of Directors, as applied to Ocwen Financial Corporation and its subsidiaries, are as follows at September 30, 2004:

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - (Continued)
(Dollars in thousands)

Rate Shock in basis points	Board Limits (minimum NPV Ratios)	Current NPV Ratios
+300	5.00%	33.89%
+200	6.00%	31.95%
+100	7.00%	29.82%
0	8.00%	27.43%
-100	7.00%	24.60%

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 or 100 basis points, respectively, 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 September 30, 2004. 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	(181.52)%	29.33%
+200	(121.01)%	20.21%
+100	(60.51)%	10.55%
0	0.00%	0.00%
-100	60.51%	(12.23)%

The Committee is authorized to utilize a wide variety of off-balance sheet financial techniques to assist in the management of interest rate risk and foreign currency exchange rate risk. These techniques include interest rate caps and floors and foreign currency futures contracts.

Foreign Currency Exchange Rate Risk Management. We have entered into foreign currency futures to hedge our net investments in foreign subsidiaries that own residual interests backed by residential loans originated in the UK and the shopping center located in Halifax, Nova Scotia. Our principal exposure to foreign currency exchange rates 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 Note 4 to our Interim Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the securities Exchange Act) as of September 30, 2004. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2004 our disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q 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 discussions of the future availability of funds, beliefs regarding regulatory compliance and litigation resolution, expectations as to resolution of our non-core assets, predictions on loan yield and the adequacy of our funding needs, resource assumptions and beliefs, intentions with regard to the issuance of brokered deposits, estimates for loan losses and carrying values, and plans for growth in India. Forward-looking statements are not guarantees of future performance, and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially.

Important factors that could cause actual results to differ materially from those suggested by the forward-looking statements include, but are not limited to, the following: general economic and market conditions, prevailing interest or currency exchange rates, governmental regulations and policies, international political and economic uncertainty, availability of adequate and timely sources of liquidity, uncertainty related to dispute resolution and litigation, and real estate market conditions and trends, as well as other risks detailed in OCN's reports and filing with the Securities and Exchange Commission, including our annual report on Form 10-K for the year ended December 31, 2003 and our Form 10-Q for the quarter ended June 30, 2004. 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.

ITEM 1. LEGAL PROCEEDINGS.

See "Note 9 Commitments and Contingencies" of Ocwen Financial Corporation's Interim Consolidated Financial Statements.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a)3 Exhibits.

- 2.1 Agreement of Merger dated as of July 25, 1999 among Ocwen Financial Corporation, Ocwen Asset Investment Corp. and Ocwen Acquisition Company (1)
 - 3.1 Amended and Restated Articles of Incorporation (2)
 - 3.2 Amended and Restated Bylaws (3)
 - 4.0 Form of Certificate of Common Stock (2)
 - 4.1 Certificate of Trust of Ocwen Capital Trust I (4)
 - 4.2 Amended and Restated Declaration of Trust to Ocwen Capital Trust I (4)
 - 4.3 Form of Capital Security of Ocwen Capital Trust I (Included in Exhibit 4.2) (4)
 - 4.4 Form of Indenture relating to 10.875% Junior Subordinated Debentures due 2027 of OCN (4)
 - 4.5 Form of 10.875% Junior Subordinated Debentures due 2027 of OCN (Included in Exhibit 4.4) (4)
 - 4.6 Form of Guarantee of the OCN relating to the Capital Securities of Ocwen Capital Trust I (4)
 - 4.7 Form of Registration Rights Agreement dated as of July 28, 2004, between OCN and Jeffries & Company Inc. (10)
 - 4.8 Form of Indenture dated as of July 28, 2004, between OCN and the Bank of New York Trust Company, N.A., as trustee (10)
 - 10.1 Ocwen Financial Corporation 1996 Stock Plan for Directors, as amended (5)
 - 10.2 Ocwen Financial Corporation 1998 Annual Incentive Plan (6)
 - 10.3 Compensation and Indemnification Agreement, dated as of May 6, 1999, between OAC and the independent committee of the Board of Directors (7)
 - 10.4 Indemnity agreement, dated August 24, 1999, among OCN and OAC's Board of Directors (8)
 - 10.5 Amended Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, dated October 26, 1999 (8)
 - 10.6 First Amendment to Agreement, dated March 31, 2000, between HCT Investments, Inc. and OAIC Partnership I, L.P. (8)
 - 10.7 Form of Employment Agreement dated as of April 1, 2001, by and between Ocwen Financial Corporation and Arthur D. Ringwald (9)
 - 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
 - 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
 - 32.1 Certification of the Chief Executive Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
 - 32.2 Certification of the Chief Financial Officer pursuant to 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 the 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 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 Ocwen Financial Corporation's 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 the Registrant's Registration Statement on Form S-8 (File No. 333-44999), effective when filed with the Commission on January 28, 1998.
 - (6) Incorporated by reference from the similarly described exhibit to Ocwen Financial Corporation's Definitive Proxy Statement with respect to Ocwen Financial Corporation's 1998 Annual Meeting of Shareholders filed with the Commission on March 31, 1998.
 - (7) Incorporated by reference from OAC's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999.

- (8) Incorporated by reference from the similarly described exhibit included with Registrant's Quarterly Report of Form 10-Q for the quarterly period ended March 31, 2000.
- (9) 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.
- (10) Incorporated by reference from the similarly described exhibit included with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004.
- (b) REPORTS ON FORM 8-K FILED DURING THE QUARTER ENDED SEPTEMBER 30, 2004.
- (1) A Form 8-K was filed by OCN on July 19, 2004 reporting, under Item 12, a news release announcing Ocwen Financial Corporation's financial results for the second quarter ended June 30, 2004.
- (2) A Form 8-K was filed by OCN on July 20, 2004 reporting, under Item 5, a news release announcing the order of a federal judge vacating a jury award of \$9.3 million against two of the Registrant's subsidiaries, Ocwen Federal Bank, FSB and Ocwen Technology Xchange, and ordering a new trial and reporting, under Item 12, a news release announcing increased second quarter 2004 net income.
- (3) A form 8-K was filed by OCN on July 21, 2004 reporting, under Item 5, a news release clarifying certain statements about its subsidiary, Ocwen Federal Bank FSB, appearing in a trade press sidebar and a news release announcing the private placement of \$125 million of convertible senior unsecured notes.
- (4) A form 8-K was filed by OCN on July 23, 2004 reporting, under Item 5, a news release announcing the pricing of its convertible senior unsecured notes.
- (5) A form 8-K was filed by OCN on July 27, 2004 reporting, under Item 5, a news release announcing the repurchase of 4,850,000 shares of common stock and the exercise of an option to purchase additional notes.

SIGNATURES

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

OCWEN FINANCIAL CORPORATION

By: /s/ Mark S. Zeidman

Mark S. Zeidman,
Senior Vice President and
Chief Financial Officer
(On behalf of the Registrant and as its
principal financial officer)

Date: November 9, 2004

CERTIFICATIONS

I, William C. Erbey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ocwen Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2004

/s/ William C. Erbey

William C. Erbey
Chief Executive Officer

CERTIFICATIONS

I, Mark S. Zeidman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ocwen Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e) for the registrant and have:
 - (d) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (e) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (f) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2004

/s/ Mark S. Zeidman

 Mark S. Zeidman
 Chief Financial Officer

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
 - . the Quarterly Report on Form 10-Q of the Registrant for the quarter ended September 30, 2004 (the "periodic report") containing financial statements fully complies with the requirements of Section 13(a) or 15(b) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
 - . the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ William C. Erbey

Title: Chief Executive Officer
Date: November 9, 2004

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
 - . the Quarterly Report on Form 10-Q of the Registrant for the quarter ended September 30, 2004 (the "periodic report") containing financial statements fully complies with the requirements of Section 13(a) or 15(b) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
 - . the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ Mark S. Zeidman

Title: Chief Financial Officer
Date: November 9, 2004