

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

PRE-EFFECTIVE
AMENDMENT NO. 1
TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

OCWEN FINANCIAL CORPORATION

(Exact name of registrant as specified in its articles of incorporation)

Florida	6712, 6035	65-0039856
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

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

(Address, including zip code, and telephone number, including area code, of
registrant's principal executive offices)

William C. Erbey
President and Chief Executive Officer
Ocwen Financial Corporation
The Forum, Suite 1000
1675 Palm Beach Lakes Blvd.
West Palm Beach, Florida 33401
(561) 681-8000

(Name, address, including zip code, and telephone number, including area code,
of agent for service)

Copy to:

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC: As soon as
practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of
1933, check the following box. []

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR
DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL
FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION
STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF
THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME
EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a),
MAY DETERMINE.

EXPLANATORY NOTE

This Registration Statement is being filed with respect to (i) 2,000,000 shares of common stock, par value \$0.01 per share (the "Common Stock"), of Ocwen Financial Corporation (the "Company") (and an additional 300,000 shares of Common Stock issuable upon exercise of the Underwriters' over-allotment option), all of which are being offered by certain stockholders of the Company, and (ii) \$100 million principal amount of Notes due 2003 (the "Notes"), which are being offered by the Company.

This Registration Statement contains two forms of Prospectus. The first Prospectus relates to the offering of Notes and the second Prospectus relates to the offering of Common Stock. The Common Stock Prospectus will be identical to the Notes Prospectus, except for the alternate pages which appear immediately following the back cover page of the Notes Prospectus.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

PROSPECTUS

\$100,000,000
OCWEN FINANCIAL CORPORATION
_____% NOTES DUE 2003

Ocwen Financial Corporation (the "Company") is offering hereby (the "Notes Offering") \$100 million principal amount of its ____% Notes due 2003 (the "Notes"). Interest on the Notes will be payable semiannually on ____ and ____ of each year, commencing ____, 1996. On and after ____, 2001, the Notes will be redeemable at any time at the option of the Company, in whole or in part, at the redemption prices set forth herein. The Notes are not otherwise redeemable prior to ____, 2001, except that until ____, 1999, the Company may redeem, at its option, up to \$35 million of Notes at a redemption price equal to ____% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, from the net proceeds of one or more private or public sales of Qualified Capital Stock (as defined herein) if at least \$65 million principal amount of the Notes remains outstanding after such redemption. Upon the occurrence of a Change of Control Event (as defined), holders of the Notes will have the right to require the Company to repurchase their Notes, in whole or in part, at a purchase price equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date. See "Description of Notes."

Concurrently with the Notes Offering by the Company, certain stockholders of the Company are offering 2,000,000 shares of common stock, par value \$0.01 per share ("Common Stock"), of the Company (the "Common Stock Offering"). The Company will not receive any of the proceeds from the Common Stock Offering. See "Selling Stockholders" and "Underwriting." The Notes being offered hereby and the shares of Common Stock offered by the Selling Stockholders are being offered separately and not as units, and neither offering is conditioned on completion of the other offering.

THE NOTES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE ____ HEREOF FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED CAREFULLY BY PROSPECTIVE PURCHASERS OF THE NOTES OFFERED HEREBY.

THE SECURITIES OFFERED HEREBY ARE NOT SAVINGS ACCOUNTS OR
SAVINGS DEPOSITS AND ARE NOT INSURED OR GUARANTEED BY
THE FEDERAL DEPOSIT INSURANCE CORPORATION, ANY OTHER
GOVERNMENTAL AGENCY OR OTHERWISE.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE
SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES
COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION
OR ANY STATE SECURITIES COMMISSION PASSED UPON THE
ACCURACY OR ADEQUACY OF THIS PROSPECTUS.
ANY REPRESENTATION TO THE CONTRARY
IS A CRIMINAL OFFENSE.

	Price to Public(1)	Underwriting Discount(2)	Proceeds to Company(3)
Per Note	100%	%	%
Total(3)	\$100,000,000	\$	\$

- (1) Plus accrued interest, if any, from the date of issuance.
- (2) The Company has agreed to indemnify the Underwriter against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
- (3) Before deducting expenses payable by the Company estimated at \$_____.

The Notes are offered by the Underwriter, subject to receipt and acceptance by the Underwriter, approval of certain legal matters by counsel for the Underwriter and certain other conditions. The Underwriter reserves the right to withdraw, cancel or modify such offers and to reject orders in whole or in part. It is expected that delivery of the Notes will be made through the facilities of The Depository Trust Company on or about ____, 1996.

FRIEDMAN, BILLINGS, RAMSEY & CO., INC.
The date of this Prospectus is ____, 1996

IN CONNECTION WITH THE COMMON STOCK OFFERING AND THE NOTES OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF SUCH SECURITIES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

FOR CALIFORNIA INVESTORS: THESE SECURITIES MAY BE OFFERED AND SOLD ONLY TO "INSTITUTIONAL INVESTORS" AS DEFINED UNDER THE CALIFORNIA CORPORATE SECURITIES LAW OF 1968, AND TO MEMBERS OF THE PUBLIC WHO QUALIFY AS "ACCREDITED INVESTORS" AS DEFINED UNDER RULE 501(a) UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

AVAILABLE INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission"), a Registration Statement on Form S-1 under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the Common Stock Offering and the Notes Offering. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and the Common Stock and the Notes, reference is hereby made to such Registration Statement and the exhibits and schedules thereto. The Registration Statement, including exhibits thereto, may be inspected and copied at the public reference facilities maintained by the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549 and at the Commission's Regional Offices located at Suite 1400, 500 West Madison Street, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048. Copies of such materials may be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The Commission maintains a World Wide Web site on the Internet that contains reports, proxy and information statements and other information regarding registrants such as the Company that file electronically with the Commission. The address of such site is: <http://www.sec.gov>.

In connection with the Common Stock Offering, the Company will register the Common Stock pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Upon such registration, the Company will be subject to the informational requirements of the Exchange Act and, in accordance therewith, will file reports, proxy statements and other information with the Commission. Such reports, proxy statements and other information can be inspected and copied at the addresses set forth above. In addition, as long as the Common Stock is quoted on the Nasdaq National Market, reports, proxy statements and other information covering the Company also will be available for inspection at the National Association of Securities Dealers, Inc. ("NASD"), 1735 K Street, N.W., Washington, D.C. 20006.

The Company intends to furnish to both holders of Common Stock and holders of Notes annual reports containing financial statements of the Company audited by its independent accountants and quarterly reports containing unaudited condensed financial statements for each of the first three quarters of each fiscal year.

SUMMARY

THIS SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES APPEARING ELSEWHERE IN THIS PROSPECTUS. UNLESS OTHERWISE INDICATED, ALL SHARE DATA CONTAINED IN THIS PROSPECTUS RELATING TO THE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING ASSUMES NO EXERCISE OF THE COMMON STOCK UNDERWRITERS' OVERALLLOTMENT OPTION TO PURCHASE ADDITIONAL SHARES OF COMMON STOCK OR OF OUTSTANDING EMPLOYEE STOCK OPTIONS TO PURCHASE AN AGGREGATE OF 3,232,690 SHARES OF COMMON STOCK AS OF JUNE 30, 1996. THE SHARE DATA CONTAINED HEREIN GIVES RETROACTIVE EFFECT TO A TEN-FOR-ONE SPLIT OF THE OUTSTANDING SHARES OF COMMON STOCK AS OF JULY 31, 1996.

THE COMPANY

GENERAL

The Company is a financial services company which is primarily engaged in the acquisition and resolution of troubled loans and in diverse mortgage lending activities. The activities of the Company are primarily conducted through Berkeley Federal Bank & Trust FSB (the "Bank"), a federally-chartered savings bank and a wholly-owned subsidiary of the Company, which is in the process of being renamed "Ocwen Federal Bank FSB." At June 30, 1996, the Company had \$1.9 billion of total assets and stockholders' equity of \$154.7 million.

The Company's business strategy focuses on the identification and development of selected business lines that provide the highest return consistent with prudent risk management. Exclusive of gains from the sale of branch offices and related income taxes and profit sharing expense, the Company's income from continuing operations before extraordinary gain and cumulative effect of a change in accounting principle resulted in returns on average assets of 1.56%, 2.00%, 1.40% and 2.37% during the six months ended June 30, 1996 and the years ended December 31, 1995, 1994 and 1993, respectively, and returns on average equity of 20.67%, 25.02%, 20.06% and 27.89% during the same respective periods. Although the Company has experienced significant profitability, because the Company operates in areas which involve more uncertainties and risks than the single-family residential lending activities historically emphasized by savings institutions, there can be no assurance that its profitability will continue at historical levels or that there will not be significant inter-period variations in the profitability of the Company's operations in future periods.

BUSINESS ACTIVITIES

DISCOUNTED LOAN ACQUISITION AND RESOLUTION ACTIVITIES. The Company has established a core expertise in the acquisition and resolution of non-performing or underperforming single-family residential, multi-family residential and commercial real estate loans, which generally are purchased at a discount to both the unpaid principal amount of the loan and

the estimated value of the security property ("discounted loans"). The Company acquires discounted loans from a wide variety of sources, which in recent years have been primarily private sector sellers and, to a lesser extent, governmental agencies. The Company believes that its experience in the acquisition and resolution of discounted loans, its investment in a state-of-the-art computer infrastructure and related technology which is utilized in this business and its national reputation and nationwide presence in this area make it one of the leaders in this relatively new and evolving business. Between commencing these activities in mid-1991 and June 30, 1996, the Company acquired over \$2.4 billion of gross principal amount of discounted loans, including \$161.8 million, \$791.2 million and \$826.4 million during the six months ended June 30, 1996 and the years ended December 31, 1995 and 1994, respectively. In addition, the Company recently acquired a 50% interest in a newly-formed joint venture that acquired discounted single-family residential loans having an aggregate unpaid principal balance of \$741.2 million from the Federal Housing Administration ("FHA") of the U.S. Department of Housing and Urban Development ("HUD"). At June 30, 1996, the Company's discounted loan acquisition and resolution activities included its discounted loan portfolio, which amounted to \$594.6 million (net of \$226.2 million of unaccreted discount and a \$9.5 million allowance for loan losses), \$132.0 million of related real estate owned and a \$60.9 million net investment in the above-referenced joint venture, which in the aggregate amounted to \$787.5 million or 41.5% of the Company's total assets.

MULTI-FAMILY RESIDENTIAL AND COMMERCIAL REAL ESTATE LENDING ACTIVITIES. The Company's lending activities emphasize loans secured by multi-family residential and commercial real estate located nationwide. In conducting these activities, the Company generally seeks to emphasize types of loans and/or lending in geographic areas which, for various reasons, may not be currently emphasized by other lenders and which thus offer attractive returns to the Company relative to other investments. The loans currently emphasized by the Company include loans secured by hotels and office buildings. The Company has developed expertise in the securitization of assets, which, among other benefits, enhances the liquidity of the Company's assets. The Company securitized multi-family residential loans with an aggregate principal amount of \$83.9 million, \$346.6 million and \$67.1 million during 1995, 1994 and 1993, respectively, and subsequently sold substantially all of the securities backed by these loans. At June 30, 1996, the Company's multi-family residential and commercial real estate loans (including construction loans) available for sale and held for investment aggregated \$265.4 million, net, or 14.0% of the Company's total assets. The Company also utilizes its multi-family residential lending and other expertise to make investments in low-income housing tax credit partnerships which own projects which have been allocated tax credits under the Internal Revenue Code of 1986, as amended (the "Code"). Such investments amounted to \$92.3 million or 4.9% of the Company's total assets at June 30, 1996.

SINGLE-FAMILY RESIDENTIAL LENDING ACTIVITIES. During 1995, the Company established a program which focuses on the origination or purchase on a nationwide basis of single-family residential loans made to borrowers who have substantial equity in the properties

which secure the loans but who, because of prior credit problems, the absence of a credit history or other factors, are unable or unwilling to qualify as borrowers from traditional sources. The Company utilizes the expertise, technology and other resources which it has developed in connection with the acquisition and resolution of discounted loans in conducting these activities, and believes that the higher risk of default generally associated with these loans, as compared to loans which conform to the requirements established by federal agencies, is more than offset by the higher yields on these loans and the higher amount of equity which the borrowers have in the properties which secure these loans. The Company purchased or originated \$132.4 million of single-family residential loans to non-conforming borrowers during the six months ended June 30, 1996 and \$240.3 million of such loans during 1995, \$158.6 million of which was acquired during the last half of the year. The Company classifies its single-family residential loans to non-conforming borrowers as available for sale because, subject to market conditions, it generally intends to sell such loans or to securitize such loans and sell substantially all of the securities backed by such loans. During the six months ended June 30, 1996, the Company sold \$285.2 million of such loans for a pre-tax gain of \$6.8 million. At June 30, 1996, the Company's single-family residential loans to non-conforming borrowers amounted to \$40.9 million or 2.2% of the Company's total assets.

OTHER INVESTMENT ACTIVITIES. The Company invests in a wide variety of mortgage-related securities based on its capital position, interest rate risk profile, the market for such securities and other factors. At June 30, 1996, the carrying value of the Company's mortgage-related securities, all of which were classified as available for sale, amounted to \$263.2 million or 13.9% of the Company's total assets.

THE OFFERINGS

COMMON STOCK

Common Stock offered by the
Selling Stockholders 2,000,000 shares (plus up to 300,000
shares pursuant to the Common Stock
underwriters' overallotment option)

Common Stock outstanding 23,812,900

Nasdaq National Market Symbol. OCWN

Dividend policy. The Company has no current intention
to pay cash dividends on the Common
Stock. See "Dividend Policy."

NOTES

Amount offered \$100 million aggregate principal
amount.

Maturity date. _____, 2003.

Interest payment dates _____ and _____ of each year,
commencing _____, 1996.

Optional redemption. The Notes will be redeemable at the
option of the Company, in whole or in
part, at any time on or after
_____, 2001 at the redemption
prices set forth herein, plus accrued
and unpaid interest, if any, to the
redemption date. The Notes are not
otherwise redeemable prior to
_____, 2001, other than as
described directly below.

Capital stock redemption Until _____, 1999, the Company may
redeem, at its option, up to \$35
million aggregate principal amount of
the Notes at _____% of the principal
amount thereof, plus accrued and
unpaid interest, if any, to the
redemption date, from the net proceeds
of one or more public or private sales
of Qualified Capital Stock (as defined
herein) if at least \$65 million
aggregate principal amount of the
Notes remains outstanding after such
redemption and if such redemption
occurs within 60 days after the
closing of any such public or private
sale. See "Description of Notes -
Optional Redemption."

Mandatory redemption. None.

Ranking. The Notes will be general unsecured obligations of the Company. Because the Company is a holding company that currently conducts substantially all of its operations through its subsidiaries, including the Bank, the right of the Company (and therefore the right of the Company's creditors and stockholders) to participate in any distribution of the assets or earnings of any subsidiary is subject to the prior claims of creditors of such subsidiaries, including any claims of the Company as a creditor to the extent such claims may be recognized. As a result, the Notes will be effectively subordinate to the claims of creditors of the Company's subsidiaries.

Change of control. Upon a Change of Control Event (as defined herein), holders of the Notes will have the option to require the Company to repurchase all outstanding Notes at 101% of their principal amount, plus accrued interest to the date of repurchase. A "Change of Control Event," as defined in the Indenture pursuant to which the Notes will be issued, includes the following events, among others: the acquisition by any person or group (other than the Existing Principal Stockholders (as defined) of the Company) of more than 40% of the Company's voting stock; a merger, consolidation or other business combination between the Company and another person in which more than 40% of the voting stock of the surviving or transferee company is owned by persons other than the Existing Principal Stockholders of the Company; a change in a majority of the directors on the Board of Directors of the Company within a two-year period which is not approved by the incumbent directors; or the sale or other disposition of any Significant Subsidiary of the Company (as defined).

There can be no assurance that the Company will have the funds available to repurchase the Notes in the event of a Change of Control Event.

Certain covenants. The Indenture pursuant to which the Notes will be issued will contain certain covenants that, among other things, limit the ability of the Company and its subsidiaries to incur certain indebtedness, pay dividends or make other distributions, engage in transactions with affiliates, dispose of subsidiaries or other significant assets, create certain liens and guarantees with respect to pari passu or junior indebtedness and enter into any arrangement that would impose certain restrictions on the ability of subsidiaries to make dividend and other payments to the Company. The Indenture also will restrict the Company's and the Bank's ability to merge, consolidate or sell all the assets of the Company or the Bank. See "Description of Notes - Certain Covenants."

Use of proceeds. Approximately \$50 million of the net proceeds from the Notes Offering will be contributed by the Company to the capital of the Bank to support future growth. The remaining portion of such net proceeds (estimated to be approximately \$45.6 million after the payment of offering expenses) will be retained by the Company and be available for general corporate purposes. Although the Company does not have any specific plans for the investment of the net proceeds to be retained by it at this time, such net proceeds will give the Company increased flexibility in conducting the business in which it is engaged, particularly the acquisition and resolution of discounted loans and the acquisition of single-family residential loans to non-conforming borrowers.

The net proceeds from the Notes Offering available to the Company and the Bank also could be used to acquire other businesses, such as a financial institution or a mortgage banking company, which the Company evaluates from time to time as a means of enhancing its ability to acquire loans and otherwise expand and enhance its operations. Currently, there are no agreements, arrangements or understandings with regard to any such transaction.

RISK FACTORS

See "Risk Factors" for a discussion of certain factors that should be considered carefully by prospective purchasers of shares of Common Stock or Notes.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA
(Dollars in Thousands, Except Per Share Data)

The following tables present selected consolidated financial and other data of the Company at the dates and for the periods indicated. The historical operations and balance sheet data at and for the years ended December 31, 1995, 1994, 1993, 1992 and 1991 have been derived from financial statements audited by Price Waterhouse LLP, independent certified public accountants. The historical operations and balance sheet data at and for the six months ended June 30, 1996 and 1995 have been derived from unaudited consolidated financial statements and include all adjustments, consisting only of normal recurring accruals, which the Company considers necessary for a fair presentation of the Company's results of operations for these periods. Operating results for the six months ended June 30, 1996 are not necessarily indicative of the results that may be expected for any other interim period or the entire year ending December 31, 1996. The selected consolidated financial and other data should be read in conjunction with, and is qualified in its entirety by reference to, the information in the Consolidated Financial Statements and related notes set forth elsewhere herein.

	Six Months Ended June 30,		Year Ended December 31,				
	1996	1995	1995(1)	1994(1)	1993(2)	1992	1991
OPERATIONS DATA							
Interest income	\$99,457	\$59,870	\$137,275	\$131,458	\$78,923	\$71,723	\$54,036
Interest expense	55,036	34,680	84,060	62,598	35,306	28,148	32,858
Net interest income	44,421	25,190	53,215	68,860	43,617	43,575	21,178
Provision for loan losses	14,370(3)	--	1,121	--	--	--	--
Net interest income after provision for loan losses	30,051	25,190	52,094	68,860	43,617	43,575	21,178
Gains on sales of interest-earning assets, net	9,601	3,356	6,955	5,727	8,386	8,842	2,108
Gains from sales of branch offices(1)	--	--	5,430	62,600	--	--	--
Income (loss) on real estate owned, net	(1,028)(3)	2,558	9,540	5,995	(1,158)	1,050	--
Fees on financing transactions(4)	--	--	--	--	15,340	6,760	8,486
Other non-interest income	2,783	3,013	9,255	7,253	13,304	8,130	14,638
Total non-interest income	11,356	8,927	31,180	81,575	35,872	24,782	25,232
Non-interest expense	25,549	21,892	45,573	68,858	41,859	32,468	20,986
Equity in earnings of investment in joint venture(5)	1,078	--	--	--	--	--	--
Income taxes	1,910	760	4,562	29,724	10,325	11,552	7,002
Income from continuing operations	15,026	11,465	33,139	51,853	27,305	24,337	18,422
Discontinued operations, net of tax	--	(3,136)	(7,672)	(4,514)	(2,270)	(1,946)	(1,699)
Extraordinary gains	--	--	--	--	1,538	2,963	10,824
Cumulative effect of a change in accounting principle	--	--	--	--	(1,341)	--	--
Net income	\$15,026	\$8,329	\$25,467	\$47,339	\$25,232	\$25,354	\$27,547
Income per share from continuing operations	\$0.57	\$0.39	\$1.19	\$1.52	\$0.80	\$0.68	\$0.54
Net income per share	\$0.57	0.28	0.91	1.39	0.73	0.71	0.80

	June 30,		Year Ended December 31,			
	1996	1995	1994	1993	1992	1991
LOAN ACQUISITION DATA:						
Discounted Loans(6):						
Single-family residential	\$6,065	\$272,800	\$395,882	\$291,198	\$297,169	\$49,996
Multi-family residential	32,911	141,159	315,454	--	--	--
Commercial real estate	122,835	377,236	115,055	3,161	--	--
Other Loans(6):						
Single-family residential	139,970	284,896	7,119	477,908	70,239	85,123
Multi-family residential	55,705	83,530	378,400	290,702	--	--
Commercial real estate and other	52,916	214,875	22,486	19,575	1,014	--
Consumer	--	2,173	--	31,175	130	--

	June 30, 1996	December 31,				
	-----	-----	-----	-----	-----	-----
		1995(1)	1994(1)	1993(2)	1992	1991
BALANCE SHEET DATA:						
Total assets	\$1,899,308	\$1,973,590	\$1,226,403	\$1,389,207	\$833,117	\$623,854
Securities available for sale(7)	263,199	337,480	187,717	527,183	340,404	65,124
Loans available for sale(6)(7)	84,078	251,790	102,293	101,066	754	2,058
Investment securities, net	8,902	18,665	17,011	32,568	30,510	9,100
Mortgage-related securities held for investment, net	--	--	91,917	121,550	114,046	343,911
Loan portfolio, net(6)	312,576	295,605	57,045	88,288	41,015	49,260
Discounted loan portfolio(6):						
Total loans	830,321	943,529	785,434	433,516	310,464	47,619
Unaccreted discount	(226,217)	(273,758)	(255,974)	(129,882)	(97,426)	(21,908)
Allowance for loan losses	(9,470)	--	--	--	--	--
Discounted loans, net	594,634	669,771	529,460	303,634	213,038	25,711
Investments in low-income housing tax credit interests	92,273	81,362	49,442	16,203	--	--
Real estate owned(8)	133,604	166,556	96,667	33,497	4,710	528
Investment in joint venture(5)	60,910	--	--	--	--	--
Excess of cost over net assets acquired, net	--	--	--	10,467	11,825	13,189
Deposits	1,502,175	1,501,646	1,023,268	871,879	339,622	292,263
Borrowings and other interest-bearing obligations	186,102	272,214	25,510	373,792	361,799	209,615
Stockholders' equity	154,738	139,547(9)	153,383	111,831	94,396	68,998
Book value per share	6.50(10)	5.86	4.76	3.47	2.71	1.99

	At or For the Six Months Ended June 30,		At or For the Year Ended December 31,				
	1996	1995	1995	1994	1993	1992	1991
OTHER DATA(11):							
Average assets	\$1,924,701	\$1,344,117	\$1,521,368	\$1,714,953	\$1,152,655	\$712,542	\$573,857
Average equity	145,399	139,602	121,291	119,500	97,895	82,460	54,876
Return on average assets(12):							
Income from continuing operations	1.56%	1.71%	2.18%	3.02%	2.37%	3.42%	3.21%
Net income	1.56	1.24	1.67	2.76	2.19	3.56	4.80
Return on average equity(12):							
Income from continuing operations	20.67	16.43	27.32	43.39	27.89	29.51	33.57
Net income	20.67	11.93	21.00	39.61	25.77	30.75	50.20
Average equity to average assets	7.55	10.39	7.97	6.97	8.49	11.57	9.56
Net interest spread	6.16	5.36	5.25	4.86	4.05	4.66	1.43
Net interest margin	5.65	4.83	4.54	4.75	4.30	6.06	3.60
Efficiency ratio(13)	45.81	64.17	56.34	64.14	52.66	47.50	45.22
Ratio of earnings to fixed charges(14):							
Including interest on deposits	1.31	1.35	1.45	2.28	2.04	2.25	1.77
Excluding interest on deposits	2.71	4.82	3.95	5.40	3.22	3.88	2.41
Non-performing loans to loans at end of period(15)	0.77	2.33	1.27	4.35	3.71	8.32	7.39
Allowance for loan losses to loans at end of period(6)	0.91	0.69	0.65	1.84	0.99	1.80	1.86
Allowance for loan losses to discounted loans at end of period(6)	1.57	--	--	--	--	--	--
Bank regulatory capital ratios at end of period:							
Tangible	6.74	7.59	6.52	11.28	5.25	6.94	6.09
Core (leverage)	6.74	7.59	6.52	11.28	6.00	7.94	7.59
Risk-based	13.61	18.85	11.80	14.74	13.31	21.29	26.67
Number of full-service offices at end of period(1)	1	3	1	3	28	15	11

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(1) Financial data at December 31, 1995 reflects the Company's sale of two branch offices and \$111.7 million of related deposits effective November 17, 1995, and financial data at December 31, 1994 reflects the sale of 23 branch offices and \$909.3 million of related deposits effective December 31, 1994. Operations data for 1995 and 1994 reflects the gains from these transactions. Exclusive of gains from the sale of branch offices in 1995 and 1994 and related income taxes and profit sharing expense, the Company's income from continuing operations amounted to \$30.3 million and \$24.0 million during 1995 and 1994, respectively.

(2) Balance sheet data at December 31, 1993 reflects the merger of Berkeley Federal Savings Bank ("Old Berkeley") into the Bank on June 3, 1993, upon which the Bank changed its name to "Berkeley Federal Bank & Trust FSB," and operations data for the year ended December 31, 1993 reflects the operations of Old Berkeley from the date of merger. This transaction was accounted for using the purchase method of accounting.

(3) The provision for loan losses consists primarily of \$9.5 million of reserves related to the Company's discounted loan portfolio, which were established pursuant to a change in methodology which was adopted January 1, 1996 as a result of discussions between the Bank and the Office of Thrift Supervision ("OTS") following an examination of the Bank by the OTS. As a result of these discussions, the Company also increased its provision for losses in fair value on real estate owned by approximately \$3.8 million during the six months ended June 30, 1996. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Provision for Loan Losses" and "- Non-Interest Income."

(4) Represents a portion of the amounts paid to the Company in connection with the Company's acquisition of certain mortgage-related securities which generate taxable income in the first several years of the instrument's life and tax losses of an equal amount thereafter, but have minimal or no cash flows. Commencing in 1994, such amounts are deferred and recognized in interest income on a level yield basis over the expected life of that portion of the deferred tax asset which relates to tax residuals. See Note 19 to the Consolidated Financial Statements.

(5) Relates to the Company's 50% interest in a newly-formed company which acquired discounted single-family residential loans from HUD in April 1996. At June 30, 1996, the net discounted loans held by such company amounted to \$559.4 million. See "Business - Investment in Joint Venture."

(6) The discounted loan portfolio consists of mortgage loans which were non-performing or under-performing at the date of acquisition and purchased at a discount. The loan portfolio and loans available for sale consist of other loans which were originated or purchased by the Company for investment or for potential sale, respectively. See "Business -

Lending Activities" and "- Discounted Loan Acquisition and Resolution Activities," respectively. Data related to discounted loans does not include discounted loans held by the above-referenced joint venture.

(7) Securities available for sale were carried at market value at June 30, 1996 and at December 31, 1995, 1994 and 1993, and such securities were carried at amortized cost at December 31, 1992 and 1991. Loans available for sale are carried at the lower of cost or market value.

(8) Real estate owned is primarily attributable to the Company's discounted loan acquisition and resolution business.

(9) Reflects the Company's repurchase of 8,815,060 shares of Common Stock during 1995 for an aggregate of \$42.0 million.

(10) On a fully-diluted basis, book value per share amounted to \$6.27 at June 30, 1996.

(11) Ratios for periods subsequent to 1992 are based on average daily balances during the periods and ratios for 1991 and 1992 are based on month-end balances during the periods. Ratios are annualized where appropriate.

(12) Exclusive of gains from the sale of branch offices in 1995 and 1994 and related income taxes and profit sharing expense, (i) return on average assets on income from continuing operations amounted to 2.00% and 1.40% during 1995 and 1994, respectively, and (ii) return on average equity on income from continuing operations amounted to 25.02% and 20.06% during 1995 and 1994, respectively.

(13) The efficiency ratio represents non-interest expense divided by the sum of net interest income before provision for loan losses and non-interest income. Non-interest income and non-interest expense for this purpose exclude gains from the sale of branches and related profit-sharing expense, respectively.

(14) The ratios of earnings to fixed charges were computed by dividing (x) income from continuing operations before income taxes, extraordinary gains and cumulative effect of a change in accounting principle plus fixed charges by (y) fixed charges. Fixed charges represent total interest expense, including and excluding interest on deposits, as applicable, as well as the interest component of rental expense.

(15) Non-performing loans do not include loans in the Company's discounted loan portfolio or loans available for sale.

RISK FACTORS

PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THE FOLLOWING FACTORS, AS WELL AS THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS, BEFORE DECIDING TO MAKE AN INVESTMENT IN SHARES OF COMMON STOCK OR NOTES. THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE SECURITIES ACT AND THE EXCHANGE ACT. THE COMPANY'S RESULTS COULD DIFFER MATERIALLY FROM THOSE PROJECTED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF FACTORS DESCRIBED BELOW AND ELSEWHERE IN THIS PROSPECTUS.

NO ASSURANCES AS TO CONSISTENCY OF EARNINGS OR FUTURE GROWTH; CHANGING NATURE OF RISKS

GENERAL. The Company's corporate strategy emphasizes the identification, development and management of specialized businesses which the Company believes are not accurately evaluated and priced by the marketplace due to market, economic and competitive conditions. This strategy can result in the entry into or development of businesses and investment in assets which produce substantial initial returns, which generally can be expected to decrease as markets become more efficient in the evaluation and pricing of such businesses and assets. In recent years these businesses have included the Company's discounted loan acquisition and resolution business and investment in various types of mortgage-related securities. The consistency of the operating results of certain of the Company's businesses also can be significantly affected by inter-period variations in the amount of assets acquired, as well as, in the case of the Company's discounted loan acquisition activities, variations in the amount of loan resolutions from period to period, particularly in the case of large multi-family residential and commercial real estate loans. In addition, many of the Company's businesses are relatively young and still evolving and involve greater uncertainties and risks of loss than the activities traditionally conducted by savings institutions. As a result, there can be no assurance that there will not be significant inter-period variations in the profitability of the Company's operations.

FLUCTUATIONS IN NON-INTEREST INCOME. In recent years the Company's operating results have been significantly affected by certain non-recurring items of non-interest income. In addition to \$5.4 million and \$62.6 million of gains from sales of branch offices in 1995 and 1994, respectively, in recent periods the Company has earned significant non-interest income from gains on sales of interest-earning assets and real estate owned. Gains on sales of interest-earning assets amounted to \$9.6 million, \$3.4 million, \$7.0 million, \$5.7 million and \$8.4 million during the six months ended June 30, 1996 and 1995 and the years ended December 31, 1995, 1994 and 1993, respectively, and gains on the sale of real estate owned, which are a component of income (loss) on real estate owned, net, amounted to \$7.8 million, \$9.1 million, \$19.0 million \$21.3 million and \$2.5 million during the same respective periods. Gains on sales of interest-earning assets and real estate owned generally are dependent on various factors which are not within the control of the Company, including market and economic conditions. As a result, there can be no assurance that the level of gains on sales of interest-earning assets and real estate owned reported by the Company in prior periods will be repeated in future periods or that there will not be substantial inter-period variations in the results from such activities. See "Management's Discussion and

NO ASSURANCES OF EXPANSION. A substantial amount of the net proceeds from the Notes Offering will be invested by the Company in the Bank to support future expansion and growth of its discounted loan acquisition and resolution activities and its lending activities. The Company also may use a significant portion of the net proceeds retained by it for similar purposes. There can be no assurance that the Bank or the Company will be able to increase these activities in a manner which is consistent with management's business goals and objectives or otherwise successfully expand their operations.

CHANGING NATURE OF RISKS. The nature of the risks associated with the Company's operations have changed and are likely to continue to change over time due to a corporate strategy which emphasizes the entry into and exit from business lines based on market, economic or competitive conditions. As a result, there can be no assurance that the risks associated with an investment in the Company described herein will not materially change in the future or that there will not be additional risks associated with the Company's future operations not described herein.

RISKS RELATED TO NON-TRADITIONAL OPERATING ACTIVITIES

As discussed below, the Company is engaged in a variety of businesses which generally involve more uncertainties and risks than the single-family residential lending activities historically emphasized by savings institutions. In addition, many of the Company's business activities, including its lending activities, are conducted on a nationwide basis, which reduces the risks associated with concentration in any one particular market area but involves other risks because, among other things, the Company may not be as familiar with market conditions and other relevant factors as it would be in the case of activities which are conducted in the market areas in which its executive offices and branch office are located.

DISCOUNTED LOAN ACQUISITION AND RESOLUTION ACTIVITIES. The Company's lending activities include the acquisition and resolution of non-performing or underperforming single-family (one to four units) residential loans, multi-family (over four units) residential loans and commercial real estate loans which are purchased at a discount. At June 30, 1996, the Company's discounted loan portfolio amounted to \$594.6 million (net of \$226.2 million of unaccreted discount and a \$9.5 million allowance for loan losses) or 31.3% of the Company's total assets and the \$830.3 million gross principal amount of discounted loans consisted of \$262.5 million, \$145.3 million, \$421.1 million and \$1.4 million gross principal amount of single-family residential loans, multi-family residential loans, commercial real estate loans and other loans, respectively. In addition, at the same date the Company had a \$60.9 million net investment in a joint venture that recently acquired a portfolio of discounted single-family residential loans, which amounted to \$559.4 million, net at June 30, 1996. Commencing in June 1991, the Company began purchasing at a discount non-performing single-family residential loans from the Federal Deposit Insurance Corporation

("FDIC") and the Resolution Trust Corporation ("RTC"), which acquired such loans primarily as a result of the unprecedented number of failed savings institutions and failed banks during the early 1990s, as well as from private sector sellers. During the early 1990s, the Company benefited from the availability of discounted single-family residential loans as a result of the large number of failed and troubled financial institutions. Due to the general improvement in the financial condition of the savings industry in recent years (reflected in part by the RTC's cessation of operations) and the increasingly competitive nature of the market for discounted single-family residential loans, the Company expanded into the acquisition and resolution of discounted non-performing and underperforming multi-family residential and commercial real estate loans in mid-1994 and has developed various sources for the acquisition of all types of discounted loans in the private sector (which represent approximately 92.4% of the Company's total discounted loan portfolio at June 30, 1996). Although the Company has been actively involved in the acquisition and resolution of discounted non-performing or underperforming single-family residential loans since mid-1991 and discounted multi-family residential and commercial real estate loans since early 1994, this business involves certain uncertainties and risks, including without limitation the risk that the discount on the loans acquired by the Company may not be sufficient in order for the Company to resolve the loans as profitably as in prior periods and the risk that the Company may not be able to acquire the desired amount and type of discounted loans in future periods. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Changes in Financial Condition - Discounted Loan Portfolio," "Business - Discounted Loan Acquisition and Resolution Activities" and "Business - Investment in Joint Venture."

MULTI-FAMILY RESIDENTIAL, COMMERCIAL REAL ESTATE AND CONSTRUCTION LENDING ACTIVITIES. The Company's lending activities currently include nationwide loans secured by existing commercial real estate, particularly hotels and office buildings, and, to a lesser extent, existing multi-family residential real estate. In addition, from time to time the Company originates loans for the construction of multi-family residential real estate and land acquisition and development loans. At June 30, 1996, multi-family residential, commercial real estate and construction loans (including land acquisition and development loans) available for sale and held for investment aggregated \$265.4 million, net, or 14.0% of the Company's total assets. Multi-family residential, commercial real estate and construction lending generally is considered to involve a higher degree of risk than single-family residential lending due to a variety of factors, including generally larger loan balances, the dependency on successful completion or operation of the project for repayment, the difficulties in estimating construction costs and loan terms which often do not require full amortization of the loan over its term and, instead, provide for a balloon payment at stated maturity. There can be no assurance that the Company's multi-family residential, commercial real estate and construction lending activities will not be adversely affected by these and the other risks related to such activities. See "Business - Lending Activities."

NON-CONFORMING BORROWER AND REDUCED DOCUMENTATION LENDING ACTIVITIES. The Company's lending activities also currently emphasize the origination or purchase on a

nationwide basis of single-family residential loans made to borrowers who have substantial equity in the properties which secure the loans but who, because of prior credit problems, the absence of a credit history or other factors, are unable or unwilling to qualify as borrowers under federal agency guidelines ("non-conforming borrowers"). At June 30, 1996, the Company's loans to non-conforming borrowers aggregated \$40.9 million or 2.2% of the Company's total assets. These loans are offered pursuant to various programs, including programs which provide for reduced or no documentation for verifying a borrower's income and employment. Loans to non-conforming borrowers present a higher level of risk of default than conforming loans because of the increased potential for default by borrowers who may have had previous credit problems or who do not have any credit history, and may not be as saleable as loans which conform to the guidelines established by various federal agencies.

INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS. The Company invests in low-income housing tax credit interests (generally limited partnerships) in order to obtain federal income tax credits which are allocated pursuant to Section 42 of the Code. At June 30, 1996, the Company's investments in such interests amounted to \$92.3 million or 4.9% of total assets. There are many uncertainties and risks associated with an investment in low-income housing tax credit interests, including the risks involved in the construction, lease-up and operation of multi-family residential real estate, the investor's ability to earn sufficient income to utilize the tax credits resulting from such investments in accordance with the requirements of the Code and the possibility of required recapture of previously-earned tax credits. In addition, there are numerous tax risks associated with tax credits resulting from potential changes to the Code. See "Business - Investment Activities - Investment in Low-Income Housing Tax Credit Interests."

INVESTMENTS IN MORTGAGE-RELATED SECURITIES. From time to time the Company invests in a variety of mortgage-related securities, such as senior and subordinate regular interests and residual interests in collateralized mortgage obligations ("CMOs"), including CMOs which have qualified as Real Estate Mortgage Investment Conduits ("REMICs"). These investments include so-called stripped mortgage-related securities, in which interest coupons may be stripped from a mortgage security to create an interest-only ("IO") strip, where the investor receives all of the interest cash flows and none of the principal, and a principal-only ("PO") strip, where the investor receives all of the principal cash flows and none of the interest. At June 30, 1996, the Company's mortgage-related securities available for sale amounted to \$263.2 million or 13.9% of the Company's total assets and included \$106.8 million and \$6.9 million of IO strips and PO strips, respectively, all of which were either issued by the Federal Home Loan Mortgage Corporation ("FHLMC") or the Federal National Mortgage Association ("FNMA") or rated AAA by national rating agencies, as well as \$52.5 million of subordinate interests in mortgage-related securities. Some mortgage-related securities, such as IO strips and PO strips, exhibit considerably more price volatility than mortgages or ordinary mortgage pass-through securities, due in part to the uncertain cash flows that result from changes in the prepayment rates of the underlying mortgages. Other mortgage-related securities, such as subordinated interests, also involve substantially

more credit risk than other securities. The Company has sought to offset the risk of changing interest environments on certain of its mortgage-related securities by selling U.S. Treasury futures contracts and other hedging techniques, and believes that the resulting interest-rate sensitivity profile compliments the Company's overall exposure to changes in interest rates. See "- Economic Conditions" below. Although generally intended to reduce the effects of changing interest rate environments on the Company, investments in certain mortgage-related securities and hedging transactions could cause the Company to recognize losses depending on the terms of the instrument and the interest rate environment. See "Business - Investment Activities."

RISKS RELATED TO REAL ESTATE OWNED

At June 30, 1996, the Company's real estate owned, net amounted to \$133.6 million or 7.0% of total assets and consisted almost entirely of single-family residential real estate and multi-family residential and commercial real estate acquired by foreclosure or deed-in-lieu thereof on loans in the Company's discounted loan portfolio. The growth in the Company's real estate owned in recent years reflects the expansion of the Company's discounted loan acquisition and resolution activities. Real estate owned properties generally are non-earning assets, although multi-family residential and commercial real estate owned may provide some operating income to the Company depending on the circumstances. Moreover, the value of real estate owned properties can be significantly affected by the economies and markets for real estate in which they are located and require the establishment of provisions for losses to ensure that they are carried at the lower of cost or fair value, less estimated costs to dispose of the properties. Real estate owned also require increased allocation of resources and expense to the management and work out of the asset, which also can adversely affect operations. Although the Company's real estate owned decreased by \$33.0 million or 19.8% during the six months ended June 30, 1996, there can be no assurance that the amount of the Company's real estate owned will not increase in the future as a result of the Company's discounted loan acquisition and resolution activities and the Company's single-family residential, multi-family residential, commercial real estate and construction lending activities. In addition, there can be no assurance that in the future the Company's real estate owned will not have environmental problems which could materially adversely affect the Company's financial condition or operations. See "Business - Asset Quality - Real Estate Owned."

RISK OF FUTURE ADJUSTMENTS TO ALLOWANCES FOR LOSSES

The Company believes that it has established adequate allowances for losses for each of its loan portfolio and discounted loan portfolio in accordance with generally accepted accounting principles. Future additions to these allowances, in the form of provisions for losses on loans and discounted loans, may be necessary, however, due to changes in economic conditions, increases in loans and discounted loans and the performance of the Company's loan and discounted loan portfolios. In addition, the OTS, as an integral part of its examination process, periodically reviews the Company's allowances for losses and the

carrying value of its assets. During the six months ended June 30, 1996, the Company established \$9.5 million of provisions for losses on discounted loans, which were established pursuant to a change in methodology which was adopted beginning in 1996 as a result of discussions between the Bank and the OTS following an examination of the Bank (which also resulted in an increase in the Company's provision for losses in fair value on real estate owned by approximately \$3.8 million during this period). There can be no assurance that the OTS, which continues to evaluate the adequacy of the Company's allowances for losses, will not request the Company to further increase its allowances for losses on loans and discounted loans or adjust the carrying value of its real estate owned or other assets. Based on the types of lending activities currently emphasized by the Company and its recent decision to maintain an allowance for losses in connection with its discounted loan portfolio, the Company anticipates that in the future it will establish provisions for losses on its loan portfolios on a quarterly basis. Increases in the Company's provisions for losses on loans would adversely affect the Company's results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations."

RISK OF FUTURE ADJUSTMENTS TO CARRYING VALUE OF MORTGAGE SERVICING RIGHTS

From time to time the Company acquires rights to service mortgage loans for other investors in order to increase its non-interest income. In addition, mortgage servicing rights can provide a hedge against increases in interest rates because such assets generally increase in market value as interest rates increase, which can offset decreases in the market values of certain interest-earning assets, such as fixed-rate loans and securities, which decline in value in an increasing interest rate environment. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 122, "Accounting for Mortgage Servicing Rights," which was adopted by the Company on January 1, 1996, the Company amortizes mortgage servicing rights on an accelerated method over the estimated weighted average life of the loans and periodically evaluates its capitalized mortgage servicing rights for impairment based on the fair value of those rights, which is recognized through a valuation allowance. Mortgage servicing rights generally are adversely affected by accelerated prepayments of loans resulting from decreasing interest rates, which affect the estimated average life of the loans serviced for others. During the six months ended June 30, 1996, accelerated prepayments of loans resulted in a \$928,000 valuation adjustment to the Company's mortgage servicing rights, which amounted to \$2.7 million, net, at the end of such period. There can be no assurance that loan prepayments, as a result of decreases in interest rates or otherwise, will not adversely affect the carrying value of the Company's existing mortgage servicing rights or mortgage servicing rights which may be acquired by it in the future.

RISKS RELATED TO RELIANCE ON BROKERED AND OTHER WHOLESALE DEPOSITS

The Company currently utilizes as a primary source of funds certificates of deposit obtained through national investment banking firms which obtain funds from their customers for deposit with the Company ("brokered deposits") and, to a lesser extent, certificates of deposit obtained from customers of regional and local investment banking firms and direct

solicitation efforts by the Company of institutional investors and high net worth individuals. At June 30, 1996, certificates of deposit obtained through national investment banking firms which solicit deposits for the Company from their customers amounted to \$1.02 billion or 67.9% of total deposits, certificates of deposit obtained through regional and local investment banking firms amounted to \$267.7 million or 17.8% of total deposits and certificates of deposits obtained from the Company's direct solicitation of institutional investors and high net worth individuals amounted to \$109.2 million or 7.3% of total deposits. The Company believes that the effective cost of brokered and other wholesale deposits, as well as other non-branch dependent sources of funds, such as securities sold under agreements to repurchase ("reverse repurchase agreements") and advances from the Federal Home Loan Bank ("FHLB") of New York, generally is more attractive to the Company than deposits obtained through branch offices after the general and administrative costs associated with operating a branch office network are taken into account. However, such funding sources, when compared to retail deposits attracted through a branch network, are generally more sensitive to changes in interest rates and volatility in the capital markets and are more likely to be compared by the investor to competing investments. In addition, such funding sources may be more sensitive to significant changes in the financial condition of the Company. There are also regulatory limitations on an insured institution's ability to solicit and obtain brokered deposits in certain circumstances, which currently are not applicable to the Bank because of its status as a "well capitalized" institution under applicable laws and regulations. See "Regulation - The Bank - Brokered Deposits." As a result of the Company's reliance on brokered and other wholesale deposits, significant changes in the prevailing interest rate environment, in the availability of alternative investments for individual and institutional investors or in the Company's financial condition, among other factors, could affect the Company's liquidity and results of operations much more significantly than might be the case with an institution that obtained a greater portion of its funds from retail or core deposits attracted through a branch network.

RISKS RELATED TO CHANGING ECONOMIC CONDITIONS

GENERAL. The success of the Company is dependent to a certain extent upon the general economic conditions in the geographic areas in which it conducts substantial business activities. Adverse changes in national economic conditions or in the economic conditions of regions in which the Company conducts substantial business likely would impair the ability of the Company to collect loans and would otherwise have an adverse effect on its business, including the demand for new loans, the ability of customers to repay loans and the value of both the collateral pledged to the Company to secure its loans and its real estate owned. Moreover, earthquakes and other natural disasters could have similar effects. Although such disasters have not significantly adversely affected the Company to date, the availability of insurance for such disasters in California, in which the Company conducts substantial business activities, is severely limited. At June 30, 1996, the Company had loans with an unpaid principal balance aggregating \$437.6 million (including loans available for sale) secured by properties located in California and \$73.2 million of the Company's real estate owned was located in California.

EFFECTS OF CHANGES IN INTEREST RATES. The Company's operating results depend to a large extent on its net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with its interest-bearing liabilities. Changes in the general level of interest rates can affect the Company's net interest income by affecting the spread between the Company's interest-earning assets and interest-bearing liabilities, as well as, among other things, the ability of the Company to originate loans; the value of the Company's interest-earning assets and its ability to realize gains from the sale of such assets; the average life of the Company's interest-earning assets; the value of the Company's mortgage servicing rights; and the Company's ability to obtain deposits in competition with other available investment alternatives. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond the control of the Company. The Company actively monitors its assets and liabilities and employs a hedging strategy which seeks to limit the effects of changes in interest rates on its operations. Although management believes that the maturities of the Company's assets currently are well balanced in relation to its liabilities (which involves various estimates as to how changes in the general level of interest rates will impact its assets and liabilities), there can be no assurance that the profitability of the Company would not be adversely affected during any period of changes in interest rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management" and Note 18 to the Consolidated Financial Statements.

RISKS RELATED TO RECAPITALIZATION OF SAIF

The deposits of the Bank are insured by the Savings Association Insurance Fund ("SAIF") administered by the FDIC, which, due to the large number of savings institutions which failed in the late 1980s and early 1990s, has been unable to attain a statutorily-required reserve ratio of 1.25% of insured deposits. The Balanced Budget Act of 1995 provided that all SAIF member institutions would pay a special one-time assessment on their deposits as of March 31, 1995 in an amount which in the aggregate would be sufficient to bring the reserve ratio in the SAIF to the required level, as well as for an eventual merger of the SAIF and the Bank Insurance Fund ("BIF") administered by the FDIC, which insures the deposits of commercial banks and has attained the reserve ratio required by law. Based on the level of reserves of the SAIF at June 30, 1996, the FDIC recently estimated that the amount of the special assessment required to recapitalize the SAIF is approximately 68 basis points of SAIF-assessable deposits at March 31, 1995. Although the Balanced Budget Act of 1995 was vetoed by the President of the United States in December 1995 for reasons which were unrelated to the recapitalization of SAIF, legislative proposals containing similar provisions to recapitalize the SAIF continue to be made. Based on the Bank's deposits as of March 31, 1995, a one-time special assessment of 68 basis points would result in the Bank incurring a pre-tax charge of approximately \$7.4 million (\$4.7 million on an after-tax basis), which management believes would not affect the Bank's status as a "well-capitalized" institution under applicable laws and regulations. See "Regulation - The Bank - Regulatory Capital Requirements." Management of the Company currently is unable to

predict whether there will be legislation to recapitalize the SAIF and, if so, whether and to what extent the Bank may be assessed in order to recapitalize the SAIF.

Unless and until the SAIF is recapitalized and the insurance premiums of SAIF-insured institutions are reduced to levels which are comparable to those currently being assessed members of the BIF, SAIF-insured institutions will have a significant competitive disadvantage to BIF-insured institutions with respect to the pricing of loans and deposits and the ability to achieve lower operating costs. In order to reduce this competitive advantage, a number of SAIF-insured institutions have established or are seeking to establish affiliated BIF-insured institutions, which could attract deposits formerly maintained at the related SAIF-insured institution, thus reducing the institutions' overall effective rate for deposit insurance. The transfer of insured deposits from SAIF-insured institutions to BIF-insured institutions could materially reduce the deposits at SAIF-insured institutions, which could reduce the insurance assessments obtained by the SAIF and, thus, adversely affect the ability of the SAIF to resolve troubled savings institutions and to meet its other obligations. Such reduction in the assessable deposit base of SAIF could result in an increase in the amount of any one-time assessment of SAIF-insured institutions which may be imposed in order to recapitalize the SAIF. See "Regulation - The Bank - Insurance of Accounts."

POSSIBLE ELIMINATION OF THE THRIFT CHARTER AND RELATED TAX BENEFITS

In recent periods there have been various legislative proposals in the U.S. Congress to eliminate the thrift charter. If enacted, such legislation would require the Bank, as a federally-chartered savings bank, to convert to a bank charter, which likely would be regulated by the Office of the Comptroller of the Currency ("OCC") and not the OTS, which would go out of existence, and likely would require the Company to register as a bank holding company under the Bank Holding Company Act of 1956, as amended ("BHCA") and be subject to regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). Management currently does not believe that such regulation would have a material adverse effect on the Company or the Bank, although there can be no assurance that this would be the case. See "Regulation."

In anticipation of the possible elimination of the thrift charter through future legislation, the U.S. Congress recently adopted legislation which provides for the repeal of a provision of the Code which permits thrift institutions, such as the Bank, which meet certain definitional tests to establish a tax reserve for bad debts and to make annual additions thereto based on a percentage of net income rather than actual loss experience. See "Taxation - Federal." It is anticipated that this legislation will be signed into law by the President of the United States and that it will not have a material adverse effect on the Company's financial condition or operations.

REGULATION

Each of the Company, as a registered savings and loan holding company, and the Bank, as a federally-chartered savings association, is subject to extensive governmental supervision and regulation, which is intended primarily for the protection of depositors. In addition, each of the Company and the Bank is subject to changes in federal and state laws, including changes in tax laws which could materially affect the real estate industry, such as repeal of the federal mortgage interest deduction and the federal affordable housing tax credit program, as well as changes in regulations, governmental policies and accounting principles. Recently enacted, proposed and future legislation and regulations have had and will continue to have significant impact on the financial services industry. Some of the legislative and regulatory changes may benefit the Company and the Bank; other changes, however, may increase their costs of doing business and assist competitors of the Company and the Bank.

COMPETITION

Although there currently is no single competitor which competes directly with the Company in all aspects of its business activities, the businesses in which the Company is engaged generally are highly competitive. The acquisition of discounted loans is particularly competitive, as acquisitions of such loans are often based on competitive bidding. In addition, competitors of the Company may seek to establish relationships with the correspondent mortgage banking firms which currently are a primary source of the Company's loans to non-conforming borrowers and, from time to time, other loans, and which generally are not obligated to continue to do business with the Company. The Company also encounters significant competition in connection with its other lending activities, its investment activities and in its deposit-gathering activities. Many of the Company's competitors are significantly larger than the Company and have access to greater capital and other resources. In addition, many of the Company's competitors are not subject to the same extensive federal regulation that govern federally-insured institutions such as the Bank and their holding companies. As a result, many of the Company's competitors have advantages over the Company in conducting certain businesses and providing certain services.

IMPORTANCE OF THE CHIEF EXECUTIVE OFFICER

William C. Erbey, Chairman, President and Chief Executive Officer of the Company, has had, and will continue to have, a significant role in the development and management of the Company's business. The loss of his services could have an adverse effect on the Company. The Company currently does not maintain key man life insurance relating to Mr. Erbey or any of its other officers. See "Business - Management."

CONTROL OF CURRENT STOCKHOLDERS

After giving effect to the Common Stock Offering and including currently-exercisable options to acquire Common Stock, the Company's directors and executive officers and their affiliates will in the aggregate beneficially own or control 63.2% of the outstanding Common Stock, including 39.8% owned or controlled by William C. Erbey, Chairman, President and Chief Executive Officer of the Company, and 21.1% owned or controlled by Barry N. Wish, Chairman, Emeritus, of the Company (and one of the selling stockholders in the Common Stock Offering). As a result, these stockholders, acting together, would be able to effectively control virtually all matters requiring approval by the stockholders of the Company, including amendment of the Company's Articles of Incorporation, the approval of mergers or similar transactions and the election of all directors. In addition, Messrs. Erbey and Wish are two of the four current directors of the Company. See "Management" and "Beneficial Ownership of Common Stock."

LIMITED SOURCES FOR PAYMENTS ON NOTES AND DIVIDENDS ON COMMON STOCK

As a holding company, the ability of the Company to make payments of interest and principal on the Notes and to pay dividends on the Common Stock will depend primarily on the receipt of dividends or other distributions from the Bank, as well as any cash reserves and other liquid assets held by the Company and any proceeds from any subsequent securities offering or bank financing. There are various regulatory restrictions on the ability of the Bank to pay dividends or make other distributions to the Company. See "Regulation - The Bank - Restrictions on Capital Distributions" and "- Affiliate Transactions." In addition, there are certain contractual restrictions on the Bank's ability to pay dividends set forth in the Indenture, dated as of June 12, 1995, between the Bank and the Bank of New York, as trustee, relating to the Bank's issuance of \$100 million of 12% Subordinated Debentures due 2005 (the "Debentures") in June 1995. In light of the foregoing, there can be no assurance that the Company would have sufficient funds available to repurchase any Notes that Noteholders may elect to tender upon the occurrence of a Change of Control Event, or to repay the principal and accrued interest of the Notes if the maturity of the Notes were to be accelerated upon the occurrence of an Event of Default under the Indenture.

ABSENCE OF A MARKET FOR THE NOTES AND ABSENCE OF A PRIOR MARKET FOR THE COMMON STOCK

The Company does not intend to apply for listing of the Notes on any national securities exchange or for quotation of the Notes through Nasdaq. Although the Underwriter for the Notes Offering has indicated its intention to make a market in the Notes following consummation of the Notes Offering, it is not obligated to do so and any market-making activities with respect to the Notes may be discontinued at any time without prior notice. There can be no assurance as to the liquidity of the trading markets for the Notes or as to the prices at which the Notes may trade in such market or that an active public market for the Notes will develop or be maintained.

Prior to the Common Stock Offering, there has been no public market for the Common Stock. The Company has received conditional approval for quotation of the Common Stock on the Nasdaq National Market under the symbol "OCWN." Such approval is subject to the Company's compliance with certain requirements of the NASD, including a requirement that there be at least two market makers for the Common Stock and at least 400 stockholders of record. Although the Company will use its best efforts to encourage and assist market makers in establishing and maintaining a market for the Common Stock in the over-the-counter market, there can be no assurance that there will be one or more other market makers for the Common Stock, or that the Company will be able to comply with the number of stockholders and other requirements of the NASD for quotation of the Common Stock on the Nasdaq National Market. Moreover, even if such requirements are met, there can be no assurance that an established and liquid trading market will develop or that, if developed, it will be sustained. The initial public offering price of the Common Stock offered in the Common Stock Offering will be determined by negotiations among the Company, the Selling Stockholders and the Underwriters of the Common Stock Offering and may not be indicative of the prices at which the Common Stock will trade after the offering. See "Underwriting." Moreover, there may be significant volatility in the market price for the Common Stock after the Common Stock Offering. Quarterly operating results of the Company, changes in conditions in the economy or the financial services industry or other developments affecting the Company could cause the market price of the Common Stock to fluctuate substantially.

SHARES AVAILABLE FOR FUTURE SALE

Sales of a substantial number of shares of Common Stock in the public market following the Common Stock Offering, including shares issued upon exercise of options, as discussed below, could adversely affect the market price of the Common Stock. As of June 30, 1996, there were 23,812,900 shares of Common Stock outstanding held by 73 stockholders. The number of outstanding shares of Common Stock will not be affected by the Common Stock Offering as all shares offered hereby are outstanding shares held by the Selling Stockholders. The 2,000,000 shares of Common Stock offered on behalf of the Selling Stockholders (plus up to 300,000 shares which may be sold pursuant to the Common Stock underwriters' overallotment option) will be freely transferable without restriction or further registration under the Securities Act. All other outstanding shares of Common Stock will be "restricted securities" as that term is defined in Rule 144 promulgated under the Securities Act and may not be sold except pursuant to the registration requirements of the Securities Act or pursuant to an applicable exemption therefrom, including pursuant to Rule 144. Management of the Company believes that approximately 6,822,550 of these shares of Common Stock may be eligible for resale pursuant to Rule 144 without limitation. The Company, the Selling Stockholders, certain other stockholders of the Company and the directors and executive officers of the Company (who collectively own all outstanding shares of Common Stock prior to consummation of the Common Stock Offering) have generally agreed not to offer, sell or otherwise dispose of any shares of Common Stock for a period of 120 days (or 365 days in the case of Messrs. Erbey and Wish) after the date of this

Prospectus without the prior written consent of Friedman, Billings, Ramsey & Co., Inc. on behalf of the Common Stock underwriters. After such restricted periods, there will be no restrictions on the sale of these shares by such directors and officers of the Company (other than those imposed by Rule 144) or on the issuance of additional shares of Common Stock by the Company. After the closing of the Common Stock Offering, the Company may file a Registration Statement on Form S-8 under the Securities Act to register the issuance of approximately 9,316,750 shares of Common Stock authorized for issuance under the Company's 1991 Non-Qualified Stock Option Plan, as amended (the "Stock Option Plan") and 250,000 shares under the Company's 1996 Stock Plan for Directors (the "Directors Stock Plan"). See "Management - Stock Option Plan" and "-Directors Stock Plan." As of June 30, 1996, 3,232,690 shares of Common Stock were subject to outstanding options under the Stock Option Plan at an average exercise price of \$1.30 per share. After the above-mentioned restricted periods, shares issued upon the exercise of options after the effective date of such Registration Statement will be eligible for sale in the public market, subject in the case of shares held by affiliates of the Company to the volume and certain other limitations of Rule 144. See "Shares Available for Future Sale" and "Underwriting."

THE COMPANY

The Company is a financial services holding company which conducts business primarily through the Bank and subsidiaries of the Bank. Unless the context otherwise requires, the "Company" refers to the Company and its subsidiaries on a consolidated basis.

The Company is a Florida corporation which was organized in February 1988 in connection with its acquisition of the Bank. During the early 1990s, the Company sought to take advantage of the general decline in asset quality of financial institutions in many areas of the country and the large number of failed savings institutions during this period by establishing its discounted loan acquisition and resolution program. This program commenced with the acquisition of discounted single-family residential loans for resolution in mid-1991 and was expanded to cover the acquisition and resolution of discounted multi-family residential and commercial real estate loans in 1994.

During the early 1990s, the Company also acquired assets and liabilities of three failed savings institutions and merged Old Berkeley, a troubled financial institution, into the Bank. The Company subsequently sold substantially all of the assets and liabilities acquired in connection with these acquisitions at substantial gains.

The Company is a registered savings and loan holding company subject to regulation by the OTS. The Bank is subject to regulation by the OTS, as its chartering authority, and by the FDIC as a result of its membership in the SAIF, which insures the Bank's deposits up to the maximum extent permitted by law. The Bank also is subject to certain regulation by the Federal Reserve Board and currently is a member of the FHLB of New York, one of the 12 regional banks which comprise the FHLB System.

The Company's executive offices are located at 1675 Palm Beach Lakes Boulevard, West Palm Beach, Florida 33401, and the telephone number of its executive offices is (561) 681-8000.

USE OF PROCEEDS

Net proceeds from the Notes Offering currently are estimated to be approximately \$95.6 million, after deducting the underwriting discount and estimated offering expenses payable by the Company. The Company will not receive any of the proceeds from the Common Stock Offering. See "Selling Stockholders."

The Company plans to contribute approximately \$50 million of the net proceeds from the Notes Offering to the capital of the Bank to support future growth. Such proceeds will be available for use by the Bank for general corporate purposes, including without limitation acquisitions of discounted and other loans. The net proceeds from the Notes Offering retained by the Company will be available for general corporate purposes. Although the Company does not have any specific plans for the investment of the net proceeds to be retained by it at this time, such net proceeds will give the Company increased flexibility in conducting the businesses in which it is engaged, particularly the acquisition and resolution of discounted loans and the acquisition of single-family residential loans to non-conforming borrowers.

The net proceeds from the Notes Offering available to the Company and the Bank also could be used to acquire other businesses, such as a financial institution or a mortgage banking company, which the Company evaluates from time to time as a means of enhancing its ability to acquire loans and otherwise expand and enhance its operations. Currently, there are no agreements, arrangements or understandings with regard to any such transaction.

DIVIDEND POLICY

The Company has no current intention to pay cash dividends on the Common Stock following the Common Stock Offering. In the future, the timing and amount of dividends will be determined by the Board of Directors of the Company and will depend, among other factors, upon the Company's earnings, financial condition, cash requirements, the capital requirements of the Bank and other subsidiaries and investment opportunities at the time any such payment is considered. In addition, the Indenture will contain certain limitations on the payment of dividends by the Company. See "Description of Notes."

As a holding company, the payment of any dividends by the Company will be primarily dependent on dividends and other payments received by the Company from its subsidiaries, including the Bank, which is subject to various regulatory and contractual restrictions on the payment of dividends and other payments to the Company. See "Risk Factors - Limited Sources for Payments on Notes and Dividends on Common Stock."

CAPITALIZATION

The following table presents the consolidated capitalization of the Company and the regulatory capital ratios of the Bank at June 30, 1996, and as adjusted to give effect to the issuance of the Notes offered in the Notes Offering and the contribution by the Company to the capital of the Bank of a portion of the estimated net proceeds therefrom, respectively, as set forth under "Use of Proceeds."

	June 30, 1996	
	Actual	As Adjusted
	(Dollars in Thousands)	
Deposits	\$1,502,175	\$1,502,175
Borrowings and other interest-bearing obligations:		
The Company:		
___% Notes due 2003	\$ --	\$100,000
Short-term notes	7,365	7,365
The Bank:		
FHLB advances	70,399	70,399
Subordinated debentures	100,000	100,000
Other subsidiaries:		
Hotel mortgages payable	8,338	8,338
Total borrowings and other interest-bearing obligations	\$186,102	\$286,102
Stockholders' equity:		
Preferred Stock, \$0.01 par value:		
20,000,000 shares authorized; none outstanding	\$ --	\$ --
Common Stock, \$0.01 par value: 200,000,000 shares authorized; 23,812,900 shares outstanding(1)	238	238
Additional paid-in capital	10,275	10,275
Retained earnings	145,301	145,301
Unrealized loss on securities available for sale, net of taxes	(1,076)	(1,076)
Total stockholders' equity	\$154,738	\$154,738
Regulatory capital ratios of the Bank(2):		
Tangible capital	6.74%	8.92%
Core (leverage) capital	6.74	8.92
Risk-based capital	13.61	15.95

(FOOTNOTES ON NEXT PAGE)

(1) Does not include 9,316,750 additional shares of Common Stock reserved for issuance upon the exercise of options granted pursuant to the Company's Stock Option Plan. See "Management - Stock Option Plan."

(2) The calculations assume that \$50 million of the estimated net proceeds from the Notes Offering is contributed by the Company to the capital of the Bank. The calculation of the risk-based regulatory capital ratio, as adjusted, assumes that 25% of the estimated net proceeds from the Notes Offering which are contributed to the capital of the Bank by the Company are invested in loans with a risk-weight of 50% and that the remainder of such proceeds are invested in loans with a risk weight of 100%, and that such net proceeds had been received and so applied at June 30, 1996.

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

THE FOLLOWING DISCUSSION OF THE COMPANY'S CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND CAPITAL RESOURCES AND LIQUIDITY SHOULD BE READ IN CONJUNCTION WITH SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA AND THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES INCLUDED ELSEWHERE HEREIN. PROSPECTIVE INVESTORS ARE URGED TO CAREFULLY CONSIDER THIS RELATED INFORMATION IN CONNECTION WITH A REVIEW OF THE FOLLOWING DISCUSSION.

RESULTS OF OPERATIONS

GENERAL. In recent years, the Company has emphasized discounted loan acquisition and resolution activities and a variety of other mortgage lending activities, which generally reflect the Company's opportunistic approach to new business lines which offer the potential for significant returns. As a result of the Company's business strategy, the average balance of the Company's discounted loan portfolio increased from \$193.7 million or 16.8% of total average assets during 1993 to \$483.2 million or 31.8% of total average assets during 1995 and to \$618.4 million or 32.1% of total average assets during the six months ended June 30, 1996, and the average balance of the Company's other loans, including loans available for sale, increased from \$119.6 million or 10.4% of total average assets to \$297.9 million or 19.6% of total average assets and to \$539.3 million or 28.0% of total average assets during the same respective periods. The growth in the Company's lending activities, particularly its discounted loan acquisition and resolution activities, has substantially contributed to the Company's profitability in recent periods.

As a result of the historical and expected future growth in the discounted loan portfolio, particularly in the commercial component, and as requested by the OTS, the Company modified its methodology for valuing discounted loans in the first quarter of 1996. This methodology resulted in provisions for losses which modified the Company's practice of adjusting discounted loans to the lower of the recorded investment or net present value of expected cash flow discounted at the effective yield through direct charges to interest income. The Company established an aggregate of \$9.5 million of provisions for losses on discounted loans during the first half of 1996 pursuant to this change in methodology. During this period, the Company also increased its provision for losses in fair value on real estate owned by \$3.8 million as a result of discussions between the Bank and the OTS following an examination of the Bank.

The Company's operating results in recent periods also have been significantly affected by the acquisition of Old Berkeley in mid-1993 and the effects of the sale of branch offices at the end of 1994 and 1995, which resulted in \$62.6 million and \$5.4 million of gains (excluding related income taxes and profit sharing expense) during these respective periods. As a result of these sales, the Company's average assets decreased during 1995 and the Company's principal source of deposits is brokered and other wholesale deposits. The

Company's operating results in recent periods also have been affected by losses from discontinued operations, which, net of applicable tax effect, amounted to \$3.2 million, \$7.7 million, \$4.5 million and \$2.3 million during the six months ended June 30, 1995 and the years ended December 31, 1995, 1994 and 1993, respectively.

The Company's income from continuing operations amounted to \$15.0 million or \$0.57 per share and \$11.5 million or \$0.39 per share during the six months ended June 30, 1996 and 1995, respectively. Exclusive of gains from the sale of branch offices and related profit sharing expense, the Company's income from continuing operations amounted to \$30.3 million, \$24.0 million and \$27.3 million during 1995, 1994 and 1993, respectively. These amounts represented returns on average assets of 1.56% and 1.71% during the six months ended June 30, 1996 and 1995, respectively, and 2.00%, 1.40% and 2.37% during 1995, 1994 and 1993, respectively, and returns on average equity of 20.67% and 16.43% during the six months ended June 30, 1996 and 1995, respectively, and 25.02%, 20.06% and 27.89% during 1995, 1994 and 1993, respectively.

NET INTEREST INCOME. The operations of the Company are substantially dependent on its net interest income, which is the difference between the interest income received from its interest-earning assets and the interest expense paid on its interest-bearing liabilities. Net interest income is determined by an institution's net interest spread (i.e., the difference between the yield earned on its interest-earning assets and the rates paid on its 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 its interest-earning assets and interest-bearing liabilities.

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

Six Months Ended June 30, 1996

	1996			1995		
	Average Balance	Interest	Average Yield/ Rate(1)	Average Balance	Interest	Average Yield/ Rate(1)
	(Dollars in Thousands)					
Average Assets:						
Federal funds sold and repurchase agreements	\$72,875	\$2,098	5.76%	\$61,108	\$1,748	5.72%
Securities available for sale(2)	299,487	14,064	9.39	169,639	6,943	8.19
Loans available for sale(3)	240,009	11,484	9.57	142,069	7,154	10.07
Mortgage-related securities held for investment	--	--	--	99,295	2,342	4.72
Loan portfolio(3)	299,243	17,773	11.88	77,303	3,944	10.20
Discounted loan portfolio	616,350	52,058	16.89	460,741	36,474	15.83
Investment securities and other(4)	44,457	1,980	8.91	33,369	1,265	7.58
	-----	-----		-----	-----	
Total interest-earning assets, interest income	1,572,421	99,457	12.65	1,043,524	59,870	11.47
		-----			-----	
Non-interest earning cash	6,549			23,767		
Allowance for loan losses	(7,307)			(1,196)		
Investments in low-income housing tax credit interests	94,825			60,113		
Other assets(2)	258,213			217,909		
	-----			-----		
Total assets	\$1,924,701			\$1,344,117		
	-----			-----		
Average Liabilities and Stockholders' Equity:						
Interest-bearing demand deposits	\$23,668	360	3.04	\$49,722	477	1.92
Savings deposits	3,434	40	2.33	21,975	255	2.32
Certificates of deposit	1,450,536	44,955	6.20	1,000,383	31,058	6.21
	-----	-----		-----	-----	
Total interest-bearing deposits	1,477,638	45,355	6.14	1,072,080	31,790	5.93
Reverse repurchase agreements	23,793	685	5.76	6,680	199	5.96
Securities sold but not yet purchased	--	--	--	18,834	638	6.77
FHLB advances	70,399	2,032	5.77	5,399	257	9.52
Subordinated debentures and other interest-bearing obligations	123,726	6,964	11.26	31,858	1,796	11.28
	-----	-----		-----	-----	
Total interest-bearing liabilities, interest expense	1,695,556	55,036	6.49	1,134,851	34,680	6.11
		-----			-----	
Non-interest bearing deposits	4,039			17,077		
Escrow deposits	38,773			10,178		
Other liabilities(2)	40,934			42,409		
	-----			-----		
Total liabilities	1,779,302			1,204,515		
Stockholders' equity(2)	145,399			139,602		
	-----			-----		
Total liabilities and stockholders' equity	\$1,924,701			\$1,344,117		
	-----			-----		
Net interest income		\$44,421			\$25,190	
		-----			-----	
Net interest spread			6.16%			5.36%
			-----			-----
Net interest margin			5.65%			4.83%
			-----			-----
Ratio of interest-earning assets to interest-bearing liabilities	93%			92%		
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	---			---		

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(1) Presented on an annualized basis.

(2) Excludes effect of unrealized gains or losses on securities available for sale, net of taxes.

(3) The average balances of loans available for sale and the loan portfolio include non-performing loans, interest on which is recognized on a cash basis.

(4) Interest income from investment securities and other includes interest income attributable to that portion of the Company's deferred tax asset which relates to tax residuals. If the average balance of the deferred tax asset related to tax residuals was included in the average balance of investment securities and other, the weighted average yield would have been 6.87% and 4.62% during the six months ended June 30, 1996 and 1995, respectively. See "- Non-interest Income" below, "Taxation - Federal Taxation - Tax Residuals" and Note 19 to the Consolidated Financial Statements.

	Year Ended December 31,					
	1995			1994		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
	(Dollars in Thousands)					
Average Assets:						
Federal funds sold and repurchase agreements	\$ 55,256	\$ 3,502	6.34%	\$166,592	\$ 8,861	5.32%
Securities available for sale(1)	211,559	18,391	8.69	449,654	27,988	6.22
Loans available for sale(2)	167,011	15,608	9.35	179,962	19,353	10.75
Mortgage-related securities held for investment	77,257	4,313	5.58	140,321	6,930	4.94
Loan portfolio(2)	130,901	15,430	11.79	81,070	5,924	7.31
Discounted loan portfolio	483,204	75,998	15.73	352,633	52,560	14.91
Investment securities and other(3)	46,440	4,033	8.68	79,895	9,842	12.32
	-----	-----		-----	-----	
Total interest-earning assets, interest income	1,171,628	137,275	11.72	1,450,127	131,458	9.07
Non-interest earning cash	17,715	-----		27,717	-----	
Allowance for loan losses	(1,180)			(2,689)		
Investments in low-income housing tax credit interests	63,925			39,135		
Other assets(1)	269,280			200,663		
	-----			-----		
Total assets	\$1,521,368			\$1,714,953		
	-----			-----		
Average Liabilities and Stockholders' Equity:						
Interest-bearing demand deposits	\$31,373	1,031	3.29	\$77,433	1,396	1.80
Savings deposits	20,370	451	2.21	138,434	2,602	1.88
Certificates of deposit	1,119,836	70,371	6.28	928,209	40,963	4.41
	-----	-----		-----	-----	
Total interest-bearing deposits	1,171,579	71,853	6.13	1,144,076	44,961	3.93
Reverse repurchase agreements	16,754	951	5.68	254,457	10,416	4.09
Securities sold but not yet purchased	17,149	1,142	6.66	39,526	2,780	7.03
FHLB advances	14,866	1,126	7.57	26,476	1,232	4.65
Subordinated debentures and other						
interest-bearing obligations	78,718	8,988	11.42	25,041	3,209	12.81
	-----	-----		-----	-----	
Total interest-bearing liabilities, interest expense	1,299,066	84,060	6.47	1,489,576	62,598	4.20
Non-interest bearing deposits	19,960	-----		69,276	-----	
Escrow deposits	4,073			2,430		
Other liabilities(1)	76,978			34,171		
	-----			-----		
Total liabilities	1,400,077			1,595,453		
Stockholders' equity(1)	121,291			119,500		
	-----			-----		
Total liabilities and stockholders' equity	\$1,521,368			\$1,714,953		
	-----			-----		
Net interest income		\$53,215			\$ 68,860	
		-----			-----	
Net interest spread			5.25%			4.86%
			----			----
Net interest margin			4.54%			4.75%
			----			----
Ratio of interest-earning assets to						
interest-bearing liabilities	90%			97%		
	--			--		

Total assets	\$1,152,655		

Average Liabilities and Stockholders' Equity:			
Interest-bearing demand deposits	\$99,201	1,056	1.06
Savings deposits	142,053	1,982	1.40
Certificates of deposit	416,658	16,001	3.84
	-----	-----	
Total interest-bearing deposits	657,912	19,039	2.89
Reverse repurchase agreements	195,745	9,340	4.77
Securities sold but not yet purchased	--	--	--
FHLB advances	64,130	2,834	4.42
Subordinated debentures and other interest-bearing obligations	26,572	4,093	15.40
	-----	-----	
Total interest-bearing liabilities, interest expense	944,359	35,306	3.74
Non-interest bearing deposits	30,181	-----	
Escrow deposits	4,007		
Other liabilities(1)	76,213		

Total liabilities	1,054,760		
Stockholders' equity(1)	97,895		

Total liabilities and stockholders' equity	\$1,152,655		

Net interest income		\$43,617	

Net interest spread			4.05%

Net interest margin			4.30%

Ratio of interest-earning assets to interest-bearing liabilities	107%		

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(1) Excludes effect of unrealized gains or losses on securities available for sale, net of taxes.

(2) The average balances of loans available for sale and the loan portfolio include non-performing loans, interest on which is recognized on a cash basis.

(3) Interest income from investment securities and other includes interest income attributable to that portion of the Company's deferred tax asset which relates to tax residuals. See "- Non-interest Income" below, "Taxation - Federal Taxation - Tax Residuals" and Note 19 to the Consolidated Financial Statements. If the average balance of the deferred tax asset related to tax residuals was included in the average balance of investment securities and other, the weighted average yield would have been 6.16%, 11.48% and 10.67% during 1995, 1994 and 1993, respectively.

(Dollars in Thousands)

Interest-Earning Assets:						
Federal funds sold and repurchase agreements	\$1,445	\$(6,804)	\$(5,359)	\$ 609	\$7,379	\$7,988
Securities available for sale	8,584	(18,181)	(9,597)	7,616	658	8,274
Loans available for sale	(2,417)	(1,328)	(3,745)	(493)	14,470	13,977
Mortgage-related securities held for investment	812	(3,429)	(2,617)	105	(2,554)	(2,449)
Loan portfolio	4,747	4,759	9,506	(882)	574	(308)
Discounted loan portfolio	3,041	20,397	23,438	(2,312)	23,836	21,524
Investment securities and other	(2,401)	(3,408)	(5,809)	(388)	3,917	3,529
	-----	-----	-----	-----	-----	-----
Total interest-earning assets	13,811	(7,994)	5,817	4,255	48,280	52,535
	-----	-----	-----	-----	-----	-----
Interest-Bearing Liabilities:						
Interest-bearing demand deposits	752	(1,117)	(365)	610	(270)	340
Savings deposits	395	(2,546)	(2,151)	672	(52)	620
Certificates of deposit	19,777	9,631	29,408	2,704	22,258	24,962
	-----	-----	-----	-----	-----	-----
Total interest-bearing deposits	20,924	5,968	26,892	3,986	21,936	25,922
Reverse repurchase agreements	2,926	(12,391)	(9,465)	(1,455)	2,531	1,076
Securities sold but not yet purchased	(141)	(1,497)	(1,638)	--	2,780	2,780
FHLB advances	574	(680)	(106)	143	(1,745)	(1,602)
Subordinated debentures and other interest-bearing obligations	(386)	6,165	5,779	(658)	(226)	(884)
	-----	-----	-----	-----	-----	-----
Total interest-bearing liabilities	23,897	(2,435)	21,462	2,016	25,276	27,292

Increase (decrease) in net interest income	\$(10,086)	\$(5,559)	\$(15,645)	\$2,239	\$23,004	\$25,243
	-----	-----	-----	-----	-----	-----
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SIX MONTHS ENDED JUNE 30, 1996 VERSUS SIX MONTHS ENDED JUNE 30, 1995

The Company's net interest income increased by \$19.2 million or 76.3% during the six months ended June 30, 1996, as compared to the comparable period in the prior year. This increase resulted from a \$39.6 million or 66.1% increase in interest income due to a \$528.9 million or 50.7% increase in average interest-earning assets from period to period and, to a lesser extent, a 118 basis point increase in the weighted average yield on such assets. The increase in interest income was offset in part by a \$20.4 million or 58.7% increase in interest expense due to a \$560.7 million or 49.4% increase in average interest-bearing liabilities, primarily certificates of deposit and subordinated debentures, and, to a lesser extent, a 38 basis point increase in the weighted average rate paid on interest-bearing liabilities.

The increase in interest income during the six months ended June 30, 1996, as compared to the comparable period in the prior year, reflects substantial increases in the average balances of the discounted loan portfolio and the loan portfolio as a result of the Company's increased emphasis on multi-family residential and commercial real estate loans in recent periods, as well as an increase in the average balance of loans available for sale as a result of the Company's recent emphasis on single-family residential loans to non-conforming borrowers. The Company's increased emphasis on multi-family residential and commercial real estate loans also was a significant factor in the increase in the weighted average yields on the discounted loan portfolio and the loan portfolio during the six months ended June 30, 1996, as compared to the comparable period in the prior year, which in the case of the loan portfolio was enhanced by \$2.1 million of fees earned in connection with the repayment of hotel loans. See "Business - Lending Activities."

The average balance of the Company's interest-bearing liabilities increased substantially during the six months ended June 30, 1996, as compared to the comparable period in the prior year, as a result of a \$450.2 million or 45.0% increase in the average balance of certificates of deposit and a \$91.9 million or 288.4% increase in the average balance of subordinated debentures and other interest-bearing obligations, which reflect the Company's continued reliance on brokered and other wholesale certificates of deposit as a source of funds and the Bank's issuance of the Debentures in mid-1995, respectively. The increase in the weighted average rate paid on the Company's interest-bearing liabilities during the six months ended June 30, 1996, as compared to the comparable period in the prior year, resulted primarily from a general increase in market interest rates and the Bank's issuance of the Debentures in mid-1995.

1995 VERSUS 1994

The Company's net interest income decreased by \$15.6 million or 22.7% during 1995 as a result of a \$21.5 million or 34.3% increase in interest expense, which was primarily attributable to the Company's use of brokered and other wholesale deposits as a principal source of funds following the branch sale in 1994. The Company believes that the increase

in interest expense in 1995 was substantially offset by the decrease in non-interest expense during this period as a result of the branch sales at the end of 1995 and 1994. The Company's interest income increased by \$5.8 million or 4.4% during 1995, but was adversely affected by a decrease in the average balance of interest-earning assets during the period as a result of the branch sales. The Company's net interest margin decreased from 4.75% during 1994 to 4.54% during 1995.

The weighted average yield on interest-earning assets increased from 9.07% in 1994 to 11.72% in 1995 primarily as a result of an increase in the weighted average yield on the Company's loan portfolio and discounted loan portfolio. The weighted average yield on the Company's loan portfolios increased during 1995 because commercial real estate loans, which have higher interest rates than single-family residential loans, comprised a significantly larger proportion of such portfolios during this period. Average interest-earning assets decreased by \$278.5 million or 19.2% during 1995 as increases in the outstanding balances of the Company's loan portfolios were more than offset by decreases in the average balances of all other categories of interest-earning assets as a result of the sales of branch offices at the end of 1995 and 1994.

The weighted average rate paid on interest-bearing liabilities increased from 4.20% in 1994 to 6.47% in 1995 as a result of the Company's increased utilization of brokered and other wholesale deposits, as noted above. Average interest-bearing liabilities decreased by \$190.5 million or 12.8% in 1995 as increases in the average balances of certificates of deposit and subordinated debentures and other interest-bearing obligations, due to the Bank's issuance of \$100 million principal amount of Debentures in June 1995, were offset by decreases in the average balances of all other categories of interest-bearing liabilities.

1994 VERSUS 1993

The Company's net interest income increased by \$25.2 million or 57.9% during 1994 as a result of a \$52.5 million or 66.6% increase in interest income, which was primarily attributable to substantial growth in the Company's discounted loan portfolio and the Company's multi-family residential lending activities. The Company's net interest margin increased from 4.30% in 1993 to 4.75% in 1994.

The weighted average yield on the Company's interest-earning assets increased to 9.07% in 1994 from 7.79% in 1993 as a result of several factors, including a higher interest rate environment, the commencement of the acquisition of discounted multi-family residential and commercial real estate loans and substantial multi-family residential lending activities, the effects of the latter of which were reflected in interest income on loans available for sale and, as a result of the Company's securitization of its multi-family residential loans, interest income on securities available for sale. The weighted average yield on the Company's interest-earning assets also increased in 1994 because, effective January 1, 1994, the Company ceased recognizing a portion of the fees received in connection with the acquisition of tax residuals immediately into non-interest income and

began to recognize all fees received on a level-yield basis as interest income over the expected life of that portion of the deferred tax asset which relates to tax residuals. See "- Results of Operations - Non-Interest Income" below. Deferred fees accreted into interest income on tax residuals amounted to \$5.7 million during 1994, as compared to \$2.6 million in 1993, and significantly increased the weighted average yield on "investment securities and other" during this period.

The weighted average rate paid on the Company's interest-bearing liabilities increased to 4.20% in 1994 from 3.74% in 1993, reflecting the increasing interest rate environment and increased utilization of brokered certificates of deposit. The average rates paid by the Company on its reverse repurchase agreements decreased from 4.77% in 1993 to 4.09% in 1994 as a result of interest rate exchange agreements intended to hedge the cost of such agreements. Exclusive of the effects of such interest rate exchange agreements, the weighted average rate on reverse repurchase agreements was 3.56% and 3.98% during 1993 and 1994, respectively. See Note 14 to the Consolidated Financial Statements.

PROVISIONS FOR LOAN LOSSES. Provisions for losses on loans are charged to operations to maintain an allowance for losses on each of the loan portfolio and the discounted loan portfolio at a level which management considers adequate based upon an evaluation of known and inherent risks in such loan portfolios. Management's periodic evaluation is based upon an analysis of each of the discounted loan portfolio and the loan portfolio, historical loss experience, current economic conditions and other relevant factors.

Prior to the six months ended June 30, 1996, provisions for losses on loans were not established in connection with the discounted loan portfolio because adjustments to reduce the carrying value of discounted loans to the lower of amortized cost or the fair market value of the properties securing the loans discounted at the effective interest rate, which amounted to \$5.0 million during 1995, were recorded in interest income on discounted loans. Moreover, because discounted loans generally are acquired at discounts from both the stated value of the loans and the values of the underlying collateral, management of the Company did not believe that it was necessary to maintain an allowance for loan losses for the discounted loan portfolio. As a result of discussions between the Bank and the OTS following an examination of the Bank by the OTS, the Company changed this policy, which resulted in the establishment of a \$9.5 million provision for losses on the discounted loan portfolio during the six months ended June 30, 1996. In addition, beginning in 1996 the Company has recorded all charge-offs on the discounted loan portfolio against the allowance for losses on discounted loans. During the six months ended June 30, 1996, the Company also established a \$1.1 million provision for losses related to its loan portfolio, which was primarily general in nature. Based on the types of lending activities currently emphasized by the Company, the Company anticipates that in the future it will establish provisions for loan losses on each of its loan portfolios on a quarterly basis.

Provisions for loan losses relating to the loan portfolio amounted to \$1.1 million in 1995 and reflect both the substantial increase in the amount and the change in the type of

loans in the Company's loan portfolio in 1995 and the Company's policy to maintain reserves based, among other factors, on the level of its classified assets. See "Business - Lending Activities" and "-Asset Quality." Provisions for losses on loans were not deemed necessary in 1994 and 1993 in light of the relatively small size of the loan portfolio, the composition of the loan portfolio, which was primarily single-family residential loans to non-conforming borrowers, the level of the allowance for loan losses and management's assessment of the credit risks inherent in such portfolio.

Although management utilizes its best judgment in providing for possible loan losses, changing economic and business conditions, fluctuations in local markets for real estate, future changes in nonperforming asset trends, large upward movements in market interest rates or other factors could affect the Company's future provisions for loan losses. In addition, as noted above, the OTS, as an integral part of its examination process, periodically reviews the adequacy of the Bank's allowances for losses on loans and discounted loans and such agency may require the Company to recognize changes to such allowances for losses based on its judgment about information available to it at the time of examination.

NON-INTEREST INCOME. Non-interest income increased by \$2.4 million or 27.2% during the six months ended June 30, 1996, as compared to the comparable period in the prior year. Exclusive of the \$5.4 million and \$62.6 million gains from the sale of branch offices in 1995 and 1994, respectively, non-interest income increased by \$6.8 million or 35.7% in 1995 and decreased by \$16.9 million or 47.1% in 1994. The increase in non-interest income during the six months ended June 30, 1996, as compared to the comparable period in the prior year, was primarily attributable to gains from the sale of interest-earning assets, which more than offset a loss on real estate owned, net due to valuation adjustments related to real estate owned, and a decrease in servicing fees and other charges due to a write-down of mortgage servicing rights. The increase in non-interest income in 1995 was primarily attributable to income on real estate owned and gains from the sale of interest-earning assets, and the decrease in non-interest income in 1994 was primarily attributable to a decrease in fees on financing transactions, as discussed below, and, to a lesser extent, a decrease in gains from the sale of interest-earning assets.

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

	Six Months Ended June 30,		Year Ended December 31,		
	1996	1995	1995	1994	1993
			(In Thousands)		
Servicing fees and other charges	\$787	\$1,805	\$2,870	\$4,786	\$3,800
Gain on sale of interest-earning assets, net	9,601	3,356	6,955	5,727	8,386
Fees on financing transactions	--	--	--	--	15,340
Gain on sale of subsidiary's stock	--	--	--	--	3,835
Income (loss) on real estate owned, net	(1,028)	2,558	9,540	5,995	(1,158)
Gain on sale of hotel	--	--	4,658	--	--
Other income	1,996	1,208	1,727	2,467	5,669
Subtotal			25,750	18,975	35,872
Gains on sales of branches	--	--	5,430	62,600	--
Total	\$11,356	\$ 8,927	\$31,180	\$81,575	\$35,872

Servicing fees and other charges decreased during the six months ended June 30, 1996, as compared to the comparable period in the prior year, because in the six months ended June 30, 1995 the Company received \$783,000 of servicing fees from the purchaser of the branch offices sold at the end of 1994 for servicing deposits subsequent to the sale but prior to their effective transfer and no such fees were received during the six months ended June 30, 1996. In addition, during the six months ended June 30, 1996 the Company recorded a \$928,000 valuation adjustment to mortgage servicing rights which were acquired by the Company in 1995 in connection with its acquisition of the right to service all of the loans which backed a REMIC in which the Company acquired a subordinate interest. The valuation adjustment to mortgage servicing rights was due to a significant increase in prepayments of the underlying loans due primarily to refinancings, which resulted in a decrease in the number of underlying loans (which consist primarily of jumbo adjustable-rate loans) from 1,000 to 550. Mortgage servicing rights, net, amounted to \$2.7 million at June 30, 1996. The foregoing effects on servicing fees and other charges during the six months ended June 30, 1996 more than offset \$1.0 million of loan servicing fees received by the Bank from the joint venture which acquired discounted single-family residential loans from HUD in April 1996. Servicing fees and other charges decreased in 1995 primarily as a result of a \$2.3 million decrease in deposit-related fees, which decreased as a result of the branch sales at the end of 1995 and 1994, and a \$121,000 decrease in loan fees, primarily as a result of a decrease in late charges on loans, which was offset in part by a \$783,000 servicing fee received by the Company from the purchaser of the branch offices sold at the end of 1994 for servicing deposits subsequent to the sale but prior to their effective transfer. Servicing fees and other charges increased in 1994 primarily as a result of a \$1.0 million increase in deposit-related fees as a result of the inclusion of Old Berkeley's deposit base for all of 1994.

Net gains on sales of interest-earning assets during the six months ended June 30, 1996 were primarily comprised of \$6.8 million of gains on the sale of single-family

residential loans to non-conforming borrowers available for sale and \$5.3 million of gains on the sale of performing single-family residential loans in the Company's discounted loan portfolio, which were offset in part by a \$1.6 million adjustment to record delinquent single-family residential loans to non-conforming borrowers available for sale to the lower of cost or market and a \$748,000 net loss on the sale of securities available for sale. Net gains on sales of interest-earning assets in 1995 were primarily comprised of a \$6.0 million gain from the sale of performing single-family residential loans in the Company's discounted loan portfolio and a \$1.6 million gain from the securitization of \$83.9 million of multi-family residential loans and subsequent sale of the FNMA mortgage-backed securities backed by such loans, net of related hedges. Net gains on sales of interest-earning assets in 1994 were primarily comprised of \$7.2 million of gains from the sale of multi-family residential loans and mortgage-backed securities, net of related hedges, \$1.8 million of gains from trading activities, \$890,000 of gains from the sale of performing single-family residential loans in the Company's discounted loan portfolio and \$2.1 million of gains from the sale of timeshare and other consumer loans, which more than offset \$6.3 million of losses from the sale of mortgage-backed and related securities backed by single-family residential loans, net of related hedges. Net gains on sales of interest-earning assets in 1993 were primarily comprised of \$3.9 million and \$773,000 of gains from the sale of discounted loans and other loans, respectively, and a \$2.3 million gain from the sale of mortgage-backed and related securities.

Through 1993, the Company recorded a portion of the fees received by it in connection with the acquisition of tax residuals as fees on financing transactions. Effective January 1, 1994, the Company ceased recognizing a portion of the fees received upon acquisition of tax residuals immediately into income and began to defer all fees received and recognize such fees in interest income on a level yield basis over the expected life of that portion of the deferred tax asset which relates to tax residuals. See "Taxation - Federal Taxation - Tax Residuals."

The \$3.8 million gain on sale of subsidiary's stock in 1993 was recorded in connection with the Company's sale of all of the stock of two subsidiaries which were engaged in the private mortgage insurance business. For additional information relating to this transaction, see Note 2 to the Consolidated Financial Statements.

The following table sets forth information relating to the Company's income (loss) on real estate owned, net during the periods indicated.

	Six Months Ended June 30,		Year Ended December 31,		
	1996	1995	1995	1994	1993
	(Dollars in Thousands)				
Gains on sales	\$ 7,778	\$ 9,137	\$19,006	\$21,308	\$2,541
Provision for losses in fair value	(9,788)	(5,035)	(10,510)	(9,074)	(2,980)
Carrying costs, net of rental income	982	(1,543)	1,044	(6,239)	(719)
Income (loss) on real estate owned, net	\$(1,028)	\$ 2,559	\$ 9,540	\$ 5,995	\$(1,158)

Income (loss) on real estate owned, net primarily relates to real estate owned acquired by foreclosure or deed-in-lieu thereof on loans in the Company's discounted loan portfolio. The provision for losses in fair value on real estate owned during the six months ended June 30, 1996 included \$3.8 million which was established as a result of discussions between the Bank and the OTS following an examination of the Bank by the OTS. For additional information relating to the Company's real estate owned, see "Business - Asset Quality - Real Estate Owned."

In October 1995, the Company sold one of the two hotels owned by the Company for a gain of \$4.7 million.

Other income increased during the six months ended June 30, 1996, as compared to the comparable period in 1995, as a result of a \$990,000 gain from the sale of low-income housing tax credit interests and the Company's receipt of an additional premium of \$335,000 which was earned in accordance with the original agreement to sell 23 branch offices at the end of 1994. See "Business - Investment Activities - Investments in Low-Income Housing Tax Credit Interests." Other income decreased in 1995 primarily because other income in 1994 included \$627,000 of servicing fees received in connection with the servicing of the private mortgage insurance business of subsidiaries of Investors Mortgage Insurance Holding Company ("IMI"), which were sold in 1993, and \$858,000 of fees received by Ocwen Asset Management, Inc. ("OAM"), a subsidiary of the Company which has managed mortgage-backed and related securities as a discretionary asset manager for an unaffiliated party since May 1992. These decreases were partially offset by a \$1.0 million litigation settlement received from a broker-dealer relating to a tax residual transaction. Other income decreased in 1994 primarily because other income in 1993 included \$1.7 million of insurance premiums received in connection with the private mortgage insurance business of subsidiaries of IMI and a decrease of \$1.2 million of fees received by OAM. At June 30, 1996, OAM had under management approximately \$37.6 million of loans and mortgage related securities for the unaffiliated account.

The Company realized a \$5.4 million gain from the sale of two branch offices and \$111.7 million of related deposits at the end of 1995 and a \$62.6 million gain from the sale of 23 branch offices and \$909.3 million of related deposits at the end of 1994. For a breakdown of the components of the gains from these branch sales, see Note 2 to the Consolidated Financial Statements.

NON-INTEREST EXPENSE. Non-interest expense increased by \$3.7 million or 16.7% during the six months ended June 30, 1996, as compared to the comparable period in the prior year, decreased by \$23.3 million or 33.8% during 1995 and increased by \$27.0 million or 64.5% during 1994. The increase in non-interest expense during the six months ended June 30, 1996, as compared to the comparable period in the prior year, was primarily attributable to increases in compensation and employee benefits. The decrease in non-interest expense in 1995 reflects the sale of 23 of the Company's branch offices at the end of 1994 and, to a lesser extent, the sale of two of the Company's other branch offices at the end of 1995.

The increase in non-interest expense in 1994 was attributable in part to the inclusion of the operations of Old Berkeley, which was acquired in mid-1993, in the operations of the Company for all of 1994, increased profit sharing expense as a result of the gain from the sale of branch offices in 1994 and the substantial expansion of certain of the Company's business lines, including its discounted loan acquisition and resolution activities and its multi-family residential lending activities.

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

	Six Months Ended June 30,		Year Ended December 31,		
	1996	1995	1995	1994	1993
			(In Thousands)		
Compensation and employee benefits	\$14,562	\$10,464	\$23,787	\$42,395	\$23,507
Occupancy and equipment	4,227	4,795	8,360	11,537	9,106
Amortization of goodwill	--	--	--	1,346	1,301
Hotel operations expense (income), net	57	264	337	(723)	(710)
Other operating expenses	6,703	6,369	13,089	14,303	8,655
Total	\$25,549	\$21,892	\$45,573	\$68,858	\$41,859

The increase in compensation and employee benefits during the six months ended June 30, 1996, as compared to the comparable period in the prior year, was primarily attributable to a \$2.4 million increase in the accrual for profit sharing expense, as well as normal salary adjustments. The decrease in compensation and employee benefits in 1995 reflected a decrease in the average number of full-time equivalent employees from 548 in 1994 to 344 in 1995 as a result of the sales of branch offices and other reduction in work force measures, as well as a \$10.7 million decrease in profit sharing expense. The increase in compensation and employee benefits in 1994 was primarily attributable to increases in salary, the largest component of compensation and employee benefits, which increased by \$8.3 million or 78% during this period. This increase was primarily attributable to an increase in the average number of full-time equivalent employees from 362 in 1993 to 548 in 1994, reflecting the inclusion of the operations of Old Berkeley in the Company's operations for the entire year in 1994 and the expansion of new business activities, particularly discounted loan acquisition and resolution activities and multi-family residential lending activities. Compensation and employee benefits also increased in 1994 as a result of a \$10.9 million increase in profit sharing expense, the majority of which was attributable to the large gain recorded in connection with the sale of branch offices at the end of 1994.

The decrease in occupancy and equipment expense during the six months ended June 30, 1996, as compared to the comparable period in the prior year, was primarily attributable to expenses incurred in the first half of 1995 to relocate the Company's executive offices. The decrease in occupancy and equipment expense in 1995 reflected the sale of branch offices at the end of 1994 and lower occupancy costs as a result of the Company's move to

new executive offices in 1995. The increase in occupancy and equipment expense in 1994 was primarily attributable to the acquisition of Old Berkeley in mid-1993, the expansion of the executive offices of the Company to accommodate increases in personnel and the increased use of technology to support the Company's activities.

The changes in hotel operations expense (income), net in recent periods generally reflect the Company's acquisition of two hotels for investment in mid-1993 and the significant renovation and sale of one of these hotels in 1995.

Other expenses increased during the six months ended June 30, 1996, as compared to the comparable period in the prior year, primarily as a result of a \$596,000 increase in FDIC insurance expense, a \$249,000 increase in loan fees, a \$238,000 increase in professional fees and a \$183,000 increase in amortized costs related to the Debentures, which more than offset decreases in various other expenses. Other expenses decreased in 1995 primarily as a result of a \$641,000 decrease in travel and lodging expenses, a \$337,000 decrease in marketing expenses and a \$683,000 decrease in miscellaneous other expenses, which were offset in part by a \$1.1 million increase in loan related expenses. Other expenses increased in 1994 primarily as a result of a \$965,000 increase in FDIC insurance expense, a \$945,000 increase in marketing expense, a \$572,000 increase in travel and lodging expense and a \$1.4 million increase in miscellaneous other expenses. Many of these expenses were directly attributable to the inclusion of a full year of operations of Old Berkeley in the Company's operations in 1994 and the expansion of the Company's business lines. For a detailed breakout of other operating expenses, see Note 23 to the Consolidated Financial Statements.

EQUITY IN EARNINGS OF JOINT VENTURE. Equity in earnings of joint venture relates to the recently-formed joint venture to acquire discounted single-family residential loans from HUD in April 1996. The Company's \$1.1 million of earnings from this joint venture during the six months ended June 30, 1996 consisted of 50% of the joint venture's net income during this period plus 50% of the loan servicing fee received by the Bank from the joint venture during this period. (The remainder of the loan servicing fee received by the Bank from the joint venture during this period has been included in servicing fees and other charges, as discussed above.) Income of the joint venture is primarily attributable to interest on discounted loans, which had an annualized weighted average yield of 9.43% during the period from the date of acquisition by the joint venture to June 30, 1996. See "Business - Investment in Joint Venture" and Note 7 to the Interim Consolidated Financial Statements.

INCOME TAX EXPENSE. Income tax expense amounted to \$1.9 million and \$760,000 during the six months ended June 30, 1996 and 1995, respectively, and \$4.6 million, \$29.7 million and \$10.3 million during 1995, 1994 and 1993, respectively. The Company's effective tax rate amounted to 11.3% and 6.2% during the six months ended June 30, 1996 and 1995, respectively, and to 12.1%, 36.4% and 27.4% during 1995, 1994 and 1993, respectively. The Company's low effective tax rates in recent periods were primarily attributable to the benefits of tax credits and tax benefits resulting from the Company's investment in low-

income housing tax credit interests, which amounted to \$4.1 million and \$3.8 million during the six months ended June 30, 1996 and 1995, respectively, and \$7.7 million, \$5.3 million and \$2.0 million during the years ended December 31, 1995, 1994 and 1993, respectively. Exclusive of such amounts, the Company's effective tax rate amounted to 35.3% and 37.1% during the six months ended June 30, 1996 and 1995, respectively, and 32.6%, 43.1% and 32.8% during 1995, 1994 and 1993, respectively. The increase in the Company's effective tax rate in 1994 was primarily attributable to the write-off of the remaining goodwill in connection with the sale of branch offices which was not deductible for tax purposes, and an increase in state taxes, which more than offset the benefits of tax credits resulting from the Company's investment in low-income housing tax credit interests. For additional information regarding the Company's effective tax rates and information regarding net operating loss carryforwards of the Company resulting from the manner in which tax residuals are treated for federal income tax purposes, see Note 19 to the Consolidated Financial Statements.

DISCONTINUED OPERATIONS. In September 1995, the Company announced its decision to dispose of its automated banking division and related activities. As a result of this decision, an after-tax loss of \$3.2 million was recorded, which consisted of a net loss of \$2.0 million on the sale of assets and a loss of \$1.2 million (net of income of \$1.2 million) incurred from related operations until the sale and disposition, which was substantially completed at December 31, 1995. Losses from the operations of the discontinued division prior to discontinuance, net of tax, amounted to \$3.1 million, \$4.5 million, \$4.5 million and \$2.3 million during the six months ended June 30, 1995 and the years ended December 31, 1995, 1994 and 1993, respectively.

The Company's automated banking division generally emphasized the installation of automated teller machines and automated banking centers in a wide variety of locations which were not associated with branch offices of the Company, such as colleges and universities, business establishments and other high-density locations, as well as the development and installation of an automated multi-application card system for the distribution of financial products and services to members of a college or university population. The discontinuance of the operations of the automated banking division did not adversely affect the revenues of the Company or otherwise have a material adverse effect on its financial condition, capital resources or liquidity.

The Company's statements of operations have been restated for all periods presented to reflect the discontinuance of the above-described operations. See Note 3 to the Consolidated Financial Statements.

EXTRAORDINARY GAIN. In October and December 1993, the Company purchased at a discount loans which had been made by third parties to Berkeley Realty Group, Inc. ("BRG"), a wholly-owned subsidiary of the Company which was acquired in connection with the acquisition of Old Berkeley. BRG was engaged in real estate development and residential construction activities prior to its acquisition by the Company and was a

mortgagor on loans collateralized by real estate held for development. The loans of BRG purchased by the Company and the related discount totalled \$9.0 million and \$2.4 million, respectively, which resulted in an extraordinary gain of \$1.5 million after deduction of \$828,000 for applicable income taxes.

CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE. In February 1992, the Financial Accounting Standards Board ("FASB") issued SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires reporting entities to take into account changes in tax rates when valuing the deferred income tax amounts recorded on the balance sheet. SFAS No. 109 also requires that deferred taxes be provided for all temporary differences between financial statement amounts and the tax basis of assets and liabilities. The Company adopted SFAS No. 109 on a prospective basis effective January 1, 1993, and recorded a \$1.3 million charge in connection therewith.

CHANGES IN FINANCIAL CONDITION

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

	June 30, 1996	December 31, ----- 1995 1994 -----	
		(In Thousands)	
Assets:			
Securities available for sale	\$263,199	\$337,480	\$187,717
Loans available for sale	84,078	251,790	102,293
Investment securities, net	8,902	18,665	17,011
Mortgage-related securities held for investment	--	--	91,917
Loan portfolio, net	312,576	295,605	57,045
Discounted loan portfolio, net	594,634	669,771	529,460
Investments in low-income housing tax credit interests	92,273	81,362	49,442
Investment in joint venture, net	60,910	--	--
Real estate owned, net	133,604	166,556	96,667
Premises and equipment, net	28,750	25,359	38,309
Deferred tax asset	17,981	22,263	20,695
Total assets	1,899,308	1,973,590	1,266,403
Liabilities:			
Deposits	1,502,175	1,501,646	1,023,268
FHLB advances	70,399	70,399	5,399
Reverse repurchase agreements	--	84,761	--
Subordinated debentures and other interest-bearing obligations	115,703	117,054	20,111
Total liabilities	1,744,570	1,834,043	1,113,020
Stockholders' equity	154,738	139,547	153,383

SECURITIES AVAILABLE FOR SALE. Securities available for sale decreased by \$74.3 million during the six months ended June 30, 1996 primarily as a result of the sale and repayment of \$52.9 million of CMOs. The proceeds from these sales and repayments, as well as the proceeds from the sale of loans available for sale, as discussed below, contributed to the \$194.4 million increase in interest-bearing deposits, federal funds sold and repurchase agreements during the six months ended June 30, 1996. Securities available for sale increased by \$149.8 million during 1995 primarily as a result of a \$115.7 million increase in the Company's investment in IO strips and PO strips and a \$48.2 million increase in the Company's investment in subordinated classes of mortgage-related securities. From time to time the Company invests in these and other types of mortgage-related securities based on its capital position, interest rate risk profile, the market for such securities and other factors. For additional information relating to these investments, see "Business - Investment Activities-Mortgage-Backed and Related Securities" and Note 5 to the Consolidated Financial Statements. The Company's investment in CMOs decreased by \$79.2 million during 1995 prior to the transfer of \$73.7 million of mortgage-related securities held by the Company for investment to available for sale pursuant to a guide to the implementation of SFAS No. 115 issued by the FASB in November 1995. See Note 1 to the Consolidated Financial Statements.

LOANS AVAILABLE FOR SALE. Loans available for sale decreased by \$167.7 million or 66.6% during the six months ended June 30, 1996 primarily because during this period the Company sold \$285.2 million of single-family residential loans to non-conforming borrowers, which substantially offset the purchase and origination of \$132.4 million of such loans. Loans available for sale increased by \$149.5 million during 1995 primarily as a result of the Company's successful implementation of a program to acquire single-family residential loans to non-conforming borrowers, which resulted in the acquisition of \$240.3 million of single-family residential loans to non-conforming borrowers during the year. The increase in single-family residential loans more than offset a \$55.2 million decrease in multi-family residential loans available for sale during 1995, which was due to the Company's exchange of \$83.9 million of multi-family residential loans classified as available for sale for FNMA securities backed by such loans, all of which were subsequently sold by the Company. See "Business - Lending Activities."

At June 30, 1996, loans available for sale which were past due 90 days or more ("non-performing loans") amounted to \$15.6 million or 18.5% of total loans available for sale, as compared to \$7.9 million or 3.2% at December 31, 1995. At June 30, 1996 and December 31, 1995, non-performing loans available for sale consisted primarily of \$15.4 million and \$7.8 million of single-family residential loans to non-conforming borrowers, reflecting the higher risks associated with such loans and the recent sales of performing single-family residential loans to non-conforming borrowers available for sale. During the six months ended June 30, 1996, the Company recorded a \$1.6 million reduction in the carrying value of these loans to record them at the lower of cost or fair value.

INVESTMENT SECURITIES. Investment securities, which are held by the Company for investment purposes, decreased by \$9.8 million during the six months ended June 30, 1996 due to the maturity of \$10.0 million of U.S. Government securities. At June 30, 1996, investment securities consisted almost entirely of required holdings of FHLB stock.

MORTGAGE-RELATED SECURITIES HELD FOR INVESTMENT. The Company did not have any mortgage-related securities held for investment at June 30, 1996 or at December 31, 1995 because of its decision at year end to reclassify \$89.1 million of securities in this portfolio to available for sale.

LOAN PORTFOLIO, NET. The Company's net loan portfolio increased by \$17.0 million during the six months ended June 30, 1996 primarily as a result of increased investment in multi-family residential loans, particularly construction loans, and commercial real estate loans secured by hotels and office buildings. The Company's net loan portfolio increased by \$238.6 million during 1995 primarily as a result of the Company's multi-family residential and commercial real estate lending activities. From December 31, 1994 to December 31, 1995, multi-family residential loans, including construction loans, increased by \$47.2 million, and commercial real estate and land loans increased by \$188.5 million, including a \$106.1 million and a \$61.3 million increase in loans secured by hotels and office buildings, respectively. In addition to the increases in multi-family residential and commercial real estate loans, single-family residential loans increased by \$44.0 during 1995, primarily as a result of the Company's purchase of a pool of loans which were primarily secured by properties located in the Company's market area in northern New Jersey. See "Business - Lending Activities."

Non-performing loans in the Company's loan portfolio amounted to \$2.5 million or 0.8% of total loans at June 30, 1996, as compared to \$3.9 million or 1.27% of total loans at December 31, 1995 and \$2.7 million or 4.35% of total loans at December 31, 1994. At June 30, 1996, non-performing loans consisted primarily of \$2.3 million of single-family residential loans. The Company's allowance for losses on its loan portfolio amounted to 0.9%, 0.7% and 1.8% of total loans at June 30, 1996 and December 31, 1995 and 1994, respectively, and 115.2%, 50.5% and 40.3% of nonperforming loans at the same dates, respectively. See "Business - Asset Quality" and Note 7 to the Consolidated Financial Statements. The foregoing amounts and ratios do not include non-performing loans in the discounted loan portfolio, as discussed under "- Discounted Loan Portfolio" below, or non-performing loans available for sale, as discussed under "- Loans Available for Sale" above.

DISCOUNTED LOAN PORTFOLIO, NET. The Company's net discounted loan portfolio decreased by \$75.1 million during the six months ended June 30, 1996 because discounted loan acquisitions having an unpaid principal balance of \$161.8 million were more than offset by resolutions and repayments, loans transferred to real estate owned and sales of discounted loans. Acquisitions of discounted loans during this period consisted primarily of commercial real estate loans and do not reflect the Company's acquisition of a 50% interest in a joint venture which acquired discounted single-family residential loans from HUD in

April 1996. See "- Investment in Joint Venture" below. The Company's net discounted loan portfolio increased by \$140.3 million during 1995 primarily as a result of the acquisition of \$374.9 million gross principal amount of discounted commercial real estate loans. These acquisitions more than offset a \$124.0 million decrease in gross principal amount of discounted multi-family residential loans during 1995, which was due to decreased acquisitions and substantial resolutions of such loans during this period, as well as a \$5.7 million decrease in gross principal amount of discounted single-family residential loans. Discounted loans having an unpaid principal balance of \$791.2 million were acquired during 1995, as compared to \$826.4 million during 1994. See "Business - Discounted Loan Acquisition and Resolution Activities" and Notes 1 and 9 to the Consolidated Financial Statements.

At June 30, 1996, discounted loans which were performing in accordance with original or modified terms amounted to \$500.7 million or 60.3% of the gross discounted loan portfolio, as compared to \$351.6 million or 37.3% of the gross discounted loan portfolio at December 31, 1995 and \$113.8 million or 14.5% of the gross discounted loan portfolio at December 31, 1994. Management of the Company generally considers the discounted loan portfolio to be performing in accordance with the expectations and assumptions employed by the Company in acquiring and managing such portfolio. The Company's allowance for losses on its discounted loan portfolio amounted to 1.6% of the net discounted loan portfolio at June 30, 1996. See "Business - Asset Quality."

INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS. In 1993, the Company commenced a multi-family residential lending program which includes indirect investments in multi-family residential projects which have been allocated low-income housing tax credits under Section 42 of the Code by a state tax credit allocating agency. At June 30, 1996, the Company had \$92.3 million of investments in low-income housing tax credit interests, as compared to \$81.4 million at December 31, 1995.

Investments by the Company in low-income housing tax credit interests made on or after May 18, 1995 in which the Company invests solely as a limited partner, which amounted to \$8.7 million at June 30, 1996, are accounted for using the equity method in accordance with the consensus of the Emerging Issues Task Force through issue number 94-1. Income attributable to such investments, of which there was none in 1995 and \$13,500 in the six months ended June 30, 1996, is recorded as non-interest income and the associated tax credits and tax benefits result in a reduction to income tax expense. Limited partnership investments made prior to May 18, 1995, which amounted to \$57.6 million at June 30, 1996, are accounted for under the effective yield method as a reduction of income tax expense. Low-income housing tax credit partnerships in which the Company invests as both a limited and, through a subsidiary, a general partner amounted to \$22.5 million at June 30, 1996 and are presented on a consolidated basis. See "Business - Investment Activities - Investments in Low-Income Housing Tax Credit Interests" and Note 11 to the Consolidated Financial Statements.

INVESTMENT IN JOINT VENTURE. The \$60.9 million investment in joint venture, net at June 30, 1996 represented the Company's investment in a newly-formed company in which the Company and a co-investor each have a 50% interest, net of \$2.5 million of unrealized gains on related hedging activities. The Company's investment, along with the contribution of the Company's co-investor, enabled this joint venture to purchase discounted single-family residential loans from HUD in April 1996. These loans had a net balance of \$559.4 million at June 30, 1996. See "Business - Investment in Joint Venture."

REAL ESTATE OWNED, NET. Real estate owned, net consists almost entirely of properties acquired by foreclosure or deed-in-lieu thereof on loans in the Company's discounted loan portfolio. Such properties amounted to \$132.0 million or 98.8% of total real estate owned at June 30, 1996 and consisted of \$66.0 million, \$37.4 million and \$28.6 million of properties attributable to single-family residential loans, multi-family residential loans and commercial real estate loans, respectively. Real estate owned decreased by \$33.0 million or 19.8% during the six months ended June 30, 1996 as a result of decreases in all categories of real estate owned attributable to the discounted loan portfolio. The \$69.9 million increase in the Company's net real estate owned during 1995 was entirely attributable to increases in real estate owned related to the Company's discounted loan portfolio, which reflects the growth in the Company's discounted loan acquisition and resolution activities in recent periods.

The Company actively manages its real estate owned. During the six months ended June 30, 1996, the Company sold 508 properties of real estate owned related to its discounted loan portfolio with a carrying value of \$72.5 million. During 1995, the Company sold 1,221 properties of real estate owned related to its discounted loan portfolio with a carrying value of \$138.5 million, as compared to the sale of 1,386 and 347 properties of real estate owned related to its discounted loan portfolio with carrying values of \$111.7 million and \$10.9 million during 1994 and 1993, respectively. See "Business - Asset Quality" and Note 10 to the Consolidated Financial Statements.

PREMISES AND EQUIPMENT, NET. Premises and equipment, net, which consists of premises and equipment related to the Company's hotel subsidiaries and premises and equipment related to its other subsidiaries, decreased during 1995 primarily as a result of the Company's sale of one of the two hotels acquired by it in 1993. Net premises and equipment related to the Company's other subsidiaries also decreased during 1995 as a result of the Company's sale of two branch offices and the disposition of its automated banking division during 1995, which offset increased investment in leasehold improvements as a result of the Company's move to new executive offices during this period. See "Business - Offices" and Note 12 to the Consolidated Financial Statements.

DEPOSITS. Deposits increased by \$478.4 million during 1995 primarily as a result of brokered deposits obtained through national investment banking firms which solicit deposits from their customers, which amounted to \$1.12 billion at December 31, 1995, as compared to \$857.8 million at December 31, 1994. The Company's deposits also increased during 1995

as a result of deposits obtained through regional and local investment banking firms and the Company's direct solicitation of institutional investors and high net worth individuals, which in the aggregate amounted to \$273.4 million at December 31, 1995; no such deposits were outstanding at December 31, 1994. See "Business - Sources of Funds - Deposits" and Note 13 to the Consolidated Financial Statements.

FHLB ADVANCES AND REVERSE REPURCHASE AGREEMENTS. FHLB advances and reverse repurchase agreements decreased by \$84.8 million during the six months ended June 30, 1996 as a result of the repayment of reverse repurchase agreements. FHLB advances and reverse repurchase agreements increased by \$149.8 million in the aggregate during 1995 because they are utilized as sources of funds from time to time. See "Business - Sources of Funds - Borrowings" and Notes 14 and 15 to the Consolidated Financial Statements.

SUBORDINATED DEBENTURES AND OTHER INTEREST-BEARING OBLIGATIONS. Subordinated debentures and other interest-bearing obligations increased by \$96.9 million during 1995 primarily as a result of the Bank's issuance of \$100 million principal amount of Debentures in June 1995 and, to a lesser extent, \$7.6 million of subordinated notes which are privately issued from time to time to certain stockholders of the Company. These increases more than offset a \$10.7 million decrease in hotel mortgages payable, which was primarily attributable to the sale of one of the two hotels owned by the Company in 1995. See Note 16 to the Consolidated Financial Statements.

DEFERRED TAX ASSET. At June 30, 1996, the Company had a net deferred tax asset of \$18.0 million. At the same date, the gross deferred tax asset amounted to \$37.6 million and consisted primarily of \$16.1 million related to tax residuals and deferred income thereon, \$3.7 million related to accrued profit sharing, \$2.6 million of mark-to-market adjustments and reserves related to real estate owned and \$2.6 million of deferred interest expense on the discounted loan portfolio, and the gross deferred tax liability amounted to \$19.6 million and consisted primarily of \$6.5 million of bad debt reserves established for tax purposes in excess of book reserves and \$6.2 million of deferred interest income on the discounted loan portfolio. At December 31, 1995, the Company had a net deferred tax asset of \$22.3 million. At the same date, the gross deferred tax asset amounted to \$30.6 million, of which \$26.3 million related to tax residuals and deferred income therein, and the gross deferred liability amounted to \$9.6 million and consisted primarily of \$6.8 million of bad debt reserves established for tax purposes in excess of book reserves and \$2.4 million of deferred interest income on the discounted loan portfolio.

As a result of the Company's earnings history, current tax position and taxable income projections, management believes that the Company will generate sufficient taxable income in future years to realize the deferred tax assets which existed at June 30, 1996. In evaluating the expectation of sufficient future taxable income, management considered future reversals of temporary differences and available tax planning strategies that could be implemented, if required. A valuation allowance was not required as of June 30, 1996 because it was management's assessment that, based on available information, it is more

likely than not that all of the deferred tax asset will be realized. A valuation allowance will be established in the future to the extent of a change in management's assessment of the amount of the net deferred tax asset that is expected to be realized. See Note 19 to the Consolidated Financial Statements.

STOCKHOLDERS' EQUITY. Stockholders' equity increased during the six months ended June 30, 1996 as a result of the Company's net income during the period. Stockholders' equity decreased during 1995 primarily as a result of the Company's repurchase of 8,815,060 shares of Common Stock at a price of \$4.76 per share, or an aggregate of \$42.0 million, pursuant to an offer made to all stockholders of the Company during 1995, which more than offset the Company's \$25.5 million of net income during 1995.

ASSET AND LIABILITY MANAGEMENT

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

The Asset/Liability Committee is authorized to utilize a wide variety of off-balance sheet financial techniques to assist it in the management of interest rate risk. These techniques include interest rate exchange agreements, pursuant to which the parties exchange the difference between fixed-rate and floating-rate interest payments on a specified principal amount (referred to as the "notional amount") for a specified period without the exchange of the underlying principal amount. Interest rate exchange agreements are utilized by the Company to protect against the decrease in value of a fixed-rate asset or the increase in borrowing cost from a short-term, fixed-rate liability, such as reverse repurchase agreements, in an increasing interest rate environment. Although the Company had no interest rate exchange agreements outstanding at June 30, 1996, interest rate exchange agreements had the effect of increasing the Company's net interest income by \$303,000 and \$358,000 during the six months ended June 30, 1995 and the year ended December 31, 1995, respectively, and decreasing the Company's net interest income by \$754,000 and \$2.2 million during 1994 and 1993, respectively. For additional information see Note 17 to the Consolidated Financial Statements.

In recent periods, the Company also entered into interest rate futures contracts, which are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may be settled in cash or through delivery. Eurodollar futures contracts have been sold by the Company to hedge the repricing or maturity risk of certain adjustable-rate mortgage-backed securities and short duration mortgage-related securities, and U.S. Treasury futures contracts have been sold by the Company to offset declines in the market value of its fixed-rate multi-family residential loans and certain fixed-rate mortgage-backed and related securities available for sale in the event of an increasing interest rate environment. At June 30, 1996, the Company had entered into Eurodollar futures (short) contracts with an aggregate notional amount of \$593.0 million and U.S. Treasury futures (short) contracts with an aggregate notional amount of \$306.6 million. Futures contracts had the effect of decreasing the Company's net interest income by \$381,000 and \$619,000 during the six months ended June 30, 1996 and the year ended December 31, 1995, respectively, and increasing the Company's net interest income by \$7,000 and \$650,000 during the six months ended June 30, 1995 and the year ended December 31, 1994, respectively. Futures contracts had no effect on the Company's net interest income in 1993. For additional information, see Note 17 to the Consolidated Financial Statements.

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

The following table sets forth the estimated maturity or repricing of the Company's interest-earning assets and interest-bearing liabilities at June 30, 1996 based on the assumptions set forth in the notes thereto. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual terms of the assets and liabilities, except (i) adjustable-rate loans, securities and FHLB advances are included in the period in which they are first scheduled to adjust and not in the period in which they mature, (ii) fixed-rate mortgage-related securities reflect estimated prepayments, which were estimated based on analyses of broker estimates, the results of a prepayment model utilized by the Company and empirical data, (iii) non-performing discounted loans reflect the estimated timing of resolutions which result in repayment to the Company, (iv)

fixed-rate loans reflect scheduled contractual amortization, with no estimated prepayments, (v) NOW and money market checking deposits and savings deposits, which do not have contractual maturities, reflect estimated levels of attrition, which are based on detailed studies of each such category of deposit by the Company, and (vi) escrow deposits and other non-interest bearing checking accounts, which amounted to \$55.6 million at June 30, 1996, are excluded. Management believes that these assumptions approximate actual experience and considers them reasonable; however, the interest rate sensitivity of the Company's assets and liabilities in the table could vary substantially if different assumptions were used or actual experience differs from the historical experience on which the assumptions are based.

	June 30, 1996				
	Within Three Months	Four to Twelve Months	More Than One Year to Three Years	Three Years and Over	Total
	(Dollars in Thousands)				
Rate-Sensitive Assets:					
Interest-earning cash	\$244,870	\$ --	\$ --	\$ --	\$244,870
Securities available for sale	14,870	55,427	66,383	126,519	263,199
Loans available for sale(1)	3,773	34,479	5,044	40,782	84,078
Investment securities, net	--	--	--	8,902	8,902
Loan portfolio, net(1)	106,170	46,472	30,375	129,559	312,576
Discounted loan portfolio, net	206,856	193,890	89,537	104,351	594,634
Total rate-sensitive assets	576,539	330,268	191,339	410,113	1,508,259
Rate-Sensitive Liabilities:					
NOW and money market checking deposits	12,835	835	940	4,775	19,385
Savings deposits	191	513	563	2,253	3,520
Certificates of deposit	247,620	525,400	302,963	347,684	1,423,667
Total interest-bearing deposits	260,646	526,748	304,466	354,712	1,446,572
FHLB advances	70,000	--	399	--	70,399
Subordinated notes and other interest-bearing obligations	--	7,365	--	108,338	115,703
Total rate-sensitive liabilities	330,646	534,113	304,865	463,050	1,632,674
Interest rate sensitivity gap before off-balance sheet financial instruments	245,893	(203,845)	(113,526)	(52,937)	(124,415)
Off-Balance Sheet Financial Instruments:					
Futures contracts	437,631	(108,126)	(81,732)	(247,773)	--
Interest rate sensitivity gap	\$683,524	\$(311,971)	\$(195,258)	\$(300,710)	\$(124,415)
Cumulative interest rate sensitivity gap	\$683,524	\$371,553	\$176,295	\$(124,415)	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets	45.32%	24.63%	11.69%	(8.25)%	

(1) Balances have not been reduced for non-performing loans.

The Company's rate-sensitive liabilities exceeded its rate-sensitive assets at June 30, 1996 primarily because rate-sensitive assets do not include \$92.3 million of investments in

low-income housing tax credit interests, a \$60.9 million net investment in joint venture and \$133.6 million of real estate owned. In addition, included in off-balance sheet financial instruments is \$171.3 million of futures contracts designated as hedges related to the Company's investment in joint venture formed to acquire discounted loans. Although futures contracts have no impact on the cumulative interest rate sensitivity gap, they do affect the respective periods.

Although interest rate sensitivity gap is a useful measurement and contributes toward effective asset and liability management, it is difficult to predict the effect of changing interest rates based solely on that measure. As a result, and as required by OTS regulations, the Asset/Liability Committee also regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity ("MVPE"), which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and MVPE that is authorized by the Board of Directors of the Bank. At June 30, 1996, management estimates that the estimated percentage change in the Company's net interest income over the ensuing four quarter period as a result of a 200 basis point increase or decrease in interest rates would be an approximately 5.9% increase or decrease, respectively. In addition, at June 30, 1996, management estimates that the estimated percentage change in the Company's MVPE over the ensuing four quarter period as a result of a 200 basis point increase or decrease in interest rates would be an approximate 5.0% increase and 6.6% decrease, respectively. The maximum potential changes in MVPE and net interest income authorized by the Board of Directors of the Company in the event of a 200 basis point change in interest rates is 30% and, thus, the Company's asset and liability position currently is in compliance with the policy adopted by its Board of Directors. For a detailed presentation in this regard, see Note 18 to the Consolidated Financial Statements.

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

LIQUIDITY

Liquidity is a measurement of the Company's ability to meet potential cash requirements, including ongoing commitments to fund deposit withdrawals, repay borrowings, fund investment, discounted loan and lending activities and for other general business purposes. The primary sources of funds for liquidity consist of deposits, FHLB advances, reverse repurchase agreements and maturities and principal payments on loans and securities and proceeds from sales thereof.

The Company's liquidity is actively managed on a daily basis, monitored regularly by the Asset/Liability Committee and reviewed periodically with the Board of Directors. This

process is intended to ensure the maintenance of sufficient funds to meet the needs of the Company, including adequate cash flows for off-balance sheet instruments.

Sources of liquidity include certificates of deposit which are obtained primarily from wholesale sources. At June 30, 1996, the Company had \$1.42 billion of certificates of deposit, including \$1.02 billion of brokered certificates of deposit obtained through national investment banking firms, of which \$925.4 million were non-cancelable. At the same date, scheduled maturities of certificates of deposit during the 12 months ending June 30, 1997 and 1998 and thereafter amounted to \$768.8 million, \$306.0 million and \$348.9 million, respectively. See Note 13 to the Consolidated Financial Statements. Brokered and other wholesale deposits generally are more responsive to changes in interest rates than core deposits and, thus, are more likely to be withdrawn from the Company upon maturity as changes in interest rates and other factors are perceived by investors to make other investments more attractive. Management of the Company believes that it can adjust the rates paid on certificates of deposit to retain deposits in changing interest rate environments, however, and that brokered and other wholesale deposits can be both a relatively cost-effective and stable source of funds. There can be no assurance that this will continue to be the case in the future.

Sources of borrowings include FHLB advances, which are required to be secured by single-family and/or multi-family residential loans or other acceptable collateral, and reverse repurchase agreements. At June 30, 1996, the Company had \$70.4 million of FHLB advances outstanding, was eligible to borrow up to an aggregate of \$465.2 million from the FHLB of New York (subject to availability of acceptable collateral) and had \$10.6 million of single-family residential loans, \$27.5 million of multi-family residential loans and \$45.4 million of hotel loans which could be pledged as security for such advances. At the same date, the Company had contractual relationships with 12 brokerage firms and the FHLB of New York pursuant to which it could obtain funds from reverse repurchase agreements and had \$228.2 million of unencumbered investment securities and mortgage-backed and related securities which could be used to secure such borrowings.

The Company's operating activities provided cash flows of \$190.6 million during the six months ended June 30, 1996 and \$14.8 million during the year ended December 31, 1993, while during the six months ended June 30, 1995 and the years ended December 31, 1995 and 1994, net cash used in operating activities totalled \$57.2 million, \$189.4 million and \$108.8 million, respectively. During the foregoing periods cash resources were provided primarily by net income and proceeds from sales of loans available for sale, and cash resources were used primarily to purchase and originate loans available for sale, which in the aggregate amounted to \$142.9 million and \$116.5 million during the six months ended June 30, 1996 and 1995, respectively, and \$274.0 million, \$549.9 million and \$74.6 million during the years ended December 31, 1995, 1994 and 1993, respectively.

The Company's investing activities provided cash flows totalling \$91.6 million and \$19.1 million during the six months ended June 30, 1996 and 1995, respectively, and \$234.5 million and \$130.8 million during the years ended December 31, 1994 and 1993, respectively, while during the year ended December 31, 1995 cash flows from investing activities utilized \$474.5 million. During the foregoing periods, cash flows from investing activities were provided primarily by principal payments on discounted loans and loans held for investment, maturities of and principal payments received on securities available for sale and proceeds from sales of securities available for sale, discounted loans, loans held for investment and real estate owned, and cash flows from investing activities were primarily utilized to purchase and originate discounted loans and loans held for investment and purchase securities available for sale. During 1995, purchases and originations of discounted loans held for investment and purchases of securities available for sale aggregated \$818.6 million and \$934.2 million, respectively, and were the principal reasons why net cash was used in investing activities during this period.

The Company's financing activities used \$85.8 million, \$127.9 million and \$140.6 million during the six months ended June 30, 1996 and the years ended December 31, 1994 and 1993, respectively, and provided cash flows of \$185.0 million and \$681.8 million during the six months ended June 30, 1995 and the year ended December 31, 1995, respectively. Cash flows from financing activities primarily relate to changes in the Company's deposits and, to a lesser extent, borrowings. Cash was provided by financing activities during the year ended December 31, 1995 as increases in deposits and reverse repurchase agreements, a net increase in FHLB advances and proceeds from the issuance of the Debentures more than offset the transfer of deposits in connection with the sale of branch offices at the end of 1995.

On a parent-only basis, the principal source of funds of the Company has been and will continue to be the receipt of dividends and other distributions from the Bank. The Bank is permitted, subject to certain limitations under federal regulations and restrictions contained in the indenture related to the Bank's issuance of the Debentures, to pay dividends to the Company. At June 30, 1996, taking into account the foregoing restrictions, the Bank could have distributed \$18.7 million to the Company with 30 day's notice to the OTS, which amount will be increased by the amount of the net proceeds from the Notes Offering contributed by the Company to the Bank. See "Use of Proceeds." Immediately following consummation of the Offerings, the principal assets of the Company will consist primarily of all of the outstanding capital stock of the Bank and the portion of the estimated net proceeds from the Notes Offering retained by it. See "Use of Proceeds." Other than the Notes, the Company will have no material liquidity requirements immediately following consummation of the Offerings on a parent-only basis. The Company has no current intention to pay cash dividends on the Common Stock. See "Dividend Policy."

The Bank is required under applicable federal regulations to maintain specified levels of "liquid" investments in qualifying types of U.S. Government, federal agency and other investments having maturities of five years or less. Current OTS regulations require that

a savings association maintain liquid assets of not less than 5% of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less, of which short-term liquid assets must consist of not less than 1%. Monetary penalties may be imposed for failure to meet applicable liquidity requirements. The Bank's liquidity, as measured for regulatory purposes, amounted to 11.6% at June 30, 1996 and averaged 8.2%, 12.9%, 14.2% and 11.4% during the six months ended June 30, 1996 and the years ended December 31, 1995, 1994 and 1993, respectively. The high level of liquidity during 1994 was attributable to the Bank's efforts to increase cash, interest-bearing deposits and other liquid sources of funds to fund the transfer of deposits in connection with the sale of 23 offices consummated at year end.

COMMITMENTS AND OFF-BALANCE SHEET RISKS

At June 30, 1996, the Company had commitments to fund (i) \$25.1 million of multi-family residential loans, (ii) \$32.0 million of hotel loans, (iii) \$6.8 million of office building loans and (iv) \$4.9 million on a loan secured by land. Management of the Company believes that the Company has adequate resources to fund all of its commitments to the extent required and that substantially all of such commitments will be funded during 1996. For additional information relating to commitments and contingencies, see Note 9 to the interim Consolidated Financial Statements.

In addition to commitments to extend credit, the Company is party to various off-balance sheet financial instruments in the normal course of business to manage its interest rate risk. See "- Asset and Liability Management" above and Note 17 to the Consolidated Financial Statements.

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

REGULATORY CAPITAL REQUIREMENTS

Federally-insured savings associations such as the Bank are required to maintain minimum levels of regulatory capital. These standards generally must be as stringent as the comparable capital requirements imposed on national banks. The OTS also is authorized to impose capital requirements in excess of these standards on individual associations on a case-by-case basis.

The following table sets forth the regulatory capital ratios of the Bank at June 30, 1996.

June 30, 1996						
	Required		Actual(1)		Excess(1)	
	Percentage	Amount	Percentage	Amount	Percentage	Amount
(Dollars in Thousands)						
Tangible capital	1.50%	\$31,367	6.74%	\$140,969	5.24%	\$109,602
Core (leverage) capital	3.00	62,735	6.74	140,969	3.74	78,234
Risk-based capital(2)	8.00	148,525	13.61	252,710	5.61	104,185

(1) For a presentation of the Bank's regulatory capital position on a pro forma basis at June 30, 1996 after giving effect to the Notes Offering and the Company's contribution of a portion of the net proceeds therefrom to the Bank, see "Capitalization."

(2) At June 30, 1996, the Bank's supplementary capital included \$100 million attributable to the Debentures and \$11.7 million of general allowances for loan losses. The regulatory capital of the Bank will not include any amount attributable to the Notes, except to the extent that a portion of the net proceeds from the issuance thereof is contributed by the Company to the Bank. See "Use of Proceeds" and "Capitalization."

For a reconciliation of the Bank's regulatory capital and its stockholders' equity under generally accepted accounting principles at June 30, 1996, see Note 8 to the interim Consolidated Financial Statements.

In August 1993, the OTS promulgated regulations which incorporate an interest rate risk component into the OTS' risk-based capital requirements, and in August 1995 the OTS postponed the effectiveness of this regulation after having previously deferred the effective date several times. Because only institutions whose measured interest rate risk exceeds certain parameters will be subject to the interest rate risk capital requirement, management of the Company does not believe that this regulation will increase the Bank's risk-based regulatory capital requirement if it becomes effective in its current form. For additional information relating to regulatory capital requirements, see "Regulation - The Bank - Regulatory Capital Requirements" and Note 22 to the Consolidated Financial Statements.

RECENT ACCOUNTING DEVELOPMENTS

For information relating to the effect of recent accounting standards on the Company, see Note 1 to the Consolidated Financial Statements and Note 4 to the Interim Consolidated Financial Statements.

BUSINESS

GENERAL

The Company considers itself to be involved in a single business segment of providing financial services and conducts a wide variety of business activities within this segment. The Company's primary business activities currently consist of its discounted loan acquisition and resolution activities, multi-family residential and commercial real estate lending activities, single-family residential lending activities involving non-conforming borrowers and various investment activities, including investments in a wide variety of mortgage-related securities and investments in low-income housing tax credit interests. The Company obtains funds for investment in the foregoing and other business activities primarily from brokered and other wholesale certificates of deposit, as well as retail deposits obtained through its office in northern New Jersey, FHLB advances, reverse repurchase agreements, structured financings, maturities and principal repayments on securities and loans and proceeds from the sale of securities and loans held for sale. Substantially all of the Company's business activities are conducted through the Bank and subsidiaries of the Bank.

At June 30, 1996, the only significant subsidiary of the Company other than the Bank was Investors Mortgage Insurance Holding Company, which currently is engaged, directly and indirectly through subsidiaries, in the servicing of certain private mortgage insurance policies which were formerly owned by it through its ownership of two subsidiaries sold by it in 1993, as well as management of the hotel in Columbus, Ohio which was purchased by the Company for investment in mid-1993.

DISCOUNTED LOAN ACQUISITION AND RESOLUTION ACTIVITIES

The Company believes that under appropriate circumstances the acquisition of non-performing and underperforming mortgage loans (collectively, "non-performing loans") at discounts offers significant opportunities to the Company. Because discounted loans generally have collateral coverage which is in excess of the purchase price of the loan, successful resolutions can produce total returns which are in excess of an equivalent investment in performing mortgage loans.

The Company began its discounted loan operations in 1991 and initially focused on the acquisition of single-family residential loans. In 1994 the Company expanded this business to include the acquisition and resolution of discounted multi-family residential and commercial real estate loans (together, unless the context otherwise requires, "commercial real estate loans"). Prior to entering the discounted loan business, management of the Company had substantial loan resolution experience through former subsidiaries of the Company which had been engaged in the business of providing private mortgage insurance for residential loans since 1986. This experience assisted the Company in developing the procedures, facilities and systems which are necessary to appropriately evaluate and acquire discounted loans and to resolve such loans in a timely and profitable manner. Management

of the Company believes that the resources utilized by the Company in connection with the acquisition and resolution of discounted real estate loans, which include proprietary technology and software, allow the Company to effectively manage an extremely data-intensive business and that, as discussed below, these resources have substantial applications in other areas. See "Business - Computer Systems and Other Equipment."

COMPOSITION OF THE DISCOUNTED LOAN PORTFOLIO. At June 30, 1996, the Company's net discounted loan portfolio amounted to \$594.6 million or 31.3% of the Company's total assets. Virtually all of the Company's discounted loan portfolio is secured by first mortgage liens on real estate.

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

	June 30, 1996	December 31,				
	1995	1994	1993	1992	1991	
	(In Thousands)					
Single-family residential loans	\$262,468(1)	\$376,501	\$382,165	\$430,355	\$306,401	\$34,549
Multi-family residential loans	145,310	176,259	300,220	--	--	--
Commercial real estate loans	421,101(2)	388,566	102,138	1,845	2,227	5,362
Other loans	1,442	2,203	911	1,316	1,836	7,708
Total discounted loans	830,321	943,529	785,434	433,516	310,464	47,619
Unaccreted discount	(226,217)(3)	(273,758)	(255,974)	(129,882)	(97,426)	(21,908)
Allowance for loan losses	(9,470)	--	--	--	--	--
Discounted loans, net	\$594,634(1)	\$669,771	\$529,460	\$303,634	\$213,038	\$25,711

(1) Does not include the Company's \$60.9 million net investment in a 50% interest in a newly-formed company which held \$559.4 million of discounted single-family residential loans, net at June 30, 1996. See "Business - Investment in Joint Venture." Inclusive of the Company's pro rata interest in such loans, the Company's discounted loans, net would amount to \$874.3 million at June 30, 1996.

(2) Consists of \$141.4 million of loans secured by office buildings, \$80.4 million of loans secured by hotels, \$106.1 million of loans secured by retail properties or shopping centers and \$93.2 million of loans secured by other properties.

(3) Consists of \$57.8 million, \$39.8 million, \$128.3 million and \$300,000 attributable to single-family residential loans, multi-family residential loans, commercial real estate loans and other loans, respectively.

The properties which secure the Company's discounted loans are located throughout the United States. At June 30, 1996, the five states with the greatest concentration of properties securing the Company's discounted loans were California, New Jersey, New York, Illinois and Florida, which had \$343.6 million, \$91.8 million, \$86.8 million, \$66.9 million and \$48.6 million principal amount of discounted loans (before unaccreted discount), respectively. For further information concerning the geographic location of the properties

which secure loans in the Company's discounted loan portfolio, see Note 9 to the Consolidated Financial Statements. The Company believes that the broad geographic distribution of its discounted loan portfolio reduces the risks associated with concentrating such loans in limited geographic areas, and that, due to its expertise and procedures, the geographic diversity of its discounted loan portfolio does not place greater burdens on the Company's ability to resolve such loans.

At June 30, 1996, the discounted loan portfolio included two loans with a carrying value equal to or more than \$15 million and less than \$25 million and one loan with a carrying value greater than \$25 million.

ACQUISITION OF DISCOUNTED LOANS. In the early years of the program, the Company acquired discounted loans primarily from the FDIC and the Resolution Trust Corporation, primarily in auctions of pools of loans acquired by them from the large number of financial institutions which failed during the late 1980s and early 1990s. Although governmental agencies, such as the FDIC and HUD, continue to be potential sources of discounted loans, as indicated by the large acquisition of discounted loans from HUD by the Company and a co-investor in April 1996, as discussed under "Business - Investment in Joint Venture," in recent years the Company has obtained discounted loans primarily from various private sector sellers, such as banks, savings institutions, mortgage companies and insurance companies. At June 30, 1996, approximately 92.4% of the loans in the Company's discounted loan portfolio had been acquired from the private sector.

Although the Company believes that a permanent market for the acquisition of discounted loans has emerged in recent years within the private sector, there can be no assurance that the Company will be able to acquire the desired amount and type of discounted loans in future periods or that there will not be significant inter-period variations in the amount of such acquisitions.

Discounted real estate loans generally are acquired in pools, although discounted commercial real estate loans may be acquired individually. These pools generally are acquired in auctions or competitive bid circumstances in which the Company faces substantial competition. Although many of the Company's competitors have access to greater capital and have other advantages, the Company believes that it has a competitive advantage relative to many of its competitors as a result of its experience in managing and resolving discounted loans, its large investment in the computer systems, technology and other resources which are necessary to conduct this business, its national reputation and the strategic relationships and contacts which it has developed in connection with these activities.

The Company generally acquires discounted loans solely for its own portfolio. From time to time, however, the Company and a co-investor may submit a joint bid to acquire a pool of discounted loans in order to enhance the prospects of submitting a successful bid. If successful, the Company and the co-investor generally split up the acquired loans in an

agreed upon manner, although in certain instances the Company and the co-investor may continue to have a joint interest in the acquired loans. See "Business - Investment in Joint Venture."

Prior to making an offer to purchase a portfolio of discounted loans, the Company conducts an extensive investigation and evaluation of the loans in the portfolio. Evaluations of potential discounted loans are conducted primarily by the Company's employees who specialize in the analysis of non-performing loans, often with further specialization based on geographic or collateral specific factors. The Company's employees regularly use third parties, such as brokers who are familiar with the property's type and location, to assist them in conducting an evaluation of the value of the collateral property, and depending on the circumstances, particularly in the case of commercial real estate loans, may use subcontractors, such as local counsel and engineering and environmental experts, to assist in the evaluation and verification of information and the gathering of other information not previously made available by the potential seller.

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

RESOLUTION OF DISCOUNTED LOANS. After a discounted loan is acquired, the Company utilizes its proprietary computer software system to resolve the loan in accordance with specified procedures as expeditiously as possible. The various resolution alternatives generally include the following: (i) the borrower brings the loan current in accordance with original or modified terms, (ii) the borrower repays the loan or a negotiated amount of the loan, (iii) the borrower agrees to deed the property to the Company in lieu of foreclosure, in which case it is classified as real estate owned and held for sale by the Company, and (iv) the Company forecloses on the loan and the property is acquired at the foreclosure sale either by a third party or by the Company, in which case it is classified as real estate owned and held for sale by the Company.

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

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

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

	Six Months Ended June 30, 1996		Year Ended December 31,			
			1995		1994	
	Balance	No. of Loans	Balance	No. of Loans	Balance	No. of Loans
			(Dollars in Thousands)			
Balance at beginning of period	\$943,529	4,543	\$785,434	3,894	\$433,516	5,160
Acquisitions(1)	161,811	144	791,195	2,972	826,391	2,781
Resolutions and repayments(2)	(188,780)	(642)	(300,161)	(960)	(265,292)	(2,153)
Loans transferred to real estate owned	(59,613)	(444)	(281,344)	(984)	(171,300)	(1,477)
Sales(3)	(26,626)	(257)	(51,595)	(379)	(37,881)	(417)
Balance at end of period	\$830,321	3,344	\$943,529	4,543	\$785,434	3,894

	Year Ended December 31,					
	1993		1992		1991	
	Balance	No. of Loans	Balance	No. of Loans	Balance	No. of Loans
					(Dollars in Thousands)	
Balance at beginning of period	\$310,464	5,358	\$47,619	590	\$ --	--
Acquisitions(1)	294,359	2,412	297,169	5,380	49,996	620
Resolutions and repayments(2)	(116,890)	(1,430)	(28,194)	(473)	(2,377)	(30)
Loans transferred to real estate owned	(26,887)	(602)	(6,130)	(139)	--	--
Sales(3)	(27,530)	(578)	--	--	--	--
Balance at end of period	\$433,516	5,160	\$310,464	5,358	\$47,619	590

(1) In the six months ended June 30, 1996, acquisitions consisted of \$6.1 million of single-family residential loans, \$32.9 million of multi-family residential loans and \$122.8 million of commercial real estate loans. In 1995, acquisitions consisted of \$272.8 million of single-family residential loans, \$141.2 million of multi-family residential loans, \$374.9 million of commercial real estate loans and \$2.3 million of other loans. In 1994, acquisitions consisted of \$395.8 million of single-family residential loans, \$315.5 million of multi-family residential loans and \$115.1 million of commercial real estate loans. In 1993, 1992 and 1991 substantially all of the acquisitions were of single-family residential loans.

(2) Consists of loans which were resolved in a manner which resulted in partial or full repayment of the loan to the Bank, as well as payments on loans which have been brought current in accordance with their original or modified terms or on other loans which have not been resolved.

(3) The Company realized \$5.3 million of gains from the sale of discounted loans during the six months ended June 30, 1996 and \$6.0 million, \$890,000 and \$3.9 million of gains from the sale of discounted loans during 1995, 1994 and 1993, respectively. The terms of these sales did not provide for any recourse to the Company based on the subsequent performance of the loans.

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

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

		December 31,				
	June 30,					
	1996	1995	1994	1993	1992	1991
		(In Thousands)				
Loan status:						
Current	\$500,726	\$351,630	\$113,794	\$23,629	\$25,463	\$ --
Past due less than 90 days	13,212	86,838	57,023	15,175	4,063	--
Past due 90 days or more	316,383	385,112	413,506	254,413	31,808	47,619
Acquired and servicing not yet transferred	--	119,949	201,111	140,299	249,130	--
	830,321	943,529	785,434	433,516	310,464	47,619
Unaccreted discount	(226,217)	(273,758)	(255,974)	(129,882)	(97,426)	(21,908)
Allowance for loan losses	(9,470)	--	--	--	--	--
	\$594,634	\$669,771	\$529,460	\$303,634	\$213,038	\$ 25,711

ACCOUNTING FOR DISCOUNTED LOANS. The discount associated with single-family residential loans is recognized as a yield adjustment and is accreted into interest income using the interest method applied on a loan-by-loan basis to the extent the timing and amount of cash flows can be reasonably determined. The discount which is associated with a single-family residential loan which is subsequently brought current by the borrower in accordance with the loan terms is accreted into the Company's interest income as a yield adjustment using the interest method over the contractual maturity of the loan. For all other loans interest is earned as cash is received.

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

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

During the six months ended June 30, 1996 and the years ended December 31, 1995, 1994 and 1993, 88.9%, 93.2%, 92.7% and 83.4%, respectively, of the Company's income on discounted loans was comprised of realized discount. For additional information, see Note 9 to the Consolidated Financial Statements.

OTHER DISCOUNTED LOAN ACTIVITIES. The Company believes that the procedures, facilities and systems which it has developed in connection with the acquisition and resolution of discounted loans may be applied in other areas. Recently, the Company commenced a program to utilize this experience by financing the acquisition of discounted loans by other institutions. During 1995, the Company originated \$41.7 million of portfolio finance loans, which had an aggregate balance of \$39.5 million at June 30, 1996. Portfolio finance loans generally have two-year terms, floating interest rates which adjust in accordance with a designated reference rate and a loan-to-value ratio which does not exceed the lesser of 90% of the purchase price or the estimated value of the collateral as determined by the Company, and may include terms which provide the Company with a participation interest in the profits from the resolution of the discounted loan collateral. Portfolio finance loans are included in the Company's non-discounted loan portfolio under the category of loan which is represented by the properties which secure the discounted loans which collateralize the Company's portfolio finance loans. See "Business -Lending Activities."

The Company also currently is developing a program to provide asset management and resolution services to third parties pursuant to contracts with the owner or purchaser of non-performing assets. It is anticipated that servicing contracts entered into by the Company will provide for the payment to the Company of specified fees and include terms which allow the Company to participate in the profits resulting from the successful resolution of the assets. There can be no assurance that the Company will be able to successfully implement this program in the near term or at all.

INVESTMENT IN JOINT VENTURE

GENERAL. On March 22, 1996, the Company was notified by HUD that BCBF, L.L.C., a newly-formed limited liability company ("LLC") in which the Bank and a co-investor each have a 50% interest, was the successful bidder to purchase 16,196 single-family residential loans offered by HUD at an auction (the "HUD Loans"), and on April 10, 1996 the LLC consummated the acquisition of the HUD Loans. Many of the loans, which had an aggregate unpaid principal balance of \$741.2 million at the date of acquisition, were not performing in accordance with the terms of the loans or an applicable forbearance agreement. The aggregate purchase price paid to HUD amounted to \$616.0 million and was paid with the proceeds from \$53.3 million of equity contributions to the LLC by each of the Bank and its co-investor, \$36.3 million of proceeds from the LLC's concurrent sale of 1,631 HUD Loans with an aggregate unpaid principal balance of \$61.9 million and the proceeds of a \$473.0 million loan to the LLC from an unaffiliated party (the "LLC Loan"). The LLC Loan has a term of nine months, bears interest at a rate which is equal to the one-month LIBOR plus 2.25% and is collateralized by the HUD Loans.

In connection with the LLC's acquisition of the HUD Loans the Company entered into an agreement with the LLC to service the HUD Loans in accordance with its loan servicing and loan default resolution procedures. In return for such servicing, the Company

receives specified fees which are payable on a monthly basis. The Company did not pay any additional amount to acquire these servicing rights and, as a result, the acquisition of the right to service the HUD Loans for the LLC did not result in the Company's recording capitalized mortgage servicing rights for financial reporting purposes.

DESCRIPTION OF THE HUD LOANS. All of the HUD Loans are secured by first mortgage liens on single-family residences. Of the \$660.9 million gross principal amount of the HUD Loans as of June 30, 1996, \$648.8 million had fixed interest rates and \$12.1 million had adjustable rates. As of the same date, the HUD Loans had a weighted average rate of 10.06% and a weighted average maturity of 19 years.

The properties which secure the HUD Loans are located in 31 states, the District of Columbia and Puerto Rico. As of June 30, 1996, the five jurisdictions with the greatest concentration of properties securing the HUD Loans were Texas, California, Colorado, Tennessee and Georgia, which had \$155.4 million, \$87.1 million, \$67.1 million \$32.8 million and \$32.4 million gross principal amount of loans, respectively.

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

HUD assistance to borrowers is provided in the form of forbearance agreements under which the borrower either makes a monthly payment less than or equal to the original monthly payment or makes a monthly payment more than the original monthly payment to make up for arrearages. Forbearance agreements are 12 months in duration and the borrower may be granted up to a maximum of three consecutive 12-month plans. Under the terms of the contract governing the sale of the HUD Loans, the LLC and the Company, as the servicer of the HUD Loans, are obligated to comply with the terms of the forbearance agreements, which may be written or oral in nature, until the term of the forbearance agreement expires or there is a default under the forbearance agreement.

The following table sets forth information relating to the payment status of the HUD Loans as of the date indicated which is subject to change as a result of information obtained by the Company in connection with its servicing activities.

	June 30, 1996	
	Amount	% of HUD Loans
	(Dollars in Thousands)	
HUD Loans without Forbearance Agreements:		
Current	\$65,270	9.9%
Past due less than 90 days	4,727	0.7
Past due 90 days or more	276,418	41.8
	-----	----
Total	346,415	52.4
	-----	----
HUD Loans with Forbearance Agreements:		
Current	11,540	1.7
Past due less than 90 days	3,857	0.6
Past due 90 days or more	299,134	45.3
	-----	----
Total	314,531	47.6
	-----	----
Total	\$660,946	100.0%
	-----	----
	-----	----

In connection with the acquisition of the HUD Loans, the LLC established a general allowance for loan losses, which amounted to \$2.8 million at June 30, 1996. The allowance for loan losses is based primarily on the Company's evaluation of the credit risk inherent in the HUD Loans and the methodology adopted by the Company during the six months ended June 30, 1996 for establishing an allowance for loan losses related to its discounted loan portfolio. Provisions for loan losses are based on numerous factors, including the state of national and regional economies, real estate values in the areas in which the properties which secure the HUD Loans are located and the performance of the HUD Loans.

SECURITIZATION OF THE HUD LOANS. The Company and its co-investor intend to securitize a substantial amount of the HUD Loans within approximately six to nine months and to repay the LLC Loan out of the proceeds therefrom. Securitization would involve the creation of a special purpose entity to acquire the HUD Loans which are to be securitized from the LLC, with payment being made from the proceeds of the issuance of the CMO backed by such loans. The amount of the HUD Loans to be securitized will be dependent in part on the Company's ability to enhance the performance of the HUD Loans by, among other things, resolving existing delinquencies, documenting verbal forbearance agreements and bringing loans which are subject to forbearance agreements into compliance with such agreements. Any securitization of the HUD Loans also will be dependent on market conditions for CMOs of this nature and other factors which are not necessarily within the control of the LLC and its members. As a result, there can be no assurance that the LLC will be able to securitize the HUD Loans in the manner contemplated by the Company and its co-investor. In the event that the LLC is unable to securitize or otherwise sell an amount of the HUD Loans which would enable it to repay the LLC Loan at maturity, it could attempt to renegotiate an extension of the LLC Loan from the current lender, seek financing from another lender and/or sell the loans held by the joint venture to the joint

venturers or third parties. In the event of default on the LLC Loan, the lender's sole recourse would be against the loans and related collateral which secures the LLC Loan.

In the event of a securitization of the HUD Loans, the CMO backed by the HUD Loans likely will have a senior class and one or more subordinated classes which provide credit enhancement to the senior class. See "Business - Investment Activities - Mortgage-Backed and Related Securities." Depending on the circumstances, the Company may acquire the subordinated class or classes of the CMO backed by the HUD Loans. The Company also may seek to retain the rights to service the HUD Loans which back the CMO, which would result in the Company recording capitalized mortgage servicing rights for financial reporting purposes.

ACCOUNTING FOR INVESTMENT IN THE LLC. The Company's investment in the LLC is accounted for under the equity method of accounting. Under the equity method of accounting, an investment in the shares or other interests of an investee is initially recorded at the cost of the shares or interests acquired and thereafter is periodically increased (decreased) by the investor's proportionate share of the earnings (losses) of the investee and decreased by all dividends received by the investor from the investee. As of June 30, 1996, the Company's net investment in the LLC amounted to \$60.9 million under the equity method of accounting. Because the LLC is a pass-through entity for federal income tax purposes, provisions for income taxes will be established by each of the Company and its co-investor and not the LLC. For additional information, see Note 6 to the interim Consolidated Financial Statements.

LENDING ACTIVITIES

COMPOSITION OF LOAN PORTFOLIO. At June 30, 1996, the Company's net loan portfolio amounted to \$312.6 million or 16.5% of the Company's total assets. Loans held for investment in the Company's loan portfolio are carried at amortized cost, less an allowance for loan losses, because the Company has the ability and presently intends to hold them to maturity.

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

	June 30, 1996	December 31,				
	1996	1995	1994	1993	1992	1991
	-----	-----	-----	-----	-----	-----
	(In Thousands)					
Single-family residential loans	\$77,724	\$75,928	\$31,926	\$30,385	\$33,799	\$41,895
Multi-family residential loans	86,295(1)	49,047(1)	1,800	39,352	5,563	7,305
Commercial real estate and land loans:						
Hotels	132,005(2)	125,791	19,659	14,237	--	--
Office buildings	74,939	61,262	--	--	--	--
Land	16,575	24,904	1,315	4,448	--	--
Other	1,093	2,494	4,936	4,059	1,908	2,009
Total	224,612	214,451	25,910	22,744	1,908	2,009
Consumer and other loans	493	3,223	1,558	3,639	2,395	2,195
Total loans	389,124	342,649	61,194	96,120	43,665	53,404
Undisbursed loan proceeds	(68,769)	(39,721)	--	--	--	--
Unaccreted discount	(4,924)	(5,376)	(3,078)	(6,948)	(1,898)	(3,210)
Allowance for loan losses	(2,855)	(1,947)	(1,071)	(884)	(752)	(934)
Loans, net	\$312,576	\$295,605	\$57,045	\$88,288	\$41,015	\$49,260

(1) At June 30, 1996 and December 31, 1995, multi-family residential loans included \$42.8 million and \$7.7 million of construction loans, respectively.

(2) At June 30, 1996, hotel loans included \$7.0 million of construction loans.

The Company's lending activities are conducted on a nationwide basis and, as a result, the properties which secure its loan portfolio are geographically located throughout the United States. At June 30, 1996, the five states in which the largest amount of properties securing the loans in the Company's loan portfolio were located were New York, California, New Jersey, Illinois and Massachusetts, which had \$85.5 million, \$84.8 million, \$50.4 million, \$31.2 million and \$30.9 million of principal amount of loans, respectively. As noted above, the Company believes that the broad geographic distribution of its loan portfolio reduces the risks associated with concentrating such loans in limited geographic areas.

At June 30, 1996, the Company's loan portfolio included seven loans with a balance equal to \$15 million or more and less than \$25 million and no loans with a balance equal to \$25 million or more.

CONTRACTUAL PRINCIPAL REPAYMENTS. The following table sets forth certain information at December 31, 1995 regarding the dollar amount of loans maturing in the Company's loan

portfolio based on their contractual terms to maturity and includes scheduled payments but not potential prepayments, as well as the dollar amount of loans which have fixed or adjustable interest rates. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported as due in one year or less. Loan balances have not been reduced for (i) undisbursed loan proceeds, unearned discounts and the allowance for loan losses and (ii) non-performing loans.

	Maturing in			
	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years
(In Thousands)				
Single-family residential loans	\$ 8,533	\$8,203	\$3,245	\$55,947
Multi-family residential loans	2,357	44,582	2,040	68
Commercial real estate and land loans	32,742	151,902	25,143	4,664
Consumer and other loans	88	228	527	2,380
Total	\$43,720	\$204,915	\$30,955	\$63,059
Interest rate terms on amounts due after one year:				
Fixed	\$42,150	\$146,777	\$27,328	\$47,204
Adjustable	\$ 1,570	\$ 58,138	\$ 3,627	\$15,855

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

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

	Six Months Ended June 30, 1996	Year Ended December 31,		
		1995	1994	1993
		(Dollars in Thousands)		
Balance at beginning of period	\$342,649	\$61,194	\$96,120	\$43,665
Originations:				
Single-family residential loans	7,556	14,776	7,119	32,668
Multi-family residential loans	45,249	48,664	--	23,696
Commercial real estate and land loans	52,916	212,630	22,486	18,586
Consumer loans	--	207	--	2,299
Total loans originated	105,721	276,277	29,605	77,249
Purchases:				
Single-family residential loans	--	29,833	--	--
Multi-family residential loans	--	--	--	126,506
Commercial real estate loans	--	2,245	--	--
Consumer loans	--	1,966	--	--
Purchase of a savings institution	--	--	--	475,105
Total loans purchased	--	34,044	--	601,611
Sales	--	--	(1,078)	(418,812)
Loans transferred from (to) available for sale	6	4,353	(24,380)	(139,297)
Principal repayments, net of capitalized interest	(58,695)	(33,168)	(39,073)	(68,296)
Transfer to real estate owned	(558)	(51)	--	--
Net increase (decrease) in net loans	46,474	281,455	(34,926)	52,455
Balance at end of period	\$389,123	\$342,649	\$ 61,194	\$96,120

LOANS AVAILABLE FOR SALE. In addition to loans acquired for investment and held in the Company's loan portfolio, the Company originates and purchases loans which it presently does not intend to hold to maturity. Such loans are designated as loans available for sale upon origination or purchase and are carried at the lower of cost or aggregate market value.

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

	June 30, 1996	December 31,				
		1995	1994	1993	1992	1991
		(In Thousands)				
Single-family residential loans	\$54,583	\$221,927	\$ 16,825	\$ 30,217	\$754	\$2,059
Multi-family residential loans	28,611	28,694	83,845	44,919	--	--
Consumer loans	884	1,169	1,623	25,930	--	--
	\$84,078	\$251,790	\$102,293	\$101,066	\$754	\$2,059

Although the Company's loans available for sale are secured by properties located nationwide, currently a substantial majority of such loans are single-family residential loans to non-conforming borrowers originated primarily in the western states, particularly California. As a result, \$20.1 million or 23.9% of the Company's loans available for sale at June 30, 1996 were secured by properties located in California.

SINGLE-FAMILY RESIDENTIAL LOANS. The Company's lending activities include the origination and purchase of single-family residential loans to borrowers who, because of prior credit problems, the absence of a credit history or other factors, are unable or unwilling to qualify as borrowers for a single-family residential loan under FHLMC/FNMA guidelines ("conforming loans") and who have substantial equity in the properties which secure the loans. Loans to non-conforming borrowers are perceived by the Company's management as being advantageous to the Company because they generally have higher interest rates and origination and servicing fees and generally lower loan-to-value ratios than conforming loans and because the Company's expertise in the resolution of non-performing loans can be utilized in underwriting such loans, as well as to address loans acquired pursuant to this program which become non-performing after acquisition. The Company commenced development of this program in late 1994 and fully implemented it by mid-1995.

In recent periods the Company has acquired single-family residential loans to non-conforming borrowers primarily through a correspondent relationship with an established mortgage banking firm which is headquartered in California and conducts business in eleven western states, and to a lesser extent correspondent relationships with three other financial services companies. Correspondent institutions originate loans based on guidelines provided by the Company and promptly sell the loans to the Company on a servicing-released basis.

The Company's current strategy is to continue to solidify and expand its wholesale sources, which are subject to a thorough due diligence and approval process to ensure quality sources of new business. In addition, in order to diversify its sources, the Company currently is developing the ability to directly originate loans to non-conforming borrowers on a retail basis. Recently, the Company established a loan production office for this purpose in Edison, New Jersey. The Company currently is in the process of staffing this office, as well as its full-service office located in Fort Lee, New Jersey, with experienced originators of non-conforming single-family residential loans. Although the Company is evaluating sites for additional loan production offices, there can be no assurance that the Company will establish other offices or that its loan production office or offices will be able to successfully originate single-family residential loans to non-conforming borrowers.

The Company has adopted policies that set forth the specific lending requirements of the Company as they relate to the processing, underwriting, property appraisal, closing, funding and delivery of loans to non-conforming borrowers. These policies include program descriptions which set forth four classes of non-conforming loans, designated A, B, C and D. Class A loans generally relate to borrowers who have no or limited adverse incidents in their credit histories, whereas Class B, C and D loans relate to increasing degrees of non-

conforming borrowers. Factors which are considered in evaluating a borrower in this regard are the presence or absence of a credit history, prior delinquencies in the payment of mortgage and consumer credit and personal bankruptcies.

The terms of the loan products offered by the Company directly or through correspondents to non-conforming borrowers emphasize real estate loans which generally are underwritten with significant reliance on a borrower's level of equity in the property securing the loan, which may be an owner-occupied or, depending on the class of loan and its terms, a non-owner occupied property. Although the Company's guidelines require information in order to enable the Company to evaluate a borrower's ability to repay a loan by relating the borrower's income, assets and liabilities to the proposed indebtedness, because of the significant reliance on the ratio of the principal amount of the loan to the appraised value of the security property, each of the four principal classes of loans identified by the Company include products which permit reduced or no documentation for verifying a borrower's income and employment. Loans which permit reduced documentation in this regard generally require documentation of employment and income for the most recent six-month period, as opposed to the two-year period required in the case of full documentation loans. Loans which permit no documentation require only an oral or written verification of employment and do not require independent verification of a borrower's income or assets and liabilities as represented by the borrower in the application. Although the Company reserves the right to verify a borrower's income, assets and liabilities and employment history, other than as set forth above, it generally does not verify such information through other sources.

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

The Company purchased and originated a total of \$132.4 million of single-family residential loans to non-conforming borrowers during the six months ended June 30, 1996 and \$240.3 million of such loans during 1995, including \$158.6 million during the last six months of the year. At June 30, 1996, the Company had \$40.9 million of single-family residential loans to non-conforming borrowers, which had a weighted average yield of 9.75%.

The Company generally intends to sell or securitize its single-family residential loans to non-conforming borrowers and, as a result, all of such loans were classified as available for sale at June 30, 1996. During the six months ended June 30, 1996, the Company sold \$285.2 million of single-family residential loans to non-conforming borrowers for a gain of \$6.8 million, and during 1995 the Company sold \$25.3 million of such loans for a gain of \$188,000. Of the loans sold during the six months ended June 30, 1996, \$134.8 million were securitized and sold in an underwritten public offering managed by an unaffiliated

investment banking firm. The Company received a residual security in the CMO which was formed in connection with this transaction as partial payment for the loans sold by it, which had a carrying value of \$10.7 million at June 30, 1996.

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

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

MULTI-FAMILY RESIDENTIAL LOANS. The Company's lending activities include the acquisition of conventional loans secured by existing multi-family residences located nationwide. The Company commenced these activities in mid-1993 and acquired \$34.9 million, \$378.4 million and \$140.5 million of loans secured by existing multi-family residences during 1995, 1994 and 1993, respectively. Originations of these loans have declined since mid-1994 as a result of decreases in the volume of refinances of mortgage loans and increased competition, which resulted in a decrease in available yields and a general increase in the values of multi-family residential properties. At June 30, 1996, the Company's permanent multi-family residential loans originated or purchased under this program amounted to \$28.6 million, all of which were classified as available for sale.

Originations of multi-family residential loans are obtained through the Company's direct marketing efforts to mortgage brokers, mortgage bankers and other institutional sources. From time to time the Company also may utilize independent contractors or brokers who for a fee identify lending opportunities for the Company.

The Company's permanent multi-family residential loans may have adjustable or fixed rates of interest, generally have terms of three to seven years and are amortized over a period of up to 30 years, thus requiring a balloon payment at maturity. The maximum loan-to-value ratio generally does not exceed the lesser of 75% of appraised value of the security property and 80% of the purchase price. Loans secured by existing multi-family residences generally are made on a non-recourse basis except for standard FNMA requirements and environmental matters.

During 1995, 1994 and 1993, the Company exchanged multi-family residential loans with an aggregate principal amount of \$83.9 million, \$346.6 million and \$67.1 million, respectively, for FNMA mortgage-backed securities backed by such loans. With the exception of a subordinate interest resulting from a related securitization, which had a

carrying value of \$10.7 million at June 30, 1996, the Company has sold all of the securities acquired in connection with these securitizations.

In addition to loans secured by existing multi-family residences, which are available for sale, from time to time the Company originates loans for the construction of multi-family residences located nationwide, as well as bridge loans to finance the acquisition and rehabilitation of distressed multi-family residential properties. At June 30, 1996, the Company had \$42.8 million of multi-family residential construction loans, of which \$18.6 million had been funded, and \$43.5 million of acquisition and rehabilitation loans, of which \$42.6 million had been funded.

Construction loans generally have terms of three years and interest rates which float on a monthly basis in accordance with a designated reference rate. Payments during the term of the loan may be made to the Company monthly on an interest-only basis. The loan amount may include an interest reserve which is maintained by the Company and utilized to pay interest on the loan during its term. In addition to stated interest, and in order to compensate the Company for the greater risk which generally is associated with construction loans, the Company's multi-family residential construction loans may include provisions pursuant to which the borrower agrees to pay the Company as additional interest on the loan an amount based on specified percentages (generally between 25-50%) of the net proceeds from the sale of the property and the net economic value of the property upon refinancing or maturity of the loan.

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

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

The Company's multi-family residential lending program also includes investments in low-income housing tax credit partnerships which own multi-family residential properties which have been allocated tax credits under the Code, as well as loans to such partnerships for the purpose of construction of such properties. See "Business - Investment Activities - Investment in Low-Income Housing Tax Credit Interests."

COMMERCIAL REAL ESTATE AND LAND LOANS. The Company's lending activities include the acquisition of loans secured by commercial real estate, particularly loans secured by hotels and office buildings, which the Company began originating in late 1994 and late 1995, respectively. Commercial real estate loans currently are made to finance the purchase and refinance of properties, the refurbishment of distressed properties and, recently, the construction of hotels. At June 30, 1996, the Company's loans secured by commercial real estate (and land) amounted to \$224.6 million and consisted primarily of \$132.0 million and \$74.9 million of loans secured by hotels and office buildings, respectively. In the future, the Company may expand the types of commercial loans originated by it, including without limitation loans secured by various special purpose health care properties.

Commercial real estate loans are obtained directly by the Company through its marketing efforts to mortgage brokers, mortgage bankers, developers and other sources. Such loans generally have terms of five to seven years and are amortized over 15 to 25 year periods. The maximum loan-to-value ratio generally does not exceed the lesser of 85% of appraised value or the purchase price of the property.

Commercial real estate loans generally have fixed rates of interest. In addition to stated interest, commercial real estate loans may include provisions pursuant to which the borrower agrees to pay the Company as additional interest on the loan an amount based on specified percentages (generally between 25-50%) of the net cash flow from the property during the term of the loan and/or the net proceeds from the sale or refinance of the property upon maturity of the loan. Alternatively, participating interests may be obtained in the form of additional fees which must be paid by the borrower in connection with a prepayment of the loan, generally after an initial lock-out period during which prepayments are prohibited. The fees which could be payable by a borrower during specified periods of the loan consist either of fixed exit fees or yield maintenance payments, which are required to be paid over a specified number of years after the prepayment and are intended to increase the yield of the Company on the proceeds from the loan payoff to a level which is comparable to the yield on the prepaid loan.

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

At June 30, 1996, the Company's commercial real estate loans included \$7.0 million of hotel construction loans. These loans generally have the same terms as the Company's multi-family residential construction loans, as discussed above.

Also included in the Company's commercial real estate lending activities are land loans, including land acquisition and development loans. At June 30, 1996, the Company had \$16.6 million of land loans. The Company's largest land loan at June 30, 1996 was a \$13.7 million five-year loan to finance the acquisition and development of lots, as well as the construction of seven model homes, in a planned community in Florida, of which \$8.8 million had been funded at such date. The remainder of the Company's land loans at June 30, 1996 consisted of two loans which aggregated \$2.9 million and which were made to finance the sale of real estate which was held by a subsidiary of the Company acquired in connection with the acquisition of Old Berkeley.

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

ASSET QUALITY

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

NON-PERFORMING LOANS. It is the Company's policy to establish an allowance for uncollectible interest on loans in its loan portfolio and loans available for sale which are past due 90 days or more and to place such loans on non-accrual status. As a result, the Company currently does not have any loans which are accruing interest but are past due 90 days or more. Loans also may be placed on non-accrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When a loan is placed on non-accrual status, previously accrued but unpaid interest is reversed by a charge to interest income.

The following table sets forth certain information relating to the Company's non-performing loans in its loan portfolio at the dates indicated. For information relating to the payment status of loans in the Company's discounted loan portfolio, see "Business - Discounted Loan Acquisition and Resolution Activities," and for information concerning non-performing loans available for sale, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Changes in Financial Condition - Loans Available for Sale."

	June 30,	December 31,				
	1996	1995	1994	1993	1992	1991
	-----	-----	-----	-----	-----	-----
	(Dollars in Thousands)					

Non-performing loans(1):

Single-family residential loans	\$2,334	\$2,923	\$2,478	\$2,347	\$2,955	\$ 712
Multi-family Residential loans	106	731	152	664	269	1,006
Commercial real estate and land loans	--	--	--	--	--	1,710
Consumer and other loans	38	202	29	556	407	517
	-----	-----	-----	-----	-----	-----
Total	\$2,478	\$3,856	\$2,659	\$3,567	\$3,631	\$3,945
	-----	-----	-----	-----	-----	-----

Non-performing loans as a percentage of:

Total loans(2)	0.77%	1.27%	4.35%	3.71%	8.32%	7.39%
Total assets	0.13	0.20	0.21	0.26	0.44	0.63

Allowance for loan losses as a percentage of:

Total loans(2)	0.91	0.65(3)	1.84	0.99	1.80	1.86
Non-performing loans	115.21	50.49	40.28	24.78	20.71	23.68

(1) The Company did not have any non-performing loans in its loan portfolio which were deemed troubled debt restructurings at the dates indicated.

(2) Total loans is exclusive of undisbursed loan proceeds, unaccreted discount and allowance for loan losses.

(3) The decrease in the allowance for loan losses as a percentage of total loans from 1994 was due to the significant increase in the loan portfolio in 1995 as a result of the purchase of single-family residential loans and the origination of multi-family residential and commercial real estate loans.

REAL ESTATE OWNED. Properties acquired through foreclosure or by deed-in-lieu thereof are valued at the lower of amortized cost or fair value. Properties included in the Company's real estate owned are periodically re-evaluated to determine that they are being carried at the lower of cost or fair value less estimated costs to sell. Holding and maintenance costs related to properties are recorded as expenses in the period incurred. Deficiencies resulting from valuation adjustments to real estate owned subsequent to acquisition are recognized as a valuation allowance. Subsequent increases related to the valuation of real estate owned are reflected as a reduction in the valuation allowance, but not below zero. Increases and decreases in the valuation allowance are charged or credited to income, respectively. Accumulated specific valuation allowances amounted to \$9.7 million at June 30, 1996.

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

	June 30,	December 31,				
	1996	1995	1994	1993	1992	1991
	(In Thousands)					
Discounted loan portfolio:						
Single-family residential	\$65,988	\$ 75,144	\$ 86,426	\$33,369	\$ 4,390	\$ 93
Multi-family residential	37,438	59,932	--	--	--	--
Commercial real estate	28,580	31,218	8,801	--	--	--
Total	132,006	166,294	95,227	33,369	4,390	93
Loan portfolio	522	262	1,440	128	320	435
Loans available for sale portfolio	1,076	--	--	--	--	--
Total	\$133,604	\$166,556	\$96,667	\$33,497	\$4,710	\$ 528

The following table sets forth certain geographical information at June 30, 1996 related to the Company's real estate owned attributable to the Company's discounted loan acquisitions.

June 30, 1996					
Single-Family Residential		Multi-Family Residential and Commercial		Total	
Amount	No. of Properties	Amount	No. of Properties	Amount	No. of Properties
(Dollars in Thousands)					
\$17,586	116	\$55,644	53	\$73,230	169
21,624	334	2,357	15	23,981	349
5,857	94	2,996	21	8,853	115
6,883	127	567	11	7,450	138
1,194	19	2,378	2	3,572	21
12,844(1)	199	2,076(2)	13	14,920	212
\$65,988	889	\$66,018	115	\$132,006	1,004
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(1) Consists of properties located in 27 other states, none of which aggregated over \$1.7 million in any one state.

(2) Consists of properties located in four other states, none of which aggregated over \$2.0 million in any one state.

The following table sets forth the activity in the real estate owned related to the Company's discounted loan portfolio during the periods indicated.

	Year Ended December 31,						
	Six Months Ended June 30, 1996		1995		1994		1993
	Amount	No. of Properties	Amount	No. of Properties	Amount	No. of Properties	Amount No. of Properties
(Dollars in Thousands)							
Balance at beginning of period	\$166,294	1,065	\$95,227	1,005	\$33,369	516	\$3,812 93
Properties acquired	38,244	447	209,567	1,281	173,556	1,875	40,457 770
Sales	(72,532)	(508)	(138,500)	(1,221)	(111,698)	(1,386)	(10,900) (347)
Balance at end of period	\$132,006	1,004	\$166,294	1,065	\$95,227	1,005	\$33,369 516
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The following table sets forth the amount of time that the Company had held its real estate owned related to its discounted loan acquisitions at the dates indicated.

	December 31,		
	June 30, 1996	1995	1994
		(In Thousands)	
One to two months	\$18,724	\$25,398	\$20,989
Three to four months	10,415	22,672	22,985
Five to six months	6,025	25,742	16,369
Seven to 12 months	43,010	76,782	29,499
Over 12 months	53,832	15,700	5,385
	-----	-----	-----
	\$132,006	\$166,294	\$95,227
	-----	-----	-----
	-----	-----	-----

The average period during which the Company held the \$72.5 million, \$138.5 million and \$111.7 million of real estate owned related to its discounted loan acquisitions which was sold during the six months ended June 30, 1996 and the years ended December 31, 1995 and 1994, respectively, was ten months, eight months and seven months, respectively.

Although the Company evaluates the potential for significant environmental problems prior to acquiring a loan, there is a risk for any mortgage loan, particularly a multi-family residential and commercial real estate loan, that hazardous substances or other environmentally restricted substances could be discovered on the related real estate. In such event, the Company might be required to remove such substances from the affected properties or to engage in abatement procedures at its sole cost and expense.

There can be no assurance that the cost of such removal or abatement will not substantially exceed the value of the affected properties or the loans secured by such properties, that the Company would have adequate remedies against the prior owners or other responsible parties or that the Company would be able to resell the affected properties either prior to or following completion of any such removal or abatement procedures. If such environmental problems are discovered prior to foreclosure, the Company generally will not foreclose on the related loan; however, the value of such property as collateral will generally be substantially reduced and the Company may suffer a loss upon collection of the loan as a result.

From time to time the Company makes loans to finance the sale of real estate owned. At June 30, 1996, such loans amounted to \$11.7 million and consisted of \$6.9 million of single-family residential loans, \$1.9 Million of multi-family residential loans and \$2.9 million of land loans. The land loans were made to finance the sale of real estate held by a subsidiary of the Company acquired in connection with the acquisition of Old Berkeley. All of the Company's loans to finance the sale of real estate owned were performing in accordance with their terms at June 30, 1996.

CLASSIFIED ASSETS. OTS regulations require that each insured savings association classify its assets on a regular basis. In addition, in connection with examinations of insured associations, OTS examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: "substandard," "doubtful" and "loss." Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. Another category designated "special mention" also must be established and maintained for assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification as substandard, doubtful or loss but do possess credit deficiencies or potential weaknesses deserving management's close attention. Assets classified as substandard or doubtful require the institution to establish general allowances for loan losses. If an asset or portion thereof is classified loss, the insured institution must either establish specific allowances for loan losses in the amount of 100% of the portion of the asset classified loss or charge off such amount. In this regard, the company establishes required reserves and charges off loss assets as soon as administratively practicable. General loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses do not qualify as regulatory capital.

Based upon recent discussions with the OTS, the Company intends to modify its policy for classifying non-performing discounted loans and real estate owned related to its discounted loan portfolio ("non-performing discounted assets") to take into account both the holding period of such assets from the date of acquisition and the ratio of book value to market value of such assets. Under the new policy, all non-performing discounted assets which are held 15 months or more after the date of acquisition would be classified substandard; non-performing discounted assets held 12 months to less than 15 months from the date of acquisition would be classified as special mention if they had a ratio of book value to market value of less than 80% and substandard if such ratio was 80% or more; non-performing discounted assets held 90 days to less than 12 months from the date of acquisition would be classified as special mention if they had a ratio of book value to market value of more than 80% and less than 85% and substandard if such ratio was equal to or greater than 85%; and non-performing discounted assets held less than 90 days from the date of acquisition would be classified substandard if they had a ratio of book value to market value equal to or greater than 85%. In addition, non-performing discounted assets which are performing for a period of time subsequent to acquisition by the Company will be classified as substandard at the time such loans become non-performing. The Company's past experience indicates that the resulting classified discounted assets would not necessarily be correlated to probability of loss.

Excluding assets which have been classified loss and fully reserved by the Company, the Company's classified assets at June 30, 1996 under the new policy consisted of \$178.1 million of assets classified as substandard and \$12,000 of assets classified as doubtful. In addition, at the same date \$30.7 million of assets was designated as special mention.

Substandard assets at June 30, 1996 under the new policy consisted primarily of \$113.5 million of loans and real estate owned related to the Company's discounted single-family residential loan program, \$49.8 million of loans and real estate owned related to the Company's discounted commercial real estate loan program and \$14.4 million of single-family residential loans to non-conforming borrowers. Special mention assets at June 30, 1996 under the new policy consisted primarily of loans and real estate owned related to the Company's discounted loan programs, consisting of \$16.0 million and \$3.7 million of assets related to the Company's discounted single-family residential and discounted commercial real estate loan programs, respectively.

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

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

	June 30, 1996		December 31,			
			1995		1994	
	Amount	%	Amount	%	Amount	%
(Dollars in Thousands)						
Loan portfolio:						
Single-family residential loans	\$297	20.0%	\$346	22.2%	\$615	52.2%
Multi-family residential loans	682	22.2	683	14.3	--	2.9
Commercial real estate and land loans	1,876	57.7	875	62.6	218	42.3
Consumer and other loans	--	0.1	43	0.9	238	2.6
Total	\$2,855	100.0%	\$1,947	100.0%	\$1,071	100.0%
Discounted loan portfolio(1):						
Single-family residential loans	\$4,233	31.6%				
Multi-family residential loans	1,659	17.5				
Commercial real estate loans	3,578	50.7				
Other loans	--	0.2				
Total	\$9,470	100.0%				

	December 31,					
	1993		1992		1991	
	Amount	%	Amount	%	Amount	%
(Dollars in Thousands)						
Loan portfolio:						
Single-family residential loans	\$174	31.6%	\$ 20	77.3%	\$ 28	78.4%
Multi-family residential loans	333	40.9	281	12.7	272	13.7
Commercial real estate and land loans	218	23.7	220	4.6	399	3.8
Consumer and other loans	159	3.8	231	5.4	235	4.1
Total	\$884	100.0%	\$752	100.0%	\$934	100.0%

(1) Not applicable at or prior to December 31, 1995.

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

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

	Six Months Ended June 30, 1996	Year Ended December 31,				
	1996	1995	1994	1993	1992	1991
	(Dollars in Thousands)					
Balance, beginning of period	\$1,947	\$1,071	\$884	\$752	\$934	\$1,170
Provision for loan losses	1,132	1,121	--	--	--	--
Charge-offs:						
Single-family residential loans	(188)	(131)	(302)	(150)	(138)	(8)
Multi-family residential loans	(7)	--	--	(170)	(3)	(96)
Commercial real estate and land loans	--	(40)	--	--	--	(135)
Consumer loans	(29)	(92)	(170)	(16)	(88)	(37)
Total charge-offs	(224)	(263)	(472)	(336)	(229)	(276)
Recoveries:						
Single-family residential loans	--	3	410	346	29	35
Multi-family residential loans	--	--	--	--	--	--
Commercial real estate and land loans	--	15	--	--	--	--
Consumer loans	--	--	249	122	18	5
Total recoveries	--	18	659	468	47	40
Net (charge-offs) recoveries	(224)	(245)	187	132	(182)	(236)
Balance, end of period	\$2,855	\$1,947	\$1,071	\$ 884	\$ 752	\$ 934
Net (charge-offs) recoveries as a percentage of average loan portfolio	(0.07)%	(0.19)%	0.28%	0.10%	(0.37)%	(0.46)%

During the six months ended June 30, 1996, the activity in the allowance for losses related to the discounted loan portfolio consisted of \$13.2 million of general provisions for losses, \$3.8 million of charge-offs (consisting of \$2.4 million, \$448,000 and \$929,000 related to single-family residential loans, multi-family residential loans and commercial real estate loans, respectively) and \$43,000 of recoveries.

INVESTMENT ACTIVITIES

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

MORTGAGE-BACKED AND RELATED SECURITIES. From time to time the Company invests in mortgage-backed and related securities. Although mortgage-backed and related securities generally yield less than the loans that back such securities because of costs associated with their payment guarantees or credit enhancements, such securities are more liquid than individual loans and may be used to collateralize borrowings of the Company. See Note 15 to the Consolidated Financial Statements.

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

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

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

		December 31		
	June 30, 1996	1995	1994	1993
		(In Thousands)		
Mortgage-backed securities:				
Single-family residential:				
Privately issued-AAA rated	\$ --	\$ --	\$19,099	\$162,392
FHLMC	--	--	--	63,475
FNMA	--	--	--	42,990
Total	--	--	19,099	268,857
Multi-family residential	--	--	--	69,701
Futures contracts	--	--	--	756
Total	--	--	--	70,457
Mortgage-related securities:				
Single-family residential:				
Interest only	10,685	11,774	1,996	--
Principal only	6,922	8,218	11,490	--
CMOs-AAA rated	86,606	138,831	75,032	187,059
PAC securities	--	574	--	--
REMIC residuals	10,688	472	--	--
Subordinates	29,119	27,310	--	--
Futures contracts	(381)	(1,598)	1,143	--
Total	143,639	185,581	89,661	187,059
Multi-family residential and commercial:				
CMOs	--	--	53,939	--
Interest only	96,100	109,193	--	--
Subordinates	23,409	42,954	22,095	--
Futures contracts	51	(248)	(609)	--
Total	119,560	151,899	75,425	--
Total	\$263,199	\$337,480	\$184,185	\$526,373

The following table sets forth the Company's mortgage-related securities held for investment at the dates indicated.

	June 30, 1996	December 31,		
		1995(1)	1994	1993
		(In Thousands)		
CMOs	\$ --	\$ --	\$90,153	\$114,884
PAC securities	--	--	994	4,844
REMIC residuals	--	--	770	1,186
Total	\$ --	\$ --	\$91,917	\$120,914

(1) Reflects the transfer of \$73.7 million of securities to available for sale pursuant to guidance issued by the FASB in November 1995.

The following table sets forth certain information relating to each mortgage-related security held by the Company which had a carrying value which exceeded 10% of the Company's stockholders' equity at June 30, 1996, all of which were classified as available for sale.

Issuer	Type of Security	Market Value
(In Thousands)		
ITT Federal Bank, FSB 1994-P1, 1B	Single-family subordinate	\$29,119
Securitized Asset Sales, Inc. 1993-3, A1	Single-family CMO	21,589
Merrill Lynch Mortgage Investor, Inc. 1993 M1 B	Multi-family subordinate	19,031
Countrywide Funding Corporation 1993-7, A1	Single-family CMO	17,761
Countrywide Funding Corporation 1993-3, A1	Single-family CMO	17,001
FBS Mortgage Corporation 1993-E, A1	Single-family CMO	16,772

At June 30, 1996, \$23.0 million of the Company's securities available for sale were issued by FHLMC or FNMA and \$240.9 million of such securities were privately issued. Of the \$240.9 million of securities available for sale which were privately issued at June 30, 1996, \$176.4 million were rated AAA by national rating agencies, \$4.7 million were rated investment grade by national rating agencies below this level and \$59.8 million were unrated.

At June 30, 1996, the carrying value of the Company's investment in IO strips and PO strips amounted to \$113.7 million. The Company invests in IO strips and PO strips from time to time based on its capital position, interest rate risk profile and the market for such securities. IO strips and PO strips exhibit considerably more price volatility than mortgages or ordinary mortgage pass-through securities, due in part to the uncertain cash flows that result from changes in the prepayment rates of the underlying mortgages. In the case of IO strips in particular, increased prepayments of the underlying mortgages as a result of decreases in market interest rates can result in a loss of all or part of the purchase price of such security, although IO strips relating to mortgage-related securities backed by multi-family residential and commercial real estate loans (which amounted to \$96.1 million of the \$106.8 million of IO strips owned by the Company at June 30, 1996) generally have provisions which prohibit and/or provide economic disincentives to prepayments for specified periods. The Company generally attempts to offset the interest rate risk associated with a particular IO strip or PO strip by purchasing other securities and/or hedging against such risk through futures contracts. The Company believes that these investments complement its overall interest rate sensitivity profile and, in the case of IO strips from securities backed by multi-family residential and commercial real estate loans, provide some hedge against the risk that the Company's multi-family residential and commercial real

estate loans, which generally do not fully amortize over the term of the loan and require balloon payments at maturity, may not be repaid or refinanced at maturity at market rates or at all due to increases in interest rates subsequent to origination of the loan. At June 30, 1996, all of the Company's IO strips and PO strips were either issued by FHLMC or FNMA or rated AAA by national rating agencies, with the exception of two IO securities with an aggregate carrying value of \$1.7 million, which were rated investment grade below this level.

At June 30, 1996, the carrying value of the Company's investment in subordinate classes of mortgage-related securities amounted to \$52.5 million. The Company invests in subordinate classes of mortgage-related securities from time to time based on its capital position, interest rate risk profile, the market for such securities and other factors. During 1995, in connection with its acquisition of \$28.0 million of subordinate interests in a CMO backed by single-family residential loans, the Company acquired the rights to service the loans which backed all classes of the CMO for approximately \$3.8 million. This transaction was primarily responsible for the increase in the amount of loans serviced by the Company for others from \$132.8 million at December 31, 1994 to \$361.6 million at December 31, 1995. At June 30, 1996, the Company's subordinate securities supported senior classes of securities having an aggregate outstanding principal balance of \$664.7 million. Because of their subordinate position, subordinate classes of mortgage-related securities involve substantially more risk than the other classes.

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Under a regulatory bulletin issued by the OTS, a federally-chartered savings institution such as the Bank generally may invest in "high risk" mortgage securities only to reduce its overall interest rate risk and after it has adopted various policies and procedures, although under specified circumstances such securities also may be acquired for trading purposes. A "high risk" mortgage security for this purpose generally is any mortgage-related security which meets one of three tests which are intended to measure the average life or price volatility of the security in relation to a benchmark fixed rate, 30-year mortgage-backed pass-through security. At June 30, 1996, the Company held mortgage-related securities with a carrying value of \$20.6 million which were classified as "high-risk" mortgage securities by the OTS, all of which were utilized to reduce the Company's overall interest rate risk.

The expected actual maturity of a mortgage-backed and related security is shorter than its stated maturity due to prepayments of the underlying mortgages. Prepayments that are faster than anticipated may shorten the life of the security and adversely affect its yield to maturity. The yield is based upon the interest income and the amortization of any premium or accretion of any discount related to the mortgage-backed and related security. Prepayments on mortgage-backed and related securities have the effect of accelerating the amortization of premiums and accretion of discounts, which decrease and increase interest income, respectively. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general

levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Similarly, during periods of increasing interest rates, refinancing generally decreases, thus lengthening the estimated maturity of mortgage loans.

For additional information relating to the Company's mortgage-related securities, see Notes 5 and 7 to the Consolidated Financial Statements.

INVESTMENT SECURITIES. Investment securities currently consist primarily of U.S. Government securities and required investment in FHLB stock.

The following table sets forth the Company's investment securities available for sale and held for investment at the dates indicated.

	June 30, 1996	December 31, ----- 1995 1994 1993 -----		
		(In Thousands)		
Available for sale:				
U.S. Government securities	\$ --	\$ --	\$3,532	\$ 692
Municipal obligations	--	--	--	118
Total	--	--	3,532	810
Held for investment:				
U.S. Government securities	--	10,036	10,325	20,041
FHLB stock(1)	8,798	8,520	6,555	12,396
Limited partnership interests	104	109	131	131
Total	8,902	18,665	17,011	32,568
Total investment securities	\$8,902	\$18,665	\$20,543	\$33,378

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

TRADING SECURITIES. From time to time the Company purchases investment and mortgage-backed and related securities for trading purposes. In addition, securities resulting from the exchange of loans are also accounted for as the purchase of trading securities.

When securities are purchased with the intent to resell in the near term, they are classified as trading securities and carried on the Company's consolidated balance sheet as

a separately identified trading account. Securities in this account are carried at current market value and any increase or decrease in unrealized appreciation or depreciation is included in the Company's consolidated statements of operations.

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

The Company traded assets on a short-term basis (generally within a day) totalling \$10.1 million, \$275.4 million and \$78.6 million during 1995, 1994 and 1993, respectively, resulting in net gains of \$84,000, \$1.8 million and \$1.2 million during these respective periods.

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

At June 30, 1996, the Company's investments in low-income housing tax credit interests amounted to \$92.3 million, as compared to \$81.4 million and \$49.4 million at December 31, 1995 and 1994, respectively. The Company's investments in low-income housing tax credit interests are made by the Company indirectly through subsidiaries of the Bank, which may be a general partner and/or a limited partner in the partnership.

In accordance with a recent pronouncement of the Emerging Issues Task Force, the Company's accounting for investments in low-income housing tax credit partnerships in which it acts solely as a limited partner, which amounted to \$66.9 million in the aggregate

at June 30, 1996, depends on whether the investment was made on or after May 18, 1995. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Changes in Financial Condition - Investments in Low-Income Housing Tax Credit Interests."

Low-income housing tax credit partnerships in which the Company, through a subsidiary, acts as a general partner, are presented on a consolidated basis. At June 30, 1996, the Company's investments in low-income housing tax credit interests included \$22.5 million of assets related to low-income housing tax credit partnerships in which a subsidiary of the Company acts as a general partner. At the same date, the amount of the Company's equity investments in such partnerships amounted to \$16.2 million and the Company had commitments to make \$18.0 million of additional equity investments in such partnerships. The Company's equity investments in its consolidated partnerships and, as discussed below, loans by the Company to such partnerships, are eliminated from inclusion in the Company's investments and loan portfolio, respectively, upon consolidation of such partnerships with the Company for financial reporting purposes.

The Company also makes loans to low-income housing tax credit partnerships in which it has invested to construct the affordable housing project owned by the partnership. At June 30, 1996, the Company had \$19.2 million of construction loans outstanding to low-income housing tax credit partnerships and commitments to fund an additional \$44.4 million of such loans. Approximately \$6.3 million of such funded construction loans at June 30, 1996 were made to partnerships in which subsidiaries of the Company acted as a general partner and which thus were consolidated with the Company for financial reporting purposes. The risks associated with these construction loans are the same as those made by the Company to unaffiliated third parties. See "Business - Lending Activities."

The affordable housing projects owned by the low-income housing tax credit partnerships in which the Company had invested at June 30, 1996 are geographically located throughout the United States. At June 30, 1996, the Bank's largest funded investment in a low-income housing tax credit partnership was a \$16.5 million investment in a partnership which owned a 408-unit qualifying project in Fort Lauderdale, Florida, and the Bank's largest funded and unfunded investment in such a partnership was a \$28.2 million commitment to fund equity and debt investments in a partnership which will construct a 240-unit qualifying project in Greece, New York, of which \$236,000 of equity and \$4.1 million of debt was funded as of such date.

At June 30, 1996, the Company had invested in or had commitments to invest in 22 low-income housing tax credit partnerships, all of which had been allocated tax credits. The Company estimates that its investment in low-income housing tax credit interests at June 30, 1996 will provide approximately \$173.6 million of tax credits.

During the six months ended June 30, 1996, the Company sold \$6.7 million of its investments in low-income housing tax credit interests for a pre-tax gain of \$990,000. In

addition, the Company has entered into an agreement to sell additional low-income tax credit interests with a carrying value of \$11.7 million, which will not be recognized as a sale under generally accepted accounting principles until certain construction and other obligations of the Company are substantially completed. Depending on available prices, its ability to utilize tax credits and other factors, the Company may seek to sell other of its low-income housing tax credit interests in the future.

The ownership of low-income housing tax credit interests produce two types of tax benefits. The primary tax benefit flows from the low-income housing tax credits under the Code which are generated by the ownership and operation of the real property in the manner required to obtain such tax credits. These credits may be used to offset Federal income tax on a dollar for dollar basis but may not offset the alternative minimum tax; tax credits thus may reduce the overall federal income tax to an effective rate of 20%. At December 31, 1995, the Company could recover \$8.7 million and \$1.4 million of taxes paid in 1994 and 1993, respectively, through the carryback of tax credits realized in the current year which would not otherwise be deductible due to the alternative minimum tax. In addition, the operation of the rental properties produces tax losses in the early years and sometimes throughout the anticipated ownership period. These tax losses may be used to offset taxable income from other operations and thereby reduce the income tax which would otherwise be paid on such taxable income.

Tax credits can be claimed over a ten-year period on a straight-line basis once the underlying multi-family residential properties are placed in service to reduce the tax payments computed based upon taxable income to not less than the alternative minimum tax computed for that year or any year not more than three years before or 15 years after the year the tax credit is earned. Tax credits are realized regardless of whether units in the project continue to be occupied once the units in the project have been initially rented to a qualifying tenant, and tax credits are not dependent on a project's operating income or appreciation. Tax credits can be claimed over a ten-year period and generally can be lost or recaptured only if non-qualifying tenants are placed in units, ownership of the project is transferred or the project is destroyed and not rebuilt during a 15-year compliance period for the project. The Company has established specific investment criteria for investment in multi-family residential projects which have been allocated tax credits, which require, among other things, a third party developer of the project and/or the seller of the interest therein to provide a guarantee against loss or recapture of tax credits and to maintain appropriate insurance to fund rebuilding in case of destruction of the project. Notwithstanding the Company's efforts, there can be no assurance that the multi-family residential projects owned by the low-income housing tax credit partnerships in which it has invested will satisfy applicable criteria during the 15-year compliance period and that there will not be loss or recapture of the tax credits associated therewith.

Investments made pursuant to the affordable housing tax credit program of the Code are subject to numerous risks resulting from changes in the Code. For example, the Balanced Budget Act of 1995, which was vetoed by the President of the United States in

December 1995 for reasons which were unrelated to the tax credit program, generally would have established a sunset date for the affordable housing tax credit program of the Code for housing placed in service after December 31, 1997 and would have repealed, effective December 31, 1995, provisions which generally permitted a state's unused low-income housing tax credits to be reallocated for use by other states through a "national pool" of unused housing credit carryovers. Although these changes would not have impacted the Company's existing investments, other potential changes in the Code which have been discussed from time to time could reduce the benefits associated with the Company's existing investments in low-income housing tax credit interests, including the replacement of the current graduated income taxation provisions of the Code with a "flat tax" based system and increases in the alternative minimum tax, which cannot be reduced by tax credits. Management of the Company is unable to predict whether any of the foregoing or other changes to the Code which may directly or indirectly affect the affordable housing tax credit program of the Code will be the subject of future legislation and, if so, what the contents of such legislation will be and its effects, if any, on the Company.

SOURCES OF FUNDS

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

DEPOSITS. The primary source of deposits for the Company currently is brokered certificates of deposit obtained through national investment banking firms which, pursuant to agreements with the Company, solicit funds from their customers for deposit with the Bank. Such deposits amounted to \$1.02 billion or 67.9% of the Company's total deposits at June 30, 1996. In addition, during 1995 the Company commenced a program to obtain certificates of deposit from customers of regional and local investment banking firms which are made aware of the Company's products by the Company's direct solicitation and marketing efforts. These deposits generally are obtained on more economically attractive terms to the Company than the brokered deposits obtained through national investment banking firms. At June 30, 1996, \$267.7 million or 17.8% of the Company's deposits were obtained in this manner through over 100 regional and local investment banking firms. During 1995, the Company also expanded its wholesale deposit program to directly solicit certificates of deposit from institutional investors and high net worth individuals identified by the Company. At June 30, 1996, \$109.2 million or 7.3% of the Company's total deposits consisted of deposits obtained by the Company from such efforts. Ultimately, it is anticipated that these efforts will increase the Company's internally-generated deposits and reduce the costs associated with and its dependence on brokered deposits.

During 1996, the Company intends to expand its direct deposit solicitation efforts to solicit certificates of deposit on behalf of other financial institutions. These activities will be conducted through Ocwen Capital Markets Inc., a Florida corporation and a wholly-owned subsidiary of the Company which, subject to the receipt of required regulatory approvals, will be a registered broker-dealer under the Exchange Act. It is currently anticipated that Ocwen Capital Markets Inc. will commence these activities in the second half of 1996.

The Company's brokered deposits at June 30, 1996 were net of \$7.6 million of unamortized deferred fees. The amortization of deferred fees is computed using the interest method and is included in interest expense on certificates of deposit.

The Company believes that the effective cost of brokered and other wholesale deposits is more attractive to the Company than deposits obtained on a retail basis from branch offices after the general and administrative expense associated with the maintenance of branch offices is taken into account. Moreover, brokered and other wholesale deposits may include provisions which make them non-cancelable during their terms. At June 30, 1996, \$925.4 million or 90.8% of the Company's \$1.02 billion of brokered deposits obtained through national investment banking firms were non-cancelable. The remainder of the Company's brokered and other wholesale deposits at such date were cancelable by the depositor only upon the payment of a substantial penalty. Brokered and other wholesale deposits also generally give the Company more flexibility than retail sources of funds in structuring the maturities of deposits. At June 30, 1996, approximately 54.0% of the Company's certificates of deposit were scheduled to mature within one year.

There are various limitations on the ability of all but well-capitalized insured financial institutions to obtain brokered deposits. See "Regulation - The Bank - Brokered Deposits." These limitations currently are not applicable to the Company because the Bank is a well-capitalized financial institution under applicable laws and regulations. See "Regulation - The Bank - Regulatory Capital Requirements."

In addition to brokered and other wholesale deposits, the Company obtains deposits from its office located in Bergen County, New Jersey. These deposits include non-interest bearing checking accounts, NOW and money market checking accounts, savings accounts and certificates of deposit and are obtained through advertising, walk-ins and other traditional means. At June 30, 1996, the deposits which were allocated to this office amounted to \$49.0 million or 3.3% of the Company's deposits.

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

	June 30, 1996		December 31,					
			1995		1994		1993	
	Amount	Avg. Rate	Amount	Avg. Rate	Amount	Avg. Rate	Amount	Avg. Rate
(Dollars in Thousands)								
Non-interest bearing								
checking accounts	\$ 55,603	--%	\$ 48,482	--%	\$ 35,943	--%	\$ 45,096	--%
NOW and money market								
checking accounts	19,385	4.05	17,147	3.37	18,934	2.17	115,402	1.07
Savings accounts	3,520	2.30	3,471	2.30	24,007	2.30	167,026	1.20
	78,508		69,100		78,884		327,524	
Certificates of deposit(1)	1,431,221		1,440,240		950,817		537,147	
Unamortized (deferred fees)								
purchase accounting discount	(7,554)		(7,694)		(6,433)		7,208	
	1,423,667	5.84	1,432,546	5.68	944,384	5.50	544,355	4.22
Total deposits	\$1,502,175	5.60	\$1,501,646	5.46	\$1,023,268	5.17	\$ 871,879	3.01

(1) At June 30, 1996 and December 31, 1995 and 1994, certificates of deposit issued on an uninsured basis amounted to \$110.6 million, \$80.0 million and \$21.1 million, respectively.

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

	December 31,			
	June 30, 1996	1995	1994	1993
(Dollars in Thousands)				
2.99% or less. . .	\$ 382	\$ 222	\$ 3,613	\$ 121,266
3.00-3.50%	3	39	642	194,650
3.51-4.50.	3,869	42,751	221,459	165,862
4.51-5.50.	535,304	454,653	242,383	42,206
5.51-6.50.	646,270	660,745	310,898	6,251
6.51-7.50.	237,348	273,655	165,197	6,460
7.51-8.50.	491	481	192	3,794
8.51-9.50.	--	--	--	3,866
	\$1,423,667	\$1,432,546	\$ 944,384	\$ 544,355

The following table sets forth the amount and maturities of the certificates of deposit in the Company at June 30, 1996.

	Six Months and Less	Over Six Months and Less than One Year	One Year Through Two Years	Over Two Years	Total
	-----	-----	-----	-----	-----
	(Dollars in Thousands)				
2.99% or less.	\$ 217	\$ 122	\$ --	\$ 43	\$ 382
3.00-3.50%	--	--	--	3	3
3.51-4.50.	3,187	555	107	20	3,869
4.51-5.50.	247,179	96,558	87,051	104,516	535,304
5.51-6.50.	279,731	85,131	151,283	130,125	646,270
6.51-7.50.	38,589	17,561	67,543	113,655	237,348
7.51-8.50.	--	--	--	491	491
	-----	-----	-----	-----	-----
	\$ 568,903	\$ 199,927	\$ 305,984	\$ 348,853	\$1,423,667
	-----	-----	-----	-----	-----

At June 30, 1996, the Company had \$110.6 million of certificates of deposit in amounts of \$100,000 or more outstanding maturing as follows: \$35.8 million within three months; \$24.5 million over three months through six months; \$22.3 million over six months through 12 months; and \$28.0 million thereafter.

For additional information relating to the Company's deposits, see Note 13 to the Consolidated Financial Statements.

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

The Company also obtains funds pursuant to securities sold under reverse repurchase agreements. Under these agreements, the Company sells securities (generally mortgage-backed and related securities) under an agreement to repurchase such securities at a specified price at a later date. Reverse repurchase agreements have short-term maturities (typically 90 days or less) and are deemed to be financing transactions. All securities underlying reverse repurchase agreements are reflected as assets in the Company's Consolidated Financial Statements and are held in safekeeping by broker-dealers.

The Company's borrowings also include subordinated debentures and notes. At June 30, 1996, this category of borrowings consisted primarily of \$100 million principal amount of the Debentures issued by the Bank in June 1995. At June 30, 1996, this category of

borrowings also included \$7.4 million of short-term notes which are privately issued by the Company from time to time to certain stockholders of the Company.

At June 30, 1996, borrowings also included a hotel mortgage payable in connection with a hotel in Columbus, Ohio which is owned by the Company.

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

	June 30, 1996	December 31, -----		
		1995	1994	1993
	-----	-----	-----	-----
		(In Thousands)		
FHLB advances	\$ 70,399	\$ 70,399	\$ 5,399	\$ 57,399
Reverse repurchase agreements	--	84,761	--	275,468
Subordinated debentures and other interest-bearing obligations:				
Debentures	100,000	100,000	--	--
Short-term notes	7,365	8,627	1,012	14,578
Hotel mortgages payable	8,338	8,427	19,099	26,347
	-----	-----	-----	-----
	115,703	117,054	20,111	40,925
	-----	-----	-----	-----
	\$186,102	\$272,214	\$ 25,510	\$373,792
	-----	-----	-----	-----

The following table sets forth certain information relating to the Company's short-term borrowings having average balances during the period of greater than 30% of stockholders' equity at the end of the period. During each reported period, FHLB advances and reverse repurchase agreements are the only categories of borrowings meeting this criteria.

	At or For the Six Months Ended June 30, 1996 -----	At or For the Year Ended December 31, ----- 1995 1994 1993 ----- (Dollars in Thousands)		
FHLB advances:				
Average amount outstanding during the period	\$70,399	\$14,866	\$26,476	\$64,130
Maximum month-end balance outstanding during the period	70,399	100,399	57,399	67,399
Weighted average rate:				
During the period	5.77%	7.57%	4.65%	4.42%
At end of period	5.55	5.84	9.59	4.02
Reverse repurchase agreements:				
Average amount outstanding during the period	\$23,793	\$16,754	\$254,052	\$195,111
Maximum month-end balance outstanding during the period	84,321	84,761	537,629	275,468
Weighted average rate:				
During the period	5.76%	5.68%	3.98%	3.56%
At end of period	--	5.70	--	3.57

For additional information relating to the Company's borrowings, see Notes 14, 15 and 16 to the Consolidated Financial Statements.

OFFICES

At June 30, 1996, the Company conducted business from its executive offices located in West Palm Beach, Florida, a full-service banking office located in northern New Jersey and a loan production office located in New Jersey.

The following table sets forth information relating to the Company's executive, main and other offices at June 30, 1996.

Location -----	Owned/Leased -----	Net Book Value of Property or Leasehold Improvements ----- (Dollars in Thousands)
Executive Offices: 1675 Palm Beach Lakes Blvd. West Palm Beach, FL	Leased	\$5,824
Main Office: 1350 Sixteenth Street Fort Lee, NJ	Leased	7
Loan Production Office: 100 Menlo Park Drive Suite 200 Edison, New Jersey	Leased	13

COMPUTER SYSTEMS AND OTHER EQUIPMENT

The Company believes that its use of information technology is a key factor in achieving competitive advantage in the servicing of nonperforming loans, improving servicing efficiencies to minimize operating costs and increasing overall profitability. The Company has invested in a state-of-the-art computer infrastructure, and uses an IBM AS400 and NetFRAME file servers as its primary hardware platforms. In addition to its standard industry software applications, the Company has internally developed fully integrated proprietary applications designed to provide decision support, automation of decision execution and tracking and exception reporting. The Company's systems have significant capacity for expansion or upgrade.

The proprietary software packages developed for asset resolution use advanced financial models to predict the resolution strategy with the highest returns and to route the loan or property through the resolution process, as well as track performance against specified timelines for each procedure. These activities are linked with automated communications, including FAX, e-mail or letter with the borrower or outside vendors, such as attorneys and brokers. The systems also are integrated with a document imaging system

which currently stores two million images on magnetic media with a 50 gigabyte optical juke box for additional storage. This system permits the immediate access to pertinent loan documents and the automatic preparation of foreclosure packages. The Company also has implemented a data warehouse strategy which provides corporate data on a centralized basis for decision support.

EMPLOYEES

At June 30, 1996, the Company had 325 full-time equivalent employees (exclusive of the employees of the hotel owned by the Company). The employees are not represented by a collective bargaining agreement, and management believes that it has good relations with its employees.

LEGAL PROCEEDINGS

The Company is involved in various legal proceedings occurring in the ordinary course of business which management of the Company believes will not have a material adverse effect on the financial condition or operations of the Company.

REGULATION

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

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

The following discussion and other references to and descriptions of the regulation of financial institutions contained herein constitute brief summaries thereof as in effect on

the date of this Prospectus. This discussion is not intended to constitute and does not purport to be a complete statement of all legal restrictions and requirements applicable to the Company and the Bank and all such descriptions are qualified in their entirety by reference to applicable statutes, regulations and other regulatory pronouncements.

As noted under "Risk Factors - Regulation," in recent periods there have been various legislative proposals in the U.S. Congress to eliminate the thrift charter and the OTS. Although the Company currently is unable to predict whether the existence of the thrift charter and the OTS may be the subject of future legislation and, if so, what the final contents of such legislation will be and their effects, if any, on the Company and the Bank, such legislation could result in, among other things, the Company becoming subject to the same regulatory capital requirements, activities limitations and other requirements which are applicable to bank holding companies under the BHCA. Unlike savings and loan holding companies, bank holding companies are subject to regulatory capital requirements, which generally are comparable to the regulatory capital requirements which are applicable to the Bank (see "Regulation - The Bank - Regulatory Capital Requirements"), and unlike unitary savings and loan holding companies such as the Company, which generally are not subject to activities limitations, bank holding companies generally are prohibited from engaging in activities or acquiring or controlling, directly or indirectly, the voting securities or assets of any company engaged in any activity other than banking, managing or controlling banks and bank subsidiaries or other activities that the Federal Reserve Board has determined, by regulation or otherwise, to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

THE COMPANY

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

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

companies and, unless the savings institution requalifies as a QTL within one year thereafter, shall register as, and become subject to the restrictions applicable to, a bank holding company. See "- The Bank - Qualified Thrift Lender Test."

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

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

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

chartered savings institutions located in the state where the acquiring entity is located (or by a holding company that controls such state-chartered savings institutions).

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

THE BANK

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

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

INSURANCE OF ACCOUNTS. As an FDIC-insured institution, the Bank is required to pay deposit insurance premiums to the FDIC. In 1993, the FDIC adopted a transitional risk-based deposit insurance system, which became permanent effective January 1, 1994. Under current FDIC regulations, institutions are assigned to one of three capital groups which are based solely on the level of an institution's capital--"well capitalized," "adequately capitalized," and "undercapitalized"--which are defined in the same manner as the regulations establishing the prompt corrective action system under Section 38 of the FDIA, as discussed below. These three groups are then divided into three subgroups which are based on supervisory evaluations by the institution's primary federal regulator, resulting in nine assessment classifications. Assessment rates currently range from .23% for well capitalized, healthy institutions to .31% for undercapitalized institutions with substantial supervisory concerns.

On November 14, 1995, the FDIC adopted a new assessment rate schedule of zero to 27 basis points (subject to a \$2,000 annual minimum) for BIF members beginning on or about January 1, 1996 while retaining the existing assessment rate schedule for SAIF member institutions. In announcing this new schedule, the FDIC noted that the premium differential may have adverse consequences for SAIF members, including reduced earnings and an impaired ability to raise funds in the capital markets. In addition, as a result of this differential SAIF members, such as the Bank, could be placed at a competitive disadvantage to BIF members with respect to the pricing of loans and deposits and the ability to achieve lower operating costs. For information concerning proposed legislation which is intended

to address this competitive disadvantage and, among other things, recapitalize the SAIF, see "Risk Factors - Recapitalization of SAIF."

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of the Bank's deposit insurance.

REGULATORY CAPITAL REQUIREMENTS. Federally-insured savings associations are required to maintain minimum levels of regulatory capital. These standards generally must be as stringent as the comparable capital requirements imposed on national banks. The OTS also is authorized to impose capital requirements in excess of these standards on individual associations on a case-by-case basis. At June 30, 1996, the Bank's regulatory capital substantially exceeded applicable requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Regulatory Capital Requirements."

Federally-insured savings associations are subject to three capital requirements: a tangible capital requirement, a core or leverage capital requirement and a risk-based capital requirement. All savings associations currently are required to maintain tangible capital of at least 1.5% of adjusted total assets (as defined in the regulations), core capital equal to 3% of adjusted total assets and total capital (a combination of core and supplementary capital) equal to 8% of risk-weighted assets. For purposes of the regulation, tangible capital is core capital less all intangibles other than qualifying mortgage servicing rights, of which the Bank had \$2.3 million at March 31, 1996. Core capital includes common stockholders' equity, non-cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries and certain nonwithdrawable accounts and pledged deposits. Core capital generally is reduced by the amount of a savings association's intangible assets, other than qualifying mortgage servicing rights.

A savings association is allowed to include both core capital and supplementary capital in the calculation of its total capital for purposes of the risk-based capital requirements, provided that the amount of supplementary capital included does not exceed the savings association's core capital. Supplementary capital consists of certain capital instruments that do not qualify as core capital, including subordinated debt (such as the Debentures) which meets specified requirements, and general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. In determining the required amount of risk-based capital, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk

weights assigned by the OTS for principal categories of assets currently range from 0% to 100%, depending on the type of asset.

OTS policy imposes a limitation on the amount of net deferred tax assets under SFAS No. 109 that may be included in regulatory capital. (Net deferred tax assets represent deferred tax assets, reduced by any valuation allowances, in excess of deferred tax liabilities). Application of the limit depends on the possible sources of taxable income available to an institution to realize deferred tax assets. Deferred tax assets that can be realized from the following generally are not limited: taxes paid in prior carryback years and future reversals of existing taxable temporary differences. To the extent that the realization of deferred tax assets depends on an institution's future taxable income (exclusive of reversing temporary differences and carryforwards), or its tax-planning strategies, such deferred tax assets are limited for regulatory capital purposes to the lesser of the amount that can be realized within one year of the quarter-end report date or 10% of core capital. The foregoing considerations did not affect the calculation of the Bank's regulatory capital at June 30, 1996.

In August 1993, the OTS adopted a final rule incorporating an interest-rate risk component into the risk-based capital regulation. Under the rule, an institution with a greater than "normal" level of interest rate risk will be subject to a deduction of its interest rate risk component from total capital for purposes of calculating the risk-based capital requirement. As a result, such an institution will be required to maintain additional capital in order to comply with the risk-based capital requirement. Although the final rule was originally scheduled to be effective as of January 1994, the OTS has indicated that it will delay invoking its interest rate risk rule requiring institutions with above normal interest rate risk exposure to adjust their regulatory capital requirement until appeal procedures are implemented and evaluated. The OTS has not yet established an effective date for the capital deduction. Management of the Bank does not believe that the OTS' adoption of an interest rate risk component to the risk-based capital requirement will adversely affect the Bank if it becomes effective in its current form.

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

PROMPT CORRECTIVE ACTION. Federal law provides the federal banking regulators with broad power to take "prompt corrective action" to resolve the problems of undercapitalized

institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Under regulations adopted by the federal banking regulators, an institution shall be deemed to be (i) "well capitalized" if it has a total risk-based capital ratio of 10.0% or more, has a Tier I risk-based capital ratio of 6.0% or more, has a Tier I leverage capital ratio of 5.0% or more and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, a Tier I risk-based capital ratio of 4.0% or more and a Tier I leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized," (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, a Tier I risk-based capital ratio that is less than 4.0% or a Tier I leverage capital ratio that is less than 4.0% (3.0% under certain circumstances), (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, a Tier I risk-based capital ratio that is less than 3.0% or a Tier I leverage capital ratio that is less than 3.0%, and (v) "critically undercapitalized" if it has a ratio of tangible equity to adjusted total assets that is equal to or less than 2.0%. The regulations also permit the appropriate federal banking regulator to downgrade an institution to the next lower category (provided that a significantly undercapitalized institution may not be downgraded to critically undercapitalized) if the regulator determines (i) after notice and opportunity for hearing or response, that the institution is in an unsafe or unsound condition or (ii) that the institution has received (and not corrected) a less-than-satisfactory rating for any of the categories of asset quality, management, earnings or liquidity in its most recent exam. At June 30, 1996, the Bank was a "well capitalized" institution under the prompt corrective action regulations of the OTS.

Depending upon the capital category to which an institution is assigned, the regulators' corrective powers, many of which are mandatory in certain circumstances, include prohibition on capital distributions; prohibition on payment of management fees to controlling persons; requiring the submission of a capital restoration plan; placing limits on asset growth; limiting acquisitions, branching or new lines of business; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions with affiliates; restricting the interest rates that the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and, ultimately, appointing a receiver for the institution.

QUALIFIED THRIFT LENDER TEST. All savings associations are required to meet a QTL Test set forth in the HOLA and regulations of the OTS thereunder to avoid certain restrictions on their operations. A savings association that does not meet the QTL Test set forth in the HOLA and implementing regulations must either convert to a bank charter or comply with the following restrictions on its operations: (i) the association may not engage in any new activity or make any new investment, directly or indirectly, unless such activity

or investment is permissible for a national bank; (ii) the branching powers of the association shall be restricted to those of a national bank; (iii) the association shall not be eligible to obtain any advances from its FHLB; and (iv) payment of dividends by the association shall be subject to the rules regarding payment of dividends by a national bank. Upon the expiration of three years from the date the association ceases to be a QTL, it must cease any activity and not retain any investment not permissible for a national bank and immediately repay any outstanding FHLB advances (subject to safety and soundness considerations).

Currently, the QTL test requires that 65% of an institution's "portfolio assets" (as defined) consist of certain housing and consumer-related assets on a monthly basis in at least nine out of every 12 months. At June 30, 1996, the qualified thrift investments of the Bank were approximately 70% of its portfolio assets.

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

Tier 1 associations may make the highest amount of capital distributions, and are defined as savings associations that before and after the proposed distribution meet or exceed their fully phased-in regulatory capital requirements. Tier 1 associations may make capital distributions during any calendar year equal to the greater of (i) 100% of net income for the calendar year-to-date plus 50% of its "surplus capital ratio" at the beginning of the calendar year and (ii) 75% of its net income over the most recent four-quarter period. The "surplus capital ratio" is defined to mean the percentage by which the association's ratio of total capital to assets exceeds the ratio of its fully phased-in capital requirement to assets, and "fully phased-in capital requirement" is defined to mean an association's capital requirement under the statutory and regulatory standards applicable on December 31, 1994, as modified to reflect any applicable individual minimum capital requirement imposed upon the association. At June 30, 1996, the Bank was a Tier 1 association under the OTS capital distribution regulation.

In December 1994, the OTS published a notice of proposed rulemaking to amend its capital distribution regulation. Under the proposal, the three tiered approach contained in existing regulations would be replaced and institutions would be permitted to make capital distributions that would not result in their capital being reduced below the level

required to remain "adequately capitalized," as defined above under "- The Bank - Prompt Corrective Action."

LOANS-TO-ONE BORROWER. Under applicable laws and regulations, the amount of loans and extensions of credit which may be extended by a savings institution such as the Bank to any one borrower, including related entities, generally may not exceed the greater of \$500,000 or 15% of the unimpaired capital and unimpaired surplus of the institution. Loans in an amount equal to an additional 10% of unimpaired capital and unimpaired surplus also may be made to a borrower if the loans are fully secured by readily marketable securities. An institution's "unimpaired capital and unimpaired surplus" includes, among other things, the amount of its core capital and supplementary capital included in its total capital under OTS regulations.

At June 30, 1996, the Bank's unimpaired capital and surplus amounted to \$252.7 million, resulting in a general loans-to-one borrower limitation of \$37.9 million under applicable laws and regulations. See "Business - Discounted Loan Acquisition and Resolution Activities - Composition of the Discounted Loan Portfolio" and "- Lending Activities - Composition of Loan Portfolio."

BROKERED DEPOSITS. Under applicable laws and regulations, an insured depository institution may be restricted in obtaining, directly or indirectly, funds by or through any "deposit broker," as defined, for deposit into one or more deposit accounts at the institution. The term "deposit broker" generally includes any person engaged in the business of placing deposits, or facilitating the placement of deposits, of third parties with insured depository institutions or the business of placing deposits with insured depository institutions for the purpose of selling interests in those deposits to third parties. Under FDIC regulations, well-capitalized institutions are subject to no brokered deposit limitations, while adequately capitalized institutions are able to accept, renew or roll over brokered deposits only (i) with a waiver from the FDIC and (ii) subject to the limitation that they do not pay an effective yield on any such deposit which exceeds by more than (a) 75 basis points the effective yield paid on deposits of comparable size and maturity in such institution's normal market area for deposits accepted in its normal market area or (b) by 120% for retail deposits and 130% for wholesale deposits, respectively, of the current yield on comparable maturity U.S. treasury obligations for deposits accepted outside the institution's normal market area. Undercapitalized institutions are not permitted to accept brokered deposits and may not solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in the institution's normal market area or in the market area in which such deposits are being solicited. At June 30, 1996, the Bank was a well-capitalized institution which was not subject to restrictions on brokered deposits, which otherwise would be applicable to all of its brokered and wholesale deposits. See "Business - Sources of Funds - Deposits."

LIQUIDITY REQUIREMENTS. All savings associations are required to maintain an average daily balance of liquid assets, which include specified short-term assets and certain long-term

assets, equal to a certain percentage of the sum of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. The liquidity requirement may vary from time to time (between 4% and 10%) depending upon economic conditions and savings flows of all savings associations. At the present time, the required liquid asset ratio is 5%. Historically, the Bank has operated in compliance with these requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity."

POLICY STATEMENT ON NATIONWIDE BRANCHING. Current OTS policy generally permits a federally-chartered savings association to establish branch offices outside of its home state if the association meets the domestic building and loan test in Section 7701(a)(19) of the Code or the asset composition test of subparagraph (c) of that section for institutions seeking to so qualify, and if, with respect to each state outside of its home state where the association has established branches, the assets attributable to the branches, taken alone, also would qualify them as a domestic building and loan association were they otherwise eligible (which restrictions are not applicable in the event that a state-chartered association organized under the laws of the federal association's home state would be permitted under relevant state law to operate in the other state). See "Taxation-Federal Taxation." An association seeking to take advantage of this authority would have to have a branching application approved by the OTS, which would consider the regulatory capital of the association and its record under the Community Reinvestment Act of 1977, as amended ("CRA"), among other things.

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

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

Notwithstanding the foregoing, a savings association is not permitted to make a loan or extension of credit to any affiliate unless the affiliate is engaged only in activities the Federal Reserve Board has determined to be permissible for bank holding companies. Savings associations also are prohibited from purchasing or investing in securities issued by an affiliate, other than shares of a subsidiary.

Savings associations are also subject to various limitations and reporting requirements on loans to insiders. These limitations require, among other things, that all loans or

extensions of credit to insiders (generally executive officers, directors or 10% stockholders of the institution) or their "related interests" be made on substantially the same terms (including interest rates and collateral) as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with the general public and not involve more than the normal risk of repayment or present other unfavorable features.

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

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

TAXATION

FEDERAL TAXATION

GENERAL. The Company and, with one exception, its subsidiaries currently file, and expect to continue to file, a consolidated federal income tax return based on a calendar year. Consolidated returns have the effect of eliminating inter-company transactions, including dividends, from the computation of taxable income.

Savings institutions such as the Bank, which meet certain definitional tests primarily relating to their assets and the nature of their businesses, historically have been permitted to establish a reserve for bad debts and to make annual additions to the reserve. These additions may, within specified formula limits, be deducted in arriving at the Bank's taxable income. For purposes of computing the deductible addition to its bad debt reserve, the Bank's loans are separated into "qualifying real property loans" (I.E., generally those loans secured by certain interests in real property) and all other loans ("non-qualifying loans"). The deduction with respect to nonqualifying loans must be computed under the experience

method, while a deduction with respect to qualifying loans may be computed using a percentage based on actual loss experience or a percentage of taxable income.

Under the percentage of taxable income method, the bad debt deduction equals 8% of taxable income determined without regard to that deduction and with certain adjustments. The availability of the percentage of taxable income method has permitted a qualifying savings institution to be taxed at a lower maximum effective marginal federal income tax rate than that applicable to corporations in general. This resulted generally in a maximum effective marginal federal income tax rate payable by a qualifying savings institution fully able to use the maximum deduction permitted under the percentage of taxable income method, in the absence of other factors affecting taxable income, of 32.2% exclusive of any minimum tax or environmental tax (as compared to 35% for corporations generally). Any savings institution at least 60% of whose assets are qualifying assets, as described in Section 7701(a)(19)(c) of the Code, generally will be eligible for the full deduction of 8% of taxable income, subject to certain limitations on the amount of the bad debt deduction that a savings association may claim with respect to additions to its reserve for bad debts under the percentage of income method. As of December 31, 1995, approximately 71% of the Bank's assets were "qualifying assets" described in Section 7701(a)(19)(C) of the Code.

Recent legislation adopted by the U.S. Congress in early August 1996 and anticipated to become law upon signature by the President of the United States generally would (i) repeal the provision of the Code which authorizes use of the percentage of taxable income method by qualifying savings institutions to determine deductions for bad debts, effective for taxable years beginning after 1995, and (ii) require that a savings institution recapture for tax purposes (i.e. take into income) over a six-year period its applicable excess reserves, which for a thrift institution such as the Bank which becomes a "large bank," as defined in Section 585(c)(2) of the Code, generally is the excess of the balance of its bad debt reserves as of the close of its last taxable year beginning before January 1, 1996 over the balance of such reserves as of the close of its last taxable year beginning before January 1, 1988, which recapture would be suspended for any tax year that begins after December 31, 1995 and before January 1, 1998 (thus a maximum of two years) in which a savings institution originates an amount of residential loans which is not less than the average of the principal amount of such loans made by a savings institution during its six most recent taxable years beginning before January 1, 1996. In part because the Bank has provided for deferred taxes with respect to the excess of its bad debt reserves as of December 31, 1995 over the balance of such reserves as of December 31, 1987, the Company does not believe that these provisions, if enacted into law in the future, would have a material adverse effect on the Company's financial condition or operations.

The above-referenced legislation also repeals certain provisions of the Code that only apply to thrift institutions to which Section 593 applies: (i) the denial of a portion of certain tax credits to a thrift institution (Section 50(d)(1)); (ii) the special rules with respect to the foreclosure of property securing loans of a thrift institution (Section 595); (iii) the reduction in the dividends received deduction of a thrift institution (Section 596); and (iv) the ability

of a thrift institution to use a net operating loss to offset its income from a residual interest in a REMIC (Section 860(E)(a)(2)). It is not anticipated that the repeal of these provisions will have a material adverse effect on the Company's financial condition or operations.

ALTERNATIVE MINIMUM TAX. In addition to regular income taxes, corporations may be subject to an alternative minimum tax which is generally equal to 20% of alternative minimum taxable income (taxable income, increased by tax preference items and adjusted for certain regular tax items). The preference items generally applicable to savings associations include (i) 100% of the excess of a savings association's bad debt deduction computed under the percentage of taxable income method over the amount that would have been allowable under the experience method and (ii) an amount equal to 75% of the amount by which a savings association's adjusted current earnings (alternative minimum taxable income computed without regard to this preference, adjusted for certain items) exceeds its alternative minimum taxable income without regard to this preference. Alternative minimum tax paid can be credited against regular tax due in later years.

TAX RESIDUALS. From time to time the Company invests in tax residuals, which, net of deferred fees, are included in the Company's deferred tax assets. Although a tax residual has little or no future economic cash flows from the REMIC from which it has been issued, the tax residual does bear the income tax liability or benefit resulting from the difference between the interest rate paid on the securities issued by the REMIC and the interest rate received on the mortgage loans held by the REMIC. This generally results in taxable income for the Company in the first several years of the REMIC and equal amounts of tax deductions thereafter. The Company receives cash payments in connection with the purchase of tax residuals to compensate the Company for the time value of money associated with the tax payments related to these securities and the costs of modeling, recording, monitoring and reporting the securities; thus, the Company in effect receives payments in connection with its acquisition of the security and acceptance of the related tax liabilities. Prior to 1994, a portion of the fees received by the Company related to the acquisition of tax residuals were recorded in the Company's non-interest income as fees on financing transactions at the time of acquisition and the remainder were deferred and recognized in interest income (under "investment securities and other") on a level yield basis over the expected life of the deferred tax asset related to tax residuals. From time to time, the Company revises its estimate of its future obligations under the tax residuals, and in 1994, due primarily to certain changes in the marketplace, consisting of a significant decrease in the availability of new tax residuals and an increase in the number of purchasers of such securities, the Company began to defer all fees received and recognize such fees in interest income on a level yield basis over the expected life of the deferred tax asset related to tax residuals. The Company also adjusts the recognition in interest income of fees deferred based upon changes in the actual prepayment rates of the underlying mortgages held by the REMIC and periodic reassessments of the expected life of the deferred tax asset related to tax residuals. At June 30, 1996, the Company's gross deferred tax assets included \$16.1 million which was attributable to the Company's tax residuals and related deferred income. The Company's current portfolio of tax residuals generally have a negative tax basis

and are not expected to generate future taxable income. Because of the manner in which REMIC residual interests are treated for tax purposes, at June 30, 1996, the Company had approximately \$46.8 million of net operating loss carryforwards for federal income tax purposes which were attributable to sales of tax residuals. See Notes 1 and 19 to the Consolidated Financial Statements.

INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS. For a discussion of the tax effects of investments in low-income housing tax credit interests, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Income Tax Expense" and "Business - Investment Activities - Investment in Low-Income Housing Tax Credit Interests."

EXAMINATIONS. The most recent examination by the Internal Revenue Service of the Company's federal income tax returns was of the tax returns filed for 1989 and 1990. The statute of limitations has run with respect to all tax years prior to those years. Thus, the federal income tax returns for the years 1991 through 1994 (due to a waiver of the statute of limitations) are open for examination. The Internal Revenue Service currently is completing an examination of the Company's federal income tax returns for 1992 and 1991 and commencing an examination of the returns for 1994 and 1993; management of the Company does not anticipate any material adjustments as a result of these examinations, although there can be no assurances in this regard. No state return of the Company has been examined, and no notification has been received by the Company that any state intends to examine any of the tax returns with respect to which the statute of limitations has not run.

STATE TAXATION

The Company's income, property and wages are apportioned to Florida to determine taxable income based on certain apportionment factors, which has a statutory tax rate of 5.5%. The Company is taxed in New Jersey on income, net of expenses, earned in New Jersey at a statutory rate of 3.0%.

For additional information regarding taxation, see Note 19 to the Consolidated Financial Statements.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following tables set forth certain information about the directors and executive officers of the Company. Directors are elected annually and hold office until the earlier of the election and qualification of their successors or their resignation or removal. Executive officers of the Company are elected annually by the Board of Directors and generally serve at the discretion of the Board. There are no arrangements or understandings between the Company and any person pursuant to which such person was elected as a director or executive officer of the Company. Other than William C. Erbey and John R. Erbey, who are brothers, no director or executive officer is related to any other director or executive officer of the Company or any of its subsidiaries by blood, marriage or adoption.

DIRECTORS OF THE COMPANY

Name	Age(1)	Position	Director Since
William C. Erbey	47	Chairman, President and Chief Executive Officer(2)	1988
Barry N. Wish	54	Chairman, Emeritus(2)	1988
W. C. Martin	47	Director	1996
Howard H. Simon	55	Director	1996

EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

Name	Age(1)	Position
John R. Barnes	53	Senior Vice President
Rory A. Brown	33	Managing Director
John R. Erbey	55	Managing Director and Secretary
Robert E. Koe	51	Managing Director
Christine A. Reich	35	Managing Director and Chief Financial Officer
Stephen C. Wilhoit	35	Senior Vice President

(1) As of June 30, 1996.

(2) Upon consummation of the Common Stock Offering, Mr. Erbey, who currently serves as President and Chief Executive Officer, will become Chairman of the Board, and Mr. Wish, who currently serves as Chairman of the Board, will become Chairman, Emeritus and continue as a director of the Company.

The principal occupation for the last five years of each director of the Company, as well as certain other information, is set forth below.

WILLIAM C. ERBEY. Mr. Erbey has served as President and Chief Executive Officer of the Company since January 1988 and as Chief Investment Officer of the Company since January 1992, and will become Chairman of the Board upon closing of the Common Stock Offering. Mr. Erbey has served as Chairman of the Board of the Bank since February 1988 and as President and Chief Executive Officer of the Bank since June 1990. From 1983 to 1995, Mr. Erbey served as a Managing General Partner of The Oxford Financial Group ("Oxford"), a private investment company, in charge of merchant banking. From 1975 to 1983, he served at General Electric Capital Corporation ("GECC") in various capacities, most recently as President and Chief Operating Officer of General Electric Mortgage Insurance Corporation, a subsidiary of the General Electric Company engaged in the mortgage insurance business. Mr. Erbey also served as Program General Manager of GECC's Commercial Financial Services Department and its subsidiary Acquisition Funding Corporation. He received a B.A. in Economics from Allegheny College and an M.B.A. from the Harvard Graduate School of Business Administration.

BARRY N. WISH. Mr. Wish has served as Chairman of the Board of the Company since January 1988, and will become Chairman, Emeritus and continue as a director of the Company upon closing of the Common Stock Offering. From 1983 to 1995, he served as a Managing General Partner of Oxford, which he founded. From 1979 to 1983, he was a Managing General Partner of Walsh, Greenwood, Wish & Co., a member firm of the New York Stock Exchange. Prior to founding that firm, Mr. Wish was a Vice President and Shareholder of Kidder, Peabody & Co., Inc. He is a graduate of Bowdoin College.

W. C. MARTIN. Since 1982, Mr. Martin has been associated with Holding Capital Group ("HCG"), which is engaged in the acquisition and turnaround of businesses in a broad variety of industries. Since March 1993, Mr. Martin also has served as President and Chief Executive Officer of Solitron Vector Microwave Products, Inc., a company he formed along with other HCG investors to acquire the assets of the former Microwave Division of Solitron Devices, Inc. Prior to 1982, Mr. Martin was a Manager in Touche Ross & Company's Management Consulting Division, and prior to that he held positions in financial management with Chrysler Corporation. Mr. Martin is a graduate of LaSalle University and received an M.B.A. from Notre Dame.

HOWARD H. SIMON. From 1978 to the present, Mr. Simon has been President of Simon, Master & Sidlow, P.A., a certified public accounting firm which Mr. Simon founded and which is based in Wilmington, Delaware. He is a member of the Board of Directors

and the Executive Committee of CPA Associates International, Inc. Mr. Simon is a Certified Public Accountant in the State of Delaware. He is graduate of the University of Delaware.

The background for the last five years of each executive officer of the Company who is not a director, as well as certain other information, is set forth below.

JOHN R. BARNES. Mr. Barnes has served as Senior Vice President of the Company and the Bank since May 1994 and served as Vice President of the same from October 1989 to May 1994. Mr. Barnes was a Tax Partner in the firm of Deloitte Haskins & Sells from 1986 to 1989 and in the firm of Arthur Young & Co. from 1979 to 1986. Mr. Barnes was the Partner in Charge of the Cleveland Office Tax Department of Arthur Young & Co. from 1979 to 1984. Mr. Barnes is a graduate of Ohio State University.

RORY A. BROWN. Mr. Brown has served as a Managing Director of the Company since January 1993, as Vice President - Corporate Development of the Company from December 1991 until January 1993 and as Vice President and Treasurer of the Company from June 1988 to December 1991. Mr. Brown has served as a director of the Bank and as a Managing Director of the Bank since May 1993. Mr. Brown served as a Vice President of the Bank from July 1989 to May 1993 and as Treasurer from July 1989 to December 1991. Mr. Brown was a Senior Consultant with the Asset Securitization Group of Arthur Andersen & Co. from 1985 to 1988. He is a graduate of Humboldt State University.

JOHN R. ERBEY. Mr. Erbey has served as a Managing Director of the Company since January 1993 and as Secretary of the Company since June 1989, and served as Senior Vice President of the Company from June 1989 until January 1993. Mr. Erbey has served as a director of the Bank since 1990, as a Managing Director of the Bank since May 1993 and as Secretary of the Bank since July 1989. Previously, he served as Senior Vice President of the Bank from June 1989 until May 1993. From 1971 to 1989 he was a member of the Law Department of Westinghouse Electric Corporation and held various management positions, including Associate General Counsel and Assistant Secretary from 1984 to 1989. Previously, he held the positions of Assistant General Counsel of the Industries and International Group and Assistant General Counsel of the Power Systems Group of Westinghouse. Mr. Erbey is a graduate of Allegheny College and Vanderbilt University School of Law.

ROBERT E. KOE. Mr. Koe was elected as a Managing Director of the Company and the Bank on July 1, 1996. Mr. Koe has served as a director of the Bank since 1994. Mr. Koe formerly was Chairman, President and Chief Executive Officer of United States Leather, Inc. ("USL"), which includes Pfister & Vogel Leather, Lackawanna Leather, A.L. Gebhardt and Caldwell/Moser Leather. Prior to joining USL in 1990, he was Vice Chairman of Heller Financial Inc., and served as a member of the board of its parent company, Heller International Corp. ("Heller"), as well as Heller Overseas Corp. Mr. Koe came to Heller in 1984 from General Electric Capital Corp. ("GECC"), where he held positions which included Vice President and General Manager of Commercial Financial

Services, Vice President and General Manager of Commercial Equipment Financing, and President of Acquisition Funding Corp. Before joining GECC, Mr. Koe held various responsibilities with its parent, the General Electric Company, from 1967 to 1975. Mr. Koe is a graduate of Kenyon College.

CHRISTINE A. REICH. Ms. Reich has served as a Managing Director of the Company since June 1994 and as Chief Financial Officer of the Company since January 1990. Ms. Reich served as Senior Vice President of the Company from January 1993 until June 1994 and as Vice President from January 1990 until January 1993. Ms. Reich has served as a director of the Bank since 1993, as a Managing Director of the Bank since June 1994 and as Chief Financial Officer of the Bank since May 1990. Ms. Reich served as Senior Vice President of the Bank from May 1993 to June 1994 and Vice President of the Bank from January 1990 to May 1993. From 1987 to 1990, Ms. Reich served as an officer of another subsidiary of the Company. Prior to 1987, Ms. Reich was employed by KPMG Peat Marwick LLP, most recently in the position of Manager. She is a graduate of the University of Southern California.

STEPHEN C. WILHOIT. Mr. Wilhoit has served as Senior Vice President of the Company and the Bank since May 1994. He served as Vice President of the Company from March 1990 to May 1994 and served as Vice President of the Bank from May 1992 to May 1994. From 1986 to 1990 he was an attorney with the Atlanta law firm of Trotter Smith & Jacobs. Mr. Wilhoit is a graduate of the University of Virginia and Wake Forest University School of Law.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors of the Company recently established an Executive Committee, an Audit Committee and a Nominating and Compensation Committee. A brief description of these committees is set forth below.

The Executive Committee is generally responsible to act on behalf of the Board of Directors on all matters when the full Board of Directors is not in session. Currently, the members of this committee are Directors William C. Erbey (Chairman) and Barry N. Wish.

The Audit Committee of the Board of Directors reviews and advises the Board of Directors with respect to reports by the Company's independent auditors and monitors the Company's compliance with laws and regulations applicable to the Company's operations. Currently, the members of the Audit Committee are Directors Simon (Chairman) and Martin.

The Nominating and Compensation Committee evaluates and makes recommendations to the Board of Directors for the election of directors, as well as handles personnel and compensation matters relating to the executive officers of the Company. Currently, the members of the Nominating and Compensation committee are Directors Simon (Chairman) and Martin.

REMUNERATION OF EXECUTIVE OFFICERS - SUMMARY COMPENSATION TABLE

The following table discloses compensation received by the Company's chief executive officer and the four other most highly paid directors and executive officers of the Company for the years ended December 31, 1995, 1994 and 1993.

Name and Position	Year	Annual compensation		Long-term compensation		
		Salary	Bonus\$(1)	Awards		All other compensation\$(3)
				Restricted stock awards	Number of Securities Underlying Options(2)	
William C. Erbey, President and Chief Executive Officer	1995	\$150,000	\$ --	--	--	\$3,000
	1994	150,000	1,171,675	--	269,400	3,000
	1993	150,000	100,000	--	166,350	4,497
Barry N. Wish Chairman	1995	150,000	--	--	--	3,000
	1994	150,000	800,000	--	175,970	3,000
	1993	150,000	100,000	--	110,400	4,497
John R. Erbey, Managing Director and Secretary	1995	150,000	50,000	--	44,500	3,000
	1994	150,000	800,000	--	175,970	3,000
	1993	150,000	100,000	--	166,350	4,497
Rory A. Brown, Managing Director	1995	150,000	50,000	--	44,500	3,000
	1994	150,000	650,000	--	138,260	3,000
	1993	150,000	100,000	--	166,350	4,497
Christine A. Reich, Managing Director and Chief Financial Officer	1995	150,000	50,000	--	44,500	3,000
	1994	147,917	487,500	--	97,410	3,000
	1993	122,917	100,000	--	86,350	4,497

(1) The indicated bonuses were paid in the first quarter of the following year for services rendered in the year indicated.

(2) Consists of options granted pursuant to the Company's Stock Option Plan.

(3) Consists of contributions by the Company pursuant to the Company's 401(k) Savings Plan.

ANNUAL INCENTIVE PLAN

Since 1990, the Company has maintained an annual incentive plan for the management and other salaried employees of the Company and its subsidiaries. The plan provides the participants with bonuses each year paid from a pool based upon the Company's consolidated operating income for that year. Accordingly, the plan provides the Company's management and other personnel with a significant incentive to contribute to the

Company's financial success by allowing them to share in a portion of the consolidated operating income of the Company and its subsidiaries.

The aggregate bonus pool payable under the plan may not exceed 20% of income before taxes and incentive awards of the Company plus pre-tax equivalent income generated by tax advantaged investments which is included as a reduction to income tax expense. The plan is administered by the President of the Company and may be amended or terminated at any time by the Board of Directors.

Incentive awards are paid to participants following the end of each fiscal year after the determination of the Company's income. Incentive awards may be paid in cash or in any other form approved by the Board of Directors. Since 1990, certain executive officers and other eligible participants have received a portion of their annual incentive award in the form of options to acquire Common Stock pursuant to the Stock Option Plan.

Under present federal income tax law, participants will realize ordinary income immediately upon receipt of a cash distribution under the incentive plan. The Company will be entitled to an income tax deduction, in the amount of such ordinary income, for the fiscal year for which such bonus payment is made, provided the bonus payment is made within two and one-half months after the close of that fiscal year; otherwise the payment will be deductible in the fiscal year in which such payment is made to the participant. It is expected that through the year 1999 all payments under the plan will be fully deductible by the Company for federal income tax purposes and will not be subject to Section 162(m) of the Code, which provides for a cap on the deductibility of compensation paid to certain corporate executives to \$1 million per covered executive.

DIRECTORS' STOCK PLAN

In July 1996, the Board of Directors and stockholders of the Company approved the Directors Stock Plan, pursuant to which the sole compensation of the directors of the Company shall be paid in Common Stock, subject to consummation of the Common Stock Offering. (Directors also are reimbursed for their travel and other reasonable expenses incurred in performing their duties as directors of the Company.) The Directors Stock Plan is intended to encourage directors to own shares of Common Stock and the highest level of director performance, as well as to provide a financial incentive that will help attract and retain the most qualified directors.

Beginning in 1996, the Company will compensate directors by delivering a total annual value of \$10,000 (which may be prorated for a director serving less than a full one-year term, as in the case of a director joining the Board after an annual meeting of stockholders), subject to review and adjustment by the Board of Directors from time to time. Except for 1996, such payment will be made after the annual organizational meeting of the Board of Directors which follows the annual meeting of stockholders of the Company. An additional annual fee payable in shares of Common Stock, which is \$2,000 beginning in

1996, subject to review and adjustment by the Board of Directors from time to time, will be paid to committee chairs after the annual organizational meeting of the Board of Directors. For 1996, the four directors of the Company and three committee chairs will receive shares of Common Stock issuable under the Directors Stock Plan upon consummation of the Common Stock Offering.

Shares issued pursuant to the Directors Stock Plan will be based on their "fair market value" on the date of grant. The term "fair market value" is defined in the Directors Stock Plan to mean the mean of the high and low prices of the Common Stock as reported by the Nasdaq Stock Market's National Market on the relevant date, or if no sale of Common Stock shall have been reported for that day, the average of such prices on the next preceding day and the next following day for which there are reported sales.

Shares issued pursuant to the Directors Stock Plan, other than the committee fee shares, would be subject to forfeiture during the 12 full calendar months following election or appointment to the Board of Directors or a committee thereof if the director does not attend an aggregate of at least 75% of all meetings of the Board of Directors and committees thereof of which he is a member during such period.

An aggregate of 250,000 shares of Common Stock has been reserved for issuance pursuant to the Directors Stock Plan, subject to adjustment in the event of specified changes in the Common Stock resulting from recapitalizations, stock splits, stock dividends and other circumstances set forth in the Directors Stock Plan.

STOCK OPTION PLAN

The Company's Stock Option Plan is designed to advance the interests of the Company, its subsidiaries (including the Bank) and the Company's shareholders by affording certain officers and other key employees of the Company, the Bank and other subsidiaries an opportunity to acquire or increase their proprietary interests in the Company by granting such persons options to acquire Common Stock. A total of 9,316,750 shares of Common Stock currently may be acquired upon the exercise of options granted under the Stock Option Plan. As of June 30, 1996, options to acquire 3,232,690 shares of Common Stock were outstanding under the Stock Option Plan. Options granted pursuant to the Stock Option Plan have had exercise prices which are at a substantial discount to the book value of the Common Stock. At June 30, 1996, the average exercise price of the outstanding options granted under the Stock Option Plan was \$1.30 and the book value per share of Common Stock was \$6.50.

The Stock Option Plan currently is administered and interpreted by either the Board of Directors of the Company or, to the extent authority is delegated, the stock option committee thereof. After the offerings, the Stock Option Plan will be administered by a committee consisting of not less than two "disinterested" directors within the meaning of Rule 16b-3 under the Exchange Act. In the event that the outstanding shares of Common

Stock are affected by reason of a merger, consolidation, reorganization, recapitalization, combination of shares, stock split or dividend, the number and kind of shares to which any option relates and the exercise price of any option shall be appropriately adjusted as determined solely by the Board of Directors of the Company or the Nominating and Compensation Committee. In the event of a liquidation or dissolution of the Company, an optionee generally shall have the right, immediately prior to such dissolution or liquidation, to exercise any outstanding options in whole or in part.

OPTION GRANTS FOR 1995

The following table provides information relating to option grants made pursuant to the Stock Option Plan to the individuals named in the Summary Compensation Table for services rendered in 1995.

Name	Number of securities underlying options granted(1)(2)	Percent of securities underlying total options granted to employees(2)	Exercise price(\$/sh)	Book value per share of Ocwen common stock at December 31, 1995	Expiration date	Potential realizable value at assumed rates of stock price appreciation for option term(3)		
						0%(\$)	5%(\$)	10%(\$)
William C. Erbey	--	--%	\$ --	\$ --	--	\$ --	\$ --	\$ --
Barry N. Wish	--	--	--	--	--	--	--	--
John R. Erbey	44,500	14.6	5.76	5.86	2006	4,450	168,655	420,080
Rory A. Brown	44,500	14.6	5.76	5.86	2006	4,450	168,655	420,080
Christine A. Reich	44,500	14.6	5.76	5.86	2006	4,450	168,655	420,080

(1) All options vest and become exercisable in January 1997.

(2) Indicated grants were made in January 1996 for services rendered in 1995. The percentage of securities underlying these options to the total number of securities underlying all options granted to employees of the Company is based on options to purchase a total of 304,490 shares of Common Stock granted to participants under the Stock Option Plan in January 1996.

(3) Assumes future prices of shares of Common Stock of \$5.86, \$9.55 and \$15.20 at compounded rates of return of 0%, 5% and 10%, respectively.

AGGREGATED OPTION EXERCISES IN 1995 AND YEAR-END OPTION VALUES

The following table provides information relating to option exercises in 1995 by the individuals named in the Summary Compensation Table and the value of each such individual's unexercised options at December 31, 1995.

Name	Number of shares acquired on exercise	Value realized	Number of securities underlying unexercised options at December 31, 1995		Value of unexercised in-the-money options at December 31, 1995(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
William C. Erbey	--	\$ --	924,640	--	\$4,742,422	\$ --
Barry N. Wish	432,620	1,754,237	175,970	--	892,696	--
John R. Erbey	--	--	747,880	44,500	3,810,136	4,450
Rory A. Brown	--	--	504,610	44,500	2,474,254	4,450
Christine A. Reich	--	--	222,650	44,500	1,060,577	4,450

(1) Based on the \$5.86 book value of a share of Common Stock at December 31, 1995.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Determinations regarding compensation of the Company's employees are made by the Company's Board of Directors. Although Director William C. Erbey is an employee of the Company, he does not participate in deliberations of the Board of Directors concerning his compensation.

TRANSACTIONS WITH AFFILIATES

As of June 30, 1996, the Company (through the Bank) held a residential mortgage loan with an interest rate of 8.5% which was made by the Company in 1987 to Howard H. Simon, a director of the Company. The principal balance of this loan amounted to \$124,624 at June 30, 1996, and the highest principal balance of this loan during 1996 was \$132,427.

From time to time the Company raises funds by privately issuing short-term notes to its stockholders. At June 30, 1996, the Company had \$7.4 million of such short-term notes outstanding, including \$1.0 million and \$250,000 which were held by William C. Erbey and John R. Erbey (or their affiliates), respectively. All of such short-term notes bear interest at 10.5% per annum and mature on May 1, 1997.

The Company expects to lend up to \$7 million to certain of its officers in connection with the exercise of their vested stock options. Such notes will bear interest at 10.5% per annum, have a maturity of two years and be secured by the related shares of Common Stock.

BENEFICIAL OWNERSHIP OF COMMON STOCK

At June 30, 1996, the Company had 23,812,900 shares of Common Stock outstanding which were held by 73 stockholders of record. The Common Stock is privately held and, as a result, there are no market prices available for such stock.

The following table sets forth, as of June 30, 1996, certain information as to the Common Stock beneficially owned by (i) persons or entities, including any "group" as that term is used in Section 13(d)(3) of the Exchange Act, who or which were known to the Company to be the beneficial owners of 5% or more of the issued and outstanding Common Stock, (ii) the executive officers of the Company identified in the summary compensation table and (iii) all directors and executive officers of the Company as a group. Other than Mr. Harold D. Price, whose address is 2450 Presidential Way, #1806, West Palm Beach, Florida 33401, the address for each of the individuals named below is the same as that of the Company. See "The Company."

Name of Beneficial Owner	Shares Beneficially Owned as of June 30, 1996		Shares Beneficially Owned After the Offering of Common Stock	
	Amount(1)	Percent(1)	Amount(1)	Percent(1)
Harold D. Price	2,048,480(2)	8.6%	1,720,720	7.2%
Directors and executive officers:				
William C. Erbey	9,852,420(3)	39.8	9,852,420	39.8
Barry N. Wish	6,011,020(4)	25.1	5,051,020	21.1
John R. Erbey	976,030(5)	4.0	976,030	4.0
Rory A. Brown	504,610(6)	2.1	504,610	2.1
Christine A. Reich	222,650(6)	0.9	222,650	0.9
All directors and executive officers as a group (eight persons)	17,732,380(7)	66.8	16,772,380	63.2

(1) For purposes of this table, pursuant to rules promulgated under the Exchange Act, an individual is considered to beneficially own any shares of Common Stock if he directly or indirectly has or shares: (i) voting power, which includes the power to vote or to direct the voting of the shares, or (ii) investment power, which includes the power to dispose or direct the disposition of the shares. Unless otherwise indicated, an individual has sole voting power and sole investment power with respect to the indicated shares.

(2) Includes 1,436,990 shares held by HAP Investment Partnership, the partners of which are Harold D. Price and his spouse. Mr. and Mrs. Price share voting and dispositive power with respect to the shares owned by HAP Investment Partnership. Also includes 611,490 shares held by Mr. Price as nominee for various trusts for the benefit of members of his family.

(3) Includes 5,923,700 shares held by FF Plaza Partners, a Delaware partnership of which the partners are William C. Erbey, his spouse, E. Elaine Erbey, and Delaware Permanent Corporation, a corporation wholly owned by William C. Erbey. Mr. and Mrs. William C. Erbey share voting and dispositive power with respect to the shares owned by FF Plaza Partners. Also includes 3,004,080 shares held by Erbey Holding Corporation, a corporation wholly owned by William C. Erbey, and options to acquire 924,640 shares of Common Stock which were exercisable at or within 60 days of June 30, 1996.

(4) Includes 5,835,050 shares held by Wishco, Inc., a corporation controlled by Barry N. Wish pursuant to his ownership of 93.0% of the common stock thereof. Also includes options to acquire 175,970 shares of Common Stock which were exercisable at or within 60 days of June 30, 1996.

(5) Includes options to acquire 747,880 shares of Common Stock which were exercisable at or within 60 days of June 30, 1996.

(6) Consists of options to acquire shares of Common Stock which were exercisable at or within 60 days of June 30, 1996.

(7) Includes options to acquire 2,741,400 shares of Common Stock which were exercisable at or within 60 days of June 30, 1996.

DESCRIPTION OF NOTES

GENERAL

The Notes will be issued pursuant to an Indenture (the "Indenture") between the Company and Bank One, Columbus, NA, as trustee (the "Trustee"), a copy of which has been filed as an exhibit to the Registration Statement of which this Prospectus is a part. The summaries of certain provisions of the Indenture set forth below do not purport to be complete and are qualified in their entirety by reference to all of the provisions of the Indenture and the Notes. Capitalized terms not otherwise defined herein have the meanings specified in the Indenture. Whenever sections or defined terms of the Indenture are referred to, such sections or defined terms are hereby incorporated herein by such reference.

The Notes will be limited in aggregate original principal amount to \$100 million. The Notes will mature on _____, 2003 (the "Stated Maturity"). The Notes will rank PARI PASSU with all other general unsecured obligations of the Company and will be issued in book-entry form only in denominations of \$1,000 and integral multiples in excess thereof.

The Notes will bear interest from the date of their initial issuance, at the rate per annum set forth on the cover page of this Prospectus, payable semi-annually in arrears on _____ and _____ of each year (each an "Interest Payment Date"), commencing _____, 1996, to the holders of record at the close of business on the _____ or _____ (whether or not a business day), as the case may be, next preceding such Interest Payment Date (each, a "Regular Record Date"). Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The Notes are not savings accounts or deposits and are not insured by the FDIC or by the United States or any agency or fund thereof. The Notes will not be secured by the assets of the Company or any of its Subsidiaries, including the Bank, or otherwise and will not have the benefit of a sinking fund for the retirement of principal or interest. Because the Company is a holding company that currently conducts substantially all of its operations through its Subsidiaries, the right of the Company to participate in any distribution of assets of any Subsidiary, including the Bank, upon its liquidation or reorganization or otherwise (and thus the ability of Holders of the Notes to benefit indirectly from such distribution) are subject to the prior claims of creditors of that Subsidiary, including, in the case of the Bank, to the claims of depositors of the Bank. Claims on the Company's Subsidiaries by creditors, other than the Company, include substantial obligations with respect to deposit liabilities and other borrowings. Additionally, distributions to the Company by the Bank, whether in liquidation, reorganization or otherwise, will be subject to regulatory restrictions and, under certain circumstances, may be prohibited. See "Regulation."

The Notes offered hereby will be represented by one or more Global Notes deposited with the Depositary, and will trade in the Depositary's Same-Day Funds Settlement System ("SDFS System") until maturity. The Notes will not be exchangeable for certificated notes, except in the circumstances described below.

The Depositary Trust Company, New York, New York, will be the initial Depositary with respect to the Notes. DTC has advised the Company and the Underwriter that it is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers (including the Underwriters), banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. Access to DTC's book-entry system is also available to others, such as banks, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Persons who are not participants may beneficially own securities held by DTC only through participants.

Upon the issuance of the Notes represented by the Global Notes, the Depositary will credit, on its book-entry registration and transfer system, the principal amount of the Notes represented by the Global Notes to the accounts of participants. Ownership of beneficial interests in the Global Notes will be limited to participants or persons that hold interests through participants. Ownership of beneficial interests in the Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by the Depositary (with respect to interests of participants in the Depositary), or by participants in the Depositary or persons that may hold interests through such participants (with respect to persons other than participants in the Depositary). The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limitations and such laws may impair the ability of holders of the Notes to transfer beneficial interests in the Global Notes.

So long as the Depositary for the Global Notes, or its nominee, is the registered owner of the Global Notes, the Depositary or its nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by the Global Notes for all purposes under the Indenture. Except as provided below, owners of beneficial interests in the Notes represented by the Global Notes will not receive or be entitled to receive physical delivery of such Notes in definitive form and will not be considered the owners or holders thereof under the Indenture.

So long as the Notes are represented by a Global Note, payments of principal and interest on the Notes will be made by the Company through the Trustee to the Depositary or its nominee, as the case may be, as the registered owner of the Global Notes representing the Notes. Neither the Company nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of such Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The Company expects that the Depositary, upon receipt of any payment of principal or interest in respect of the Global Notes representing the Notes, will credit the accounts of the related participants with payment in amounts proportionate to their respective holdings in principal amount of beneficial interests in such Global Notes as shown on the records of the Depositary. The Company also expects that payments by participants to owners of beneficial interests in such Global Notes will be governed by standing customer instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such participants.

If the Depositary is at any time unwilling, ineligible or unable to continue as Depositary under the Indenture and a successor Depositary is not appointed in respect thereof within 90 days or an Event of Default has occurred and is continuing with respect to the Notes, the Company will issue definitive Notes in exchange for the Notes represented by the Global Notes. In addition, the Company may at any time and in its sole discretion determine to discontinue use of the Global Notes and, in such event, will issue definitive securities in exchange for the securities represented by the Global Notes. Notes so issued will be issued in registered form only, in denominations of \$1,000 and integral multiples thereof, without coupons.

SAME-DAY SETTLEMENT AND PAYMENT

Settlement for the Notes will be made in immediately available funds. All payments of principal and interest on the Notes will be made by the Company in immediately available funds. The Notes will trade in the Depositary's SDFS System until maturity, and, therefore, the Depositary will require secondary trading activity in the Notes to be settled in immediately available funds.

OPTIONAL REDEMPTION

The Notes may not be redeemed prior to _____, 2001 except as described below. On or after such date, the Notes may be redeemed, in whole or in part, at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest to (but excluding) the redemption date, if redeemed during the 12-month period beginning _____, of the years indicated below:

Year	Redemption Price
-----	-----
2001	%
2002	

In addition, the Company may redeem, at its option, up to 35% of the original aggregate principal amount of the Notes at any time and from time to time prior to the third anniversary of the issuance of the Notes, with the Net Cash Proceeds received by the Company from one or more public or private sales of Qualified Capital Stock at a redemption price of % of the principal amount of the Notes redeemed, plus accrued and unpaid interest thereon; PROVIDED, HOWEVER, that at least 65% of the original aggregate principal amount of Notes must remain outstanding after each such redemption, and PROVIDED FURTHER, that such redemption must occur within 60 days after the closing date of any such public or private sale of Qualified Capital Stock.

If at any time fewer than all of the Notes then outstanding are to be redeemed, the Trustee shall select the Notes or portions thereof to be redeemed pro rata, by lot or by any other method the Trustee shall deem fair and reasonable. Notes in denominations larger than \$1,000 may be redeemed in part in integral multiples of \$1,000. Notice of redemption will be mailed to each Holder of Notes to be redeemed at such Holder's registered address at least 30, but not more than 60, days before the redemption date. On or after the redemption date, interest will cease to accrue on Notes or portions thereof called for redemption.

NO SINKING FUND OR MANDATORY REDEMPTION

The Notes will not be entitled to the benefit of any sinking fund or mandatory redemption.

CERTAIN COVENANTS

The Indenture will contain, among others, the following covenants:

LIMITATIONS ON INDEBTEDNESS. The Company will not create, incur, issue, assume, guarantee or otherwise in any manner become directly or indirectly liable for or with respect to, or otherwise permit to exist, any Junior Indebtedness (other than Acquired Indebtedness) unless the Stated Maturity of principal (or any required repurchase, redemption, defeasance or sinking fund payments) of such Junior Indebtedness is after the final Stated Maturity of principal of the Notes.

The Company will not create, incur, assume, guarantee or otherwise become responsible for the payment of any Funded Indebtedness (including any Funded

Indebtedness assumed in connection with the acquisition of assets from another Person) unless at the time of such event either (i) the principal amount of total Funded Indebtedness of the Company (which includes the Notes) would not exceed 100% of the Company's Consolidated Tangible Net Worth, or (ii) if the Notes are then rated by a nationally recognized statistical rating organization in an investment grade category, after the incurrence, assumption, guarantee or creation by the Company of the additional Funded Indebtedness, (A) the Notes continue to retain such investment grade rating, and (B) the Fixed Charge Coverage Ratio for the Company for the most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date of such incurrence would have been greater than 3.00 to 1.00 determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Funded Indebtedness had been incurred and the application of the net proceeds therefrom had occurred at the beginning of such four-quarter period.

The Bank will not, and will not permit any of its Subsidiaries to, create or incur any Indebtedness or issue any Preferred Stock that in either case would qualify as regulatory capital for the Bank under 12 C.F.R. Part 567 or any successor regulation, except to the extent that after giving effect to the creation or incurrence of such Indebtedness or the issuance of such Preferred Stock, the Bank's supplementary capital does not exceed 65% of the Bank's core capital (in each case as calculated for purposes of 12 C.F.R. Part 567 or any successor regulation).

LIQUIDITY MAINTENANCE. The Company shall, at all times when the Notes are not rated in an investment grade category by one or more nationally recognized statistical rating organizations, maintain Liquid Assets with a value equal to at least 100% of the required interest payments due on the Notes on the next two succeeding semi-annual Interest Payment Dates. Such Liquid Assets shall not be the subject of any pledge, Lien, encumbrance or charge of any kind and shall not be used as collateral or security for Indebtedness for borrowed money or otherwise of the Company or its Subsidiaries nor may such Liquid Assets be used as reserves for any self-insurance maintained by the Company.

RESTRICTIONS ON ISSUANCE AND SALE OR DISPOSITION OF CAPITAL STOCK OF THE BANK. The Indenture provides that the Company shall not sell, transfer or otherwise dispose of shares of Capital Stock of the Bank or permit the Bank to issue, sell or otherwise dispose of shares of its Capital Stock unless in either case the Bank remains a Wholly-Owned Subsidiary of the Company. In addition, the Indenture provides that the Company shall not permit the Bank to merge or consolidate with any other entity (other than the Company or another Wholly-Owned Subsidiary of the Company) unless the surviving entity is the Company or a Wholly-Owned Subsidiary of the Company, or permit the Bank to convey or transfer its properties and assets substantially as an entirety to any Person except to the Company or any Wholly-Owned Subsidiary of the Company.

LIMITATION ON RESTRICTED PAYMENTS. The Company will not, and will not permit any Subsidiary to, directly or indirectly, make any Restricted Payment if, at the time of such Restricted Payment or after giving effect thereto,

(a) a Default or Event of Default shall have occurred and be continuing; or

(b) the Bank would fail to meet any of the applicable minimum capital requirements under the regulations of the OTS or the Company would fail to maintain sufficient Liquid Assets to comply with the terms of the covenant described above under "Liquidity Maintenance"; or

(c) the aggregate amount of all Restricted Payments (the amount of such payments, if other than in cash, having been determined in good faith by the Board of Directors, whose determination shall be conclusive and evidenced by a Board resolution filed with the Trustee) declared and made after the issue date of the Notes would exceed the sum of

(i) 33% of the aggregate Consolidated Net Income (or, if such Consolidated Net Income is a deficit, 100% of such deficit) of the Company accrued on a cumulative basis during the period beginning on the first day of the fiscal quarter during which the issue date of the Notes occurred and ending on the last day of the Company's last fiscal quarter ending prior to the date of such proposed Restricted Payment, PLUS

(ii) the aggregate Net Cash Proceeds received by the Company as capital contributions (other than from a Subsidiary) after the issue date of the Notes, PLUS

(iii) the aggregate Net Cash Proceeds and the Fair Market Value of property not constituting Net Cash Proceeds received by the Company from the issuance or sale (other than to a Subsidiary) of Qualified Capital Stock after the issue date of the Notes; PLUS

(iv) 100% of the amount of any Indebtedness of the Company or a Subsidiary that is issued after the issue date of the Notes that is thereafter converted into or exchanged for Qualified Capital Stock of the Company;

PROVIDED, HOWEVER, that the foregoing provisions will not prevent (x) the payment of a dividend within 60 days after the date of its declaration if at the date of declaration such payment was permitted by the foregoing provisions, or (y) any Permitted Payment, or (z) tax sharing payments by the Company pursuant to the existing tax sharing agreement among the Company and its Subsidiaries (or any subsequently adopted tax sharing agreement the terms of which are not materially less favorable in the aggregate to the Company than the terms of such existing tax sharing agreement).

LIMITATIONS ON DIVIDENDS AND OTHER PAYMENT RESTRICTIONS AFFECTING SUBSIDIARIES. The Company will not, and will not permit any of its Subsidiaries to, create, assume or otherwise cause or suffer to exist or to become effective any consensual encumbrance or restriction on the ability of any such Subsidiary to

(a) pay any dividends or make any other distribution on its Capital Stock;

(b) make payments in respect of any Indebtedness owed to the Company or any other Subsidiary; or

(c) make loans or advances to the Company or any Subsidiary or to guarantee Indebtedness of the Company or any other Subsidiary;

other than, in the case of (a), (b) and (c),

(1) restrictions imposed by applicable law;

(2) restrictions existing under agreements in effect on the date of the Indenture under which the Notes are issued;

(3) consensual encumbrances or restrictions binding upon any Person at the time such Person becomes a Subsidiary of the Company so long as such encumbrances or restrictions are not created, incurred or assumed in contemplation of such Person becoming a Subsidiary;

(4) restrictions with respect to a Subsidiary imposed pursuant to an agreement which has been entered into for the sale or disposition of all or substantially all the assets (which term may include the Capital Stock) of such Subsidiary;

(5) restrictions on the transfer of assets which are subject to Liens;

(6) restrictions existing under agreements evidencing Indebtedness of any Subsidiary that is formed for the sole purpose of acquiring or holding a portfolio of assets, if such Indebtedness (i) is made without recourse to, and with no cross-collateralization against the assets of, the Company or any other Subsidiary, and (ii) upon complete or partial liquidation of which the Indebtedness must be correspondingly repaid in whole or in part, as the case may be;

(7) restrictions existing under agreements evidencing Indebtedness which is incurred after the date of the Indenture as permitted by the covenant described under "Limitation on Indebtedness", PROVIDED that the terms and conditions of any such restrictions are no more restrictive than those contained in the indenture pursuant to which the Bank's 12% Subordinated Debentures due 2005 were issued; and

(8) restrictions existing under any agreement which refinances or replaces any of the agreements containing the restrictions in clauses (2), (3) and (7); PROVIDED that the terms and conditions of any such restrictions are not less favorable to the Holders than those under the agreement evidencing or relating to the Indebtedness refinanced.

LIMITATIONS ON TRANSACTIONS WITH AFFILIATES. The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, enter into any transaction or series of related transactions (including without limitation, the sale, purchase, exchange or lease of assets, property or services) with any Affiliate of the Company (except that the Company and any of its Subsidiaries may enter into any transaction or series of related transactions with any Subsidiary of the Company without limitation under this covenant) UNLESS: (i) such transactions or series of related transactions is on terms that are no less favorable to the Company or such Subsidiary, as the case may be, than would be available in a comparable transaction in an arm's length dealing with a Person that is not such an Affiliate or, in the absence of such a comparable transaction, on terms that the Board of Directors determines in good faith would be offered to a Person that is not an Affiliate; (ii) with respect to any transaction or series of related transactions involving aggregate payments in excess of \$1 million, the Company delivers an officers' certificate to the Trustee certifying that such transaction or series of transactions complies with clause (i) above and has been approved by a majority of the Disinterested Directors of the Board of Directors of the Company; and (iii) with respect to any transaction or series of related transaction involving aggregate payments in excess of \$5 million, or in the event that no members of the Board of Directors are Disinterested Directors with respect to any transaction or series of transactions included in clause (ii), (x) in the case of a transaction involving real property, the aggregate rental or sale price of such real property shall be the fair market sale or rental value of such real property as determined in a written opinion by a nationally recognized expert with experience in appraising the terms and conditions of the type of transaction or series of transactions for which approval is required and (y) in all other cases, the Company delivers to the Trustee a written opinion of a nationally recognized expert with experience in appraising the terms and conditions of the type of transaction or series of transactions for which approval is required to the effect that the transaction or series of transactions are fair to the Company or such Subsidiary from a financial point of view. The limitations set forth in this paragraph will not apply to (i) transactions entered into pursuant to any agreement already in effect on the date of the Indenture and any renewals or extensions thereof not involving modifications adverse to the Company or any Subsidiary, (ii) normal banking relationships with an Affiliate on an arms' length basis, (iii) any employment agreement, stock option, employee benefit, indemnification, compensation, business expense reimbursement or other employment-related agreement, arrangement or plan entered into by the Company or any of its Subsidiaries either (A) in the ordinary course of business and consistent with the past practice of the Company or such Subsidiary or (B) which agreement, arrangement or plan was adopted by the Board of Directors of the Company or such Subsidiary (including a majority of the Disinterested Directors), as the case may be, (iv) residential mortgage, credit card and other consumer loans to an Affiliate who is an officer, director or employee of the Company or any of its Subsidiaries and which comply with the

applicable provisions of 12 U.S.C. Section 1468(b) and any rules and regulations of the OTS thereunder, (v) any Restricted Payment, or (vi) any transaction or series of transactions in which the total amount involved does not exceed \$250,000.

LIMITATIONS ON LIENS AND GUARANTEES. (a) The Company will not create, assume, incur or suffer to exist any Lien upon (i) the Capital Stock of the Bank as security for Indebtedness or (ii) any of the Company's assets (other than the Capital Stock of the Bank) as security for Indebtedness having a contractual time to maturity greater than one year, without, in the case of either (i) or (ii), effectively providing that the Notes will be equally and ratably secured with (or prior to) such Indebtedness.

(b) The Company will not permit any Subsidiary of the Company, directly or indirectly, to guarantee or assume, or subject any of its assets to a Lien to secure, any Pari Passu Indebtedness or Junior Indebtedness UNLESS (i) such Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for a guarantee of, or pledge of assets to secure, the Notes by such Subsidiary on terms at least as favorable to the Holders of the Notes as such guarantee or security interest in such assets is to the holders of such Pari Passu Indebtedness or Junior Indebtedness, except that in the event of a guarantee or security interest in such assets with respect to (x) Pari Passu Indebtedness, the guarantee or security interest in such assets under the supplemental indenture shall be made PARI PASSU to the guarantee or security interest in such assets with respect to such Pari Passu Indebtedness or (y) Junior Indebtedness, any such guarantee or security interest in such assets with respect to such Junior Indebtedness shall be subordinated to such Subsidiary's guarantee or security interest in such assets with respect to the Notes to the same extent as such Junior Indebtedness is subordinated to the Notes and (ii) such Subsidiary waives and will not in any manner whatsoever claim, or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Subsidiary of the Company as a result of any payment by such Subsidiary under its guarantees.

OFFER TO PURCHASE UPON A CHANGE OF CONTROL. If a Change of Control Event shall occur at any time, then each Holder will have the right to require the Company to repurchase such Holder's Notes (pursuant to an offer made to all Holders), in whole or in part, in integral multiples of \$1,000 at a purchase price in cash equal to 101% of the principal amount of such Notes, plus accrued and unpaid interest, if any, to the date of repurchase. There can be no assurance that the Company will have the funds available to repurchase the Notes in the event of a Change of Control Event.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws or regulations are applicable in connection with the repurchase of the Notes upon the occurrence of a Change of Control Event. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture, the Company will comply

with the applicable securities laws and regulations and shall not be deemed to have breached its obligations described in the Indenture by virtue thereof.

STATUS OF THE BANK AS AN FDIC-INSURED INSTITUTION. The Indenture will include a provision pursuant to which the Company will agree to use its best efforts to have the Bank remain an FDIC-insured depository institution.

ADDITIONAL COVENANTS. The Indenture will also contain covenants with respect to, among other things, the following matters: (i) payment of principal, premium and interest; (ii) maintenance of corporate existence; (iii) payment of taxes and other claims; (iv) maintenance of properties; and (v) maintenance of insurance.

MERGER AND CONSOLIDATION

The Indenture will provide that the Company may not, in a single transaction or a series of transactions, consolidate with or merge into any other Person or sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of its assets to any Person or group of affiliated Persons unless (a) either (i) the Company shall be the continuing entity, or (ii) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person that acquires by sale, assignment, conveyance, transfer, lease or other disposition of all or substantially all of the assets of the Company (the "Surviving Entity") is organized under the laws of the United States or a state thereof or the District of Columbia and such Surviving Entity assumes by supplemental indenture, executed and delivered to the Trustee in form reasonably satisfactory to the Trustee, all obligations of the Company on the Notes and under the Indenture, (b) immediately after giving effect to such transaction or series of transactions, no Default or Event of Default shall have occurred and be continuing, (c) the Company or the Surviving Entity, as applicable, could incur at least \$1.00 of additional Funded Indebtedness without violating the covenant described above under "Limitation on Indebtedness" and (d) the Company or the Surviving Entity, as applicable, shall have delivered, or caused to be delivered, to the Trustee, in form and substance reasonably satisfactory to the Trustee, an officers' certificate and an opinion of counsel, each to the effect that such consolidation, merger, transfer, sale, assignment, conveyance, transfer, lease or other disposition and the supplemental indenture in respect thereto comply with the Indenture and that all conditions precedent provided for relating to such transaction have been complied with.

MODIFICATION OF THE INDENTURE; WAIVER OF COVENANTS

Modifications and amendments of the Indenture may be made by the Company and the Trustee with the consent of the Holders of greater than 50% in aggregate principal amount of the Notes then outstanding; PROVIDED, HOWEVER, that no such modification or amendment may, without the consent of the Holder of each outstanding Note affected thereby, (i) change the Stated Maturity of the principal of, or any installment of principal

of or interest on, any Note or reduce the principal amount thereof, premium, if any, or the rate of interest thereon, or change the coin or currency in which any Note or any premium or the interest thereon is payable or impair the right to institute suit for the enforcement of any such payment after the Stated Maturity thereof; (ii) reduce the percentage in principal amount of the outstanding Notes, the consent of whose Holders is required for any such amendment or modification, or the consent of whose Holders is required for any waiver; (iii) modify any of the provisions relating to supplemental indentures requiring the consent of Holders or relating to the waiver of past defaults or relating to the waiver of certain covenants, except to increase the percentage in principal amount of outstanding Notes required for such action or to provide that certain other provisions of the Indenture may not be modified or waived without the consent of the Holder of each Note affected thereby; (iv) except as otherwise permitted under the "Merger and Consolidation" provisions of the Indenture, consent to the assignment or transfer by the Company of any of its rights and obligations under the Indenture; (v) amend or modify any of the provisions of the Indenture relating to the subordination of the Notes in any manner adverse to any of the Holders of the Notes; or (vi) waive a default in payment with respect to any Note (other than a default in payment that is due solely because of acceleration of the maturity of the Notes).

Notwithstanding the foregoing, without the consent of any Holders of the Notes, the Company and the Trustee may modify or amend the Indenture (i) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company in the Indenture and in the Notes in accordance with the "Merger and Consolidation" provisions of the Indenture; (ii) to add any additional Events of Default, to add to the covenants of the Company for the benefit of the Holders of the Notes, or to surrender any right or power herein conferred upon the Company in the Indenture or in the Notes; (iii) to cure any ambiguity, to correct or supplement any provision in the Indenture which may be defective or inconsistent with any other provision in the Indenture or in the Notes, PROVIDED that any such action shall not adversely affect in any material respect the interests of any Holder of any Note; (iv) to secure the Notes or add a guarantor under the Indenture pursuant to the provisions of the covenant on "Limitations on Liens and Guarantees" described above; (v) to evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture; or (vi) to make any other provisions with respect to matters or questions arising under the Indenture or the Note, provided that such provisions shall not adversely affect in any material respect the interests of any holder of any Note.

The Holders of greater than 50% in aggregate principal amount of the Notes outstanding may waive compliance with certain restrictive covenants and provisions of the Indenture.

EVENTS OF DEFAULT

An Event of Default will be defined in the Indenture to include:

(i) failure by the Company to pay interest on any Note when due and payable, if such failure continues for a period of 30 days;

(ii) failure by the Company to pay the principal on any Note when due and payable at maturity or upon redemption, acceleration or otherwise;

(iii) failure by the Company to comply with any other agreement or covenant contained in the Indenture if such failure continues for a period of 30 days after notice to the Company by the Trustee or to the Company and the Trustee by the holders of at least 25% in principal amount of the Notes then outstanding;

(iv) indebtedness of the Company or any subsidiary of the Company is not paid within any applicable grace period after final maturity or in the event that final maturity is accelerated because of a default and, in either case, the total amount of such indebtedness unpaid or accelerated is equal to or greater than 5% of the Company's Consolidated Tangible Net Worth;

(v) failure by the Bank to comply with any of its Regulatory Capital Requirements; provided, that an Event of Default under this clause (v) shall not be deemed to have occurred (a) during the 60 day period following the first day on which the Bank fails to comply with any of its Regulatory Capital Requirements, if within such 60 day period the Bank files a capital plan with the OTS, (b) during the 90 day period following the initial submission of a capital plan to the OTS by the Bank (or, if the OTS notifies the Bank in writing that it needs a longer period of time to determine whether to approve such capital plan, such longer period as is so specified by the OTS), unless prior to such date the OTS shall have notified the Bank of its determination not to approve such capital plan, or (c) during the period that the Bank is operating in material compliance with a capital plan approved by the OTS; PROVIDED, FURTHER, that if the Bank meets the minimum amount of capital required to meet each of the industry-wide regulatory capital requirements pursuant to 12 U.S.C. Section 1464(t) and 12 C.F.R. Section 567 (and any amendment to either thereof) or any successor law or regulation, notwithstanding the Bank's failure to meet an individual minimum capital requirement pursuant to 12 U.S.C. Section 1464(s) and 12.C.F.R. Section 567.3 (and any amendment to either thereof) or any successor law or regulation, no Event of Default shall have occurred pursuant to this clause (v) unless written notice thereof shall have been given (x) to the Company by the Trustee or (y) to the Company and the Trustee by the Holders of 25% in aggregate principal amount of the Notes then outstanding;

(vi) occurrence of certain events of bankruptcy or insolvency of the Company or the Bank; and

(vii) existence of one or more judgments against the Company or the Bank or any of its Subsidiaries in excess of 5% of the Company's Consolidated Tangible Net Worth, either individually or in the aggregate, which remain undischarged 60 days after all rights to directly review such judgment, whether by appeal or writ, have been exhausted or have expired.

The Company will covenant in the Indenture to file annually with the Trustee a statement regarding compliance by the Company with the terms of the Indenture and specifying any defaults of which the signers may have knowledge.

If an Event of Default occurs and is continuing, the Trustee or the Holders of not less than 25% in principal amount of the Notes then outstanding may declare all the Notes to be immediately due and payable by notice to the Company (and to the Trustee if given by the Holders). Under certain circumstances, the Holders of a majority in principal amount of the Notes then outstanding may rescind such a declaration.

PROVISION OF REPORTS

**3 The Company will furnish to the Holders of Notes, whether or not required by the rules and regulations of the Commission, (i) all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Form 10-Q and Form 10-K if the Company was required to file such forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" that describes the financial condition and results of operations of the Company and its Subsidiaries, and, with respect to the annual information only, a report thereon by the Company's certified independent accountants, and (ii) all reports that would be required to be filed with the Commission on Form 8-K if the Company were required to file such reports.

DEFEASANCE OR COVENANT DEFEASANCE OF THE INDENTURE

The Company may, at its option and at any time, elect to have its obligation and the obligation of any of its Subsidiaries with respect to the outstanding Notes discharged ("defeasance"). Such defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the outstanding Notes, except for the rights of Holders of outstanding Notes to receive payments in respect of the principal of, premium, if any, and interest on such Notes when such payments are due and certain provisions of the Indenture with respect to the registration and transfer of the Notes. In addition, the Company may, at its option and at any time, elect to have its obligations and the obligations of any of its Subsidiaries with respect to certain covenants described in the Indenture released ("covenant defeasance") and thereafter any failure to comply with such covenants shall not constitute a Default or an Event of Default. In the event of a covenant

defeasance, certain other events (not including prepayment, bankruptcy, receivership or insolvency events) described under "Events of Default" will no longer constitute a Default or an Event of Default with respect to the Notes.

In order to exercise either defeasance or covenant defeasance, (i) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of Notes, cash in United States Dollars, U.S. Government Obligations (as defined in the Indenture), or a combination thereof (collectively, the "trust fund"), in such amounts as will be sufficient (without considering any reinvestment of amounts earned on such U.S. Government Obligations), in the opinion of a nationally recognized firm of independent public accountants, to pay and discharge interest on the outstanding Notes as it becomes due and to pay and discharge the principal of and premium, if any, on the outstanding Notes at redemption or maturity; (ii) in the case of defeasance, the Company must deliver to the Trustee an opinion of independent counsel in the United States stating that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date of the Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel in the United States shall confirm that, the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred; (iii) in the case of covenant defeasance, the Company must deliver to the Trustee an opinion of independent counsel in the United States to the effect that the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such covenant defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred; (iv) no Default or Event of Default may have occurred and be continuing on the date of such deposit and after giving effect thereto; (v) such defeasance or covenant defeasance may not cause the Trustee for the Notes to have a conflicting interest with respect to any securities of the Company; (vi) such defeasance or covenant defeasance may not result in a breach or violation of, or constitute a Default under, the Indenture or any material agreement or instrument to which the Company is a party or by which it is bound; (vii) the Company must deliver to the Trustee an opinion of independent counsel in the United States to the effect that the trust fund will not be subject to the effect of any applicable bankruptcy, insolvency, receivership, conservatorship, reorganization or similar laws affecting creditors' rights generally (including, without limitation, fraudulent and avoidable transfers); (viii) the Company must deliver to the Trustee an officers' certificate stating that the deposit was not made by the Company with the intent of preferring the Holders of the Notes over the other creditors of the Company or with the intent of defeating, hindering, delaying or defrauding creditors of the Company; (ix) no event or condition may exist that would prevent the Company from making payments of the principal of, premium, if any, and interest on the Notes, on the date of such deposit; and (x) the Company must deliver to the Trustee an officers' certificate and an opinion of independent counsel in the United States, each stating that all conditions precedent relating

to either the defeasance or the covenant defeasance, as the case may be, have been complied with.

SATISFACTION AND DISCHARGE

The Indenture will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when (i) either (a) all the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid) have been delivered to the Trustee for cancellation or (b) all Notes not theretofore delivered to the Trustee for cancellation have become due and payable, or will become due and payable or are to be called for redemption within one year, and the Company has irrevocably deposited or caused to be deposited with the Trustee funds in an amount sufficient to pay and discharge the entire Indebtedness on the Notes not theretofore delivered to the Trustee for cancellation, for principal of, and premium, if any, and interest on the Notes to the date of deposit together with irrevocable instructions to the Trustee from the Company directing the Trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be; (ii) the Company has paid all other sums payable under the Indenture by the Company; and (iii) the Company has delivered to the Trustee an officers' certificate and an opinion of counsel each stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

REGARDING THE TRUSTEE

Bank One, Columbus, NA, the Trustee under the Indenture, may from time to time enter into ordinary correspondent and other banking relationships with the Company. The address of the principal corporate trust office of the Trustee is 100 East Broad Street, Columbus, Ohio 43271-0181.

CERTAIN DEFINITIONS

"Acquired Indebtedness" means Indebtedness of a person (i) existing at the time such Person becomes a Subsidiary of or is merged with or into any other Person or (ii) assumed in connection with the acquisition of assets from such Person, in each case, other than Indebtedness incurred in connection with, or in contemplation of, such Person becoming a Subsidiary of such other Person or such acquisition. Acquired Indebtedness shall be deemed to be incurred on the date of the related acquisition of assets from such Person or the date such Person becomes a Subsidiary of or is merged with or into such other Person.

"Affiliate" means, with respect to any specified Person, any other Person directly or indirectly Controlling or Controlled by or under direct or indirect common Control with such specified Person and any legal or beneficial owner, directly or indirectly, of 20% or more of the Voting Stock of such specified Person. Notwithstanding the foregoing, no Securitization Entity shall be deemed an Affiliate of the Company.

"Average Life to Stated Maturity" means, as of the date of determination with respect to any Indebtedness, the quotient obtained by dividing (i) the sum of the products of (a) the number of years from the date of determination to the date or dates of each successive scheduled principal payment of such Indebtedness multiplied by (b) the amount of each such principal payment by (ii) the sum of all such principal payments.

"Capital Lease Obligation" of any Person means any obligations of such Person under any capital lease for real or personal property which, in accordance with GAAP, is required to be recorded as a capitalized lease obligation; and, for the purpose of the Indenture, the amount of such obligation at any date shall be the capitalized amount thereof at such date, determined in accordance with GAAP.

"Capital Stock" in any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents or interests in (however designated) capital stock in such Person, including, with respect to a corporation, common stock, Preferred Stock and other corporate stock and, with respect to a partnership, partnership interests, whether general or limited, and any rights (other than debt securities convertible into corporate stock, partnership interests or other capital stock), warrants or options exchangeable for or convertible into such corporate stock, partnership interests or other capital stock.

"Change of Control Event" means an event or series of events by which

(a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than the Existing Principal Stockholders, is or becomes after the date of issuance of the Notes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act as in effect on the date of the Indenture), of more than 40% of the total voting power of all Voting Stock of the Company then outstanding;

(b) (1) another corporation merges into the Company or the Company consolidates with or merges into any other corporation, or

(2) the Company conveys, transfers or leases all or substantially all its assets to any person or group, in one transaction or a series of transactions other than any conveyance, transfer or lease between the Company and a Wholly-Owned Subsidiary of the Company,

in each case, with the effect that a person or group, other than the Existing Principal Stockholders, is or becomes the beneficial owner of more than 40% of the total voting power of all Voting Stock of the surviving or transferee corporation of such transaction or series of transactions;

(c) during any period of two consecutive years, individuals who at the beginning of such period constituted the Company's Board of Directors, or whose nomination for election by the Company's shareholders was approved by a vote of a majority of the Directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Directors then in office;

(d) (1) the Company sells, transfers or otherwise disposes of any shares of Capital Stock of any Significant Subsidiary (other than to the Company or a Wholly-Owned Subsidiary), or

(2) any Significant Subsidiary (i) issues, sells or otherwise disposes of shares of its Capital Stock (or securities convertible into or exercisable for shares of Capital Stock), (ii) conveys, transfers or leases all or substantially all its assets to any Person or group or (iii) merges with or into any other entity, except in the case of any event described in this clause (2) with the Company or a Wholly-Owned Subsidiary; or

(e) the shareholders of the Company shall approve any plan or proposal for the liquidation or dissolution of the Company.

"Consolidated Depreciation and Amortization Expense" means with respect to any Person for any period, the total amount of depreciation and amortization expense of such Person for such period on a consolidated basis and otherwise determined in accordance with GAAP.

"Consolidated Interest Expense" means, with respect to any period, the sum of: (a) consolidated interest expense of such Person for such period, other than interest expense on deposits, whether paid or accrued (except to the extent accrued in a prior period), to the extent such expense was deducted in computing Consolidated Net Income (Loss) (including amortization of original issue discount, non-cash interest payments and the interest component of Capitalized Lease Obligations, excluding amortization of deferred financing fees) and (b) consolidated capitalized interest of such Person for such period, whether paid or accrued, to the extent such expense was deducted in computing Consolidated Net Income (Loss).

"Consolidated Net Income (Loss)" of any Person means, for any period, the consolidated net income (or loss) of such Person and its consolidated Subsidiaries for such period as determined in accordance with GAAP, adjusted, to the extent included in calculating such net income (loss), by excluding, without duplication, (i) all extraordinary gains and losses (other than those relating to the use of net operating losses of such Person carried forward), less all fees and expenses relating thereto, net of taxes, (ii) the portion of net income (or loss) of any other Person (other than any of such Person's consolidated

Subsidiaries) in which such Person or any of its Subsidiaries has an ownership interest, except to the extent of the amount of dividends or other distributions actually paid to such Person or its consolidated Subsidiaries in cash by such other Person during such period, (iii) net income (or loss) of any Person combined with such Person or any of its Subsidiaries on a "pooling of interests" basis attributable to any period prior to the date of combination, (iv) any gain or loss, net of taxes, realized upon the termination of any employee pension benefit plan or (v) the net income of any consolidated Subsidiary of such Person to the extent that the declaration or payment of dividends or similar distributions by that Subsidiary of that income is not at the time permitted, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulations applicable to that Subsidiary or its shareholders; PROVIDED that, upon the termination or expiration of such dividend or distribution restrictions, the portion of net income (or loss) of such consolidated Subsidiary allocable to such Person and previously excluded shall be added to the Consolidated Net Income (Loss) of such Person to the extent of the amount of dividends or other distributions available to be paid to such Person in cash by such Subsidiary.

"Consolidated Tangible Net Worth" of any Person and its Subsidiaries mean as of the date of determination all amounts that would be included under stockholders' equity on a consolidated balance sheet of such Person and its Subsidiaries determined in accordance with GAAP less an amount equal to the consolidated intangible assets (other than capitalized mortgage servicing rights) of such Person and its Subsidiaries determined in accordance with GAAP.

"Control" when used with respect to any specified Person means the power to direct the management and policies of such Person directly or indirectly, whether through ownership of voting securities (or pledge of voting securities if the pledgee thereof may on the date of determination exercise or control the exercise of the voting rights of the owner of such voting securities), by contract or otherwise; and the terms "to Control, " "Controlling" and "Controlled" have meanings correlative to the foregoing.

"Default" means an event or condition the occurrence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Disqualified Capital Stock" means any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part on, or prior to, or is exchangeable for debt securities of the Company or its Subsidiaries prior to, the final Stated Maturity of principal of the Notes; PROVIDED that only the amount of such Capital Stock that is redeemable prior to the Stated Maturity of principal of the Notes shall be deemed to be Disqualified Capital Stock.

"Disinterested Director" of any Person means, with respect to any transaction or series of related transactions, a member of the board of directors of such Person who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions.

"Earnings" means, with respect to any Person for any period, the Consolidated Net Income (Loss) of such Person for such period from continuing operations plus (a) an amount equal to any net loss realized in connection with an asset sale or sales of capital stock of any subsidiary (to the extent such losses were deducted in computing Consolidated Net Income (Loss)), plus (b) provision for taxes based on income or profits of such Person for such period deducted in computing Consolidated Net Income (Loss) and any provision for taxes utilized in computing net loss under clause (a), plus (c) Consolidated Interest Expense of such Person for such period, plus (d) Consolidated Depreciation and Amortization Expense of such Person for such period to the extent such depreciation and amortization were deducted in computing Consolidated Net Income (Loss), plus (e) without duplication, any other non-cash charges reducing Consolidated Net Income (Loss) of such Person for such period (excluding any such charge which represents an accrual of a reserve for an anticipated cash charge in any future period), less (f) without duplication, non-cash items increasing Consolidated Net Income (Loss) of such Person for such period (excluding any items which represent the reversal of any accrual in a prior period of a reserve for anticipated cash charges in subsequent periods), in each case, on a consolidated basis for such Person.

"Existing Principal Stockholders" means, individually or collectively, William C. Erbey, Barry N. Wish and Harold D. Price and their respective estates, spouses, heirs, ancestors, lineal descendants and legatees and legal representatives of any of the foregoing and the trustee of any bona fide trust of which one or more of the foregoing are the trustees or the majority beneficiaries, and any entity of which any of the foregoing, individually or collectively, beneficially owns more than 50% of the Voting Stock thereof.

"Fair Market Value" means, with respect to any asset, the price which could be negotiated in an arm's-length free market transaction, for cash, between a willing seller and a willing buyer, neither of which is under compulsion to complete the transaction; PROVIDED, HOWEVER, that the Fair Market Value of any asset or assets shall be determined by the Board of Directors of the Company, acting in good faith, and shall be evidenced by a resolution of such Board of Directors delivered to the Trustee.

"FDIC" means the Federal Deposit Insurance Corporation or any successor thereto.

"Fixed Charge Coverage Ratio" means, with respect to any Person for any period, the ratio of Earnings of such Person for such period to the Fixed Charges of such Person for such period. In the event that the Company incurs, assumes, guarantees or redeems any Funded Indebtedness (including any Funded Indebtedness which constitutes Acquired Indebtedness) subsequent to the commencement of the period for which the Fixed Charge

Coverage Ratio is being calculated but prior to the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "Calculation Date"), then the Fixed Charge Coverage Ratio shall be calculated giving pro forma effect to such incurrence, assumption, guarantee or redemption of Funded Indebtedness, as if the same had occurred at the beginning of the applicable four-quarter period. For purposes of making the computation referred to above, investments in the equity of, or other acquisitions or dispositions, which constitute all or substantially all of an operating unit of a business and discontinued operations (as determined in accordance with GAAP) that have been made by the Company or any of its subsidiaries, including all mergers, consolidations and dispositions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date shall be calculated on a pro forma basis assuming that all such investments, acquisitions, dispositions, discontinued operations, mergers and consolidations (and the reduction of any associated fixed charge obligations and the change in Earnings resulting therefrom) had occurred on the first day of the four-quarter period. If since the beginning of such period any Person (that subsequently became a subsidiary or was merged with or into the Company or any subsidiary since the beginning of such period) shall have made any investment in the equity of, or other acquisition or disposition, which constitutes all or substantially all of an operating unit of a business, discontinued operation, merger or consolidation that would have required adjustment pursuant to this definition, then the Fixed Charge Coverage Ratio shall be calculated giving pro forma effect thereto for such period as if such investment, acquisition, disposition, discontinued operation, merger or consolidation had occurred at the beginning of the applicable four-quarter period. For purposes of this definition, whenever pro forma effect is to be given to a transaction, the pro forma calculations shall be made in good faith by a responsible financial or accounting officer of the Company. If any Funded Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest on such Funded Indebtedness shall be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period. Interest on a Capital Lease Obligation shall be deemed to accrue at an interest rate reasonably determined by a responsible financial or accounting officer of the Company to be the rate of interest implicit in such Capital Lease Obligation in accordance with GAAP. Interest on Funded Indebtedness that may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rate, shall be deemed to have been based upon the rate actually chosen, or, if none, then based upon such optional rate chosen as the Company may designate.

"Fixed Charges" means, with respect to any Person for any period, the sum of (i) Consolidated Interest Expense of such Person for such period, and (ii) the product of (A) all cash dividend payments on any series of Preferred Stock or Disqualified Capital Stock of such Person or its Subsidiaries for such period, and (B) a fraction, the numerator of which is one and the denominator of which is one minus the then-current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case on a consolidated basis and in accordance with GAAP.

"Funded Indebtedness" means, with respect to any Person as of the date of determination Indebtedness which by its terms has a Maturity, or is extendable or renewable at the option of such Person to a date, which is more than twelve months after the date of creation or incurrence of such Indebtedness.

"GAAP" means generally accepted accounting principles.

"Guaranteed Indebtedness" of any Person means, without duplication, all Indebtedness of any other Person guaranteed directly or indirectly in any manner by such Person, or in effect guaranteed directly or indirectly by such person through an agreement (i) to pay or purchase such Indebtedness or to advance or supply funds for the payment or purchase of such Indebtedness, (ii) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Indebtedness or to assure the holder of such Indebtedness against loss, (iii) to supply funds to, or in any other manner invest in, the debtor (including any agreement to pay for property or services without requiring that such property be received or such services be rendered), (iv) to maintain working capital or equity capital of the debtor, or otherwise to maintain the net worth, solvency or other financial condition of the debtor, or (v) otherwise to assure a creditor with respect to Indebtedness against loss; provided that the term "guarantee" shall not include endorsements for collection of deposit, in either case in the ordinary course of business.

"Holders" means the registered holders of the Notes.

"Indebtedness" means, with respect to any Person, without duplication, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, excluding any trade payables and other accrued current liabilities arising in the ordinary course of business, but including, without limitation, all obligations, contingent or otherwise, of such Person in connection with any letters of credit issued under letter of credit facilities, and in connection with any agreement by such Person to purchase, redeem, exchange, convert or otherwise acquire for value any Capital Stock of such Person now or hereafter outstanding, (ii) all obligations of such Person evidenced by bonds, notes, debentures or other similar instruments, (iii) all indebtedness of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even if the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), but excluding trade payables arising in the ordinary course of business, (iv) all obligations under interest rate agreements of such Person, (v) all Capital Lease Obligations of such Person, (vi) all Indebtedness referred to in clauses (i) through (v) above of other Persons and all dividends payable by other Persons, the payment of which is secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien, upon or with respect to property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness (the amount of such obligations being deemed

to be the lesser of the value of such property or asset or the amount of the obligations so secured), (vii) all guarantees by such Person of Guaranteed Indebtedness, (viii) all Redeemable Capital Stock (valued at the greater of book value and voluntary or involuntary maximum fixed repurchase price plus accrued and unpaid dividends) of such Person, and (ix) any amendment, supplement, modification, deferral, renewal, extension, refunding or refinancing or any liability of the types referred to in clauses (i) through (viii) above. For purposes hereof, (x) the "maximum fixed repurchase price" of any Redeemable Capital Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Redeemable Capital Stock as if such Redeemable Capital Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the fair market value of such Redeemable Capital Stock, such fair market value is to be determined in good faith by the board of directors (or any duly authorized committee thereof) of the issuer of such Redeemable Capital Stock, and (y) Indebtedness is deemed to be incurred pursuant to a revolving credit facility each time an advance is made thereunder.

"Junior Indebtedness" means any Indebtedness of the Company subordinated in right of payment of either principal, premium (if any) or interest thereon to the Notes.

"Lien" means any mortgage, charge, pledge, lien (statutory or otherwise), security interest, hypothecation or other encumbrance upon or with respect to any property of any kind, real or personal, movable or immovable, now owned or hereafter acquired.

"Liquid Assets" shall include: (i) cash; (ii) any of the following instruments that have a remaining term to maturity not in excess of 90 days from the determination date: (a) repurchase agreements on obligations of, or are guaranteed as to timely receipt of principal and interest by, the United States or any agency or instrumentality thereof when such obligations are backed by the full faith and credit of the United States provided that the party agreeing to repurchase such obligations is a primary dealer in U.S. government securities, (b) federal funds and deposit accounts, including but not limited to certificates of deposit, time deposits and bankers' acceptances of any U.S. depository institution or trust company incorporated under the laws of the United States or any state, provided that the debt of such depository institution or trust company at the date of acquisition thereof has been rated by Standard & Poor's Corporation in the highest short-term rating category or has an equivalent rating from another nationally recognized rating agency, or (c) commercial paper of any corporation incorporated under the laws of the United States or any state thereof that on the date of acquisition is rated investment grade by Standard & Poor's Corporation or has an equivalent rating from another nationally recognized rating agency; (iii) any debt instrument which is an obligation of, or is guaranteed as to the receipt of principal and interest by the United States, its agencies or any U.S. government sponsored enterprise, or (iv) any mortgage-backed or mortgage-related security issued by the United States, its agencies, or any U.S. government sponsored enterprise which the payment of principal and interest from the mortgages underlying such securities will be passed through to the holder thereof and which such security has a remaining weighted average maturity

of 15 years or less. Notwithstanding the foregoing, Liquid Assets shall not include any debt instruments, securities or collateralized mortgage obligations (real estate mortgage investment conduits) that would be classified as a "High-Risk Mortgage Security" pursuant to the policy statement adopted by the Federal Financial Institutions Examination Council on February 10, 1992, as reflected in Volume I of the Federal Reserve Report Service, Part 3-1562.

"Net Cash Proceeds" means, with respect to any issuance or sale of Capital Stock, or options, warrants or rights to purchase Capital Stock, or debt securities or Capital Stock that have been converted into or exchanged for Capital Stock, or any capital contribution in respect of Capital Stock, as referred to under "Certain Covenants - Limitation on Restricted Payments," the proceeds of such issuance or sale or capital contribution in the form of cash or cash equivalents, including payments in respect of deferred payment obligations when received in the form of, or stock or other assets when disposed for, cash or cash equivalents (except to the extent that such obligations are financed or sold with recourse to the Company or any Subsidiary of the Company), net of attorney's fees, accountant's fees and brokerage, consulting, underwriting and other fees and expenses actually incurred in connection with such issuance or sale or capital contribution and net of taxes paid or payable by the Company as a result thereof.

"OTS" means the Office of Thrift Supervision or any successor thereto.

"Pari Passu Indebtedness" means any Indebtedness of the Company that is PARI PASSU in right of payment of principal, premium (if any) and interest thereon to the Notes.

"Permitted Payment" means, so long as no Default or Event of Default is continuing,

(a) the purchase, redemption, defeasance or other acquisition or retirement for value of any Capital Stock of the Company or any Affiliate (other than a Wholly-Owned Subsidiary, which is unrestricted) of the Company, Junior Indebtedness or Pari Passu Indebtedness in exchange for (including any such exchange pursuant to the exercise of a conversion right or privilege where, in connection therewith, cash is paid in lieu of the issuance of fractional shares or scrip), or out of the Net Cash Proceeds or Fair Market Value of property not constituting Net Cash Proceeds of, a substantially concurrent issue and sale (other than to a Subsidiary of the Company or to an employee benefit plan of the Company or any of its Subsidiaries) of Qualified Capital Stock of the Company; PROVIDED that the Net Cash Proceeds or Fair Market Value of such property received by the Company from the issuance of such shares of Qualified Capital Stock, to the extent so utilized, shall be excluded from clause (c)(iii) of the covenant described under "Covenants --Limitation on Restricted Payments" above; and

(b) the repurchase, redemption, defeasance or other acquisition or retirement for value of any Junior Indebtedness or Pari Passu Indebtedness in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent issue and sale (other than to a Subsidiary

of the Company) of new Indebtedness to the Company (such a transaction, a "refinancing"); PROVIDED, that any such new Indebtedness of the Company (i) shall be in a principal amount that does not exceed an amount equal to the sum of (A) the principal amount of the Indebtedness so refinanced less any discount from the face amount of such Indebtedness to be refinanced expected to be deducted from the amount payable to the holders of such Indebtedness in connection with such refinancing, (B) the amount of any premium expected to be paid in connection with such refinancing pursuant to the terms of the Junior Indebtedness or Pari Passu Indebtedness refinanced or the amount of any premium reasonably determined by the Company as necessary to accomplish such refinancing by means of a tender offer, privately negotiated repurchase or otherwise and (C) the amount of legal, accounting, printing and other similar expenses of the Company incurred in connection with such refinancing; PROVIDED, FURTHER, that for purposes of this clause (i), the principal amount of any Indebtedness shall be deemed to mean the principal amount thereof or, if such Indebtedness provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration thereof, such lesser amount as of the date of determination; (ii) (A) if such refinanced Indebtedness has an Average Life to Stated Maturity shorter than that of the Notes or a final Stated Maturity earlier than the final Stated Maturity of the Notes, such new Indebtedness shall have an Average Life to Stated Maturity no shorter than the Average Life to Stated Maturity of such refinanced Indebtedness and a final Stated Maturity no earlier than the final Stated Maturity of such refinanced Indebtedness or (B) in all other cases each Stated Maturity of principal (or any required repurchase, redemption, defeasance or sinking fund payments) of such new Indebtedness shall be after the final Stated Maturity of principal of the Notes; and (iii) is (A) made expressly subordinated to or PARI PASSU with the Notes to substantially the same extent as the Indebtedness being refinanced or (B) expressly subordinate to such refinanced Indebtedness.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivisions thereof.

"Preferred Stock" means, with respect to any Person, any Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary liquidation or dissolution of such Person, over Capital Stock of any other class in such Person.

"Qualified Capital Stock" of any Person means any and all Capital Stock of such Person other than Disqualified Capital Stock.

"Redeemable Capital Stock" means any Capital Stock that, either by its terms or by the term of any security into which it is convertible or exchangeable or otherwise, is, or upon the happening of an event or passage of time would be, required to be redeemed prior to any Stated Maturity of the principal of the Notes or is redeemable at the option of the holder thereof at any time prior to any such Stated Maturity of principal, or is convertible

into or exchangeable for debt securities at any time prior to any such Stated Maturity of principal at the option of the holder thereof.

"Regulatory Capital Requirements" means the minimum amount of capital required to meet each of the industry-wide regulatory capital requirements applicable to the Bank pursuant to 12 U.S.C. Section 1464(t) and 12 C.F.R. Section 567 (and any amendment to either thereof) or any successor law or regulation, or such higher amount of capital as the Bank, individually, is required to maintain in order to meet any individual minimum capital standard applicable to the Bank pursuant to 12 U.S.C. Section 1464(s) and 12 C.F.R. Section 567.3 (and any amendment to either thereof) or any successor law or regulation.

"Restricted Payment" means

(a) the declaration, payment or setting apart of any funds for the payment of any dividend on, or making of any distribution to holders of, the Capital Stock of the Company or any subsidiary of the Company (other than (i) dividends or distributions in Qualified Capital Stock of the Company and (ii) dividends or distributions payable on or in respect of any class or series of Capital Stock of a Subsidiary of the Company as long as the Company receives at least its pro rata share of such dividends or distributions in accordance with its ownership interests in such class or series of Capital Stock);

(b) the purchase, redemption or other acquisition or retirement for value, directly or indirectly, of any Capital Stock of the Company or any Affiliate of the Company (other than a Wholly-Owned Subsidiary, and other than the purchase from a non-Affiliate of the Company of Capital Stock of any joint venture or other Person which is an Affiliate of the Company solely because of the Company's direct or indirect ownership of 20% or more of the Voting Stock of such joint venture or other Person); or

(c) prior to any Stated Maturity of principal or scheduled redemption or defeasance of, or any scheduled sinking fund payment on, any Junior Indebtedness or Pari Passu Indebtedness, the making of any principal payments on, or repurchase, redemption, defeasance, retirement or other acquisition for value, directly or indirectly, such Junior Indebtedness or Pari Passu Indebtedness.

"Securitization Entity" means any pooling arrangement or entity formed or originated for the purpose of holding, and/or issuing securities representing interests in, one or more pools of mortgages, leases, credit card receivables, home equity loan receivables, automobile loans, leases or installment sales contracts, other consumer receivables or other financial assets of the Company or any Subsidiary, and shall include, without limitation, any partnership, limited liability company, liquidating trust, grantor trust, owner trust or real estate mortgage investment conduit.

"Significant Subsidiary" means, with respect to any Person, any consolidated Subsidiary of such Person for which the net income of such Subsidiary was more than 25% of the Consolidated Net Income of such Person in both of the two prior fiscal years.

"Stated Maturity" when used with respect to any Indebtedness (including, without limitation, the Notes) means the dates specified in the instrument governing such Indebtedness as the fixed dates on which any principal amount of such Indebtedness is due and payable (including, without limitation, by reason of any required redemption, purchase, defeasance or sinking fund payment) and, when used with respect to any installment of interest on Indebtedness, means the date on which such installment is due and payable.

"Subsidiary" means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of Voting Stock thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person or a combination thereof.

"Voting Stock" means Capital Stock of the class or classes of which the holders have (i) in respect of a corporation, the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of such corporation (irrespective of whether or not at the time Capital Stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency) or (ii) in respect of a partnership, the general voting power under ordinary circumstances to elect the board of directors or other governing board of such partnership or of the Person which is a general partner of such partnership.

"Wholly-Owned Subsidiary" means a Subsidiary all of the Capital Stock of which (other than directors' qualifying shares) is owned by the Company or another Wholly-Owned Subsidiary.

DESCRIPTION OF CAPITAL STOCK

GENERAL

Pursuant to the Articles of Incorporation of the Company, the Company is authorized to issue 200,000,000 shares of Common Stock and 20,000,000 shares of preferred stock, par value \$0.01 per share (the "Preferred Stock"). At June 30, 1996, there were 23,812,900 shares of Common Stock outstanding and no shares of Preferred Stock were outstanding.

COMMON STOCK

GENERAL. Each share of Common Stock has the same relative rights as, and is identical in all respects with, each other share of Common Stock. All shares of Common Stock currently outstanding are fully paid and nonassessable. The Common Stock represents

nonwithdrawable capital and is not subject to call for redemption. The Common Stock is not an account of an insurable type and is not insured by the FDIC or any other governmental authority.

DIVIDENDS. The Company can pay dividends if, as and when declared by its Board of Directors, subject to compliance with limitations which are imposed by law. See "Dividend Policy." The holders of Common Stock will be entitled to receive and share equally in such dividends as may be declared by the Board of Directors of the Company out of funds legally available therefor. If the Company issues Preferred Stock, the holders thereof may have a priority over the holders of the Common Stock with respect to dividends.

VOTING RIGHTS. The holders of Common Stock possess exclusive voting rights in the Company. They elect the Company's Board of Directors and act on such other matters as are required to be presented to them under applicable law or the Company's Articles of Incorporation or as are otherwise presented to them by the Board of Directors. Each holder of Common Stock is entitled to one vote per share and does not have any right to cumulate votes in the election of directors. If the Company issues Preferred Stock, holders of the Preferred Stock also may possess voting rights.

LIQUIDATION. In the event of any liquidation, dissolution or winding up of the Company, the holders of the then-outstanding Common Stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities, all of the assets of the Company available for distribution. If Preferred Stock is issued, the holders thereof may have a priority over the holders of the Common Stock in the event of liquidation or dissolution.

PREEMPTIVE RIGHTS. Holders of the Common Stock are not entitled to preemptive rights with respect to any shares which may be issued in the future. Thus, the Company may sell shares of Common Stock without first offering them to the then holders of the Common Stock.

TRANSFER AGENT AND REGISTRAR. The transfer agent and registrar for the Common Stock is The Bank of New York.

STOCKHOLDERS AGREEMENT. The Company and all of its stockholders, including the Selling Stockholders, are parties to a Stockholders Agreement, dated as of May 1, 1988, as amended (the "Stockholders Agreement"), which contains certain restrictions on the transfer of the Common Stock held by them, certain "piggy back" registration rights and, for stockholders holding an aggregate of 30% of the outstanding Common Stock, certain one-time demand registration rights. It is anticipated that the Stockholders Agreement will be amended prior to the closing of the Common Stock Offering to provide that it shall be terminated upon closing of the Common Stock Offering, except for the restriction that no stockholder will sell any shares of Common Stock (other than the shares offered hereby) for a period of 120 days after the date of this Prospectus.

PREFERRED STOCK

The Company's authorized Preferred Stock may be issued with such preferences and designations as the Board of Directors may from time to time determine. The Board of Directors can, without stockholder approval, issue Preferred Stock with voting, dividend, liquidation and conversion rights which could dilute the voting strength of the holders of the Common Stock and may assist management in impeding an unfriendly takeover or attempted change in control.

SHARES AVAILABLE FOR FUTURE SALE

As of June 30, 1996, there were 23,812,900 shares of Common Stock outstanding, which will not be affected by the offering of Common Stock as all shares offered hereby are outstanding shares held by the Selling Stockholders. The 2,000,000 shares of Common Stock offered on behalf of the Selling Stockholders (plus up to 300,000 shares which may be sold pursuant to the Common Stock underwriters' overallotment option) will be freely transferable without further restriction or further registration under the Securities Act, except that any shares purchased by an "affiliate" of the Company, as that term is defined by the Securities Act ("affiliate"), will be subject to certain of the resale limitations of Rule 144 under the Securities Act. All other outstanding shares of Common Stock will be "restricted securities" as that term is defined in Rule 144 and may only be sold pursuant to a registration statement under the Securities Act or an applicable exemption from registration thereunder, including pursuant to Rule 144. Management of the Company believes that approximately 6,822,550 of those shares of Common Stock may be eligible for resale pursuant to Rule 144 without restriction.

In general, under Rule 144, as currently in effect, beginning 90 days after the offering of Common Stock, any person (or persons whose shares are aggregated) who has beneficially owned restricted securities for at least two years (which is proposed to be reduced to one year) will be entitled to sell, within any three-month period, a number of shares that does not exceed the greater of (i) 1% of the then-outstanding shares of Common Stock (238,120 shares immediately after the offering of Common Stock) or (ii) the average weekly trading volume of the Common Stock in the over-the-counter market during the four calendar weeks preceding the date on which notice of the sale is filed with the Commission. Sales under Rule 144 also are subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Company. Any person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of the Company at any time during the three months preceding a sale, and who has beneficially owned shares, within the context of Rule 144, for at least three years (which is proposed to be reduced to two years), is entitled to sell such shares under Rule 144(k) without regard to the volume limitations, manner of sale provisions, public information or notice requirements.

The Company, the Selling Stockholders, certain other stockholders of the Company and the directors and executive officers of the Company have agreed not to offer, sell or otherwise dispose of any shares of Common Stock for a period of 120 days (or 365 days in the case of Messrs. Erbey and Wish) after the date of this Prospectus without the prior written consent of Friedman, Billings, Ramsey & Co., Inc. on behalf of the Common Stock underwriters (excluding, in the case of the Company, shares of Common Stock issued upon the exercise of stock options granted pursuant to the Stock Option Plan and grants pursuant to the Directors Stock Plan). After such restricted periods, there will be no restrictions on the sale of these shares other than those imposed by Rule 144.

Under the Company's Stock Option Plan, 9,316,750 shares may be issued upon exercise of outstanding options or future grants of stock options, and a total of 250,000 shares of Common Stock may be issued pursuant to the Directors' Stock Plan. See "Management - Stock Option Plan" and "-Directors' Stock Plan." After the closing of the Common Stock Offering, the Company may file a Registration Statement on Form S-8 under the Securities Act to register the issuance of shares of Common Stock issuable under the Stock Option Plan and the Directors' Stock Plan. Shares of Common Stock issued under the Stock Option Plan and the Directors' Stock Plan after the effective date of such Registration Statement, other than shares held by affiliates of the Company, will be eligible for resale in the public market without restriction.

SELLING STOCKHOLDERS

The following table sets forth information regarding security ownership of the Selling Stockholders:

Name of Selling Stockholder	Shares of Common Stock Beneficially Owned as of June 30, 1996		Number of Shares of Common Stock Offered	Shares of Common Stock to be Beneficially Owned After Offering	
	Number	Percent		Number	Percent
Affiliates of the Company(1)					
Barry N. Wish	6,011,020	25.1%	960,000	5,051,020	21.1%
Non-Affiliates of the Company(1)					
Harold D. Price	2,048,480	8.6	327,760	1,720,720	7.2

[to be completed]

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(1) Except for Mr. Wish, who currently is Chairman of the Company and is a former executive officer of the Company, no Selling Stockholder has had any relationship with the Company or any of its affiliates during the last three years. For information as to the shares of Common Stock and stock options held by Mr. Wish, see "Beneficial Ownership of Common Stock" and "Management - Aggregated Option Exercises in 1995 and Year-End Option Values."

UNDERWRITING

NOTE UNDERWRITING

Subject to the terms and conditions contained in an underwriting agreement with respect to the Notes Offering (the "Note Underwriting Agreement") between the Company and Friedman, Billings, Ramsey & Co. (the "Note Underwriter"), the Company has agreed to sell to the Note Underwriter, and the Note Underwriter had agreed to purchase, the \$100,000,000 aggregate principal amount of the Notes being offered in the Notes Offering.

The Note Underwriting Agreement provides that, subject to the terms and conditions set forth therein, the Note Underwriter is obligated to purchase all of the Notes if any are purchased.

The Note Underwriter proposes to offer the Notes directly to the public at the initial public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of ____% of the principal amount. The Note Underwriter may allow, and such dealers may re-allow, a concession not in excess of ____% of the principal amount on sales to certain other dealers. The offering of the Notes is made for delivery when, as and if accepted by the Note Underwriter and is subject to prior sale and to withdrawal, cancellation or modification of the offer without notice. The Note Underwriter reserves the right to reject any offer for the purchase of the Notes. After the initial public offering of the Notes, the public offering price and other selling terms may be changed by the Note Underwriter.

The Company has agreed to indemnify the Note Underwriter against certain liabilities, including liabilities under the federal securities laws, or to contribute to payments that the Note Underwriter may be required to make in respect thereof.

COMMON STOCK UNDERWRITING

Subject to the terms and conditions set forth in an underwriting agreement with respect to the Common Stock Offering (the "Common Stock Underwriting Agreement") among the Company, the Selling Stockholders and each of the underwriters named below (the "Common Stock Underwriters"), for whom Friedman, Billings, Ramsey & Co., Inc. is acting as representative (the "Representative"), the Selling Stockholders have agreed to sell to each of the Common Stock Underwriters, and each of the Common Stock Underwriters severally has agreed to purchase from the Selling Stockholders, the aggregate number of shares of Common Stock set forth opposite its name below.

Common Stock Underwriters -----	Number of Shares -----
Friedman, Billings, Ramsey & Co., Inc.	
Total	2,000,000

The Common Stock Underwriting Agreement provides that, subject to the terms and conditions set forth therein, the Common Stock Underwriters are obligated to purchase all of such shares if any are purchased.

The Representative has advised the Company and the Selling Stockholders that the Common Stock Underwriters propose initially to offer the shares of Common Stock to the public at the initial public offering price set forth on the cover page of this Prospectus, and to certain dealers at such price less a concession not in excess of \$_____ per share. The Common Stock Underwriters may allow, and such dealers may re-allow, a discount not in excess of \$_____ per share on sales to certain other dealers. The offering of the Common Stock is made for delivery when, as and if accepted by the Common Stock Underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offer without notice. The Common Stock Underwriters reserve the right to reject any offer for the purchase of shares of Common Stock. After the Common Stock Offering, the public offering price and other selling terms may be changed by the Common Stock Underwriters.

The Selling Stockholders have granted an option to the Common Stock Underwriters, exercisable during the 30-day period after the date of this Prospectus, to purchase up to an aggregate of 300,000 additional shares of Common Stock, at the initial public offering price set forth on the cover page of this Prospectus, less the underwriting discount. The Common Stock Underwriters may exercise this option only to cover over-allotments, if any, made on the sale of the shares of Common Stock in the Common Stock Offering. To the extent that the Common Stock Underwriters exercise this option, each Common Stock Underwriter will be obligated, subject to certain conditions, to purchase the number of additional shares of Common Stock proportionate to such Common Stock Underwriter's initial amount reflected in the foregoing table.

The Company and the Selling Stockholders have agreed to indemnify the several Common Stock Underwriters against certain liabilities, including liabilities under the federal securities laws, or to contribute to payments that the Common Stock Underwriters may be required to make in respect thereof.

Prior to the Common Stock Offering, there has been no public market for the Common Stock. Consequently, the initial public offering price of the Common Stock will

be determined by negotiations among the Company, the Selling Stockholders and the Underwriters. Among the factors to be considered in such negotiations are the history of, and prospects for, the Company and the industry in which it competes, an assessment of management, the Company's past and present operations, its past and present earnings and the trend of such earnings, the prospects for future earnings of the Company, the general condition of the securities markets at the time of the Common Stock Offering and the market prices of publicly-traded common stocks of comparable companies in recent periods.

LEGAL MATTERS

The legality of the Notes and the shares of Common Stock offered in the Notes Offering and the Common Stock Offering, respectively, will be passed upon for the Company by Elias, Matz, Tiernan & Herrick L.L.P., Washington, D.C. Certain legal matters in connection with the Notes Offering and the Common Stock Offering will be passed upon for the Note Underwriter and the Common Stock Underwriters by Simpson Thacher & Bartlett (a partnership which includes professional corporations), New York, New York.

EXPERTS

The consolidated financial statements of the Company as of December 31, 1995 and 1994 and for each of the three years in the period ended December 31, 1995 included in this Prospectus have been so included in reliance on the report of Price Waterhouse LLP, independent certified public accountants, given upon the authority of said firm as experts in auditing and accounting.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Ocwen Financial Corporation

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Ocwen Financial Corporation and its subsidiaries (the "Company") at December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

Fort Lauderdale, Florida
February 16, 1996, except as to Note 21 which
is as of July 31, 1996

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

DECEMBER 31,	1995	1994

ASSETS		
Cash and amounts due from depository institutions	\$ 4,200	\$ 32,954
Interest bearing deposits	50,432	3,796
Securities available for sale, at market value	337,480	187,717
Loans available for sale, at lower of cost or market	251,790	102,293
Investment securities, net	18,665	17,011
Mortgage-related securities held for investment, net	-	91,917
Loan portfolio, net	295,605	57,045
Discounted loan portfolio, net	669,771	529,460
Principal, interest and dividends receivable	12,636	6,152
Investments in low income housing tax credit interests	81,362	49,442
Real estate owned, net	166,556	96,667
Premises and equipment, net	25,359	38,309
Income taxes receivable	1,005	-
Deferred tax asset	22,263	20,695
Other assets	36,466	32,945
	-----	-----
	\$ 1,973,590	\$ 1,266,403
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$ 1,501,646	\$ 1,023,268
Advances from the Federal Home Loan Bank	70,399	5,399
Securities sold under agreements to repurchase	84,761	-
Subordinated debentures and other interest bearing obligations	117,054	20,111
Income taxes payable	-	10,025
Accrued expenses, payables and other liabilities	60,183	54,217
	-----	-----
TOTAL LIABILITIES	1,834,043	1,113,020
	-----	-----
COMMITMENTS AND CONTINGENCIES		
Stockholders' equity:		
Preferred stock, \$.01 par value; 20,000,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock, \$.01 par value; 200,000,000 shares authorized; 23,812,270 and 32,194,710 shares issued and outstanding at December 31, 1995 and 1994, respectively	238	322
Additional paid-in capital	10,449	13,652
Retained earnings	130,275	142,230
Unrealized loss on securities available for sale, net of taxes	(1,415)	(2,821)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	139,547	153,383
	-----	-----
	\$ 1,973,590	\$ 1,266,403
	-----	-----

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)

FOR THE YEARS ENDED DECEMBER 31,	1995	1994	1993
-----	-----	-----	-----
INTEREST INCOME:			
Federal funds sold and repurchase agreements	\$ 3,502	\$ 8,861	\$ 873
Securities available for sale	18,391	27,988	19,714
Loans available for sale	15,608	19,353	5,376
Mortgage-related securities held for investment	4,313	6,930	9,379
Loans	15,430	5,924	6,232
Discounted loans	75,998	52,560	31,036
Investment securities and other	4,033	9,842	6,313
	-----	-----	-----
	137,275	131,458	78,923
	-----	-----	-----
INTEREST EXPENSE:			
Deposits	71,853	44,961	19,039
Securities sold under agreements to repurchase	951	10,416	9,340
Securities sold but not yet purchased	1,142	2,780	-
Advances from the Federal Home Loan Bank	1,126	1,232	2,834
Subordinated debentures and other interest bearing obligations	8,988	3,209	4,093
	-----	-----	-----
	84,060	62,598	35,306
	-----	-----	-----
Net interest income before provision for loan losses	53,215	68,860	43,617
PROVISION FOR LOAN LOSSES	1,121	-	-
	-----	-----	-----
Net interest income after provision for loan losses	52,094	68,860	43,617
	-----	-----	-----
NON-INTEREST INCOME:			
Servicing fees and other charges	2,870	4,786	3,800
Gains on sales of interest earning assets, net	6,955	5,727	8,386
Fees on financing transactions	-	-	15,340
Gains on sales of branches	5,430	62,600	-
Gain on sale of subsidiary's stock	-	-	3,835
Income (loss) on real estate owned, net	9,540	5,995	(1,158)
Gain on sale of hotel	4,658	-	-
Other income	1,727	2,467	5,669
	-----	-----	-----
	31,180	81,575	35,872
	-----	-----	-----
NON-INTEREST EXPENSE:			
Compensation and employee benefits	23,787	42,395	23,507
Occupancy and equipment	8,360	11,537	9,106
Amortization of excess cost over net assets acquired	-	1,346	1,301
Hotel operations expense (income), net	337	(723)	(710)
Other operating expenses	13,089	14,303	8,655
	-----	-----	-----
	45,573	68,858	41,859
	-----	-----	-----
Income from continuing operations before income taxes	37,701	81,577	37,630
INCOME TAX EXPENSE	4,562	29,724	10,325
	-----	-----	-----
Income from continuing operations	33,139	51,853	27,305
DISCONTINUED OPERATIONS:			
Loss from operations of discontinued divisions			
to September 30, 1995 net of tax benefits of \$2,321, \$2,227 and			
\$1,259 for 1995, 1994 and 1993, respectively	(4,468)	(4,514)	(2,270)
Loss on disposal of divisions, net of tax benefit of \$1,776	(3,204)	-	-
	-----	-----	-----
Income before extraordinary gain and cumulative effect of a			
change in accounting principle	25,467	47,339	25,035
Extraordinary gain on extinguishment of debt, net of tax			
expense of \$828	-	-	1,538
Cumulative effect on prior year of a change in accounting principle	-	-	(1,341)
	-----	-----	-----
NET INCOME	\$ 25,467	\$ 47,339	\$ 25,232
	-----	-----	-----

(Continued on next page)

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

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

FOR THE YEARS ENDED DECEMBER 31, -----	1995 -----	1994 -----	1993 -----
EARNINGS PER SHARE:			
Income from continuing operations	\$ 1.19	\$ 1.52	\$ 0.80
Discontinued operations, net of tax benefit	(0.28)	(0.13)	(0.07)
Extraordinary gain on extinguishment of debt, net of taxes	-	-	0.04
Cumulative effect of a change in accounting principle	-	-	(0.04)
	-----	-----	-----
NET INCOME	\$ 0.91	\$ 1.39	\$ 0.73
	-----	-----	-----
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	27,769,080	34,084,160	34,285,850
	-----	-----	-----

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

FOR THE YEARS ENDED DECEMBER 31, 1993, 1994 AND 1995

	COMMON STOCK		ADDITIONAL PAID-IN	RETAINED	UNREALIZED GAIN (LOSS) ON SECURITIES AVAILABLE FOR SALE,	
	SHARES	AMOUNT	CAPITAL	EARNINGS	NET OF TAXES	TOTAL
BALANCES AT DECEMBER 31, 1992	34,810,920	\$ 348	\$ 21,142	\$ 72,906	\$ -	\$ 94,396
NET INCOME	-	-	-	25,232	-	25,232
EXERCISE OF COMMON STOCK OPTIONS	250,000	3	447	-	-	450
REPURCHASE OF COMMON STOCK	(2,865,880)	(29)	(7,944)	-	-	(7,973)
PREDECESSOR BASIS OF SUBSIDIARY ACCOUNTING	-	-	-	(3,247)	-	(3,247)
SUBSIDIARY'S RETIREMENT OF COMMON STOCK	-	-	81	-	-	81
CHANGE IN UNREALIZED GAIN ON SECURITIES AVAILABLE FOR SALE, NET OF TAXES	-	-	-	-	2,892	2,892
BALANCES AT DECEMBER 31, 1993	32,195,040	322	13,726	94,891	2,892	111,831
NET INCOME	-	-	-	47,339	-	47,339
REPURCHASE OF COMMON STOCK OPTIONS	-	-	(73)	-	-	(73)
REPURCHASE OF COMMON STOCK	(330)	-	(1)	-	-	(1)
CHANGE IN UNREALIZED LOSS ON SECURITIES AVAILABLE FOR SALE, NET OF TAX BENEFIT	-	-	-	-	(5,713)	(5,713)
BALANCES AT DECEMBER 31, 1994	32,194,710	322	13,652	142,230	(2,821)	153,383
NET INCOME	-	-	-	25,467	-	25,467
REPURCHASE OF COMMON STOCK OPTIONS	-	-	(132)	-	-	(132)
EXERCISE OF COMMON STOCK OPTIONS	432,620	4	1,416	-	-	1,420
REPURCHASE OF COMMON STOCK	(8,815,060)	(88)	(4,487)	(37,422)	-	(41,997)
CHANGE IN UNREALIZED LOSS ON SECURITIES AVAILABLE FOR SALE, NET OF TAXES	-	-	-	-	1,406	1,406
BALANCES AT DECEMBER 31, 1995	23,812,270	\$ 238	\$ 10,449	\$ 130,275	\$ (1,415)	\$ 139,547

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 YEARS ENDED DECEMBER 31, -----	1995 -----	1994 -----	1993 -----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 25,467	\$ 47,339	\$ 25,232
Adjustments to reconcile net income to net cash used in operating activities:			
Net cash provided from trading activities	2,949	4,118	1,183
Proceeds from sales of loans available for sale	100,104	383,673	95,936
Purchases of loans available for sale	(271,210)	(510,362)	(70,483)
Origination of loans available for sale	(2,829)	(39,546)	(4,162)
Principal payments received on loans available for sale	10,103	36,966	1,051
Amortization of excess of costs over net assets acquired	-	1,346	1,372
(Discount accretion) premium amortization, net	(2,401)	(8,268)	5,617
Depreciation and amortization	3,755	4,877	2,509
Provision for loan losses	1,262	-	-
Loss on sales of premises and equipment	3,002	-	-
Gains on sales of interest earning assets, net	(6,955)	(5,727)	(8,386)
(Gain) loss on sale of real estate owned, net	(8,496)	(12,234)	439
Gains on sales of branches	(5,430)	(62,600)	-
Gain on sale of hotel	(4,658)	-	-
Gain on sale of stock in subsidiary	-	-	(3,835)
Extraordinary gain on extinguishment of debt, net of taxes	-	-	(1,538)
Cumulative effect of a change in accounting principle	-	-	1,341
Decrease in minority interest	-	-	(10,726)
(Increase) decrease in principal, interest and dividends receivable	(6,484)	5,710	(3,719)
(Increase) decrease in income taxes receivable	(10,769)	16,473	12,187
(Increase) decrease in other assets	(15,159)	8,841	(4,394)
(Decrease) increase in accrued expenses, payables and other liabilities	(1,677)	20,587	(24,852)
NET CASH (USED) PROVIDED IN OPERATING ACTIVITIES	(189,426)	(108,807)	14,772
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of securities available for sale	836,247	877,911	744,636
Purchases of securities available for sale	(934,179)	(511,694)	(1,048,685)
Maturities of and principal payments received on securities available for sale	21,639	115,357	245,554
Purchase of securities held for investment	-	(4,804)	(218,222)
Maturities of and principal payments received on securities held for investments	17,545	44,133	194,262
Proceeds from sale of hotel	25,193	-	-
Purchases of low income housing tax credit interests	(29,280)	(31,821)	(11,988)
Proceeds from sales of discounted loans and loans held for investment	38,942	35,161	423,886
Purchases and originations of discounted loans and loans held for investment	(818,587)	(547,243)	(324,860)
Principal payments received on discounted loans and loans held for investment	251,485	163,098	104,759
Proceeds from sales of real estate owned	148,225	129,671	30,976
Purchases of real estate owned in connection with discounted loan purchases	(24,617)	(38,071)	(7,782)
Cash balances acquired in connection with the purchase of a Federal savings bank	-	-	39,558
Cash balances released in connection with the sale of a subsidiary	-	-	(18,933)
Net acquisition of hotel businesses	-	-	(23,204)
Additions to premises and equipment	(12,207)	(7,438)	(9,775)
Other, net	5,067	10,262	10,599
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(474,527)	234,522	130,781

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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED
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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(DOLLARS IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31, -----	1995 -----	1994 -----	1993 -----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in deposits	585,335	1,065,300	(121,237)
Proceeds from issuance of subordinated debentures	100,000	-	-
Payment of debt issuance costs	(3,301)	-	-
Sales of deposits	(111,686)	(909,315)	-
Premium received on sales of deposits	5,492	66,595	-
Advances from the Federal Home Loan Bank	170,000	17,000	2,000
Payments on advances from the Federal Home Loan Bank	(105,000)	(69,000)	(34,500)
Increase (decrease) in securities sold under agreements to repurchase	84,761	(276,095)	(14,746)
Issuance of subordinated notes payable	7,615	-	40,694
Payments and repurchase of notes and mortgages payable	(10,672)	(22,270)	(5,386)
Exercise of common stock options	1,420	-	450
Repurchase of common stock options and common stock	(42,129)	(74)	(7,892)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	681,835	(127,859)	(140,617)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,882	(2,144)	4,936
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	36,750	38,894	33,958
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 54,632	\$ 36,750	\$ 38,894
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT END OF YEAR:			
Cash and amounts due from depository institutions	\$ 4,200	\$ 32,954	\$ 38,894
Interest bearing deposits	50,432	3,796	-
	\$ 54,632	\$ 36,750	\$ 38,894
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
CASH PAID (RECEIVED) DURING THE YEAR FOR:			
Interest	\$ 72,626	\$ 58,174	\$ 32,333
Income taxes	\$ 12,858	\$ 11,170	\$ (6,607)
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
THE COMPANY PURCHASED CERTAIN ASSETS AND ASSUMED CERTAIN LIABILITIES OF A FEDERAL SAVINGS INSTITUTION AS FOLLOWS:			
Fair value of assets acquired	\$ -	\$ -	\$ 667,792
Liabilities assumed	\$ -	\$ -	\$ 667,792
Exchange of loans available for sale for FNMA securities	\$ 83,875	\$ 346,588	\$ 67,121
Real estate owned acquired through foreclosure	\$ 185,001	\$ 136,764	\$ 26,887
Retirement of subsidiary's common stock	\$ -	\$ -	\$ 81
Purchase of common stock of a subsidiary in exchange for a subordinated note	\$ -	\$ -	\$ 4,351
Transfer of mortgage-related securities from held for investment to available for sale	\$ 73,706	\$ -	\$ -

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1995, 1994, AND 1993
(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

Ocwen Financial Corporation (the "Company") is a financial services holding company engaged in asset acquisition and resolution, residential finance, commercial finance, investment management and hotel operations through its subsidiaries. The Company owns directly and indirectly all of the outstanding common and preferred stock of its primary subsidiaries, Berkeley Federal Bank & Trust FSB (the "Bank") and Investors Mortgage Insurance Holding Company ("IMI"), which are included in the Company's consolidated financial statements. The Bank changed its name from First Federal Savings Bank (of Delaware) to Berkeley Federal Bank & Trust FSB on June 3, 1993 following the acquisition of Berkeley Federal Savings Bank ("Old Berkeley"). All significant intercompany transactions and balances have been eliminated in consolidation.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

SECURITIES AVAILABLE FOR SALE

Certain U.S. Treasury securities, mortgage-backed securities and mortgage-related securities are designated as assets available for sale because the Company does not intend to hold them to maturity. Securities available for sale are carried at market value with the net unrealized gains or losses reported as a separate component of stockholders' equity. Unrealized losses on securities that reflect a decline in value which is other than temporary, if any, are charged to earnings. At disposition the realized net gain or loss is included in earnings on a specific identification basis. The amortization of premiums and accretion of discounts are computed using the interest method after considering actual and estimated prepayment rates, if applicable. During December 1995, in conjunction with a transition provision provided by the Financial Accounting Standards Board pertaining to the classification of securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and

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Equity Securities", the Company transferred all of its mortgage-related securities held for investment, with a book value of \$75,194 and a market value of \$73,706 to securities available for sale.

INVESTMENTS AND MORTGAGE-RELATED SECURITIES HELD FOR INVESTMENT

Investments and mortgage-related securities held for investment are stated at cost, adjusted for amortization of premiums and accretion of discounts, because the Company has the ability and the intent to hold them to maturity. Unrealized losses on securities that reflect a decline in value which is other than temporary, if any, are charged to earnings. The amortization of premiums and accretion of discounts are computed using the interest method after considering actual and estimated prepayment rates, if applicable. Actual prepayment experience is periodically reviewed and effective yields are recalculated when differences arise between prepayments originally anticipated and amounts actually received plus anticipated future prepayments.

TRADING ACTIVITIES

From time to time the Company purchases investment and mortgage-backed and related securities into its trading account. In addition, securities acquired and sold shortly thereafter resulting from the securitization of loans available for sale are accounted for as the sale of loans and the purchase and sale of trading securities. Securities held for trading purposes are carried at market value with the unrealized gains or losses included in gains on sales of interest earning assets, net. Although no such positions were held as of December 31, 1995 or 1994, the Company traded assets totaling \$93,942, \$621,991 and \$145,716 in aggregate sales proceeds during the years ended December 31, 1995, 1994 and 1993, respectively, resulting in net gains of \$2,949, \$4,118 and \$1,183 for the years ended December 31, 1995, 1994 and 1993, respectively.

LOANS AVAILABLE FOR SALE AND HELD FOR INVESTMENT

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

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
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Interest income is accrued as it is earned. Loans are placed on non-accrual status after being delinquent greater than 90 days, or earlier if the borrower is deemed by management to be unable to continue performance. When a loan is placed on non-accrual status, interest accrued but not received is reversed. While a loan is on non-accrual status, interest is recognized only as cash is received. Loans are returned to accrual status only when the loan is reinstated and ultimate collectibility of future interest is no longer in doubt.

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

ALLOWANCE FOR ESTIMATED LOAN LOSSES ON LOAN PORTFOLIO

The allowance for estimated loan losses is maintained at a level that management, based upon an evaluation of known and inherent risks in the portfolio, considers adequate to provide for potential losses. Specific valuation allowances are established for impaired loans in the amount by which the carrying value, before allowance for estimated losses, exceeds the fair value of collateral less costs to dispose on an individual loan basis except for single family residential mortgage loans and consumer loans which are generally evaluated for impairment as homogeneous pools of loans. The Company considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. The Company measures these impaired loans at the fair value of the loans' collateral properties less selling costs. Impaired loans may be left on accrual status during the period the Company is pursuing repayment of the loan. These loans are placed on non-accrual status at such time that the loans either: (1) become 90 days delinquent; or (2) the Company determines the borrower is incapable of, or has ceased efforts toward, curing a loan. Impairment losses are recognized through an increase in the allowance for loan losses and a corresponding charge to the provision for loan losses. When an impaired loan is either sold, transferred to REO or charged off, any related valuation allowance is credited to the allowance for loan losses. Charge-offs occur when loans are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. General valuation allowances are also established for the inherent risks in the loan portfolio which have yet to be specifically identified. Management's periodic evaluation of the allowance for estimated losses is based upon an analysis of the portfolio, historical loss experience, economic conditions and trends, collateral values and other relevant factors. Future adjustments to the allowance may be necessary if economic conditions and trends, collateral values and other relevant factors differ substantially from the assumptions used in making the evaluation.

DISCOUNTED LOAN PORTFOLIO

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
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Certain mortgage loans, for which the borrower is not current as to principal and interest payments, are acquired at a discount. The acquisition cost for a pool of loans is allocated to each individual loan within the pool based upon the Company's pricing methodology. The discount associated with single family residential mortgage loans is recognized as a yield adjustment and included in interest income using the interest method applied on a loan-by-loan basis to the extent the timing and amount of cash flows can be reasonably determined. For those single family residential mortgage loans which are brought current by the borrower and certain multi-family and commercial real estate loans which are current and the Company believes will remain current, the remaining unamortized discount is accreted to income as a yield adjustment using the interest method over the contractual maturity of the loan. For all other loans, interest is reported as cash is received. Adjustments to reduce the carrying value of discounted loans to the fair value of the properties securing the loan discounted at the effective interest rate, as well as gains on the repayment and discharging of loans, are reported as interest income. In situations where the collateral is foreclosed upon, the loans are transferred to real estate owned upon receipt of title to the property and accretion of the related discount is discontinued.

REAL ESTATE OWNED

Properties acquired through foreclosure are valued at the lower of the adjusted cost basis of the loan or fair value less estimated costs of disposal of the property at the date of foreclosure. Properties held are periodically re-evaluated to determine that they are being carried at the lower of cost or fair value less estimated costs to dispose. Sales proceeds and related costs are recognized with passage of title to the buyer, and in cases where the Company finances the sale, receipt of sufficient down payment. Rental income related to properties is reported as income as earned. Holding and maintenance costs related to properties are reported as period costs as incurred. No depreciation expense related to properties has been recorded. Decreases in market value of foreclosed real estate subsequent to foreclosure are recognized as a valuation allowance on a property specific basis. Subsequent increases in market value of the foreclosed real estate are reflected as reductions in the valuation allowance, but not below zero. Such changes in the valuation allowance are charged or credited to income.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
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VALUATION ALLOWANCES ON ASSETS HELD FOR DISPOSITION AND RESOLUTION

The Company is currently reviewing its methodology for valuing assets held for disposition and resolution, which include discounted loans, loans available for sale and real estate owned, with the OTS. Although the Company believes that its methods for determining net carrying values of such assets are in accordance with generally accepted accounting principles, as a result of this review, however, the Company may provide a general allowance for losses on discounted loans, loans available for sale and real estate owned. Such a general allowance would supplement, or otherwise amend, the Company's current practice of adjusting discounted loans, loans available for sale and real estate owned to the lower of the recorded investment or fair value through direct charges to interest income or non-interest income, as appropriate. Although the Company cannot at this time estimate the amount of general allowance which may be required, such amount may be material. The Company at this time believes, however, that it will continue to be classified as a well-capitalized institution subsequent to any such provision for general allowance for losses.

INVESTMENTS IN LOW INCOME HOUSING TAX CREDIT INTERESTS

Low income housing tax credit partnerships own multi-family residential properties which have been allocated tax credits under the Internal Revenue Code. The obligations of the partnership to sustain qualifying status of the properties covers a 15-year period; however, tax credits accrue over a 10-year period on a straight-line basis. Investments by the Company in low income housing tax credit partnerships made on or after May 18, 1995 in which the Company invests solely as a limited partner are accounted for using the equity method in accordance with the consensus of the Emerging Issues Task Force through issue number 94-1. For the Company's limited partnership investments made prior to this date, the Company records its receipt of tax credits and other tax benefits on a level yield basis over the 15-year obligation period and reports the tax credits and tax benefits, net of the amortization of its investment in the limited partnership as a reduction of income tax expense. Low income housing tax credit partnerships in which the Company, through a subsidiary, acts as the general partner are presented on a consolidated basis. Through December 31, 1995, the operations of such partnerships in which a Company subsidiary acted as general partner were limited to pre-operating construction activities.

EXCESS OF COST OVER NET ASSETS ACQUIRED

On February 17, 1988, the Company acquired 100% of the common stock of First Federal Savings Bank (of Delaware). Through 1994 the excess of cost over net assets acquired was being amortized over the estimated periods benefited. As of December 31, 1994, the remaining depository branches acquired in 1988, along with certain other branches subsequently acquired,

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
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were sold, and the unamortized excess of cost over net assets acquired of \$9,135 was retired and charged against the gain recorded on the sale of branches.

PREMISES AND EQUIPMENT

Premises and equipment are carried at cost and depreciated over their estimated useful lives on the straight-line method. The estimated useful lives of the related assets range from 3 to 40 years.

INTEREST RATE RISK MANAGEMENT ACTIVITIES

The Company manages its exposure to interest rate movements by seeking to match asset and liability balances within maturity categories, both directly and through the use of derivative financial instruments. These instruments include interest rate swaps ("swaps") and interest rate futures contracts that are designated and effective as hedges, as well as swaps that are designated and effective in modifying the interest rate and/or maturity characteristics of specified assets or liabilities.

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

Interest rate contracts used in connection with the securities portfolio designated as available for sale are carried at fair value with gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity, consistent with the reporting of unrealized gains and losses on such securities.

INCOME TAXES

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
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In January 1993 the Company adopted SFAS No. 109, "Accounting for Income Taxes", resulting in a \$1.3 million charge in the accompanying 1993 consolidated statements of operations for the cumulative effect of a change in accounting principle. The adoption of SFAS No. 109 changed the Company's method of accounting for income taxes to the asset and liability method rather than the deferred method. The asset and liability approach requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Additionally, SFAS No. 109 requires the adjustment of deferred taxes for subsequent tax rate changes and also required upon adoption the recognition of a deferred tax liability for the Bank's tax bad debt reserve in excess of the 1987 balance to the extent that it exceeds the book reserve.

INVESTMENT MANAGEMENT AND TRUST ACTIVITIES

At December 31, 1995 and 1994 Ocwen Asset Management Inc. ("OAM") had under management \$48,229 and \$503,730, respectively, of mortgage-backed and related securities and mortgage loans for an unaffiliated account. Such amounts are not included in the Company's consolidated statements of financial condition.

At December 31, 1995 and 1994 the Bank held \$2,002 and \$11,225, respectively, in investments in trust accounts for customers. Such amounts are not included in the Company's consolidated statements of financial condition.

RECENT ACCOUNTING STANDARDS

The financial statements reflect the required disclosures and certain encouraged disclosures of SFAS No. 119, "Disclosure About Derivative Financial Instruments and Fair Value of Financial Statements". SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", as amended by SFAS No. 118, was adopted by the Company in the first quarter of 1995 and did not have a material impact on the Company's financial statements.

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", is effective for financial statements issued for fiscal years beginning after December 15, 1995. Given the Company's current accounting policies for recording and measuring its long-lived assets, primarily real estate owned and premises and equipment, the Company does not anticipate a material impact on its operations or financial position from the implementation of SFAS No. 121 in 1996.

SFAS No. 122, "Accounting for Mortgage Servicing Rights", requires that an institution engaged in mortgage banking activities recognize as a separate asset rights to service mortgage loans for others, regardless of the manner in which those servicing rights are acquired. Upon sale or

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securitization of loans with servicing rights retained, the Company will be required to capitalize the cost associated with the mortgage servicing rights based on their relative fair values. SFAS No. 122 also requires that an institution assess its capitalized mortgage servicing rights for impairment based on the fair value of those rights. Impairment is to be recognized through a valuation allowance. The Company does not anticipate a material impact on its operations or financial position from the implementation of SFAS No. 122 in 1996.

As provided in SFAS No. 123, "Accounting for Stock-Based Compensation", the Company intends to retain the intrinsic value method of accounting for stock-based compensation, which it currently uses.

EARNINGS PER SHARE

Earnings per share is calculated based upon the weighted average number of shares of common stock outstanding during the year. The computation of the weighted average number of shares includes the impact of the exercise of the outstanding options to purchase common stock and assumes that the proceeds from such issuance are used to repurchase common shares at fair value.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near or medium term relate to the determination of the allowance for losses on loans.

RECLASSIFICATION

Certain amounts included in the 1994 and 1993 consolidated financial statements have been reclassified in order to conform to the 1995 presentation.

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NOTE 2 ACQUISITION AND DISPOSITION TRANSACTIONS

ACQUISITIONS

On June 3, 1993 the Company acquired all of the stock issued by Old Berkeley in connection with that institution's voluntary supervisory conversion. Old Berkeley was then merged into First Federal Savings Bank (of Delaware) and the corporate name changed to Berkeley Federal Bank & Trust FSB. IMI purchased the assets of the Knickerbocker Hotel in Chicago, Illinois on April 19, 1993 for \$13,704 and the Great Southern Hotel in Columbus, Ohio on August 17, 1993 for \$9,500. These acquisitions were accounted for under the purchase method of accounting. The operating results of these acquisitions are included in the Company's consolidated statements of operations from the date of the respective acquisitions.

DISPOSITIONS

The Bank sold two branches with deposit liabilities totaling \$111,686 as of November 17, 1995, and twenty-three branches with deposit liabilities totaling \$909,315 as of December 31, 1994. The components of the gain recorded on these transactions is summarized below:

	1995	1994
	-----	-----
Premium received on deposit liabilities sold	\$5,492	\$66,595
Difference between carrying value and face value of deposits sold	-	4,596
Retirement of excess of cost over net assets acquired, net	-	(9,135)
Net gain on sale of land, buildings, furniture, fixtures and equipment	158	2,908
Broker's fee and other costs associated with the sale of the deposits	(220)	(2,364)
	-----	-----
Gains on sales of branches	\$5,430	\$62,600
	-----	-----

Additionally, on October 4, 1995 the Company sold the Knickerbocker Hotel for a gain of \$4,658.

Effective December 30, 1993 the Company sold all of the stock of Investors Mortgage Insurance Company ("Investors") and Investors Equity Insurance Company, Inc. ("Equity"), both wholly-owned subsidiaries of IMI, for approximately \$24.8 million. All assets and liabilities of these two subsidiaries were transferred including the 50 state insurance business licenses held by Investors and the 17 state insurance business licenses held by Equity. A gain of \$3,835 was recognized on the sale. IMI continues to service the insurance policies through December 31, 1996 for a fee of 25 basis points of the insured mortgage loan amount at the beginning of each calendar year. In addition, the Company has guaranteed through December 31, 1996 that the loss

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reserves transferred will be sufficient to cover the claims on all policies underwritten prior to the sale date.

NOTE 3 DISCONTINUED OPERATIONS

In September 1995, the Company announced its decisions to dispose of its automated banking division and related activities. As a result of these decisions, a loss of \$3,204, net of a tax benefit of \$1,776 was recorded consisting of a net loss of \$1,954 on the sale of assets and a loss of \$1,250, incurred from related operations until the sales and dispositions, both of which were substantially complete at December 31, 1995. The Company's consolidated statements of operations have been restated for all periods presented to reflect the discontinuance of these operations. Losses from operations of the discontinued division, net of tax, amounted to \$4,468, \$4,514 and \$2,270 for the nine months ended September 30, 1995, the year ended December 31, 1994 and the year ended December 31, 1993, respectively. Gross revenues from the automated banking division and related activities for the years ended December 31, 1995, 1994 and 1993 amounted to \$1,822, \$1,768 and \$1,451, respectively.

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair values reflected below are indicative of the interest rate environments as of December 31, 1995 and 1994 and do not take into consideration the effects of interest rate fluctuations. In different interest rate environments, fair value results can differ significantly, especially for certain fixed-rate financial instruments and non-accrual assets. In addition, the fair values presented do not attempt to estimate the value of the Company's fee generating businesses and anticipated future business activities. In other words, they do not represent the Company's value as a going concern. Furthermore, the differences between the carrying amounts and the fair values presented may not be realized because, except as indicated, the Company generally intends to hold these financial instruments to maturity and realize their recorded values.

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

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

CASH AND CASH EQUIVALENTS

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

INVESTMENTS AND MORTGAGE-BACKED AND RELATED SECURITIES

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

LOANS AND DISCOUNTED LOANS

The fair value of whole loans is estimated based upon quoted market prices for similar whole loan pools. The fair value of the discounted loan portfolio is estimated based upon current market yields at which recent pools of similar mortgages have traded taking into consideration the timing and amount of expected cash flows.

LOW INCOME HOUSING TAX CREDIT INTERESTS

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

DEPOSITS

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

BORROWINGS

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

RISK MANAGEMENT INSTRUMENTS

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

LOAN COMMITMENTS

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

REAL ESTATE OWNED

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

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

	December 31, 1995		December 31, 1994	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS:				
Cash and cash equivalents	\$ 54,632	\$ 54,632	\$ 36,750	\$ 36,750
Securities available for sale	337,480	337,480	187,717	187,717
Loans available for sale	251,790	253,854	102,293	102,934
Investment securities	18,665	18,657	17,011	16,728
Mortgage-related securities held for investment	-	-	91,917	85,547
Loan portfolio, net	295,605	300,075	57,045	55,731
Discounted loan portfolio, net	669,771	682,241	529,460	529,460
Investments in low income housing tax credit interest	81,362	94,238	49,442	60,144
Real estate owned, net	166,556	187,877	96,667	109,169
FINANCIAL LIABILITIES:				
Deposits	1,501,646	1,488,668	1,023,268	992,340
Advances from the Federal Home Loan Bank	70,399	70,530	5,399	5,528
Securities sold under agreements to repurchase	84,761	84,761	-	-
Subordinated debentures and other interest bearing obligations	126,848	130,192	28,688	28,570
OTHER:				
Loan commitments	54,405	54,405	41,027	41,027

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NOTE 5 SECURITIES AND LOANS AVAILABLE FOR SALE

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

DECEMBER 31, 1995:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-related securities:				
Single family residential:				
AAA-rated collateralized mortgage obligations	\$140,304	\$ 9	\$(1,482)	\$138,831
FHLMC interest only	2,217	-	(35)	2,182
FNMA interest only	10,080	-	(488)	9,592
FNMA principal only	8,104	114	-	8,218
Subordinates	27,410	-	(100)	27,310
Futures contracts	-	168	(1,766)	(1,598)
Planned amortization class (PAC) residuals	759	-	(185)	574
REMIC residuals	616	-	(144)	472
	189,490	291	(4,200)	185,581
Multi-family and commercial:				
AAA-rated interest only	101,110	2,840	(18)	103,932
FNMA interest only	5,520	16	(275)	5,261
Subordinates	43,605	845	(1,496)	42,954
Futures contracts	-	-	(248)	(248)
	150,235	3,701	(2,037)	151,899
	\$339,725	\$3,992	\$(6,237)	\$337,480
Loans:				
Single family residential	\$221,927	\$1,736	\$ -	\$223,663
Multi-family	28,694	314	-	29,008
Consumer	1,169	14	-	1,183
	\$251,790	\$2,064	\$ -	\$253,854

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 1994:				
U.S. Treasury bills	\$ 3,531	\$ 2	\$ (1)	\$ 3,532
Mortgage-backed securities:				
Single family residential:				
AAA-rated	19,174	-	(75)	19,099
Mortgage-related securities:				
Single family residential:				
FNMA interest only	1,996	-	-	1,996
FNMA principal only	11,663	-	(173)	11,490
Collateralized mortgage obligations	79,539	-	(4,507)	75,032
Futures contracts	-	1,143	-	1,143
	93,198	1,143	(4,680)	89,661
Multi-family:				
Collateralized mortgage obligations	54,950	1,535	(2,546)	53,939
Subordinates	21,334	761	-	22,095
Futures contracts	-	-	(609)	(609)
	76,284	2,296	(3,155)	75,425
	\$192,187	\$3,441	\$(7,911)	\$187,717
Loans:				
Single family residential mortgages	\$ 16,825	\$ -	\$ (562)	\$ 16,263
Multi-family	83,845	1,503	-	85,348
Futures contracts	-	-	(121)	(121)
Consumer	1,623	-	(179)	1,444
	\$102,293	\$1,503	\$ (862)	\$102,934

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A profile of the maturities of securities available for sale at December 31, 1995 follows. Mortgage-backed securities are included based on their weighted-average maturities, reflecting anticipated future prepayments based on a consensus of dealers in the market.

	Amortized Cost	Fair Value
	-----	-----
Due within one year	\$ 13,977	\$ 13,970
Due after 1 through 5 years	193,207	189,465
Due after 5 through 10 years	130,988	131,634
Due after 10 years	22,797	23,655
	-----	-----
	\$360,969	\$358,724
	-----	-----
	-----	-----

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

	1995	1994	1993
	-----	-----	-----
SECURITIES:			
Gross realized gains	\$ 1,266	\$ 10,654	\$ 3,980
Gross realized losses	(2,079)	(7,999)	(1,010)
	-----	-----	-----
Net realized (losses) gains	\$ (813)	\$ 2,655	\$ 2,970
	-----	-----	-----
	-----	-----	-----
PROCEEDS ON SALES	\$836,247	\$877,911	\$744,636
	-----	-----	-----
	-----	-----	-----
Premiums amortized against interest income	\$ 5,188	\$ 2,782	\$ 7,578
Discounts accreted to interest income	(3,135)	(553)	(49)
	-----	-----	-----
Net premium amortization	\$ 2,053	\$ 2,229	\$ 7,529
	-----	-----	-----
	-----	-----	-----
LOANS:			
Gross realized gains	\$ 1,817	\$ 3,399	\$ 773
Gross realized losses	-	(806)	-
	-----	-----	-----
Net realized gains	\$ 1,817	\$ 2,593	\$ 773
	-----	-----	-----
	-----	-----	-----
PROCEEDS ON SALES	\$100,104	\$383,673	\$ 95,936
	-----	-----	-----
	-----	-----	-----

One security in the available for sale portfolio, with a market value of \$10,954, is pledged as collateral to the State of New Jersey in connection with the Bank's sales of certificates of deposit over \$100 to New Jersey municipalities. Additionally, certain mortgage-related securities are pledged as collateral for securities sold under agreements to repurchase (see note 15).

NOTE 6 INVESTMENT SECURITIES

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

	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 1995:				
U.S. Treasury securities	\$10,036	\$ -	\$ (8)	\$10,028
Federal Home Loan Bank stock	8,520	-	-	8,520
Limited partnership interests	109	-	-	109
	\$18,665	\$ -	\$ (8)	\$18,657
DECEMBER 31, 1994:				
U.S. Treasury securities	\$10,325	\$ -	\$ (283)	\$10,042
Federal Home Loan Bank stock	6,555	-	-	6,555
Limited partnership interests	131	-	-	131
	\$17,011	\$ -	\$ (283)	\$16,728

All U.S. Treasury securities held for investment at December 31, 1995 are due within one year. The FHLB stock is pledged as additional collateral for FHLB advances, and a portion of the U.S. Treasury securities are pledged as collateral for the \$399 FHLB advance due in 1997 (see note 14).

Premiums amortized against and discounts accreted to income on U.S. Treasury securities held for investment were as follows for the periods ended December 31:

	1995	1994	1993
Premiums amortized against interest income	\$289	\$324	\$286
Discounts accreted to interest income	-	(12)	(7)
Net premium amortization	\$289	\$312	\$279

Included in interest income on investment securities and other for the periods ended December 31, 1995, 1994 and 1993 are \$1,388, \$5,654 and \$2,572, respectively, of deferred fees accreted on tax residuals (see note 19).

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NOTE 7 MORTGAGE-RELATED SECURITIES

In December 1995 the Company transferred all of its mortgage-related securities held for investment to its available for sale portfolio (see note 1).

The book and market values and gross unrealized gains and losses for the Company's mortgage-related securities held for investment at December 31, 1994 were as follows:

	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$90,153	\$ -	\$(6,024)	\$84,129
Planned amortization class securities	994	-	(19)	975
REMIC residuals	770	-	(327)	443
	-----	-----	-----	-----
	\$91,917	\$ -	\$(6,370)	\$85,547
	-----	-----	-----	-----
	-----	-----	-----	-----

Premiums amortized against and discounts accreted to interest income on mortgage-related securities were as follows for the periods ended December 31:

	1995	1994	1993
Premiums amortized against interest income	\$652	\$1,043	\$ 5,094
Discounts accreted to interest income	(36)	(277)	(1,694)
	---	---	---
Net premium amortization	\$616	\$ 766	\$ 3,400
	---	---	---
	---	---	---

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NOTE 8 LOAN PORTFOLIO

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

	1995	1994
	-----	-----
CARRYING VALUE:		
Single family residential	\$ 75,928	\$31,926
	-----	-----
Multi-family residential		
Permanent	41,306	1,800
Construction	7,741	-
	-----	-----
Total multi-family residential	49,047	1,800
	-----	-----
Commercial real estate:		
Hotel	125,791	19,659
Office	61,262	-
Land	24,904	1,315
Other	2,494	4,936
	-----	-----
Total commercial real estate	214,451	25,910
	-----	-----
Consumer	3,223	1,558
	-----	-----
Total loans	342,649	61,194
Undisbursed loan funds	(39,721)	-
Unaccreted discount	(5,376)	(3,078)
Allowance for loan losses	(1,947)	(1,071)
	-----	-----
Loans, net	\$295,605	\$57,045
	-----	-----
	-----	-----

At December 31, 1995 the Company had \$7,005 of single family residential loans, \$3,648 of land loans and \$1,275 of multi-family residential loans outstanding, at market interest rates and terms, which were issued to facilitate the sale of the Company's real estate owned and real estate held for development.

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

	1995	1994	1993
	-----	-----	-----
NON-PERFORMING LOANS:			
Single family residential	\$2,923	\$2,478	\$2,347
Multi-family	731	152	664
Consumer	202	29	556
	-----	-----	-----
	\$3,856	\$2,659	\$3,567
	-----	-----	-----
	-----	-----	-----
ALLOWANCE FOR LOAN LOSSES:			
Balance, beginning of year	\$1,071	\$ 884	\$ 752
Provision for loan losses	1,121	-	-
Charge-offs	(263)	(472)	(336)
Recoveries	18	659	468
	-----	-----	-----
Balance, end of year	\$1,947	\$1,071	\$ 884
	-----	-----	-----
	-----	-----	-----
SIGNIFICANT RATIOS:			
Non-performing loans as a percentage of:			
Loans	1.27%	4.35%	3.71%
Total assets	0.20%	0.21%	0.26%
Allowance for loan losses as a percentage of:			
Loans	0.65%	1.84%	0.99%
Non-performing loans	50.49%	40.28%	24.78%
Net charge-offs (recoveries) as a percentage of average loans	0.19%	(0.28)%	(0.10)%

If non-accrual loans had been current in accordance with their original terms, interest income for the years ended December 31, 1995, 1994 and 1993 would have been approximately \$322, \$207 and \$243 higher, respectively. No interest has been accrued on loans greater than 90 days past due. At December 31, 1995, the Company had no investment in impaired loans as defined in accordance with SFAS No. 114, and as amended by SFAS No. 118.

The Company services for other investors mortgage loans which it does not own. The total amount of such loans serviced for others was \$361,608 and \$132,843 at December 31, 1995 and 1994, respectively. Servicing fee income on such loans amounted to \$493, \$231 and \$548 for the years ended December 31, 1995, 1994 and 1993, respectively. The unamortized balance of

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purchased mortgage servicing rights was \$3,433 and \$41 at December 31, 1995 and 1994, respectively, and is included in other assets.

The loan portfolio is geographically located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing the Company's loans were located at December 31, 1995.

	Single Family Residential	Multi-family Residential	Commercial Real Estate	Consumer	Total
California	\$ 8,392	\$22,761	\$ 42,419	\$ -	\$ 73,572
New Jersey	39,090	-	15,829	128	55,047
New York	9,681	1,876	29,800	2,309	43,666
Florida	182	-	29,225	-	29,407
Massachusetts	213	-	20,047	-	20,260
Other	18,370	24,410	77,131	786	120,697
Total	\$75,928	\$49,047	\$214,451	\$3,223	\$342,649

Certain mortgage loans are pledged as collateral for FHLB advances (see note 14).

NOTE 9 DISCOUNTED LOAN PORTFOLIO

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

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

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

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	Carrying Value	
	1995	1994
LOAN TYPE:		
Single family residential	\$ 376,501	\$ 382,165
Multi-family residential	176,259	300,220
Commercial real estate	388,566	102,138
Other	2,203	911
	-----	-----
Total discounted loans	943,529	785,434
Unaccreted discount	(273,758)	(255,974)
	-----	-----
Discounted loans, net	\$ 669,771	\$ 529,460
	-----	-----
	December 31,	
	1995	1994
	-----	-----
LOAN STATUS:		
Current	\$ 351,630	\$ 113,794
Less than 90 days past due	86,838	57,023
Greater than 90 days past due	385,112	413,506
Acquired and servicing not yet transferred	119,949	201,111
	-----	-----
	\$ 943,529	\$ 785,434
	-----	-----
	-----	-----

At December 31, 1995 and 1994 the total accreted and unrealized discount on discounted loans was \$7,505 and \$5,306, respectively. A summary of income on discounted loans is as follows for the years ended December 31:

	1995	1994	1993
	-----	-----	-----
INTEREST INCOME:			
Realized	\$70,807	\$48,734	\$25,871
Accreted and unrealized	5,191	3,826	5,165
	-----	-----	-----
	\$75,998	\$52,560	\$31,036
	-----	-----	-----
	-----	-----	-----
GAINS ON SALES:			
Realized gains on sales	\$ 6,008	\$ 890	\$ 3,862
	-----	-----	-----
	-----	-----	-----

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

	1995	1994	1993
	-----	-----	-----
Principal balance, beginning of year	\$ 785,434	\$ 433,516	\$ 310,464
Acquisitions	791,195	826,391	294,359
Resolutions and repayments	(300,161)	(265,292)	(116,890)
Loans transferred to real estate owned	(281,344)	(171,300)	(26,887)
Sales	(51,595)	(37,881)	(27,530)
	-----	-----	-----
Principal balance, end of year	\$ 943,529	\$ 785,434	\$ 433,516
	-----	-----	-----

The discounted loan portfolio is geographically located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing the Company's discounted loans were located at December 31, 1995:

	Single Family Residential	Multi-family Residential	Commercial Real Estate and Other	Total
	-----	-----	-----	-----
California	\$ 77,988	\$111,754	\$210,872	\$400,614
New Jersey	58,643	774	53,976	113,393
New York	68,483	13,571	12,528	94,582
Florida	17,248	26,464	19,299	63,011
Connecticut	49,705	2,753	10,263	62,721
Other	104,434	20,943	83,831	209,208
	-----	-----	-----	-----
Total	\$376,501	\$176,259	\$390,769	\$943,529
	-----	-----	-----	-----

NOTE 10 REAL ESTATE OWNED

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

	1995	1994
	-----	-----
Discounted loan portfolio:		
Single family residential	\$ 75,144	\$86,426
Multi-family residential	59,932	-
Commercial real estate	31,218	8,801
	-----	-----
Total discounted loan portfolio	166,294	95,227
Loan portfolio	262	1,440
	-----	-----
	\$166,556	\$96,667
	-----	-----

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

	1995	1994	1993
	-----	-----	-----
Balance, beginning of year	\$ 3,937	\$ 2,455	\$ 102
Provision for losses	10,510	9,074	2,980
Charge-offs and sales	(9,841)	(7,592)	(627)
	-----	-----	-----
Balance, end of year	\$ 4,606	\$ 3,937	\$2,455
	-----	-----	-----

Valuation allowances on real estate owned are established on a specific property basis.

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

	1995	1994	1993
	-----	-----	-----
Gains on sales	\$19,006	\$21,308	\$ 2,541
Provision for losses	(10,510)	(9,074)	(2,980)
Carrying costs, net of rental income	1,044	(6,239)	(719)
	-----	-----	-----
Income (loss)	\$ 9,540	\$ 5,995	\$(1,158)
	-----	-----	-----

NOTE 11 INVESTMENTS IN LOW INCOME HOUSING TAX CREDIT INTERESTS

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

	1995	1994
	-----	-----
Investments solely as a limited partner made prior to May 18, 1995	\$58,911	\$47,978
Investments solely as a limited partner made on or after May 18, 1995	4,223	-
Investments as both a limited and, through subsidiaries, general partner	18,228	1,464
	-----	-----
	\$81,362	\$49,442
	-----	-----

The qualified affordable housing projects underlying the Company's investments in low income housing tax credit interests are geographically located throughout the United States. At December 31, 1995, the Company's largest single investment was \$16,295 which is in a project located in Fort Lauderdale, Florida.

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Income on the Company's limited partnership investments made prior to May 18, 1995 is recorded under the level yield method as a reduction of income tax expense, and amounted to \$7,715, \$5,410 and \$2,013 for the years ended December 31, 1995, 1994 and 1993, respectively. Had these investments been accounted for under the equity method, net income would have been reduced by \$2,798, \$2,742 and \$1,606 for the years ended December 31, 1995, 1994 and 1993, respectively. For the three years ended December 31, 1995 the Company recorded no income or expense on its limited partnership investments made after May 18, 1996 or its investments as a limited and, through subsidiaries, general partner.

Other liabilities include \$9,794 and \$8,577 at December 31, 1995 and 1994, respectively, representing contractual obligations to fund certain limited partnerships which invest in low income housing tax credit interests.

NOTE 12 PREMISES AND EQUIPMENT

	December 31,	
	----- 1995	----- 1994
Hotel subsidiaries:		
Land	\$ 613	\$ 5,178
Building and leasehold improvements	11,402	16,823
Office and computer equipment	720	2,485
Less accumulated depreciation and amortization	(778)	(1,316)
	----- 11,957	----- 23,170
	-----	-----
Subsidiaries other than hotels:		
Land	485	751
Building and leasehold improvements	5,672	2,330
Automated banking equipment	322	5,317
Office and computer equipment	12,726	16,425
Manufacturing equipment	25	550
Less accumulated depreciation and amortization	(5,828)	(10,234)
	----- 13,402	----- 15,139
	----- \$25,359	----- \$38,309
	-----	-----
	-----	-----

As part of the branch sales, premises and equipment with a net book value of \$1,112 and \$4,192 were sold for a gain of \$158 and \$2,908 in 1995 and 1994, respectively. Also, all automated banking equipment was sold or otherwise disposed of during the fourth quarter of 1995, with the exception of \$322 of such equipment which was sold in January 1996 (see note 3).

NOTE 13 DEPOSITS

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

	1995		1994	
	Weighted Average Rate	Book Value	Weighted Average Rate	Book Value
Non-interest bearing deposits	-%	\$ 48,482	-%	\$ 35,943
NOW and money market				
checking accounts	3.37	17,147	2.17	18,934
Savings accounts	2.30	3,471	2.30	24,007
		69,100		78,884
Certificates of deposit		1,440,240		950,817
Unamortized deferred fees		(7,694)		(6,433)
	5.68	1,432,546	5.50	944,384
	5.46	\$1,501,646	5.17	\$1,023,268

At December 31, 1995 and 1994 certificates of deposit include \$1,123,196 and \$857,770, respectively, of deposits originated through investment banking firms which solicit deposits from their customers, of which \$996,543 and \$745,591, respectively, are non-cancelable. Additionally, at December 31, 1995 and 1994, \$80,045 and \$21,124 of certificates of deposit were issued on an uninsured basis. Non-interest bearing deposits include \$37,686 and \$7,397 of advance payments by borrowers for taxes and insurance and principal and interest collected but not yet remitted in accordance with loan servicing agreements at December 31, 1995 and 1994, respectively.

The contractual maturity of the Company's certificates of deposit at December 31, 1995 follows:

CONTRACTUAL REMAINING MATURITY:	
Within one year	\$ 928,542
Within two years	192,833
Within three years	132,287
Within four years	109,742
Within five years	68,721
Thereafter	421

	\$1,432,546

The amortization of the deferred fees of \$4,729, \$1,606 and \$462 for the years ended December 31, 1995, 1994 and 1993, respectively, and the accretion of the purchase accounting discount of \$0, \$(2,991) and \$(2,999) for the years ended December 31, 1995, 1994 and 1993, respectively, are computed using the interest method and are included in interest expense on certificates of

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deposit. The interest expense by type of deposit account is as follows for the years ended December 31:

	1995	1994	1993
	-----	-----	-----
NOW accounts and money market checking	\$ 1,031	\$ 1,395	\$ 1,315
Savings	451	2,602	1,982
Certificates of deposit	70,371	40,964	15,742
	-----	-----	-----
	\$71,853	\$44,961	\$19,039
	-----	-----	-----
	-----	-----	-----

Accrued interest payable on deposits in the amount of \$18,994 and \$12,061 as of December 31, 1995 and 1994, respectively, is included in accrued expenses, payables and other liabilities.

NOTE 14 ADVANCES FROM THE FEDERAL HOME LOAN BANK ("FHLB")

Advances from the FHLB mature as follows:

	December 31, 1995		December 31, 1994	
	-----	-----	-----	-----
Due Date	Interest Rate	Book Value	Interest Rate	Book Value
-----	-----	-----	-----	-----
1995	-%	\$ -	9.80%	\$5,000
1996	5.83	70,000	-	-
1997	7.02	399	7.02	399
		-----		-----
		\$70,399		\$5,399
		-----		-----
		-----		-----

Accrued interest payable on FHLB advances amounted to \$297 and \$44 as of December 31, 1995 and 1994, respectively, and is included in accrued expenses, payables and other liabilities. All interest rates are fixed by contract. Under the terms of its collateral agreement, the Company is required to maintain otherwise unencumbered qualifying assets with a fair market value ranging from 105% to 125% of FHLB advances depending on the type of collateral. The Company's FHLB stock is pledged as additional collateral for these advances.

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NOTE 15 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company enters into sales of securities under agreements to repurchase the same securities (reverse repurchase agreements). Fixed coupon reverse repurchase agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the accompanying consolidated statements of financial condition. All securities underlying reverse repurchase agreements are reflected as assets in the accompanying consolidated statements of financial condition and are held in safekeeping by broker/dealers. For the years ended December 31, 1995, 1994 and 1993, interest rate swap agreements and Eurodollar futures contracts used for risk management purposes had the effect of increasing interest expense on securities sold under agreements to repurchase and certificates of deposit by \$261, \$296 and \$2,246, respectively.

	December 31,		
	1995	1994	1993
OTHER INFORMATION CONCERNING SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE:			
Balance, end of year	\$84,761	\$ -	\$275,468
Accrued interest payable, end of year	\$ 153	\$ -	\$ 610
Weighted average interest rate, end of year	5.70%	-%	3.57%
Average balance during the year	\$16,754	\$254,052	\$195,111
Weighted average interest rate during the year	5.68%	3.98%	3.56%
Maximum month-end balance	\$84,761	\$537,629	\$275,468

Mortgage-related securities with a book value of \$91,085 and a market value of \$90,368 were posted as collateral for securities sold under agreements to repurchase at December 31, 1995.

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NOTE 16 SUBORDINATED DEBENTURES AND OTHER INTEREST BEARING
OBLIGATIONS

Subordinated debentures and other interest bearing obligations mature as follows:

	December 31,	
	1995	1994
1996:		
12% subordinated notes due January 2	\$ 1,012	\$ 1,012
10.5% notes due May 1	7,615	-
	8,627	1,012
2003:		
12% mortgage loan due September 1	7,817	7,939
2005:		
12% subordinated debentures due June 15	100,000	-
2014:		
0 - 8.5% subordinated mortgage loan due December 1	610	638
2018:		
9.65% mortgage loan due April 18	-	10,522
	\$117,054	\$20,111

The notes due in 1996 are payable to current or former shareholders and executive officers.

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

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

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

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

In connection with the issuance of the Debentures, the Bank incurred certain costs which have been capitalized and are being amortized on a straight-line basis over the expected life of the Debentures. The unamortized balance of these issuance costs amounted to \$3,170 at December 31, 1995 and is included in other assets. Accrued interest payable on the Debentures amounted to \$500 at December 31, 1995 and is included in accrued expenses, payables and other liabilities.

In 1993, subsequent to the acquisition of Old Berkeley, the Company acquired loans with an aggregate principal balance of \$8,958 that had been made by third parties to the Company's subsidiary, Berkeley Realty Group, Inc., at a discount of \$2,366. An extraordinary gain of \$1,538, after deduction of \$828 for related income taxes, is recognized in the accompanying consolidated statements of operations for that year. Berkeley Realty Group, Inc. is a subsidiary of Old Berkeley which was engaged in real estate development and residential construction activities. The loans acquired by the Company were collateralized by real estate held for development, which was recorded at fair value at the effective date of the acquisition.

NOTE 17 INTEREST RATE RISK MANAGEMENT INSTRUMENTS

In managing its interest rate risk, the Company on occasion enters into interest rate exchange agreements (swaps). Under swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated

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by reference to an agreed notional amount. The terms of the swaps provide for the Company to receive a floating rate of interest based on the London Interbank Offered Rate ("LIBOR") and to pay fixed interest rates. The Company had no outstanding swaps at December 31, 1995. The terms of outstanding swaps at December 31, 1994 follows:

Maturity	Notional Amount	LIBOR Index	Fixed Rate	Floating Rate at End of Year	Fair Value
-----	-----	-----	-----	-----	-----
1995	\$40,000	6-Month	5.260%	6.625%	\$491

The 6-month LIBOR was 7.0% on December 31, 1994. The interest expense or benefit of the swaps had the effect of increasing (decreasing) net interest income by \$358, \$(754) and \$(2,246) for the years ended December 31, 1995, 1994 and 1993, respectively. In June 1994 the Company sold certain adjustable rate mortgage-backed securities and, as a result, also terminated a related \$150,000 notional amount swap resulting in a realized gain on termination of the swap of \$1,110.

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

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

	Maturity	Notional Principal	Fair Value

DECEMBER 31, 1995:			
Eurodollar futures	1996	\$386,000	\$(1,598)
	1997	26,000	(168)
U.S. Treasury futures	1996	11,100	(80)
DECEMBER 31, 1994:			
Eurodollar futures	1995	350,000	1,090
	1996	117,000	248
	1997	26,000	34
U.S. Treasury futures	1995	222,500	(960)

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

	Notional Amount		
	-----	-----	-----
	Swaps	Short Eurodollar Futures	Short U.S. Treasury Futures
BALANCE, DECEMBER 31, 1993	\$ 254,000	\$ 200,000	\$ 110,900
Purchases	-	2,577,000	1,016,800
Maturities	(64,000)	-	-
Terminations	(150,000)	(2,284,000)	(905,200)
	-----	-----	-----
BALANCE, DECEMBER 31, 1994	40,000	493,000	222,500
Purchases	-	336,000	708,600
Maturities	(40,000)	-	-
Terminations	-	(417,000)	(920,000)
	-----	-----	-----
BALANCE, DECEMBER 31, 1995	\$ -	\$ 412,000	\$ 11,100
	-----	-----	-----

Because interest rate futures contracts are exchange traded, holders of these instruments look to the exchange for performance under these contracts and not the entity holding the offsetting futures contract, thereby minimizing the risk of nonperformance under these contracts. The Company is exposed to credit loss in the event of nonperformance by the counterparty to the swap and controls this risk through credit monitoring procedures. The notional principal amount does not represent the Company's exposure to credit loss.

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U.S. Government securities with a carrying value of \$1,134 and \$7,630 and a fair value of \$1,134 and \$7,519 were pledged by the Company as security for the obligations under these swaps and interest rate futures contracts at December 31, 1995 and 1994, respectively.

NOTE 18 ASSET AND LIABILITY MANAGEMENT

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. The Company's objective is to attempt to control risks associated with interest rate movements. In general, the Company's strategy is to match asset and liability balances within maturity categories to limit its exposure to earnings variations and variations in the value of assets as interest rates change over time. Additionally, the Company's strategy has been to acquire and hold assets and liabilities with short durations which are less subject to interest rate volatility. The Company also utilizes off-balance sheet financial techniques to assist in the management of interest rate risk (see note 17).

The Company's methods for evaluating interest rate risk include an analysis of its 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 tables, which are unaudited, set forth the estimated maturity or repricing of the Company's interest-earning assets and interest-bearing liabilities at December 31, 1995 and 1994. The amounts of assets and liabilities shown which mature or reprice within a particular period were determined in accordance with the contractual terms of the assets and liabilities, except (i) adjustable-rate loans and securities are included in the period in which they are first scheduled to adjust and not in the period in which they mature, (ii) fixed-rate, non-residual mortgage-related securities reflect estimated prepayments, which were based on the average prepayment rate projected by the ten largest investment banking firms making markets in these specific securities, (iii) non-performing discounted loans reflect the estimated timing of resolutions which result in repayment to the Company, (iv) fixed-rate loans reflect scheduled

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contractual amortization, with no estimated prepayments, and (v) NOW and money market checking and savings deposits, which do not have contractual maturities, reflect estimated levels of attrition, which are based on detailed studies of each such category of deposit by the Company.

	Within Three Months -----	Four to Twelve Months -----	(UNAUDITED) More Than One Year to Three Years -----	Three Years and Over -----	Total -----
AT DECEMBER 31, 1995:					
Rate-sensitive assets	\$ 231,652	\$ 350,277	\$ 263,058	\$ 778,756	\$1,623,743
Rate-sensitive liabilities	355,368	737,908	197,683	434,419	1,725,378
	-----	-----	-----	-----	-----
Interest rate sensitivity gap before off-balance sheet financial instruments	(123,716)	(387,631)	65,375	344,337	(101,635)
Off-balance sheet financial instruments	104,612	(38,518)	(34,496)	(31,598)	-
	-----	-----	-----	-----	-----
Interest rate sensitivity gap	\$ (19,104)	\$(426,149)	\$ 30,879	\$ 312,739	\$ (101,635)
	-----	-----	-----	-----	-----
Cumulative interest rate sensitivity gap	\$ (19,104)	\$(445,253)	\$ (414,374)	\$ (101,635)	
	-----	-----	-----	-----	
Cumulative interest rate sensitivity gap as a percentage of total rate sensitive assets	(1.18)%	(27.42)%	(25.52)%	(6.26)%	
	-----	-----	-----	-----	
AT DECEMBER 31, 1994:					
Rate-sensitive assets	\$ 164,755	\$ 410,339	\$ 291,844	\$ 122,301	\$ 989,239
Rate-sensitive liabilities	182,045	311,463	373,213	146,114	1,012,835
	-----	-----	-----	-----	-----
Interest rate-sensitivity gap before off-balance sheet financial instruments	(17,290)	98,876	(81,369)	(23,813)	(23,596)
Off-balance sheet financial instruments	185,535	(127,060)	(13,069)	(45,406)	-
	-----	-----	-----	-----	-----
Interest rate sensitivity gap	\$ 168,245	\$ (28,184)	\$ (94,438)	\$ (69,219)	\$ (23,596)
	-----	-----	-----	-----	-----
Cumulative interest rate sensitivity gap	\$ 168,245	\$ 140,061	\$ 45,623	\$ (23,596)	
	-----	-----	-----	-----	
Cumulative interest rate sensitivity gap as a percentage of total rate- sensitive assets	17.01%	14.16%	4.61%	(2.39)%	
	-----	-----	-----	-----	

Although interest rate sensitivity gap is a useful measurement and contributes toward effective asset and liability management, it is difficult to predict the effect of changing interest rates based solely on that measure. As a result, and as required by OTS regulations, the Company also regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity ("MVPE"), which is

defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and MVPE that are authorized by the Board of Directors of the Company.

The following table, which is unaudited, sets forth as of December 31, 1995 and 1994 the estimated percentage change in the Company's net interest income over a four-quarter period and MVPE based upon the indicated changes in interest rates, assuming an instantaneous uniform change in interest rates at all maturities.

Change (In Basis Points) in Interest Rates	(UNAUDITED) Estimated Change in			
	Net Interest Income		MVPE	
	1995	1994	1995	1994
	-----	-----	-----	-----
+400	(15.54)	24.10	(19.31)	6.19
+300	(11.66)	18.07	(14.06)	5.07
+200	(7.77)	12.05	(8.02)	4.12
+100	(3.89)	6.02	(3.77)	2.15
0	-	-	-	-
-100	3.89	(6.02)	1.58	(1.38)
-200	7.77	(12.05)	4.93	(2.41)
-300	11.66	(18.07)	10.96	(2.94)
-400	15.54	(24.10)	18.06	(5.59)

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

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NOTE 19 INCOME TAXES

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

	Years Ended December 31,		
	1995	1994	1993
Income from continuing operations	\$ 4,562	\$ 29,724	\$ 10,325
Discontinued operations	(4,097)	(2,227)	(1,259)
Extraordinary gains	-	-	828
Cumulative effect of a change in accounting principle	-	-	1,341
Benefit of tax deduction in excess of amounts recognized for financial reporting purposes related to employee stock options reflected in stockholders' equity	(375)	(39)	(199)
	\$ 90	\$ 27,458	\$ 11,036

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

		Years Ended December 31,		
		1995	1994	1993
CURRENT:	Federal	\$ 1,673	\$ 26,267	\$ 4,269
	State	5,011	2,261	260
		6,684	28,528	4,529
DEFERRED:	Federal	1,762	1,022	5,742
	State	(3,884)	174	54
		(2,122)	1,196	5,796
Total		\$ 4,562	\$ 29,724	\$ 10,325

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Income tax expense differs from the amounts computed by applying the U.S. Federal corporate income tax rate of 35% as follows:

	Years Ended December 31,		
	1995	1994	1993
Expected income tax expense at statutory rate	\$13,196	\$28,552	\$13,171
Differences between expected and actual tax:			
Effect of tax rate increase on net deferred tax asset	-	-	(784)
Excess of cost over net assets acquired adjustments	(76)	3,592	(392)
Tax effect of (utilization) non-utilization of net operating loss	(1,380)	23	2,147
Sale of IMI insurance licenses	-	-	(1,682)
Utilization of subsidiary's losses	-	-	299
State tax (after Federal tax benefit)	733	2,054	204
Low income housing tax credits	(7,715)	(5,410)	(2,013)
Tax effect of minority interests	-	-	(105)
Other	(196)	913	(520)
Actual income tax expense	\$ 4,562	\$29,724	\$10,325

The adjustments to the 1993 consolidated statements of financial condition to adopt SFAS No. 109 netted to a charge of \$1,341 and is reflected as a cumulative effect of a change in accounting principle. It primarily represents the impact of conversion of the tax bad debt reserve in excess of that at December 31, 1987 to a temporary rather than a permanent difference. At December 31, 1995, 1994 and 1993 the Bank had statutory bad debt reserves of approximately \$5.7 million for which no provision for Federal income taxes had been made. If, in the future, this reserve is used for any purpose other than to absorb bad debt losses, Federal income taxes may be imposed at the then applicable rate.

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The net deferred tax liability was comprised of the following:

	December 31,	
	1995	1994
DEFERRED TAX ASSETS:		
Tax residuals and deferred income on tax residuals	\$26,303	\$22,833
Deferred income on futures gain	-	1,827
Application of purchase accounting	566	6,106
Accrued profit sharing	1,615	3,809
Accrued other liabilities	406	964
Deferred interest expense on discounted loan portfolio	1,170	700
Mark to market and reserves on REO properties	582	-
Other	-	154
	30,642	36,393
DEFERRED TAX LIABILITIES:		
Bad debt reserves	6,790	6,892
Deferred interest income on discounted loan portfolio	2,350	5,209
Mark to market and reserves on REO properties	-	3,032
Premises and equipment	-	736
Cancellation of indebtedness	459	899
Other	13	-
	9,612	16,768
	21,030	19,625
Mark to market on certain mortgage-backed and related securities available for sale	1,233	1,070
	22,263	20,695
Deferred tax asset valuation allowance	-	-
Net deferred tax assets	\$22,263	\$20,695

Deferred tax assets, net of deferred fees, include tax residuals which result from the ownership of Real Estate Mortgage Investment Conduits ("REMIC"). While a tax residual is anticipated to have little or no future cash flows from the REMIC from which it has been issued, the tax residual does bear the income tax liability and benefit resulting from the annual differences between the interest paid on the debt instruments issued by the REMIC and the interest received on the mortgage loans held by the REMIC. Typically this difference generates taxable income to the Company in the first several years of the REMIC and equal amounts of tax losses thereafter, thus resulting in the deferred tax asset. As a result of the manner in which REMIC residual interests are treated for tax purposes, at December 31, 1995, 1994 and 1993, the Company had approximately \$55,000, \$12,400 and \$1,200, respectively, of net operating loss carryforwards for

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tax purposes. The net operating loss carryforwards of \$1,200, \$11,200 and \$42,600 will expire, if unused, in the years 2008, 2009 and 2010, respectively.

Prior to 1994, a portion of the fees received by the Company related to the acquisition of tax residuals were recorded in the statements of operations as fees on financing transactions at the time of acquisition and the remainder were deferred and recognized as interest income on a level yield basis over the expected life of the related deferred tax asset. From time to time, the Company revises its estimate of its future obligations under the tax residuals and in 1994, due primarily to certain changes in the marketplace, began to defer all fees received and recognize such fees as interest income on a level yield basis over the expected life of the related deferred tax asset. The Company also adjusts, as interest income, the recognition of fees deferred based upon changes in the actual prepayment rates of the underlying mortgages held by the REMIC and periodic reassessment of the expected life of the related deferred tax asset. As a result of the Company's earnings history, current tax position and taxable income projections, the Company believes that it will generate sufficient taxable income in future years to realize the net deferred tax asset position as of December 31, 1995. In evaluating the expectation of sufficient future taxable income, the Company considered future reversals of temporary differences and available tax planning strategies that could be implemented, if required.

A valuation allowance was not required as of December 31, 1995 and 1994 as it was the Company's assessment that, based on available information, it is more likely than not that all of the deferred tax asset will be realized. A valuation allowance will be established in the future to the extent of a change in the Company's assessment of the amount of the net deferred tax asset that is expected to be realized.

NOTE 20 RETIREMENT PLAN

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

In connection with its acquisition of Old Berkeley, the Bank assumed the obligations under a noncontributory defined benefit pension plan (the "Plan") covering substantially all employees upon their eligibility under the terms of the Plan. The Plan has been frozen for the plan year ended December 31, 1993 and has been fully funded. Old Berkeley also maintained a defined contribution 401(k) plan in which Old Berkeley's eligible employees continued to participate until December 31, 1994, when Old Berkeley's 401(k) plan was merged into the Company's 401(k) Plan.

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The Company's combined contributions to its 401(k) plan and the Old Berkeley 401(k) plan in the years ended December 31, 1995, 1994, and 1993 were \$248, \$163 and \$127, respectively.

NOTE 21 STOCKHOLDERS' EQUITY

On July 31, 1996, the Board of Directors approved an increase in the authorized number of common shares from 20,000,000 shares of \$1.00 par value to 200,000,000 shares of \$0.01 par value and declared a 10 for 1 stock split for each share of common stock then outstanding and for all then outstanding options to purchase shares of the Company's common stock. All references in the consolidated financial statements to the number of shares and per share amounts have been adjusted retroactively for the recapitalization and stock split.

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

In December 1991, as part of its annual incentive compensation plan, the Company adopted a Non-Qualified Stock Option Plan (the "Stock Plan"). The Stock Plan provides for the issuance of stock options to key employees to purchase shares of common stock at prices less than the fair market value of the stock at the date of grant.

	Options Granted	Exercise Price	Options Exercised	Options Forfeited or Repurchased	Options Vested
1991:	1,133,320	\$.30	450,000	99,990	583,330
1992:	826,670	.45	122,220	68,890	635,560
1993:	1,003,600	1.74	110,400	135,150	758,050
1994:	1,149,320	.79	-	69,140	1,080,180
1995:	297,380	5.76	-	-	-
1995:	7,110	.94	-	-	-

The difference between the fair market value of the stock at the date of grant and the exercise price is treated as compensation expense; included in compensation expense is \$65, \$4,571, and \$1,744 for the years ended December 31, 1995, 1994 and 1993, respectively.

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NOTE 22 REGULATORY REQUIREMENTS

As a Federal savings bank, the Bank is subject to Federal laws and regulations including regulations that require institutions to comply with minimum regulatory capital requirements. The following comparison of the Bank's regulatory capital to its regulatory capital requirements at December 31, 1995 and related additional discussion are unaudited:

	Tangible Capital	Core Capital	Risk-Based Capital
	-----	-----	-----
GAAP capital	\$124,725	\$124,725	\$124,725
Implementation of Financial Accounting Standard No. 115	1,415	1,415	1,415
Excess qualifying purchased mortgage servicing rights	(343)	(343)	(343)
Additional capital items:			
Subordinated debentures	-	-	100,000
General valuation allowances	-	-	1,757
	-----	-----	-----
Regulatory capital-computed	125,797	125,797	227,554
Minimum capital requirement	28,952	57,904	154,324
	-----	-----	-----
Regulatory capital excess	\$ 96,845	\$ 67,893	\$ 73,230
	-----	-----	-----
CAPITAL RATIOS:			
Required	1.50%	3.00%	8.00%
Actual	6.52%	6.52%	11.80%

The OTS has promulgated a regulation governing capital distributions. The Bank is considered to be a Tier 1 association under this regulation because it met or exceeded its fully phased-in capital requirements at December 31, 1995. A Tier 1 association that before and after a proposed capital distribution meets or exceeds its fully phased-in capital requirements may make capital distributions during any calendar year equal to the greater of (i) 100% of net income for the calendar year to date plus 50% of its "surplus capital ratio" at the beginning of the year or (ii) 75% of its net income over the most recent four-quarter period. In order to make these capital distributions, the Bank must submit written notice to the OTS 30 days in advance of making the distribution. In addition, the indenture governing the Bank's Debentures limits the declaration or payment of dividends and the purchase or redemption of the Bank's common or preferred stock in the aggregate to the sum of 50% of the Bank's consolidated net income and 100% of all capital contributions and proceeds from the issuance or sale of common stock, since the date the Debentures were issued.

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NOTE 23 OTHER EXPENSES

	Years Ended December 31,		
	1995	1994	1993
OTHER OPERATING EXPENSES:			
Professional fees	\$ 2,786	\$ 2,928	\$ 1,896
Loan related expenses	2,433	1,332	1,207
FDIC insurance	2,212	2,220	1,255
Marketing	968	1,305	360
Travel and lodging	925	1,566	994
Corporate insurance	637	501	425
Investment and treasury services	387	681	516
Deposit related expenses	303	513	459
OTS assessment	257	393	62
Other	2,181	2,864	1,481
	\$13,089	\$14,303	\$ 8,655

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NOTE 24 BUSINESS LINE REPORTING

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

	Interest Income	Income From Continuing Operations Before Taxes	Assets
	-----	-----	-----
DECEMBER 31, 1995:			
Asset acquisition and resolution	\$ 77,143	\$28,184	\$ 910,680
Residential finance	13,323	1,338	321,350
Commercial finance	23,708	(1,686)	356,690
Investment management	21,855	3,641	328,263
Retail banking	44	4,053	3,449
Hotel operations	-	2,593	19,451
Other	1,202	(422)	33,707
	-----	-----	-----
	\$137,275	\$37,701	\$1,973,590
	-----	-----	-----
	-----	-----	-----
DECEMBER 31, 1994:			
Asset acquisition and resolution	\$ 53,357	\$18,008	\$ 656,125
Residential finance	4,573	(303)	59,513
Commercial finance	21,566	4,550	175,958
Investment management	47,906	7,504	308,530
Retail banking	121	53,214	27,282
Hotel operations	-	(1,808)	26,149
Other	3,935	412	12,846
	-----	-----	-----
	\$131,458	\$81,577	\$1,266,403
	-----	-----	-----
	-----	-----	-----
DECEMBER 31, 1993:			
Asset acquisition and resolution	\$ 31,036	\$19,426	\$ 341,098
Residential finance	6,056	447	71,292
Commercial finance	2,135	(882)	101,134
Investment management	36,044	25,145	761,040
Retail banking	-	(7,495)	30,851
Hotel operations	-	(1,278)	26,470
Mortgage insurance operations	-	877	-
Other	3,652	1,390	64,792
	-----	-----	-----
	\$ 78,923	\$37,630	\$1,396,677
	-----	-----	-----
	-----	-----	-----

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The asset acquisition and resolution business includes the Company's discounted loan activities, including residential and commercial loans and the related real estate owned. Residential finance includes the Company's acquisition of single family residential loans to non-conforming borrowers, which began in late 1994 and which are recorded as available for sale, and the Company's historical loan portfolio of single family residential loans held for investment. The commercial finance activities include the Company's origination of commercial real estate loans held for investment, the origination and purchase of multi-family residential loans available for sale, investments in subordinate securities, and investments in low income housing tax credit partnerships. Low income housing tax credits of \$7,715, \$5,410 and \$2,013 were earned as part of the commercial finance activity for the years ended December 31, 1995, 1994 and 1993, respectively, and are not reflected in the above table. Investment management includes the results of the securities portfolio, whether available for sale or investment, other than subordinate interests, and the retail banking operations include the results of the Company's retail branch network which consists of one branch at December 31, 1995. Included in income from continuing operations for retail banking are gains on sales of branches, net of profit sharing expense, of \$4,344 and \$50,080 for the years ended December 31, 1995 and 1994, respectively.

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

NOTE 25 COMMITMENTS AND CONTINGENCIES

Certain premises are leased under various noncancellable operating leases with terms expiring at various times through 2005, exclusive of renewal option periods. The annual aggregate minimum rental commitments under these leases are summarized as follows:

1996	\$ 762
1997	808
1998	805
1999	838
2000	872
2001-2005	4,394

Minimum lease payments	\$8,479

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Rent expense for the years ended December 31, 1995, 1994 and 1993 was \$1,601, \$2,402 and \$1,757, respectively, which are net of sublease rentals of \$68, \$339 and \$282, respectively.

At December 31, 1995 the Company was committed to lend up to \$9,884 under outstanding unused lines of credit. The Company also had commitments to (i) originate multi-family construction loans with aggregate principal balances of \$8,907, (ii) purchase \$4,800 of residential discounted loans, (iii) originate \$5,390 of loans secured by office buildings, and (iv) originate \$25,424 of mortgage loans secured by hotel properties. In connection with its acquisition of Old Berkeley in 1993, the Company has a recourse obligation of \$4,163 on single family residential loans sold to the Federal Home Loan Mortgage Corporation ("FHLMC"). The Company, through its investment in subordinated securities which had a book value of \$69,156 at December 31, 1995, supports senior classes of securities having an outstanding principal balance of \$868,835.

At December 31, 1994 the Company was committed to lend up to \$8,353 under outstanding unused lines of credit. The Company also had commitments to (i) originate multifamily loans with an aggregate principal balance of \$25,634; (ii) purchase and sell mortgage-backed and related securities of \$46,578 and \$19,483, respectively; and (iii) purchase an adjustable rate loan with an aggregate principal balance of \$1,493. In connection with its acquisition of Old Berkeley, the Company has a recourse obligation of \$4,163 on single family residential loans sold to FHLMC. The Company, through its investment in a subordinated security which had a book value of \$22,897 at December 31, 1994, supports senior classes of the security having an outstanding principal balance of \$362,271.

In order to increase the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC") to its minimum required reserve ratio of 1.25%, a proposal has been made to impose a special one-time assessment of 85 to 90 basis points on all SAIF-insured deposits held as of March 31, 1995. This one-time assessment is intended to recapitalize the SAIF to the required level of 1.25% of insured deposits and would be paid during 1996 if the law is enacted as proposed. The Bank's annual FDIC insurance premium would thereafter be reduced. If the assessment is made at the currently proposed rate, the effect on the Company would be a pre-tax charge of approximately \$9.4 million (0.85% on deposits of \$1.1 billion at March 31, 1995) or \$6.0 million after taxes (35.85% assumed tax rate). Should this law be enacted as proposed, the Company believes that its current capital is sufficient to enable the Bank to remain a well-capitalized institution.

The Company has guaranteed through December 31, 1996 that the loss reserves of Investors and Equity, transferred in conjunction with the Company's sale of their stock, will be sufficient to cover the claims on all policies transferred. Management does not believe this guarantee will have a material effect on the consolidated financial statements.

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

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NOTE 26 PARENT COMPANY ONLY FINANCIAL INFORMATION

CONDENSED STATEMENTS OF FINANCIAL CONDITION:

	December 31,	
	1995	1994
ASSETS		
Cash and cash equivalents	\$ 1,028	\$ 1,910
Investment in bank subsidiary	117,300	130,337
Investments in non-bank subsidiaries	35,660	25,527
Loan portfolio, net	520	-
Prepaid expenses and other assets	4,240	1,985
	<u>\$158,748</u>	<u>\$159,759</u>
LIABILITIES		
Notes payable	\$ 8,627	\$ 1,012
Other liabilities	10,574	5,364
	<u>19,201</u>	<u>6,376</u>
STOCKHOLDERS' EQUITY		
Total stockholders' equity	139,547	153,383
	<u>\$158,748</u>	<u>\$159,759</u>

CONDENSED STATEMENTS OF OPERATIONS:

	Years Ended December 31,		
	1995	1994	1993
Interest income	\$ 401	\$ 42	\$ 74
Non-interest income	8	67	700
	<u>409</u>	<u>109</u>	<u>774</u>
Interest expense	(654)	(678)	(2,034)
Non-interest expense	(277)	(401)	(459)
	<u>(522)</u>	<u>(970)</u>	<u>(1,719)</u>
Loss before income taxes	(522)	(970)	(1,719)
Income tax (expense) benefit	1,533	1,197	(50)
	<u>1,011</u>	<u>227</u>	<u>(1,769)</u>
Income (loss) before equity in net income of subsidiaries	1,011	227	(1,769)
Equity in net income of bank subsidiary	24,773	51,650	22,824
Equity in net income (loss) of non-bank subsidiaries	(317)	(4,538)	4,177
	<u>\$25,467</u>	<u>\$47,339</u>	<u>\$25,232</u>

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CONDENSED STATEMENTS OF CASH FLOWS:

	For the years ended December 31,		
	1995	1994	1993
Cash flows from operating activities:			
Net income	\$25,467	\$47,339	\$25,232
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in income of bank subsidiary	(24,773)	(51,650)	(22,824)
Equity in (income) losses of non-bank subsidiaries	317	4,538	(4,177)
(Increase) decrease in other assets	(2,254)	(1,947)	997
Increase (decrease) in accrued expenses, payables and other liabilities	5,209	2,023	(1,291)
Net cash provided (used) by operating activities	3,966	303	(2,063)
Cash flows from investing activities:			
Net distributions from (investment in) bank subsidiary	39,216	802	(2,553)
Net distributions from (investment in) non-bank subsidiaries	(10,450)	11,491	5,537
Purchase of loans held for investment	(520)	-	-
Net cash provided by investing activities	28,246	12,293	2,984
Cash flows from financing activities:			
Issuance of notes payable	7,615	-	13,566
Repayment of notes payable	-	(13,566)	(4,605)
Exercise of common stock options	1,420	-	450
Repurchase of common stock options and common stock	(42,129)	(74)	(7,892)
Net cash (used) provided by financing activities	(33,094)	(13,640)	1,519
Net (decrease) increase in cash and cash equivalents	(882)	(1,044)	2,440
Cash and cash equivalents at beginning of year	1,910	2,954	514
Cash and cash equivalents at end of year	\$ 1,028	\$ 1,910	\$ 2,954

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NOTE 27 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	Quarters Ended			
	December 31, 1995	September 30, 1995	June 30, 1995	March 31, 1995
Interest income	\$ 44,916	\$ 32,489	\$ 33,840	\$ 26,030
Interest expense	(26,692)	(22,688)	(18,110)	(16,570)
Provision for loan losses	(1,121)	-	-	-
Net interest income after provision for loan losses	17,103	9,801	15,730	9,460
Gain on sale of branches	5,430	-	-	-
Gain on sale of hotel	4,658	-	-	-
Non-interest income	8,081	4,084	6,380	2,547
Non-interest expense	(13,407)	(10,274)	(13,130)	(8,762)
Income before income taxes and discontinued operations	21,865	3,611	8,980	3,245
Income taxes expense (benefit)	(4,660)	858	(1,172)	412
Discontinued operations, net	-	(4,536)	(1,586)	(1,550)
Net income (loss)	\$ 17,205	\$ (67)	\$ 6,222	\$ 2,107
Earnings per share:				
Earnings before discontinued operations	\$0.67	\$0.17	\$0.30	\$0.11
Earnings (loss) after discontinued operations	\$0.67	\$ -	\$0.24	\$0.06

	Quarters Ended			
	December 31, 1994	September 30, 1994	June 30, 1994	March 31, 1994
Interest income	\$ 42,533	\$31,752	\$ 31,570	\$ 25,603
Interest expense	(21,506)	(15,714)	(13,744)	(11,634)
Provision for loan losses	-	-	-	-
Net interest income after provision for loan losses	21,027	16,038	17,826	13,969
Gain on sale of branches	62,600	-	-	-
Non-interest income	4,443	4,908	4,464	5,160
Non-interest expense	(27,701)	(13,544)	(14,157)	(13,456)
Income before income taxes and discontinued operations	60,369	7,402	8,133	5,673
Income taxes	(25,804)	(989)	(1,281)	(1,650)
Discontinued operations, net	(2,164)	(928)	(437)	(985)
Net income	\$ 32,401	\$ 5,485	\$ 6,415	\$ 3,038
Earnings per share:				
Earnings before discontinued operations	\$1.02	\$0.19	\$0.20	\$0.12
Earnings after discontinued operations	\$0.95	\$0.16	\$0.19	\$0.09

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	June 30, 1996	December 31, 1995
ASSETS		
Cash and amounts due from depository institutions	\$ 6,196	\$ 4,200
Interest bearing deposits	57,638	50,432
Federal funds sold and repurchase agreements	187,232	-
Securities available for sale, at market value	263,199	337,480
Loans available for sale, at lower of cost or market	84,078	251,790
Investment securities, net	8,902	18,665
Loan portfolio, net	312,576	295,605
Discounted loan portfolio, net	594,634	669,771
Principal, interest and dividends receivable	12,019	12,636
Investments in low income housing tax credit interests	92,273	81,362
Real estate owned, net	133,604	166,556
Investment in joint venture	60,910	-
Premises and equipment, net	28,750	25,359
Income taxes receivable	8,606	1,005
Deferred tax asset	17,981	22,263
Other assets	30,710	36,466
	\$ 1,899,308	\$ 1,973,590
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits	\$ 1,502,175	\$ 1,501,646
Advances from the Federal Home Loan Bank	70,399	70,399
Securities sold under agreements to repurchase	-	84,761
Subordinated debentures and other interest bearing obligations	115,703	117,054
Accrued expenses, payables and other liabilities	56,293	60,183
TOTAL LIABILITIES	1,744,570	1,834,043
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value; 20,000,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock, \$.01 par value; 200,000,000 shares authorized; 23,812,900 and 23,812,270 shares issued and outstanding at June 30, 1996 and December 31, 1995, respectively	238	238
Additional paid-in capital	10,275	10,449
Retained earnings	145,301	130,275
Unrealized loss on securities available for sale, net of taxes	(1,076)	(1,415)
TOTAL STOCKHOLDERS' EQUITY	154,738	139,547
	\$ 1,899,308	\$ 1,973,590

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
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FOR THE SIX MONTHS ENDED JUNE 30,	1996	1995
	-----	-----
INTEREST INCOME:		
Federal funds sold and repurchase agreements	\$ 2,098	\$ 1,748
Securities available for sale	14,064	6,943
Loans available for sale	11,484	7,154
Mortgage-related securities held for investment	-	2,343
Loans	17,773	3,944
Discounted loans	52,058	36,474
Investment securities and other	1,980	1,264
	-----	-----
	99,457	59,870
	-----	-----
INTEREST EXPENSE:		
Deposits	45,355	31,790
Securities sold under agreements to repurchase	685	199
Advances from the Federal Home Loan Bank	2,032	257
Subordinated debentures and other interest bearing obligations	6,964	1,796
Securities sold but not yet purchased	-	638
	-----	-----
	55,036	34,680
	-----	-----
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	44,421	25,190
PROVISION FOR LOAN LOSSES	14,370	-
	-----	-----
Net interest income after provision for loan losses	30,051	25,190
	-----	-----
NON-INTEREST INCOME:		
Servicing fees and other charges	787	1,805
Gains on sales of interest earning assets, net	9,601	3,356
Income (loss) on real estate owned, net	(1,028)	2,558
Other income	1,996	1,208
	-----	-----
	11,356	8,927
	-----	-----
NON-INTEREST EXPENSE:		
Compensation and employee benefits	14,562	10,464
Occupancy and equipment	4,227	4,795
Hotel operations expense, net	57	264
Other operating expenses	6,703	6,369
	-----	-----
	25,549	21,892
	-----	-----
EQUITY IN EARNINGS OF INVESTMENT IN JOINT VENTURE	1,078	-
Income from continuing operations before income taxes	16,936	12,225
INCOME TAX EXPENSE	1,910	760
	-----	-----
Income from continuing operations	15,026	11,465
DISCONTINUED OPERATIONS:		
Loss from operations of discontinued divisions, net of tax benefit of \$1,435 for the period ended June 30, 1995	-	(3,136)
	-----	-----
NET INCOME	\$ 15,026	\$ 8,329
	-----	-----
EARNINGS PER SHARE:		
Income from operations	\$ 0.57	\$ 0.39
Discontinued operations, net of tax benefit	-	(0.11)
	-----	-----
Net income	\$ 0.57	\$ 0.28
	-----	-----
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	26,397,920	29,781,510
	-----	-----

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except share data)

SIX MONTHS ENDED JUNE 30, 1996 AND YEAR ENDED DECEMBER 31, 1995

	Common Stock Shares	Amount	Additional capital	paid-in earnings	Unrealized loss on securities available Retained for sale, net of taxes	Total
BALANCES AT DECEMBER 31, 1994	32,194,710	\$ 322	\$ 13,652	\$ 142,230	\$ (2,821)	\$ 153,383
Net income	-	-	-	25,467	-	25,467
Repurchase of common stock options	-	-	(132)	-	-	(132)
Exercise of common stock options	432,620	4	1,416	-	-	1,420
Repurchase of common stock	(8,815,060)	(88)	(4,487)	(37,422)	-	(41,997)
Change in unrealized loss on securities available for sale, net of taxes	-	-	-	-	1,406	1,406
BALANCES AT DECEMBER 31, 1995	23,812,270	238	10,449	130,275	(1,415)	139,547
Net income	-	-	-	15,026	-	15,026
Repurchase of common stock options	-	-	(176)	-	-	(176)
Exercise of common stock options	630	-	2	-	-	2
Change in unrealized loss on securities available for sale, net of taxes	-	-	-	-	339	339
BALANCES AT JUNE 30, 1996	23,812,900	\$ 238	\$ 10,275	\$ 145,301	\$ (1,076)	\$ 154,738

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 SIX MONTHS ENDED JUNE 30,	1996	1995
-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 15,026	\$ 8,329
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Net cash provided from trading activities	4,744	2,865
Proceeds from sales of loans available for sale	287,233	77,460
Purchases of loans available for sale	(142,150)	(113,676)
Origination of loans available for sale	(720)	(2,829)
Maturities of and principal payments received on loans available for sale	21,334	2,774
Premium amortization (discount accretion), net	3,229	(2,131)
Depreciation and amortization	1,997	2,798
Provision for loan losses	14,370	-
Provision for real estate losses	9,788	5,035
Loss on sales of premises and equipment	97	-
Gains on sales of interest earning assets, net	(9,601)	(3,355)
Gain on sale of real estate losses	(7,778)	(9,137)
Gain on sale of interest in tax credit partnership interests	(990)	-
Decrease in principal, interest and dividends receivable	1,366	285
Increase in income taxes receivable	(7,076)	(13,583)
Decrease (increase) in other assets	6,133	(9,449)
Decrease in accrued expenses, payables and other liabilities	(6,387)	(2,606)
	-----	-----
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	190,615	(57,220)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	137,454	686,628
Purchases of securities available for sale	(85,557)	(648,100)
Maturities of and principal payments received on securities available for sale	23,021	14,288
Maturities of and principal payments received on securities held for investment	-	7,969
Purchases of low income housing tax credit interests	(14,427)	(9,940)
Proceeds from low income housing tax credit interest	3,704	-
Proceeds from sales of discounted loans and loans held for investment	22,152	22,425
Purchases and originations of discounted loans and loans held for investment	(200,661)	(200,973)
Investment in joint venture	(60,910)	-
Principal payments received on discounted loans and loans held for investment	198,024	98,864
Proceeds from sales of real estate owned	75,674	76,533
Purchases of real estate owned in connection with discounted loan purchases	(1,434)	(13,419)
Proceeds from sale of premises and equipment	233	-
Additions to premises and equipment	(5,698)	(15,152)
	-----	-----
NET CASH PROVIDED BY INVESTING ACTIVITIES	91,575	19,123
	-----	-----

(CONTINUED ON NEXT PAGE)

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 SIX MONTHS ENDED JUNE 30,	1996	1995
-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	529	118,650
Proceeds from issuance of subordinated debentures	-	100,000
Proceeds from issuance of subordinated notes payable	-	7,615
Decrease in securities sold under agreements to repurchase	(84,761)	-
Payments and repurchase of notes and mortgages payable	(1,351)	(147)
Exercise of common stock options	2	1,045
Repurchase of common stock options and common stock	(176)	(42,127)
	-----	-----
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(85,757)	185,036
	-----	-----
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	196,433	146,939
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	54,633	36,750
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 251,066	\$ 183,689
	-----	-----
	-----	-----
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT END OF PERIOD:		
Cash and amounts due from depository institutions	\$ 6,196	\$ 18,403
Interest bearing deposits	57,638	28,928
Federal funds sold and repurchase agreements	187,232	136,358
	-----	-----
	\$ 251,066	\$ 183,689
	-----	-----
	-----	-----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	\$ 54,424	\$ 26,818
	-----	-----
	-----	-----
Income taxes	\$ 1,922	\$ 9,608
	-----	-----
	-----	-----
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Exchange of loans available for sale for securities	\$ 134,785	\$ 83,875
	-----	-----
	-----	-----
Real estate owned acquired through foreclosure	\$ 43,299	\$ 114,835
	-----	-----
	-----	-----

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996
(DOLLARS IN THOUSANDS)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Ocwen Financial Corporation (the "Company") and its subsidiaries and 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 generally accepted accounting principles ("GAAP") for complete financial statements.

In the opinion of management, the accompanying financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the Company's results for the interim periods. The result of operations and other data for the six month period ended June 30, 1996 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 1996. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included elsewhere in this Offering Circular.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the balance sheets and revenues and expenses for the periods covered. Actual results could differ significantly from those estimates and assumptions.

NOTE 2 VALUATION ALLOWANCES ON ASSETS HELD FOR DISPOSITION AND
RESOLUTION

As a result of the historical and expected future growth in the discounted loan portfolio and associated real estate owned, particularly in the commercial segment, and as requested by the Office of Thrift Supervision ("OTS"), the Company has modified its methodology for valuing its assets held for disposition and resolution beginning in the first quarter of 1996. This methodology results in a valuation allowance which supplements the Company's practice of adjusting these assets to the net present value of expected cash flows discounted at the effective interest rate in the case of discounted loans and fair value less estimated disposition costs in the case of real estate owned. Beginning in 1996 the Company has recorded charge-offs on discounted loans against the allowance for loan losses. Previously these amounts were deducted from interest income.

NOTE 3 DISCONTINUED OPERATIONS

In September 1995, the Company announced its decision to dispose of its automated banking division and related activities. The sale and disposition of this division was substantially complete at December 31, 1995. The Company's Consolidated Statement of Operations have been restated for the six months ended June 30, 1995 to reflect the discontinuance of these operations.

NOTE 4 ADOPTION OF RECENTLY ISSUED ACCOUNTING STANDARDS

The Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" on January 1, 1996. The adoption of SFAS No. 121 did not have a material effect on the Company's financial condition or results of operations.

On January 1, 1996 the Company adopted SFAS No. 122, "Accounting for Mortgage Servicing Rights", which requires that an institution engaged in mortgage banking activities recognize as a separate asset

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996
(DOLLARS IN THOUSANDS)

rights to service mortgage loans for others, regardless of the manner in which those servicing rights are acquired. Upon sale or securitization of loans with servicing rights retained, the Company is required to capitalize the cost associated with the mortgage servicing rights based on their relative fair values. SFAS No. 122 also requires that an institution assess its capitalized mortgage servicing rights for impairment based on the fair value of those rights. Impairment is recognized through a valuation allowance. See note 7 for disclosures regarding capitalized mortgage servicing rights as required by SFAS No. 122.

As provided in SFAS No. 123, "Accounting for Stock-Based Compensation", the Company has elected to retain the intrinsic value method of accounting for stock-based compensation, which it currently uses.

NOTE 5 INTEREST RATE RISK MANAGEMENT INSTRUMENTS

The Company enters into short sales of Eurodollar and U.S. Treasury interest rate futures contracts as part of its overall interest rate risk management activity. Interest rate futures contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may be settled in cash or through delivery. Terms and other information on the interest rate futures sold short are as follows:

JUNE 30, 1996:	MATURITY	NOTIONAL PRINCIPAL	FAIR VALUE
Eurodollar futures	1996	\$188,000	\$ (206)
	1997	365,000	(37)
	1998	40,000	(35)
U.S. Treasury futures	1996	306,600	(1,377)
DECEMBER 31, 1995:			
Eurodollar futures	1996	\$386,000	\$(1,598)
	1997	26,000	(168)
U.S. Treasury futures	1996	11,100	(80)

Because 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.

NOTE 6 INVESTMENT IN JOINT VENTURE

On March 22, 1996, the Company was notified by the U.S. Department of Housing and Urban Development ("HUD") that BCBF, L.L.C., a newly-formed limited liability company ("LLC") in which the Company and a co-investor each have a 50% interest, was the successful bidder to purchase 16,196 single-family residential loans offered by HUD at an auction and on April 10, 1996 the LLC consummated the acquisition of the HUD Loans.

The Company's investment in the LLC is accounted for under the equity method of accounting. Under the equity method of accounting, an investment in the shares or other interests of an investee is initially recorded at the cost of the shares or interests acquired and thereafter is periodically increased (decreased) by the investor's proportionate share of the earnings (losses) of the investee and decreased by all dividends received by the investor from the investee. The Company services all loans on behalf of the LLC for a fee, and all intercompany transactions between the Company and the LLC are eliminated for financial reporting purposes, to the extent of the Company's ownership in the LLC. At June 30, 1996, the Company's investment in the LLC amounted to \$60,910, net of \$2,494 of deferred gains on related hedging activities. Because the LLC is a

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996
(DOLLARS IN THOUSANDS)

pass-through entity for federal income tax purposes, provisions for income taxes will be established by each of the Company and its co-investor and not the LLC.

Set forth below is an unaudited statement of financial condition of the LLC at June 30, 1996 and a statement of operations for the period from the date of acquisition of the HUD Loans through June 30, 1996.

BCBF, L.L.C.
STATEMENT OF FINANCIAL CONDITION
June 30, 1996

Assets:	
Cash	\$ 3,426
Discounted loans, net	559,374
Real estate owned, net	88
Other assets	29,159

Total assets	\$592,047

Liabilities:	
Note payable	\$462,937
Other liabilities	2,302

Total liabilities	465,239

Equity:	
The Company	63,404
Co-investor	63,404

Total equity	126,808

Total liabilities and equity	\$592,047

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996
(DOLLARS IN THOUSANDS)

BCBF, L.L.C.
. STATEMENT OF OPERATIONS
For the Period April 10, 1996 through June 30, 1996

Interest income	\$12,222
Interest expense	8,279

Net interest income before provision for loan losses	3,943
Provision for loan losses	2,913

Net interest income after provision for loan losses	1,030
Non-interest income:	
Gain on sale of discounted loans	1,324
Loan fees	7

	1,331

Operating expenses:	
Loan servicing fees	2,003
Other loan expenses	204

	2,207

Net income	\$ 154

The Company's equity in earnings of the LLC of \$1,078 includes 50% of the net income of the LLC plus 50% of the loan servicing fee received from the LLC. The Company has recognized the remaining 50% of the servicing fee in servicing fees and other charges.

NOTE 7 MORTGAGE SERVICING RIGHTS

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

	June 30, 1996	December 31, 1995
	-----	-----
Unamortized balance	\$3,585	\$3,433
Valuation allowance	(928)	-
	-----	-----
	\$2,657	\$3,433
	-----	-----
	-----	-----

Periodically, the Company evaluates the recoverability of mortgage servicing rights based on the projected value of future net servicing income. Future prepayment rates are estimated based on current interest rates and various portfolio characteristics, including loan type, interest rate, and market prepayment estimates. If the estimated recovery is lower than the current amount of mortgage servicing rights, a reduction to mortgage servicing rights is recorded through an increase in the valuation allowance. A valuation allowance was established during the first quarter of 1996 in the amount of \$928 primarily as a result of higher than projected prepayment rates.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996
(DOLLARS IN THOUSANDS)

NOTE 8 REGULATORY REQUIREMENTS

The Company's primary subsidiary, Berkeley Federal Bank & Trust FSB ("Berkeley") is a federally chartered savings bank regulated by the OTS and is subject to Federal laws and regulations including regulations that require institutions to comply with minimum regulatory capital requirements.

A comparison of Berkeley's regulatory capital to its regulatory capital requirements as of June 30, 1996 and related additional discussion follows:

	Tangible Capital	Core Capital	Risk-Based Capital
	-----	-----	-----
GAAP capital	\$140,159	\$140,159	\$140,159
Nonallowable assets:			
Implementation of Financial Accounting			
Standard No. 115	1,076	1,076	1,076
Excess qualifying purchased mortgage			
servicing rights	(266)	(266)	(266)
Additional capital items:			
Subordinated debentures	-	-	100,000
General valuation allowances	-	-	11,741
	-----	-----	-----
Regulatory capital-computed	140,969	140,969	252,710
Minimum capital requirement	31,367	62,735	148,313
	-----	-----	-----
Regulatory capital excess	\$109,602	\$ 78,234	\$104,397
	-----	-----	-----
	-----	-----	-----
CAPITAL RATIOS:			
Required	1.50%	3.00%	8.00%
Actual	6.74%	6.74%	13.61%

The OTS has promulgated a regulation governing capital distributions. Berkeley is considered to be a Tier 1 association under this regulation because it met or exceeded its fully phased-in capital requirements at June 30, 1996. A Tier 1 association that before and after a proposed capital distribution meets or exceeds its fully phased-in capital requirements may make capital distributions during any calendar year equal to the greater of (i) 100% of net income for the calendar year to date plus 50% of its "surplus capital ratio" at the beginning of the year or (ii) 75% of its net income over the most recent four-quarter period. In order to make these capital distributions, Berkeley must submit written notice to the OTS thirty days in advance of making the distribution. In addition, the indenture governing Berkeley's Debentures limits the declaration or payment of dividends and the purchase or redemption of Berkeley's common or preferred stock in the aggregate to the sum of 50% of Berkeley's consolidated net income and 100% of all capital contributions and proceeds from the issuance or sale of common stock, since the date the Debentures were issued. At June 30, 1996, taking into account the foregoing restrictions, Berkeley could have distributed \$18.7 million to the Company.

NOTE 9 COMMITMENTS AND CONTINGENCIES

At June 30, 1996 the Company had (i) commitments to fund an additional \$25,087 on multi-family residential loans, (ii) commitments to fund an additional \$6,768 on loans secured by office buildings, (iii) commitments to fund \$32,028 of loans secured by hotel properties and (iv) a commitment to fund an

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996
(DOLLARS IN THOUSANDS)

additional \$4,886 on a loan secured by land. In connection with its acquisition of Berkeley Federal Savings Bank in 1993, the Company has a recourse obligation of \$4,519 on single-family residential loans sold to the Federal Home Loan Mortgage Corporation. The Company, through its investment in subordinated securities which had a book value of \$51,906 at June 30, 1996, supports senior classes of securities having an outstanding principal balance of \$664,696.

The Company is subject to various pending legal proceedings. Management, after reviewing these claims with legal counsel, is of the opinion that the resolution of these claims will not have a material effect on the Company's financial position, results of operations, cash flows or liquidity.

NOTE 10 SUBSEQUENT EVENT

On July 31, 1996 the Board of Directors of the Company approved an increase in the authorized number of common shares from 20,000,000 shares of \$1.00 par value to 200,000,000 shares of \$0.01 par value and declared a 10 for 1 stock split for each share of common stock then outstanding and for all then outstanding options to purchase shares of the Company's common stock. All references in the interim consolidated financial statements to the number of shares and per share amounts have been adjusted retroactively for the recapitalization and stock split.

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS, AND ANY INFORMATION OR REPRESENTATION NOT CONTAINED HEREIN MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THE SECURITIES TO WHICH IT RELATES OR AN OFFER TO ANY PERSON IN ANY JURISDICTION WHERE SUCH AN OFFER WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

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UNTIL _____, 1996, ALL DEALERS EFFECTING TRANSACTIONS IN THE NOTES, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATIONS OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS AN UNDERWRITER AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

\$100,000,000

OCWEN FINANCIAL CORPORATION

_____% NOTES DUE 2003

PROSPECTUS

- - - - -

- - - - -

SUBJECT TO COMPLETION, DATED AUGUST 21, 1996

PROSPECTUS

OCWEN FINANCIAL CORPORATION
2,000,000 SHARES OF COMMON STOCK

Certain stockholders of Ocwen Financial Corporation (the "Company") are offering hereby 2,000,000 shares of common stock, par value \$0.01 per share (the "Common Stock") of the Company (the "Common Stock Offering"). See "Selling Stockholders." Prior to this offering, there has been no public trading market for the Common Stock. It is currently estimated that the initial public offering price for the shares of Common Stock offered hereby will be between \$_____ and \$_____ per share. See "Underwriting" for information relating to the factors to be considered in determining such initial public offering price. The Common Stock has been approved for quotation on the Nasdaq National Market under the symbol "OCWN." The Company will not receive any of the proceeds from the Common Stock Offering.

In addition, the Company is concurrently offering \$100 million principal amount of _____% Notes due 2003 (the "Notes") of the Company (the "Notes Offering"). See "Description of Notes" and "Underwriting." The shares of Common Stock offered hereby and the Notes offered by the Company are being offered separately and not as units, and neither offering is conditioned on the completion of the other offering.

THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE _____ HEREOF FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED CAREFULLY BY PROSPECTIVE PURCHASERS OF THE COMMON STOCK OFFERED HEREBY.

THE SECURITIES OFFERED HEREBY ARE NOT SAVINGS ACCOUNTS OR SAVINGS DEPOSITS AND ARE NOT INSURED OR GUARANTEED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, ANY OTHER GOVERNMENTAL AGENCY OR OTHERWISE.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discount(1)	Proceeds to Selling Stockholders(2)
Per Share.	\$	\$	\$
Total(3)	\$	\$	\$

(1) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(2) Before deducting expenses payable by the Company estimated at \$_____.

(3) The Selling Stockholders have granted the several Underwriters a 30-day option to purchase up to 300,000 additional shares of Common Stock to cover over-allotments. If all such shares of Common Stock are purchased, the total Price to Public, Underwriting Discount and Proceeds to Selling Stockholders will be \$_____, \$_____ and \$_____, respectively. See "Underwriting."

The shares of Common Stock are offered by the Underwriters, subject to receipt and acceptance by the Underwriters, approval of certain legal matters by counsel for the Underwriters and certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offers and to reject orders in whole or in part. It is expected that delivery of the shares of Common Stock will be made in New York, New York on or about _____, 1996.

FRIEDMAN, BILLINGS, RAMSEY & CO., INC.

The date of this Prospectus is _____, 1996

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS, AND ANY INFORMATION OR REPRESENTATION NOT CONTAINED HEREIN MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THE SECURITIES TO WHICH IT RELATES OR AN OFFER TO ANY PERSON IN ANY JURISDICTION WHERE SUCH AN OFFER WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

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UNTIL _____, 1996, ALL DEALERS EFFECTING TRANSACTIONS IN THE SHARES OF COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATIONS OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS AN UNDERWRITER AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

2,000,000 SHARES

OCWEN FINANCIAL CORPORATION

COMMON STOCK

PROSPECTUS

FRIEDMAN, BILLINGS, RAMSEY & CO., INC.

_____, 1996

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- - - - -

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

Set forth below is an estimate of the expenses to be incurred in connection with the offering of securities described herein.

SEC registration fee	\$ 42,759
NASD and NASDAQ fees	62,900
Legal fees and expenses.	175,000
Accounting fees and expenses	165,000
Printing, postage and delivery expenses.	100,000
Blue Sky fees and expenses	25,000
Trustee fees	6,240
Miscellaneous expenses	10,101

Total.	\$587,000

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In addition to the foregoing, the Underwriting Agreement provides for underwriting discounts, certain dealer concessions and the reimbursement of certain expenses. See "Underwriting" in the Prospectus.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Article V of the Company's Articles of Incorporation provides as follows:

INDEMNIFICATION

This corporation shall, to the fullest extent permitted by the provisions of Fla. Stat. Section 607.0850, as the same may be amended and supplemented, indemnify any and all persons whom it shall have power to indemnify under said section from and against any and all of the expenses, liabilities, or other matters referred to in or covered by said section, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any Bylaw, agreement, vote of stockholders

or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person.

Section 607.0850 of the Florida Business Corporation Act provides as follows:

607.0850 INDEMNIFICATION OF OFFICERS, DIRECTORS, EMPLOYEES, AND AGENTS. -- (1) A corporation shall have the power to indemnify any person who was or is a party to any proceeding (other than an action by, or in the right of, the corporation), by reason of the fact that he is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise against liability incurred in connection with such proceeding, including any appeal thereof, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any proceeding by judgment, order, settlement, or conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interests of the corporation or, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(2) A corporation shall have power to indemnify any person, who was or is a party to any proceeding by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses and amounts paid in settlement not exceeding, in the judgment of the board of directors, the estimated expense of litigating the proceeding to conclusion, actually and reasonably incurred in connection with the defense or settlement of such proceeding, including any appeal thereof. Such indemnification shall be authorized if such person acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation, except that no indemnification shall be made under this subsection in respect of any claim, issue, or matter as to which such person shall have been adjudged to be liable unless, and only to the extent that, the court in which such proceeding was brought, or any other court of competent jurisdiction, shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(3) To the extent that a director, officer, employee, or agent of a corporation has been successful on the merits or otherwise in defense of any proceeding referred to in subsection (1) or subsection (2), or in defense of any claim, issue, or matter therein, he shall

be indemnified against expenses actually and reasonably incurred by him in connection therewith.

(4) Any indemnification under subsection (1) or subsection (2), unless pursuant to a determination by a court, shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee, or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in subsection (1) or subsection (2). Such determination shall be made:

(a) By the board of directors by a majority vote of a quorum consisting of directors who were not parties to such proceeding;

(b) If such a quorum is not obtainable or, even if obtainable, by majority vote of a committee duly designated by the board of directors (in which directors who are parties may participate) consisting solely of two or more directors not at the time parties to the proceeding;

(c) By independent legal counsel:

(1) Selected by the board of directors prescribed in paragraph (a) or the committee prescribed in paragraph (b); or

(2) If a quorum of the directors cannot be obtained for paragraph (a) and the committee cannot be designated under paragraph (b), selected by majority vote of the full board of directors (in which directors who are parties may participate); or

(d) By the shareholders by a majority vote of a quorum consisting of shareholders who were not parties to such proceeding or, if no such quorum is obtainable, by a majority vote of shareholders who were not parties to such proceeding.

(5) Evaluation of the reasonableness of expenses and authorization of indemnification shall be made in the same manner as the determination that indemnification is permissible. However, if the determination of permissibility is made by independent legal counsel, persons specified by paragraph (4)(c) shall evaluate the reasonableness of expenses and may authorize indemnification.

(6) Expenses incurred by an officer or director in defending a civil or criminal proceeding may be paid by the corporation in advance of the final disposition of such proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if he is ultimately found not to be entitled to indemnification by the corporation pursuant to this section. Expenses incurred by other employees and agents may be paid in advance upon such terms or conditions that the board of directors deems appropriate.

(7) The indemnification and advancement of expenses provided pursuant to this section are not exclusive, and a corporation may make any other or further indemnification or advancement of expenses of any of its directors, officers, employees, or agents, under any bylaw, agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office. However, indemnification or advancement of expenses shall not be made to or on behalf of any director, officer, employee, or agent if a judgment or other final adjudication establishes that his actions, or omissions to act, were material to the cause of action so adjudicated and constitute:

(a) A violation of the criminal law, unless the director, officer, employee, or agent had reasonable cause to believe his conduct was lawful or had no reasonable cause to believe his conduct was unlawful;

(b) A transaction from which the director, officer, employee, or agent derived an improper personal benefit;

(c) In the case of a director, a circumstance under which the liability provisions of s.607.0834 are applicable; or

(d) Willful misconduct or a conscious disregard for the best interests of the corporation in a proceeding by or in the right of the corporation to procure a judgment in its favor or in a proceeding by or in the right of a shareholder.

(8) Indemnification and advancement of expenses as provided in this section shall continue as, unless otherwise provided when authorized or ratified, to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person, unless otherwise provided when authorized or ratified.

(9) Unless the corporation's articles of incorporation provide otherwise, notwithstanding the failure of a corporation to provide indemnification, and despite any contrary determination of the board or of the shareholders in the specific case, a director, officer, employee, or agent of the corporation who is or was a party to a proceeding may apply for indemnification or advancement of expenses, or both, to the court conducting the proceeding, to the circuit court, or to another court of competent jurisdiction. On receipt of an application, the court, after giving notice that it considers necessary, may order indemnification and advancement of expenses, including expenses incurred in seeking court-ordered indemnification or advancement of expenses, if it determines that:

(a) The director, officer, employee, or agent is entitled to mandatory indemnification under subsection (3), in which case the court shall also order the corporation to pay the director reasonable expenses incurred in obtaining court-ordered indemnification or advancement of expenses;

(b) The director, officer, employee or agent is entitled to indemnification or advancement of expenses, or both, by virtue of the exercise by the corporation of its power pursuant to subsection (7); or

(c) The director, officer, employee, or agent is fairly and reasonably entitled to indemnification or advancement of expenses, or both, in view of all the relevant circumstances, regardless of whether such person met the standard of conduct set forth in subsection (1), subsection (2), or subsection (7).

(10) For purposes of this section, the term "corporation" includes, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger, so that any person who is or was a director, officer, employee, or agent of a constituent corporation, or is or was serving at the request of a constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, or other enterprise, is in the same position under this section with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(11) For purposes of this section:

(a) The term "other enterprises" includes employee benefit plans;

(b) The term "expenses" includes counsel fees, including those for appeal;

(c) The term "liability" includes obligations to pay for a judgment, settlement, penalty, find (including an excise tax assessed with respect to any employee benefit plan), and expenses actually and reasonably incurred with respect to a proceeding;

(d) The term "proceeding" includes any threatened, pending, or completed action, suit, or other type of proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal;

(e) The term "agent" includes a volunteer;

(f) The term "serving at the request of the corporation" includes any service as a director, officer, employee, or agent of the corporation that imposes duties on such persons, including duties relating to an employee benefit plan and its participants or beneficiaries; and

(g) The term "not opposed to the best interest of the corporation" describes the actions of a person who acts in good faith and in a manner he reasonably believes to be in the best interests of the participants and beneficiaries of an employee benefit plan.

(12) A corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this section.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

During 1993 and 1995, the Company issued 250,000 shares and 432,620 shares of Common Stock, respectively, upon the exercise of stock options granted to employees of the Company or its subsidiaries pursuant to the Company's 1991 Non-Qualified Stock Option Plan, as amended. These shares were issued for cash and in reliance on the private offering exemption from registration set forth in Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act").

During 1993, the Company issued \$9.2 million of 15% notes due April 1, 1994 to 18 stockholders/employees of the Company, during 1995 the Company issued \$7.6 million of 10.5% notes due May 1, 1996 to 14 stockholders of the Company and on May 1, 1996 the Company reissued \$7.4 million of 10.5% notes due May 1, 1997 to 11 stockholders of the Company. These notes were issued for cash and in reliance on the private offering exemption from registration set forth in Section 4(2) of the Securities Act.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits:	PAGE NO. -----
1.0 Form of Underwriting Agreement relating to Common Stock	
1.1 Form of Underwriting Agreement relating to Notes	
3.1 Amended and Restated Articles of Incorporation	
3.2 Bylaws	
4.0 Form of certificate of Common Stock	*
4.1 Form of indenture between the Company and the Trustee	
4.2 Form of Notes due 2003 (included in Exhibit 4.1)	
5.0 Opinion of Elias, Matz, Tiernan & Herrick L.L.P.	**
10.1 Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, as amended	
10.2 Annual Incentive Plan	
10.3 Ocwen Financial Corporation 1996 Stock Plan for Directors	
12.0 Statement regarding the computation of the ratio of earnings to fixed charges	

(a) Exhibits:

PAGE NO.

21.0 Subsidiaries (see "Business - General" in the Prospectus)

23.1 Consent of Elias, Matz, Tiernan & Herrick L.L.P.
(to be contained in the opinion included as Exhibit 5)

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23.2 Consent of Price Waterhouse LLP

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25.0 Form T-1

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* Previously filed.

** To be filed by amendment.

(b) Financial Statements and Schedules:

The Consolidated Financial Statements listed in the Index to Consolidated Financial Statements contained in the Prospectus are hereby incorporated herein by reference.

Schedules to the Consolidated Financial Statements are not required under the related instructions or are inapplicable, and therefore have been omitted.

ITEM 17. UNDERTAKINGS

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any Prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the Prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high and of the estimated maximum offering range may be reflected in the form of Prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change

in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offerings.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

The Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of West Palm Beach, State of Florida, on August 19, 1996.

OCWEN FINANCIAL CORPORATION

By: /s/ William C. Erbey

William C. Erbey
President and Chief Executive Officer
(duly authorized representative)

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

/s/ William C. Erbey Date: August 19, 1996

William C. Erbey
President and Chief Executive Officer
(principal executive officer)

/s/ W. C. Martin Date: August 19, 1996

W. C. Martin
Director

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/s/ Howard H. Simon                                Date:   August 19, 1996
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** 5 Howard H. Simon
Director

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/s/ Barry N. Wish

Date: August 19, 1996

Barry N. Wish, Chairman

/s/ Christine A. Reich

Date: August 19, 1996

Christine A. Reich
Managing Director and Chief Financial Officer
(principal financial and accounting officer)

Ocwen Financial Corporation
2,000,000 shares of Common Stock

UNDERWRITING AGREEMENT

[_____,] 1996

UNDERWRITING AGREEMENT

[_____] , 1996

FRIEDMAN, BILLINGS, RAMSEY & CO., INC.
as Representative of the several Underwriters
c/o Friedman, Billings, Ramsey & Co., Inc.
1001 19th Street North
Arlington, Virginia 22209

Dear Sirs:

Ocwen Financial Corporation (the "Company") and the persons listed in Schedule II hereto (the "Selling Shareholders"), confirm their respective agreements with Friedman, Billings, Ramsey & Co., Inc. and each of the other Underwriters listed on Schedule I hereto (collectively, the "Underwriters"), for whom Friedman, Billings, Ramsey & Co., Inc. is acting as representative (in such capacity, the "Representative"), with respect to (i) the sale by each of the Selling Shareholders, acting severally and not jointly, and the purchase by the Underwriters, acting severally and not jointly, of the respective numbers of shares of Common Stock, par value \$.01 per share, of the Company ("Common Stock") set forth in Schedules I and II hereto and (ii) the grant by the Selling Shareholders to the Underwriters, acting severally and not jointly, of the option described in Section 1(b) hereof to purchase all or any part of 300,000 additional shares of Common Stock to cover over-allotments, if any. The 2,000,000 shares of Common Stock (the "Initial Shares") to be purchased by the Underwriters and all or any part of the 300,000 shares of Common Stock subject to the option described in Section 1(b) hereof (the "Option Shares") are hereinafter called, collectively, the "Shares".

The Company and the Selling Shareholders understand that the Underwriters propose to make a public offering of the Shares as soon as the Underwriters deem advisable after this Agreement has been executed and delivered.

The Company has filed with the Securities and Exchange Commission (the "Commission"), a registration statement on Form S-1 (No. 333-05153) and a related preliminary prospectus for the registration of the Shares under the Securities Act of 1933, as amended (the "Securities Act") and the rules and regulations thereunder (the "Securities Act Regulations"). The Company has prepared and filed such amendments thereto, if any, and such amended preliminary prospectuses, if any, as may have been required to the date hereof, and will file such additional amendments thereto and such amended prospectuses as may hereafter be required. The registration statement has been declared effective under the Securities Act by the Commission. The registration statement as amended at the time it became effective (including all information deemed to be a part of the registration statement at the time it became effective pursuant to Rule 430A(b) of the Securities Act Regulations) is

hereinafter called the "Registration Statement," except that, if the Company files a post-effective amendment to such registration statement which becomes effective prior to the Closing Time (as defined below), "Registration Statement" shall refer to such registration statement as so amended. Any registration statement filed pursuant to Rule 462(b) of the Securities Act Regulations is hereinafter called the "Rule 462(b) Registration Statement," and after such filing the term "Registration Statement" shall include the 462(b) Registration Statement. Each prospectus included in the registration statement, or amendments thereof, before it became effective under the Securities Act and any prospectus filed with the Commission by the Company with the consent of the Underwriters pursuant to Rule 424(a) of the Securities Act Regulations is hereinafter called the "Preliminary Prospectus." The term "Prospectus" means the final prospectus, as first filed with the Commission pursuant to paragraph (1) or (4) of Rule 424(b) of the Securities Act Regulations. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus.

The Company, the Selling Shareholders and the Underwriters agree as follows:

1. SALE AND PURCHASE: (a) INITIAL SHARES. Upon the basis of the warranties and representations and other terms and conditions herein set forth, each Selling Shareholder, severally and not jointly, agrees to sell to each Underwriter, severally and not jointly, and each Underwriter agrees, severally and not jointly, to purchase from each Selling Shareholder, at the purchase price per share of \$____, that proportion of the number of Initial Shares set forth opposite such Selling Shareholder's name on Schedule II hereto that the number of Initial Shares set forth in Schedule I opposite such Underwriter's name, plus any additional number of Initial Shares which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof, bears to the total number of Initial Shares, subject in each case, to such adjustments among the Underwriters as the Representative in its sole discretion shall make to eliminate any sales or purchases of fractional shares. The Underwriters may from time to time increase or decrease the public offering price after the initial public offering to such extent as the Underwriters may determine.

(b) OPTION SHARES. In addition, upon the basis of the warranties and representations and other terms and conditions herein set forth, each Selling Shareholder, severally and not jointly, hereby grants an option to the Underwriters, severally and not jointly, to purchase from the Selling Shareholders the number of Option Shares up to the maximum number of Option Shares of Common Stock set forth opposite such Selling Shareholder's name on Schedule II hereto at the purchase price per share set forth in paragraph (a) above plus any additional number of Option Shares which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof. The option hereby granted will expire 30 days after the date hereof and may be exercised in whole or in part from time to time only for the purpose of covering over-allotments which may be made in connection with the offering and distribution of the Initial Shares upon notice by the Representative to the

Company and the Attorneys-in-Fact (as defined) setting forth the number of Option Shares as to which the several Underwriters are then exercising the option and the time and date of payment and delivery for such Option Shares. Any such time and date of delivery (a "Date of Delivery") shall be determined by the Representative, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the Closing Time, as hereinafter defined. If the option is exercised as to all or any portion of the Option Shares, each of the Underwriters, acting severally and not jointly, will purchase that proportion of the total number of Option Shares then being purchased which the number of Initial Shares set forth in Schedule I opposite the name of such Underwriter bears to the total number of Initial Shares, subject in each case to such adjustments as the Representative in its discretion shall make to eliminate any sales or purchases of fractional shares. The Underwriters may from time to time increase or decrease the public offering price after the initial public offering to such extent as the Underwriters may determine.

2. PAYMENT AND DELIVERY: (a) INITIAL SHARES. Payment of the purchase price for the Initial Shares shall be made to the Selling Shareholders by wire transfer or certified or official bank check payable in federal (same-day) funds at the office of Simpson Thacher & Bartlett, 425 Lexington Avenue, New York, New York 10017 (unless another place shall be agreed upon by the Representative, the Company and the Attorneys-in-Fact) against delivery of the certificates for the Initial Shares to the Representative for the respective accounts of the Underwriters. Such payment and delivery shall be made at 10:00 a.m., New York City time, on the third (fourth, if pricing occurs after 4:30 p.m. (New York City time)) business day after the date hereof (unless another time, not later than ten business days after such date, shall be agreed to by the Representative, the Company and the Attorneys-in-Fact). The time at which such payment and delivery are actually made is hereinafter sometimes called the "Closing Time". Certificates for the Initial Shares shall be delivered to the Representative in definitive form registered in such names and in such denominations as the Representative shall specify. For the purpose of expediting the checking of the certificates for the Initial Shares by the Representative, the Company and the Selling Shareholders agree to make such certificates available to the Representative for such purpose at least one full business day preceding the Closing Time.

(b) OPTION SHARES. In addition, payment of the purchase price for the Option Shares shall be made to the Selling Shareholders by wire transfer or certified or official bank check payable in federal (same-day) funds at the office of Simpson Thacher & Bartlett, 425 Lexington Avenue, New York, New York 10017 (unless another place shall be agreed upon by the Representative, the Company and the Attorneys-in-Fact), against delivery of the certificates for the Option Shares to the Representative for the respective accounts of the Underwriters. Such payment and delivery shall be made at 10:00 a.m., New York City time, on each Date of Delivery. Certificates for the Option Shares shall be delivered to the Representative in definitive form registered in such names and in such denominations as the

Representative shall specify. For the purpose of expediting the checking of the certificates for the Option Shares by the Representative, the Company and the Selling Shareholders agree to make such certificates available to the Representative for such purpose at least one full business day preceding the relevant Date of Delivery.

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY: The Company represents and warrants to the Underwriters that:

(a) each of the Registration Statement and any Rule 462(b) Registration Statement has become effective under the Securities Act and no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the Securities Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with;

(b) the Registration Statement complies and the Prospectus and any further amendments or supplements thereto will, when they become effective or are filed with the Commission, as the case may be, comply in all material respects with the requirements of the Securities Act and the Securities Act Regulations; the Registration Statement did not, and any amendment thereto will not, in each case as of the applicable effective date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and the Prospectus and any amendment or supplement thereto will not, as of the applicable filing date and at Closing Time and on each Date of Delivery (if any), contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that the Company makes no warranty or representation with respect to any statement contained in the Registration Statement or the Prospectus in reliance upon and in conformity with information concerning the Underwriters and furnished in writing by or on behalf of the Underwriters to the Company expressly for use in the Registration Statement or the Prospectus;

(c) the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T;

(d) the Company had at the date indicated the duly authorized and outstanding capitalization set forth in the Prospectus under the caption "Capitalization"; all of the issued and outstanding shares of capital stock of the Company have been duly and

validly authorized and issued and are fully paid and non-assessable; the Company is a savings and loan holding company duly registered under the Home Owners' Loan Act, as amended ("HOLA"), and duly organized and validly existing under the laws of the State of Florida, with full power and authority to own its properties and conduct its business as described in the Registration Statement and the Prospectus, and to execute and deliver this Agreement; the Company owns, directly or indirectly, beneficially and of record 100% of the outstanding shares of capital stock of Berkeley Federal Bank & Trust FSB (the "Bank"); the Bank is a federal savings bank duly organized and validly existing under the laws of the United States with full power and authority to own its properties and conduct its business as described in the Registration Statement and Prospectus; the Bank is a member in good standing of the Federal Home Loan Bank System; the savings accounts of depositors in the Bank are insured by the Federal Deposit Insurance Corporation (the "FDIC") to the fullest extent permitted by law and the rules and regulations of the FDIC, and no proceedings for the termination of such insurance are pending, or to the best of the Company's knowledge, threatened;

(e) each of the Company's subsidiaries (the "Subsidiaries") has been duly incorporated or established and is validly existing as a corporation or limited partnership, as the case may be, in good standing under the laws of its jurisdiction of incorporation or establishment; the Company and each of such Subsidiaries is duly qualified or licensed by and in good standing in each jurisdiction in which they conduct their respective businesses and in which the failure, individually or in the aggregate, to be so licensed or qualified could have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries, taken as a whole; the Company and each of its Subsidiaries is in compliance in all material respects with the laws, orders, rules, regulations and directives issued or administered by such jurisdictions;

(f) neither the Company nor any of its Subsidiaries is in breach of, or in default under (nor has any event occurred which with notice, lapse of time, or both would constitute a breach of, or default under), its respective articles of incorporation or charter or by-laws or in the performance or observance of any obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, bank loan or credit agreement or other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them is bound, except for such breaches or defaults which would not have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole, and the execution, delivery and performance of this Agreement and consummation of the transactions contemplated hereby will not conflict with, or result in any breach of or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of, or default under), (i) any provision of the articles

of incorporation or charter or by-laws of the Company or any of its Subsidiaries, or (ii) any provision of any license, indenture, mortgage, deed of trust, bank loan or credit agreement or other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them or their respective properties may be bound or affected, or under any federal, state, local or foreign law, regulation or rule or any decree, judgment or order applicable to the Company or any of its Subsidiaries, except in the case of this clause (ii) for such breaches or defaults which would not have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole;

(g) this Agreement has been duly authorized, executed and delivered by the Company and is a legal, valid and binding agreement of the Company enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, and by general principles of equity, and except to the extent that the indemnification provisions of Section 11 hereof may be limited by federal or state securities laws and public policy considerations in respect thereof;

(h) the Shares conform in all material respects to the description thereof contained in the Registration Statement and Prospectus;

(i) no approval, authorization, consent or order of or filing with any federal, state or local governmental or regulatory commission, board, body, authority or agency is required in connection with the sale of the Shares as contemplated hereby other than (A) such as have been obtained, or will have been obtained at the Closing Time or the relevant Date of Delivery, as the case may be, under the Securities Act, (B) such approvals as have been obtained in connection with the approval of the quotation of the Shares on the Nasdaq National Market System and (C) any necessary qualification under the securities or blue sky laws of the various jurisdictions in which the Shares are being offered by the Underwriters;

(j) Price Waterhouse LLP, whose reports on the consolidated financial statements of the Company and its Subsidiaries are filed with the Commission as part of the Registration Statement and Prospectus, are independent public accountants as required by the Securities Act and the Securities Act Regulations;

(k) each of the Company and its Subsidiaries has all necessary licenses, authorizations, consents and approvals and has made all necessary filings required under any federal, state or local law, regulation or rule, and has obtained all necessary authorizations, consents and approvals from other persons, required in order to conduct its respective business, except to the extent that any failure to have any such licenses, authorizations,

consents or approvals, to make any such filings or to obtain any such authorizations, consents or approvals would not, alone or in the aggregate, have a material adverse effect on the business, properties, prospects, results of operations or condition of the Company and its Subsidiaries taken as a whole; neither the Company nor any of its Subsidiaries is in violation of, or in default under, any such license, authorization, consent or approval or any federal, state, local or foreign law, regulation or rule or any decree, order or judgment applicable to the Company or any of its Subsidiaries the effect of which could be material and adverse to the business, properties, prospects, results of operations or condition of the Company and its Subsidiaries taken as a whole;

(l) all legal or governmental proceedings, contracts or documents of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement have been so described or filed as required;

(m) there are no actions, suits or proceedings pending or, to the Company's knowledge, threatened against the Company or any of its Subsidiaries or any of their respective properties, at law or in equity, or before or by any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency which could result in a judgment, decree or order having a material adverse effect on the business, condition, prospects or property of the Company and its Subsidiaries taken as a whole;

(n) the financial statements, including the notes thereto, included in the Registration Statement and the Prospectus present fairly the consolidated financial position of the Company and its Subsidiaries as of the dates indicated and the consolidated results of operations and changes in financial position and cash flow of the Company and its Subsidiaries for the periods specified; such financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis during the periods involved (except as indicated in the notes thereto);

(o) subsequent to the effective date of the Registration Statement and the date of the Prospectus, and except as may be otherwise stated in the Registration Statement or Prospectus, there has not been (A) any material and unfavorable change, financial or otherwise, in the business, properties, prospects, results of operations or condition (financial or otherwise), present or prospective, of the Company and its Subsidiaries taken as a whole, (B) any transaction, other than in the ordinary course of business, which is material to the Company and its Subsidiaries taken as a whole, contemplated or entered into by the Company or any of its Subsidiaries or (C) any obligation,

contingent or otherwise, directly or indirectly incurred by the Company or any of its Subsidiaries, other than in the ordinary course of business, which is material to the Company and its Subsidiaries taken as a whole;

(p) the Company has complied with, and is and will be in compliance with, the provisions of that certain Florida act relating to disclosure of doing business with Cuba, codified as Section 517.075 of the Florida statutes, and the rules and regulations thereunder (collectively, the "Cuba Act") or is exempt therefrom;

(q) the Company is not, and upon the sale of the Shares as herein contemplated will not be, an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended (the "Investment Company Act");

(r) Other than pursuant to the Stockholders Agreement dated as of May 1, 1988, as amended (the "Stockholders Agreement"), a copy of which has been filed as an exhibit to the Registration Statement, there are no persons with registration or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the Securities Act; and

(s) any certificate signed by any officer of the Company or any Subsidiary delivered to the Representative or to counsel for the Underwriters pursuant to or in connection with this Agreement shall be deemed a representation and warranty by the Company to each Underwriter as to the matters covered thereby.

4. REPRESENTATIONS AND WARRANTIES BY THE SELLING SHAREHOLDERS. Each Selling Shareholder severally represents and warrants to the Underwriters that:

(a) to the extent that any statements or omissions made in the Registration Statement, the Prospectus or any amendment or supplement thereto are made in reliance upon and in conformity with written information furnished to the Company by such Selling Shareholder specifically for use therein, the Registration Statement and the Prospectus and any amendments or supplements to the Registration Statement or the Prospectus will not, when they become effective or are filed with the Commission, as the case may be, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading; and, in the case of any Selling Shareholder that is a director, officer or employee of the Company, no facts have come to the attention of such Selling Shareholder which lead such Selling Shareholder to believe that the Registration Statement, the Prospectus or any amendments or supplements to the Registration Statement or the Prospectus will, when they become effective or are filed

with the Commission, as the case may be, contain any untrue statement of any other material fact or omit to state any other material fact required to be stated therein or necessary to make the statements therein not misleading; such Selling Shareholder is not prompted to sell the Shares to be sold by such Selling Shareholder hereunder by any information concerning the Company or any Subsidiary of the Company which is not set forth in the Prospectus;

(b) each Selling Shareholder has the full right, power and authority to enter into this Agreement and the Power of Attorney and Custody Agreement (as defined below) and to sell, transfer and deliver the Shares to be sold by such Selling Shareholder hereunder; the execution and delivery of this Agreement and the Power of Attorney and the Custody Agreement and the sale and delivery of the Shares to be sold by such Selling Shareholder and the consummation of the transactions contemplated herein and compliance by such Selling Shareholder with its obligations hereunder do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default under, or result in the creation or imposition of any tax, lien, charge or encumbrance upon the Shares to be sold by such Selling Shareholder pursuant to, any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, license, lease or other agreement or instrument to which such Selling Shareholder is a party or by which such Selling Shareholder may be bound, or to which any of the property or assets of such Selling Shareholder is subject;

(c) such Selling Shareholder has and will at the Closing Time and on each Date of Delivery have good and marketable title to the Shares to be sold on such date by such Selling Shareholder hereunder, free and clear of any security interest, mortgage, pledge, lien, charge, claim, equity or encumbrance of any kind, other than pursuant to this Agreement, the Power of Attorney and the Custody Agreement; and upon delivery of such Shares and payment of the purchase price therefor as herein contemplated, assuming each such Underwriter has no notice of any adverse claim (as such term is defined in the Uniform Commercial Code as in effect in the State of New York), each of the Underwriters will receive good and marketable title to the Shares purchased by it on such date from such Selling Shareholder, free and clear of any security interest, mortgage, pledge, lien, charge, claim, equity or encumbrance of any kind;

(d) such Selling Shareholder has duly executed and delivered, in the form heretofore furnished to the Underwriters, a Power of Attorney (the "Power of Attorney") with _____, as attorney(s)-in-fact (the "Attorney(s)-in-Fact") and a Custody Agreement (the "Custody Agreement"), with _____ as custodian (the "Custodian"); the Custodian is authorized to deliver the Shares to be

sold by such Selling Shareholder hereunder and to accept payment therefor; and [each/the] Attorney-in-Fact is authorized to execute and deliver this Agreement and the certificate referred to in Section 8(i) or that may be required pursuant to Section 8(m) on behalf of such Selling Shareholder, to sell, assign and transfer to the Underwriters the Shares to be sold by such Selling Shareholder hereunder, to determine the purchase price to be paid by the Underwriters to such Selling Shareholder, as provided in Section 1 hereof, to authorize the delivery of the Shares to be sold by such Selling Shareholder hereunder, to accept payment therefor, and otherwise, subject to the terms of the Power of Attorney, to act on behalf of such Selling Shareholder in connection with this Agreement;

(e) such Selling Shareholder has not taken, and will not take, directly or indirectly, any action which is designed to or which has constituted or which might reasonably be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares;

(f) no filing with, or consent, approval, authorization, order, registration, qualification or decree of, any court or governmental authority or agency, domestic or foreign, is necessary or required for the performance by such Selling Shareholder of its obligations hereunder or in the Power of Attorney and the Custody Agreement, or in connection with the sale and delivery of the Shares hereunder or the consummation of the transactions contemplated by this Agreement, except such as may have previously been made or obtained or as may be required under the Securities Act or the Securities Act Regulations or state securities or blue sky laws in connection with the offering of the Shares by the Underwriters;

(g) certificates for all of the Shares to be sold by such Selling Shareholder pursuant to this Agreement, in suitable form for transfer by delivery or accompanied by duly executed instruments of transfer or assignment in blank with signatures guaranteed, have been placed in custody with the Custodian with irrevocable conditional instructions under the Power of Attorney and the Custody Agreement to deliver such Shares to the Underwriters pursuant to this Agreement;

(h) except as set forth in the questionnaire previously delivered by such Selling Shareholder to the Company and the Representative, neither such Selling Shareholder nor any of its affiliates directly, or indirectly through one or more intermediaries, controls or has any other association with (within the meaning of Article I, Section 1(m) of the By-laws of the National Association of Securities Dealers, Inc. (the "NASD")), any member firm of the NASD; and

(i) any certificate signed by or on behalf of such Selling Shareholder as such and delivered to the Representative or to counsel for the Underwriters pursuant to the terms of this Agreement shall be deemed a representation and warranty by such Selling Shareholder to the Underwriters as to the matters covered thereby.

5. CERTAIN COVENANTS OF THE COMPANY: The Company hereby agrees with each Underwriter:

(a) to furnish such information as may be required and otherwise to cooperate in qualifying the Shares for offering and sale under the securities or blue sky laws of such states as the Representative may designate and to maintain such qualifications in effect as long as required for the distribution of the Shares, provided that the Company shall not be required to qualify as a foreign corporation or to consent to the service of process under the laws of any such state (except service of process with respect to the offering and sale of the Shares);

(b) to prepare the Prospectus in a form approved by the Underwriters and file such Prospectus with the Commission pursuant to Rule 424(b) not later than 10:00 a.m. (New York City time), on the day following the execution and delivery of this Agreement and to furnish promptly (and with respect to the initial delivery of such Prospectus, not later than 10:00 a.m. (New York City time) on the day following the execution and delivery of this Agreement) to the Underwriters as many copies of the Prospectus (or of the Prospectus as amended or supplemented if the Company shall have made any amendments or supplements thereto after the effective date of the Registration Statement) as the Underwriters may reasonably request for the purposes contemplated by the Securities Act Regulations, which Prospectus and any amendments or supplements thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T;

(c) to advise the Representative promptly and (if requested by the Representative) to confirm such advice in writing, when the Registration Statement has become effective and when any post-effective amendment thereto becomes effective under the Securities Act Regulations;

(d) to advise the Representative promptly, confirming such advice in writing, of (i) any request by the Commission for amendments or supplements to the Registration Statement or Prospectus or for additional information with respect thereto, or (ii) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus, or of the suspension of the qualification of

the Shares for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes and, if the Commission or any other government agency or authority should issue any such order, to make every reasonable effort to obtain the lifting or removal of such order as soon as possible; to advise the Representative promptly of any proposal to amend or supplement the Registration Statement or Prospectus and to file no such amendment or supplement to which the Representative shall reasonably object in writing;

(e) to furnish to the Underwriters for a period of five years from the date of this Agreement (i) copies of all annual, quarterly and current reports supplied to holders of shares of Common Stock, (ii) copies of all reports filed by the Company with the Commission, (iii) copies of the publicly available reports filed by the Bank with the OTS, and (iv) such other information as the Underwriters may reasonably request regarding the Company or its Subsidiaries;

(f) to advise the Underwriters promptly of the happening of any event known to the Company within the time during which a Prospectus relating to the Shares is required to be delivered under the Securities Act Regulations which, in the judgment of the Company, would require the making of any change in the Prospectus then being used so that the Prospectus would not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading, and, during such time, to prepare and furnish, at the Company's expense, to the Underwriters promptly such amendments or supplements to such Prospectus as may be necessary to reflect any such change and to furnish to the Underwriters a copy of such proposed amendment or supplement before filing any such amendment or supplement with the Commission;

(g) to furnish promptly to the Representative a signed copy of the Registration Statement, as initially filed with the Commission, and of all amendments thereto (including all exhibits thereto) and such number of conformed copies of the foregoing as the Underwriters may reasonably request;

(h) except to the extent paid by the Selling Shareholders pursuant to Section 7(b) hereof, to pay all expenses, fees and taxes (other than any transfer taxes and the fees and disbursements of counsel for the Underwriters except as set forth under Section 7 hereof and clauses (iii) and (iv) below) in connection with (i) the preparation and filing of the Registration Statement, each Preliminary Prospectus, the Prospectus, and any amendments or supplements thereto, and the printing and furnishing of copies of each thereof to the Underwriters and to dealers (including costs of mailing and shipment), (ii) the preparation, issuance and delivery of the certificates for the Shares

to the Underwriters, including any stock or other transfer taxes or duties payable upon the sale of the Shares to the Underwriters to the extent not otherwise paid by the Selling Shareholders, (iii) the word processing and/or printing of this Agreement and any dealer agreements, and the reproduction and/or printing and furnishing of copies of each thereof to the Underwriters and to dealers (including costs of mailing and shipment), (iv) the qualification of the Shares for offering and sale under state laws and the determination of their eligibility for investment under state law as aforesaid (including the legal fees and filing fees and other disbursements of counsel for the Underwriters) and the printing and furnishing of copies of any blue sky surveys or legal investment surveys to the Underwriters and to dealers, (v) any filing for review of the public offering of the Shares by the NASD, (vi) the fees and expenses of any transfer agent or registrar for the Shares, (vii) the fees and expenses incurred in connection with the inclusion of the Shares in the Nasdaq National Market and (viii) the performance of the Company's other obligations hereunder;

(i) to furnish to the Underwriters, not less than two business days before filing with the Commission subsequent to the effective date of the Prospectus and during the period referred to in paragraph (f) above, a copy of any document proposed to be filed with the Commission pursuant to Section 13, 14, or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act");

(j) to make generally available to its security holders as soon as practicable after the effective date of the Registration Statement an earning statement (in form, at the option of the Company, complying with the provisions of Rule 158 under the Securities Act) covering a period of 12 months beginning after the effective date of the Registration Statement;

(k) to use its best efforts to effect and maintain the quotation of the Shares on the Nasdaq National Market and to file with the Nasdaq National Market all documents and notices required by the Nasdaq National Market of companies that have securities that are traded in the over-the-counter market and quotations for which are reported by the Nasdaq National Market; and

(l) to refrain during a period of 120 days from the date of the Prospectus, without the prior written consent of the Representative, from (i) offering, pledging, selling, contracting to sell, selling any option or contract to purchase, purchasing any option or contract to sell, granting any option for the sale of, or otherwise disposing of or transferring, directly or indirectly, any share of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, or filing any registration statement under the Securities Act with respect to any of the foregoing or (ii) entering into any swap or any other agreement or any transaction that transfers, in

whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the Shares to be sold hereunder, (B) any shares of Common Stock issued by the Company upon the exercise of an option outstanding on the date hereof and referred to in the Prospectus or (C) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to the Company's 1991 Non-Qualified Stock Option Plan, as amended, or the Company's 1996 Stock Plan for Directors referred to in the Prospectus.

6. CERTAIN COVENANTS OF THE SELLING SHAREHOLDERS: Except as provided in Exhibits A and B hereto, each Selling Shareholder hereby agrees with each Underwriter that, during a period of 120 days from the date of the Prospectus, such Selling Shareholder will not, without the prior written consent of the Representative, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option for the sale of or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or file, or cause the Company to file, any registration statement under the Securities Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise; PROVIDED, HOWEVER, that this Section 6 shall not apply to the Shares to be sold hereunder.

7. REIMBURSEMENT OF THE UNDERWRITERS' EXPENSES; EXPENSES OF SELLING SHAREHOLDERS: (a) If the Shares are not delivered for any reason other than the termination of this Agreement pursuant to the first two paragraphs of Section 9 hereof or the default by one or more of the Underwriters in its or their respective obligations hereunder, the Company shall reimburse the Underwriters for all of their reasonable out-of-pocket expenses relating to the transactions contemplated hereby, including the fees and disbursements of their counsel.

(b) Each Selling Shareholder, severally but not jointly, will pay (i) any stamp duties, capital duties and stock transfer taxes, if any, payable upon the sale of its Shares to the Underwriters, (ii) the fees and disbursements of any counsel to such Selling Shareholder other than Elias, Matz, Tiernan & Herrick L.L.P (whose fees and disbursements will be paid by the Company), and (iii) such other expenses, if any, as may be incident to the performance by such Selling Shareholder of its obligations under, and the consummation by such Selling Shareholder of the transactions contemplated by, this Agreement (other than such expenses as shall be paid by the Company pursuant to Section 5(h) of this Agreement).

8. CONDITIONS OF THE UNDERWRITERS' OBLIGATIONS: The obligations of the Underwriters hereunder are subject to the accuracy of the representations and warranties on the part of the Company and the Selling Shareholders on the date hereof and at the Closing Time and on each Date of Delivery, the performance by the Company and the Selling Shareholders of their respective obligations hereunder and to the following conditions:

(a) The Company and the Selling Shareholders shall furnish to the Underwriters at the Closing Time and on each Date of Delivery an opinion of Elias, Matz, Tiernan & Herrick L.L.P., counsel for the Company and the Selling Shareholders, addressed to the Underwriters and dated the Closing Time and each Date of Delivery and in form satisfactory to Simpson Thacher & Bartlett, counsel for the Underwriters, stating that:

(i) the Company is a savings and loan holding company duly registered under HOLA;

(ii) the Bank has been duly organized and is validly existing as a federal savings bank under the laws of the United States of America, with full corporate power and authority to own its properties and conduct its business as described in the Registration Statement and the Prospectus, and is a member of the Federal Home Loan Bank of New York;

(iii) this Agreement has been duly authorized, executed and delivered by the Company and has been duly executed and delivered by the Attorney-in-Fact on behalf of each Selling Shareholder;

(iv) the Company has an authorized capitalization as set forth in the Registration Statement and the Prospectus; the outstanding shares of capital stock of the Company and the Bank have been duly and validly authorized and issued and are fully paid and non-assessable, and all of the outstanding shares of capital stock of the Bank are directly or indirectly owned of record and, to such counsel's knowledge, beneficially by the Company;

(v) the Shares conform in all material respects to the descriptions thereof contained in the Registration Statement and Prospectus and have been duly authorized by the Company and are validly issued, fully paid and nonassessable;

(vi) the statements under the captions "Regulation", "Taxation - Federal Taxation" and "Description of Capital Stock" in the Registration Statement and the Prospectus, insofar as such statements constitute a summary

of the legal matters referred to therein, constitute accurate summaries thereof in all material respects;

(vii) as of the effective date of the Registration Statement, the Registration Statement and the Prospectus (except as to the financial statements and other financial and statistical data contained therein, as to which such counsel need express no opinion) complied as to form in all material respects with the requirements of the Securities Act Regulations;

(viii) the Registration Statement has become effective under the Securities Act and, to the best of such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings with respect thereto have been commenced or threatened;

(ix) based solely on the Selling Shareholder Questionnaires and the representations and warranties of the Selling Shareholders set forth herein, no approval, authorization, consent or order of or filing with any federal, or to such counsel's knowledge, state or local governmental or regulatory commission, board, body, authority or agency is required in connection with the sale and delivery of the Shares by the Selling Shareholders as contemplated hereby other than such as have been obtained or made under the Securities Act and except that such counsel need express no opinion as to any necessary qualification under the state securities or blue sky laws of the various jurisdictions in which the Shares are being offered by the Underwriters;

(x) the execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby do not and will not conflict with, or result in any breach of, or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of or default under), (i) any provisions of the articles of incorporation, charter or by-laws of the Company or the Bank, (ii) any provision of any material license, indenture, mortgage, deed of trust, bank loan, credit agreement or other agreement or instrument known to such counsel to which the Company or the Bank is a party or by which either of them or their respective properties may be bound or affected, or (iii) HOLA or the Securities Act or the rules and regulations of the OTS or the SEC, or to the knowledge of such counsel, any other federal law or any decree, judgment or order applicable to the Company or the Bank, except in the case of clause (ii) for such conflicts, breaches or defaults which individually or in the aggregate would not have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole;

(xi) based solely on the Selling Shareholder Questionnaires and the representations and warranties of the Selling Shareholders set forth herein, to such counsel's knowledge, the execution, delivery and performance of this Agreement, the Power of Attorney and the Custody Agreement by the Selling Shareholders and the sale and delivery of the Shares by the Selling Shareholders and the consummation by the Selling Shareholders of the transactions contemplated hereby and thereby do not and will not conflict with, or result in any breach of, or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of or default under), (i) in the case of any Selling Shareholder which is not an individual, any provisions of the articles of incorporation or by-laws or other organizational documents of such Selling Shareholder, (ii) any provision of any material license, indenture, mortgage, deed of trust, bank loan, credit agreement or other agreement or instrument known to such counsel to which such Selling Shareholder is a party or by which its properties may be bound or affected, or (iii) HOLA or the Securities Act or the rules and regulations of the OTS or the SEC or any other federal law or any decree, judgment or order applicable to such Selling Shareholder, except in the case of clause (ii) for such conflicts, breaches or defaults which individually or in the aggregate would not have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole;

(xii) to such counsel's knowledge, there are no contracts, licenses, agreements, leases or documents of a character which are required to be filed as exhibits to the Registration Statement or to be summarized or described in the Prospectus which have not been so filed, summarized or described;

(xiii) to such counsel's knowledge, there are no actions, suits or proceedings pending or threatened against the Company or any of its Subsidiaries or any of their respective properties, at law or in equity or before or by any commission, board, body, authority or agency which are required to be described in the Prospectus but are not so described;

(xiv) the savings accounts of depositors in the Bank are insured by the FDIC to the fullest extent permitted by law and the rules and regulations of the FDIC, and no proceedings for the termination of such insurance are pending, or to such counsel's knowledge, threatened;

(xv) to such counsel's knowledge, neither the Company nor any of its Subsidiaries is party to or otherwise the subject of any consent decree, memorandum of understanding, written agreement or similar supervisory or

enforcement agreement or understanding with the OTS, the FDIC or any other government authority or agency responsible for the supervision, regulation or insurance of depository institutions or their holding companies;

(xvi) the sale of the Shares by the Selling Shareholders is not subject to preemptive or other similar rights arising by operation of law, under the articles of incorporation or by-laws of the Company, under any agreement known to such counsel to which the Company or any of its Subsidiaries is a party or, to such counsel's knowledge, otherwise;

(xvii) the form of certificate used to evidence the Common Stock complies in all material respects with all applicable statutory requirements, with any applicable requirements of the articles of incorporation and by-laws of the Company and the requirements of the Nasdaq National Market;

(xviii) other than pursuant to the Stockholders Agreement, to such counsel's knowledge, there are no persons with registration or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the Securities Act;

(xix) the Company is not an "investment company" or an entity "controlled" by an "investment company," as such terms are defined in the Investment Company Act;

(xx) based solely on the Selling Shareholder Questionnaires and the representations and warranties of the Selling Shareholders set forth herein, to such counsel's knowledge, each Power of Attorney and the Custody Agreement has been duly executed and delivered by the respective Selling Shareholders named therein and constitutes the valid and binding agreement of such Selling Shareholder in accordance with its terms; and

(xxi) (a) based solely on an examination of the Company's stock transfer register, stock certificates registered in the names of the Selling Shareholders and the representations and warranties of the Selling Shareholders set forth herein, (i) each Selling Shareholder is the sole registered owner of the Shares to be sold by such Selling Shareholder on such date and (ii) each such Selling Shareholder has the full right, power and authority (A) to enter into the Agreement and the Power of Attorney and the Custody Agreement and (B) to sell, transfer and deliver the Shares to be sold by such Selling Shareholder under the Agreement; and (b) upon consummation of the sale of the Shares pursuant to this Agreement on such date, assuming the Underwriters purchase

the Shares from the Selling Shareholders in good faith and without notice of any adverse claim (as such term is defined in the Uniform Commercial Code as in effect in the State of New York), the Underwriters will acquire good and marketable title in and to the Shares free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity.

In addition, such counsel shall state that they have participated in conferences with officers and other representatives of the Company, representatives of the independent public accountants of the Company and representatives of the Underwriters at which the contents of the Registration Statement and Prospectus were discussed and, although such counsel is not passing upon and does not assume responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or Prospectus (except as and to the extent stated in subparagraphs (v) and (vi) above), on the basis of the foregoing nothing has come to the attention of such counsel that causes them to believe that either the Registration Statement or any amendment thereto at the time such Registration Statement or amendment became effective contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (it being understood that, in each case, such counsel need express no view with respect to the financial statements and other financial and statistical data included in the Registration Statement or Prospectus).

(b) The Company shall furnish to the Underwriters at the Closing Time and on each Date of Delivery a legal opinion of John R. Erbey, Esq., Managing Director and Secretary of the Company, addressed to the Underwriters and dated the Closing Time and each Date of Delivery and in form satisfactory to Simpson Thacher & Bartlett, counsel for Underwriters, stating that

(i) the Company and each of the Company's material Subsidiaries (as identified on an appendix to such opinion) has been duly incorporated or established and is validly existing as a corporation or limited partnership, as the case may be, in good standing under the laws of its respective jurisdiction of incorporation or establishment with full corporate or partnership power and authority to own its respective properties and to conduct its respective business and, in the case of the Company, to execute and deliver this Agreement;

(ii) the Company and its Subsidiaries are duly qualified or licensed by each jurisdiction in which they conduct their respective businesses and in

which the failure, individually or in the aggregate, to be so licensed or qualified could have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole, and the Company and its Subsidiaries are duly qualified, and are in good standing, in each jurisdiction in which they own or lease real property or maintain an office and in which such qualification is necessary, except where the failure to be so qualified and in good standing would not have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole;

(iii) the execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby do not and will not conflict with, or result in any breach of, or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of or default under), (i) any provisions of the articles of incorporation, charter or by-laws of the Company or the Bank, (ii) any provision of any material license, indenture, mortgage, deed of trust, bank loan, credit agreement or other agreement or instrument known to such counsel to which the Company or the Bank is a party or by which either of them or their respective properties may be bound or affected, or (iii) to the knowledge of such counsel, any decree, judgment or order applicable to the Company or the Bank, except in the case of clause (ii) for such conflicts, breaches or defaults which individually or in the aggregate would not have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole;

(iv) based solely on the Selling Shareholder Questionnaires and the representations and warranties of the Selling Shareholders set forth herein, to such counsel's knowledge, the execution, delivery and performance of this Agreement, the Power of Attorney and the Custody Agreement by the Selling Shareholders and the sale and delivery of the Shares by the Selling Shareholders and the consummation by the Selling Shareholders of the transactions contemplated hereby and thereby do not and will not conflict with, or result in any breach of, or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of or default under), (i) in the case of any Selling Shareholder which is not an individual, any provisions of the articles of incorporation or by-laws or other organizational documents of such Selling Shareholder, (ii) any provision of any material license, indenture, mortgage, deed of trust, bank loan, credit agreement or other agreement or instrument known to such counsel to which such Selling Shareholder is a party or by which its properties may be bound or affected, or

(iii) HOLA or the Securities Act or the rules and regulations of the OTS or the SEC or any other federal law or any decree, judgment or order applicable to such Selling Shareholder, except in the case of clause (ii) for such conflicts, breaches or defaults which individually or in the aggregate would not have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole;

(v) the sale of the Shares by the Selling Shareholders is not subject to preemptive or other similar rights arising by operation of law, under the articles of incorporation or by-laws of the Company, under any agreement known to such counsel to which the Company or any of its Subsidiaries is a party or, to such counsel's knowledge, otherwise;

(vi) based solely on the Selling Shareholder Questionnaires and the representations and warranties of the Selling Shareholders set forth herein, to such counsel's knowledge, each Power of Attorney and the Custody Agreement has been duly executed and delivered by the respective Selling Shareholders named therein and constitutes the valid and binding agreement of such Selling Shareholder in accordance with its terms; and

(vii) (a) based solely on an examination of the Company's stock transfer register, stock certificates registered in the names of the Selling Shareholders and the representations and warranties of the Selling Shareholders set forth herein, (i) each Selling Shareholder is the sole registered owner of the Shares to be sold by such Selling Shareholder on such date and (ii) such Selling Shareholder has the full right, power and authority (A) to enter into the Agreement and the Power of Attorney and the Custody Agreement and (B) to sell, transfer and deliver the Shares to be sold by such Selling Shareholder under the Agreement; and (b) upon consummation of the sale of the Shares pursuant to this Agreement on such date, assuming the Underwriters purchase the Shares from the Selling Shareholders in good faith and without notice of any adverse claim (as such term is defined in the Uniform Commercial Code as in effect in the State of New York), the Underwriters will acquire good and marketable title in and to the Shares free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity.

(viii) to such counsel's knowledge, neither the Company nor any of its Subsidiaries is in breach of, or in default under (nor has any event occurred which with notice, lapse of time, or both would constitute a breach of, or default under), any license, indenture, mortgage, deed of trust, bank loan or credit agreement or any other agreement or instrument to which the Company

or any of its Subsidiaries is a party or by which any of them or their respective properties may be bound or affected or under any law, regulation or rule or any decree, judgment or order applicable to the Company or any of its Subsidiaries, except such breaches or defaults which would not have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole; and (ix) to such counsel's knowledge, there are no actions, suits or proceedings pending or threatened against the Company or any of its Subsidiaries or any of their respective properties, at law or in equity or before or by any commission, board, body, authority or agency which are required to be described in the Prospectus but are not so described.

In addition, such counsel shall state that he has participated in conferences with officers and other representatives of the Company, representatives of the independent public accountants of the Company and representatives of the Underwriters at which the contents of the Registration Statement and Prospectus were discussed and, although such counsel is not passing upon and does not assume responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or Prospectus, on the basis of the foregoing and information obtained during the course of his duties as an officer and director of the Company, nothing has come to the attention of such counsel that causes him to believe that either the Registration Statement or any amendment thereto at the time such Registration Statement became effective contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading or that the Prospectus contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (it being understood that, in each case, such counsel need express no view with respect to the financial statements and other financial and statistical data included in the Registration Statement or Prospectus).

(c) The Representative shall have received from Price Waterhouse LLP, letters dated, respectively, as of the date of this Agreement, the Closing Time and each Date of Delivery, as the case may be, and addressed to the Representative as representative of the Underwriters in the forms heretofore approved by the Underwriters.

(d) The Underwriters shall have received at the Closing Time and on each Date of Delivery the favorable opinion of Simpson Thacher & Bartlett, counsel for the Underwriters, dated the Closing Time or such Date of Delivery, in form and substance satisfactory to the Underwriters.

(e) No amendment or supplement to the Registration Statement or Prospectus shall have been filed to which the Underwriters shall have objected in writing.

(f) Prior to the Closing Time and each Date of Delivery (i) no stop order suspending the effectiveness of the Registration Statement or any order preventing or suspending the use of any Preliminary Prospectus or Prospectus has been issued by the Commission, and no suspension of the qualification of the Shares for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes, has occurred; and (ii) the Registration Statement and all amendments thereto, or modifications thereof, if any, and the Prospectus and all amendments or supplements thereto, or modifications thereof, if any, shall not contain an untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading.

(g) Between the time of execution of this Agreement and the Closing Time or the relevant Date of Delivery (i) no material and unfavorable change, financial or otherwise (other than as disclosed in the Registration Statement and Prospectus), in the business, condition or prospects of the Company and its Subsidiaries taken as a whole shall occur or become known and (ii) no transaction which is material and unfavorable to the Company shall have been entered into by the Company or any of its Subsidiaries.

(h) The Company will, at the Closing Time and on each Date of Delivery, deliver to the Underwriters a certificate of two of its executive officers to the effect that, to each of such officer's knowledge, the representations and warranties of the Company set forth in this Agreement and the conditions set forth in paragraph (f) and paragraph (g) have been met and are true and correct as of such date.

(i) At the Closing Time and on each Date of Delivery, the Underwriters shall have received a certificate of [the] [an] Attorney-in-Fact on behalf of each Selling Shareholder, dated as of the Closing Time or such Date of Delivery, as the case may be, to the effect that, to the knowledge of the Attorney-in-Fact, (i) the representations and warranties of each Selling Shareholder contained in Section 4 hereof are true and correct with the same force and effect as though expressly made at and as of the Closing Time or such Date of Delivery and (ii) each Selling Shareholder has complied in all material respects with all agreements and all conditions on its part to be performed under this Agreement at or prior to the Closing Time or such Date of Delivery.

(j) At the Closing Time, the Shares shall have been approved for inclusion in the Nasdaq National Market.

(k) The NASD shall not have raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements.

(l) At the date of this Agreement, the Underwriters shall have received an agreement substantially in the form of Exhibit A hereto signed by Barry N. Wish, an agreement substantially in the form of Exhibit B hereto signed by William C. Erbey and an agreement substantially in the form of Exhibit C hereto signed by all other officers and directors of the Company.

(m) The Company and the Selling Shareholders shall have furnished to the Underwriters such other documents and certificates as to the accuracy and completeness of any statement in the Registration Statement and the Prospectus or any amendment or supplement thereto as of the Closing Time or any Date of Delivery as the Underwriters may reasonably request.

(n) Each of the Company and the Selling Shareholders shall perform such of its respective obligations under this Agreement as are to be performed by the terms hereof at or before the Closing Time or the relevant Date of Delivery.

9. TERMINATION: The obligations of the several Underwriters hereunder shall be subject to termination in the absolute discretion of the Representative, at any time prior to the Closing Time or any Date of Delivery, if trading in securities on the New York Stock Exchange shall have been suspended or minimum prices shall have been established on the New York Stock Exchange, or if a banking moratorium shall have been declared either by the United States or New York State authorities, or if the United States shall have declared war in accordance with its constitutional processes or there shall have occurred any material outbreak or escalation of hostilities or other national or international calamity or crisis of such magnitude in its effect on the financial markets of the United States as, in the judgment of the Representative, to make it impracticable to market the Shares.

If the Representative elects to terminate this Agreement as provided in this Section 9, the Company, the Attorneys-in-Fact and the Underwriters shall be notified promptly by letter or telegram.

If the sale to the Underwriters of the Shares, as contemplated by this Agreement, is not carried out by the Underwriters for any reason permitted under this Agreement or if such sale is not carried out because the Company or any Selling Shareholder shall be unable to comply with any of the terms of this Agreement, the Company shall not be under any

obligation or liability under this Agreement (except to the extent provided in Sections 5(h), 7 and 11 hereof), the Selling Shareholders shall not be under any obligation or liability (except to the extent provided in Sections 7 and 11 hereof) and the Underwriters shall be under no obligation or liability to the Company or the Selling Shareholders under this Agreement (except to the extent provided in Section 11 hereof) or to one another hereunder.

10. INCREASE IN UNDERWRITERS' COMMITMENTS: If any Underwriter shall default at Closing Time or on a Date of Delivery in its obligation to take up and pay for the Shares to be purchased by it under this Agreement on such date and if the total number of Shares which such Underwriter shall have agreed but failed to take up and pay for does not exceed 10% of the total number of Shares to be purchased on such date, each non-defaulting Underwriter shall take up and pay for (in addition to the number of Shares which it is obligated to purchase on such date pursuant to this Agreement) the portion of the total number of Shares agreed to be purchased by the defaulting Underwriter on such date in the proportion that its underwriting obligations hereunder bears to the underwriting obligations of all non-defaulting Underwriters.

Without relieving any defaulting Underwriter from its obligations hereunder, the Selling Shareholders agree with the non-defaulting Underwriters that they will not sell any Shares hereunder on such date unless all of the Shares to be purchased on such date are purchased on such date by the Underwriters (or by substituted Underwriters selected by the Representative with the approval of the Company or selected by the Company with the approval of the Representative).

If a new Underwriter or Underwriters are substituted for a defaulting Underwriter in accordance with the foregoing provision, the Company or the non-defaulting Underwriters shall have the right to postpone the Closing Time or the relevant Date of Delivery for a period not exceeding five business days in order that any necessary changes in the Registration Statement and Prospectus and other documents may be effected.

The term Underwriter as used in this Agreement shall refer to and include any Underwriter substituted under this Section 10 with the like effect as if such substituted Underwriter had originally been named in this Agreement.

11. INDEMNITY BY THE COMPANY, THE SELLING SHAREHOLDERS AND THE UNDERWRITERS:

(a) The Company agrees (and each Selling Shareholder, severally and not jointly, agrees, to the extent the Company does not fulfill its obligations to any Underwriter under this Section 11(a), subject to the last sentence of this Section 11(a)) to indemnify, defend and hold harmless each Underwriter and each Selling Shareholder, and any person who controls any Underwriter or Selling Shareholder within the meaning of Section 15

of the Securities Act or Section 20 of the Exchange Act, from and against any loss, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, any such Underwriter, Selling Shareholder or controlling person may incur under the Securities Act, the Exchange Act or otherwise, insofar as such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company) or in a Prospectus (the term Prospectus for the purpose of this Section 11 being deemed to include any Preliminary Prospectus, the Prospectus and the Prospectus as amended or supplemented by the Company), or arises out of or is based upon any omission or alleged omission to state a material fact required to be stated in either such Registration Statement or Prospectus or necessary to make the statements made therein not misleading, except insofar as any such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information furnished in writing by (x) the Underwriters through the Representative to the Company or (y) a Selling Shareholder to the Company, in either case, expressly for use in such Registration Statement or such Prospectus, or arises out of or is based upon any omission or alleged omission to state a material fact in connection with such information required to be stated in either such Registration Statement or Prospectus or necessary to make such information not misleading, PROVIDED, HOWEVER, that the indemnity agreement contained in this subsection (a) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter (or to the benefit of any person controlling such Underwriter) with respect to any person asserting any such loss, expense, liability or claim which is the subject thereof if the Prospectus corrected any such alleged untrue statement or omission and if such Underwriter failed to send or give a copy of the Prospectus to such person at or prior to the written confirmation of the sale of Shares to such person, unless such failure resulted from non-compliance by the Company with Section 5(b). Notwithstanding the foregoing, the aggregate liability of each Selling Shareholder under this Section 11(a) shall not exceed the net proceeds received by such Selling Shareholder from the Shares sold by it pursuant to this Agreement.

(b) Each Selling Shareholder agrees, severally and not jointly, to indemnify, defend and hold harmless each Underwriter and the Company, and any person who controls any Underwriter or the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any loss, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, any such Underwriter, the Company or controlling person may incur under the Securities Act, the Exchange Act or otherwise, insofar as such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact regarding such Selling Shareholder contained in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company) or in a Prospectus, or arises out of or is based upon any omission or alleged omission to state a material fact

regarding such Selling Shareholder required to be stated in either such Registration Statement or Prospectus or necessary to make the statements made therein regarding such Selling Shareholder not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Selling Shareholder expressly for use in such Registration Statement or such Prospectus; PROVIDED, HOWEVER, that the indemnity agreement contained in this subsection (b) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter (or to the benefit of any person controlling such Underwriter) with respect to any person asserting any such loss, expense, liability or claim which is the subject thereof if the Prospectus corrected any such alleged untrue statement or omission and if such Underwriter failed to send or give a copy of the Prospectus to such person at or prior to the written confirmation of the sale of such Shares to such person, unless such failure resulted from noncompliance by the Company with Section 5(b).

If any action is brought against an Underwriter or controlling person in respect of which indemnity may be sought against the Company or a Selling Shareholder pursuant to the two preceding paragraphs, such Underwriter shall promptly notify the Company or such Selling Shareholder in writing of the institution of such action and the indemnifying party shall assume the defense of such action, including the employment of counsel and payment of expenses. Such Underwriter or controlling person shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such Underwriter or such controlling person unless the employment of such counsel shall have been authorized in writing by the indemnifying party in connection with the defense of such action or the indemnifying party shall not have employed counsel to have charge of the defense of such action within a reasonable time or such indemnified party or parties shall have reasonably concluded (based on the advice of counsel) that there may be defenses available to it or them which are different from or additional to those available to the indemnifying party (in which case the indemnifying party shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the indemnifying party and paid as incurred (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel for the Underwriters or controlling persons in any one action or series of related actions in the same jurisdiction representing the indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, the indemnifying party shall not be liable for any settlement of any such claim or action effected without the written consent of the indemnifying party.

(c) Each Underwriter agrees, severally and not jointly, to indemnify, defend and hold harmless (i) the Company, its directors and officers and any person who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the

Exchange Act and (ii) each Selling Shareholder and, if applicable, its directors and officers and any person who controls a Selling Shareholder within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any loss, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, the Company, any Selling Shareholder or any such person may incur under the Securities Act, the Exchange Act or otherwise, insofar as such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information furnished in writing by such Underwriter through the Representative to the Company expressly for use in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company) or in a Prospectus, or arises out of or is based upon any omission or alleged omission to state a material fact in connection with such information required to be stated either in such Registration Statement or Prospectus or necessary to make such information not misleading.

If any action is brought against the Company, any Selling Shareholder or any such person in respect of which indemnity may be sought against any Underwriter pursuant to the foregoing paragraph, the Company, such Selling Shareholder or such person shall promptly notify the Representative in writing of the institution of such action and the Representative, on behalf of the Underwriters, shall assume the defense of such action, including the employment of counsel and payment of expenses. The Company, such Selling Shareholder or such person shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of the Company, such Selling Shareholder or such person unless the employment of such counsel shall have been authorized in writing by the Representative in connection with the defense of such action or the Representative shall not have employed counsel to have charge of the defense of such action within a reasonable time or such indemnified party or parties shall have reasonably concluded (based on the advice of counsel) that there may be defenses available to it or them which are different from or additional to those available to the Underwriters (in which case the Representative shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by such Underwriter and paid as incurred (it being understood, however, that the Underwriters shall not be liable for the expenses of more than one separate counsel in any one action or series of related actions in the same jurisdiction representing the indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, no Underwriter shall be liable for any settlement of any such claim or action effected without the written consent of such Underwriter.

(d) If the indemnification provided for in this Section 11 is unavailable to an indemnified party under subsections (a), (b) and (c) of this Section 11 in respect of any losses, expenses, liabilities or claims referred to therein, then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or

payable by such indemnified party as a result of such losses, expenses, liabilities or claims (i) in such proportion as is appropriate to reflect the relative benefits received by the Selling Shareholders and the Company on the one hand and the Underwriters on the other hand from the offering of the Shares or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and the Selling Shareholders on the one hand and of the Underwriters on the other in connection with the statements or omissions which resulted in such losses, expenses, liabilities or claims, as well as any other relevant equitable considerations. The relative benefits received by the Selling Shareholders and the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Selling Shareholders bear to the underwriting discounts and commissions received by the Underwriters. The relative fault of the Company and the Selling Shareholders on the one hand and of the Underwriters on the other shall be determined by reference to, among other things, whether the untrue statement or alleged untrue statement of a material fact or omission or alleged omission relates to information supplied by the Company or the Selling Shareholders or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages and liabilities referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any claim or action.

(e) The Company, the Selling Shareholders and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 11 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in subsection (d) above. Notwithstanding the provisions of this Section 11, (i) no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission and (ii) no Selling Shareholder shall be required to contribute any amount in excess of the amount by which the proceeds received in connection herewith exceed the amount of any damages which such Selling Shareholder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Section 11 are several in proportion to their respective underwriting commitments and not joint.

(f) The indemnity and contribution agreements contained in this Section 11 and the covenants, warranties and representations of the Company and the Selling Shareholders contained in this Agreement shall remain in full force and effect regardless of any investigation made by or on behalf of any Underwriter, or any person who controls any Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, or by or on behalf of the Company, its directors and officers or any person who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act or by the Selling Shareholders, and shall survive any termination of this Agreement or the sale and delivery of the Shares. The Company, the Selling Shareholders and each Underwriter agree promptly to notify the others of the commencement of any litigation or proceeding against it and, in the case of the Company, against any of the Company's officers and directors, in connection with the sale and delivery of the Shares, or in connection with the Registration Statement or Prospectus.

12. DEFAULT BY ONE OR MORE OF THE SELLING SHAREHOLDERS. If any of the Selling Shareholders shall fail at the Closing Time or on any Date of Delivery to sell and deliver the number of Shares that such Selling Shareholder or Selling Shareholders are obligated to sell hereunder on such date, and the remaining Selling Shareholders do not exercise the right hereby granted to increase, pro rata or otherwise, the number of Shares to be sold by them hereunder to the total number to be sold by all Selling Shareholders as set forth in Schedule II hereto, then the Underwriters may, at the option of the Representative by notice from the Representative to the Company and the Attorneys-in-Fact, either (a) terminate this Agreement without any liability on the part of any non-defaulting party except that the provisions of Sections 5(h), 7 and 11 shall remain in full force and effect or (b) elect to purchase the Shares which the non-defaulting Selling Shareholders have agreed to sell hereunder. No action taken pursuant to this Section 12 shall relieve any Selling Shareholder so defaulting from liability, if any, in respect of such default.

In the event of a default by any Selling Shareholder as referred to in this Section 12, the Representative, the Company and the non-defaulting Selling Shareholders shall have the right to postpone the Closing Time or the relevant Date of Delivery for a period not exceeding seven days in order to effect any required change in the Registration Statement or Prospectus or in any other documents or arrangements.

13. NOTICES: Except as otherwise herein provided, all statements, requests, notices and agreements shall be in writing or by telegram and, if to the Underwriters, shall be sufficient in all respects if delivered or sent to Friedman, Billings, Ramsey & Co., Inc., 1001 19th Street North, Arlington, Virginia 22209, Attention: Compliance Department; if to the Company, shall be sufficient in all respects if delivered to the Company at the offices of the Company at 1675 Palm Beach Lakes Boulevard, Suite 1002, West Palm Beach, Florida 33401

Attention: Secretary; and, if the Selling Shareholders shall be sufficient in all respects if delivered to [Attorney-in-Fact].

14. GOVERNING LAW; HEADINGS: THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES. The section headings in this Agreement have been inserted as a matter of convenience of reference and are not a part of this Agreement.

15. PARTIES AT INTEREST: The Agreement herein set forth has been and is made solely for the benefit of the Underwriters, the Company and the Selling Shareholders and the controlling persons, directors and officers referred to in Section 11 hereof, and their respective successors, assigns, executors and administrators. No other person, partnership, association or corporation (including a purchaser, as such purchaser, from any of the Underwriters) shall acquire or have any right under or by virtue of this Agreement.

16. COUNTERPARTS: This Agreement may be signed by the parties in counterparts which together shall constitute one and the same agreement among the parties.

If the foregoing correctly sets forth the understanding among the Company, the Selling Shareholders and the Underwriters, please so indicate in the space provided below for the purpose, whereupon this letter shall constitute a binding agreement among the Company, the Selling Shareholders and the Underwriters.

Very truly yours,

OCWEN FINANCIAL CORPORATION

By

Title:

THE SELLING SHAREHOLDERS NAMED ON SCHEDULE II
HERETO

By

As Attorney-in-Fact in behalf of the
Selling Shareholders named in
Schedule II hereto

Accepted and agreed to as
of the date first above
written:

FRIEDMAN, BILLINGS, RAMSEY & CO., INC.

By

Title:

For themselves and as Representative
of the other Underwriters named on
Schedule I hereto.

Schedule I

Underwriter -----	Number of Initial Shares to be Purchased -----
Friedman, Billings, Ramsey & Co., Inc. . . .	
Total	2,000,000 ----- -----

Schedule II

Selling Shareholders	Number of Initial Shares to be Sold	Maximum Number of Option Shares to be Sold
	2,000,000	300,000

OCWEN FINANCIAL CORPORATION
[]% NOTES DUE 2003

UNDERWRITING AGREEMENT

[_____,], 1996

UNDERWRITING AGREEMENT

[_____] , 1996

FRIEDMAN, BILLINGS, RAMSEY & CO., INC.
1001 19th Street North
Arlington, Virginia 22209

Dear Sirs:

Ocwen Financial Corporation (the "Company") confirms its agreement with Friedman, Billings, Ramsey & Co., Inc. (the "Underwriter") with respect to the sale by Company and the purchase by the Underwriter of \$100,000,000 aggregate principal amount of the Company's [___]% Notes due 2003 (the "Notes"). The Notes will be issued pursuant to an indenture, dated as of [_____] , 1996 (the "Indenture") between the Company and [_____] , as trustee (the "Trustee").

The Company understands that the Underwriter proposes to make a public offering of the Notes as soon as the Underwriter deems advisable after this Agreement has been executed and delivered.

The Company has filed with the Securities and Exchange Commission (the "Commission"), a registration statement on Form S-1 (No. 333-05153) and a related preliminary prospectus for the registration of the Notes under the Securities Act of 1933, as amended (the "Securities Act") and the rules and regulations thereunder (the "Securities Act Regulations"). The Company has prepared and filed such amendments thereto, if any, and such amended preliminary prospectuses, if any, as may have been required to the date hereof, and will file such additional amendments thereto and such amended prospectuses as may hereafter be required. The registration statement has been declared effective under the Securities Act by the Commission. The registration statement as amended at the time it became effective (including all information deemed to be a part of the registration statement at the time it became effective pursuant to Rule 430A(b) of the Securities Act Regulations) is hereinafter called the "Registration Statement," except that, if the Company files a post-effective amendment to such registration statement which becomes effective prior to the Closing Time (as defined below), "Registration Statement" shall refer to such registration statement as so amended. Any registration statement filed pursuant to Rule 462(b) of the Securities Act Regulations is hereinafter called the "Rule 462(b) Registration Statement," and after such filing the term "Registration Statement" shall include the 462(b) Registration Statement. Each prospectus included in the registration statement, or amendments thereof, before it became effective under the Securities Act and any prospectus filed with the Commission by the Company with the consent of the Underwriter pursuant to Rule 424(a) of the Securities Act Regulations is hereinafter called the "Preliminary Prospectus." The term "Prospectus" means the final prospectus, as first filed with the Commission pursuant to

paragraph (1) or (4) of Rule 424(b) of the Securities Act Regulations. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus.

The Company and the Underwriter agree as follows:

1. SALE AND PURCHASE: Upon the basis of the warranties and representations and other terms and conditions herein set forth, the Company agrees to sell to the Underwriter and the Underwriter agrees to purchase from the Company \$100,000,000 aggregate principal amount of Notes at a purchase price of []% of the principal amount thereof, plus accrued interest, if any, from [], 1996 to the Closing Time (as defined below). The Underwriter may from time to time increase or decrease the public offering price after the initial public offering to such extent as the Underwriter may determine.

2. PAYMENT AND DELIVERY: Payment of the purchase price for the Notes shall be made to the Company by wire transfer or certified or official bank check payable in federal (same-day) funds at the office of Simpson Thacher & Bartlett, 425 Lexington Avenue, New York, New York 10017 (unless another place shall be agreed upon by the Underwriter and the Company) against delivery of the certificates for the Notes to you for your account. Such payment and delivery shall be made at 10:00 a.m., New York City time, on the third (fourth, if pricing occurs after 4:30 p.m. (New York City time)) business day after the date hereof (unless another time, not later than ten business days after such date, shall be agreed to by the Underwriter and the Company). The time at which such payment and delivery are actually made is hereinafter sometimes called the "Closing Time". Certificates for the Notes shall be delivered to the Underwriter in definitive form registered in such names and in such denominations as the Underwriter shall specify. For the purpose of expediting the checking of the certificates for the Notes by the Underwriter, the Company agrees to make such certificates available to the Underwriter for such purpose at least one full business day preceding the Closing Time.

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY: The Company represents and warrants to the Underwriter that:

(a) each of the Registration Statement and any Rule 462(b) Registration Statement has become effective under the Securities Act and no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the Securities Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with;

(b) the Registration Statement complies and the Prospectus and any further amendments or supplements thereto will, when they become effective or are filed with the Commission, as the case may be, comply in all material respects with the requirements of the Securities Act and the Securities Act Regulations and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act") and the rules and regulations thereunder (the "Trust Indenture Act Regulations"); the Registration Statement did not, and any amendment thereto will not, in each case as of the applicable effective date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and the Prospectus and any amendment or supplement thereto will not, as of the applicable filing date and at Closing Time, contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that the Company makes no warranty or representation with respect to any statement contained in the Registration Statement or the Prospectus in reliance upon and in conformity with information concerning the Underwriter and furnished in writing by or on behalf of the Underwriter to the Company expressly for use in the Registration Statement or the Prospectus;

(c) the Prospectus delivered to the Underwriter for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T;

(d) the Company had at the date indicated the duly authorized and outstanding capitalization set forth in the Prospectus under the caption "Capitalization"; all of the issued and outstanding shares of capital stock of the Company have been duly and validly authorized and issued and are fully paid and non-assessable; the Company is a savings and loan holding company duly registered under the Home Owners' Loan Act, as amended ("HOLA"), and duly organized and validly existing under the laws of the State of Florida, with full power and authority to own its properties and conduct its business as described in the Registration Statement and the Prospectus, and to execute and deliver this Agreement and the Indenture and issue the Notes; the Company owns, directly or indirectly, beneficially and of record 100% of the outstanding shares of capital stock of Berkeley Federal Bank & Trust FSB (the "Bank"); the Bank is a federal savings bank duly organized and validly existing under the laws of the United States with full power and authority to own its properties and conduct its business as described in the Registration Statement and Prospectus; the Bank is a member in good standing of the Federal Home Loan Bank System; the savings accounts of depositors in the Bank are insured by the Federal Deposit Insurance Corporation (the "FDIC") to the fullest extent permitted by law and the rules and regulations of the FDIC, and no

proceedings for the termination of such insurance are pending, or to the best of the Company's knowledge, threatened;

(e) each of the Company's subsidiaries (the "Subsidiaries") has been duly incorporated or established and is validly existing as a corporation or limited partnership, as the case may be, in good standing under the laws of its jurisdiction of incorporation or establishment; the Company and each of such Subsidiaries is duly qualified or licensed by and in good standing in each jurisdiction in which they conduct their respective businesses and in which the failure, individually or in the aggregate, to be so licensed or qualified could have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries, taken as a whole; the Company and each of its Subsidiaries is in compliance in all material respects with the laws, orders, rules, regulations and directives issued or administered by such jurisdictions;

(f) neither the Company nor any of its Subsidiaries is in breach of, or in default under (nor has any event occurred which with notice, lapse of time, or both would constitute a breach of, or default under), its respective articles of incorporation or charter or by-laws or in the performance or observance of any obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, bank loan or credit agreement or other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them is bound, except for such breaches or defaults which would not have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole, and the execution, delivery and performance of this Agreement and the Indenture and the issuance of the Notes and consummation of the transactions contemplated hereby and thereby will not conflict with, or result in any breach of or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of, or default under), (i) any provision of the articles of incorporation or charter or by-laws of the Company or any of its Subsidiaries, or (ii) any provision of any license, indenture, mortgage, deed of trust, bank loan or credit agreement or other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them or their respective properties may be bound or affected, or under any federal, state, local or foreign law, regulation or rule or any decree, judgment or order applicable to the Company or any of its Subsidiaries, except in the case of this clause (ii) for such breaches or defaults which would not have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole;

(g) the Indenture has been duly authorized by the Company and when executed and delivered by the Company and the Trustee will be a legal, valid and

binding agreement of the Company enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, and by general principles of equity;

(h) the Notes have been duly authorized by the Company and when executed by the Company, authenticated by the Trustee and delivered against payment therefor as contemplated by this Agreement, will constitute legal, valid and binding obligations of the Company enforceable in accordance with their terms and entitled to the benefits of the Indenture, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity;

(i) this Agreement has been duly authorized, executed and delivered by the Company and is a legal, valid and binding agreement of the Company enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, and by general principles of equity, and except to the extent that the indemnification provisions of Section 8 hereof may be limited by federal or state securities laws and public policy considerations in respect thereof;

(j) the Notes and the Indenture conform in all material respects to the description thereof contained in the Registration Statement and Prospectus;

(k) no approval, authorization, consent or order of or filing with any federal, state or local governmental or regulatory commission, board, body, authority or agency is required in connection with the execution, delivery and performance of the Indenture and the sale of the Notes as contemplated hereby other than (A) such as have been obtained, or will have been obtained at the Closing Time, under the Securities Act and the Trust Indenture Act, and (B) any necessary qualification under the securities or blue sky laws of the various jurisdictions in which the Notes are being offered by the Underwriter;

(l) Price Waterhouse LLP, whose reports on the consolidated financial statements of the Company and its Subsidiaries are filed with the Commission as part of the Registration Statement and Prospectus, are independent public accountants as required by the Securities Act and the Securities Act Regulations;

(m) each of the Company and its Subsidiaries has all necessary licenses, authorizations, consents and approvals and has made all necessary filings required under any federal, state or local law, regulation or rule, and has obtained all necessary authorizations, consents and approvals from other persons, required in order to conduct

its respective business, except to the extent that any failure to have any such licenses, authorizations, consents or approvals, to make any such filings or to obtain any such authorizations, consents or approvals would not, alone or in the aggregate, have a material adverse effect on the business, properties, prospects, results of operations or condition of the Company and its Subsidiaries taken as a whole; neither the Company nor any of its Subsidiaries is in violation of, or in default under, any such license, authorization, consent or approval or any federal, state, local or foreign law, regulation or rule or any decree, order or judgment applicable to the Company or any of its Subsidiaries the effect of which could be material and adverse to the business, properties, prospects, results of operations or condition of the Company and its Subsidiaries taken as a whole;

(n) all legal or governmental proceedings, contracts or documents of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement have been so described or filed as required;

(o) there are no actions, suits or proceedings pending or, to the Company's knowledge, threatened against the Company or any of its Subsidiaries or any of their respective properties, at law or in equity, or before or by any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency which could result in a judgment, decree or order having a material adverse effect on the business, condition, prospects or property of the Company and its Subsidiaries taken as a whole;

(p) the financial statements, including the notes thereto, included in the Registration Statement and the Prospectus present fairly the consolidated financial position of the Company and its Subsidiaries as of the dates indicated and the consolidated results of operations and changes in financial position and cash flow of the Company and its Subsidiaries for the periods specified; such financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis during the periods involved (except as indicated in the notes thereto);

(q) subsequent to the effective date of the Registration Statement and the date of the Prospectus, and except as may be otherwise stated in the Registration Statement or Prospectus, there has not been (A) any material and unfavorable change, financial or otherwise, in the business, properties, prospects, results of operations or condition (financial or otherwise), present or prospective, of the Company and its Subsidiaries taken as a whole, (B) any transaction, other than in the ordinary course of business, which is material to the Company and its Subsidiaries taken as a whole, contemplated

or entered into by the Company or any of its Subsidiaries or (C) any obligation, contingent or otherwise, directly or indirectly incurred by the Company or any of its Subsidiaries, other than in the ordinary course of business, which is material to the Company and its Subsidiaries taken as a whole;

(r) the Company has complied with, and is and will be in compliance with, the provisions of that certain Florida act relating to disclosure of doing business with Cuba, codified as Section 517.075 of the Florida statutes, and the rules and regulations thereunder (collectively, the "Cuba Act") or is exempt therefrom;

(s) the Company is not, and upon the sale of the Notes as herein contemplated will not be, an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended (the "Investment Company Act");

(t) Other than pursuant to the Stockholders Agreement dated as of May 1, 1988, as amended (the "Stockholders Agreement", a copy of which has been filed as an exhibit to the Registration Statement, there are no persons with registration or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the Securities Act; and

(u) any certificate signed by any officer of the Company or any Subsidiary delivered to the Underwriter or to counsel for the Underwriter pursuant to or in connection with this Agreement shall be deemed a representation and warranty by the Company to the Underwriter as to the matters covered thereby.

4. CERTAIN COVENANTS OF THE COMPANY: The Company hereby agrees with the Underwriter:

(a) to furnish such information as may be required and otherwise to cooperate in qualifying the Notes for offering and sale under the securities or blue sky laws of such states as the Underwriter may designate and to maintain such qualifications in effect as long as required for the distribution of the Notes, provided that the Company shall not be required to qualify as a foreign corporation or to consent to the service of process under the laws of any such state (except service of process with respect to the offering and sale of the Notes);

(b) to prepare the Prospectus in a form approved by the Underwriter and file such Prospectus with the Commission pursuant to Rule 424(b) not later than 10:00 a.m. (New York City time), on the day following the execution and delivery of this

Agreement and to furnish promptly (and with respect to the initial delivery of such Prospectus, not later than 10:00 a.m. (New York City time) on the day following the execution and delivery of this Agreement) to the Underwriter as many copies of the Prospectus (or of the Prospectus as amended or supplemented if the Company shall have made any amendments or supplements thereto after the effective date of the Registration Statement) as the Underwriter may reasonably request for the purposes contemplated by the Securities Act Regulations, which Prospectus and any amendments or supplements thereto furnished to the Underwriter will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T;

(c) to advise the Underwriter promptly and (if requested by the Underwriter) to confirm such advice in writing, when the Registration Statement has become effective and when any post-effective amendment thereto becomes effective under the Securities Act Regulations;

(d) to advise the Underwriter promptly, confirming such advice in writing, of (i) any request by the Commission for amendments or supplements to the Registration Statement or Prospectus or for additional information with respect thereto, or (ii) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus, or of the suspension of the qualification of the Notes for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes and, if the Commission or any other government agency or authority should issue any such order, to make every reasonable effort to obtain the lifting or removal of such order as soon as possible; to advise the Underwriter promptly of any proposal to amend or supplement the Registration Statement or Prospectus and to file no such amendment or supplement to which the Underwriter shall reasonably object in writing;

(e) to furnish to the Underwriter for a period of five years from the date of this Agreement (i) copies of all annual, quarterly and current reports supplied to holders of the Notes, (ii) copies of all reports filed by the Company with the Commission, (iii) copies of the publicly available reports filed by the Bank with the OTS, and (iv) such other information as the Underwriter may reasonably request regarding the Company or its Subsidiaries;

(f) to advise the Underwriter promptly of the happening of any event known to the Company within the time during which a Prospectus relating to the Notes is required to be delivered under the Securities Act Regulations which, in the judgment of the Company, would require the making of any change in the Prospectus then being

used so that the Prospectus would not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading, and, during such time, to prepare and furnish, at the Company's expense, to the Underwriter promptly such amendments or supplements to such Prospectus as may be necessary to reflect any such change and to furnish to the Underwriter a copy of such proposed amendment or supplement before filing any such amendment or supplement with the Commission;

(g) to furnish promptly to the Underwriter a signed copy of the Registration Statement, as initially filed with the Commission, and of all amendments thereto (including all exhibits thereto) and such number of conformed copies of the foregoing as the Underwriter may reasonably request;

(h) to apply the net proceeds from the sale of the Notes in the manner set forth under the caption "Use of Proceeds" in the Prospectus;

(i) to pay all expenses, fees and taxes (other than any transfer taxes and the fees and disbursements of counsel for the Underwriter except as set forth under Section 5 hereof and clauses (iii) and (iv) below) in connection with (i) the preparation and filing of the Registration Statement, each Preliminary Prospectus, the Prospectus, and any amendments or supplements thereto, and the printing and furnishing of copies of each thereof to the Underwriter and to dealers (including costs of mailing and shipment), (ii) the preparation, issuance, execution, authentication and delivery of the Notes, (iii) the word processing and/or printing of this Agreement and any dealer agreements, and the reproduction and/or printing and furnishing of copies of each thereof to dealers (including costs of mailing and shipment), (iv) the qualification of the Notes for offering and sale under state laws and the determination of their eligibility for investment under state law as aforesaid (including the legal fees and filing fees and other disbursements of counsel for the Underwriter) and the printing and furnishing of copies of any blue sky surveys or legal investment surveys to the Underwriter and to dealers, (v) any filing for review of the public offering of the Notes by the NASD, (vi) the fees and expenses of any transfer agent or registrar for the Notes, (vii) any fees payable to investment rating agencies with respect to the Notes, and (viii) the performance of the Company's other obligations hereunder;

(j) to furnish to the Underwriter, not less than two business days before filing with the Commission subsequent to the effective date of the Prospectus and during the period referred to in paragraph (f) above, a copy of any document proposed to be filed with the Commission pursuant to Section 13, 14, or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and

(k) to make generally available to its Note holders as soon as practicable after the effective date of the Registration Statement an earning statement (in form, at the option of the Company, complying with the provisions of Rule 158 under the Securities Act) covering a period of 12 months beginning after the effective date of the Registration Statement.

5. REIMBURSEMENT OF THE UNDERWRITER'S EXPENSES: If the Notes are not delivered for any reason other than the termination of this Agreement pursuant to the first two paragraphs of Section 7 hereof or the default by the Underwriter in its obligations hereunder, the Company shall reimburse the Underwriter for all of its reasonable out-of-pocket expenses relating to the transactions contemplated hereby, including the fees and disbursements of its counsel.

6. CONDITIONS OF THE UNDERWRITER'S OBLIGATIONS: The obligations of the Underwriter hereunder are subject to the accuracy of the representations and warranties on the part of the Company on the date hereof and at the Closing Time, the performance by the Company of its obligations hereunder and to the following conditions:

(a) The Company shall furnish to the Underwriter at the Closing Time an opinion of Elias, Matz, Tiernan & Herrick L.L.P., counsel for the Company, addressed to the Underwriter and dated the Closing Time and in form satisfactory to Simpson Thacher & Bartlett, counsel for the Underwriter, stating that:

(i) the Company is a savings and loan holding company duly registered under HOLA;

(ii) the Bank has been duly organized and is validly existing as a federal savings bank under the laws of the United States of America, with full corporate power and authority to own its properties and conduct its business as described in the Registration Statement and the Prospectus, and is a member of the Federal Home Loan Bank of New York;

(iii) this Agreement has been duly authorized, executed and delivered by the Company;

(iv) the Indenture has been duly authorized, executed and delivered by the Company, and, assuming due authorization, execution and delivery by the Trustee, is a legal, valid and binding agreement of the Company enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally

and by general principles of equity; the Indenture has been duly qualified under the Trust Indenture Act;

(v) the Notes have been duly authorized, executed and delivered by the Company and, assuming due authentication thereof by the Trustee and upon payment and delivery in accordance with this Agreement, will be legal, valid and binding obligations of the Company enforceable in accordance with their terms and entitled to the benefits of the Indenture, except as may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and by general principles of equity;

(vi) the Company has an authorized capitalization as set forth in the Registration Statement and the Prospectus; the outstanding shares of capital stock of the Company and the Bank have been duly and validly authorized and issued and are fully paid and non-assessable, and all of the outstanding shares of capital stock of the Bank are directly or indirectly owned of record and, to such counsel's knowledge, beneficially by the Company;

(vii) the Notes and the Indenture conform in all material respects to the descriptions thereof contained in the Registration Statement and Prospectus;

(viii) the statements under the captions "Regulation", "Taxation - Federal Taxation" and "Description of Notes" in the Registration Statement and the Prospectus, insofar as such statements constitute a summary of the legal matters referred to therein, constitute accurate summaries thereof in all material respects;

(ix) as of the effective date of the Registration Statement, the Registration Statement and the Prospectus (except as to the financial statements and other financial and statistical data contained therein, as to which such counsel need express no opinion) complied as to form in all material respects with the requirements of the Securities Act Regulations;

(x) the Registration Statement has become effective under the Securities Act and, to the best of such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings with respect thereto have been commenced or threatened;

(xi) no approval, authorization, consent or order of or filing with any federal, or to such counsel's knowledge, state or local governmental or

regulatory commission, board, body, authority or agency is required in connection with the execution and delivery of the Indenture and the sale and delivery of the Notes by the Company as contemplated hereby other than such as have been obtained or made under the Securities Act and the Trust Indenture Act and except that such counsel need express no opinion as to any necessary qualification under the state securities or blue sky laws of the various jurisdictions in which the Notes are being offered by the Underwriter;

(xii) the execution, delivery and performance of this Agreement and the Indenture and the issuance of the Notes by the Company and the consummation by the Company of the transactions contemplated hereby and thereby do not and will not conflict with, or result in any breach of, or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of or default under), (i) any provisions of the articles of incorporation, charter or by-laws of the Company or the Bank, (ii) any provision of any material license, indenture, mortgage, deed of trust, bank loan, credit agreement or other agreement or instrument known to such counsel to which the Company or the Bank is a party or by which either of them or their respective properties may be bound or affected, or (iii) HOLA to the knowledge of such counsel, or the Securities Act or the rules and regulations of the OTS or the SEC or any other federal law or any decree, judgment or order applicable to the Company or the Bank, except in the case of clause (ii) for such conflicts, breaches or defaults which individually or in the aggregate would not have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole;

(xiii) to such counsel's knowledge, there are no contracts, licenses, agreements, leases or documents of a character which are required to be filed as exhibits to the Registration Statement or to be summarized or described in the Prospectus which have not been so filed, summarized or described;

(xiv) to such counsel's knowledge, there are no actions, suits or proceedings pending or threatened against the Company or any of its Subsidiaries or any of their respective properties, at law or in equity or before or by any commission, board, body, authority or agency which are required to be described in the Prospectus but are not so described;

(xv) the savings accounts of depositors in the Bank are insured by the FDIC to the fullest extent permitted by law and the rules and regulations of the FDIC, and no proceedings for the termination of such insurance are pending, or to such counsel's knowledge, threatened;

(xvi) to such counsel's knowledge, neither the Company nor any of its Subsidiaries is party to or otherwise the subject of any consent decree, memorandum of understanding, written agreement or similar supervisory or enforcement agreement or understanding with the OTS, the FDIC or any other government authority or agency responsible for the supervision, regulation or insurance of depository institutions or their holding companies;

(xvii) the form of certificate used to evidence the Notes complies in all material respects with all applicable statutory requirements and with any applicable requirements of the articles of incorporation and by-laws of the Company;

(xviii) other than pursuant to the Stockholders Agreement, to the best of such counsel's knowledge, there are no persons with registration or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the Securities Act; and

(xix) the Company is not an "investment company" or an entity "controlled" by an "investment company," as such terms are defined in the Investment Company Act.

In addition, such counsel shall state that they have participated in conferences with officers and other representatives of the Company, representatives of the independent public accountants of the Company and representatives of the Underwriter at which the contents of the Registration Statement and Prospectus were discussed and, although such counsel is not passing upon and does not assume responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or Prospectus (except as and to the extent stated in subparagraphs (vii) and (viii) above), on the basis of the foregoing nothing has come to the attention of such counsel that causes them to believe that either the Registration Statement or any amendment thereto at the time such Registration Statement or amendment became effective contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (it being understood that, in each case, such counsel need express no view with respect to the financial statements and other financial and statistical data included in the Registration Statement or Prospectus).

(b) The Company shall furnish to the Underwriter at the Closing Time a legal opinion of John R. Erbey, Esq., Managing Director and Secretary of the Company, addressed to the Underwriter and dated the Closing Time and in form satisfactory to Simpson Thacher & Bartlett, counsel for Underwriter, stating that

(i) the Company and each of the Company's material Subsidiaries (as identified on an appendix to such opinion) has been duly incorporated or established and is validly existing as a corporation or limited partnership, as the case may be, in good standing under the laws of its respective jurisdiction of incorporation or establishment with full corporate or partnership power and authority to own its respective properties and to conduct its respective business and, in the case of the Company, to execute and deliver this Agreement and the Indenture and to issue the Notes;

(ii) the Company and its Subsidiaries are duly qualified or licensed by each jurisdiction in which they conduct their respective businesses and in which the failure, individually or in the aggregate, to be so licensed or qualified could have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole, and the Company and its Subsidiaries are duly qualified, and are in good standing, in each jurisdiction in which they own or lease real property or maintain an office and in which such qualification is necessary, except where the failure to be so qualified and in good standing would not have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole;

(iii) the execution, delivery and performance of this Agreement and the Indenture and the issuance of the Notes and the consummation by the Company of the transactions contemplated hereby and thereby do not and will not conflict with, or result in any breach of, or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of or default under), (i) any provisions of the articles of incorporation, charter or by-laws of the Company or the Bank, (ii) any provision of any material license, indenture, mortgage, deed of trust, bank loan, credit agreement or other agreement or instrument known to such counsel to which the Company or the Bank is a party or by which either of them or their respective properties may be bound or affected, or (iii) to the knowledge of such counsel, any decree, judgment or order applicable to the Company or the Bank, except in the case of clause (ii) for such conflicts, breaches or defaults which individually or in the aggregate would not have a material adverse effect on the

operations, business or condition of the Company and its Subsidiaries taken as a whole;

(iv) to such counsel's knowledge, neither the Company nor any of its Subsidiaries is in breach of, or in default under (nor has any event occurred which with notice, lapse of time, or both would constitute a breach of, or default under), any license, indenture, mortgage, deed of trust, bank loan or credit agreement or any other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them or their respective properties may be bound or affected or under any law, regulation or rule or any decree, judgment or order applicable to the Company or any of its Subsidiaries, except such breaches or defaults which would not have a material adverse effect on the operations, business or condition of the Company and its Subsidiaries taken as a whole; and

(v) to such counsel's knowledge, there are no actions, suits or proceedings pending or threatened against the Company or any of its Subsidiaries or any of their respective properties, at law or in equity or before or by any commission, board, body, authority or agency which are required to be described in the Prospectus but are not so described.

In addition, such counsel shall state that he has participated in conferences with officers and other representatives of the Company, representatives of the independent public accountants of the Company and representatives of the Underwriter at which the contents of the Registration Statement and Prospectus were discussed and, although such counsel is not passing upon and does not assume responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or Prospectus, on the basis of the foregoing and information obtained during the course of his duties as an officer and director of the Company, nothing has come to the attention of such counsel that causes him to believe that either the Registration Statement or any amendment thereto at the time such Registration Statement became effective contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading or that the Prospectus contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (it being understood that, in each case, such counsel need express no view with respect to the financial statements and other financial and statistical data included in the Registration Statement or Prospectus).

(c) The Underwriter shall have received from Price Waterhouse LLP, letters dated, respectively, as of the date of this Agreement and the Closing Time, as the case may be, and addressed to the Underwriter in the forms heretofore approved by the Underwriter.

(d) The Underwriter shall have received at the Closing Time the favorable opinion of Simpson Thacher & Bartlett, counsel for the Underwriter, dated the Closing Time, in form and substance satisfactory to the Underwriter.

(e) No amendment or supplement to the Registration Statement or Prospectus shall have been filed to which the Underwriter shall have objected in writing.

(f) Prior to the Closing Time (i) no stop order suspending the effectiveness of the Registration Statement or any order preventing or suspending the use of any Preliminary Prospectus or Prospectus has been issued by the Commission, and no suspension of the qualification of the Notes for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes, has occurred; and (ii) the Registration Statement and all amendments thereto, or modifications thereof, if any, and the Prospectus and all amendments or supplements thereto, or modifications thereof, if any, shall not contain an untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading.

(g) Between the time of execution of this Agreement and the Closing Time (i) no material and unfavorable change, financial or otherwise (other than as disclosed in the Registration Statement and Prospectus), in the business, condition or prospects of the Company and its Subsidiaries taken as a whole shall occur or become known and (ii) no transaction which is material and unfavorable to the Company shall have been entered into by the Company or any of its Subsidiaries.

(h) The Company will, at the Closing Time, deliver to the Underwriter a certificate of two of its executive officers to the effect that, to each of such officer's knowledge, the representations and warranties of the Company set forth in this Agreement and the conditions set forth in paragraph (f) and paragraph (g) have been met and are true and correct as of such date.

(i) The NASD shall not have raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements.

(j) The Company shall have furnished to the Underwriter such other documents and certificates as to the accuracy and completeness of any statement in the Registration Statement and the Prospectus or any amendment or supplement thereto as of the Closing Time as the Underwriter may reasonably request.

(k) The Company shall perform such of its obligations under this Agreement as are to be performed by the terms hereof at or before the Closing Time.

7. TERMINATION: The obligations of the Underwriter hereunder shall be subject to termination in the absolute discretion of the Underwriter, at any time prior to the Closing Time, if trading in securities on the New York Stock Exchange shall have been suspended or minimum prices shall have been established on the New York Stock Exchange, or if a banking moratorium shall have been declared either by the United States or New York State authorities, or if the United States shall have declared war in accordance with its constitutional processes or there shall have occurred any material outbreak or escalation of hostilities or other national or international calamity or crisis of such magnitude in its effect on the financial markets of the United States as, in the judgment of the Underwriter, to make it impracticable to market the Notes.

If the Underwriter elects to terminate this Agreement as provided in this Section 7 the Company shall be notified promptly by letter or telegram.

If the sale to the Underwriter of the Notes, as contemplated by this Agreement, is not carried out by the Underwriter for any reason permitted under this Agreement or if such sale is not carried out because the Company shall be unable to comply with any of the terms of this Agreement, the Company shall not be under any obligation or liability under this Agreement (except to the extent provided in Sections 4(i), 5 and 8 hereof) and the Underwriter shall be under no obligation or liability to the Company under this Agreement (except to the extent provided in Section 8 hereof).

8. INDEMNITY BY THE COMPANY AND THE UNDERWRITER:

(a) The Company agrees to indemnify, defend and hold harmless the Underwriter, and any person who controls the Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any loss, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, the Underwriter or controlling person may incur under the Securities Act, the Exchange Act or otherwise, insofar as such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company)

or in a Prospectus (the term Prospectus for the purpose of this Section 8 being deemed to include any Preliminary Prospectus, the Prospectus and the Prospectus as amended or supplemented by the Company), or arises out of or is based upon any omission or alleged omission to state a material fact required to be stated in either such Registration Statement or Prospectus or necessary to make the statements made therein not misleading, except insofar as any such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information furnished in writing by the Underwriter to the Company expressly for use in such Registration Statement or such Prospectus or arises out of or is based upon any omission or alleged omission to state a material fact in connection with such information required to be stated in either such Registration Statement or Prospectus or necessary to make such information not misleading, PROVIDED, HOWEVER, that the indemnity agreement contained in this subsection (a) with respect to any Preliminary Prospectus shall not inure to the benefit of the Underwriter (or to the benefit of any person controlling the Underwriter) with respect to any person asserting any such loss, expense, liability or claim which is the subject thereof if the Prospectus corrected any such alleged untrue statement or omission and if the Underwriter failed to send or give a copy of the Prospectus to such person at or prior to the written confirmation of the sale of Notes to such person, unless such failure resulted from non-compliance by the Company with Section 4(b).

If any action is brought against the Underwriter or controlling person in respect of which indemnity may be sought against the Company pursuant to the preceding paragraph, the Underwriter shall promptly notify the Company in writing of the institution of such action and the Company shall assume the defense of such action, including the employment of counsel and payment of expenses. The Underwriter or controlling person shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of the Underwriter or such controlling person unless the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action or the Company shall not have employed counsel to have charge of the defense of such action within a reasonable time or such indemnified party or parties shall have reasonably concluded (based on the advice of counsel) that there may be defenses available to it or them which are different from or additional to those available to the Company (in which case the Company shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the Company and paid as incurred (it being understood, however, that the Company shall not be liable for the expenses of more than one separate counsel for the Underwriter or controlling persons in any one action or series of related actions in the same jurisdiction representing the indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, the Company shall

not be liable for any settlement of any such claim or action effected without its written consent.

(b) The Underwriter agrees to indemnify, defend and hold harmless the Company, its directors and officers and any person who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any loss, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, the Company or any such person may incur under the Securities Act, the Exchange Act or otherwise, insofar as such loss, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information furnished in writing by the Underwriter to the Company expressly for use in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company) or in a Prospectus, or arises out of or is based upon any omission or alleged omission to state a material fact in connection with such information required to be stated either in such Registration Statement or Prospectus or necessary to make such information not misleading.

If any action is brought against the Company or any such person in respect of which indemnity may be sought against the Underwriter pursuant to the foregoing paragraph, the Company or such person shall promptly notify the Underwriter in writing of the institution of such action and the Underwriter shall assume the defense of such action, including the employment of counsel and payment of expenses. The Company or such person shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of the Company or such person unless the employment of such counsel shall have been authorized in writing by the Underwriter in connection with the defense of such action or the Underwriter shall not have employed counsel to have charge of the defense of such action within a reasonable time or such indemnified party or parties shall have reasonably concluded (based on the advice of counsel) that there may be defenses available to it or them which are different from or additional to those available to the Underwriter (in which case the Underwriter shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the Underwriter and paid as incurred (it being understood, however, that the Underwriter shall not be liable for the expenses of more than one separate counsel in any one action or series of related actions in the same jurisdiction representing the indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, the Underwriter shall not be liable for any settlement of any such claim or action effected without its written consent.

(c) If the indemnification provided for in this Section 8 is unavailable to an indemnified party under subsections (a) and (b) of this Section 8 in respect of any losses, expenses, liabilities or claims referred to therein, then each applicable indemnifying party, in

lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, expenses, liabilities or claims (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriter on the other hand from the offering of the Notes or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and of the Underwriter on the other in connection with the statements or omissions which resulted in such losses, expenses, liabilities or claims, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriter on the other shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company bear to the underwriting discounts and commissions received by the Underwriter. The relative fault of the Company on the one hand and of the Underwriter on the other shall be determined by reference to, among other things, whether the untrue statement or alleged untrue statement of a material fact or omission or alleged omission relates to information supplied by the Company or by the Underwriter and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages and liabilities referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any claim or action.

(d) The Company and the Underwriter agree that it would not be just and equitable if contribution pursuant to this Section 8 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in subsection (c) above. Notwithstanding the provisions of this Section 8, the Underwriter shall not be required to contribute any amount in excess of the amount by which the total price at which the Notes underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which the Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) The indemnity and contribution agreements contained in this Section 8 and the covenants, warranties and representations of the Company contained in this Agreement shall remain in full force and effect regardless of any investigation made by or on behalf of the Underwriter, or any person who controls the Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, or by or on behalf of the Company, its directors and officers or any person who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, and shall survive any termination

of this Agreement or the sale and delivery of the Notes. The Company and the Underwriter agree promptly to notify the others of the commencement of any litigation or proceeding against it and, in the case of the Company, against any of the Company's officers and directors, in connection with the sale and delivery of the Notes, or in connection with the Registration Statement or Prospectus.

9. NOTICES: Except as otherwise herein provided, all statements, requests, notices and agreements shall be in writing or by telegram and, if to the Underwriter, shall be sufficient in all respects if delivered or sent to Friedman, Billings, Ramsey & Co., Inc., 1001 19th Street North, Arlington, Virginia 22209, Attention: Compliance Department; if to the Company, shall be sufficient in all respects if delivered to the Company at the offices of the Company at 1675 Palm Beach Lakes Boulevard, Suite 1002, West Palm Beach, Florida 33401 Attention: Secretary.

10. GOVERNING LAW; HEADINGS: THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES. The section headings in this Agreement have been inserted as a matter of convenience of reference and are not a part of this Agreement.

11. PARTIES AT INTEREST: The Agreement herein set forth has been and is made solely for the benefit of the Underwriter and the Company and the controlling persons, directors and officers referred to in Section 8 hereof, and their respective successors, assigns, executors and administrators. No other person, partnership, association or corporation (including a purchaser, as such purchaser, from the Underwriter) shall acquire or have any right under or by virtue of this Agreement.

12. COUNTERPARTS: This Agreement may be signed by the parties in counterparts which together shall constitute one and the same agreement among the parties.

If the foregoing correctly sets forth the understanding among the Company and the Underwriter, please so indicate in the space provided below for the purpose, whereupon this letter shall constitute a binding agreement between the Company and the Underwriter.

Very truly yours,

OCWEN FINANCIAL CORPORATION

By _____
Title:

Accepted and agreed to as
of the date first above
written:

FRIEDMAN, BILLINGS, RAMSEY & CO., INC.

By _____
Title:

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
OCWEN FINANCIAL CORPORATION

ARTICLE I
CORPORATE NAME

The name of this corporation is:

Ocwen Financial Corporation

ARTICLE II

PRINCIPAL OFFICE

The address of the principal office and the mailing address of this corporation are:

1675 Palm Beach Lakes Boulevard
West Palm Beach, Florida 33401

ARTICLE III
CAPITAL STOCK

The total number of shares of all classes of capital stock that this corporation shall have authority to issue shall be 220,000,000, of which 200,000,000 shares shall be shares of Common Stock, par value \$.01 per share, and 20,000,000 shares shall be shares of Preferred Stock, par value \$.01 per share.

The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of the Preferred Stock shall be as follows:

(A) The Board of Directors is expressly authorized at any time, and from time to time, to provide for the issuance of shares of Preferred Stock in one or more series, with such voting powers, full or limited, or without voting powers, and with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolutions providing for the issue thereof adopted by the Board of Directors, and as are not stated and expressed in these Articles of Incorporation, or any amendment thereto, including (but without limiting the generality of the foregoing) the following:

- (1) the designation of and number of shares constituting such series;
- (2) the dividend rate of such series, the conditions and dates upon which such dividends shall be payable, the preference or relation which such dividends shall bear to the dividends payable on any other class or classes or of any other series of capital stock, and whether such dividends shall be cumulative or non-cumulative;
- (3) whether the shares of such series shall be subject to redemption by this corporation, and, if made subject to such redemption, the times, prices and other terms and conditions of such redemption;
- (4) the terms and amounts of any sinking fund, if any, provided for the purchase or redemption of the shares of such series;
- (5) whether or not the shares of such series shall be convertible into or exchangeable for shares of any other class or classes or of any other series of any class or classes of capital stock of this corporation, and, if provision be made for conversion or exchange, the times, prices, rates, adjustments and other terms and conditions of such conversion or exchange;
- (6) the extent, if any, to which the holders of the shares of such series shall be entitled to vote as a class or otherwise with respect to the election of the directors or otherwise;
- (7) the restrictions, if any, on the issue or reissue of any additional Preferred Stock; and
- (8) the rights of the holders of the shares of such series upon the dissolution of, or upon the distribution of assets of, this corporation.

(B) Except as otherwise required by law and except for such voting powers with respect to the election of directors or other matters as may be stated in the resolutions of the Board of Directors creating any series of Preferred Stock, the holder of any such series shall have no voting power whatsoever.

ARTICLE IV

AFFILIATE TRANSACTIONS; CONTROL-SHARE ACQUISITIONS

This corporation hereby expressly elects not to be governed by Fla. Stat. Section 607.0901, as the same may be amended or supplemented.

Fla. Stat. Section 607.0902, as amended or supplemented, shall not apply to control-share acquisitions of shares of this corporation.

ARTICLE V

INDEMNIFICATION

This corporation shall, to the fullest extent permitted by the provisions of Fla. Stat. Section 607.0850, as the same may be amended and supplemented, indemnify any and all persons whom it shall have power to indemnify under said section from and against any and all of the expenses, liabilities, or other matters referred to in or covered by said section, and the indemnification provided for herein shall not be deemed exclusive of any rights to which those indemnified may be entitled under any Bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person.

BYLAWS

OF

OCWEN FINANCIAL CORPORATION

Amended and Restated Effective July 12, 1996

BYLAWS
OF
OCWEN FINANCIAL CORPORATION

ARTICLE I
SHAREHOLDERS

SECTION 1.1 ANNUAL MEETING. Except as otherwise provided in Section 1.9 of these Bylaws, an annual meeting of shareholders of the Corporation for the election of directors and for the transaction of any other proper business shall be held each year on such date, at such hour on said date and at such place within or without the State of Florida as may be fixed by the Board of Directors.

SECTION 1.2 SPECIAL MEETINGS. A special meeting of shareholders of the Corporation entitled to vote on any business to be considered at any such meeting may be called by the Chairman of the Board or the President, and shall be called by the Chairman of the Board, the President or the Secretary when directed to do so by resolution of the Board of Directors or at the written request of shareholders holding at least 10% of the Corporation's stock entitled to vote at such meeting. Any such request shall state the purpose or purposes of the proposed meeting.

SECTION 1.3 NOTICE OF MEETINGS. Whenever shareholders are required or permitted to take any action at a meeting, unless notice is waived as provided in Article VIII herein, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

Unless otherwise provided by law, and except as to any shareholder duly waiving notice, the written notice of any meeting shall be given personally or by mail, not less than ten nor more than sixty days before the date of the meeting to each shareholder entitled to vote at such meeting. If mailed, notice shall be deemed given when deposited in the United States mail, postage prepaid, directed to the shareholder at his address as it appears on the records of the Corporation.

When a meeting is adjourned to another date, time or place, notice need not be given of the new date, time or place if the new date, time and place thereof are announced at the meeting before the adjournment is taken. At the adjourned meeting the Corporation may transact any business that might have been transacted at the original meeting. If, however, the adjournment is for more than one hundred twenty days, or if after the adjournment a

new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting.

SECTION 1.4 QUORUM. Except as otherwise provided by law, by the Articles of Incorporation or by these Bylaws in respect of the vote required for a specified action, at any meeting of shareholders the holders of a majority of the shares of stock entitled to vote thereat, either present or represented by proxy, shall constitute a quorum for the transaction of any business, but the shareholders present, although less than a quorum, may adjourn the meeting to another time or place and, except as provided in the last paragraph of Section 1.3 of these Bylaws, notice need not be given of the adjourned meeting.

SECTION 1.5 VOTING. Whenever directors are to be elected at a meeting, they shall be elected by a plurality of the votes cast at the meeting by the holders of stock entitled to vote. Whenever any corporate action, other than the election of directors, is to be taken by vote of shareholders at a meeting, it shall, except as otherwise required by law, by the Articles of Incorporation or by these Bylaws, be approved if the votes cast by the holders of the shares represented at the meeting and entitled to vote on the subject matter favoring the action exceed the votes cast opposing the action.

Except as otherwise provided by law or by the Articles of Incorporation, each holder of record of stock of the Corporation entitled to vote on any matter at any meeting of shareholders shall be entitled to one vote for each share of such stock standing in the name of such holder on the stock ledger of the Corporation on the record date for the determination of the shareholders entitled to vote at the meeting.

Upon the demand of any shareholder entitled to vote, the vote for directors or the vote on any other matter at a meeting shall be by written ballot, but otherwise the method of voting and the manner in which votes are counted shall be discretionary with the presiding officer at the meeting.

SECTION 1.6 PRESIDING OFFICER AND SECRETARY. At every meeting of shareholders the Chairman of the Board, or in his or her absence (or if there be none) the President, or in his or her absence a Managing Director, or, if none be present, the appointee of the meeting, shall preside. The Secretary, or in his or her absence an Assistant Secretary, or if none be present, the appointee of the presiding officer of the meeting, shall act as secretary of the meeting.

SECTION 1.7 PROXIES. A shareholder entitled to vote at any meeting of shareholders or any adjournment thereof may vote in person or by proxy executed in writing and signed by the shareholder or the shareholder's attorney-in-fact. The appointment of proxy will be effective when received by the Secretary or other officer or agent authorized to tabulate votes. If a proxy designates two or more persons to act as proxies, a majority of these persons present at the meeting, or if only one is present, that one, shall have all of the

powers conferred by the instrument upon all the persons designated unless the instrument otherwise provides. No proxy shall be valid more than eleven (11) months after the date of its execution unless a longer term is expressly stated in the proxy.

SECTION 1.8 LIST OF SHAREHOLDERS. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of shareholders, a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each shareholder and the number of shares registered in the name of each shareholder. Such list shall be open to the examination of any shareholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, at the Corporation's principal office, at the office of the Corporation's transfer agent or registrar or at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any shareholder who is present.

The stock ledger shall be the only evidence as to who are the shareholders entitled to examine the stock ledger, the list required by this Section or the books of the Corporation, or to vote in person or by proxy at any meeting of shareholders.

SECTION 1.9 WRITTEN CONSENT OF SHAREHOLDERS IN LIEU OF MEETING. Except as otherwise provided by law or by the Articles of Incorporation, any action required or permitted by statute to be taken at any annual or special meeting of shareholders of the Corporation may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be dated and signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Any such written consent may be given by one or any number of substantially concurrent written instruments of substantially similar tenor dated and signed by such shareholders, in person or by attorney or proxy duly appointed in writing, and filed with the Secretary or an Assistant Secretary of the Corporation. Within ten days after obtaining such authorization by written consent, notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those shareholders who have not consented in writing or who are not entitled to vote on such action. The notice shall fairly summarize the material features of the authorized action. If the action creates dissenters' rights, the notice shall contain a clear statement of the right of dissenting shareholders to be paid the fair value of their shares upon compliance with and as provided for by the Florida Business Corporation Act.

ARTICLE II

DIRECTORS

SECTION 2.1 NUMBER OF DIRECTORS. The Board of Directors shall consist of not less than three directors and not more than seven directors, with the exact number to be fixed by the Board of Directors. The number of directors may be fixed at any time and from time to time by a resolution of the Board of Directors passed by a majority of the whole Board of Directors or by a vote at a meeting or by written consent of the holders of stock entitled to vote on the election of directors, except that no decrease shall shorten the term of any incumbent director unless such director is specifically removed pursuant to Section 2.5 of these Bylaws at the time of such decrease.

SECTION 2.2 ELECTION AND TERM OF DIRECTORS. Directors shall be elected annually, by election at the annual meeting of shareholders or by written consent of the holders of stock entitled to vote thereon in lieu of such meeting. If the annual election of directors is not held on the date designated therefor, the directors shall cause such election to be held as soon thereafter as convenient. Each director shall hold office from the time of his election and qualification until his successor is elected and qualified or until his earlier resignation or removal.

SECTION 2.3 VACANCIES AND NEWLY CREATED DIRECTORSHIPS. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by election at a meeting of shareholders or by written consent of the holders of stock entitled to vote thereon in lieu of a meeting. Except as otherwise provided by law or by the Articles of Incorporation, vacancies and such newly created directorships may also be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

SECTION 2.4 RESIGNATION. Any director may resign at any time upon written notice to the Board of Directors, the Chairman of the Board or the Corporation. Any such resignation shall take effect at the time specified therein or, if the time be not specified, upon receipt thereof, and the acceptance of such resignation, unless required by the terms thereof, shall not be necessary to make such resignation effective.

SECTION 2.5 REMOVAL. Any or all of the directors may be removed at any time, with or without cause, by vote of the holders of the shares of stock entitled to vote on the election of directors, taken at a meeting or by written consent, if the number of votes cast to remove such director or directors exceeds the number of votes cast not to remove such director or directors.

SECTION 2.6 MEETINGS. Meetings of the Board of Directors, regular or special, shall be held at the principal place of business of the Corporation or at another place designated

by the person or persons giving notice or otherwise calling the meeting. Members of the Board of Directors, or of any committee designated by the Board, may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting may simultaneously hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting. The Board of Directors may fix dates, times and places for regular meetings of the Board of Directors and no notice of such meetings need be given. A special meeting of the Board of Directors shall be held whenever called by the Chairman of the Board, if any, or by the President at such date, time and place as shall be specified in the notice or waiver thereof. Notice of each special meeting shall be given by the Secretary or by a person calling the meeting to each director orally or in writing, and may be communicated in person, by telegraph, teletype, telecopy or other form of electronic communication not later than the day before the meeting or by mailing the same, postage prepaid, not later than the second day before the meeting. Notice of a meeting of the Board of Directors need not be given to a director who signs a waiver of notice either before or after the meeting. Attendance of a director at a meeting shall constitute a waiver of notice of that meeting and waiver of all objections to the place of the meeting, the time of the meeting and the manner in which it is called or convened, except when a director states, at the beginning of the meeting or promptly upon arrival at the meeting, objection to the transaction of business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors must be specified in the notice or waiver of notice of such meeting.

SECTION 2.7 QUORUM AND VOTING. A majority of the total number of directors shall constitute a quorum for the transaction of business, but, if there be less than a quorum at any meeting of the Board of Directors, a majority of the directors present may adjourn the meeting from time to time, and no further notice thereof need be given other than announcement at the meeting which shall be so adjourned. Except as otherwise provided by law, by the Articles of Incorporation or by these Bylaws, the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

SECTION 2.8 WRITTEN CONSENT OF DIRECTORS IN LIEU OF A MEETING. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board or of such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

SECTION 2.9 COMPENSATION. Directors may receive compensation for services to the Corporation in their capacities as directors or otherwise in such manner and in such amounts as may be fixed from time to time by the Board of Directors.

ARTICLE III

COMMITTEES OF THE BOARD OF DIRECTORS

SECTION 3.1 APPOINTMENT AND POWERS. The Board of Directors may from time to time, by resolution passed by majority of the whole Board, designate one or more committees, each committee to consist of two or more directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The resolution of the Board of Directors may, in addition or alternatively, provide that in the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it, except as otherwise provided by law. Any such committee may adopt rules governing the method of calling and date, time and place of holding its meetings. Unless otherwise provided by the Board of Directors, a majority of any such committee shall constitute a quorum for the transaction of business, and the vote of a majority of the members of such committee present at a meeting at which a quorum is present shall be the act of such committee. Each such committee shall keep a record of its acts and proceedings and shall report thereon to the Board of Directors whenever requested so to do. Any or all members of any such committee may be removed, with or without cause, by resolution of the Board of Directors, passed by a majority of the whole Board.

ARTICLE IV

OFFICERS, AGENTS AND EMPLOYEES

SECTION 4.1 APPOINTMENT AND TERM OF OFFICE. The officers of the Corporation shall include a Chairman of the Board, a President, a Secretary and a Treasurer, and may include one or more Managing Directors, Senior Vice Presidents and Vice Presidents. All such officers shall be appointed by the Board of Directors or by a duly authorized committee thereof. Any number of such offices may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity. Except as may be prescribed otherwise by the Board of Directors or a committee thereof in a particular case, all such officers shall hold their offices at the pleasure of the Board of Directors for an unlimited term and need not be reappointed annually or at any other periodic interval. The Board of Directors may appoint, and may delegate power to appoint, such other officers (including Assistant Secretaries and Assistant Treasurers) and agents as it may deem

necessary or proper, who shall hold their offices or positions for such terms, have such authority and perform such duties as may from time to time be determined by or pursuant to authorization of the Board of Directors.

SECTION 4.2 RESIGNATION AND REMOVAL. Any officer may resign at any time upon written notice to the Secretary of the Corporation. Any officer, agent or employee of the Corporation may be removed by the Board of Directors, or by a duly authorized committee thereof, with or without cause at any time. The Board of Directors or such a committee thereof may delegate such power of removal as to officers, agents and employees not appointed by the Board of Directors or such a committee.

SECTION 4.3 COMPENSATION AND BOND. The compensation of the officers of the Corporation shall be fixed by the Board of Directors, but this power may be delegated to any officer in respect of other officers under his control. The Corporation may secure the fidelity of any or all of its officers, agents or employees by bond or otherwise.

SECTION 4.4 CHAIRMAN OF THE BOARD. The Chairman of the Board shall preside at all meetings of the Board of Directors and of the shareholders. The Chairman of the Board shall have such other powers and perform such other duties as are prescribed by these Bylaws and as usually pertain to such office and as may be assigned to him or her at any time or from time to time by the Board of Directors.

SECTION 4.5 PRESIDENT. The President shall be the chief executive officer of the Corporation and shall have the responsibility for carrying out the policies of the Board of Directors, subject to the direction of the Board, and shall have general supervision over the business and affairs of the Corporation. In the absence of the Chairman of the Board, the President shall preside at meetings of the Board of Directors and of the shareholders. The President may employ and discharge employees and agents of the Corporation, except as otherwise prescribed by the Board of Directors, and may delegate these powers. The President may vote the stock or other securities of any other domestic or foreign corporation of any type or kind which may at any time be owned by the Corporation, may execute any shareholders' or other consents in respect thereof and may in his or her discretion delegate such powers by executing proxies, or otherwise, on behalf of the Corporation. The Board of Directors by resolution from time to time may confer like powers upon any other person or persons. The President shall have such other powers and perform such other duties as are prescribed by these Bylaws and as usually pertain to such office and as may be assigned to him or her at any time or from time to time by the Board of Directors.

SECTION 4.6 MANAGING DIRECTORS. Each Managing Director shall have such powers and perform such duties as the Board of Directors or the President may from time to time prescribe. In the absence or inability to act of the President, unless the Board of Directors shall otherwise provide, the Managing Director who has served in that capacity for the longest time and who shall be present and able to act, shall perform all the duties and may

exercise any of the powers of the President. The performance of any duty by a Managing Director shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act.

SECTION 4.7 SENIOR VICE PRESIDENTS. Each Senior Vice President shall have such powers and perform such duties as the Board of Directors or the President may from time to time prescribe. The performance of any duty by a Senior Vice President shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act.

SECTION 4.8 VICE PRESIDENTS. Each Vice President shall have such powers and perform such duties as the Board of Directors or the President may from time to time prescribe. The performance of any duty by a Vice President shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act.

SECTION 4.9 TREASURER. The Treasurer shall have charge of all funds and securities of the Corporation, shall endorse the same for deposit or collection when necessary and deposit the same to the credit of the Corporation in such banks or depositories as the Board of Directors may authorize. He may endorse all commercial documents requiring endorsements for or on behalf of the Corporation and may sign all receipts and vouchers for payments made to the Corporation. He shall have all such further powers and duties as generally are incident to the position of Treasurer or as may be assigned to him by the Board of Directors or the President.

SECTION 4.10 SECRETARY. The Secretary shall record all the proceedings of the meetings of the shareholders and directors in a book to be kept for that purpose and shall also record therein all action taken by written consent of the shareholders or directors in lieu of a meeting. He or she shall attend to the giving and serving of all notices of the Corporation. The Secretary shall have custody of the seal of the Corporation and shall attest the same by his or her signature whenever required. The Secretary shall have charge of the stock ledger and such other books and papers as the Board of Directors may direct, but he or she may delegate responsibility for maintaining the stock ledger to any transfer agent appointed by the Board of Directors. He or she shall have all such further powers and duties as generally are incident to the position of Secretary or as may be assigned to him by the Board of Directors or the President

SECTION 4.11 ASSISTANT TREASURERS. In the absence or inability to act of the Treasurer, any Assistant Treasurer may perform all the duties and exercise all the powers of the Treasurer. The performance of any such duty shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act. An Assistant Treasurer shall also perform such other duties as the Treasurer, the Board of Directors or the President may assign to him or her.

SECTION 4.12 ASSISTANT SECRETARIES. In the absence or inability to act of the Secretary, any Assistant Secretary may perform all the duties and exercise all the powers of the Secretary. The performance of any such duty shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act. An Assistant Secretary shall also perform such other duties as the Secretary, the Board of Directors or the President may assign to him or her.

SECTION 4.13 DELEGATION OF DUTIES. In case of the absence of any officer of the Corporation, or for any other reason that the Board of Directors may deem sufficient, the Board of Directors may confer for the time being the powers or duties, or any of them, of such officer upon any other officer or upon any director.

SECTION 4.14 LOANS TO OFFICERS, DIRECTORS AND EMPLOYEES; GUARANTY OF OBLIGATIONS OF OFFICERS, DIRECTORS AND EMPLOYEES. The Corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer, director or employee of the Corporation or any subsidiary whenever, in the judgment of the Board of Directors, such loan, guaranty or assistance may reasonably be expected to benefit the Corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the Corporation.

ARTICLE V

INDEMNIFICATION

SECTION 5.1 INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS. Any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including any action or suit by or in the right of the Corporation to procure a judgment in its favor) by reason of the fact that he or she is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified by the Corporation, if, as and to the extent authorized by applicable law, against expenses (including attorneys' fees), judgments, liabilities, fines, costs and amounts paid in settlement actually and reasonably incurred by him or her in connection with the defense or settlement of such action, suit or proceeding. The indemnification expressly provided by applicable law and by these Bylaws in a specific case shall not be deemed exclusive of any other rights to which any person indemnified may be entitled under any lawful agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 5.2 INSURANCE. The Corporation may maintain insurance, at its expense, to protect itself and its directors, officers, employees and agents against expenses, judgments, liabilities, fines, costs and amounts paid in settlement, whether or not the Corporation would have the legal power to indemnify them directly against such liability.

SECTION 5.3 SAVINGS CLAUSE. If this Article or any portion of it is invalidated on any ground by a court of competent jurisdiction, the Corporation nevertheless shall indemnify each person described in Section 5.1 of this Article to the fullest extent permitted by all portions of this Article that shall not have been invalidated and to the fullest extent permitted by law.

ARTICLE VI

STOCK

SECTION 6.1 CERTIFICATES. The Board of Directors may authorize the issuance of some or all of the Corporation's shares of stock of any or all classes or series with or without certificates. Certificates for stock of the Corporation shall be in such form as shall be approved by the Board of Directors and shall be signed in the name of the Corporation by the Chairman of the Board, the President or a Managing Director, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary. Such certificates may be sealed with the seal of the Corporation or a facsimile thereof. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

SECTION 6.2 REGISTERED SHAREHOLDERS. No certificate shall be issued for any share until the share is fully paid. The Corporation shall be entitled to treat the holder of record of shares as the holder in fact and, except as otherwise provided by law, shall not be bound to recognize any equitable or other claim to or interest in the shares.

SECTION 6.3 TRANSFERS OF STOCK. Transfers of stock shall be made only upon the books of the Corporation by the holder, in person or by duly authorized attorney, and on the surrender of the certificate or certificates for such stock properly endorsed. The Board of Directors shall have the power to make all such rules and regulations, not inconsistent with applicable law, the Articles of Incorporation or these Bylaws, as the Board of Directors may deem appropriate concerning the issue, transfer and registration of certificates for stock of the Corporation. The Board may appoint one or more transfer agents or registrars of transfers, or both, and may require all stock certificates to bear the signature of either or both.

SECTION 6.4 LOST, STOLEN OR DESTROYED CERTIFICATES. The Corporation may issue a new stock certificate in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate or his legal representative to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of any such new certificate. The Board of Directors may require such owner to satisfy other reasonable requirements.

SECTION 6.5 SHAREHOLDER RECORD DATE. In order that the Corporation may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not precede the date upon which the Board of Directors adopts the resolution fixing such record date nor be more than seventy days before the date of such meeting or other action requiring shareholder determination. Only such shareholders as shall be shareholders of record on the date so fixed shall be entitled to notice of, and to vote at, such meeting and any adjournment thereof, or to give such consent, or to receive payment of such dividend or other distribution, or to exercise such rights in respect of any such change, conversion or exchange of stock, or to participate in such action, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any record date so fixed.

If no record date is fixed by the Board of Directors, (i) the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the date on which notice is given or, if notice is waived by all shareholders entitled to vote at the meeting, at the close of business on the day next preceding the day on which the meeting is held, (ii) the record date for determining shareholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be at the close of business on the day on which the first written consent is expressed by the filing thereof with the Corporation as provided in Section 1.10 of these Bylaws, and (iii) the record date for determining shareholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

ARTICLE VII

SEAL

SECTION 7.1 SEAL. The seal of the Corporation shall be circular in form and shall bear, in addition to any other emblem or device approved by the Board of Directors, the name of the Corporation, the year of its incorporation and the words "Corporate Seal" and "Florida". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

ARTICLE VIII

WAIVER OF NOTICE

SECTION 8.1 WAIVER OF NOTICE. Whenever notice is required to be given by statute or under any provision of the Articles of Incorporation or these Bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. In the case of a shareholder, such waiver of notice may be signed by such shareholder's attorney or proxy duly appointed in writing. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the shareholders, directors or members of a committee of directors need be specified in any written waiver of notice.

ARTICLE IX

CHECKS, NOTES, DRAFTS, ETC.

SECTION 9.1 CHECKS, NOTES, DRAFTS, ETC. Checks, notes, drafts, acceptances, bills of exchange and other orders or obligations for the payment of money shall be signed by such officer or officers or person or persons as the Board of Directors or a duly authorized committee thereof may from time to time designate.

ARTICLE X

AMENDMENT

SECTION 10.1 AMENDMENT. These Bylaws or any of them may be altered, amended or repealed, and new Bylaws may be adopted, by the Board of Directors or by the shareholders.

OCWEN FINANCIAL CORPORATION

TO

[_____] , Trustee

SENIOR DEBT SECURITIES

INDENTURE

Dated as of _____ , 1996

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NOTE: This table of contents shall not, for any purpose, be deemed to be a part of the Indenture.

INDENTURE, dated as of _____, 1996, between OCWEN FINANCIAL CORPORATION, a corporation duly organized and existing under the laws of the State of Florida (herein called the "Company"), having its principal office at 1675 Palm Beach Boulevard, West Palm Beach, Florida 33401, and [_____] , a _____, as Trustee (herein called the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured senior debentures, notes or other evidences of indebtedness (herein called the "Securities"), to be issued in one or more series as in this Indenture provided.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Securities or of series thereof, as follows:

ARTICLE I

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

Section 1.1 DEFINITIONS.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean

such accounting principles as are generally accepted at the date of such computation; and

(4) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

"Acquired Indebtedness" means Indebtedness of a person (i) existing at the time such Person becomes a Subsidiary of or is merged with or into any other Person or (ii) assumed in connection with the acquisition of assets from such Person, in each case, other than Indebtedness incurred in connection with, or in contemplation of, such Person becoming a Subsidiary of such other Person or such acquisition. Acquired Indebtedness shall be deemed to be incurred on the date of the related acquisition of assets from such Person or the date such Person becomes a Subsidiary of or is merged with or into such other Person.

"Act", when used with respect to any Holder, has the meaning specified in Section 1.4.

"Affiliate" means, with respect to any specified Person, any other Person directly or indirectly Controlling or Controlled by or under direct or indirect common Control with such specified Person and any legal or beneficial owner, directly or indirectly, of 20% or more of the Voting Stock of such specified Person. Notwithstanding the foregoing, no Securitization Entity shall be deemed an Affiliate of the Company.

"Authenticating Agent" means any Person authorized by the Trustee pursuant to Section 6.14 to act on behalf of the Trustee to authenticate Securities of one or more series.

"Authorized Officer" means any officer of the Company designated by a resolution of the Board of Directors to take certain actions as specified in this Indenture.

"Average Life to Stated Maturity" means, as of the date of determination with respect to any Indebtedness, the quotient obtained by dividing (i) the sum of the products of (a) the number of years from the date of determination to the date or dates of each successive scheduled principal payment of such Indebtedness multiplied by (b) the amount of each such principal payment by (ii) the sum of all such principal payments.

"Bank" means Berkeley Federal Bank & Trust FSB.

"Board of Directors" means either the board of directors of the Company or any duly authorized committee of that board.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors, or by action of an Authorized Officer designated as such pursuant to a resolution of the Board of Directors, and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day", when used with respect to any Place of Payment, means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in that Place of Payment are authorized or obligated by law or executive order to close.

"Capital Lease Obligation" of any Person means any obligations of such Person under any capital lease for real or personal property which, in accordance with GAAP, is required to be recorded as a capitalized lease obligation; and, for the purpose of this Indenture, the amount of such obligation at any date shall be the capitalized amount thereof at such date, determined in accordance with GAAP.

"Capital Stock" in any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents or interests in (however designated) capital stock in such Person, including, with respect to a corporation, common stock, Preferred Stock and other corporate stock and, with respect to a partnership, partnership interests, whether general or limited, and any rights (other than debt securities convertible into corporate stock, partnership interests or other capital stock), warrants or options exchangeable for or convertible into such corporate stock, partnership interests or other capital stock.

"Change of Control Event" means an event or series of events by which

(a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than the Existing Principal Stockholders, is or becomes after the date of issuance of the initial series of Securities the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act as in effect on the date of this Indenture), of more than 40% of the total voting power of all Voting Stock of the Company then outstanding;

(b) (1) another corporation merges into the Company or the Company consolidates with or merges into any other corporation, or

(2) the Company conveys, transfers or leases all or substantially all its assets to any person or group, in one transaction or a series of transactions other than any conveyance, transfer or lease between the Company and a Wholly-Owned Subsidiary of the Company,

in each case, with the effect that a person or group, other than the Existing Principal Stockholders, is or becomes the beneficial owner of more than 40% of the total voting

power of all Voting Stock of the surviving or transferee corporation of such transaction or series of transactions;

(c) during any period of two consecutive years, individuals who at the beginning of such period constituted the Company's Board of Directors, or whose nomination for election by the Company's shareholders was approved by a vote of a majority of the Directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Directors then in office;

(d) (1) the Company sells, transfers or otherwise disposes of any shares of Capital Stock of any Significant Subsidiary (other than to the Company or a Wholly-Owned Subsidiary), or

(2) any Significant Subsidiary (i) issues, sells or otherwise disposes of shares of its Capital Stock (or securities convertible into or exercisable for shares of Capital Stock), (ii) conveys, transfers or leases all or substantially all its assets to any Person or group or (iii) merges with or into any other entity, except in the case of any event described in this clause (2) with the Company or a Wholly-Owned Subsidiary; or

(e) the shareholders of the Company shall approve any plan or proposal for the liquidation or dissolution of the Company.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by its Chairman of the Board, its Vice Chairman of the Board, its President, its Chief Financial Officer or a Vice President, and by its Controller, an Assistant Controller, its Secretary or an Assistant Secretary, and delivered to the Trustee.

"Consolidated Depreciation and Amortization Expense" means with respect to any Person for any period, the total amount of depreciation and amortization expense of such Person for such period on a consolidated basis and otherwise determined in accordance with GAAP.

"Consolidated Interest Expense" means, with respect to any period, the sum of: (a) consolidated interest expense of such Person for such period, whether paid or accrued (except to the extent accrued in a prior period), to the extent such expense was deducted in computing Consolidated Net Income (Loss) (including amortization of original issue discount, non-cash interest payments and the interest component of Capitalized Lease Obligations, excluding amortization of deferred financing fees) and (b) consolidated capitalized interest of such Person for such period, whether paid or accrued, to the extent such expense was deducted in computing Consolidated Net Income (Loss).

"Consolidated Net Income (Loss)" of any Person means, for any period, the consolidated net income (or loss) of such Person and its consolidated Subsidiaries for such period as determined in accordance with GAAP, adjusted, to the extent included in calculating such net income (loss), by excluding, without duplication, (i) all extraordinary gains and losses (other than those relating to the use of net operating losses of such Person carried forward), less all fees and expenses relating thereto, net of taxes, (ii) the portion of net income (or loss) of any other Person (other than any of such Person's consolidated Subsidiaries) in which such Person or any of its Subsidiaries has an ownership interest, except to the extent of the amount of dividends or other distributions actually paid to such Person or its consolidated Subsidiaries in cash by such other Person during such period, (iii) net income (or loss) of any Person combined with such Person or any of its Subsidiaries on a "pooling of interests" basis attributable to any period prior to the date of combination, (iv) any gain or loss, net of taxes, realized upon the termination of any employee pension benefit plan or (v) the net income of any consolidated Subsidiary of such Person to the extent that the declaration or payment of dividends or similar distributions by that Subsidiary of that income is not at the time permitted, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulations applicable to that Subsidiary or its shareholders; PROVIDED that, upon the termination or expiration of such dividend or distribution restrictions, the portion of net income (or loss) of such consolidated Subsidiary allocable to such Person and previously excluded shall be added to the Consolidated Net Income (Loss) of such Person to the extent of the amount of dividends or other distributions available to be paid to such Person in cash by such Subsidiary.

"Consolidated Tangible Net Worth" of any Person and its Subsidiaries means as of the date of determination all amounts that would be included under stockholders' equity on a consolidated balance sheet of such Person and its Subsidiaries determined in accordance with GAAP less an amount equal to the consolidated intangible assets (other than capitalized mortgage servicing rights) of such Person and its Subsidiaries determined in accordance with GAAP.

"Control" when used with respect to any specified Person means the power to direct the management and policies of such Person directly or indirectly, whether through ownership of voting securities (or pledge of voting securities if the pledgee

thereof may on the date of determination exercise or control the exercise of the voting rights of the owner of such voting securities), by contract or otherwise; and the terms "to Control" "Controlling" and "Controlled" have meanings correlative to the foregoing.

"Corporate Trust Office" means the office of the Trustee at which at any particular time its corporate trust business shall be principally administered, which office as of the date hereof is located at [_____].

"Default" means an event or condition the occurrence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Defaulted Interest" has the meaning specified in Section 3.7.

"Depository" means, with respect to the Securities of any series issuable or issued in whole or in part in the form of one or more Global Securities, the Person designated as Depository for such series by the Company pursuant to Section 3.1, which Person shall be a clearing agency registered under the Exchange Act.

"Disqualified Capital Stock" means any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part on, or prior to, or is exchangeable for debt securities of the Company or its Subsidiaries prior to, the final Stated Maturity of principal of the Securities; PROVIDED that only the amount of such Capital Stock that matures or is redeemable prior to the Stated Maturity of principal of the Securities shall be deemed to be Disqualified Capital Stock.

"Disinterested Director" of any Person means, with respect to any transaction or series of related transactions, a member of the board of directors of such Person who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions.

"Earnings" means, with respect to any Person for any period, the Consolidated Net Income (Loss) of such Person for such period from continuing operations plus (a) an amount equal to any extraordinary loss plus any net loss realized in connection with an asset sale or sales of capital stock of any subsidiary (to the extent such losses were deducted in computing Consolidated Net Income (Loss)), plus (b) provision for taxes based on income or profits of such Person for such period deducted in computing Consolidated Net Income (Loss) and any provision for taxes utilized in computing net loss under clause (a), plus (c) Consolidated Interest Expense of such Person for such period, plus (d) Consolidated Depreciation and Amortization Expense of such Person for such period to the extent such depreciation and amortization were deducted in computing Consolidated Net Income (Loss), plus (e) without duplication, any other non-cash charges reducing Consolidated Net Income (Loss) of such Person

for such period (excluding any such charge which represents an accrual of a reserve for an anticipated cash charge in any future period), less (f) without duplication, non-cash items increasing Consolidated Net Income (Loss) of such Person for such period (excluding any items which represent the reversal of any accrual in a prior period of a reserve for anticipated cash charges in subsequent periods), in each case, on a consolidated basis for such Person.

"Event of Default" has the meaning specified in Section 5.1.

"Exchange Act" means the Securities Exchange Act of 1934 as it may be amended and any successor act thereto.

"Existing Principal Stockholders" means, individually or collectively, William C. Erbey, Barry N. Wish and Harold D. Price and their respective estates, spouses, heirs, ancestors, lineal descendants and legatees and legal representatives of any of the foregoing and the trustee of any bona fide trust of which one or more of the foregoing are the trustees or the majority beneficiaries, and any entity of which any of the foregoing, individually or collectively, beneficially owns more than 50% of the Voting Stock thereof.

"Fair Market Value" means, with respect to any asset, the price which could be negotiated in an arm's-length free market transaction, for cash, between a willing seller and a willing buyer, neither of which is under compulsion to complete the transaction as determined by the Board of Directors of the Company, acting in good faith, and shall be evidenced by a resolution of such Board of Directors delivered to the Trustee.

"FDIC" means the Federal Deposit Insurance Corporation or any successor thereto.

"Fixed Charge Coverage Ratio" means, with respect to any Person for any period, the ratio of Earnings of such Person for such period to the Fixed Charges of such Person for such period. In the event that the Company incurs, assumes, guarantees or redeems any Funded Indebtedness (including any Funded Indebtedness which constitutes Acquired Indebtedness) subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated but prior to the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "Calculation Date"), then the Fixed Charge Coverage Ratio shall be calculated giving pro forma effect to such incurrence, assumption, guarantee or redemption of Funded Indebtedness, as if the same had occurred at the beginning of the applicable four-quarter period. For purposes of making the computation referred to above, investments in the equity of, or other acquisitions or dispositions, which constitute all or substantially all of an operating unit of a business and discontinued operations (as determined in accordance with GAAP) that have been made by the Company or any of its subsidiaries, including all mergers, consolidations and dispositions, during the four-quarter reference period or subsequent to such reference period and on or prior to the

Calculation Date shall be calculated on a pro forma basis assuming that all such investments, acquisitions, dispositions, discontinued operations, mergers and consolidations (and the reduction of any associated fixed charge obligations and the change in Earnings resulting therefrom) had occurred on the first day of the four-quarter reference period. If since the beginning of such period any Person (that subsequently became a subsidiary or was merged with or into the Company or any subsidiary since the beginning of such period) shall have made any investment in the equity of, or other acquisition or disposition, which constitutes all or substantially all of an operating unit of a business, discontinued operation, merger or consolidation that would have required adjustment pursuant to this definition, then the Fixed Charge Coverage Ratio shall be calculated giving pro forma effect thereto for such period as if such investment, acquisition, disposition, discontinued operation, merger or consolidation had occurred at the beginning of the applicable four-quarter period. For purposes of this definition, whenever pro forma effect is to be given to a transaction, the pro forma calculations shall be made in good faith by a responsible financial or accounting officer of the Company. If any Funded Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest on such Funded Indebtedness shall be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period. Interest on a Capital Lease Obligation shall be deemed to accrue at an interest rate reasonably determined by a responsible financial or accounting officer of the Company to be the rate of interest implicit in such Capital Lease Obligation in accordance with GAAP. Interest on Funded Indebtedness that may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rate, shall be deemed to have been based upon the rate actually chosen, or, if none, then based upon such optional rate chosen as the Company may designate.

"Fixed Charges" means, with respect to any Person for any period, the sum of (i) Consolidated Interest Expense of such Person for such period, and (ii) the product of (A) all cash dividend payments on any series of Preferred Stock or Disqualified Capital Stock of such Person or its Subsidiaries for such period, and (B) a fraction, the numerator of which is one and the denominator of which is one minus the then-current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case on a consolidated basis and in accordance with GAAP.

"Funded Indebtedness" means, with respect to any Person as of the date of determination Indebtedness which by its terms has a Maturity, or is extendable or renewable at the option of such Person to a date, which is more than twelve months after the date of creation or incurrence of such Indebtedness.

"GAAP" means generally accepted accounting principles.

"Global Security" means a Security bearing the legend prescribed in Section 2.4 evidencing all or part of a series of Securities, authenticated and delivered to the Depositary for such series or its nominee, and registered in the name of such Depositary or nominee.

"Guaranteed Indebtedness" of any Person means, without duplication, all Indebtedness of any other Person guaranteed directly or indirectly in any manner by such Person, or in effect guaranteed directly or indirectly by such person through an agreement (i) to pay or purchase such Indebtedness or to advance or supply funds for the payment or purchase of such Indebtedness; (ii) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Indebtedness or to assure the holder of such Indebtedness against loss; (iii) to supply funds to, or in any other manner invest in, the debtor (including any agreement to pay for property or services without requiring that such property be received or such services be rendered); (iv) to maintain working capital or equity capital of the debtor, or otherwise to maintain the net worth, solvency or other financial condition of the debtor; or (v) otherwise to assure a creditor with respect to Indebtedness against loss; provided that the term "guarantee" shall not include endorsements for collection of deposit, in the ordinary course of business.

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Indebtedness" means, with respect to any Person, without duplication, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, excluding any trade payables and other accrued current liabilities arising in the ordinary course of business, but including, without limitation, all obligations, contingent or otherwise, of such Person in connection with any letters of credit issued under letter of credit facilities, and in connection with any agreement by such Person to purchase, redeem, exchange, convert or otherwise acquire for value any Capital Stock of such Person now or hereafter outstanding; (ii) all obligations of such Person evidenced by bonds, notes, debentures or other similar instruments; (iii) all indebtedness of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even if the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), but excluding trade payables arising in the ordinary course of business; (iv) all obligations under interest rate agreements of such Person; (v) all Capital Lease Obligations of such Person; (vi) all Indebtedness referred to in clauses (i) through (v) above of other Persons and all dividends payable by other Persons, the payment of which is secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien, upon or with respect to property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness (the amount of such obligations being deemed to be the lesser of the value of such property or asset or the amount of the obligations so secured); (vii) all guarantees by such Person of Guaranteed Indebtedness; (viii) all Disqualified Capital Stock (valued at the greater of book value and voluntary or involuntary maximum fixed repurchase price plus accrued and unpaid dividends) of such Person; and (ix) any amendment, supplement, modification, deferral, renewal, extension, refunding or refinancing or any liability of

the types referred to in clauses (i) through (viii) above. For purposes hereof, (x) the "maximum fixed repurchase price" of any Disqualified Capital Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Capital Stock as if such Disqualified Capital Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the fair market value of such Disqualified Capital Stock, such fair market value is to be determined in good faith by the board of directors (or any duly authorized committee thereof) of the issuer of such Disqualified Capital Stock, and (y) Indebtedness is deemed to be incurred pursuant to a revolving credit facility each time an advance is made thereunder.

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument, and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively. The term "Indenture" shall also include the terms of particular series of Securities established as contemplated by Section 3.1.

"Interest", when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity.

"Interest Payment Date", when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

"Junior Indebtedness" means any Indebtedness of the Company subordinated in right of payment of either principal, premium (if any) or interest thereon to the Securities.

"Lien" means any mortgage, charge, pledge, lien (statutory or otherwise), security interest, hypothecation or other encumbrance upon or with respect to any property of any kind, real or personal, movable or immovable, now owned or hereafter acquired.

"Liquid Assets" shall include: (i) cash; (ii) any of the following instruments that have a remaining term to maturity not in excess of 90 days from the determination date: (a) repurchase agreements on obligations of, or which are guaranteed as to timely receipt of principal and interest by, the United States or any agency or instrumentality thereof when such obligations are backed by the full faith and credit of the United States provided that the party agreeing to repurchase such obligations is a primary dealer in U.S. government securities, (b) federal funds and deposit accounts, including but not limited to certificates of deposit, time deposits and bankers' acceptances of any U.S. depository institution or trust company incorporated under the laws of the United States or any state, provided that the debt of such depository institution or trust company at the date of acquisition thereof has been rated by Standard & Poor's Rating Group in the highest short-term rating category or has an

equivalent rating from another nationally recognized rating agency, or (c) commercial paper of any corporation incorporated under the laws of the United States or any state thereof that on the date of acquisition is rated investment grade by Standard & Poor's Corporation or has an equivalent rating from another nationally recognized rating agency; (iii) any debt instrument which is an obligation of, or is guaranteed as to the receipt of principal and interest by the United States, its agencies or any U.S. government sponsored enterprise; or (iv) any mortgage-backed or mortgage-related security issued by the United States, its agencies, or any U.S. government sponsored enterprise which the payment of principal and interest from the mortgages underlying such securities will be passed through to the holder thereof and which such security has a remaining weighted average maturity of 15 years or less. Notwithstanding the foregoing, Liquid Assets shall not include any debt instruments, securities or collateralized mortgage obligations (real estate mortgage investment conduits) that would be classified as a "High-Risk Mortgage Security" pursuant to the policy statement adopted by the Federal Financial Institutions Examination Council on February 10, 1992, as reflected in Volume I of the Federal Reserve Report Service, Part 3-1562.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Net Cash Proceeds" means, with respect to any issuance or sale of Capital Stock, or options, warrants or rights to purchase Capital Stock, or debt securities or Capital Stock that have been converted into or exchanged for Capital Stock, or any capital contribution in respect of Capital Stock, the proceeds of such issuance or sale or capital contribution in the form of cash or cash equivalents, including payments in respect of deferred payment obligations when received in the form of, or stock or other assets when disposed for, cash or cash equivalents (except to the extent that such obligations are financed or sold with recourse to the Company or any Subsidiary of the Company), net of attorney's fees, accountant's fees and brokerage, consulting, underwriting and other fees and expenses actually incurred in connection with such issuance or sale or capital contribution and net of taxes paid or payable by the Company as a result thereof.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, a Vice Chairman of the Board, the President, the Chief Financial Officer or a Vice President, and by the Treasurer, an Assistant Treasurer, the Controller, an Assistant Controller, the Secretary or an Assistant Secretary, of the Company, and delivered to the Trustee. One of the officers signing an Officers' Certificate given pursuant to Section 10.4 shall be the principal executive, financial or accounting officer of the Company.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company and who shall be acceptable to the Trustee.

"Original Issue Discount Security" means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 5.2.

"OTS" means the Office of Thrift Supervision or any successor thereto.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, EXCEPT:

(i) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; PROVIDED that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(iii) Securities which have been paid pursuant to Section 3.6 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company; and

(iv) Securities which have been defeased pursuant to Section 13.2 hereof;

PROVIDED, HOWEVER, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, (i) the principal amount of an Original Issue Discount Security that shall be deemed to be Outstanding shall be the amount of the principal thereof that would be due and payable as of the date of such determination upon acceleration of the Maturity thereof pursuant to Section 5.2, (ii) the principal amount of a Security denominated in one or more foreign currencies or currency units shall be the U.S. dollar equivalent, determined in the manner provided as contemplated by Section 3.1 on the date of original issuance of such Security, of the principal amount (or, in the case of an Original Issue Discount Security, the U.S. dollar equivalent on the date of original issuance of such Security of the amount determined as provided in (i) above) of such Security, and (iii) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities

which the Trustee knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"Pari Passu Indebtedness" means any Indebtedness of the Company that is PARI PASSU in right of payment of principal, premium (if any) and interest thereon to the Securities.

"Paying Agent" means any Person authorized by the Company to pay the principal of or any premium or interest on any Securities on behalf of the Company.

"Permitted Payment" means, so long as no Default or Event of Default is continuing,

(a) the purchase, redemption, defeasance or other acquisition or retirement for value of any Capital Stock of the Company or any Affiliate (other than a Wholly-Owned Subsidiary, which is unrestricted) of the Company, Junior Indebtedness or Pari Passu Indebtedness in exchange for (including any such exchange pursuant to the exercise of a conversion right or privilege where, in connection therewith, cash is paid in lieu of the issuance of fractional shares or scrip), or out of the Net Cash Proceeds or Fair Market Value of property not constituting Net Cash Proceeds of, a substantially concurrent issue and sale (other than to a Subsidiary of the Company or to an employee benefit plan of the Company or any of its Subsidiaries) of Qualified Capital Stock of the Company; PROVIDED that the Net Cash Proceeds or Fair Market Value of such property received by the Company from the issuance of such shares of Qualified Capital Stock, to the extent so utilized, shall be excluded from clause (c)(iii) of Section 10.11 hereof; and

(b) the repurchase, redemption, defeasance or other acquisition or retirement for value of any Junior Indebtedness or Pari Passu Indebtedness in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent issue and sale (other than to a Subsidiary of the Company) of new Indebtedness to the Company (such a transaction, a "refinancing"); PROVIDED, that any such new Indebtedness of the Company (i) shall be in a principal amount that does not exceed an amount equal to the sum of (A) the principal amount of the Indebtedness so refinanced less any discount from the face amount of such Indebtedness to be refinanced expected to be deducted from the amount payable to the holders of such Indebtedness in connection with such refinancing, (B) the amount of any premium expected to be paid in connection with such refinancing pursuant to the terms of the Junior Indebtedness or Pari Passu Indebtedness refinanced or the amount of any premium reasonably determined by the Company as necessary to accomplish such refinancing by means of a tender offer, privately negotiated repurchase or otherwise and (C)

the amount of legal, accounting, printing and other similar expenses of the Company incurred in connection with such refinancing; PROVIDED, FURTHER, that for purposes of this clause (i), the principal amount of any Indebtedness shall be deemed to mean the principal amount thereof or, if such Indebtedness provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration thereof, such lesser amount as of the date of determination; (ii) (A) if such refinanced Indebtedness has an Average Life to Stated Maturity shorter than that of the Securities then outstanding or a final Stated Maturity earlier than the final Stated Maturity of the Securities then outstanding, such new Indebtedness shall have an Average Life to Stated Maturity no shorter than the Average Life to Stated Maturity of such refinanced Indebtedness and a final Stated Maturity no earlier than the final Stated Maturity of such refinanced Indebtedness or (B) in all other cases each Stated Maturity of principal (or any required repurchase, redemption, defeasance or sinking fund payments) of such new Indebtedness shall be after the final Stated Maturity of principal of the Securities then outstanding; and (iii) is (A) made expressly subordinated to or PARI PASSU with the Securities to substantially the same extent as the Indebtedness being refinanced or (B) expressly subordinate to such refinanced Indebtedness.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment", when used with respect to the Securities of any series, means the place or places where the principal of and any premium and interest on the Securities of that series are payable as specified as contemplated by Section 3.1.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 3.6 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Preferred Stock" means, with respect to any Person, any Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over Capital Stock of any other class in such Person.

"Qualified Capital Stock" of any Person means any and all Capital Stock of such Person other than Disqualified Capital Stock.

"Redemption Date", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Securities of any series means the date specified for that purpose as contemplated by Section 3.1.

"Regulatory Capital Requirements" means the minimum amount of capital required to meet each of the industry-wide regulatory capital requirements applicable to the Bank pursuant to 12 U.S.C. Section 1464(t) and 12 C.F.R. Section 567 (and any amendment to either thereof) or any successor law or regulation, or such higher amount of capital as the Bank, individually, is required to maintain in order to meet any individual minimum capital standard applicable to the Bank pursuant to 12 U.S.C. Section 1464(s) and 12 C.F.R. Section 567.3 (and any amendment to either thereof) or any successor law or regulation.

"Responsible Officer", when used with respect to the Trustee, means the chairman or any vice-chairman of the board of directors, the chairman or any vice-chairman of the executive committee of the board of directors, the chairman of the trust committee, the president, any vice president, any assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any senior trust officer, trust officer or assistant trust officer, the controller or any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Restricted Payment" means

(a) the declaration, payment or setting apart of any funds for the payment of any dividend on, or making of any distribution to holders of, the Capital Stock of the Company or any Subsidiary of the Company (other than (i) dividends or distributions in Qualified Capital Stock of the Company and, and (ii) dividends or distributions payable on or in respect of any class or series of Capital Stock of a Subsidiary of the Company as long as the Company receives at least its pro rata share of such dividends or distributions in accordance with its ownership interests in such class or series of Capital Stock);

(b) the purchase, redemption or other acquisition or retirement for value, directly or indirectly, of any Capital Stock of the Company or any Affiliate of the Company (other than a Wholly-Owned Subsidiary, and other than the purchase from a non-Affiliate of the Company of Capital Stock of any joint venture or other Person which is an Affiliate of the Company solely

because of the Company's direct or indirect ownership of 20% or more of the Voting Stock of such joint venture or other Person); or

(c) the making of any principal payments on, or repurchase, redemption, defeasance, retirement or other acquisition for value, directly or indirectly, of any Junior Indebtedness or Pari Passu Indebtedness, prior to the Stated Maturity of principal or scheduled redemption or defeasance of, or any scheduled sinking fund payment on, such Junior Indebtedness or Pari Passu Indebtedness;

"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

"Securitization Entity" means any pooling arrangement or entity formed or originated for the purpose of holding, and/or issuing securities representing interests in, one or more pools of mortgages, leases, credit card receivables, home equity loan receivables, automobile loans, leases or installment sales contracts, other consumer receivables or other financial assets of the Company or any Subsidiary, and shall include, without limitation, any partnership, limited liability company, liquidating trust, grantor trust, owner trust or real estate mortgage investment conduit.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 3.5.

"Significant Subsidiary" means, with respect to any Person, any consolidated Subsidiary of such Person for which the net income of such Subsidiary was more than 25% of the Consolidated Net Income of such Person in both of the two prior fiscal years.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 3.7.

"Stated Maturity" when used with respect to any Indebtedness (including, without limitation, the Securities) means the dates specified in the instrument governing such Indebtedness as the fixed dates on which any principal amount of such Indebtedness is due and payable (including, without limitation, by reason of any required redemption, purchase, defeasance or sinking fund payment) and, when used with respect to any installment of interest on Indebtedness, means the date on which such installment is due and payable.

"Subsidiary" means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of all Voting Stock thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person or a combination thereof.

"Tax Sharing Agreement" means the tax allocation agreement dated as of January 1, 1994 and as may be amended from time to time, between the Company and certain Subsidiaries of the Company.

"Tax Sharing Payments" means any payment made pursuant to the Tax Sharing Agreement in accordance with the terms thereof.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to Securities of that series.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; PROVIDED, HOWEVER, that in the event the Trust Indenture Act of 1939 is amended after such date, "Trust Indenture Act" means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"Vice President", when used with respect to the Company or the Trustee, means any vice president (but shall not include any assistant vice president), whether or not designated by a number or a word or words added before or after the title "vice president".

"Voting Stock" means Capital Stock of the class or classes of which the holders have (i) in respect of a corporation, the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of such corporation (irrespective of whether or not at the time Capital Stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency) or (ii) in respect of a partnership, the general voting power under ordinary circumstances to elect the board of directors or other governing board of such partnership or of the Person which is a general partner of such partnership.

"Wholly-Owned Subsidiary" means a Subsidiary all of the Capital Stock of which (other than directors' qualifying shares) is owned by the Company or another Wholly-Owned Subsidiary.

Section 1.2 COMPLIANCE CERTIFICATES AND OPINIONS.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee such certificates and opinions as may be required under the Trust Indenture Act. Each such certificate or opinion shall be given in the form of an Officers' Certificate, if to be given by

an officer of the Company, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements of the Trust Indenture Act and any other requirements set forth in this Indenture.

Every certificate or opinion (other than the Officers' Certificate delivered under Section 10.4 hereof) with respect to compliance with a condition or covenant provided for in this Indenture shall include

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

Section 1.3 FORM OF DOCUMENTS DELIVERED TO TRUSTEE.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 1.4 ACTS OF HOLDERS; RECORD DATES.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective upon action by the requisite percentage of Holders when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 6.1) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

Without limiting the generality of the foregoing, a Holder, including a Depositary that is a Holder of a Global Security, may make, give or take, by a proxy, or proxies, duly appointed in writing, any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted in this Indenture to be made, given or taken by Holders, and a Depositary that is a Holder of a Global Security may provide its proxy or proxies to the beneficial owners of interest in any such Global Security.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The Company may, in the circumstances permitted by the Trust Indenture Act, fix any day as the record date for the purpose of determining the Holders of Securities of any series entitled to give or take any request, demand, authorization, direction, notice, consent, waiver or other action, or to vote on any action, authorized or permitted to be given or taken by Holders of Securities of such series. If not set by the Company prior to the first solicitation of a Holder of Securities of such series made by any Person in respect of any such action, or, in the case of any such vote, prior to such vote, the record date for any such action or vote shall be the 30th day (or, if later, the date of the most recent list of Holders required to be provided pursuant to Section 7.1) prior to such first solicitation or vote, as the case may be. With regard to any record date for action to be taken by the Holders of one or more series of Securities, only the Holders of Securities of such series on such date (or their duly designated proxies) shall be entitled to give or take, or vote on, the relevant action.

(d) The ownership of Securities shall be proved by the Security Register.

(e) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

(f) Without limiting the foregoing, a Holder entitled hereunder to give or take any action hereunder with regard to any particular Security may do so with regard to all or any part of the principal amount of such Security or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any different part of such principal amount.

Section 1.5 NOTICES, ETC., TO TRUSTEE AND COMPANY.

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, [_____] or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company, Attention: [_____].

Section 1.6 NOTICE TO HOLDERS; WAIVER.

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at his address as it appears in the Security Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Section 1.7 CONFLICT WITH TRUST INDENTURE ACT.

If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act that is required under such Act to be a part of and govern this Indenture, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

Section 1.8 EFFECT OF HEADINGS AND TABLE OF CONTENTS.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 1.9 SUCCESSORS AND ASSIGNS.

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

Section 1.10 SEPARABILITY CLAUSE.

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 1.11 BENEFITS OF INDENTURE.

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than (a) the parties hereto and their successors hereunder and (b) the Holders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 1.12 GOVERNING LAW.

THIS INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICTS OF LAW PRINCIPLES.

Section 1.13 LEGAL HOLIDAYS.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment, then

(notwithstanding any other provision of this Indenture or of the Securities (other than a provision of the Securities of any series which specifically states that such provision shall apply in lieu of this Section)) payment of interest or principal (and premium, if any) need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, PROVIDED that no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be.

ARTICLE II

SECURITY FORMS

Section 2.1 FORMS GENERALLY.

The Securities of each series shall be in substantially the form set forth in this Article, or in such other form as shall be established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of the Securities. If the form of Securities of any series is established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 3.3 for the authentication and delivery of such Securities.

The definitive Securities shall be printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers of the Company executing such Securities, as evidenced by their execution of such Securities.

Section 2.2 FORM OF FACE OF SECURITY.

THIS SECURITY IS NOT A SAVINGS ACCOUNT OR A DEPOSIT AND IS NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY FEDERAL OR OTHER GOVERNMENTAL AGENCY.

[INSERT ANY LEGEND REQUIRED BY THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND THE REGULATIONS THEREUNDER.]

OCWEN FINANCIAL CORPORATION

.....

No.....

\$.....

Ocwen Financial Corporation, a corporation duly organized and existing under the laws of Florida (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to , or registered assigns, the principal sum of..... Dollars on [IF THE SECURITY IS TO BEAR INTEREST PRIOR TO MATURITY, INSERT -- , and to pay interest thereon from or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on and in each year, commencing, at the rate of% per annum, until the principal hereof is paid or made available for payment [IF APPLICABLE, INSERT -- , and (to the extent that the payment of such interest shall be legally enforceable) at the rate of% per annum on any overdue principal and premium and on any overdue installment of interest]. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the or (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture].

[IF THE SECURITY IS NOT TO BEAR INTEREST PRIOR TO MATURITY, INSERT -- The principal of this Security shall not bear interest except in the case of a default in payment of principal upon acceleration, upon redemption or at Stated Maturity and in such case the overdue principal of this Security shall bear interest at the rate of% per annum (to the extent that the payment of such interest shall be legally enforceable), which shall accrue from the date of such default in payment to the date payment of such principal has been made or duly provided for. Interest on any overdue principal shall be payable on demand. Any interest on any overdue principal shall bear interest at the rate of% per annum (to the extent that the payment of such interest shall be legally enforceable), which shall accrue from the date of such default in payment to the date payment of such interest has been made or duly provided for, and such interest shall also be payable on demand.]

Payment of the principal of (and premium, if any) and [IF APPLICABLE, INSERT -- any such] interest on this Security will be made at the office or agency of the Company maintained for that purpose in [the City of New York, Borough of Manhattan], in such coin or currency of [the United States of America] [insert other currency, if applicable] as at the time of payment is legal tender for payment of public and private debts [IF APPLICABLE, INSERT -- ; PROVIDED, HOWEVER, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register].

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated:

OCWEN FINANCIAL CORPORATION

By.....

Attest:

.....

Section 2.3 FORM OF REVERSE OF SECURITY.

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of [____], 1996 (herein called the "Indenture"), between the Company and [____], as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof[, limited in aggregate principal amount to \$].

[IF APPLICABLE, INSERT -- The Securities of this series are subject to redemption upon not less than 30 days' notice by mail, [IF APPLICABLE, INSERT -- (1) on in any year commencing with the year and ending with the year through operation of the sinking fund for this series at a Redemption Price equal to 100% of the principal amount, and (2)] at any time [on or after, 19..], as a whole or in part, at the election of the Company, at the following Redemption Prices (expressed as percentages of the principal amount): If redeemed [on or before, ____%, and if redeemed] during the 12-month period beginning of the years indicated,

Year	Redemption Price	Year	Redemption Price
- - - - -	- - - - -	- - - - -	- - - - -

and thereafter at a Redemption Price equal to% of the principal amount, together in the case of any such redemption [IF APPLICABLE, INSERT -- (whether through operation of the sinking fund or otherwise)] with accrued interest to the Redemption Date, but interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[IF APPLICABLE, INSERT -- The Securities of this series are subject to redemption upon not less than 30 days' notice by mail, (1) on in any year commencing with the year and ending with the year through operation of the sinking fund for this series at the Redemption Prices for redemption through operation of the sinking fund (expressed as percentages of the principal amount) set forth in the table below, and (2) at any time [on or after], as a whole or in part, at the election of the Company, at the Redemption Prices for redemption otherwise than through operation of the sinking fund (expressed as percentages of the principal amount) set forth in the table below: If redeemed during the 12-month period beginning of the years indicated,

Year	Redemption Price For Redemption Through Operation of the Sinking Fund	Redemption Price For Redemption Otherwise Than Through Operation of the Sinking Fund
- - - - -	- - - - -	- - - - -

and thereafter at a Redemption Price equal to% of the principal amount, together in the case of any such redemption (whether through operation of the sinking fund or otherwise) with accrued interest to the Redemption Date, but interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[Notwithstanding the foregoing, the Company may not, prior to, redeem any Securities of this series as contemplated by [Clause (2) of] the preceding paragraph as a part of, or in anticipation of, any refunding operation by the application, directly or indirectly, of moneys borrowed having an interest cost to the Company (calculated in accordance with generally accepted financial practice) of less than% per annum.]

[IF APPLICABLE, INSERT -- the Company may redeem, at its option, up to ___% of the original aggregate principal amount of the Securities of this series at any time and from

time to time prior to the ____ anniversary of the issuance of the Securities, with the Net Cash Proceeds received by the Company from one or more public or private sales of Qualified Capital Stock at a redemption price of ____% of the principal amount of the Securities redeemed, plus accrued and unpaid interest thereon; PROVIDED, HOWEVER, that at least 65% of the original aggregate principal amount of Securities of this series must remain outstanding after each such redemption, and PROVIDED FURTHER, that such redemption must occur within 60 days after the closing date of any such public or private sale of Qualified Capital Stock.]

[IF THE SECURITY IS SUBJECT TO REDEMPTION, INSERT -- In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.]

[IF APPLICABLE, INSERT -- The Indenture contains provisions for defeasance at any time of [(a)] [the entire indebtedness evidenced by this Security] [and (b)] [certain restrictive covenants,] [in each case] upon compliance by the Company with certain conditions set forth therein, which provisions apply to this Security.]

[IF THE SECURITY IS NOT AN ORIGINAL ISSUE DISCOUNT SECURITY, INSERT -- If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.]

[IF THE SECURITY IS AN ORIGINAL ISSUE DISCOUNT SECURITY, INSERT -- If an Event of Default with respect to Securities of this series shall occur and be continuing, an amount of principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture. Such amount shall be equal to -- INSERT FORMULA FOR DETERMINING THE AMOUNT. Upon payment [IF APPLICABLE, INSERT -- (i)] of the amount of principal so declared due and payable [IF APPLICABLE, INSERT -- and (ii) of interest on any overdue principal and overdue interest (in each case to the extent that the payment of such interest shall be legally enforceable)], all of the Company's obligations in respect of the payment of the principal of and interest, if any, on the Securities of this series shall terminate.]

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registerable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of \$..... and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Section 2.4 FORM OF LEGEND FOR GLOBAL SECURITIES.

Any Global Security authenticated and delivered hereunder shall bear a legend in substantially the following form:

"This Security is a Global Security within the meaning of the Indenture hereinafter referred to and is registered in the name of a Depositary or a nominee thereof. This Security may not be transferred to, or registered or exchanged for Securities registered in the name of, any Person other than the Depositary or a nominee thereof or a successor of such Depositary or a nominee of such successor and no such transfer may be registered, except in

the limited circumstances described in the Indenture. Every Security authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, this Security shall be a Global Security subject to the foregoing, except in such limited circumstances."

Section 2.5 FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION.

The Trustee's certificates of authentication shall be in substantially the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

As Trustee

By.....
Authorized Officer

ARTICLE III

THE SECURITIES

Section 3.1 AMOUNT UNLIMITED; ISSUABLE IN SERIES.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series. There shall be established in or pursuant to a Board Resolution and, subject to Section 3.3, set forth, or determined in the manner provided, in an Officers' Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series,

(1) the title of the Securities of the series (which shall distinguish the Securities of the series from Securities of any other series);

(2) any limit upon the aggregate principal amount of the Securities of the series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 3.4, 3.5, 3.6, 9.6 or 11.7 and except for any Securities which, pursuant to Section 3.3, are deemed never to have been authenticated and delivered hereunder);

(3) the Person to whom any interest on a Security of the series shall be payable, if other than the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest;

(4) the date or dates on which the principal of the Securities of the series is payable;

(5) the rate or rates at which the Securities of the series shall bear interest, if any, the date or dates from which such interest shall accrue, the Interest Payment Dates on which any such interest shall be payable and the Regular Record Date for any interest payable on any Interest Payment Date;

(6) the place or places in addition to the City of New York where the principal of and any premium and interest on Securities of the series shall be payable;

(7) the period or periods within which, the price or prices at which and the terms and conditions upon which Securities of the series may be redeemed, in whole or in part, at the option of the Company;

(8) the obligation, if any, of the Company to redeem or purchase Securities of the series pursuant to any sinking fund or analogous provisions or at the option of a Holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(9) if other than denominations of \$1,000 and any integral multiple thereof, the denominations in which Securities of the series shall be issuable;

(10) the currency, currencies or currency units in which payment of the principal of and any premium and interest on any Securities of the series shall be payable if other than the currency of the United States of America and the manner of determining the equivalent thereof in the currency of the United States of America for purposes of the definition of "Outstanding" in Section 1.1;

(11) if the amount of payments of principal of or any premium or interest on any Securities of the series may be determined with reference to an index or formula, the manner in which such amounts shall be determined;

(12) if the principal of or any premium or interest on any Securities of the series is to be payable, at the election of the Company or a Holder thereof, in one or more currencies or currency units other than that or those in which the Securities are stated to be payable, the currency, currencies or currency units in which payment of the principal of and any premium and interest on Securities of such series as to which such election is made shall be payable, and the periods within which and the terms and conditions upon which such election is to be made;

(13) if other than the principal amount thereof, the portion of the principal amount of Securities of the series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 5.2;

(14) the application, if any, of either or both of Section 13.2 and Section 13.3 to the Securities of the series;

(15) whether the Securities of the series shall be issuable in whole or in part in the form of one or more Global Securities and, in such case, the Depositary or Depositaries for such Global Security or Global Securities and any circumstances other than those set forth in Section 3.5 in which any such Global Security may be transferred to, and registered and exchanged for Securities registered in the name of, a Person other than the Depositary for such Global Security or a nominee thereof and in which any such transfer may be registered;

(16) if other than as specified in Section 5.1, the Events of Default applicable with respect to the Securities of the series;

(17) the Events of Default set forth in Section 5.1 applicable with respect to the Securities of the series, if fewer than all of the Events of Default set forth in Section 5.1;

(18) if other than as specified in Section 5.2, the Events of Default the occurrence of which would permit the declaration of the acceleration of Maturity pursuant to Section 5.2;

(19) the Events of Default the occurrence of which would permit the declaration of Maturity pursuant to Section 5.2, if fewer than all of the Events of Default set forth in Section 5.2;

(20) any other covenant or warranty included for the benefit of Securities of the series in addition to (and not inconsistent with) those included in this Indenture for the benefit of Securities of all series, or any other covenant or warranty included for the benefit of Securities of the series in lieu of any covenant or warranty included in this Indenture for the benefit of Securities of all series, or any provision that any covenant or warranty included in this Indenture for the benefit of Securities of all series shall not be for the benefit of Securities of such series, or any combination of such covenants, warranties or provisions; and

(21) any other terms of the series (which terms shall not be inconsistent with the provisions of this Indenture, except as permitted by Section 9.1(5)).

All Securities of any one series shall be substantially identical except as to denomination and except as may otherwise be provided in or pursuant to the Board Resolution referred to above and (subject to Section 3.3) set forth, or determined in the

manner provided, in the Officers' Certificate referred to above or in any such indenture supplemental hereto.

Unless otherwise provided with respect to the Securities of any series, at the option of the Company, interest on the Securities of any series that bears interest may be paid by mailing a check to the address of the person entitled thereto as such address shall appear in the Security Register.

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series.

Section 3.2 DENOMINATIONS.

The Securities of each series shall be issuable in registered form without coupons in such denominations as shall be specified as contemplated by Section 3.1. In the absence of any such provisions with respect to the Securities of any series, the Securities of such series shall be issuable in denominations of \$1,000 and any integral multiple thereof.

Section 3.3 EXECUTION, AUTHENTICATION, DELIVERY AND DATING.

The Securities shall be executed on behalf of the Company by its Chairman of the Board, its Vice Chairman of the Board, its President or one of its Vice Presidents, under its corporate seal reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and the Trustee in accordance with the Company Order shall authenticate and deliver such Securities. If the form or terms of the Securities of the series have been established in or pursuant to one or more Board Resolutions as permitted by Sections 2.1 and 3.1, in authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 6.1) shall be fully protected in relying upon, an Opinion of Counsel stating,

(a) if the form of such Securities has been established by or pursuant to Board Resolution as permitted by Section 2.1, that such form has been established in conformity with the provisions of this Indenture;

(b) if the terms of such Securities (or the manner of determining such terms) have been established by or pursuant to Board Resolution as permitted by Section 3.1, that such terms (or the manner of determining such terms) have been established in conformity with the provisions of this Indenture; and

(c) that such Securities, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

If such form or terms have been so established, the Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

Notwithstanding the provisions of Section 3.1 and of the preceding paragraph, if all Securities of a series are not to be originally issued at one time, it shall not be necessary to deliver the Officers' Certificate otherwise required pursuant to Section 3.1 or the Company Order and Opinion of Counsel otherwise required pursuant to such preceding paragraph at or prior to the time of authentication of each Security of such series if such documents are delivered at or prior to the authentication upon original issuance of the first Security of such series to be issued.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature of an Authorized Officer, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder but never issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 3.9, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

Section 3.4 TEMPORARY SECURITIES.

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities.

If temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor one or more definitive Securities of the same series, of any authorized denominations and of a like aggregate principal amount and tenor. Until so exchanged the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series and tenor.

Section 3.5 REGISTRATION, REGISTRATION OF TRANSFER AND EXCHANGE .

The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office being herein sometimes collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Security of any series at the office or agency in a Place of Payment for that series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series, of any authorized denominations and of a like aggregate principal amount and tenor.

At the option of the Holder, Securities of any series may be exchanged for other Securities of the same series, of any authorized denominations and of a like aggregate principal amount and tenor, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the

same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 3.4, 9.6 or 11.7 not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or exchange Securities of any series during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Securities of that series selected for redemption under Section 11.3 and ending at the close of business on the day of such mailing, or (ii) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

Notwithstanding the foregoing and except as otherwise specified or contemplated by Section 3.1, if at any time the Depositary for the Securities of a series notifies the Company that it is unwilling or unable to continue as a Depositary for the Securities of such series or if at any time the Depositary for Securities of a series shall no longer be registered or in good standing under the Exchange Act, or other applicable statute or regulation, the Company shall appoint a successor Depositary with respect to the Securities of such series. If a successor Depositary for the Securities of such series is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such condition, the Company will execute, and the Trustee, upon Company Request, will authenticate and deliver Securities of such series in definitive form in an aggregate principal amount equal to the principal amount of the Global Security or Global Securities representing Securities of such series in exchange for such Global Security or Global Securities.

In the event that (i) the Company at any time and in its sole discretion determines that the Securities of any series issued in the form of one or more Global Securities shall no longer be represented by such Global Security or Global Securities or (ii) there shall have occurred and be continuing an Event of Default or an event which, with the giving of notice or lapse of time or both, would constitute an Event of Default with respect to the Securities of any series, the Company will execute, and the Trustee, upon Company Request, will authenticate and deliver Securities of such series in definitive form and in an aggregate principal amount equal to the principal amount of the Global Security or Global Securities representing such series in exchange for such Global Security or Global Securities.

Upon the occurrence in respect of any Global Security of any series of any one or more of the conditions specified in the preceding two paragraphs or such other conditions as may be specified as contemplated by Section 3.1 for such series, such Global Security may be exchanged for Securities registered in the names of, and the transfer of such Global Security may be registered to, such Persons (including Persons other than the Depositary with respect to such series and its nominees) as such Depositary shall direct. Notwithstanding any other provision of this Indenture, any Security authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, any Global Security shall also be a Global Security and shall bear the legend specified in Section 2.4 except for any Security authenticated and delivered in exchange for, or upon registration of transfer of, a Global Security pursuant to the preceding sentence.

Section 3.6 MUTILATED, DESTROYED, LOST AND STOLEN SECURITIES.

If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

Section 3.7 PAYMENT OF INTEREST; INTEREST RIGHTS PRESERVED.

Except as otherwise provided as contemplated by Section 3.1 with respect to any series of Securities, interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Securities of such series at his address as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special

Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

Section 3.8 PERSONS DEEMED OWNERS.

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of and any premium and (subject to Section 3.7) any interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

No holder of any beneficial interest in any Global Security held on its behalf by a Depositary shall have any rights under this Indenture with respect to such Global Security, and such Depositary may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the owner of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by a Depositary or impair, as between a Depositary and such holders of beneficial interests, the operation of customary practices governing the exercise of the rights of the Depositary (or its nominee) as Holder of any Security.

Section 3.9 CANCELLATION.

All Securities surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold, and all Securities so delivered shall be promptly cancelled.

by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Securities held by the Trustee shall be disposed of as directed by a Company Order.

Section 3.10 COMPUTATION OF INTEREST.

Except as otherwise specified as contemplated by Section 3.1 for Securities of any series, interest on the Securities of each series shall be computed on the basis of a 360-day year of twelve 30-day months.

ARTICLE IV

SATISFACTION AND DISCHARGE

Section 4.1 SATISFACTION AND DISCHARGE OF INDENTURE.

This Indenture shall upon Company Request cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 3.6 and (ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 10.3) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal and any premium and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 6.7, the obligations (if any) of the Trustee to any Authenticating Agent under Section 6.14 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1) of this Section, the obligations of the Trustee under Section 4.2 and the last paragraph of Section 10.3 shall survive.

Section 4.2 APPLICATION OF TRUST MONEY.

Subject to the provisions of the last paragraph of Section 10.3, all money deposited with the Trustee pursuant to Section 4.1 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal and any premium and interest for whose payment such money has been deposited with the Trustee.

ARTICLE V

REMEDIES

Section 5.1 EVENTS OF DEFAULT.

"Event of Default", wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(i) failure by the Company to pay interest on any Security of that series when due and payable, if such failure continues for a period of 30 days;

(ii) failure by the Company to pay the principal (and premium, if any, on) any Security of that series when due and payable at Maturity;

(iii) default in the deposit of any sinking fund payment, when and as due by the terms of a Security of that series;

(iv) failure by the Company to perform or observe any other term, covenant or agreement contained in this Indenture (other than a default specified in clause (i), (ii) or (iii) above) for a period of 30 days after written notice of such failure requiring the Company to remedy the same shall have been given (x) to the Company by the Trustee or (y) to the Company and the Trustee by the Holders of at least 25% in principal amount of the Securities of such series then Outstanding;

(v) default in the payment of principal or premium of or interest on, or other payments in respect of, an indebtedness of the Company or any Subsidiary of the Company after the expiration of any applicable grace period with respect thereto, or the acceleration of any Indebtedness of the Company or any Subsidiary of the Company as a result of any such default, in either case where the aggregate principal amount of such Indebtedness so unpaid or accelerated is equal to or greater than 5% of the Company's Consolidated Tangible Net Worth;

(vi) failure by the Bank to comply with any of its Regulatory Capital Requirements; PROVIDED, that an Event of Default under this clause (vi) shall not be deemed to have occurred (a) during the 60 day period following the first day on which the Bank fails to comply with any of its Regulatory Capital Requirements, if within such 60 day period the Bank files a capital plan with the OTS, (b) during the 90 day period following the initial submission of a capital plan to the OTS by the Bank (or, if the OTS notifies the Bank in writing that it needs a longer period of time to determine whether to approve such capital plan, such longer period as is so specified by the OTS), unless prior to such date the OTS shall have notified the Bank of its determination not to approve such capital plan, or (c) during the period that the Bank is operating in material compliance with a capital plan approved by the OTS; PROVIDED, FURTHER, that if the Bank meets the minimum amount of capital required to meet each of the industry-wide regulatory capital requirements pursuant to 12 U.S.C. Section 1464(t) and 12 C.F.R. Section 567 (and any amendment to either thereof) or any successor law or regulation, then notwithstanding the Bank's failure to meet an individual minimum capital requirement pursuant to 12 U.S.C. Section 1464(s) and 12.C.F.R. Section 567.3 (and any amendment to either thereof) or any successor law or regulation, no Event of Default shall have occurred pursuant to this clause (vi) unless written notice thereof shall have been given (x) to the Company by the Trustee or (y) to the Company and the Trustee by the Holders of 25% in aggregate principal amount of the Securities of such series then Outstanding;

(vii) existence of one or more judgments against the Company or the Bank or any of its Subsidiaries for an aggregate amount (including any interest thereon) in excess of 5% of the Company's Consolidated Tangible Net Worth, which remain undischarged 60 days after all rights to directly review such judgment, whether by appeal or writ, have been exhausted or have expired;

(viii) a receiver, liquidator, assignee, custodian, trustee, conservator, sequestrator (or other similar official) shall take possession of the Company or the Bank or any substantial part of the property of either the Company or the Bank without the consent of the Company or the Bank, respectively, or a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Company or the Bank in an involuntary case under any applicable bankruptcy, insolvency, receivership, conservatorship or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, trustee, custodian, conservator, sequestrator (or other similar official) of the Company or the Bank or for any substantial part of the property of the Company or the Bank, or ordering the winding-up or liquidation of the affairs of the Company or the Bank, and such decree or order shall continue unstayed and in effect for a period of 60 consecutive days, or the Company or the Bank shall commence a voluntary case under any applicable bankruptcy, insolvency, receivership, conservatorship or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, conservator, sequestrator (or other similar official) of the Company or the Bank or of any substantial part of the property of the Company or the Bank, or shall make any general assignment for the benefit of creditors, or shall take any corporate action in furtherance of any of the foregoing; and

(ix) any other Event of Default provided with respect to Securities of that series.

Section 5.2 ACCELERATION OF MATURITY; RESCISSION AND ANNULMENT.

If an Event of Default (other than an Event of Default specified in clause (viii) of Section 5.1) with respect to Securities of any series at the time Outstanding occurs and is continuing, then in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series may declare the principal amount (or, if any of the Securities of that series are Discount Securities, such portion of the principal amount of such Original Issue Discount Securities as may be specified in the terms of thereof) of all of the Securities of that series to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable. If any Event of Default specified in clause (viii) of Section 5.1 occurs, such

principal amount shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue interest on all Securities of that series,

(B) the principal of (and premium, if any, on) any Securities of that series which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such Securities, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel;

and

(2) all Events of Default with respect to Securities of that series, other than the non-payment of the principal of Securities of that series which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 5.13.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Section 5.3 COLLECTION OF INDEBTEDNESS AND SUITS FOR ENFORCEMENT BY TRUSTEE.

The Company covenants that if

(1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof, or

(3) default is made in the making or satisfaction of any sinking fund payment or analogous obligation when the same becomes due pursuant to the terms of any Security,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal and any premium and interest and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal and premium and on any overdue interest, at the rate or rates prescribed therefor in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 5.4 TRUSTEE MAY FILE PROOFS OF CLAIM.

In case of any judicial proceeding relative to the Company (or any other obligor upon the Securities), its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under the Trust Indenture Act in order to have claims of the Holders and the Trustee allowed in any such proceeding. In particular, the Trustee shall be authorized to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 6.7.

No provision of this Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding; PROVIDED, HOWEVER, the Trustee may vote on behalf of the Holders for the election of a trustee in bankruptcy or similar official and may be a member of a creditors' or other similar committee.

Section 5.5 TRUSTEE MAY ENFORCE CLAIMS WITHOUT
POSSESSION OF SECURITIES.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

Section 5.6 APPLICATION OF MONEY COLLECTED.

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or any premium or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 6.7; and

SECOND: To the payment of the amounts then due and unpaid for principal of and any premium and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal and any premium and interest, respectively.

Section 5.7 LIMITATION ON SUITS.

No Holder of any Security of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;

(2) the Holders of not less than 25% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

Section 5.8 UNCONDITIONAL RIGHT OF HOLDERS TO
RECEIVE PRINCIPAL, PREMIUM AND INTEREST.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of and any premium and (subject to Section 3.7) any interest on such Security on the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date), and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Section 5.9 RESTORATION OF RIGHTS AND REMEDIES.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

Section 5.10 RIGHTS AND REMEDIES CUMULATIVE.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 3.6, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 5.11 DELAY OR OMISSION NOT WAIVER.

No delay or omission of the Trustee or of any Holder of any Securities to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Section 5.12 CONTROL BY HOLDERS.

The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Securities of such series, PROVIDED that

- (1) such direction shall not be in conflict with any rule of law or with this Indenture,
- (2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and
- (3) subject to the provisions of Section 6.1, the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall, by a Responsible Officer or Officers of the Trustee, determine that the proceeding so directed would involve the Trustee in personal liability.

Section 5.13 WAIVER OF PAST DEFAULTS.

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder with respect to such series and its consequences, except a default

- (1) in the payment of the principal of or any premium or interest on any Security of such series, or
- (2) in respect of a covenant or provision hereof which under Article IX cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 5.14 UNDERTAKING FOR COSTS.

All parties to this Indenture agree, and each Holder of any Securities by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.14 shall not apply to any suit instituted by the Company, to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Outstanding Securities of any series, or to any suit instituted by any Holder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Securities on or after the Stated Maturity or Maturities expressed in such Securities (or, in the case of redemption, on or after the Redemption Date).

Section 5.15 WAIVER OF USURY, STAY OR EXTENSION LAWS.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any usury, stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE VI

THE TRUSTEE

Section 6.1 CERTAIN DUTIES AND RESPONSIBILITIES.

The duties and responsibilities of the Trustee shall be as provided by the Trust Indenture Act. Notwithstanding the foregoing, no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

Section 6.2 NOTICE OF DEFAULTS.

If a default occurs hereunder with respect to Securities of any series, the Trustee shall give the Holders of Securities of such series notice of such default as and to the extent provided by the Trust Indenture Act; PROVIDED, HOWEVER, that in the case of any default of the character specified in Section 5.1(5) with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to Securities of such series.

Section 6.3 CERTAIN RIGHTS OF TRUSTEE.

Subject to the provisions of Section 6.1:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(d) the Trustee may consult with counsel and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note,

other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney; and

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

Section 6.4 NOT RESPONSIBLE FOR RECITALS
OR ISSUANCE OF SECURITIES.

The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and the Trustee or any Authenticating Agent assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. The Trustee or any Authenticating Agent shall not be accountable for the use or application by the Company of Securities or the proceeds thereof.

Section 6.5 MAY HOLD SECURITIES.

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 6.8 and 6.13, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

Section 6.6 MONEY HELD IN TRUST.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

Section 6.7 COMPENSATION AND REIMBURSEMENT.

The Company agrees

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith;

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the reasonable costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder;

(4) to secure the Company's obligations under this Section, the Trustee shall have a lien prior to the Securities upon all money or property held or collected by the Trustee in its capacity as Trustee, except for such money and property which is held in trust to pay principal (and premium, if any) or interest on particular Securities; and

(5) when the Trustee incurs any expenses or renders any services after the occurrence of an Event of Default specified in Section 5.1(7) or (8), such expenses and the compensation for such services are intended to constitute expenses of administration under the United States Bankruptcy Code (Title 11 of the United States Code) or any similar federal or state law for the relief of debtors.

Section 6.8 DISQUALIFICATION; CONFLICTING INTERESTS.

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture.

Section 6.9 CORPORATE TRUSTEE REQUIRED; ELIGIBILITY.

There shall at all times be a Trustee hereunder which shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least \$50,000,000. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 6.10 RESIGNATION AND REMOVAL;

APPOINTMENT OF SUCCESSOR.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 6.11.

(b) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 6.11 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(c) The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with Section 6.8 after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 6.9 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company by a Board Resolution may remove the Trustee with respect to all securities, or (ii) subject to Section 5.14, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and shall comply with the applicable requirements of

Section 6.11. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any Series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 6.11, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any Series shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 6.11, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(f) The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series to all Holders of Securities of such series in the manner provided in Section 1.6. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

Section 6.11 ACCEPTANCE OF APPOINTMENT BY SUCCESSOR.

(a) In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the

provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees cotrustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

(c) Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in paragraph (a) and (b) of this Section, as the case may be.

(d) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 6.12 MERGER, CONVERSION, CONSOLIDATION OR SUCCESSION TO BUSINESS.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

Section 6.13 PREFERENTIAL COLLECTION OF CLAIMS AGAINST COMPANY.

If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Securities), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor).

Section 6.14 APPOINTMENT OF AUTHENTICATING AGENT.

The Trustee may appoint an Authenticating Agent or Agents (which may be an affiliate of the Company) with respect to one or more series of Securities which shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon original issue and upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 3.6, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than \$50,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall mail written notice of such appointment by first-class mail, postage prepaid, to all Holders of Securities of the series with respect to which such Authenticating Agent will serve, as their names and addresses appear in the Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an

Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

Unless the Authenticating Agent has been appointed by the Trustee at the request of the Company, the Trustee agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments, subject to the provisions of Section 6.7.

If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

[]

As Trustee

By -----
As Authenticating Agent

By -----
Authorized Officer

ARTICLE VII

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

Section 7.1 COMPANY TO FURNISH TRUSTEE NAMES AND ADDRESSES OF HOLDERS.

The Company will furnish or cause to be furnished to the Trustee:

(a) semi-annually, not later than June 30 and December 31 in each year, a list for each series, in such form as the Trustee may reasonably require, of the names and addresses of the Holders of Securities of such series as of the preceding June 15 or December 15, as the case may be, and

(b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar

form and content as of a date not more than 15 days prior to the time such list is furnished;

EXCLUDING from any such list names and addresses received by the Trustee in its capacity as Security Registrar.

Section 7.2 PRESERVATION OF INFORMATION;
COMMUNICATIONS TO HOLDERS.

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 7.1 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 7.1 upon receipt of a new list so furnished.

(b) The rights of the Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and privileges of the Trustee, shall be as provided by the Trust Indenture Act.

(c) Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

Section 7.3 REPORTS BY TRUSTEE.

(a) The Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. To the extent that any such report is required by the Trust Indenture Act with respect to any 12-month period, such report shall cover the 12-month period ending March 15 and shall be transmitted by the next succeeding March 15.

(b) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which any Securities are listed, with the Commission and with the Company. The Company will notify the Trustee when any Securities are listed on any stock exchange.

Section 7.4 REPORTS BY COMPANY.

(a) At the Company's expense, regardless of whether the Company is required to furnish such reports to its stockholders pursuant to the rules and regulations of the Commission, for so long as there are Outstanding Securities, the Company shall furnish to the Holders (i) within 45 days after the end of each of the first three fiscal quarters of each fiscal year and 90 days of the end of each fiscal year all quarterly and annual financial

information, as the case may be, that would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K if the Company were required to file such Forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, with respect to the annual information only, a report thereon by the Company's certified independent accountants and (ii) all current reports that would be required to be filed with the Commission on Form 8-K if the Company were required to file such reports.

(b) In addition, whether or not required by the rules and regulations of the Commission, the Company will file a copy of all such information and reports with the Commission for public availability (unless the Commission will not accept such a filing) and make such information available to securities analysts and prospective investors upon request.

ARTICLE VIII

CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

Section 8.1 COMPANY MAY CONSOLIDATE, ETC., ONLY ON CERTAIN TERMS.

The Company may not, in a single transaction or a series of transactions, consolidate with or merge into any other Person or sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of its assets to any Person or group of affiliated Persons unless (a) either (i) the Company shall be the continuing entity, or (ii) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person that acquires by sale, assignment, conveyance, transfer, lease or other disposition of all or substantially all of the assets of the Company (the "Surviving Entity") is organized under the laws of the United States or a state thereof or the District of Columbia and such Surviving Entity expressly and unconditionally assumes by supplemental indenture, executed and delivered to the Trustee in form reasonably satisfactory to the Trustee, all obligations of the Company on the Securities theretofore issued and then Outstanding and under this Indenture, (b) immediately after giving effect to such transaction or series of transactions, no Default or Event of Default shall have occurred and be continuing, (c) immediately after giving effect to such transaction or series of transactions, the Company or the Surviving Entity, as applicable, could incur at least \$1.00 of additional Funded Indebtedness without violating Section 10.10 hereof and (d) the Company or the Surviving Entity, as applicable, shall have delivered, or caused to be delivered, to the Trustee, in form and substance reasonably satisfactory to the Trustee, an Officers' Certificate and an Opinion of Counsel, each to the effect that such consolidation, merger, transfer, sale, assignment, conveyance, transfer, lease or other disposition and the supplemental indenture in respect thereto comply with this Indenture and that all conditions precedent provided for herein relating to such transaction have been complied with.

Section 8.2 SUCCESSOR SUBSTITUTED.

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any sale, assignment, conveyance, transfer, lease or other disposition of the properties and assets of the Company substantially as an entirety in accordance with Section 8.1, the successor Person formed by such consolidation or into which the Company is merged or to which such sale, assignment, conveyance, transfer, lease or other disposition is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and in the event of any such sale, assignment, conveyance, transfer or other disposition, the Company (which term shall for this purpose mean the Person which shall theretofore become such in the manner described in Section 8.1), except in the case of a lease, shall be discharged of all obligations and covenants under this Indenture and the Securities and may be dissolved and liquidated.

Section 8.3 SECURITIES TO BE SECURED IN CERTAIN EVENTS.

If, upon any such consolidation of the Company with or merger of the Company into any other corporation, or upon any sale, assignment, conveyance, transfer, lease or other disposition of the property of the Company substantially as an entirety to any other Person, any property or assets of the Company would thereupon become subject to any Lien to secure Pari Passu Indebtedness or Junior Indebtedness, then unless such Lien could be created pursuant to Section 10.15 without equally and ratably securing the Securities, the Company, prior to or simultaneously with such consolidation, merger, sale, assignment, conveyance, transfer, lease or other disposition, will as to such property or assets, secure the Securities Outstanding (together with, if the Company shall so determine, any other Indebtedness of the Company now existing or hereinafter created which is not subordinate in right of payment to the Securities) equally and ratably with the Pari Passu Indebtedness or prior to the Junior Indebtedness which upon such consolidation, merger, sale, assignment, conveyance, transfer, lease or other disposition is to become secured as to such property or assets by such Lien.

ARTICLE IX

SUPPLEMENTAL INDENTURES

Section 9.1 SUPPLEMENTAL INDENTURES WITHOUT CONSENT OF HOLDERS.

Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

- (1) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities; or

(2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power conferred upon the Company herein or in the Securities; or

(3) to add any additional Events of Default; or

(4) to add to or change any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the issuance of Securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons, or to permit or facilitate the issuance of Securities in uncertificated form; or

(5) to add to, change or eliminate any of the provisions of this Indenture in respect of one or more series of Securities, PROVIDED that any such addition, change or elimination (i) shall neither (A) apply to any Security of any series created prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (B) modify the rights of the Holder of any such Security with respect to such provision or (ii) shall become effective only when there is no such Security Outstanding; or

(6) to secure the Securities or add a guarantor; or

(7) to establish the form or terms of Securities of any series as permitted by Sections 2.1 and 3.1; or

(8) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 6.11(b); or

(9) to provide that Securities of any Series may be convertible into other securities or other property and to set forth the terms and conditions of conversion of any such convertible Securities; or

(10) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein or in the Securities, or to make any other provisions with respect to matters or questions arising under this Indenture, PROVIDED that such action pursuant to this clause (10) shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

Section 9.2 SUPPLEMENTAL INDENTURES WITH
CONSENT OF HOLDERS.

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Securities of each series affected by such supplemental indenture, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Securities of such series under this Indenture; PROVIDED, HOWEVER, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(1) change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or reduce the amount of the principal of an Original Issue Discount Security that would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 5.2, or adversely affect any right of repayment at the option of the Holder of any Security, or reduce the amount of, or postpone the date fixed for, the payment of any sinking fund payment or analogous obligation, or change the coin or currency in which the principal of any Security or any premium or interest thereon is payable, or impair the right of the Holder thereof to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or

(2) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver of certain defaults hereunder and their consequences provided for in this Indenture, or

(3) modify any of the provisions of this Section, Section 5.13 or Section 10.19, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby, PROVIDED, HOWEVER, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to "the Trustee" and concomitant changes in this Section, or the deletion of this proviso, in accordance with the requirements of Sections 6.11(b) and 9.1(8), or

(4) except as otherwise permitted under the provisions of Article VIII, consent to the assignment or transfer by the Company of any of its rights and obligations under this Indenture, or

(5) waive a default in payment with respect to any Security (other than a default in payment that is due solely because of acceleration of the maturity of the Securities).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Section 9.3 EXECUTION OF SUPPLEMENTAL INDENTURES.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 6.1) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 9.4 EFFECT OF SUPPLEMENTAL INDENTURES.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 9.5 CONFORMITY WITH TRUST INDENTURE ACT.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act.

Section 9.6 REFERENCE IN SECURITIES TO SUPPLEMENTAL INDENTURES.

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

ARTICLE X

COVENANTS

Section 10.1 PAYMENT OF PRINCIPAL, PREMIUM
AND INTEREST.

The Company covenants and agrees for the benefit of each series of Securities that it will duly and punctually pay the principal of (and premium, if any, on) and interest on the Securities of that series in accordance with the terms of the Securities and this Indenture.

Section 10.2 MAINTENANCE OF OFFICE OR AGENCY.

The Company will maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; PROVIDED, HOWEVER, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in each Place of Payment for Securities of any series for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

Section 10.3 MONEY FOR SECURITIES PAYMENTS
TO BE HELD IN TRUST.

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities, it will, on or before each due date of the principal of or any premium or interest on any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and any premium and interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, prior to each due date of the principal of or any premium or interest on

any Securities of that series, deposit with a Paying Agent a sum sufficient to pay such amount, such sum to be held as provided by the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure to act.

The Company will cause each Paying Agent for any series of Securities other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will:

(1) hold all sums held by it for the payment of principal of (and premium, if any) or interest on Securities in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Trustee notice of any default by the Company (or any other obligor upon the Securities) in the making of any such payment of principal (and premium, if any) or interest; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of or any premium or interest on any Security of any series and remaining unclaimed for two years after such principal, premium or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; PROVIDED, HOWEVER, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the Borough of Manhattan, the City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

Section 10.4 STATEMENT BY OFFICERS AS TO DEFAULT.

(a) The Company will deliver to the Trustee, within 90 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate (one of the signers of which shall be the principal executive officer, principal financial officer or principal accounting officer of the Company), stating whether or not to the best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

(b) When any Default has occurred and is continuing under this Indenture, or if the trustee for or the holder of any other evidence of Indebtedness of the Company or any Subsidiary gives notice or takes any other action with respect to a claimed default (other than with respect to Indebtedness in the principal amount of less than \$1,000,000), or if the Company fails to comply with any of its Regulatory Capital Requirements, the Company shall deliver to the Trustee by registered or certified mail, or by facsimile transmission, an Officer's Certificate specifying such event, notice or other action within five Business Days of its occurrence.

Section 10.5 PAYMENT OF TAXES AND OTHER CLAIMS.

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any Subsidiary; PROVIDED, HOWEVER, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves (in the good faith judgment of the Board of Directors) have been made.

Section 10.6 MAINTENANCE OF PROPERTIES.

The Company will cause all properties owned by the Company or any Subsidiary or used or held for use in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; PROVIDED, HOWEVER, that nothing in this Section shall prevent the Company from discontinuing the operation or maintenance of any of such properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business or the business of any Subsidiary and not disadvantageous in any material respect to the Holders.

Section 10.7 CORPORATE EXISTENCE OF THE COMPANY.

Subject to Article VIII, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights (charter and statutory) and franchises; PROVIDED, HOWEVER, that the Company shall not be required to preserve any such right or franchise if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and that the loss thereof is not and is not reasonably likely to be disadvantageous in any material respect to the Holders.

Section 10.8 MAINTENANCE OF BANK'S STATUS AS FDIC-INSURED INSTITUTION.

The Company shall use its best efforts to maintain the Bank's status as an FDIC-insured depository institution.

Section 10.9 INSURANCE.

The Company will at all times maintain and will cause each of its Subsidiaries to maintain (either in the name of the Company or in such Subsidiary's own name) with financially sound and reputable insurers, insurance on all its properties in such amounts as management of the Company reasonably determines is appropriate under the circumstances.

Section 10.10 LIMITATIONS ON INDEBTEDNESS AND CERTAIN PREFERRED STOCK ISSUANCES.

(a) The Company will not create, incur, issue, assume, guarantee or otherwise in any manner become directly or indirectly liable for or with respect to, or otherwise permit to exist, any Junior Indebtedness (other than Acquired Indebtedness) unless the Stated Maturity of principal (or any required repurchase, redemption, defeasance or sinking fund payments) of such Junior Indebtedness is after the final Stated Maturity of the Securities then Outstanding.

(b) The Company will not create, incur, assume, guarantee or otherwise in any manner become directly or indirectly liable for or with respect to, or otherwise permit to exist, any Funded Indebtedness (including any Funded Indebtedness assumed in connection with the acquisition of assets from another Person or as a result of the merger of any Person with or into the Company) unless at the time of such event either (i) the principal amount of total Funded Indebtedness of the Company would not exceed 100% of the Company's Consolidated Tangible Net Worth, or (ii) if the Outstanding Securities are then rated by a nationally recognized statistical rating organization in an investment grade category, after the incurrence, assumption, guarantee or creation by the Company of the additional Funded Indebtedness, (A) such Outstanding Securities continue to retain such investment grade rating, and (B) the Fixed Charge Coverage Ratio for the Company for the most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date of such incurrence would have been greater than 3.00 to 1.00 determined on a pro

forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Funded Indebtedness had been incurred and the application of the net proceeds therefrom had occurred at the beginning of such four-quarter period.

(c) The Bank will not, and will not permit any of its Subsidiaries to, create or incur any Indebtedness or issue any Preferred Stock that in either case would qualify as regulatory capital for the Bank under 12 C.F.R. Part 567 or any successor regulation, except to the extent that after giving effect to the creation or incurrence of such Indebtedness or the issuance of such Preferred Stock, the Bank's supplementary capital does not exceed 65% of the Bank's core capital (in each case as calculated for purposes of 12 C.F.R. Part 567 or any successor regulation).

Section 10.11 LIMITATION ON RESTRICTED PAYMENTS.

The Company will not, and will not permit any Subsidiary to, directly or indirectly, make any Restricted Payment if, at the time of such Restricted Payment or after giving effect thereto,

(a) a Default or Event of Default shall have occurred and be continuing or would occur as a result thereof; or

(b) the Bank would fail to meet any of its Regulatory Capital Requirements or the Company would fail to maintain sufficient Liquid Assets to comply with the terms of Section 10.16 hereof; or

(c) the aggregate amount of all Restricted Payments (the amount of such payments, if other than in cash, having been determined in good faith by the Board of Directors, whose determination shall be conclusive and evidenced by a Board Resolution filed with the Trustee) declared and made after the issue date of the Securities would exceed the sum of

(i) 33% of the aggregate Consolidated Net Income (or, if such Consolidated Net Income is a deficit, 100% of such deficit) of the Company accrued on a cumulative basis during the period beginning on the first day of the fiscal quarter during which the issue date of the initial series of Securities issued under this Indenture occurred and ending on the last day of the Company's last fiscal quarter ending prior to the date of such proposed Restricted Payment, PLUS

(ii) the aggregate Net Cash Proceeds received by the Company as capital contributions (other than from a Subsidiary) after the issue date of the initial series of Securities issued under this Indenture, PLUS

(iii) the aggregate Net Cash Proceeds and the Fair Market Value of property not constituting Net Cash Proceeds received by the Company from the issuance or sale (other than to a Subsidiary) of Qualified Capital Stock after the

issue date of the initial series of Securities issued under this Indenture (except, in each case, to the extent such proceeds are used to purchase, redeem, defease, make sinking fund payments on or otherwise acquire or retire for value Junior Indebtedness or Pari Passu Indebtedness as set forth in clause (a) of the definition of Permitted Payment herein; PLUS

(iv) 100% of the amount of any Indebtedness of the Company or a Subsidiary that is issued after the issue date of the initial series Securities issued under this Indenture that is thereafter converted into or exchanged for Qualified Capital Stock of the Company;

PROVIDED, HOWEVER, that the foregoing provisions will not prevent (x) the payment of a dividend within 60 days after the date of its declaration if at the date of declaration such payment was permitted by the foregoing provisions, or (y) any Permitted Payment, or (z) Tax Sharing Payments by the Company pursuant to and in accordance with the terms of the existing Tax Sharing Agreement among the Company and its Subsidiaries (or any subsequently adopted tax sharing agreement the terms of which are not materially less favorable in the aggregate to the Company than the terms of such existing Tax Sharing Agreement).

Section 10.12 LIMITATIONS ON DIVIDENDS AND OTHER PAYMENT RESTRICTIONS AFFECTING SUBSIDIARIES. The Company will not, and will not permit any of its Subsidiaries to, create, assume or otherwise cause or suffer to exist or to become effective any consensual encumbrance or restriction on the ability of any such Subsidiary to:

(a) pay any dividends or make any other distribution on its Capital Stock;

(b) make payments in respect of any Indebtedness owed to the Company or any other Subsidiary; or

(c) make loans or advances to the Company or any Subsidiary or to guarantee Indebtedness of the Company or any other Subsidiary;

other than, in the case of (a), (b) and (c),

(1) restrictions imposed by applicable law;

(2) restrictions existing under agreements in effect on the date of this Indenture;

(3) consensual encumbrances or restrictions binding upon any Person at the time such Person becomes a Subsidiary of the Company so long as such encumbrances or restrictions are not created, incurred or assumed in contemplation of such Person becoming a Subsidiary;

(4) restrictions with respect to a Subsidiary imposed pursuant to an agreement which has been entered into for the sale or disposition of all or substantially all the assets (which term may include the Capital Stock) of such Subsidiary;

(5) restrictions on the transfer of assets which are subject to Liens;

(6) restrictions existing under agreements evidencing Indebtedness of any Subsidiary that is formed for the sole purpose of acquiring or holding a portfolio of assets, if such Indebtedness (i) is made without recourse to, and with no cross-collateralization against the assets of, the Company or any other Subsidiary, and (ii) upon complete or partial liquidation of which the Indebtedness must be correspondingly repaid in whole or in part, as the case may be;

(7) restrictions existing under agreements evidencing Indebtedness which is incurred after the date of this Indenture as permitted pursuant to Section 10.10 hereof, PROVIDED that the terms and conditions of any such restrictions are no more restrictive than those contained in the indenture pursuant to which the Bank's 12% Subordinated Debentures due 2005 were issued; and

(8) restrictions existing under any agreement which refinances or replaces any of the agreements containing the restrictions in clauses (2), (3) and (7); PROVIDED that the terms and conditions of any such restrictions are not less favorable to the Holders than those under the agreement evidencing or relating to the Indebtedness refinanced.

Section 10.13 RESTRICTIONS ON ISSUANCE AND SALE OR DISPOSITION OF CAPITAL STOCK OF THE BANK.

The Company shall not sell, transfer or otherwise dispose of shares of Capital Stock of the Bank or permit the Bank to issue, sell or otherwise dispose of shares of its Capital Stock unless, in either case, the Bank remains a Wholly-Owned Subsidiary of the Company. The Company shall not permit the Bank to merge or consolidate into or with any other Person (other than the Company or another Wholly-Owned Subsidiary of the Company) unless the surviving entity is the Company or a Wholly-Owned Subsidiary of the Company, or permit the Bank to convey or transfer its properties and assets substantially as an entirety to any Person except to the Company or any Wholly-Owned Subsidiary of the Company.

Section 10.14 LIMITATION ON TRANSACTIONS WITH AFFILIATES.

The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, enter into any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) with any Affiliate of the Company (except that the Company and any of its Subsidiaries may enter into any transaction or series of related transactions with any Subsidiary of the Company without limitation under this covenant) UNLESS: (i) such transaction or series of related transactions is in writing and is on terms that are no less favorable to the Company or such Subsidiary, as the case may be, than would be available in a comparable transaction in an arm's length

dealing with a Person that is not such an Affiliate or, in the absence of such a comparable transaction, on terms that the Board of Directors determines in good faith would be offered to a Person that is not an Affiliate; (ii) with respect to any transaction or series of related transactions involving aggregate payments in excess of \$1,000,000, the Company delivers an Officers' Certificate to the Trustee certifying that such transaction or series of transactions complies with clause (i) above and has been approved by a majority of the Disinterested Directors of the Board of Directors of the Company; and (iii) with respect to any transaction or series of related transaction involving aggregate payments in excess of \$5,000,000, or in the event that no members of the Board of Directors are Disinterested Directors with respect to any transaction or series of transactions included in clause (ii), (x) in the case of a transaction involving real property, the aggregate rental or sale price of such real property shall be the fair market sale or rental value of such real property as determined in a written opinion by a nationally recognized expert with experience in appraising the terms and conditions of the type of transaction or series of transactions for which approval is required and (y) in all other cases, the Company delivers to the Trustee a written opinion of a nationally recognized expert with experience in appraising the terms and conditions of the type of transaction or series of transactions for which approval is required to the effect that the transaction or series of transactions are fair to the Company or such Subsidiary from a financial point of view. The limitations set forth in this paragraph shall not apply to (i) transactions entered into pursuant to any agreement already in effect on the date of this Indenture and any renewals or extensions thereof not involving modifications adverse to the Company or any Subsidiary, (ii) normal banking relationships with an Affiliate on an arms' length basis, (iii) any employment agreements, stock option, employee benefit, indemnification, compensation, business expense reimbursement or other employment-related agreement, arrangement or plan entered into by the Company or any of its Subsidiaries either (A) in the ordinary course of business and consistent with the past practice of the Company or such Subsidiary or (B) which agreement, arrangement or plan was adopted by the Board of Directors of the Company or such Subsidiary (including a majority of the Disinterested Directors), as the case may be, (iv) residential mortgage, credit card and other consumer loans to an Affiliate who is an officer, director or employee of the Company or any of its Subsidiaries and which comply with the applicable provisions of 12 U.S.C. Section 1468(b) and any rules and regulations of the OTS thereunder, (v) any Restricted Payments, or (vi) any transaction or series of transactions in which the total amount involved does not exceed \$250,000.

Section 10.15 LIMITATIONS ON LIENS AND GUARANTEES.

(a) The Company will not create, assume, incur or suffer to exist any Lien of any kind upon (i) the Capital Stock of the Bank as security for Indebtedness or (ii) any of the Company's assets or property (other than the Capital Stock of the Bank) now owned, or acquired after the date of this Indenture, or any income or profits from any such property or assets, as security for Indebtedness having a contractual time to Maturity greater than one year, unless in the case of either (i) or (ii), the Securities will be equally and ratably secured with such Indebtedness; PROVIDED, that if such Indebtedness is Junior Indebtedness any such security interest with respect to such Junior Indebtedness shall be subordinated to the security

interest with respect to the Securities to the same extent as such Junior Indebtedness is subordinated to the Securities.

(b) The Company will not permit any Subsidiary of the Company, directly or indirectly, to guarantee or assume, or subject any of its assets to a Lien to secure, any Pari Passu Indebtedness or Junior Indebtedness UNLESS (i) such Subsidiary simultaneously executes and delivers a supplemental indenture to this Indenture providing for a guarantee of, or pledge of assets to secure, the Securities by such Subsidiary on terms at least as favorable to the Holders of the Securities as such guarantee or security interest in such assets is to the holders of such Pari Passu Indebtedness or Junior Indebtedness, except that in the event of a guarantee or security interest in such assets with respect to (x) Pari Passu Indebtedness, the guarantee or security interest in such assets under the supplemental indenture shall be made PARI PASSU to the guarantee or security interest in such assets with respect to such Pari Passu Indebtedness or (y) Junior Indebtedness, any such guarantee or security interest in such assets with respect to such Junior Indebtedness shall be subordinated to such Subsidiary's guarantee or security interest in such assets with respect to the Securities to the same extent as such Junior Indebtedness is subordinated to the Securities and (ii) such Subsidiary waives and agrees in writing that it will not in any manner whatsoever claim, or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Subsidiary of the Company as a result of any payment by such Subsidiary under its guarantees.

Section 10.16 LIQUIDITY MAINTENANCE.

The Company shall, at all times when the Securities of any series are not rated in an "investment grade" category by one or more nationally recognized statistical rating organizations, maintain Liquid Assets with a value equal to at least 100% of the required interest payments due on such series on the next two succeeding semi-annual Interest Payment Dates. Such Liquid Assets shall not be the subject of any pledge, Lien, encumbrance or charge of any kind and shall not be utilized as collateral or security for Indebtedness for borrowed money or otherwise of the Company or its Subsidiaries nor may such Liquid Assets be used as reserves for any self-insurance maintained by the Company or any of its Subsidiaries.

Section 10.17 OFFER TO PURCHASE UPON A CHANGE OF CONTROL.

(a) If a Change of Control Event shall occur at any time, then each Holder will have the right to require the Company to repurchase such Holder's Securities (pursuant to an offer made to all Holders), in whole or in part, in integral multiples of \$1,000 at a purchase price in cash equal to 101% of the principal amount of such Securities, plus accrued and unpaid interest, if any, to the date of repurchase.

(b) The Company shall give notice to the Holders and to the Trustee within 30 days following a Change of Control Event, stating:

(1) that a Change of Control Event has occurred and that such Holder has the right to require the Company to repurchase such Holder's Securities at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest,

(2) the circumstances and relevant facts regarding such Change of Control Event (including, but not limited to, information with respect to pro forma historical income, cash flow and capitalization after giving effect to such Change of Control Event),

(3) the purchase date (which shall be no earlier than 30 and no later than 60 days after such notice is given),

(4) that interest accrued to the purchase date will be paid upon such presentation or surrender of Securities and that interest will cease to accrue on Securities surrendered for purchase as of the purchase date,

(5) whether tenders will be irrevocable and

(6) instructions determined by the Company that a Holder must follow in order to have Securities repurchased (including, but not limited to, the place at which Securities shall be presented and surrendered for purchase and the time prior to which Securities must be presented and surrendered) and materials necessary to comply with applicable tender rules.

(c) Any offer to purchase Securities pursuant to this Section 10.17 shall be conducted in accordance with applicable tender offer rules, including Section 14(e) of the Exchange Act and Rule 14e-1 thereunder. To the extent that the provisions of any such securities laws or regulations relating to a tender offer conflict with the provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations described in the Indenture by virtue thereof.

Section 10.18 PAYMENTS FOR CONSENT.

The Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder as an inducement to any consent, waiver or amendment of any of the terms or provisions of this Indenture or the Securities unless such consideration is paid to all Holders that provide such consent or so waive or agree to amend.

Section 10.19 WAIVER OF CERTAIN COVENANTS.

The Company may omit in any particular instance to comply with any term, provision or condition set forth in Sections 10.5 to 10.18, inclusive, with respect to the Securities of any series if before the time for such compliance the Holders of a majority in

principal amount of the Outstanding Securities of such series shall, by act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

ARTICLE XI

REDEMPTION OF SECURITIES

Section 11.1 APPLICABILITY OF ARTICLE.

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified) as contemplated by Section 3.1 for Securities of any series in accordance with this Article.

Section 11.2 ELECTION TO REDEEM; NOTICE TO TRUSTEE.

The election of the Company to redeem any Securities shall be evidenced by a Board Resolution. In case of any redemption at the election of the Company of less than all the Securities of any series, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities of such series to be redeemed and shall deliver to the Trustee such documentation and records as shall enable the Trustee to select the Securities to be redeemed pursuant to Section 11.2.

Section 11.3 SELECTION BY TRUSTEE OF SECURITIES TO BE REDEEMED.

If less than all the Securities of any series are to be redeemed (unless all of the Securities of such series and of a specified tenor are to be redeemed), the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption, on a pro rata basis, by lot or by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to the minimum authorized denomination for Securities of that series or any integral multiple thereof) of the principal amount of Securities of such series of a denomination larger than the minimum authorized denomination for Securities of that series. If less than all of the Securities of such series and of a specified tenor are to be redeemed, the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series and specified tenor not previously called for redemption in accordance with the preceding sentence.

The Trustee shall promptly notify the Company in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

Section 11.4 NOTICE OF REDEMPTION.

Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at his address appearing in the Security Register.

All notices of redemption shall state:

- (1) the Redemption Date,
- (2) the Redemption Price and accrued interest, if any,
- (3) if less than all the Outstanding Securities of any series are to be redeemed, the identification (and, in the case of partial redemption of any Securities, the principal amounts) of the particular Securities to be redeemed,
- (4) that on the Redemption Date the Redemption Price and accrued interest, if any, will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,
- (5) the place or places where such Securities are to be surrendered for payment of the Redemption Price and accrued interest, if any,
- (6) that the redemption is for a sinking fund, if such is the case, and
- (7) the CUSIP numbers, if any, of the Securities to be redeemed.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company and shall be irrevocable.

Section 11.5 DEPOSIT OF REDEMPTION PRICE.

Prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 10.3) an amount of money sufficient to pay the

Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date.

Section 11.6 SECURITIES PAYABLE ON REDEMPTION DATE.

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; PROVIDED, HOWEVER, that, unless otherwise specified as contemplated by Section 3.1, installments of interest whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 3.7.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal and any premium shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the Security.

Section 11.7 SECURITIES REDEEMED IN PART.

Any Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series and of like tenor, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

ARTICLE XII

SINKING FUNDS

Section 12.1 APPLICABILITY OF ARTICLE.

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of a series except as otherwise specified as contemplated by Section 3.1 for Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment", and

any payment in excess of such minimum amount provided for by the terms of Securities of any series is herein referred to as an "optional sinking fund payment". If provided for by the terms of Securities of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 12.2. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of Securities of such series.

Section 12.2 SATISFACTION OF SINKING FUND
PAYMENTS WITH SECURITIES.

The Company (1) may deliver Securities of a series (other than any previously called for redemption) and (2) may apply as a credit Securities of a series which theretofore have been redeemed or otherwise acquired by the Company either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to the Securities of such series required to be made pursuant to the terms of such Securities as provided for by the terms of such series; PROVIDED that such Securities have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

Section 12.3 REDEMPTION OF SECURITIES FOR
SINKING FUND.

Not less than 90 days prior to each sinking fund payment date for any series of Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any, which is to be satisfied by delivering and crediting Securities of that series pursuant to Section 12.2 and the basis for such credit and will also deliver to the Trustee any Securities to be so delivered. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 11.3 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 11.4. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 11.6 and 11.7.

ARTICLE XIII

DEFEASANCE AND COVENANT DEFEASANCE

Section 13.1 APPLICABILITY OF ARTICLE;
COMPANY'S OPTION TO EFFECT

DEFEASANCE OR COVENANT DEFEASANCE.

If pursuant to Section 3.1 provision is made for either or both of (a) defeasance of the Securities of a series under Section 13.2 or (b) covenant defeasance of the Securities of a series under Section 13.3, then the provisions of such Section or Sections, as the case may be, together with the other provisions of this Article XIII, shall be applicable to the Securities of such series, and the Company may at its option by Board Resolution, at any time, with respect to the Securities of such series, elect to have either Section 13.2 (if applicable) or Section 13.3 (if applicable) be applied to the Outstanding Securities of such series upon compliance with the conditions set forth below in this Article XIII.

Section 13.2 DEFEASANCE AND DISCHARGE.

Upon the Company's exercise of the above option applicable to this Section, the Company shall be deemed to have been discharged from its obligations with respect to the Outstanding Securities of such series on and after the date the conditions precedent set forth below are satisfied (hereinafter, "defeasance"). For this purpose, such defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the Outstanding Securities of such series and to have satisfied all its other obligations under such Securities and this Indenture, insofar as such Securities are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following which shall survive until otherwise terminated or discharged hereunder: (A) the rights of Holders of outstanding Securities of such series to receive, solely from the trust fund described in Section 13.4 as more fully set forth in such Section, payments of the principal of (and premium, if any) and interest on such Securities when such payments are due, (B) the Company's obligations with respect to such Securities under Sections 3.4, 3.5, 3.6, 10.2 and 10.3 and such obligations as shall be ancillary thereto, (C) the rights, powers, trusts, duties, immunities and other provisions in respect of the Trustee hereunder and (D) this Article XIII. Subject to compliance with this Article XIII, the Company may exercise its option under this Section 13.2 notwithstanding the prior exercise of its option under Section 13.3 with respect to the Securities of such series. Following a defeasance, payment of the Securities of such series may not be accelerated because of an Event of Default.

Section 13.3 COVENANT DEFEASANCE.

Upon the Company's exercise of the above option applicable to this Section and after the date the conditions set forth below are satisfied (hereinafter, "covenant defeasance"), the Company shall be released from its obligations under any covenant applicable to such Securities that is determined pursuant to Section 3.1 to be subject to this provision, and the occurrence of an event specified in Section 5.1(iv) (with respect to any Section applicable to such Securities that are determined pursuant to Section 3.1 to be subject to this provision) shall not be deemed to be an Event of Default with respect to the outstanding Securities of such series. For this purpose, such covenant defeasance means that, with respect to the Outstanding Securities of such series, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any

such Section whether directly or indirectly by reason of any reference elsewhere herein to any such Section or by reason of any reference in any such Section to any other provision herein or in any other document, but the remainder of this Indenture and such Securities shall be unaffected thereby.

Section 13.4 CONDITIONS TO DEFEASANCE OR
COVENANT DEFEASANCE.

The following shall be the conditions precedent to application of either Section 13.2 or Section 13.3 to the Outstanding Securities of such series:

(1) The Company shall irrevocably have deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities, (A) money in United States Dollars in an amount, or (B) U.S. Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a combination thereof, sufficient, without reinvestment, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee to pay and discharge, the principal of (and premium, if any) and interest on the Outstanding Securities of such series on the Maturity of such principal, premium, if any, or interest and any mandatory sinking fund payments or analogous payments applicable to the Outstanding Securities of such series on the due dates thereof. Before such a deposit the Company may make arrangements satisfactory to the Trustee for the redemption of Securities at a future date or dates in accordance with Article XI, which shall be given effect in applying the foregoing. For this purpose, "U.S. Government Obligations" means securities that are (x) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (y) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act of 1933, as amended) as custodian with respect to any such U.S. Government Obligation or a specific payment of principal of or interest on any such U.S. Government Obligation held by such custodian for the account of the holder of such depository receipt, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal of or

interest on the U.S. Government Obligation evidenced by such depository receipt.

(2) No Event of Default or event which with notice or lapse of time or both would become an Event of Default with respect to the Securities of such series shall have occurred and be continuing (A) on the date of such deposit and after giving effect thereto or (B) insofar as subsection 5.1(viii) is concerned, at any time during the period ending on the 123rd day after the date of such deposit or, if longer, ending on the day following the expiration of the longest preference period applicable to the Company in respect of such deposit (it being understood that the condition in this Clause (B) shall not be deemed satisfied until the expiration of such period).

(3) Such defeasance or covenant defeasance shall not (A) cause the Trustee for the Securities of such series to have a conflicting interest as defined in Section 6.8 or for purposes of the Trust Indenture Act with respect to any securities of the Company or (B) result in the trust arising from such deposit to constitute, unless it is qualified as, a regulated investment company under the Investment Company Act of 1940, as amended.

(4) Such defeasance or covenant defeasance shall not result in a breach or violation of, or constitute a default under, this Indenture or any other agreement or instrument to which the Company is a party or by which it is bound.

(5) Such defeasance or covenant defeasance shall not cause any Securities of such series then listed on any registered national securities exchange under the Exchange Act to be delisted.

(6) In the case of an election under Section 13.2, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (x) the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or (y) since the date of this Indenture there has been a change in the applicable Federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of the Outstanding Securities of such series will not recognize income, gain or loss for Federal income tax purposes as a result of such defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred.

(7) In the case of an election under Section 13.3, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of the Outstanding Securities of such series will not recognize income, gain or loss for Federal income tax purposes as a result of such covenant defeasance and will be subject to Federal income tax on the same amounts, in

the same manner and at the same times as would have been the case if such covenant defeasance had not occurred.

(8) The Company shall have delivered to the Trustee an Opinion of Counsel to the effect that following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally under any applicable U.S. federal or state law, and that the Trustee has a perfected security interest in such trust funds for the ratable benefit of the Holders.

(9) The Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders of the Outstanding Securities of such series over the other creditors of the Company or with the intent of defeating, hindering, delaying or defrauding any creditors of the Company or others.

(10) No event or condition shall exist that would prevent the Company from making payments of the principal of, premium, if any, and interest on the Outstanding Securities of such series on the date of such deposit.

(11) Such defeasance or covenant defeasance shall be effected in compliance with any additional terms, conditions or limitations which may be imposed on the Company in connection therewith pursuant to Section 3.1.

(12) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to either the defeasance under Section 13.2 or the covenant defeasance under Section 13.3 (as the case may be) have been complied with.

Section 13.5 DEPOSITED MONEY AND U.S. GOVERNMENT
OBLIGATIONS TO BE HELD IN TRUST;
OTHER MISCELLANEOUS PROVISIONS.

Subject to the provisions of the last paragraph of Section 10.3, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee pursuant to Section 13.4 in respect of the Outstanding Securities of such series shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any Paying Agent (but not including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Securities, of all sums due and to become due thereon in respect of principal (and premium, if any) and interest, but such money need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the money or U.S. Government Obligations deposited pursuant to Section 13.4 or the principal and interest received in respect thereof.

Anything herein to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any money or U.S. Government Obligations held by it as provided in Section 13.4 which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof which would then be required to be deposited to effect an equivalent defeasance or covenant defeasance.

Section 13.6 REINSTATEMENT.

If the Trustee or the Paying Agent is unable to apply any money in accordance with Section 13.5 by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under the Securities of such series shall be revived and reinstated as though no deposit had occurred pursuant to this Article XIII until such time as the Trustee or Paying Agent is permitted to apply all such money in accordance with Section 13.5; PROVIDED, HOWEVER, that if the Company makes any payment of principal of (and premium, if any) or interest on any such Security following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive such payment from the money held by the Trustee or the Paying Agent.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

OCWEN FINANCIAL CORPORATION

By _____
Title:

Attest:

By _____
Title:

[_____]
As Trustee

By _____
Title:

Attest:

By _____
Title:

STATE OF [FLORIDA])
) ss.:
COUNTY OF [])

On the ____ day of _____, 1996 before me personally came
_____, to me known, who, being by me duly sworn, did depose and say
that he is an [] of [], one of the
corporations described in and which executed the foregoing instrument; that he
knows the seal of said corporation; that the seal affixed to said instrument is
such corporate seal; that it was so affixed by authority of the Board of
Directors of said corporation, and that he signed his name thereto by like
authority.

Notary Public

STATE OF [FLORIDA])
) ss.:
COUNTY OF [_____])

On the _____ day of July, 1996 before me personally came
_____, to me known, who, being by me duly sworn, did
depose and say that he is _____ of Ocwen Financial
Corporation, one of the corporations described in and which executed the
foregoing instrument; that he knows the seal of said corporation; that the seal
affixed to said instrument is such corporate seal; that it was so affixed by
authority of the Board of Directors of said corporation, and that he signed his
name thereto by like authority.

OCWEN FINANCIAL CORPORATION
1991 NON-QUALIFIED STOCK OPTION PLAN

ARTICLE I
DEFINITIONS

As used herein, the following terms have the meanings hereinafter set forth unless the context clearly indicates to the contrary:

- (a) "Board" shall mean the Board of Directors of the Company.
- (b) "Committee" shall mean the Compensation Committee of the Board, which shall consist of such person or persons as may be appointed from time to time by the Board until such time as the Stock is registered under the Exchange Act, following which time the Committee shall consist of not less than the minimum number of persons from time to time required by Rule 16b-3, each of whom, to the extent necessary to comply with Rule 16b-3 only, shall be a "disinterested person" within the meaning of Rule 16b-3.
- (c) "Company" shall mean Ocwen Financial Corporation, a Florida corporation.
- (d) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.
- (e) "Fair Value" shall mean the book value of the Stock as determined by the Committee until such time as the Stock is registered under the Exchange Act, following which time the Committee shall determine the method to establish fair market value.
- (f) "Option" shall mean an option to purchase Stock granted pursuant to the provisions of Article VI hereof.
- (g) "Optionee" shall mean a person to whom an Option has been granted hereunder.
- (h) "Option Price" shall mean the price at which an Optionee may purchase a share of stock under a Stock Option Agreement which price may be less than Fair Value at the time the Option is granted.

(i) "Plan" shall mean the Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, as amended.

(j) "Rule 16b-3" shall mean Rule 16b-3 as promulgated and interpreted by the Securities and Exchange Commission under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

(k) "Stock" shall mean the common stock, \$.01 par value, of the Company or, in the event that the outstanding shares of Stock are hereinafter changed into or exchanged for shares of a different stock or securities of the Company or some other corporation, such other stock or securities.

(l) "Stock Option Agreement" shall mean an agreement between the Company and the Optionee under which the Optionee may purchase Stock hereunder.

(m) "Subsidiary" shall mean any corporation, the majority of the outstanding voting stock of which is owned, directly or indirectly, by the Company.

ARTICLE II THE PLAN

2.1 NAME. This plan shall be known as the "Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan."

2.2 PURPOSE. The purpose of the Plan is to advance the interests of the Company, its Subsidiaries and its shareholders by affording certain officers and other key employees of the Company and its Subsidiaries an opportunity to acquire or increase their proprietary interests in the Company by granting such persons Options to purchase Stock in the Company. The Options will promote the growth and profitability of the Company and its Subsidiaries because the Optionees will be provided with an additional incentive to achieve the Company's objectives through participation in its success and growth and by encouraging their continued employment with the Company.

2.3 EFFECTIVE DATE; TERMINATION DATE. The effective date of the Plan is December 1, 1991. The Plan shall terminate, and no further Options shall be granted hereunder, after November 30, 2006.

ARTICLE III PARTICIPANTS

Any "key employee," as determined by the Committee, including executive personnel, department heads and directors, of the Company or its Subsidiaries shall be eligible to

participate in the Plan, provided that they are full-time employees of the Company or any of its Subsidiaries.

ARTICLE IV ADMINISTRATION

4.1 DUTIES AND POWERS OF COMMITTEE. The Plan shall be administered by the Committee. In administering the Plan, the Committee's actions and determinations shall be binding on all interested parties. Subject to the express provisions of the Plan, the Committee shall have the sole discretion and authority to determine from among eligible key employees those to whom an Option shall be granted, the number of shares of Stock subject to the Option, and the terms and conditions of the Stock Option Agreement. Subject to the express provisions of the Plan, the Committee shall also have complete authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, to determine the details and provisions of each Stock Option Agreement, and to make all other determinations necessary or advisable in the administration of the Plan, including, without limitation, the amending or altering of the Plan and any Options granted hereunder as may be required to comply with or to conform to any federal, state or local laws or regulations. The Committee shall have the power to authorize the issuance of Stock in accordance with the provisions of the Plan. No member of the Committee shall be liable to any person for any determination made in good faith with respect to the Plan or any Option granted hereunder.

4.2 COMMITTEE PROCEDURES. The Committee may make such rules and regulations for the conduct of its business as it may deem necessary or appropriate. A majority of the members of the Committee shall constitute a quorum, and any action taken by a majority at a meeting at which a quorum is present or any action taken without a meeting evidenced by a writing executed by all the members of the Committee, shall constitute the action of the Committee. The Committee shall keep minutes of its meetings.

The Company shall supply full and timely information to the Committee on all matters relating to eligible persons as the Committee may require. The Company shall furnish the Committee with such clerical and other assistance as is necessary in the performance of its duties.

4.3 AUTHORITY OF THE BOARD. Notwithstanding anything to the contrary contained in the Plan, the Plan also may be administered by the Board until such time as the Stock is registered under the Exchange Act, following which time the Plan also may be administered by the Board only to the extent permitted by Rule 16b-3. In the event of such administration by the Board, all references to the Committee in the Plan shall be deemed to refer to the Board and any employee-director of the Company shall be eligible to be designated a "key employee" for purposes of the Plan.

ARTICLE V
SHARES OF STOCK SUBJECT TO PLAN

5.1 LIMITATIONS. Subject to any adjustment pursuant to the provisions of Section 5.2 hereof, the maximum number of shares of Stock which may be issued and sold hereunder shall not exceed 1,000,000 shares. Shares subject to an Option may be either authorized and unissued shares or shares issued and later acquired by the Company. Any shares of Stock that are subject to an Option and which are forfeited, and any shares of Stock that for any other reason are not issued to an Optionee, shall automatically become available again for use under the Plan if Rule 16b-3 under the Exchange Act, as such rule may be amended, or any successor rule, and interpretations thereof by the Securities and Exchange Commission or its staff permit such share replenishment.

5.2 ANTIDILUTION. In the event that the outstanding shares of Stock are changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation by reason of merger, consolidation, reorganization, recapitalization, reclassification, combination of shares, stock splitup or stock dividend:

(a) The aggregate number and kind of shares of Stock on which Options may be granted hereunder shall be adjusted appropriately;

(b) The rights under outstanding Options granted hereunder, both as to the number of subject shares and the Option Price, shall be adjusted appropriately; and

(c) Where dissolution or liquidation of the Company is involved, the Optionee shall have the right, immediately prior to such dissolution or liquidation, to exercise his Option, in whole or in part, to the extent that it shall not have been exercised, subject, however, to the limitations set forth in Article VI hereof.

The foregoing adjustments and the manner of application thereof shall be determined solely by the Committee, and any such adjustment may provide for the elimination of fractional share interests. The adjustments required under this Article shall apply to any successor or successors of the Company and shall be made regardless of the number or type of successive events requiring adjustments hereunder.

ARTICLE VI
OPTIONS

6.1 OPTION GRANT AND AGREEMENT. Each Option granted hereunder shall be evidenced by minutes of a meeting or the written consent of the Committee and by a written Stock Option Agreement dated as of the date of grant and executed by the Company and the Optionee. As to each grant hereunder, the terms of the Option, including the Option's exercise price, shall be stated in the Stock Option Agreement or incorporated therein by

reference to the resolution or written consent of the Committee setting the terms of the Option. The terms and conditions of the Option shall be consistent with the Plan.

6.2 OPTION PRICE. The Option Price of the Stock subject to each Option shall be determined by the Committee.

6.3 EXERCISE PERIOD. The period for the exercise of each Option shall be ten years from the date of grant, unless the Option is earlier terminated as may be provided in the Stock Option Agreement.

6.4 OPTION EXERCISE. An Option shall be exercisable in full or in part, subject to the terms of the Stock Option Agreement, prior to expiration or termination of the Option.

An Option may be exercised at any time or from time to time during the term of the Option as to any or all full shares, but not at any time as to less than 50 shares unless the remaining shares subject to the Option are less than 50 shares. The Option Price is to be paid in full in cash upon the exercise of the Option, and the Company shall not be required to deliver certificates for such shares until such payment has been made; provided, however, that in lieu of cash all or any portion of the Option Price may be paid in such other manner as may be acceptable to the Committee prior to delivery of the certificate(s) representing said Stock which may, in the sole discretion of the Committee, include the tendering to the Company shares of Stock duly endorsed for transfer and owned by the Optionee, to be credited against the Option Price at their Fair Value on the date of exercise. The holder of an Option shall not have any of the rights of a stockholder with respect to the shares of Stock subject to the Option until such shares have been issued or transferred to him upon the exercise of his Option.

An Option shall be exercised by written notice of intent to exercise the Option with respect to a specified number of shares of Stock, which notice shall include the agreement to sign and abide by the terms and conditions of all then applicable stockholders' agreements and transfer restrictions and by payment in full to the Company in accordance with the preceding paragraph of the Option Price for the number of shares of Stock with respect to which the Option is then being exercised. The foregoing notice and payment shall be delivered to the Secretary of the Company. In addition to and at the time of payment of the Option Price, the Optionee shall pay to the Company in cash the full amount of any federal and state withholding or other employment taxes applicable to the taxable income of such Optionee resulting from such exercise; provided, however, that in lieu of cash all or any portion of such tax obligations, together with additional taxes not exceeding the actual additional taxes to be owed by the Optionee as a result of such exercise, may, upon the irrevocable election of the Optionee, be paid by tendering to the Company shares of Stock duly endorsed for transfer and owned by the Optionee, or by authorization to the Company to withhold shares of Stock otherwise issuable upon exercise of the Option, in either case in that number of shares having a Fair Value at the time of exercise equal to the amount of such taxes thereby being paid.

6.5 NONTRANSFERABILITY OF OPTION. No Option shall be transferred by an Optionee otherwise than by will or the laws of descent and distribution. During the lifetime of an Optionee, his Option shall be exercisable only by him (or by his guardian or legal representative, should one be appointed).

ARTICLE VII
STOCK CERTIFICATES

The Company shall not be required to issue or deliver a certificate for shares of Stock purchased upon the exercise of any Option granted hereunder or any portion thereof, prior to fulfillment of all of the following conditions:

- (a) The execution of all then applicable stockholders' agreements and agreement to all then applicable transfer restrictions;
- (b) The obtaining of any approval or other clearance from any federal or state governmental agency which the Company upon the advice of counsel shall determine to be necessary or advisable; and
- (c) The lapse of such reasonable period of time following the exercise of the Option as may be appropriate for reasons of administrative convenience.

ARTICLE VIII
TERMINATION, AMENDMENT AND MODIFICATION OF PLAN

The Board may at any time terminate the Plan and may at any time and from time to time and in any respect amend or modify the Plan; provided, however, that if the Plan is approved by the stockholders of the Company, the Board may not thereafter, without further stockholder approval, amend the Plan to:

- (a) Increase the total number of shares of Stock subject to the Plan;
- (b) Materially change or modify the class of employees that may participate in the Plan; or
- (c) Otherwise materially increase the benefits accruing to participants under the Plan.

No termination, amendment or modification of the Plan shall adversely affect any Option previously granted hereunder without the written consent of the Optionee or his guardian, legal representative or legatee.

ARTICLE IX
MISCELLANEOUS

9.1 PLAN BINDING ON SUCCESSORS. The Plan shall be binding upon the successors and assigns of the Company.

9.2 SINGULAR, PLURAL; GENDER. Whenever used herein, nouns in the singular shall include the plural, and the masculine pronoun shall include the feminine gender.

9.3 HEADINGS, ETC., NO PART OF PLAN. Headings of articles and sections hereof are inserted for convenience and reference; they constitute no part of the Plan.

OCWEN FINANCIAL CORPORATION
ANNUAL INCENTIVE PLAN

PURPOSE

The Annual Incentive Plan (the "Plan") is intended to (a) provide an incentive for key employees of the Corporation and its subsidiaries to exert their best efforts to create shareholder value; (b) attract and retain persons of outstanding ability to contribute significantly to the business and (c) further the identity of interest of those employees with those of the Corporation's shareholders.

ADMINISTRATION

The Plan will be administered by the Compensation Committee (the "Committee") of the Board of Directors of the Corporation. The Committee is authorized to interpret the Plan and determine when, to whom, in what manner or form, in what amount, over what period of time and under what terms, conditions and limitations awards under the Plan will be made. Except as otherwise provided herein, the Committee's determination will be conclusive and binding on all parties. The Committee may delegate to the President the selection of participants and the amounts of their respective awards with respect to awards for \$100,000 or less.

ELIGIBILITY

Participation in the Plan will be limited to those employees selected by the Committee and, to the extent delegated as permitted by the Plan, the President who are in a position to make substantial contributions to the management, growth and success of the Corporation and its subsidiaries.

INCENTIVE AWARDS

Incentive awards may be made in an aggregate amount not to exceed twenty percent (20%) of income before taxes and incentive awards of the Corporation, and as adjusted for the amount of pre-tax equivalent income generated by tax advantaged investments which is included as a reduction to income tax expense. The incentive awards may be paid in cash or in any other form approved by the Board of Directors. The Committee annually will present to the Board of Directors a summary report of the operation of the Plan. This report will include outstanding awards and awards paid for the previous year.

AMENDMENT

The Plan may be amended in whole or in part or terminated at any time by the Board of Directors. The Committee shall have the right to make any amendments to the Plan that relate solely to the administration of the Plan and that do not materially change the benefits or materially increase the cost of the Plan.

MISCELLANEOUS

No right or benefit under this Plan shall be assignable. The Plan shall be governed by and construed in accordance with the laws of the State of Florida.

OCWEN FINANCIAL CORPORATION
1996 STOCK PLAN FOR DIRECTORS

SECTION 1. INTRODUCTION

1.1 ESTABLISHMENT. Ocwen Financial Corporation, a Florida corporation (the "Company"), has established the 1996 Stock Plan for Directors (the "Plan") for those directors of the Company who are neither officers nor employees of the Company. The Plan provides, among other things, for the payment of specified portions of the Annual Director's Fee in the form of Stock Options and Restricted Stock and for the payment of the Annual Committee Chair's Fee in the form of Restricted Stock, and the opportunity for the Directors to defer receipt of all or a part of their cash compensation. Unless otherwise provided for herein, the term Company includes Ocwen Financial Corporation and its subsidiaries.

1.2 PURPOSES. The purposes of the Plan are to encourage Directors to own shares of the Company's stock and thereby to align their interests more closely with the interests of the other shareholders of the Company, to encourage the highest level of Director performance, and to provide a financial incentive that will help attract and retain the most qualified Directors.

SECTION 2. DEFINITIONS

2.1 DEFINITIONS. The following terms shall have the meanings set forth below:

(a) "ANNUAL COMMITTEE CHAIR'S FEE" means the annual amount established from time to time by the Board as the annual fee to be paid to Directors for their services as chairs of standing committees of the Board.

(b) "ANNUAL DIRECTOR'S FEE" means the annual amount (which may be prorated for a Director serving less than a full calendar year, as in the case of a Director who will be retiring or not standing for reelection at the annual meeting of shareholders or a Director joining the Board after the beginning of the year) established from time to time by the Board as the annual fee to be paid to Directors for their services as directors.

(c) "ATTENDANCE PERCENTAGE" for a Director with respect to a particular Grant Year means the percentage of the aggregate of all meetings of the Board and committees of which the Director was a member held during the Grant Year (or, for Directors who are elected after the beginning of the Grant Year, Directors who retire at the annual meeting of shareholders (as described in the Company's Bylaws) held during the Grant Year, Directors who do not stand for reelection at the annual meeting of shareholders held during

the Grant Year, or Directors who die during the Grant Year, the aggregate of all such meetings held for the portion of the Grant Year during which the Director served as a director), excluding any meeting not attended because of illness, which were attended by the Director. In the event that a Director ceases to be a director at any time during the Grant Year for any reason other than retirement at the annual meeting of shareholders, not standing for reelection at the annual meeting of shareholders, or death, all meetings held during the Grant Year of the Board and committees of which he was a member at the time of termination of service will continue to be included as meetings when calculating the Attendance Percentage.

(d) "BOARD" means the Board of Directors of the Company.

(e) "CAUSE" means any act of (a) fraud or intentional misrepresentation or (b) embezzlement, misappropriation or conversion of assets or opportunities of the Company or any of its direct or indirect majority-owned subsidiaries.

(f) "CHANGE IN CONTROL" shall have the meaning assigned to it in Section 7.2 hereof.

(g) "COMMITTEE" means the Compensation Committee of the Board or any successor established by the Board.

(h) "DIRECTOR" means a member of the Board who is neither an officer nor an employee of the Company. For purposes of the Plan, an employee is an individual whose wages are subject to the withholding of federal income tax under Section 3401 of the Internal Revenue Code, and an officer is an individual elected or appointed by the Board or chosen in such other manner as may be prescribed in the Bylaws of the Company to serve as such.

(i) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended from time to time.

(j) "EXISTING PRINCIPAL STOCKHOLDERS" means, individually or collectively, William C. Erbey, Barry N. Wish and Harold D. Price and their respective estates, spouses, heirs, ancestors, lineal descendants and legatees and legal representatives of any of the foregoing and the trustee of any bona fide trust of which one or more of the foregoing are the trustees of the majority beneficiaries, and any entity of which any of the foregoing, individually or collectively, beneficially owns more than fifty percent (50%) of the voting securities thereof.

(k) "FAIR MARKET VALUE" means the mean of the high and low prices of the Stock as reported by Nasdaq (or such successor reporting system as shall be selected by the Committee) on the relevant date or, if no sale of the Stock shall have been reported for that day, the average of such prices on the next preceding day and the next following day for which there were reported sales.

(l) "GRANT DATE" means, as to a Stock Option Award, the date of grant pursuant to Section 5.1 and as to a Restricted Stock Award, the date of grant pursuant to Section 6.1.

(m) "GRANT YEAR" means, as to a particular award, the calendar year in which the award was granted.

(n) "INTERNAL REVENUE CODE" means the Internal Revenue Code of 1986, as amended from time to time.

(o) "RESTRICTED STOCK" means shares of Stock awarded to a Director pursuant to Section 6 and subject to certain restrictions in accordance with the Plan.

(p) "RESTRICTED STOCK AWARD" means an award of shares of Restricted Stock granted to a Director pursuant to Section 6 of the Plan.

(q) "STOCK" means the common stock, \$0.01 par value, of the Company.

(r) "STOCK OPTION" means a non-statutory stock option to purchase shares of Stock for a purchase price per share equal to the Exercise Price (as defined in Section 5.2(a)) in accordance with the provisions of the Plan.

(s) "STOCK OPTION AWARD" means an award of Stock Options granted to a Director pursuant to Section 5 of the Plan.

(t) "STOCK OPTION VALUE" means the value of a Stock Option for one share of Stock on the relevant date as determined by an outside firm selected by the Company.

2.2 GENDER AND NUMBER. Except when otherwise indicated by the context, the masculine gender shall also include the feminine gender, and the definition of any term herein in the singular shall also include the plural.

SECTION 3. PLAN ADMINISTRATION

(a) The Plan shall be administered by the Committee. The members of the Committee shall be members of the Board appointed by the Board, and any vacancy on the Committee shall be filled by the Board.

The Committee shall keep minutes of its meetings and of any action taken by it without a meeting. A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present shall be the acts of the Committee. Any action that may be taken at a meeting of the Committee may be taken without a meeting if a consent or consents in writing setting forth the action so taken shall be signed by all of the members of the Committee. The Committee shall make appropriate reports to the Board concerning the operations of the Plan.

(b) Subject to the limitations of the Plan, the Committee shall have the sole and complete authority: (i) to impose such limitations, restrictions and conditions upon such awards as it shall deem appropriate; (ii) to interpret the Plan and to adopt, amend and rescind administrative guidelines and other rules and regulations relating to the Plan; and (iii) to make all other determinations and to take all other actions necessary or advisable for the implementation and administration of the Plan. Notwithstanding the foregoing, the Committee shall have no authority, discretion or power to select the Directors who will receive awards pursuant to the Plan, determine the awards to be granted pursuant to the Plan, the number of shares of Stock to be issued thereunder or the price thereof or the time at which such awards are to be granted, establish the duration and nature of awards or alter any other terms or conditions specified in the Plan, except in the sense of administering the Plan subject to the provisions of the Plan. The Committee's determinations on matters within its authority shall be conclusive and binding upon the Company and all other persons. The Plan shall be interpreted and implemented in a manner so that Directors will not fail, by reason of the Plan or its implementation, to be "disinterested persons" within the meaning of Rule 16b-3 under Section 16 of the Exchange Act, as such rule may be amended, or any successor rule.

(c) The Company shall be the sponsor of the Plan. All expenses associated with the Plan shall be borne by the Company.

SECTION 4. STOCK SUBJECT TO THE PLAN

4.1 NUMBER OF SHARES. 25,000 shares of Stock are authorized for issuance under the Plan in accordance with the provisions of the Plan, subject to adjustment and substitution as set forth in this Section 4. This authorization may be increased from time to time by approval of the Board and, if such approval is required, by the shareholders of the Company. The Company shall at all times during the term of the Plan retain as authorized and unissued Stock at least the number of shares from time to time required under the provisions of the Plan, or otherwise assure itself of its ability to perform its obligations hereunder.

4.2 OTHER SHARES OF STOCK. Any shares of Stock that are subject to a Stock Option Award or a Restricted Stock Award and which are forfeited, any shares of Stock that for any other reason are not issued to a Director, and any shares of Stock tendered by a Director to pay the Exercise Price of a Stock Option shall automatically become available again for use under the Plan if Rule 16b-3 under the Exchange Act, as such rule may be amended, or any successor rule, and interpretations thereof by the Securities and Exchange Commission or its staff permit such share replenishment.

4.3 ADJUSTMENTS UPON CHANGES IN STOCK. If there shall be any change in the Stock of the Company, through merger, consolidation, division, share exchange, combination, reorganization, recapitalization, stock dividend, stock split, spinoff, split up, dividend in kind or other change in the corporate structure or distribution to the shareholders, appropriate

adjustments may be made by the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) in the aggregate number and kind of shares subject to the Plan, and the number and kind of shares which may be issued under the Plan. Appropriate adjustments may also be made by the Committee in the terms of any awards under the Plan to reflect such changes and to modify any other terms of outstanding awards on an equitable basis as the Committee in its discretion determines.

SECTION 5. STOCK OPTION AWARDS

5.1 GRANTS OF STOCK OPTION AWARDS.

(a) Each Director will receive one-half of the value of his Annual Director's Fee in the form of a Stock Option Award. Such Stock Options shall be granted automatically each year on the last Wednesday in January of such year to each Director in office on such Grant Date. If a person is elected to the Board at any time after the last Wednesday in January of a given calendar year (beginning with 1996) but before the end of that calendar year, whether by action of the shareholders of the Company or the Board, such person upon becoming a Director shall be granted automatically one-half of the value of his Annual Director's Fee for that calendar year in the form of a Stock Option Award on the last Wednesday of the calendar month in which such person becomes a director (or of the next following calendar month if such election occurs after the last Wednesday of the month). The total number of shares of Stock subject to any such Stock Option Award will be the number of shares determined by dividing the amount of the Annual Director's Fee to be paid in the form of a Stock Option Award by the Stock Option Value on the Grant Date, rounded up to the nearest whole share.

(b) All Stock Options granted pursuant to Section 5.1 shall be subject to adjustment as provided in Section 4.3.

5.2 TERMS AND CONDITIONS OF STOCK OPTIONS. Stock Options granted under the Plan shall be subject to the following terms and conditions:

(a) EXERCISE PRICE. The purchase price per share at which a Stock Option may be exercised ("Exercise Price") shall be determined as follows: on any Grant Date, (1) Stock Options for two-thirds of the option shares granted on the Grant Date shall have an Exercise Price per share equal to 100% of Fair Market Value on the Grant Date, and (2) Stock Options for the remaining one-third of the option shares granted on the Grant date shall have an Exercise Price per share equal to 125% of Fair Market Value on the Grant Date.

(b) EXERCISABILITY. Subject to the terms and conditions of the Plan and of the agreement referred to in Section 5.2(j), a Stock Option may be exercised in whole or in part upon notice of exercise to the Company, commencing on January 1 of the calendar year next

following the Grant Year. During a Director's lifetime, a Stock Option may be exercised only by the Director or the Director's guardian or legal representative.

(c) VESTING OF STOCK OPTION AWARDS. Stock Options will vest on January 1 of the calendar year next following the Grant Year (the "Option Vesting Date") if the Director has an Attendance Percentage of at least seventy-five percent (75%) for the Grant Year. In the event that a Director has an Attendance Percentage of less than seventy-five percent (75%) for the Grant Year, Stock Options granted in that Grant Year for a number of shares equal to the Director's Attendance Percentage for that year multiplied by the total number of option shares granted for that year (rounded up to the nearest whole share) will vest on the Option Vesting Date, and Stock Options granted in that Grant Year as to the remaining option shares will be forfeited and will terminate as of the Option Vesting Date. Notwithstanding anything to the contrary herein, (1) in the event that a director is removed from office for Cause, all outstanding Stock Options will be forfeited immediately as of the time the grantee is so removed from office, and (2) upon the occurrence of a Change in Control, all outstanding Stock Options will vest and become immediately exercisable.

(d) MANDATORY HOLDING OF STOCK. Except as otherwise provided in Section 5.5 or Section 8, any Stock acquired on exercise of a Stock Option must be held by the grantee for a minimum of (1) three years from the date of exercise, (2) two years from the date the grantee ceases to be a director of Company, or (3) until the occurrence of a Change in Control, whichever first occurs (the "Option Shares Holding Period").

(e) OPTION TERM. The Term of a Stock Option (the "Option Term") shall be the period of (1) ten years from its Grant Date, or (2) until the Option Vesting Date for a Stock Option that does not vest as provided in Section 5.3(c), or (3) until the time the Stock Option is forfeited as provided in Section 5.3(c)(1) in the event a director is removed from office for Cause, or (4) until the date the Stock Option ceases to be exercisable as provided in Section 5.2(h), whichever is earlier.

(f) PAYMENT OF EXERCISE PRICE. Stock purchased on exercise of a Stock Option must be paid for as follows: (1) in cash or by check (acceptable to the Company), bank draft or money order payable to the order of the Company; (2) through the delivery of shares of Stock which are then outstanding and which have a Fair Market Value on the date of exercise equal to the Exercise Price per share multiplied by the number of shares as to which the Stock Option is being exercised (the "Aggregate Exercise Price"); (3) by delivery of an unconditional and irrevocable undertaking by a broker to deliver promptly to the Company sufficient funds to pay the Aggregate Exercise Price; or (4) by a combination of the permissible forms of payment; provided, however, that any portion of the Aggregate Exercise Price representing a fraction of a share must be paid in cash and no share of Stock held for less than six months may be delivered in payment of the Aggregate Exercise Price.

(g) RIGHTS AS A SHAREHOLDER. The holder of a Stock Option will not have any of the rights of a shareholder with respect to any shares of Stock subject to the Stock Option until such shares are issued by the Company following the exercise of the Stock Option.

(h) TERMINATION OF ELIGIBILITY. If a grantee ceases to be a director for any reason, any outstanding Stock Options shall be exercisable according to the following provisions:

(1) If a grantee ceases to be a director for any reason other than removal for Cause or death, any outstanding Stock Options held by such grantee which are vested or which thereafter vest shall be exercisable by the grantee in accordance with their terms at any time prior to the expiration of the Option Term;

(2) If a grantee is removed from office as a director of the Company for Cause, any outstanding vested Stock Options held by such grantee shall be exercisable by the grantee in accordance with their terms at any time prior to the earlier of (a) the time the grantee is so removed from office and (b) the expiration of the Option Term; and

(3) Following the death of a grantee while a director or after the grantee ceased to be a director for any reason other than removal for Cause, any Stock Options that are outstanding and exercisable by such grantee at the time of death or which thereafter vest shall be exercisable in accordance with their terms by the person or persons entitled to do so under the grantee's will, by a properly designated beneficiary in the event of death, or by the person or persons entitled to do so under the applicable laws of descent and distribution at any time prior to the earlier of (a) the expiration of the Option Term and (b) two years after the date of death.

(i) TERMINATION OF STOCK OPTION. A Stock Option shall terminate on the earlier of (1) exercise of the Stock Option in accordance with the terms of the Plan, and (2) expiration of the Option Term as specified in Sections 5.2(e) and 5.2(h).

(j) STOCK OPTION AGREEMENT. All Stock Options will be confirmed by an agreement, or an amendment thereto, which shall be executed on behalf of the Company by the Chief Executive Officer, the President or any Vice President and by the grantee.

(k) GENERAL RESTRICTIONS.

(1) The obligation of the Company to issue Stock pursuant to Stock Options under the Plan shall be subject to the condition that, if at any time the Company shall determine that (a) the listing, registration or qualification of shares of Stock upon any securities exchange or under any state or federal law, or (b) the consent or approval of any government or regulatory body is necessary or desirable, then such Stock shall not be issued unless such listing, registration, qualification, consent or approval shall have been effected or obtained free from any conditions not acceptable to the Company.

(2) Shares of Stock for use under the provisions of this Section 5 shall not be issued until they have been duly listed, upon official notice of issuance, upon the Nasdaq and such other exchanges, if any, as the Board shall determine, and a registration statement under the Securities Act of 1933 with respect to such shares shall have become, and be, effective.

Subject to the foregoing provisions of this Section 5.2 and the other provisions of the Plan, any Stock Option granted under the Plan shall be subject to such restrictions and other terms and conditions, if any, as shall be determined by the Committee, in its discretion, and set forth in the agreement referred to in Section 5.2(j), or an amendment thereto; provided, however, that in no event shall the Committee or the Board have any power or authority which would cause the Directors to cease to be "disinterested persons" or would cause transactions pursuant to the Plan to cease to be exempt from the provisions of Section 16(b) of the Exchange Act pursuant to Rule 16b-3, as such rule may be amended, or any successor rule.

5.3 ANNUAL STATEMENT. A statement will be sent to each Director as to the status of his Stock Options at least once each calendar year.

5.4 DESIGNATION OF A BENEFICIARY. A Director may designate a beneficiary to hold and exercise outstanding Stock Options in accordance with the Plan in the event of the Director's death.

5.5 HOLDING PERIOD APPLICABLE TO A DECEASED GRANTEE'S ESTATE. As long as at least six months have elapsed since the Grant Date, a properly designated beneficiary, or a person holding a Stock Option under a deceased grantee's will or under the applicable laws of descent or distribution, exercising a Stock Option in accordance with Section 5.2(h) will not be subject to the Holding Period with respect to shares of Stock received on exercise of a Stock Option.

SECTION 6. RESTRICTED STOCK AWARDS.

6.1 GRANTS OF RESTRICTED STOCK AWARDS.

(a) Each Director will receive one-half of the value of his Annual Director's Fee in the form of a Restricted Stock Award. Such Restricted Stock shall be granted automatically each year to each Director in office on such Grant Date. If a person is elected to the Board at any time after the last Wednesday in January of a given calendar year (beginning with 1996) but before the end of that calendar year, whether by action of the shareholders of the Company or the Board, such person upon becoming a Director shall be granted automatically one-half of the value of his Annual Director's Fee for that calendar year in the form of a Restricted Stock Award on the last Wednesday of the calendar month in which such person becomes a Director (or of the next following calendar month if such election occurs after the last Wednesday of the month).

(b) Each Director who is the chair of a standing committee of the Board will receive the full value of his Annual Committee Chair's Fee in the form of a Restricted Stock Award. Such Restricted Stock shall be granted automatically each year immediately following the annual meeting of shareholders and the organization meeting of the Board related to such annual meeting of shareholders, beginning with the annual meeting of shareholders and related organization meeting held in 1996, to each Director who is elected at such organization meeting to serve as the chair of a standing committee of the Board.

(c) The total number of shares of Stock representing any such Restricted Stock Award will be the number of shares determined by dividing the amount of the Annual Director's Fee or the Annual Committee Chair's Fee, as the case may be, to be paid in the form of a Restricted Stock Award by the Fair Market Value of a share of Stock on the Grant Date, rounded up to the nearest whole share.

(d) Restricted Stock granted pursuant to Section 6.1 shall be subject to adjustment as provided in Section 4.3.

6.2 TERMS AND CONDITIONS OF RESTRICTED STOCK. Restricted Stock granted under the Plan shall be subject to the following terms and conditions:

(a) RESTRICTION PERIOD. Restricted Stock will be subject to a Restriction Period ("Restriction Period") beginning on the Grant Date and continuing through December 31 of the Grant Year.

(b) VESTING.

(1) Except as set forth in Section 6.2(b)(3), a Director's right to ownership in shares of Restricted Stock granted to a Director pursuant to Section 6.1(a) will vest on the January 1 immediately following the expiration of the Restriction Period for such shares (the "Restricted Stock Vesting Date") if the Director has an Attendance Percentage of at least seventy-five percent (75%) for the Grant Year. In the event that a Director has an Attendance Percentage of less than seventy-five percent (75%) for the Grant Year, a number of shares of Restricted Stock equal to the Director's Attendance Percentage for the Grant Year multiplied by the total number of shares of Restricted Stock granted pursuant to Section 6.1(a) during the Grant Year (rounded up to the nearest whole share) will vest on the Restricted Stock Vesting Date and the remaining shares of Restricted Stock granted pursuant to Section 6.1(a) during the Grant Year will be forfeited as of the Restricted Stock Vesting Date.

(2) Except as set forth in Section 6.2(b)(3), a Director's right to ownership in shares of Restricted Stock granted to a committee chair pursuant to Section 6.1(b) will vest on the Restricted Stock Vesting Date.

(3) Notwithstanding anything to the contrary herein, (i) in the event that a director is removed from office for Cause prior to the Restricted Stock Vesting Date, all of such Director's shares of Restricted Stock that have not yet vested will be forfeited immediately as of the time the grantee is so removed from office and the Company will have the right to complete the blank stock power described below with respect to such shares, and (ii) upon the occurrence of a Change in Control, all shares of Restricted Stock that have not yet vested will immediately vest.

(c) ISSUANCE OF SHARES. On the Grant Date, a certificate representing the shares of Restricted Stock will be registered in the Director's name and deposited by the Director, together with a stock power endorsed in blank, with the Company. Subject to the transfer restrictions set forth in Section 6.2(d) and to the last sentence of this Section 6.2(c), the Director as owner of shares of Restricted Stock will have the rights of the holder of such Restricted Stock during the Restriction Period. Following expiration of the Restriction Period, on the Restricted Stock Vesting Date, vested shares of Restricted Stock will be redelivered by the Company to the Director and nonvested shares of Restricted Stock will be forfeited and the Company will have the right to complete the blank stock power with respect to such shares. For shares of Restricted Stock granted prior to the effective date of the Plan as set forth in Section 12, no certificate will be issued, such shares will not be issued and outstanding, and the Director will not have any of the rights of the owner of the shares until such effective date has occurred.

(d) TRANSFER RESTRICTIONS; MANDATORY HOLDING OF STOCK. Except as otherwise provided in Section 6.5 or Section 8, shares of Restricted Stock are not transferable during the Restriction Period. Once the Restriction Period lapses and shares vest, except as otherwise provided in Section 6.5 or Section 8, shares acquired as a Restricted Stock Award must be held by the grantee for a minimum of: (1) three years from the Grant Date, (2) two years from the date the grantee ceases to be a director of the Company, or (3) until the occurrence of a Change in Control, whichever first occurs (the "Restricted Shares Holding Period").

(e) RESTRICTED STOCK AGREEMENT. All Restricted Stock Awards will be confirmed by an agreement, or an amendment thereto, which will be executed on behalf of the Company by the Chief Executive Officer, the President or any Vice President and the grantee.

(f) GENERAL RESTRICTIONS.

(1) The obligation of the Company to issue shares of Restricted Stock under the Plan shall be subject to the condition that, if at any time the Company shall determine that (a) the listing, registration or qualification of shares of Restricted Stock upon any securities exchange or under any state or federal law, or (b) the consent or approval of any government or regulatory body is necessary or desirable, then such Restricted Stock shall

not be issued unless such listing, registration, qualification, consent or approval shall have been effected or obtained free from any conditions not acceptable to the Company.

(2) Shares of Stock for use under the provisions of this Section 6 shall not be issued until they have been duly listed, upon official notice of issuance, upon the Nasdaq and such other exchanges, if any, as the Board shall determine, and a registration statement under the Securities Act of 1933 with respect to such shares shall have become, and be, effective.

Subject to the foregoing provisions of this Section 6.2 and the other provisions of the Plan, any shares of Restricted Stock granted under the Plan shall be subject to such restrictions and other terms and conditions, if any, as shall be determined by the Committee, in its discretion, and set forth in the agreement referred to in Section 6.2(e), or an amendment thereto; provided, however, that in no event shall the Committee or the Board have any power or authority which would cause the Directors to cease to be "disinterested persons" or would cause transactions pursuant to the Plan to cease to be exempt from the provisions of Section 16(b) of the Exchange Act pursuant to Rule 16b-3, as such rule may be amended, or any successor rule.

6.3 ANNUAL STATEMENT. A statement will be sent to each Director as to the status of his Restricted Stock at least once each calendar year.

6.4 DESIGNATION OF A BENEFICIARY. A Director may designate a beneficiary to hold shares of Restricted Stock in accordance with the Plan in the event of the Director's death.

6.5 HOLDING PERIOD APPLICABLE TO A DECEASED GRANTEE'S ESTATE. As long as at least six months have elapsed since the Grant Date, a properly designated beneficiary, or a person holding shares of Restricted Stock under a deceased grantee's will or under the applicable laws of descent or distribution, will not be subject to the Restricted Shares Holding Period with respect to such shares of Restricted Stock.

SECTION 7. CHANGE IN CONTROL

7.1 SETTLEMENT OF COMPENSATION. In the event of a Change in Control of the Company as defined herein, to the extent not already vested, all Stock Option Awards, Restricted Stock Awards and other benefits hereunder shall be vested immediately.

7.2 DEFINITION OF CHANGE IN CONTROL. A Change in Control shall mean the occurrence of one or more of the following events:

(a) there shall be consummated (i) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Stock

immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; or

(b) the shareholders of the Company shall approve of any plan or proposal for the liquidation or dissolution of the Company; or

(c) (i) any person (as such term is defined in Section 13(d) of the Exchange Act), corporation or other entity shall purchase any Stock of the Company (or securities convertible into the Company's Stock) for cash, securities or any other consideration pursuant to a tender offer or exchange offer, unless, prior to the making of such purchase of Stock (or securities convertible into Stock), the Board shall determine that the making of such purchase shall not constitute a Change in Control, or (ii) any person (as such term is defined in Section 13(d) of the Exchange Act), corporation or other entity (other than the Existing Principal Stockholders, the Company or any benefit plan sponsored by the Company or any of its subsidiaries) shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing forty percent (40%) or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from any rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in Rule 13d-3(d) in the case of rights to acquire any such securities), unless, prior to such person so becoming such beneficial owner, the Board shall determine that such person so becoming such beneficial owner shall not constitute a Change in Control; or

(d) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board, or whose nomination for election by the shareholders of the Company was approved by a vote of a majority of the Directors then still in office who were either Directors at the beginning of such period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Directors then in office.

SECTION 8. ASSIGNABILITY

The right to receive payments or distributions hereunder (including any "derivative security" issued pursuant to the Plan, as such term is defined by the rules promulgated under Section 16 of the Exchange Act), any shares of Restricted Stock granted hereunder during the Restriction Period, and any Stock Options granted hereunder shall not be transferable or assignable by a director other than by will, by the laws of descent and distribution, to a properly designated beneficiary in the event of death, or pursuant to a domestic relations order as defined by Section 414(p)(1)(B) of the Internal Revenue Code or the rules thereunder that satisfies Section 414(p)(1)(A) of the Internal Revenue Code or the rules thereunder. In addition, Stock acquired on exercise of a Stock Option shall not be transferable prior to the end of the applicable Option Shares Holding Period, if any, set

forth in Sections 5.2(d) and 5.5, and Stock acquired as Restricted Stock shall not be transferable prior to the end of the applicable Restricted Shares Holding Period, if any, set forth in Sections 6.2(d) and 6.5, in either case other than by will, by transfer to a properly designated beneficiary in the event of death, by the applicable laws of descent and distribution or pursuant to a domestic relations order as defined by Section 414(p)(1)(B) of the Internal Revenue Code or the rules thereunder that satisfies Section 414(p)(1)(A) of the Internal Revenue Code or the rules thereunder.

SECTION 9. RETENTION; WITHHOLDING OF TAX

9.1 RETENTION. Nothing contained in the Plan or in any Stock Option Award or Restricted Stock Award granted under the Plan shall interfere with or limit in any way the right of the Company to remove any director from the Board pursuant to the Articles of Incorporation and the Bylaws of the Company, nor confer upon any director any right to continue in the service of the Company.

9.2 WITHHOLDING OF TAX. To the extent required by applicable law and regulation, each director must arrange with the Company for the payment of any federal, state or local income or other tax applicable to any payment or any delivery of Stock hereunder before the Company shall be required to make such payment or issue (or, in the case of Restricted Stock, deliver) such shares under the Plan.

SECTION 10. PLAN AMENDMENT, MODIFICATION AND TERMINATION

The Board may at any time terminate, and from time to time may amend or modify, the Plan; provided, however, that no amendment or modification may become effective without approval of the amendment or modification by the shareholders if shareholder approval is required to enable the Plan to satisfy any applicable statutory or regulatory requirements and provide further, that, unless otherwise permitted by the rules under Section 16 of the Exchange Act, no amendment or modification shall be made more than once every six months that would change the amount, price, or timing of the Stock Option Awards or Restricted Stock Awards hereunder, other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules promulgated thereunder.

SECTION 11. REQUIREMENTS OF LAW

11.1 FEDERAL SECURITIES LAW REQUIREMENTS. Implementation and interpretations of, and transactions pursuant to, the Plan shall be subject to all conditions required under Rule 16b-3, as such rule may be amended, or any successor rule, to qualify such transactions for any exemption from the provisions of Section 16(b) of the Exchange Act available under that rule, or any successor rule, and to permit the Directors to be "disinterested persons" within the meaning of that rule, or any successor rule, insofar as the Plan or its implementation shall impact such disinterested status.

11.2 GOVERNING LAW. The Plan and all agreements hereunder shall be construed in accordance with and governed by the laws of the State of Florida.

SECTION 12. EFFECTIVE DATE OF AMENDMENT

The Plan shall be effective on the date on which it is approved by the common shareholders of the Company. The Plan shall not preclude the adoption by appropriate means of any other compensation or deferral plan for directors.

OCWEN FINANCIAL CORPORATION (CONSOLIDATED)
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 (dollars in thousands)

	Six Months Ended June 30,	
	1996	1995
Income from continuing operations before income taxes	\$16,936	\$12,225
Fixed Charges:** Interest expense	55,036	34,680
Rentals: Buildings - 33.3%	237	312
Total Fixed Charges	55,273	34,992
Income from continuing operations before income taxes and fixed charges	\$72,209	\$47,217
Ratio of Earnings to Fixed Charges	1.31	1.35

** Interest expense includes interest on deposits

OCWEN FINANCIAL CORPORATION (CONSOLIDATED)
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(dollars in thousands)

	Six Months Ended June 30,	
	1996	1995
Income from continuing operations before income taxes	\$16,936	\$12,225
Fixed Charges:*		
Interest expense	9,681	2,890
Rentals:		
Buildings - 33.3%	237	312
Total Fixed Charges	9,918	3,202
Income from continuing operations before income taxes and fixed charges	\$26,854	\$15,427
Ratio of Earnings to Fixed Charges	2.71	4.82

* Interest expense does not include interest on deposits

OCWEN FINANCIAL CORPORATION (CONSOLIDATED)
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(dollars in thousands)

	Year Ended December 31,				
	1995	1994	1993	1992	1991
Income from continuing operations before income taxes	\$ 37,701	\$ 81,577	\$ 37,630	\$ 35,889	\$ 25,424
Fixed Charges*:					
Interest expense	84,060	62,598	35,306	28,148	32,858
Rentals:					
Buildings-33.3%	556	908	717	532	366
Total Fixed Charges	84,616	63,506	36,023	28,680	33,224
Income from continuing operations before income taxes and fixed charges	\$122,317	\$145,083	\$ 73,653	\$ 64,569	\$ 58,648
Ratio of Earnings to Fixed Charges	1.45	2.28	2.04	2.25	1.77

* Interest expense includes interest on deposits

OCWEN FINANCIAL CORPORATION (CONSOLIDATED)
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(dollars in thousands)

	Year Ended December 31,				
	1995	1994	1993	1992	1991
Income from continuing operations before income taxes	\$ 37,701	\$ 81,577	\$ 37,630	\$ 35,889	\$ 25,424
Fixed Charges**:					
Interest expense	12,207	17,637	16,267	11,944	17,685
Rentals:					
Buildings-33.3%	556	908	717	532	366
Total Fixed Charges	12,763	18,545	16,984	12,476	18,051
Income from continuing operations before income taxes and fixed charges	\$ 50,464	\$100,122	\$ 54,614	\$ 48,365	\$ 43,475
Ratio of Earnings to Fixed Charges	3.95	5.40	3.22	3.88	2.41

** Interest expense does not include interest on deposits

Consent of Independent Certified Public Accountants

We hereby consent to the use in the Prospectus constituting part of this Registration Statement on Form S-1 of our report dated February 16, 1996, except as to Note 21 which is as of July 31, 1996, relating to the consolidated financial statements of Ocwen Financial Corporation, which appears in the Registration Statement. We also consent to the references to us under the headings "Experts" and "Selected Consolidated Financial and Other Data" in such Prospectus. However, it should be noted that Price Waterhouse LLP has not prepared or certified such "Selected Consolidated Financial and Other Data" in such Prospectus.

Price Waterhouse LLP
Fort Lauderdale, Florida
August 19, 1996