UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1999

OR

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

Commission File No. 0-21341

OCWEN FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Florida | 65-0039856 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

The Forum, Suite 1000
1675 Palm Beach Lakes Boulevard, West Palm Beach, Florida 33401
(Address of principal executive offices) (Zip Code)

(561) 682-8000
(Registrant's telephone number, including area code)

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

Number of shares of Common Stock, $.01 par value, outstanding as of May 7, 1999: 60,800,357

OCWEN FINANCIAL CORPORATION
FORM 10-Q

I N D E X

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1. INTERIM FINANCIAL STATEMENTS

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

| | March 31, 1999 | December 31, 1998 |
|---|---|---|
| Assets: | | |
| Cash and amounts due from depository institutions | $ 80,399 | $ 120,805 |
| Interest earning deposits | 18,798 | 49,374 |
| Federal funds sold | 200,500 | 275,000 |
| Securities available for sale, at fair value | 566,739 | 593,347 |
| Loans available for sale, at lower of cost or market | 374,094 | 177,847 |
| Investment in capital stock of Federal Home Loan Bank, at cost | 10,825 | 10,825 |
| Loan portfolio, net | 177,511 | 230,312 |
| Discount loan portfolio, net | 893,180 | 1,026,511 |
| Investments in low-income housing tax credit interests | 155,273 | 144,164 |
| Investment in unconsolidated entities | 84,279 | 86,893 |
| Real estate owned, net | 208,831 | 201,551 |
| Investment in real estate | 40,282 | 36,860 |
| Premises and equipment, net | 37,569 | 33,823 |
| Income taxes receivable | 31,189 | 34,333 |
| Deferred tax asset | 67,987 | 66,975 |
| Excess of purchase price over net assets acquired, net | 12,476 | 12,706 |
| Principal, interest and dividends receivable | 14,066 | 18,993 |
| Escrow advances on loans | 99,883 | 88,277 |
| Other assets | 56,813 | 99,483 |
| | $ 3,130,694 | $ 3,308,079 |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Deposits | $ 1,841,427 | $ 2,175,016 |
| Securities sold under agreements to repurchase | 78,474 | 72,051 |
| Obligations outstanding under lines of credit | 324,760 | 179,285 |
| Notes, debentures and other interest bearing obligations | 223,000 | 225,000 |
| Accrued interest payable | 40,495 | 33,706 |
| Accrued expenses, payables and other liabilities | 48,709 | 61,053 |
| Total liabilities | 2,556,865 | 2,746,111 |
| Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company | 125,000 | 125,000 |
| Minority interest | 585 | 592 |
| Commitments and contingencies (Note 6) | | |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value; 20,000,000 shares authorized; 0 shares issued and outstanding | -- | -- |
| Common stock, $.01 par value; 200,000,000 shares authorized; 60,800,357 shares issued and outstanding at March 31, 1999 and December 31, 1998 | 608 | 608 |
| Additional paid-in capital | 166,248 | 166,234 |
| Retained earnings | 266,640 | 257,170 |
| Accumulated other comprehensive income, net of taxes: | | |
| Unrealized gain on securities available for sale | 16,266 | 14,057 |
| Net unrealized foreign currency translation loss | (1,518) | (1,693) |
| Total stockholders' equity | 448,244 | 436,376 |
| | $ 3,130,694 | $ 3,308,079 |

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 three months ended March 31, | 1999 | 1998 |
|---|---|---|
| Interest income: | | |
| Federal funds sold and repurchase agreements | $ 3,396 | $ 1,032 |
| Securities available for sale | 17,189 | 7,945 |
| Loans available for sale | 8,130 | 9,503 |
| Loans | 6,165 | 6,262 |
| Discount loans | 30,003 | 36,797 |
| Investment securities and other | 651 | 485 |
| | 65,534 | 62,024 |
| Interest expense: | | |
| Deposits | 26,828 | 27,845 |
| Securities sold under agreements to repurchase | 1,491 | 1,639 |
| Advances from the Federal Home Loan Bank | -- | 100 |
| Obligations outstanding under lines of credit | 3,724 | 4,520 |
| Notes, debentures and other interest bearing obligations | 6,755 | 6,752 |
| | 38,798 | 40,856 |
| Net interest income before provision for loan losses | 26,736 | 21,168 |
| Provision for loan losses | 3,739 | 2,253 |
| Net interest income after provision for loan losses | 22,997 | 18,915 |
| Non-interest income: | | |
| Servicing fees and other charges | 18,251 | 9,724 |
| Gain on interest earning assets, net | 20,142 | 24,754 |
| Gain on real estate owned, net | 629 | 1,026 |
| Other income | 6,553 | 5,877 |
| | 45,575 | 41,381 |
| Non-interest expense: | | |
| Compensation and employee benefits | 27,211 | 21,482 |
| Occupancy and equipment | 10,637 | 6,457 |
| Loan expenses | 4,128 | 2,298 |
| Net operating loss on investments in real estate and certain low-income housing tax credit interests | 1,848 | 1,246 |
| Amortization and write off of excess of purchase price over net assets acquired | 230 | 371 |
| Other operating expenses | 8,069 | 2,157 |
| | 52,123 | 34,011 |
| Distributions on Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures | 3,399 | 3,399 |
| Equity in losses of investment in unconsolidated entities | (1,245) | -- |
| Income before income taxes | 11,805 | 22,886 |
| Income tax expense | (2,368) | (573) |
| Minority interest in net loss of consolidated subsidiary | 33 | 33 |
| Net income | $ 9,470 | $ 22,346 |
| Earnings per share: | | |
| Basic | $ 0.16 | $ 0.37 |
| Diluted | $ 0.16 | $ 0.36 |
| Weighted average common shares outstanding: | | |
| Basic | 60,800,357 | 60,708,735 |
| Diluted | 60,843,572 | 61,542,122 |

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(DOLLARS IN THOUSANDS)

| For the three months ended March 31, | 1999 | 1998 |
|---|---|---|
| Net income | $ 9,470 | $ 22,346 |
| Other comprehensive income, net of tax: | | |
| Unrealized gains on securities available for sale | 4,813 | 5,159 |
| Less: Reclassification adjustment | (2,604) | -- |
| Net change in unrealized gains on securities available for sale | 2,209 | 5,159 |
| Unrealized foreign currency translation adjustment arising during the period | 175 | -- |
| Other comprehensive income | 2,384 | 5,159 |
| Comprehensive income | $ 11,854 | $ 27,505 |

| | |
|---|---|
| Disclosure of reclassification adjustment: | |
| Unrealized holding gains arising during the period on securities sold | $ 231 |
| Less: Adjustment for gains included in net income | (2,835) |
| Net reclassification adjustment for gains recognized in other comprehensive income in prior years | $ (2,604) |

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 1999
(DOLLARS IN THOUSANDS)

| | Common Stock | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income, net of taxes | Total |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balances at December 31, 1998 ........... | 60,800,357 | $ 608 | $ 166,234 | $ 257,170 | $ 12,364 | $ 436,376 |
| Net income .............................. | -- | -- | -- | 9,470 | -- | 9,470 |
| Change in unearned directors' compensation .......................... | -- | -- | 14 | -- | -- | 14 |
| Other comprehensive income, net of taxes: | | | | | | |
| Change in unrealized gain on securities available for sale ...... | -- | -- | -- | -- | 2,209 | 2,209 |
| Change in unrealized foreign currency translation loss .......... | -- | -- | -- | -- | 175 | 175 |
| Balances at March 31, 1999 ............. | 60,800,357 | $ 608 | $ 166,248 | $ 266,640 | $ 14,748 | $ 448,244 |

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 three months ended March 31, | 1999 | 1998 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 9,470 | $ 22,346 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Net cash provided from trading activities | 16,616 | 24,629 |
| Proceeds from sales of loans available for sale | 100,817 | 166,577 |
| Purchases of loans available for sale | (14,663) | (321,716) |
| Origination of loans available for sale | (286,238) | (182,522) |
| Principal payments received on loans available for sale | 5,925 | 19,868 |
| Premium amortization (discount accretion), net | 6,609 | 38,309 |
| Depreciation and amortization | 5,137 | 7,940 |
| Provision for loan losses | 3,739 | 2,254 |
| Provision for real estate owned | 5,061 | 4,234 |
| Gain on interest-earning assets, net | (20,142) | (28,737) |
| Gain on real estate owned, net | (9,202) | (8,763) |
| Loss on real estate held for investment | (50) | -- |
| Gain on sale of low-income housing tax credit interests | -- | (4,746) |
| Equity in losses of unconsolidated entities, net | 1,245 | -- |
| Decrease (increase) in principal, interest and dividends receivable | 4,927 | (5,792) |
| Decrease (increase) in income taxes receivable | 3,144 | (22,554) |
| Increase in deferred tax asset | (1,012) | (1,558) |
| Increase in escrow advances | (11,606) | (326) |
| Decrease (increase) in other assets | 26,206 | (23,322) |
| Decrease in accrued expenses, interest payable and other liabilities | (5,555) | (6,994) |
| Net cash used in operating activities | (159,572) | (320,873) |
| Cash flows from investing activities: | | |
| Proceeds from sales of securities available for sale | 633 | 3,658 |
| Purchases of securities available for sale | (105,401) | (242,565) |
| Maturities of and principal payments received on securities available for sale | 128,598 | 31,738 |
| Purchase of securities held for investment | -- | (45,415) |
| Purchase of low-income housing tax credit interests | (11,746) | (8,226) |
| Proceeds from sales of discount loans | 143,225 | 240,688 |
| Proceeds from sales of loans held for investment | 29,284 | -- |
| Purchase and originations of loans held for investment, net of undisbursed loan funds | (9,630) | (33,659) |
| Purchase of discount loans | (86,117) | (64,774) |
| Proceeds from sale of real estate held for investment | 4,358 | -- |
| Purchase of and capital improvements to real estate held for investment | (8,099) | (5,028) |
| Principal payments received on loans held for investment | 32,578 | 29,995 |
| Principal payments received on discount loans | 31,771 | 49,267 |
| Proceeds from sales of real estate owned | 64,135 | 50,660 |
| Purchase of real estate owned in connection with discount loan purchases | (8,160) | (2,915) |
| Acquisition of subsidiaries | -- | (8,064) |
| Additions to premises and equipment | (7,648) | (7,847) |
| Net cash provided (used) in investing activities | 197,781 | (12,487) |

(Continued on next page)

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(DOLLARS IN THOUSANDS)

| For the three months ended March 31, | 1999 | 1998 |
|---|---|---|
| Cash flows from financing activities: | | |
| Decrease in deposits | $(333,589) | $ (49,228) |
| Increase in securities sold under agreements to repurchase | 6,423 | 60,169 |
| Repayment of short-term notes | -- | (163) |
| Proceeds from issuance of obligations under lines of credit, net of repayments | 145,475 | 323,367 |
| Repurchase of subordinated debentures | (2,000) | -- |
| Exercise of common stock options | -- | 14,222 |
| Repurchase of common stock options | -- | (14,107) |
| Net cash (used) provided by financing activities | (183,691) | 334,260 |
| Net (decrease) increase in cash and cash equivalents | (145,482) | 900 |
| Cash and cash equivalents at beginning of period | 445,179 | 151,832 |
| Cash and cash equivalents at end of period | $ 299,697 | $ 152,732 |
| Reconciliation of cash and cash equivalents at end of period: | | |
| Cash and amounts due from depository institutions | $ 80,399 | $ 17,463 |
| Interest earning deposits | 18,798 | 31,269 |
| Federal funds sold and repurchase agreements | 200,500 | 104,000 |
| | $ 299,697 | $ 152,732 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 32,009 | $ 30,836 |
| Income taxes | $ 802 | $ 21,653 |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Real estate owned acquired through foreclosure | $ 57,093 | $ 43,704 |
| Exchange of discount loans and loans available for sale for securities | $ 224,210 | $ 388,949 |

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

## NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. The consolidated financial statements include the accounts of Ocwen Financial Corporation ("OCN" or the "Company") and its subsidiaries. OCN owns directly and indirectly all of the outstanding common and preferred stock of its primary subsidiaries, Ocwen Federal Bank FSB (the "Bank"), Investors Mortgage Insurance Holding Company ("IMI"), Ocwen UK plc ("Ocwen UK") and Ocwen Technology Xchange, Inc. ("OTX"). OCN also owns 97.8% of Ocwen Financial Services ("OFS"), with the remaining 2.2% owned by Admiral Home Loan ("Admiral") and reported in the consolidated financial statements as a minority interest. All significant intercompany transactions and balances have been eliminated in consolidation.

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

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 financial condition at March 31, 1999 and December 31, 1998, the results of its operations for the three months ended March 31, 1999 and 1998, its comprehensive income for the three months ended March 31, 1999 and 1998, its cash flows for the three months ended March 31, 1999 and 1998, and its changes in stockholders' equity for the three months ended March 31, 1999. The results of operations and other data for the three month period ended March 31, 1999 are not necessarily indicative of the results that may be expected for any other interim periods or the entire year ending December 31, 1999. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998. Certain reclassifications have been made to the prior period's consolidated financial statements to conform to the March 31, 1999 presentation.

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 statements of financial condition and revenues and expenses for the periods covered. Actual results could differ from those estimates and assumptions.

## NOTE 2 CURRENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative and hedging activities and supersedes and amends a number of existing standards. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition. The gain or loss recognition is determined on the intended use and resulting designation of the financial instruments as follows:

- Gains or losses on derivative instruments not designated as hedging instruments are recognized in the period of change in fair value.

- Gains or losses on derivative instruments designated as hedging the exposure to changes in the fair value of a recognized asset, liability or firm commitment are recognized in earnings in the period of the fair value change, together with the offsetting fair value loss or gain on the hedged item.

- Gains or losses on derivative instruments designated as hedging exposure to variable cash flows arising from a forecasted transaction are initially reported, to the extent the fair value change is offset by the change in the forecasted cash flows, as a component of other comprehensive income. The portion of the change in fair value in excess of the offsetting change in forecasted cash flows is reported in earnings in the period of the change.

- Gains or losses on derivative instruments designated as foreign currency hedges of net investments in foreign operations are reported in other comprehensive income as part of the foreign currency translation adjustment.

SFAS No. 133 precludes the use of nonderivative financial instruments as hedging instruments, except that nonderivative financial instruments denominated in a foreign currency may be designated as a hedge of the foreign currency exposure of an unrecognized firm commitment denominated in a foreign currency or a net investment in a foreign operation.

Under SFAS No. 133, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk.

SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Initial application of SFAS No. 133 should be as of the beginning of an entity's fiscal quarter; on that date, hedging relationships must be designated anew and documented pursuant to the provisions of SFAS No. 133. Earlier application of SFAS No. 133 is encouraged but is permitted only as of the beginning of any fiscal quarter that begins after issuance of SFAS No. 133. The Company has not yet adopted SFAS No. 133 nor has it determined what the impact on the results of operations, financial position or cash flows would be as a result of implementing SFAS No. 133.

## NOTE 3 CAPITAL SECURITIES

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

Holders of the Capital Securities are entitled to receive cumulative cash distributions accruing from the date of original issuance and payable semi-annually in arrears on February 1 and August 1 of each year, commencing on February 1, 1998, at an annual rate of 10 7/8% of the liquidation amount of $1,000 per Capital Security. Payment of distributions out of moneys held by OCT, and payments on liquidation of OCT or the redemption of Capital Securities, are guaranteed by the Company to the extent OCT has funds available. If the Company does not make principal or interest payments on the Junior Subordinated Debentures, OCT will not have sufficient funds to make distributions on the Capital Securities, in which event the guarantee shall not apply to such distributions until OCT has sufficient funds available.

The Company has the right to defer payment of interest on the Junior Subordinated Debentures at any time or from time to time for a period not exceeding 10 consecutive semi-annual periods with respect to each deferral period, provided that no extension period may extend beyond the stated maturity of the Junior Subordinated Debentures. Upon the termination of any such extension period and the payment of all amounts then due on any interest payment date, the Company may elect to begin a new extension period. Accordingly, there could be multiple extension periods of varying lengths throughout the term of the Junior Subordinated Debentures. If interest payments on the Junior Subordinated Debentures are deferred, distributions on the Capital Securities will also be deferred and the Company may, and may not permit any subsidiary of the Company to, (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, the Company's capital stock or (ii) make any payment of principal, interest or premium, if any, on or repay, repurchase or redeem any debt securities that rank PARI PASSU with or junior to the Junior Subordinated Debentures. During an extension period, interest on the Junior Subordinated Debentures will continue to accrue at the rate of 10 7/8% per annum, compounded semi-annually.

The Junior Subordinated Debentures are redeemable prior to maturity at the option of the Company, subject to the receipt of any necessary prior regulatory approval, (i) in whole or in part on or after August 1, 2007 at a redemption price equal to 105.438% of the principal amount thereof on August 1, 2007 declining ratably on each August 1 thereafter to 100% on or after August 1, 2017, plus accrued interest thereon, or (ii) at any time, in whole (but not in part), upon the occurrence and continuation of a special event (defined as a tax event, regulatory capital event or an investment company event) at a redemption price equal to the greater of (a) 100% of the principal amount thereof or (b) the sum of the present values of the principal amount and premium payable with respect to an optional redemption of such Junior Subordinated Debentures on August 1, 2007, together with scheduled payments of interest from the prepayment date to August 1, 2007, discounted to the prepayment date on a semi-annual basis at the adjusted Treasury rate plus accrued interest thereon to the date of prepayment. The Capital Securities are subject to mandatory redemption, in whole or in part, upon repayment of the Junior Subordinated Debentures at maturity or their earlier redemption, in an amount equal to the amount of the related Junior Subordinated Debentures maturing or being redeemed and at a redemption price equal to the redemption price of the Junior Subordinated Debentures, plus accumulated and unpaid distributions thereon to the date of redemption.

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

## NOTE 4 DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest and foreign currency exchange rates. While these hedging instruments are subject to fluctuations in value, such fluctuations are generally offset by the change in value of the underlying exposures being hedged.

### INTEREST RATE MANAGEMENT

In managing its interest rate risk, the Company on occasion enters into swaps. Under swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The terms of the swaps provide for the Company to receive a floating rate of interest equal to the London Interbank Offered Rate ("LIBOR") and to pay fixed interest rates. The notional amount of the outstanding swap is amortized (i.e., reduced) monthly based upon estimated prepayment rates. The Company had no interest rate swaps outstanding at March 31, 1999 and December 31, 1998.

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. Eurodollar futures contracts have been sold by the Company to hedge the maturity risk of certain short-duration mortgage-related securities. U.S. Treasury futures have been sold by the Company to hedge the risk of a reduction in the market value of fixed-rate mortgage loans and certain fixed-rate mortgage-backed and related securities available for sale in a rising interest rate environment. The Company had no interest rate futures contracts outstanding at March 31, 1999 and December 31, 1998.

(DOLLARS AND BRITISH POUNDS IN THOUSANDS, EXCEPT SHARE DATA)

FOREIGN CURRENCY MANAGEMENT

The Company enters into foreign currency derivatives to hedge its equity investments in Ocwen UK and Kensington. It is the Company's policy to periodically adjust the amount of foreign currency derivative contracts it has entered into in response to changes in its recorded equity investment in these foreign entities.

The Company has determined that the local currency of its foreign subsidiary, Ocwen UK and its equity investment in Kensington, is the functional currency. In accordance with SFAS No. 52, "Foreign Currency Translation", assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange existing at the statement of financial condition date and revenues and expenses are translated at average monthly rates.

The Company sells short foreign currency futures contracts ("currency futures") to hedge its foreign currency exposure related to its equity investment in Ocwen UK. Periodically, the Company adjusts the amount of currency futures contracts it has entered into in response to changes in its equity investment in Ocwen U.K. In addition, during 1998 the Company sold short foreign currency futures contracts to further hedge its foreign currency exposure related to its equity investment in Kensington. Under the terms of the currency futures, the Company had the right to receive $1,547 and pay (pound)938. These currency futures were closed during January 1999. The fair value of the currency futures is based on quoted market prices.

The Company entered into a foreign currency swap agreement ("currency swap") with a AAA-rated counterparty to hedge its equity investment in Kensington. Under the terms of the currency swap, the Company will swap (pound)27,500 for $43,546 in five years based on the exchange rate on the date the contract became effective. The discount on the currency swap, representing the difference between the contracted forward rate and the spot rate at the date of inception, is amortized over the life of the currency swap on a straight-line basis. The value of the currency swap is calculated as the notional amount of the currency swap multiplied by the difference between the spot rate at the date of inception and the spot rate at the financial statement date.

The resulting translation adjustments, the unamortized discount on the currency swap and the values of the hedging financial instruments are reported as translation adjustments and included as a component of accumulated other comprehensive income in stockholders' equity.

The following table sets forth the terms and values of these financial instruments at March 31, 1999, and December 31, 1998.

| | Maturity | Notional Amount Pay | Notional Amount Receive | Contract Rate | Unamortized Discount | Fair Value |
|---|---|---|---|---|---|---|
| MARCH 31, 1999: | | | | | | |
| Currency swap...................... | 1999 | (pound)27,500 | $ 43,546 | 1.5835 | $ 1,385 | $ (765) |
| British Pound currency futures.... | 1999 | (pound)43,375 | 69,617 | 1.6050 | n/a | 252 |
| | 1999 | 2,125 | 3,469 | 1.6324 | n/a | (46) |
| | | (pound)45,500 | $ 73,086 | | | $ 206 |
| DECEMBER 31, 1998: | | | | | | |
| Currency swap...................... | 2003 | (pound)27,500 | $ 43,546 | 1.5835 | $ 1,562 | $ (2,096) |
| British Pound currency futures.... | 1999 | (pound) 938 | 1,547 | 1.6500 | n/a | (6) |
| | 1999 | 26,563 | 43,828 | 1.6500 | n/a | (181) |
| | | (pound)27,501 | $ 45,375 | | | $ (187) |

Because interest rate futures and foreign currency futures contracts are exchange traded, holders of these instruments look to the exchange for performance under these contracts and not the entity holding the offsetting futures contract, thereby minimizing the risk of nonperformance under these contracts. The Company is exposed to credit loss in the event of nonperformance by the counterparty to the interest and currency swaps and controls this risk through credit monitoring procedures. The notional principal amount does not represent the Company's exposure to credit loss.

On January 1, 1999, eleven of the fifteen member countries of the European Union converted to a common currency (the "Euro"). Since such time transactions have been conducted using either the Euro or the countries' existing currencies. Although the United Kingdom is a member of the European Union, it is not one of the participating countries in the Euro conversion, and the Company currently does not have transactions or operations in any of the participating countries. As a result, the Euro conversion had no effect on the Company's financial condition or results of operations.

NOTE 5 REGULATORY REQUIREMENTS

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and the regulations promulgated thereunder established certain minimum levels of regulatory capital for savings institutions subject to Office of Thrift Supervision ("OTS") supervision. The Bank must follow specific capital guidelines stipulated by the OTS which involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items. An institution that fails to comply with its regulatory capital requirements must obtain OTS approval of a capital plan and can be subject to a capital directive and certain restrictions on its operations. At March 31, 1999, the minimum regulatory capital requirements were:

- Tangible and core capital of 1.50 percent and 3.00 percent of total adjusted assets, respectively, consisting principally of stockholders' equity, but excluding most intangible assets, such as goodwill and any net unrealized holding gains or losses on debt securities available for sale.

- Risk-based capital consisting of core capital plus certain subordinated debt and other capital instruments and, subject to certain limitations, general valuation allowances on loans receivable, equal to 8.00 percent of the value of risk-weighted assets.

At March 31, 1999, the Bank was "well-capitalized" under the prompt corrective action ("PCA") regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). To be categorized as "well-capitalized", the Bank must maintain minimum core capital, Tier 1 risk-based capital and total risk-based capital ratios as set forth in the table below. The Bank's capital amounts and classification are subject to review by federal regulators about components, risk-weightings and other factors. There are no conditions or events since March 31, 1999, that management believes have changed the institution's category.

(DOLLARS AND BRITISH POUNDS IN THOUSANDS, EXCEPT SHARE DATA)

The following tables summarize the Bank's actual and required regulatory capital at March 31, 1999:

| | Actual | | Minimum for Capital Adequacy Purposes | | To Be Well Capitalized for Prompt Corrective Action Provisions | | Commitment Capital Requirements |
|---|---|---|---|---|---|---|---|
| | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Stockholders' equity, and ratio to total assets.. | 10.86% | $ 251,189 | | | | | |
| Net unrealized gain on certain available for sale securities............................... | | (417) | | | | | |
| Excess mortgage servicing rights................ | | (354) | | | | | |
| Tangible capital, and ratio to adjusted total assets........................................ | 10.83% | $ 250,418 | 1.50% | $ 34,686 | | | |
| Tier 1 (core) capital, and ratio to adjusted total assets.................................. | 10.83% | $ 250,418 | 3.00% | $ 69,372 | 5.00% | $ 115,620 | 9.00% |
| Low-level recourse deduction.................... | | (11,661) | | | | | |
| Tier 1 capital, and ratio to risk-weighted assets........................................ | 12.83% | $ 238,757 | | | 6.00% | $ 111,666 | |
| Allowance for loan and lease losses............. | | 23,307 | | | | | |
| Subordinated debentures......................... | | 98,000 | | | | | |
| Tier 2 capital.................................. | | 121,307 | | | | | |
| Total risk-based capital, and ratio to risk-weighted assets.......................... | 19.35% | $ 360,064 | 8.00% | $ 148,888 | 10.00% | $ 186,110 | 13.00% |
| Total regulatory assets......................... | | $ 2,313,167 | | | | | |
| Adjusted total assets........................... | | $ 2,312,396 | | | | | |
| Risk-weighted assets............................ | | $ 1,861,101 | | | | | |

The OTS has promulgated a regulation governing capital distributions. The Bank is considered to be a Tier 1 association under this regulation because it met or exceeded its fully phased-in capital requirements at December 31, 1996. A Tier 1 association that before and after a proposed capital distributions 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.

The OTS recently published amendments to its capital distribution regulation which became effective April 1, 1999. Under the revised regulation, the Bank is required to file either an application or a notice with the OTS at least 30 days prior to making a capital distribution. The OTS may deny the Bank's application or disapprove its notice if the OTS determines that (a) the Bank will be "undercapitalized", "significantly undercapitalized" or "critically under capitalized", as defined in the OTS capital regulations, following the capital distribution, (b) the proposed capital distribution raises safety and soundness concerns or (c) the proposed capital distribution violates a prohibition contained in any statute, regulation, agreement between the Bank and the OTS or a condition imposed on the Bank in an application or notice approved by the OTS.

In addition to these OTS regulations governing capital distributions, the indenture governing the $98,000 of 12% subordinated debentures (the "Debentures") due 2005 and issued by the Bank on June 12, 1995 in the original amount of $100,000, limits the declaration or payment of dividends and the purchase or redemption of common or preferred stock in the aggregate to the sum of 50% of consolidated net income and 100% of all capital contributions and proceeds from the issuance or sale (other than to a subsidiary) of common stock, since the date the Debentures were issued.

Following an examination by the OTS in late 1996 and early 1997, the Bank committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9% and 13%, respectively. The Bank continues to be in compliance with this commitment as well as the regulatory capital requirements of general applicability (as indicated above). Based on discussions with the OTS, the Bank believes that this commitment does not affect its status as a "well-capitalized" institution, assuming the Bank's continued compliance with the regulatory capital requirements to be maintained by it pursuant to such commitment.

NOTE 6 COMMITMENTS AND CONTINGENCIES

At March 31, 1999, the Company had commitments to (i) purchase and originate $42,017 of subprime loans secured by single family residential properties, subject to the borrower meeting certain conditions, (ii) fund $14,261 of loans secured by multi-family residential buildings, and (iii) fund $2,304 of loans secured by office buildings. In addition, the Company through the Bank had commitments under outstanding letters of credit in the amount of $35,382 at March 31, 1999. The Company, through its investment in subordinate securities and subprime residuals, which had a carrying value of $221,181 at March 31, 1999, supports senior classes of securities.

NOTE 7 BUSINESS SEGMENT REPORTING

Operating segments are defined as components of an enterprise that (a) engage in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available. An operating segment may engage in business activities for which it has yet to earn revenues. The Company conducts a variety of business activities within the following segments:

(DOLLARS AND BRITISH POUNDS IN THOUSANDS, EXCEPT SHARE DATA)

| At or for the three months ended March 31, 1999 | Net Interest Income | Non-Interest Income | Non-Interest Expense | Net (Loss) Income | Total Assets |
|---|---|---|---|---|---|
| Discount loans: | | | | | |
| Single family residential loans ......... | $ 6,882 | $ 9,571 | $ 4,046 | $ 4,098 | $ 473,860 |
| Commercial real estate loans ............ | 7,082 | 7,635 | 6,097 | 2,964 | 734,301 |
| | 13,964 | 17,206 | 10,143 | 7,062 | 1,208,161 |
| Mortgage loan servicing: | | | | | |
| Domestic ................................ | 1,193 | 13,761 | 9,482 | 3,352 | 71,914 |
| Foreign (UK) ............................ | 80 | 4,926 | 2,535 | 1,705 | 5,133 |
| | 1,273 | 18,687 | 12,017 | 5,057 | 77,047 |
| Investment in low-income housing tax credits | (2,360) | 624 | 3,269 | 1,392 | 214,794 |
| Commercial real estate lending ............ | 1,574 | 724 | 405 | 2,087 | 63,188 |
| OTX ....................................... | 6 | 392 | 3,403 | (1,891) | 23,481 |
| Subprime single family residential lending: | | | | | |
| Domestic ................................ | 4,330 | 1,616 | 6,779 | (614) | 216,005 |
| Foreign (UK) ............................ | 7,082 | 668 | 7,343 | (1,682) | 385,591 |
| | 11,412 | 2,284 | 14,122 | (2,296) | 601,596 |
| Investment securities ..................... | 5,279 | (101) | 1,608 | 1,973 | 353,614 |
| Other ..................................... | 1,832 | 2,023 | 4,083 | (1,647) | 420,056 |
| | 32,980 | 41,839 | 49,050 | 11,737 | 2,961,937 |
| Unallocated ............................... | (6,244) | 3,736 | 3,073 | (2,267) | 168,757 |
| | $ 26,736 | $ 45,575 | $ 52,123 | $ 9,470 | $ 3,130,694 |

(DOLLARS AND BRITISH POUNDS IN THOUSANDS, EXCEPT SHARE DATA)

| At or for the three months ended March 31, 1998 | Net Interest Income | Non-Interest Income | Non-Interest Expense | Net (Loss) Income | Total Assets |
|---|---|---|---|---|---|
| Discount loans: | | | | | |
| Single family residential loans ......... | $ 6,855 | $ 20,296 | $ 3,740 | $ 13,631 | $ 682,965 |
| Commercial real estate loans ............ | 10,918 | 4,904 | 4,311 | 4,743 | 841,906 |
| | 17,773 | 25,200 | 8,051 | 18,374 | 1,524,871 |
| Mortgage loan servicing: | | | | | |
| Domestic ................................ | 1,068 | 9,219 | 7,865 | 1,484 | 15,515 |
| Foreign (UK) ............................ | -- | -- | -- | -- | -- |
| | 1,068 | 9,219 | 7,865 | 1,484 | 15,515 |
| Investment in low-income housing tax credits | (2,491) | 4,746 | 1,646 | 5,376 | 178,259 |
| Commercial real estate lending ............. | 1,092 | (27) | 736 | (250) | 227,966 |
| OTX ........................................ | -- | 205 | 1,307 | (705) | 18,399 |
| Subprime single family residential lending: | | | | | |
| Domestic ................................ | 3,632 | 7,486 | 9,770 | 511 | 272,341 |
| Foreign (UK) ............................ | -- | -- | -- | -- | 45,417 |
| | 3,632 | 7,486 | 9,770 | 511 | 317,758 |
| Investment securities ...................... | 699 | (6,062) | 1,522 | (5,139) | 782,843 |
| Other ...................................... | 2,127 | 937 | 2,642 | (224) | 238,697 |
| | 23,900 | 41,704 | 33,539 | 19,427 | 3,304,308 |
| Unallocated ................................ | (2,732) | (323) | 472 | 2,919 | 116,834 |
| | $ 21,168 | $ 41,381 | $ 34,011 | $ 22,346 | $ 3,421,142 |

Other consists primarily of individually insignificant business activities, including the Company's historical loan portfolio of conventional single family residential loans, small commercial loan originations, unsecured collections, the operations of OCC and equity in earnings of investment in OAC. Unallocated amounts represent amounts not allocated to the operating segments and are primarily comprised of consolidated tax effects not attributed to individual units.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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### GENERAL

The Company's primary business activities currently consist of its single family residential, multi-family residential and commercial discount loan acquisition and resolution activities, commercial real estate lending, subprime single family residential lending, mortgage loans serviced for others, the development of loan servicing technology and software for the mortgage and real estate industries, investments in a wide variety of mortgage-related securities and investments in low-income housing tax credit interests.

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 Federal Deposit Insurance Corporation ("FDIC") as a result of its membership in the Savings Association Insurance Fund ("SAIF") administered by the FDIC, which insures the Bank's deposits up to the maximum extent permitted by law. The Bank is also subject to certain regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve Board") and currently is a member of the Federal Home Loan Bank ("FHLB") of New York, one of the 12 regional banks which comprise the FHLB System.

The consistency of the operating results of the Company can be significantly affected by inter-period variations in: (i) the amount of assets acquired, particularly discount loans; (ii) the amount of resolutions of discount loans, particularly large multi-family residential and commercial real estate loans; (iii) the amount of multi-family residential and commercial real estate loans which mature or are prepaid, particularly loans with terms pursuant to which the Company participates in the profits of the underlying real estate; (iv) sales by the Company of loans and securities; and (v) the volume and frequency of the Company's securitization of loans. Additionally, the results for the first quarter of 1998 do not include the operations of Ocwen UK, which was acquired in April 1998.

The Company continuously evaluates opportunities to expand its business in order to enhance shareholder value. To that end, the Company has, like many other companies in the financial services industry, from time to time considered and explored a variety of potential material transactions and participated in discussions regarding such transactions with third parties, and the Company will likely continue to do so in the future. The Company cannot predict whether or when any such transaction may be consummated or the form that such a transaction may take.

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

### RECENT DEVELOPMENTS

On April 16, 1999, the Company announced that it has proposed to the Board of Directors of Ocwen Asset Investment Corporation (NYSE: OAC) a possible business combination between the two companies. Under the Company's proposal, a newly-formed subsidiary of OCN would merge into OAC in a taxable transaction, and each outstanding share of common stock of OAC (other than those owned by OCN or its subsidiaries) would be converted into 0.57 shares of common stock of OCN. The proposal requires the payment of OAC's final 1998 dividend, which was deferred by OAC's Board of Directors and is expected to be approximately $15.5 million, or $0.82 per share, prior to consummation of the proposed merger. OCN's proposal is subject to, among other things, the satisfactory negotiation of final terms of an acquisition agreement. Consummation of OCN's proposal would be subject to approval by the OAC shareholders. There can be no assurance that the parties will agree to final terms or that any business combination will be concluded.

On April 16, 1999, the Company announced that its Board of Directors has authorized the repurchase of up to six million of its issued and outstanding shares of common stock. No repurchases of such shares have been closed since the announcement to date.

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| SELECTED CONSOLIDATED FINANCIAL INFORMATION | March 31, 1999 | December 31, 1998 | Change |
|---|---|---|---|
| BALANCE SHEET DATA | (Dollars in thousands) | | |
| Total assets | $ 3,130,694 | $ 3,308,079 | (5)% |
| Securities available for sale, at fair value | 566,739 | 593,347 | (4) |
| Loans available for sale, at lower of cost or market | 374,094 | 177,847 | 110 |
| Loan portfolio, net | 177,511 | 230,312 | (23) |
| Discount loan portfolio, net | 893,180 | 1,026,511 | (13) |
| Investment in low-income housing tax credit interests | 155,273 | 144,164 | 8 |
| Investment in unconsolidated entities | 84,279 | 86,893 | (3) |
| Real estate owned, net | 208,831 | 201,551 | 4 |
| Total liabilities | 2,556,865 | 2,746,111 | (7) |
| Deposits | 1,841,427 | 2,175,016 | (15) |
| Obligations outstanding under lines of credit | 324,760 | 179,285 | 81 |
| Notes and debentures | 223,000 | 225,000 | (1) |
| Capital securities | 125,000 | 125,000 | -- |
| Stockholders' equity | 448,244 | 436,376 | 3 |

| | At or For the Three Months Ended March 31, | | |
|---|---|---|---|
| | 1999 | 1998 | Change |
| OPERATIONS DATA | (Dollars in thousands) | | |
| Net interest income | $ 26,736 | $ 21,168 | 26% |
| Provision for loan losses | 3,739 | 2,253 | 66 |
| Non-interest income | 45,575 | 41,381 | 10 |
| Non-interest expense | 52,123 | 34,011 | 53 |
| Equity in losses earnings of investment in unconsolidated entities | (1,245) | -- | -- |
| Income tax expense | 2,368 | 573 | 313 |
| Net income | 9,470 | 22,346 | (58) |
| PER COMMON SHARE | | | |
| Earnings per share: | | | |
| Basic | $ 0.16 | $ 0.37 | (57) |
| Diluted | 0.16 | 0.36 | (56) |
| Stock price: | | | |
| High | $ 11.6250 | $ 30.7500 | (62) |
| Low | 7.7500 | 22.2500 | (65) |
| Close | 8.8125 | 27.7500 | (68) |
| KEY RATIOS | | | |
| Annualized return on average assets | 1.19% | 2.77% | (57) |
| Annualized return on average equity | 8.62 | 20.75 | (59) |
| Efficiency ratio(1) | 74.34 | 54.37 | 37 |
| Core (leverage) capital ratio | 10.83 | 10.24 | 6 |
| Risk-based capital ratio | 19.35 | 17.99 | 8 |

(1) The efficiency ratio represents non-interest expense divided by the sum of net interest income before provision for loan losses, non-interest income and equity in losses of investment in unconsolidated entities.

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### RESULTS OF OPERATIONS: THREE MONTHS ENDED MARCH 31, 1999 VERSUS THREE MONTHS ENDED MARCH 31, 1998

SEGMENT PROFITABILITY. The following table presents the contribution by business segment to the Company's net income for the periods indicated.

| | Three Months Ended March 31, 1999 | 1998 | Increase (Decrease) |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Discount loans: | | | |
| Single family residential loans ......... | $ 4,098 | $ 13,631 | $ (9,533) |
| Commercial real estate loans ............ | 2,964 | 4,743 | (1,779) |
| | 7,062 | 18,374 | (11,312) |
| Mortgage loan servicing: | | | |
| Domestic ................................ | 3,352 | 1,484 | 1,868 |
| Foreign (UK) ............................ | 1,705 | -- | 1,705 |
| | 5,057 | 1,484 | 3,573 |
| Investment in low-income housing tax credits | 1,392 | 5,376 | (3,984) |
| Commercial real estate lending ............ | 2,087 | (250) | 2,337 |
| OTX ....................................... | (1,891) | (705) | (1,186) |
| Subprime single family residential lending: | | | |
| Domestic ................................ | (614) | 511 | (1,125) |
| Foreign (UK) ............................ | (1,682) | -- | (1,682) |
| | (2,296) | 511 | (2,807) |
| Investment securities ..................... | 1,973 | (5,139) | 7,112 |
| Other ..................................... | (1,647) | (224) | (1,423) |
| | 11,737 | 19,427 | (7,690) |
| Unallocated ............................... | (2,267) | 2,919 | (5,186) |
| Net income ............................. | $ 9,470 | $ 22,346 | $(12,876) |

- SINGLE FAMILY RESIDENTIAL DISCOUNT LOANS. In the first quarter of 1999, OCN completed one securitization of single family residential loans with an aggregate unpaid principal balance of $137.3 million and recorded a total gain of $13.9 million. Of this amount, $12.0 million was a cash gain, and $1.9 million was non-cash. In the 1998 first quarter, the Company completed one securitization of single family residential loans with an aggregate unpaid principal balance of $227.5 million, which accounted for a total gain of $16.7 million, of which $0.8 million was a cash gain and $15.9 million was a non-cash gain. The higher cash component of the gain in the 1999 securitization reflected lower subordination levels, compared to the 1998 transaction, which in turn reflected the better credit profile of the mortgages collateralizing the transaction. All of these mortgages were reperforming at the time of the securitization, whereas the 1998 transaction consisted entirely of loans acquired from HUD, the majority of which remained in forbearance at the time of securitization.

- INVESTMENT IN LOW-INCOME HOUSING TAX CREDITS. The $4.0 million decrease in net income for the first quarter of 1999 reflected a $4.7 million gain on the sale of tax credit interests in the first quarter of 1998. There were no such sales in the first quarter of 1999. Net operating losses from tax credit properties in service amounted to $1.9 million and $1.2 million during the first quarter of 1999 and 1998, respectively.

- SUBPRIME SINGLE-FAMILY RESIDENTIAL LENDING. In the fourth quarter of 1998, the Company closed its domestic retail branch network, wrote down the related assets and goodwill, and centralized its remaining operations in West Palm Beach. In 1999, the Company closed its domestic wholesale branch network, resulting in a 1999 first quarter pre-tax charge of $1.6 million.

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The domestic segment lost $614,000 in the first quarter of 1999, compared to net income of $511,000 in the first quarter of 1998.

In the first quarter of 1999, the Company securitized loans (domestic) aggregating $86.9 million and recorded a total gain on sale of $2.7 million and a non-cash gain of $4.4 million. This resulted in a net loss for the domestic subprime segment, excluding non-cash securitization gains, of $4.3 million in the first quarter of 1999, compared to a net loss of $9.1 million in the first quarter of 1998, after applying the effective tax rate for each period to the securitization gains.

OCN lost $1.7 million in the first quarter of 1999 in its foreign (UK) subprime single family residential lending business as a result of a $900,000 loss related to the Company's investment in Kensington Mortgage Company and a loss of $800,000 related to Ocwen UK.

o MORTGAGE LOAN SERVICING. The $3.6 million increase in net income from mortgage loan servicing reflects an 88% increase in servicing fees as compared to the first quarter of 1998, due to a 71% increase in the average unpaid principal balance of loans serviced for others ($10.44 billion in the first quarter of 1999 compared to $6.12 billion in the first quarter of 1998).

o OTX. Recently, OTX introduced its RealTrans(SM) software, an update to its e-commerce solution for ordering mortgage and real estate products and services via the Internet, which links banks, brokers, appraisers, agents, title insurers, attorneys and other ancillary service providers to facilitate the closing of mortgage and real estate transactions.

  The losses recorded by OTX reflect the continued investment in the development of this business.

o INVESTMENT SECURITIES. The $5.1 million loss on investment securities during the first quarter of 1998 was primarily due to an $8.5 million impairment loss on the Company's portfolio of AAA-rated agency interest-only securities ("IOs"). The Company discontinued this investment activity and sold the IOs during the second quarter of 1998.

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 table sets 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 rate spread and net interest margin. Information is based on daily balances during the indicated periods.

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Three months ended March 31,

| | 1999 Average Balance | 1999 Interest | 1999 Annualized Yield/Rate | 1998 Average Balance | 1998 Interest | 1998 Annualized Yield/Rate |
|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | | |
| AVERAGE ASSETS: | | | | | | |
| Federal funds sold and repurchase agreements... | $ 285,701 | $ 3,396 | 4.75% | $ 76,885 | $ 1,032 | 5.37% |
| Securities available for sale (1)............. | 491,701 | 17,189 | 13.98 | 529,180 | 7,945 | 6.01 |
| Loans available for sale (2).................. | 274,817 | 8,130 | 11.83 | 339,394 | 9,503 | 11.20 |
| Loan portfolio (2)............................ | 217,364 | 6,165 | 11.35 | 281,215 | 6,262 | 8.91 |
| Discount loan portfolio....................... | 970,437 | 30,003 | 12.37 | 1,379,114 | 36,797 | 10.67 |
| Investment securities and other............... | 35,957 | 651 | 7.24 | 25,623 | 485 | 7.57 |
| Total interest-earning assets, interest income. | 2,275,977 | 65,534 | 11.52 | 2,631,411 | 62,024 | 9.43 |
| Non-interest earning cash..................... | 114,821 | | | 19,755 | | |
| Allowance for loan losses..................... | (24,903) | | | (25,910) | | |
| Investments in low-income housing tax credit interests....................... | 147,201 | | | 131,699 | | |
| Investment in unconsolidated entities.......... | 86,286 | | | 22,067 | | |
| Real estate owned, net........................ | 213,783 | | | 171,952 | | |
| Investment in real estate..................... | 40,268 | | | 77,565 | | |
| Other assets.................................. | 322,094 | | | 196,487 | | |
| Total assets.............................. | $ 3,175,527 | | | $ 3,225,026 | | |
| AVERAGE LIABILITIES AND STOCKHOLDERS' EQUITY: | | | | | | |
| Interest-bearing demand deposits.............. | $ 64,209 | 640 | 3.99% | $ 32,912 | 356 | 4.33% |
| Savings deposits.............................. | 1,566 | 9 | 2.30 | 1,735 | 10 | 2.31 |
| Certificates of deposit....................... | 1,733,722 | 26,179 | 6.04 | 1,790,973 | 27,479 | 6.14 |
| Total interest-bearing deposits............ | 1,799,497 | 26,828 | 5.96 | 1,825,620 | 27,845 | 6.10 |
| Securities sold under agreements to repurchase. | 77,271 | 1,491 | 7.72 | 114,633 | 1,639 | 5.72 |
| Federal Home Loan Bank advances............... | -- | -- | -- | 7,481 | 100 | 5.35 |
| Obligations outstanding under lines of credit.. | 242,458 | 3,724 | 6.14 | 284,210 | 4,520 | 6.36 |
| Notes, debentures and other................... | 225,000 | 6,755 | 12.01 | 226,880 | 6,752 | 11.90 |
| Total interest-bearing liabilities, interest expense ......................... | 2,344,226 | 38,798 | 6.62 | 2,458,824 | 40,856 | 6.65 |
| Non-interest bearing deposits................. | 31,960 | | | 23,532 | | |
| Escrow deposits............................... | 195,125 | | | 111,094 | | |
| Other liabilities............................. | 39,541 | | | 75,895 | | |
| Total liabilities.......................... | 2,604,008 | | | 2,669,345 | | |
| Capital securities............................ | 125,000 | | | 125,000 | | |
| Stockholders' equity.......................... | 439,675 | | | 430,681 | | |
| Total liabilities and stockholders' equity.. | $ 3,175,527 | | | $ 3,225,026 | | |
| Net interest income before provision for loan losses................................ | | $ 26,736 | | | $ 21,168 | |
| Net interest rate spread...................... | | | 4.90% | | | 2.78% |
| Net interest margin........................... | | | 4.70% | | | 3.22% |
| Ratio of interest-earning assets to interest-bearing liabilities............... | 97% | | | 107% | | |

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

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

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

| For the three months ended March 31, | 1999 vs. 1998 | | |
|---|---|---|---|
| | Increase (decrease) due to | | |
| | Rate | Volume | Total |
| Interest-earning assets: | (Dollars in thousands) | | |
| Federal funds sold and repurchase agreements............ | $ (131) | $ 2,495 | $ 2,364 |
| Securities available for sale........................... | 9,845 | (601) | 9,244 |
| Loans available for sale................................ | 514 | (1,887) | (1,373) |
| Loan portfolio.......................................... | 1,502 | (1,599) | (97) |
| Discount loan portfolio................................. | 5,236 | (12,030) | (6,794) |
| Investment securities and other......................... | (22) | 188 | 166 |
| Total interest-earning assets......................... | 16,944 | (13,434) | 3,510 |
| Interest-bearing liabilities: | | | |
| Interest-bearing demand deposits........................ | (30) | 314 | 284 |
| Savings deposits........................................ | -- | (1) | (1) |
| Certificate of deposit.................................. | (431) | (869) | (1,300) |
| Total interest-bearing deposits....................... | (461) | (556) | (1,017) |
| Securities sold under agreements to repurchase.......... | 476 | (624) | (148) |
| Federal Home Loan Bank advances......................... | (50) | (50) | (100) |
| Obligations outstanding under lines of credit........... | (796) | -- | (796) |
| Notes, debentures and other interest-bearing obligations. | 59 | (56) | 3 |
| Total interest-bearing liabilities.................... | (772) | (1,286) | (2,058) |
| Increase in net interest income............................ | $ 17,716 | $ (12,148) | $ 5,568 |

The Company's net interest income before provision for loan losses of $26.7 million increased $5.6 million or 21% during the three months ended March 31, 1999 as compared to the same period in the prior year. The increase in net interest income reflects a $3.5 million increase in interest income and a $2.1 million decrease in interest expense due to an increase in the net interest spread and a decrease in average interest-bearing liabilities offset by a decreae in average interest-earning assets. The net interest spread increased 212 basis points during the three months ended March 31, 1999 as a result of a 209 basis point increase in the weighted average rate on interest-earning assets and a 3 basis point decrease in the weighted average rate on interest-bearing liabilities. The net impact of these rate changes resulted in a $17.7 million increase in net interest income. Average interest-earning assets decreased by $355.4 million or 14% during the three months ended March 31, 1999 and reduced interest income by $13.4 million, while average interest-bearing liabilities decreased $114.6 million or 5% and reduced interest expense by $1.3 million. The net impact of these volume changes resulted in a decrease of $12.1 million to net interest income. The decrease in average interest-earning assets was primarily due to a $408.7 million decrease in the average balance of discount loans, a $64.6 million decrease in the average balance of loans available for sale and a $63.9 million decrease in loan portfolio, offset by a $208.8 million increase in the average balance of federal funds sold and repurchase agreements. The decrease in average interest-bearing liabilities was primarily due to a $41.8 million decrease in the average balance of obligations outstanding under lines of credit, $37.4 million decrease in the average balance of securities sold under agreements to repurchase and a $26.1 million decrease in the average balance of deposits.

Interest income on the discount loan portfolio decreased by $6.8 million or 18% in the three months ended March 31, 1999, primarily as a result of a $408.7 million or 30% decrease in the average balance of the discount loan portfolio which was offset by a 170 basis point increase in the weighted average yield earned. The yield on the discount loan portfolio is likely to fluctuate from period to period as a result of the timing of resolutions, particularly the resolution of large multi-family residential and commercial real estate loans, and the mix of the overall portfolio between performing and nonperforming loans.

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Interest income on loans available for sale decreased $1.4 million or 14% during the first quarter of 1999 as compared to the same period in 1998 primarily as a result of a $64.6 million decrease in the average balance offset by a 63 basis point increase in the weighted average yield earned. The decline in the average balance reflects the closure of domestic branch networks, as well as the acquisition of $292.8 million of loans from the U.S. operations of Cityscape Financial Corp. during the first quarter of 1998.

Interest income on securities available for sale increased by $9.2 million or 116% during the first quarter of 1999 as compared to the same period in 1998 primarily as a result of a 797 basis point increase in the weighted average yield earned which was offset by a $37.5 million or 7% decline in the average balance of securities available for sale. For the first quarter of 1999, securities available for sale were comprised of AAA-rated collateralized mortgage obligations, which had an average balance of $291.2 million and an average yield of 5.91%, and subordinate and residual securities retained in connection with securitization activities, which had an average balance of $200.5 million and an average yield of 25.71%. In the first quarter of 1998, OCN's securities available for sale included AAA-rated agency interest-only securities ("IOs"), which had an average balance of $197.1 million during that period. The average yield on the IOs was adversely affected by declining interest rates and the resulting increase in prepayment speeds. During the second quarter of 1998, OCN discontinued this investment activity and sold its entire portfolio of IOs.

The 244 basis point increase in the average yield on the loan portfolio during the first quarter of 1999 was primarily due to $780,000 of additional interest received in connection with the repayment of multi-family construction loans.

Interest expense on deposits decreased $1.0 million primarily due to a $57.3 million or 3% decrease in the average balance of certificates of deposits.

Interest expense on obligations outstanding under lines of credit decreased $796,000 primarily due to a $41.8 million decline in the average balance. Lines of credit are used primarily to fund the acquisition and origination of subprime single family loans at OFS and Ocwen UK. The decline in the average balance of the lines of credit during the first quarter of 1999 is consistent with the decline in the average balance of loans available for sale during the same period. For additional information regarding lines of credit, see "Changes in Financial Condition - Obligations Outstanding Under Lines of Credit" and "Liquidity, Commitments and Off-Balance Sheet Risks."

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 discount loan portfolio at a level which management considers adequate based upon an evaluation of known and inherent risks in such loan portfolios. Management's periodic evaluation is based upon portfolio composition, asset classifications, historical loss experience, current economic conditions and trends, collateral values and other relevant factors.

The following table sets forth the components of the Company's provision for loan losses for the periods indicated.

| For the three months ended March 31, | 1999 | 1998 | Increase (Decrease) |
|---|---|---|---|
| | | (Dollars in thousands) | |
| Discount loans | $ 4,689 | $ 1,923 | $ 2,766 |
| Loan portfolio | (950) | 330 | (1,280) |
| Total | $ 3,739 | $ 2,253 | $ 1,486 |

During the three months ended March 31, 1999, the Company strengthened its allowance for loan losses. At March 31, 1999, OCN had allowances for losses of $23.9 million and $4.0 million on its discount loan and loan portfolios, respectively, which amounted to 2.6% and 2.2% of the respective balances. OCN maintained reserves of 2.0% and 2.1% on its discount loan and loan portfolios, respectively, at December 31, 1998. The negative provision for loan portfolio losses in the first quarter of 1999 reflected a decline in the gross loan portfolio (primarily in commercial real estate mezzanine financing) of approximately $53.8 million during that period. Overall, the Company's aggregate allowance for losses on real estate owned and the loan portfolios remained essentially unchanged at March 31, 1999 as compared to December 31, 1998.

Although management utilizes its best judgment in providing for possible loan losses, there can be no assurance that the Company will not change its provisions for possible loan losses in subsequent periods to a higher level from that recorded to date in 1999. Changing economic and business conditions, fluctuations in local markets for real estate, future changes in non-performing asset trends, large upward movements in market interest rates or other reasons could affect the Company's future provisions for loan losses. For further discussion and analysis regarding the provisions for loan losses, see "Changes in Financial Condition Allowances for Losses."

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

| For the three months ended March 31, | 1999 | 1998 | Increase (Decrease) |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Servicing fees and other charges | $ 18,251 | $ 9,724 | $ 8,527 |
| Gains on interest-earning assets, net | 20,142 | 24,754 | (4,612) |
| Gain on real estate owned, net | 629 | 1,026 | (397) |
| Other income | 6,553 | 5,877 | 676 |
| Total | $ 45,575 | $ 41,381 | $ 4,194 |

The increase in servicing fees and other charges of $8.5 million, or 88%, reflects an increase in loan servicing and related fees as a result of an increase in the average balance of loans serviced for others. The unpaid principal balance of loans serviced for others averaged $10.44 billion and $6.12 billion during the three months ended March 31, 1999 and 1998, respectively. The increase in the average balance of loans serviced for others was primarily related to subprime loans and resulted from servicing retained in connection with the securitizations of loans and the acquisition of UK's servicing business by Ocwen UK in April 1998.

The Company expects to complete construction of its national servicing center in Orlando, Florida in the third quarter of 1999 as scheduled.

The following table sets forth the Company's loans serviced for others at March 31, 1999.

| | Discount Loans | | Subprime Loans (1) | | Other Loans | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Amount | No. of Loans | Amount | No. of Loans | Amount | No. of Loans | Amount | No. of Loans |
| | | | (Dollars in thousands) | | | | | |
| Loans securitized | $ 1,116,435 | 17,923 | $ 1,753,726 | 30,447 | $ -- | -- | $ 2,870,161 | 48,370 |
| Loans serviced for third parties | 1,488,797 | 19,734 | 4,840,481 | 77,483 | 933,499 | 790 | 7,262,777 | 98,007 |
| | $ 2,605,232 | 37,657 | $ 6,594,207 | 107,930 | $ 933,499 | 790 | $10,132,938 | 146,377 |

(1) Includes 35,704 loans with an unpaid principal balance of $771.9 million ((pound)479.1 million) which were serviced by Ocwen UK.

Gain on interest-earning assets for the first quarter of 1999 of $20.1 million was primarily comprised of $16.6 million of securitization gains, as presented in the table below, and $4.4 million of gains on the sale of commercial subordinate securities available for sale. Gain on interest-earning assets, net, for the first quarter of 1998 of $24.8 million was primarily comprised of $24.6 million of securitization gains, as presented in the table below, a $2.0 million gain recognized on the sale of small commercial discount loans and a $2.3 million gain recognized on the sale of certain REMIC residual securities, offset by an $8.5 million impairment loss on the portfolio of IOs which reflected a decline in fair value deemed other than temporary.

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

The following table sets forth the Company's net gains recognized in connection with the securitization of loans during the periods indicated:

| Loans Securitized | | | | | |
|---|---|---|---|---|---|
| Type of Loans | Principal | No. of Loans | Net Gain | Book Value Of Securities Retained (Non-cash Gain) | Cash Gain (Loss) |
| | | (Dollars in thousands) | | | |
| For the three months ended March 31, 1999: | | | | | |
| Single family discount (1)............... | $ 137,266 | 1,694 | $ 13,899 | $ 1,907 | $ 11,992 |
| Single family subprime................... | 86,944 | 811 | 2,717 | 4,432 | (1,715) |
| | $ 224,210 | 2,505 | $ 16,616 | $ 6,339 | $ 10,277 |
| For the three months ended March 31, 1998: | | | | | |
| Single family discount................... | $ 227,549 | 3,777 | $ 16,698 | $ 15,917 | $ 781 |
| Single family subprime................... | 161,400 | 1,439 | 7,932 | 9,862 | (1,930) |
| | $ 388,949 | 5,216 | $ 24,630 | $ 25,779 | $ (1,149) |

(1) Includes 384 loans with an unpaid principal balance of $24.9 million securitized from the loan portfolio.

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

| For the three months ended March 31, | 1999 | 1998 |
|---|---|---|
| | (Dollars in thousands) | |
| Gains on sales................................. | $ 9,202 | $ 8,763 |
| Provision for loss in fair value............... | (5,061) | (4,234) |
| Rental income (carrying costs), net............ | (3,512) | (3,503) |
| Gain on real estate owned, net................ | $ 629 | $ 1,026 |

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

NON-INTEREST EXPENSE. Non-interest expense increased $18.1 million in the first quarter of 1999 as compared to the first quarter of 1998, of which $11.0 million and $2.1 million related to Ocwen UK and OTX, respectively. The following table sets forth the principal components of the Company's non-interest expense during the periods indicated.

| For the three months ended March 31, | 1999 | 1998 | Increase (Decrease) |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Compensation and employee benefits | $ 27,211 | $ 21,482 | $ 5,729 |
| Occupancy and equipment | 10,637 | 6,457 | 4,180 |
| Loan expenses | 4,128 | 2,298 | 1,830 |
| Net operating loss on investments in real estate and certain low-income housing tax credit interests | 1,848 | 1,246 | 602 |
| Amortization of goodwill | 230 | 371 | (141) |
| Other operating expenses | 8,069 | 2,157 | 5,912 |
| Total | $ 52,123 | $ 34,011 | $ 18,112 |

The increase in compensation and employee benefits during the three months ended March 31, 1999 reflects an increase in the average number of employees from 1,147 during the three months ended March 31, 1998 to 1,620 during the three months ended March 31, 1999. Compensation and employee benefit expense for the first quarter of 1999 includes $5.1 million related to Ocwen UK with an average number of 395 employees.

The $4.2 million increase in occupancy and equipment expenses during the three months ended March 31, 1999 was primarily due to an increase in technology costs, rent expense and furniture and fixtures. Occupancy and equipment expense for the first quarter of 1999 included $2.1 million related to Ocwen UK.

The $1.8 million increase in loan expenses in the first quarter of 1999 is primarily related to $1.3 million incurred by Ocwen UK, of which $1.0 million represented broker fees.

The $5.9 million increase in other operating expenses during the first quarter of 1999 was due primarily to a $1.2 million increase in advertising and a $1.3 million increase in professional fees, primarily consulting.

EQUITY IN LOSSES OF INVESTMENTS IN UNCONSOLIDATED ENTITIES. During the first quarter of 1999, the Company recorded equity in the losses of its investments in OAC and Ocwen Partnership L.P. ("OPLP"), OAC's operating partnership subsidiary, of $64,000 and $154,000, respectively. The Company owned, through IMI, 1,540,000 or 8.12% of the outstanding common stock of OAC at March 31, 1999. The Company also owned, through IMI, 1,808,733 or 8.71% of the total partnership units of OPLP outstanding at March 31, 1999. The Company began accounting for its investments in OAC and OPLP on the equity method effective May 5, 1998 upon the acquisition of 1,473,733 OPLP units, which increased its combined ownership in OAC and OPLP to 16.83%.

During the first quarter of 1999, the Company recorded equity in the losses of its investment in Kensington of $1.1 million, including $609,000 of goodwill amortization. At March 31, 1999, the Company owned 36.07% of the total outstanding common stock of Kensington, a leading originator of non-conforming residential mortgages in the UK.

See "Changes in Financial Condition - Investment in Unconsolidated Entities".

INCOME TAX EXPENSE. Income tax expense amounted to $2.4 million and $573,000 during the first quarter of 1999 and 1998, respectively. OCN's income tax provision for the first quarter of 1999 reflected an expected tax rate of 19.8% for 1999. OCN's expected income tax rate is less than its statutory income tax rate primarily due to tax credits of $4.5 million and $4.7 million for the first quarter of 1999 and 1998, respectively, resulting from its investment in certain low-income housing tax credit interests. Additionally, 1998 tax expense was reduced as a result of the utilization of $8.6 million of net operating tax loss carryforwards. See "Changes in Financial Condition-Investments in Low Income Housing Tax Credit Interests".

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## CHANGES IN FINANCIAL CONDITION

SECURITIES AVAILABLE FOR SALE. At March 31, 1999, securities available for sale amounted to $566.7 million or 18% of the Company's total assets as compared to $593.3 million or 18% of total assets at December 31, 1998. Securities available for sale are carried at fair value with unrealized gains or losses reported as a separate component of stockholders' equity net of deferred taxes. Unrealized losses on securities that reflect a decline in value which is other than temporary are charged to earnings. Securities available for sale at March 31, 1999 included an aggregate of $25.2 million of net unrealized gains ($29.2 million of gross gains and $4.0 million of gross losses) as compared to $21.7 million of unrealized gains ($22.0 million of gross gains and $335,000 of gross losses) at December 31, 1998.

The following table sets forth the carrying value (which represents fair value) of the Company's securities available for sale at the dates indicated.

| | March 31, 1999 | December 31, 1998 | Increase (Decrease) Dollars | Percent |
|---|---|---|---|---|
| | | (Dollars in thousands) | | |
| Mortgage-related securities: | | | | |
| Single-family residential: | | | | |
| CMOs (AAA-rated) .................. | $ 322,944 | $ 344,199 | $ (21,255) | (6)% |
| Subordinates: | | | | |
| BB-rated .......................... | 8,255 | 8,517 | (262) | (3) |
| B-rated ........................... | 6,912 | 6,344 | 568 | 9 |
| Unrated ........................... | 38,878 | 40,595 | (1,717) | (4) |
| Subprime residuals: | | | | |
| AAA-rated ......................... | 5,646 | 6,931 | (1,285) | (19) |
| BBB-rated ......................... | 17,080 | 17,593 | (513) | (3) |
| Unrated ........................... | 162,433 | 152,951 | 9,482 | 6 |
| | 562,148 | 577,130 | (14,982) | (3) |
| Multi-family residential and commercial: | | | | |
| Interest-only: | | | | |
| AAA-rated ......................... | 257 | 154 | 103 | 11 |
| BB-rated .......................... | 5 | 2 | 3 | 150 |
| B-rated ........................... | -- | -- | -- | -- |
| Unrated ........................... | -- | -- | -- | -- |
| Subordinates: | | | | |
| B-rated ........................... | 4,219 | 8,813 | (4,594) | (52) |
| Unrated ........................... | 110 | 7,248 | (7,138) | (98) |
| | 4,591 | 16,217 | (11,626) | (72) |
| Total ............................. | $ 566,739 | $ 593,347 | $ (26,608) | (4) |

The Company's securities available for sale decreased by $26.6 million or 4% during the first quarter of 1999, due primarily to $128.6 million of maturities and principal repayments and $7.3 million of net premium amortization which was offset by $99.1 million of purchases and $6.3 million of subordinates and residual securities acquired in connection with the Company's securitizations of loans.

At March 31, 1999, the fair value of the Company's investment in subordinate and residual interests amounted to $243.5 million ($218.9 million of amortized cost) or 43% of total securities available for sale and supported senior classes of securities having an outstanding principal balance of $3.89 billion. Because of their subordinate position, subordinated and residual classes of mortgage-related securities provide protection to and involve more risk than the senior classes. Specifically, when cash flow is impaired, debt service goes first to the holders of senior classes. In addition, incoming cash flows may be held in a reserve fund to meet any future repayments until the holders of senior classes have been paid and, when appropriate, until a specified level of funds has been contributed to the reserve fund. Further, residual interests 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. Lastly, subordinate and residual interests involve substantially more credit risk than the senior classes of the mortgage-related securities to which such interests relate and generally are not as liquid as the senior classes.

The Company generally retains subordinate and residual securities, which are certificated, related to its securitization of loans. Subordinate and residual interests in mortgage-related securities provide credit support to the

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

The Company determines the present value of anticipated cash flows at the time each securitization transaction closes, utilizing valuation assumptions appropriate for each particular transaction. The significant valuation assumptions include the anticipated prepayment speeds and the anticipated credit losses related to the underlying mortgages. In order to determine the present value of this estimated excess cash flow, the Company currently applies a discount rate of 18% to the projected cash flows on the unrated classes of securities. The annual prepayment rate of the securitized loans is a function of full and partial prepayments and defaults. The Company makes assumptions as to the prepayment rates of the underlying loans, which the Company believes are reasonable, in estimating fair values of the subordinate securities and residual securities retained. During 1998 and the first quarter of 1999, the Company utilized proprietary prepayment curves generated by the Company (reaching an approximate range of annualized rates of 30%-40%). In its estimates of annual loss rates, the Company utilizes assumptions that it believes are reasonable. The Company estimates annual losses of between 0.22% and 2.06% of the underlying loans.

Subordinate and residual interests are affected by the rate and timing of payments of principal (including prepayments, repurchase, defaults and liquidations) on the mortgage loans underlying a series of mortgage-related securities. The rate of principal payments may vary significantly over time depending on a variety of factors, such as the level of prevailing mortgage loan interest rates and economic, demographic, tax, legal and other factors. Prepayments on the mortgage loans underlying a series of mortgage-related securities are generally allocated to the more senior classes of mortgage-related securities. Although in the absence of defaults or interest shortfalls all subordinates receive interest, amounts otherwise allocable to residuals generally are used to make payments on more senior classes or to fund a reserve account for the protection of senior classes until overcollateralization or the balance in the reserve account reaches a specified level. In periods of declining interest rates, rates of prepayments on mortgage loans generally increase, and if the rate of prepayments is faster than anticipated, then the yield on subordinates will be positively affected and the yield on residuals will be negatively affected.

The credit risk of mortgage related securities is affected by the nature of the underlying mortgage loans. In this regard, the risk of loss on securities backed by commercial and multi-family loans and single-family residential loans made 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 under guidelines established by the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal National Mortgage Association ("FNMA") for purchases of loans by such agencies, generally involve more risk than securities backed by single-family residential loans which conform to the requirements established by FHLMC and FNMA for their purchase by such agencies.

The Company adjusts its securities portfolio to market value at the end of each month based upon the lower of dealer quotations or internal values, subject to an internal review process. For those securities which do not have an available market quotation, the Company will request market values and underlying assumptions from the various securities dealers that underwrote, are currently financing the securities, or have had prior experience with the type of security to be valued. When quotations are obtained from two or more dealers, the average dealer quote will be utilized.

The Company periodically assesses the carrying value of its subordinate securities and residual securities retained as well as the servicing assets for impairment. There can be no assurance that the Company's estimates used to determine the gain on securitized loan sales, subordinate securities and residual securities retained and servicing asset valuations will remain appropriate for the life of each securitization. If actual loan prepayments or defaults exceed the Company's estimates, the carrying value of the Company's subordinate securities and residual securities retained and/or servicing assets may be decreased or the Company may increase its allowance for possible credit losses on loans sold

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through a charge against earnings during the period management recognized the disparity. Other factors may also result in a write down of the Company's subordinate securities and residual securities retained in subsequent periods.

It is intended that any securities retained by the Bank resulting from the securititization of assets held by it directly will be distributed to the Company as a dividend, subject to the Bank's ability to declare such dividends under applicable limitations. During the first quarter of 1999, a subordinate security with a fair value of $3.5 million was distributed by the Bank to the Company in the form of a dividend. At March 31, 1999, the Bank held two subordinate securities with an aggregate fair value of $11.8 million ($11.7 million of amortized cost).

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The following tables detail the Company's securities available for sale portfolio at March 31, 1999, and its estimates of expected yields on such securities, taking into consideration expected prepayment and loss rates together with other factors.

| Securitization (Issuer) | Security | Issue Date | Rating | Rating Agencies | Class Size Issuance | Class Size 3/31/99 | Interest Percentage | Subordination/OC Level At: 3/31/99 | Yield to Maturity At: Purchase | Yield to Maturity At: 3/31/99 |
|---|---|---|---|---|---|---|---|---|---|---|
| SINGLE-FAMILY RESIDENTIAL | | | | | (Dollars In thousands) | | | | | |
| Subordinates: | | | | | | | | | | |
| BCF 1996 R1(5).......... | B3 | Oct-96 | NR | (a),(b) | $ 70,773 | $ 50,553 | 50.00% | None% | 15.70% | 14.50 |
| BCF 1997 R1(5).......... | B4 | Mar-97 | NR | (b),(c) | 21,784 | 13,521 | 49.71 | None | 13.46 | (3.77) |
| BCF 97 R2 (5)........... | B4 | Jun-97 | Ba2, BB | (b),(c) | 6,358 | 6,048 | 73.54 | 7.57 | 9.58 | 12.01 |
| | B5 | | B2,B | | 6,264 | 5,958 | 73.54 | 4.31 | 10.74 | 15.16 |
| | B6 | | NR | | 13,883 | 7,900 | 73.54 | None | 15.98 | 3.99 |
| BCF 1997 R3 (5)......... | B4 | Dec-97 | NR | (b),(d) | 69,582 | 57,940 | 50.24 | None | 15.84 | 5.25 |
| ORMBS 1998 R1 (6)....... | B4 | Mar-98 | NR | (b),(d) | 101,774 | 94,449 | 50.34 | None | 20.50 | 9.50 |
| ORMBS 1998 R2 (6)....... | B4A | Jun-98 | Ba2 | (b) | 1,056 | 1,043 | 100.00 | 6.96 | 13.22 | 14.10 |
| | B4F | | Ba2 | | 937 | 917 | 100.00 | 7.68 | 19.23 | 12.01 |
| | B5A | | B2 | | 880 | 869 | 100.00 | 5.56 | 23.78 | 21.89 |
| | B5F | | B2 | | 937 | 917 | 100.00 | 5.79 | 11.78 | 18.18 |
| | B6A | | NR | | 3,696 | 3,480 | 100.00 | None | 16.72 | 40.83 |
| | B6F | | NR | | 3,345 | 3,088 | 100.00 | None | 19.50 | 18.50 |
| ORMBS 1998 R3 (6)....... | B4 | Sep-98 | Ba2, BB | (b),(d) | 11,765 | 11,651 | 85.87 | 13.62 | 11.71 | 11.65 |
| | B5 | | B2, B | | 9,151 | 9,062 | 85.87 | 10.03 | 16.54 | 11.51 |
| | B6 | | NR | | 26,145 | 25,294 | 85.87 | None | 18.00 | 11.39 |
| ORMBS 1999 RI (6)...... | B5A | Mar-99 | B2, B | (b),(d) | 1,630 | 1,630 | 100.00 | 5.89 | 17.73 | 17.73 |
| | B5F | | B2, B | | 1,843 | 1,843 | 100.00 | 5.00 | 17.74 | 17.74 |
| | B6A | | NR | | 3,586 | 3,586 | 100.00 | None | 18.00 | 18.00 |
| | B6F | | NR | | 4,299 | 4,299 | 100.00 | None | 18.00 | 18.00 |
| Subprime residuals: | | | | | | | | | | |
| SBMS 1996 3 (1)......... | R | Jun-96 | NR | (a),(b) | 130,062 | 44,059 | 100.00 | 11.00 | 15.52 | 2.16 |
| MLM1 1996 1 (2)......... | R | Sep-96 | NR | (a),(b) | 81,142 | 29,150 | 100.00 | 15.07 | 15.16 | 5.19 |
| MS 1997 1 (3)........... | X1 | Jun-97 | NR | (a),(b) | 17,727 | 12,976 | 100.00 | 3.07 | 21.47 | 13.57 |
| | X2 | | | | 87,118 | 47,439 | 100.00 | 5.51 | 20.38 | 10.90 |
| 1997 OFS 2 (4).......... | X | Sep-97 | NR | (a),(b) | 102,201 | 63,035 | 100.00 | 5.06 | 19.65 | 10.26 |
| 1997 OFS 3 (4).......... | X | Dec-97 | NR | (a),(b) | 208,784 | 147,806 | 100.00 | 4.24 | 19.59 | 15.52 |
| 1998 OFS 1 (4).......... | X | Mar-98 | NR | (b),(d) | 161,400 | 126,187 | 100.00 | 2.43 | 18.00 | 15.77 |
| 1998 OFS 2 (4).......... | X | Jun-98 | NR | (a),(b) | 382,715 | 275,274 | 100.00 | 3.93 | 19.46 | 5.54 |
| 1998 OFS 3 (4).......... | X | Sep-98 | NR | (a),(d) | 261,649 | 243,681 | 100.00 | 2.25 | 18.00 | 19.06 |
| 1998 OFS 4 (4).......... | X | Dec-98 | NR | (a),(b) (c) | 349,000 | 344,537 | 100.00 | 1.15 | 18.00 | 25.39 |
| OML 1 (7)............... | R | Jun-98 | NR | (a),(d) | 368,742 | 282,013 | 100.00 | RF $9,184 | 20.72 | 48.04 |
| OML 2 (7)............... | DAC-IO | Nov-98 | Aaa,AAA | (b),(c) | 114,819 | 112,146 | 100.00 | RF $18,208 | 28.50 | 22.42 |
| | B | | Baa2, BBB | | 17,593 | 17,080 | 100.00 | | 12.50 | 11.89 |
| | R | | NR | | 195,832 | 172,286 | 100.00 | | 36.50 | 19.83 |
| | S | | NR | | 6,639 | 6,313 | 100.00 | | 25.30 | 27.06 |
| MULTI-FAMILY AND COMMERCIAL | | | | | | | | | | |
| Subordinates: | | | | | | | | | | |
| BCF 1997 C1 (5)......... | F | Dec-97 | B | (c) | 3,210 | 3,210 | 100.00 | N/A | 10.35 | 11.88 |
| | G | | NR | | 12,197 | 12,202 | 100.00 | | 15.00 | 20.80 |
| FNMA 1995 M2 (9) ....... | M | Jun-95 | NR | (c) | 100,275 | 10,901 | 100.00 | None | N/A | N/A |
| BFB & T 1994 (10) ...... | C | Nov-94 | B | (d) | 4,040 | 4,040 | 100.00 | N/A | N/A | N/A |
| Interest-only: | | | | | | | | | | |
| BCF 1997 C1 (5)......... | XI | Dec-97 | NR | (c) | 67,350 | 31,631 | 100.00 | N/A | 6.93 | 52.05 |
| | X2 | | NR | | 35,359 | 24,486 | 100.00 | | 8.53 | 35.95 |
| | E-IO | | BB | | 10,271 | 10,271 | 100.00 | | 7.00 | 35.53 |
| CSFS 1996-1R (ITT 94-P1) (8) ........ | 4B2 | Oct-96 | NR | (b),(c) | 1,046 | 225 | 100.00 | None | N/A | N/A |

ISSUERS:
(1) Salomon Brothers Mortgage Securities VII
(2) Merrill Lynch Mortgage Investors, Inc.
(3) Morgan Stanley ABS Capital I, Inc.
(4) Ocwen Mortgage Loan Asset Backed Certificates
(5) BlackRock Capital Finance L.P.
(6) Ocwen Residential MBS Corporation
(7) Ocwen Mortgage Loans
(8) Credit Suisse First Boston (ITT Federal Bank, FSB)
(9) Federal National Mortgage Association
(10) Berkley Federal Bank & Trust

RATING AGENCIES:
(a) S&P
(b) Moody's
(c) Fitch
(d) DCR

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N/A - Not Available

RF - Reserve funds are actual cash reserves

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

| Securitization (Issuer) | Security | Weighted Average Coupon At 3/31/99 | Weighted Average LTV/DSCR At 3/31/99 | Total Delinquency At 3/31/99 | Actual Life to Date CPR At 3/31/99 | Actual Life to Date Losses 3/31/99 | Product Type At 3/31/99 | Collateral Balance Issuance | Collateral Balance 3/31/99 |
|---|---|---|---|---|---|---|---|---|---|
| SINGLE-FAMILY RESIDENTIAL | | | | | (Dollars in thousands) | | | | |
| Subordinates: | | | | | | | | | |
| BCF 1996 R1 (5)......... | B3 | 10.06% | 101.54% | 13.89% | 12.91% | $ 17,326 | 98% Fixed, 2% ARM | 505,613 | 338,215 |
| BCF 1997 R1 (5)......... | B4 | 10.08 | 114.27 | 24.80 | 12.15 | 7,689 | 97% Fixed, 3% ARM | 177,823 | 132,434 |
| BCF 97 R2 (5)........... | B4<br>B5<br>B6 | 8.28 | 85.46 | 26.02 | 11.83 | 4,489 | 26% Fixed, 74%ARM | 251,790 | 183,386 |
| BCF 1997 R3 (5)......... | B4 | 9.65 | 110.88 | 22.72 | 8.99 | 9,932 | 98% Fixed, 2% ARM | 579,851 | 497,841 |
| ORMBS 1998 R1 (6)....... | B4 | 8.97 | 90.78 | 20.77 | 5.82 | 5,613 | 98% Fixed, 2% ARM | 565,411 | 533,567 |
| ORMBS 1998 R2 (6)....... | B4A<br>B4F<br>B5A<br>B5F<br>B6A<br>B6F | 9.23 | 92.72 | 26.27 | 10.03 | 504 | 44% Fixed, 56%ARM | 123,917 | 110,677 |
| ORMBS 1998 R3 (6)....... | B4<br>B5<br>B6 | 8.97 | 119.54 | 27.32 | 4.58 | 414 | 98% Fixed, 2% ARM | 261,452 | 257,693 |
| ORMBS 1999 R1 (6)....... | B5A<br>B5F<br>B6A<br>B6F | 9.03 | 86.41 | -- | -- | -- | 56% Fixed 44% ARM | 147,101 | 147,101 |
| Subprime residuals: | | | | | | | | | |
| SBMS 1996 3 (1)......... | R | 11.16 | 69.98 | 19.73 | 32.13 | 2,497 | 55% Fixed, 45%ARM | 130,062 | 44,059 |
| MLM1 1996 1 (2)......... | R | 11.38 | 73.16 | 26.18 | 33.20 | 1,287 | 32% Fixed, 68%ARM | 81,142 | 29,150 |
| MS 1997 1 (3)........... | X1 | 10.58 | 74.29 | 15.70 | 26.58 | 680 | 22% Fixed, 78%ARM | 17,727 | 12,976 |
| | X2 | 10.49 | 73.97 | | | | | 87,118 | 47,439 |
| 1997 OFS 2 (4).......... | X | 10.27 | 74.37 | 15.26 | 27.10 | 372 | 17% Fixed, 83%ARM | 102,201 | 63,035 |
| 1997 OFS 3 (4).......... | X | 10.16 | 77.72 | 16.67 | 23.68 | 277 | 17% Fixed, 83%ARM | 208,784 | 147,806 |
| 1998 OFS 1 (4).......... | X | 10.36 | 77.26 | 16.21 | 21.45 | 434 | 14% Fixed, 86%ARM | 161,400 | 126,187 |
| 1998 OFS 2 (4).......... | X | 10.79 | 73.65 | 12.09 | 35.13 | 251 | 38% Fixed, 62%ARM | 382,715 | 275,274 |
| 1998 OFS 3 (4).......... | X | 10.40 | 75.60 | 14.04 | 12.76 | 78 | 27% Fixed, 73%ARM | 261,649 | 243,681 |
| 1998 OFS 4 (4).......... | X | 10.50 | 75.77 | 9.38 | 4.53 | -- | 40% Fixed, 60%ARM | 349,000 | 344,537 |
| OML 1 (7)............... | R | 13.68 | N/A | 24.49 | 23.63 | 78 | 100% UK Subprime | 368,742 | 282,013 |
| OML 2 (7)............... | DAC-IO<br>B<br>R<br>S | 12.49 | N/A | 37.16 | 24.04 | 429 | 100% UK Subprime | 195,832 | 172,286 |
| MULTI-FAMILY AND COMMERCIAL | | | | | | | | | |
| Subordinates: | | | | | | | | | |
| BCF 1997 C1 (5)......... | F<br><br><br>G | 10.34 | 2.01 | 13.31 | N/A | -- | 19% Multi-family, 18% Hotel, 15% Industrial | 128,387 | 82,164 |
| FNMA 1995 M2 (9)........ | M | 9.50 | 1.34 | -- | 9.99 | -- | 100% Multi-family | 216,797 | 142,789 |
| BFB&T 1994 1 (10)....... | C | N/A | N/A | N/A | N/A | N/A | 100% Multi-family | 42,441 | 42,441 |
| Interest-only: | | | | | | | | | |
| BCF 1997 C1 (5)......... | XI<br>X2<br>E-IO | 10.34 | 2.01 | 13.31 | N/A | -- | 19% Multi-family, 18% Hotel, 15% Industrial | 128,387 | 82,164 |
| CSFB 1996 1R (ITT 94-P1) (8) ...... | 4B2 | 7.13 | N/A | 2.16 | N/A | 155 | 100% 1-Year CMT | 393,785 | 34,908 |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table sets forth the principal amount of mortgage loans by the geographic location of the property securing the mortgages that underly the Company's securities available for sale portfolio at March 31, 1999.

| Description | California | Texas | Florida | New York | Maryland | Other (1) | Total |
|---|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | | | |
| Single family residential...... | $650,389 | $256,539 | $229,745 | $164,429 | $160,548 | $1,575,371 | $3,037,021 |
| Multi-family and commercial... | 96,643 | 2,704 | 29,802 | 53,519 | 9,741 | 158,526 | 350,935 |
| Total......................... | $747,032 | $259,243 | $259,547 | $217,948 | $170,289 | $1,733,897 | $3,387,956 |
| Percentage (2)................ | 22.0% | 7.7% | 7.7% | 6.4% | 5.0% | 51.2% | 100.0% |

(1) No other individual state makes up more than 5% of the total.

(2) Based on a percentage of the total unpaid principal balance of the underlying loans.

The following table summarizes information relating to the Company's mortgage-related securities available for sale at March 31, 1999.

| RATING/DESCRIPTION | AMORTIZED COST | FAIR VALUE | PERCENT OWNED | ORIGINAL ANTICIPATED YIELD TO MATURITY | ANTICIPATED UNLEVERAGED YIELD TO MATURITY AT 3/31/99(1) | COUPON | ANTICIPATED WEIGHTED AVERAGE REMAINING LIFE (2) |
|---|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | | |
| SINGLE-FAMILY RESIDENTIAL: | | | | | | | |
| BB-rated subordinates...... | $ 8,613 | $ 8,255 | 84.32% | 14.33% | 11.65% | 6.75% | 11.47 |
| B-rated subordinates....... | 6,934 | 6,912 | 86.13 | 16.37 | 13.86 | 6.85 | 6.76 |
| Unrated subordinates....... | 36,724 | 38,878 | 55.28 | 14.26 | 10.70 | 8.06 | 1.58 |
| AAA-rated subprime residuals.................. | 5,736 | 5,646 | 100.00 | 28.50 | 22.32 | 2.50 | 1.58 |
| BBB-rated subprime residuals.................. | 15,000 | 17,080 | 100.00 | 2.50 | 11.89 | 8.29 | 3.34 |
| Unrated subprime residuals. | 141,847 | 162,433 | 100.00 | 21.57 | 19.52 | -- | 5.19 |
| MULTI-FAMILY AND COMMERCIAL: | | | | | | | |
| AAA-rated interest-only.... | 63 | 257 | 100.00 | -- | 28.65 | 0.32 | 1.89 |
| BB-rated interest only..... | -- | 5 | 26.00 | 26.00 | 35.53 | 2.30 | 2.15 |
| B-rated subordinates....... | 3,730 | 4,219 | 51.20 | 11.05 | 11.88 | 10.65 | 6.98 |
| Unrated subordinates....... | 254 | 110 | 51.20 | 21.62 | 20.80 | 9.81 | 7.60 |

(1) Changes in the March 31, 1999 anticipated yield to maturity from that originally anticipated are primarily the result of changes in prepayment assumptions and, to a lesser extent, loss assumptions.

(2) Equals the weighted average duration based on March 31, 1999 book value.

The following table sets forth the property types of the Company's commercial mortgage-backed securities at March 31, 1999, based upon the principal amount.

| Property type | Percentage Invested |
|---|---|
| Multi-family.................... | 70.50% |
| Lodging......................... | 6.70 |
| Warehouse....................... | 5.57 |
| Mixed use....................... | 4.96 |
| Office.......................... | 4.58 |
| Retail.......................... | 3.35 |
| Self-storage.................... | 1.00 |
| Other........................... | 3.34 |
| Total........................... | 100.00% |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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The following is a glossary of terms included in the above tables.

ACTUAL LIFE TO DATE CPR - The Constant Prepayment Rate is used to measure the average prepayment rate for the underlying mortgage pool(s) over the period of time lapsed since the issuance of the securities through the date indicated and is calculated as follows:

$$\text{Actual Life-to-Date CPR} = 100 \times \left[ \left( 1 - \frac{\text{Final Aggregate Balance ACTUAL}}{\text{Final Aggregate Balance SCHEDULED}} \right) \times \left( \frac{12}{\text{Months in Period}} \right) \right]$$

FINAL AGGREGATE BALANCE - Represents the sum of (actual or scheduled) loan balances at the end of the period.

ACTUAL LIFE-TO-DATE LOSSES - Represents cumulative losses of the original collateral at the indicated date.

CLASS SIZE - Represents the percentage size of a particular class relative to the total outstanding balance of all classes. Class Size for subprime residuals is equal to the Collateral Balance at the respective date.

COLLATERAL BALANCE - Represents, in the case of residuals, the unpaid principal balance of the collateral of the entire securities at the indicated date and, in the case of subordinates, the outstanding principal balance of the security at the indicated date.

ISSUE DATE - Represents the date on which the indicated securities were issued.

OVER-COLLATERIZATION LEVEL - For residual interests in residential mortgage-backed securities, over-collaterization ("OC") is the amount by which the collateral balance exceeds the sum of the bond principal amounts. OC is achieved by applying monthly a portion of the interest payments of the underlying mortgages toward the reduction of the class certificate principal amounts, causing them to amortize more rapidly than the aggregate loan balance. The OC percentage, expressed as a percentage of the outstanding collateral balance, represents the first tier of loss protection afforded to the non-residual holders. The OC percentage also determines whether the over-collaterization target has been satisfied as of a specific date, such that cash flows to the residual holder are warranted. To the extent not consumed by losses on more highly rated bonds, OC is remitted to the residual holders.

RATING - Refers to the credit rating designated by the rating agency for each securitization transaction. Classes designated "A" have a superior claim on payment to those rated "B", which are superior to those rated "C." Additionally, multiple letters have a superior claim to designations with fewer letters. Thus, for example, "BBB" is superior to "BB," which in turn is superior to "B." The lower class designations in any securitization will receive interest payments subsequent to senior classes and will experience losses prior to any senior class. The lowest potential class designation is not rated ("NR") which, if included in a securitization, will always receive interest last and experience losses first. IO securities receive the excess interest remaining after the interest payments have been made on all senior classes of bonds based on their respective principal balances. There is no principal associated with IO securities and they are considered liquidated when the particular class they are contractually tied to is paid down to zero. Principal only ("PO") securities receive excess principal payments after the principal has been made on all classes of bonds based on their respective payment schedules. There is no interest associated with PO securities and they are sold at a discount. The return on PO securities is earned through the receipt of the payments and the collection of the discounted amount.

SECURITIZATION - Series description.

SECURITY - Represents the name of the class associated with each securitization held by the Company. This has no relationship to a formal rating but is for identification purposes (although the names are usually in alphabetical or numeric order from the highest rated to the lowest rated).

SUBORDINATION LEVEL - Represents the credit support for each mortgage-backed security by indicating the percentage of outstanding bonds whose right to receive payment is subordinate to the referenced security. The subordinate classes must experience a complete loss before any additional losses would affect the particular referenced security.

TOTAL DELINQUENCY - Represents the total unpaid principal balance of loans more than 30 days delinquent at the indicated date as a percentage of the unpaid principal balance of the collateral at such date.

WEIGHTED AVERAGE COUPON - Represents the interest rate of the underlying mortgage loans weighted by the unpaid principal balance of the underlying mortgage loans at the respective date.

WEIGHTED AVERAGE DSCR - Represents debt service coverage ratio, which is calculated by dividing cash flow available for debt service by debt service and applies to the multi-family and commercial securities.

WEIGHTED AVERAGE LTV - Represents the ratio of the loan amount to the value of the underlying collateral and applies to the single-family residential securities.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

YIELD TO MATURITY -Yield to maturity represents a measure of the average rate of return that is earned on a security if held to maturity.

LOANS AVAILABLE FOR SALE. The Company's loans available for sale at March 31, 1999, which are carried at the lower of cost or fair value, increased by $196.2 million or 110% from December 31, 1998, and consist primarily of single family residential loans to subprime borrowers. The Company generally intends to sell or securitize its single family residential loans to subprime borrowers and, as a result, all of such loans were classified as available for sale at March 31, 1999 and December 31, 1998. The Company's single family residential lending activities to subprime borrowers is conducted by OFS and Ocwen UK.

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

| | March 31, 1999 | December 31, 1998 |
|---|---|---|
| | (Dollars in thousands) | |
| Single family residential loans........ | $ 373,863 | $ 177,578 |
| Consumer loans......................... | 231 | 269 |
| | $ 374,094 | $ 177,847 |

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

| For the three months ended March 31, | 1999 | 1998 |
|---|---|---|
| | (Dollars in thousands) | |
| Balance at beginning of period....................................... | $ 177,847 | $ 177,041 |
| Purchases: (1) (2) | | |
| Single family residential......................................... | 14,663 | 321,720 |
| Originations: (1) | | |
| Single family residential......................................... | 298,803 | 182,522 |
| Sales (3).......................................................... | (101,465) | (166,159) |
| Increase (decrease) in lower of cost or market reserve................ | (645) | (327) |
| Principal repayments, net of capitalized interest..................... | (10,290) | (21,003) |
| Transfer to real estate owned......................................... | (4,819) | (688) |
| Net increase (decrease) in loans.................................. | 196,247 | 316,065 |
| Balance at end of period............................................. | $ 374,094 | $ 493,106 |

(1) During the three months ended March 31, 1999 and 1998, the Company purchased and originated $300.9 million and $479.8 million, respectively, of single family residential loans to subprime borrowers.

(2) Purchases of single family residential loans during the three months ended March 31, 1998 include $292.8 million purchased from the U.S. operations of Cityscape Financial Corp.

(3) Included in sales for the three months ended March 31,1999, is the securitization of 811 domestic subprime single family loans with an aggregate unpaid principal balance of $86.9 million. Included in sales for the three months ended March 31, 1998 is the securitization of 1,439 domestic subprime single family loans with an aggregate unpaid principal balance of $161.4 million.

The loans available for sale portfolio is secured by mortgages on properties geographically located throughout the United States and the United Kingdom. The following table sets forth the five states or countries in which the largest amount of properties securing the Company's loans available for sale were located at March 31, 1999:

| | Consumer | Single-family Residential | Total |
|---|---|---|---|
| | | (Dollars in thousands) | |
| UK.................... | $ -- | $ 235,795 | $ 235,795 |
| California............ | -- | 30,271 | 30,271 |
| Florida............... | 111 | 20,764 | 20,875 |
| Illinois.............. | -- | 10,622 | 10,622 |
| New Jersey............ | -- | 10,575 | 10,575 |
| Other(1).............. | 120 | 65,836 | 65,956 |
| Total................. | $ 231 | $ 373,863 | $ 374,094 |

(1) Consists of properties located in 40 other states, none of which aggregated over $10.5 million in any one state.

The following table presents a summary of the Company's non-performing loans (loans which were past due 90 days or more) in the loans available for sale portfolio at the dates indicated:

| | March 31, 1999 | December 31, 1998 |
|---|---|---|
| | (Dollars in thousands) | |
| Non-performing loans: | | |
| Single-family (1)................... | 34,515 | 39,415 |
| Consumer............................ | 6 | 9 |
| | $ 34,521 | $ 39,424 |
| Non-performing loans as a percentage of: | | |
| Total loans available for sale...... | 9.23% | 22.17% |
| Total assets........................ | 1.10% | 1.19% |

(1) Includes $10.7 million ((pound)6.6 million) and $7.2 million ((pound)5.4 million) of non-performing loans related to Ocwen UK at March 31, 1999 and December 31, 1998, respectively.

Non-performing loans consist primarily of subprime single-family residential loans reflecting the higher risks of default associated with such loans. Although subprime loans generally have higher levels of default than prime loans, the Company believes that the borrower's equity in the security property and the Company's expertise in the area of resolution mitigates the higher default risk.

DISCOUNT LOAN PORTFOLIO. At March 31, 1999, the Company's net discount loan portfolio amounted to $893.2 million or 29% of the Company's total assets. The following table sets forth the composition of the Company's discount loan portfolio by type of loan at the dates indicated.

| | March 31, 1999 | December 31, 1998 |
|---|---|---|
| | (Dollars in thousands) | |
| Single family residential loans...................... | $ 434,442 | $ 597,100 |
| Multi-family residential loans....................... | 240,974 | 244,172 |
| Commercial real estate loans (1)..................... | 430,940 | 449,010 |
| Other loans.......................................... | 16,873 | 10,144 |
| Total discount loans............................. | 1,123,229 | 1,300,426 |
| Unaccreted discount (2).............................. | (206,181) | (252,513) |
| | 917,048 | 1,047,913 |
| Allowance for loan losses............................ | (23,868) | (21,402) |
| Discount loans, net (3)........................... | $ 893,180 | $ 1,026,511 |

(1) The balance at March 31, 1999 consisted of $126.2 million of loans secured by office buildings, $100.2 million of loans secured by hotels, $26.5 million of loans secured by retail properties or shopping centers and $178.0 million of loans secured by other properties. The balance at December 31, 1998, consisted of $154.1 million of loans secured by office buildings, $100.4 million of loans secured by hotels, $21.2 million of loans secured by retail properties or shopping centers and $173.3 million of loans secured by other properties.

(2) The balance at March 31, 1999 consisted of $118.4 million on single family residential loans, $19.3 million on multi-family residential loans, $67.2 million on commercial real estate loans and $1.3 million on other loans. The balance at December 31, 1998 consisted of $161.6 million on single family residential loans, $20.8 million on multi-family residential loans, $69.8 million on commercial real estate loans and $300,000 on other loans.

(3) The discount loan portfolio at March 31, 1999 included $11.3 million of charged-off unsecured credit card receivables which were acquired at a discount. Collections are accounted for under the cost recovery method and resulted in the recognition of $204,000 of (interest) income during the first quarter of 1999.

The discount loan portfolio is secured by mortgages on properties geographically located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing the Company's discount loans were located at March 31, 1999.

| | Single-family Residential | Multi-family Residential | Commercial Real Estate and Other | Total |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| California | $ 39,050 | $ 22,046 | $ 106,650 | $ 167,746 |
| Illinois | 12,959 | 94,867 | -- | 107,826 |
| Michigan | 5,822 | 64,743 | 26,397 | 96,962 |
| New York | 31,798 | 7,047 | 52,477 | 91,322 |
| New Jersey | 44,416 | 859 | 9,456 | 54,731 |
| Other (1) | 181,874 | 32,126 | 184,461 | 398,461 |
| Total | $ 315,919 | $ 221,688 | $ 379,441 | $ 917,048 |

(1) Consists of properties located in 45 other states, none of which aggregated over $45.9 million in any one state.

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The following tables set forth the activity in the Company's net discount loan portfolio during the periods indicated.

| | Three months ended March 31 | | | |
|---|---|---|---|---|
| | 1999 | | 1998 | |
| | Balance | No. of Loans | Balance | No. of Loans |
| | (Dollars in thousands) | | | |
| Balance at beginning of period, net..... | $ 1,026,511 | 8,100 | $ 1,434,176 | 12,980 |
| Acquisitions(1)......................... | 104,957 | 565 | 90,550 | 572 |
| Resolutions and repayments (2).......... | (49,063) | (223) | (75,526) | (497) |
| Loans transferred to real estate owned.. | (70,694) | (702) | (64,803) | (687) |
| Sales(3)................................ | (162,397) | (1,698) | (240,363) | (3,797) |
| Decrease in discount.................... | 46,332 | -- | 23,586 | -- |
| (Increase) decrease in allowance........ | (2,466) | -- | 4,003 | -- |
| Balance at end of period, net........... | $ 893,180 | 6,042 | $ 1,171,623 | 8,571 |

(1) During the three months ended March 31, 1999, acquisitions consisted primarily of $40.9 million of single family residential loans, $32.7 million of multi-family residential loans, $24.8 million of commercial real estate loans and $6.6 million of other loans. For the three months ended March 31, 1998, acquisitions consisted primarily of $41.4 million of single family residential loans, $3.0 million of multi-family residential loans, $41.2 million of commercial real estate loans and $5.0 million of other loans.

(2) Resolutions and repayments consists of loans which were resolved in a manner which resulted in partial or full repayment of the loan to the Company, as well as principal payments on loans which have been brought current in accordance with their original or modified terms (whether pursuant to forbearance agreements or otherwise) or on other loans which have not been resolved.

(3) Included in sales for the three months ended March 31, 1999 is the securitization of 1,310 discount single family residential mortgage loans with an aggregate unpaid principal balance of $112.4 million. Included in sales for the three months ended March 31, 1998 is the securitization of 3,777 discount single family residential mortgage loans with an aggregate unpaid principal balance of $227.5 million.

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

| | March 31, 1999 | | December 31, 1998 | |
|---|---|---|---|---|
| | Principal Amount | % of Loans | Principal Amount | % of Loans |
| Loans without Forbearance Agreements: | (Dollars in thousands) | | | |
| Current....................................... | $ 555,682 | 49.47% | $ 578,269 | 44.47% |
| Past due 31 to 89 days........................ | 29,530 | 2.63 | 35,555 | 2.73 |
| Past due 90 days or more...................... | 390,317 | 34.75 | 509,838 | 39.21 |
| Acquired and servicing not yet transferred.... | 44,848 | 3.99 | 57,048 | 4.39 |
| Subtotal................................... | 1,020,377 | 90.84 | 1,180,710 | 90.80 |
| Loans with Forbearance Agreements: | | | | |
| Current....................................... | 611 | 0.05 | 1,180 | 0.09 |
| Past due 31 to 89 days........................ | 3,223 | 0.29 | 4,046 | 0.31 |
| Past due 90 days or more (1).................. | 99,018 | 8.82 | 114,490 | 8.80 |
| Subtotal................................... | 102,852 | 9.16 | 119,716 | 9.20 |
| Total......................................... | $1,123,229 | 100.00% | $1,300,426 | 100.00% |

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(1) Includes $95.6 million of loans which were less than 90 days past due under the terms of the forbearance agreements at March 31, 1999, of which $72.1 million were current and $23.5 million were past due 31 to 89 days. Includes $110.1 million of loans which were less than 90 days past due under the terms of the forbearance agreements at December 31, 1998, of which $77.9 million were current and $32.2 million were past due 31 to 89 days.

For discussion and analysis regarding the allowance for loan losses on discount loans, see "Changes in Financial Condition - Allowance for Losses" below.

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

| | March 31, 1999 | December 31, 1998 |
|---|---|---|
| | (Dollars in thousands) | |
| Single family residential loans | $ 3,058 | $ 30,361 |
| Multi-family residential loans: | | |
| Permanent | 38,030 | 53,311 |
| Construction | 17,173 | 22,288 |
| | 55,203 | 75,599 |
| Commercial real estate and land loans: | | |
| Hotel: | | |
| Permanent | 29,599 | 29,735 |
| Construction | 6,484 | 6,896 |
| Office buildings | 93,261 | 93,068 |
| Land | 2,266 | 2,266 |
| Other | -- | 6,762 |
| Total | 131,610 | 138,727 |
| Consumer | 118 | 132 |
| Total loans | 189,989 | 244,819 |
| Undisbursed loan funds | (6,506) | (7,099) |
| Unaccreted discount | (2,002) | (2,480) |
| Allowance for loan losses | (3,970) | (4,928) |
| Loans, net | $ 177,511 | $ 230,312 |

The loan portfolio is secured by mortgages on properties 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 loan portfolio were located at March 31, 1999.

| | Single-family Residential | Multi-family Residential | Commercial Real Estate | Consumer | Total |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| New York | $ 307 | $ 9,659 | $ 24,370 | $ 46 | $ 34,382 |
| Florida | -- | -- | 20,727 | -- | 20,727 |
| Virginia | -- | -- | 15,996 | -- | 15,996 |
| Illinois | 55 | -- | 11,916 | -- | 11,971 |
| California | 21 | 6,346 | 4,521 | -- | 10,888 |
| Other (1) | 2,675 | 39,198 | 54,080 | 72 | 96,025 |
| Total | $ 3,058 | $ 55,203 | $ 131,610 | $ 118 | $ 189,989 |

(1) Consists of properties located in 22 other states, none of which aggregated over $10.7 million in any one state.

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The following table sets forth the activity in the Company's gross loan portfolio during the periods indicated.

| For the three months ended March 31, | 1999 | 1998 |
|---|---|---|
| | (Dollars in thousands) | |
| Balance at beginning of period | $ 244,819 | $ 294,925 |
| Originations: | | |
| Multi-family residential loans | 2,467 | 13,771 |
| Commercial real estate loans and land loans | 5,100 | 18,985 |
| Commercial non-mortgage and consumer loans | -- | -- |
| Total loans originated | 7,567 | 32,756 |
| Sales (1) | (28,880) | -- |
| Principal repayments, net of capitalized interest | (31,051) | (22,609) |
| Loans and transfer to real estate owned | (2,466) | -- |
| Net increase (decrease) in loans | (54,830) | 10,147 |
| Balance at end of period (2) | $ 189,989 | $ 305,072 |

(1) Included in sales for the three months ended March 31, 1999 is the securitization of 384 single family residential mortgage loans with an aggregate unpaid principal balance of $24.9 million.

(2) The decline in the balance of the gross loan portfolio at March 31, 1999, as compared to March 31, 1998, is primarily due to repayments of commercial real estate loans (primarily hotel) and multifamily residential loans, as well as the sale of single family residential loans.

The following table presents a summary of the Company's non-performing loans (loans which are past due 90 days or more) in the loan portfolio and significant ratios at the dates indicated:

| | March 31, 1999 | December 31, 1998 |
|---|---|---|
| | (Dollars in thousands) | |
| Nonperforming loans (1) | | |
| Single family residential loans | $ 461 | $ 1,169 |
| Multi-family residential loans | 13,280 | 7,392 |
| Commercial real estate and other | 5,599 | 488 |
| | $ 19,340 | $ 9,049 |
| Nonperforming loans as a percentage of: | | |
| Total loans (2) | 10.54% | 3.85% |
| Total assets | 0.62% | 0.27% |
| Allowance for loan losses as a percentage of: | | |
| Total loans (2) | 2.16% | 2.07% |
| Nonperforming loans | 20.53% | 54.46% |

(1) The Company did not have any loans which were accruing interest and were past due 90 days or more at the dates indicated.

(2) Total loans is net of undisbursed loan proceeds.

ALLOWANCES FOR LOSSES. The Company uses an internal asset review system to identify problem assets. The Company's determination of the level and the allocation of the allowance for loan losses and, correspondingly, the provisions for such losses, is based on various judgments, assumptions and projections regarding a number of factors, including, but not limited to, asset risk classifications, current and forecasted economic and market conditions, loan portfolio composition, historical loan loss experience and industry experience. The allowance for loan losses is adjusted monthly to reflect management's current assessment of the effect of these factors on estimated inherent loan losses. While management uses all information available to it to estimate losses on loans, future changes to the allowance may become necessary based on changes in economic and market conditions. The OTS, as part of its examination process, periodically reviews the adequacy of the Company's allowance for loan losses. Such agency may require the company to recognize changes to the allowance based on its judgment about information available to it at the time of examination.

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

| | March 31, 1999 | | | December 31, 1998 | | |
|---|---|---|---|---|---|---|
| | Allowance | Gross Loan Balance | Percent | Allowance | Gross Loan Balance | Percent |
| | (Dollars in thousands) | | | | | |
| Loan portfolio: | | | | | | |
| Single family................ | $ 38 | $ 3,058 | 1.6% | $ 215 | $ 30,361 | 12.4% |
| Multi-family................. | 2,122 | 55,203 | 29.1 | 2,714 | 75,599 | 30.9 |
| Commercial real estate....... | 1,810 | 131,610 | 69.3 | 1,999 | 138,727 | 56.7 |
| Consumer..................... | -- | 118 | -- | -- | 132 | -- |
| | $ 3,970 | $ 189,989 | 100.0% | $ 4,928 | $ 244,819 | 100.0% |
| Discount loan portfolio: | | | | | | |
| Single family................ | $ 11,533 | $ 434,442 | 38.7% | $ 10,307 | $ 597,100 | 45.9% |
| Multi-family................. | 2,297 | 240,974 | 21.4 | 2,457 | 244,172 | 18.8 |
| Commercial real estate....... | 9,964 | 430,940 | 38.4 | 8,607 | 449,010 | 34.5 |
| Other........................ | 74 | 16,873 | 1.5 | 31 | 10,144 | 0.8 |
| | $ 23,868 | $1,123,229 | 100.0% | $ 21,402 | $1,300,426 | 100.0% |

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 summarizes activity in the allowance for loan losses related to the Company's loan portfolio and discount loan portfolio during the three months ended March 31, 1999.

| | Balance December 31, 1998 | Additions | Charge-offs | Recoveries | Balance March 31, 1999 |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| Loan portfolio: | | | | | |
| Single family................... | $ 215 | $ (169) | $ (8) | $ -- | $ 38 |
| Multi-family.................... | 2,714 | (592) | -- | -- | 2,122 |
| Commercial real estate.......... | 1,999 | (189) | -- | -- | 1,810 |
| Consumer........................ | -- | -- | -- | -- | -- |
| | $ 4,928 | $ (950) | $ (8) | $ -- | $ 3,970 |
| Discount loans: | | | | | |
| Single family................... | $ 10,307 | $ 2,038 | $ (965) | $ 153 | $ 11,533 |
| Multi-family.................... | 2,457 | (62) | (98) | -- | 2,297 |
| Commercial...................... | 8,607 | 2,660 | (1,303) | -- | 9,964 |
| Other........................... | 31 | 53 | (10) | -- | 74 |
| | $ 21,402 | $ 4,689 | $ (2,376) | $ 153 | $ 23,868 |

INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS. In 1993, the Company commenced a program to invest in multi-family residential projects which have been allocated low income housing tax credits under Section 42 of the Internal Revenue Code by a state tax credit allocating agency.

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The carrying value of the Company's investments in low-income housing tax credit interests are as follows at the dates indicated.

| | March 31, 1999 | December 31, 1998 |
|---|---|---|
| | (Dollars in thousands) | |
| Investments solely as a limited partner made prior to May 18, 1995............ | $ 19,068 | $ 19,607 |
| Investments solely as a limited partner made on or after May 18, 1995.......... | 61,473 | 56,299 |
| Investments both as a limited and, through subsidiaries, as a general partner.. | 74,732 | 68,258 |
| | $ 155,273 | $ 144,164 |

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, are accounted for using the equity method in accordance with the consensus of the Emerging Issues Task Force as recorded in Issue Number 94-1. Limited partnership investments made prior to May 18, 1995, 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 both as a limited and, through a subsidiary, as general partner are presented on a consolidated basis.

INVESTMENT IN UNCONSOLIDATED ENTITIES. The Company's investments in unconsolidated entities was comprised of the following at the dates indicated.

| | Ownership | | Carrying Value | |
|---|---|---|---|---|
| Entity | Shares/Units | % | March 31, 1999 | December 31, 1998 |
| | | | (Dollars in thousands) | |
| OAC................. | 1,540,000 | 8.12% | $ 16,204 | $ 16,268 |
| OPLP................ | 1,808,733 | 8.71% | 22,666 | 22,820 |
| Kensington.......... | 549,993 | 36.07% | 44,075 | 46,586 |
| Other............... | various | various | 1,334 | 1,219 |
| | | | $ 84,279 | $ 86,893 |

Other consists primarily of the Company's joint venture investment, which consisted of a 10% interest in BCFL, a limited liability company formed by the Bank and BlackRock in January 1997 to acquire discount multi-family residential loans from HUD.

During the first quarter of 1999, the Company recorded equity in the losses of its investments in OAC and OPLP of $64,000 and $154,000, respectively. At March 31, 1999 and December 31, 1998, the Company's investment in OAC stock was pledged as collateral on obligations outstanding under a line of credit.

The Company's investment in Kensington includes the excess of the purchase price over the net investment in the amount of $33.9 million ((pound)20.6 million) at March 31, 1999, as compared to $34.5 million ((pound)20.9 million) at December 31, 1998. During the first quarter of 1999, the Company recorded equity in the losses of its investment in Kensington of $1.1 million, including $609,000 amortization of excess cost over purchase price.

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 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 dispose. Rental income related to properties is reported as earned. Holding and maintenance costs related to properties are recorded as period costs as incurred. 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 the 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.

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

| | March 31, 1999 | December 31, 1998 |
|---|---|---|
| | (Dollars in thousands) | |
| Discount loan portfolio: | | |
| Single family residential | $ 83,478 | $ 94,641 |
| Multi-family residential | 18,075 | 20,130 |
| Commercial real estate | 99,683 | 82,591 |
| Total | 201,236 | 197,362 |
| Loan portfolio | 2,556 | 227 |
| Loans available for sale portfolio | 5,039 | 3,962 |
| | $ 208,831 | $ 201,551 |

The following table sets forth the activity in the valuation allowance on real estate owned for the periods indicated.

| For the three months ended March 31, | 1999 | 1998 |
|---|---|---|
| | (Dollars in thousands) | |
| Balance at beginning of period (1) | $ 15,325 | $ 12,346 |
| Provision for loss in fair value | 5,061 | 4,234 |
| Charge-offs and sales | (6,841) | (3,338) |
| Balance at end of period (1) | $ 13,545 | $ 13,242 |

(1) The valuation allowance as a percentage of total real estate owned was 6.49% at March 31, 1999 as compared to 7.60% at December 31, 1998.

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

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 1999 | | 1998 | |
| | Amount | No. of Properties | Amount | No. of Properties |
| | (Dollars in thousands) | | | |
| Balance at beginning of period | $ 201,551 | 1,999 | $ 167,265 | 1,505 |
| Properties acquired through foreclosure or deed-in-lieu thereof: | | | | |
| Discount loans | 70,694 | 702 | 64,803 | 687 |
| Loans available for sale | 4,819 | 56 | 688 | 7 |
| Loan portfolio | 2,466 | 2 | -- | -- |
| Less discount transferred | (20,885) | -- | (21,788) | -- |
| | 57,094 | 760 | 43,703 | 694 |
| Acquired in connection with acquisitions of discount loans | 12,842 | 146 | 3,605 | 53 |
| Less discount transferred | (4,682) | -- | (690) | -- |
| | 8,160 | 146 | 2,915 | 53 |
| Sales | (59,754) | (1,032) | (40,294) | (610) |
| Decrease (increase) in allowance | 1,780 | -- | (896) | -- |
| Balance at end of period(1) | $ 208,831 | 1,873 | $ 172,693 | 1,642 |

(1) The increase in real estate owned at March 31, 1999, as compared to March 31, 1998, is primarily the result of commercial real estate properties acquired through foreclosures on discount loans.

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

| | March 31, 1999 Amount | % | December 31, 1998 Amount | % |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| One to two months | $ 33,309 | 16.0% | $ 38,444 | 19.1% |
| Three to four months | 40,211 | 19.3 | 79,264 | 39.3 |
| Five to six months | 67,752 | 32.4 | 27,115 | 13.4 |
| Seven to twelve months | 37,306 | 17.8 | 26,122 | 13.0 |
| Over twelve months | 30,253 | 14.5 | 30,606 | 15.2 |
| | $ 208,831 | 100.0% | $ 201,551 | 100.0% |

The following table sets forth certain geographical information by type of property at March 31, 1999 related to the Company's real estate owned.

| | Single family Residential Amount | Single family Residential No. of Properties | Multi-family Residential and Commercial Amount | Multi-family Residential and Commercial No. of Properties | Total Amount | Total No. of Properties |
|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | | |
| Florida | $ 4,699 | 90 | $ 53,654 | 10 | $ 58,353 | 100 |
| California | 19,579 | 282 | 6,674 | 6 | 26,253 | 288 |
| Maryland | 7,039 | 126 | 15,229 | 3 | 22,268 | 129 |
| Connecticut | 6,238 | 110 | 12,920 | 2 | 19,158 | 112 |
| Georgia | 1,262 | 20 | 14,697 | 2 | 15,959 | 22 |
| Other (1) | 50,014 | 1,188 | 16,826 | 34 | 66,840 | 1,222 |
| Total | $ 88,831 | 1,816 | $ 120,000 | 57 | $ 208,831 | 1,873 |

(1) Consists of properties located in 43 other states, none of which aggregated over $9.3 million in any one state.

DEPOSITS. Deposits decreased $333.6 million or 15% during the first quarter of 1999. The decrease in deposits during the first quarter of 1999 was primarily the result of a $205.3 million decrease in brokered deposits obtained through national investment banking firms which solicit deposits from their customers, a $107.6 million decrease in deposits obtained through direct solicitation and marketing efforts to regional and local investment banking firms, institutional investors and high net worth individuals and a $20.1 million decrease in escrow deposits, offset by a $1.7 million increase in checking and money funds. Brokered deposits obtained through national investment banking firms amounted to $1.28 billion at March 31, 1999, as compared to $1.48 billion at December 31,1998. Deposits obtained through direct solicitation and marketing amounted to $269.9 million at March 31, 1999, as compared to $377.4 million at December 31, 1998. At March 31, 1999, the Company had $109.0 million of certificates of deposit in amounts of $100,000 or more, including $28.9 million of deposits of states and political subdivisions in the U.S. which are secured or collateralized as required under state law. See "- Liquidity, Commitments and Off-Balance Sheet Risks" below.

NOTES AND DEBENTURES. Notes and debentures outstanding at the dates indicated, mature as follows.

| | March 31, 1999 | December 31, 1998 |
|---|---|---|
| | (Dollars in thousands) | |
| 2003: | | |
| 11.875% Notes due October 1 | $ 125,000 | $ 125,000 |
| 2005: | | |
| 12% Subordinated Debentures due June 15 (1) | 98,000 | 100,000 |
| | $ 223,000 | $ 225,000 |

(1) During the first quarter of 1999, the Company repurchased $2.0 million of its Debentures at par.

OBLIGATIONS OUTSTANDING UNDER LINES OF CREDIT. Obligations outstanding under lines of credit amounted to $324.8 million at March 31, 1999, an increase of $145.5 million from December 31, 1998, primarily as a result of new borrowings to fund the acquisition and origination of subprime single family loans at OFS and Ocwen UK. Borrowings under lines of credit generally have a one-year term and interest rates which float in accordance with a designated prime rate. For additional information regarding lines of credit, see "Liquidity, Commitments and Off-Balance Sheet Risks."

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

For the three months ended March 31, 1998 and 1999, the Company recorded $3.4 million of distributions to holders of the Capital Securities. See Note 3 to the Interim Consolidated Financial Statements included in Item 1 hereof.

STOCKHOLDERS' EQUITY. Stockholders' equity increased $11.9 million or 3% during the three months ended March 31, 1999. The increase in stockholders' equity during this period was primarily attributable to net income of $9.5 million and an increase of $2.2 million in the unrealized gain on securities available for sale. See the Consolidated Statements of Changes in Stockholders' Equity in the Interim Consolidated Financial Statements included in Item 1 hereof.

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 officers of the Company, in accordance with policies approved by the Board of Directors of the Company. 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 or swap agreements, Eurodollar and U.S. Treasury interest rate futures contracts and foreign currency swap agreements.

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INTEREST RATE RISK MANAGEMENT. Under interest rate swap agreements, the parties exchange the difference between fixed-rate and floating-rate interest payments on a specified principal amount (referred to as the "notional amount") for a specified period without the exchange of the underlying principal amount. Interest rate exchange agreements are utilized by the Company to protect against the decrease in value of a fixed-rate asset or the increase in borrowing cost from a short-term, fixed-rate liability, such as reverse repurchase agreements, in an increasing interest-rate environment. At March 31, 1999, the Company had no outstanding interest rate exchange agreement. Interest rate exchange agreements had the effect of decreasing the Company's net interest income by $38,000 during the three months ended March 31, 1998.

The Company also enters into interest rate futures contracts, which are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may be settled in cash or through delivery. Eurodollar futures contracts have been sold by the Company to hedge the repricing or maturity risk of certain short duration mortgage-related securities, and U.S. Treasury futures contracts have been sold by the Company to offset declines in the market value of its fixed-rate loans and certain fixed-rate mortgage-backed and related securities available for sale in the event of an increasing interest rate environment. The Company had no outstanding interest rate futures and Eurodollar futures contracts at March 31, 1999. Futures contracts had the effect of decreasing the Company's net interest income by $49,000 during the three months ended March 31, 1998. See Note 4 to the Interim Consolidated Financial Statements included in Item 1 hereof.

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 March 31, 1999. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual terms of the assets and liabilities, except (i) adjustable-rate loans, performing discount loans, securities and FHLB advances are included in the period in which they are first scheduled to adjust and not in the period in which they mature, (ii) fixed-rate mortgage-related securities reflect estimated prepayments, which were estimated based on analyses of broker estimates, the results of a prepayment model utilized by the Company and empirical data, (iii) non-performing discount loans reflect the estimated timing of resolutions which result in repayment to the Company, (iv) fixed-rate loans reflect scheduled contractual amortization, with no estimated prepayments, (v) NOW and money market checking deposits and savings deposits, which do not have contractual maturities, reflect estimated levels of attrition, which are based on detailed studies of each such category of deposit by the Company, and (vi) escrow deposits and other non-interest bearing checking accounts, which amounted to $214.1 million at March 31, 1999, 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.

| | March 31, 1999 | | | | |
|---|---|---|---|---|---|
| | 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 deposits | $ 18,798 | $ -- | $ -- | $ -- | $ 18,798 |
| Federal funds sold | 200,500 | -- | -- | -- | 200,500 |
| Securities available for sale | 130,872 | 197,922 | 110,580 | 127,365 | 566,739 |
| Loans available for sale (1) | 8,508 | 172,284 | 42,639 | 150,663 | 374,094 |
| Investment securities, net | -- | -- | -- | 10,825 | 10,825 |
| Loan portfolio, net (1) | 56,590 | 59,400 | 48,026 | 13,495 | 177,511 |
| Discount loan portfolio, net | 80,023 | 297,755 | 247,814 | 267,588 | 893,180 |
| Total rate-sensitive assets | 495,291 | 727,361 | 449,059 | 569,936 | 2,241,647 |
| Rate-Sensitive Liabilities: | | | | | |
| NOW and money market checking deposits | 10,956 | 3,842 | 7,625 | 14,318 | 36,741 |
| Savings deposits | 76 | 204 | 403 | 795 | 1,478 |
| Certificates of deposit | 311,718 | 418,466 | 642,391 | 216,579 | 1,589,154 |
| Total interest-bearing deposits | 322,750 | 422,512 | 650,419 | 231,692 | 1,627,373 |
| Securities sold under agreements to repurchase | 78,474 | -- | -- | -- | 78,474 |
| Obligations outstanding under lines of credit | 324,760 | -- | -- | -- | 324,760 |
| Notes and debentures | -- | -- | -- | 223,000 | 223,000 |
| Total rate-sensitive liabilities | 725,984 | 422,512 | 650,419 | 454,692 | 2,253,607 |
| Interest rate sensitivity gap before off-balance sheet financial instruments | (230,693) | 304,849 | (201,360) | 115,244 | (11,960) |
| Off-Balance Sheet Financial Instruments: | | | | | |
| Futures contracts | -- | -- | -- | -- | -- |
| Interest rate sensitivity gap | $ (230,693) | $ 304,849 | $ (201,360) | $ 115,244 | $ (11,960) |
| Cumulative interest rate sensitivity gap | $ (230,693) | $ 74,156 | $ (127,204) | $ (11,960) | |
| Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets | (10.29)% | 3.31% | (5.67)% | (0.51)% | |

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

Although the interest rate sensitivity gap analysis is a useful measurement and contributes toward effective asset and liability management, it is difficult to predict the effect of changing interest rates based solely on that measure. The OTS has established specific minimum guidelines for thrift institutions to observe in the area of interest rate risk as described in Thrift Bulletin No. 13a, "Management of Interest Rate Risk, Investment Securities, and Derivative Activities" ("TB 13a"). Under TB 13a, institutions are required to establish and demonstrate quarterly compliance with board-approved limits on interest rate risk that are defined in terms of net portfolio value ("NPV"), which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments. These limits specify the minimum net portfolio value ratio ("NPV Ratio") allowable under current interest rates and hypothetical interest rate scenarios. An institution's NPV Ratio for a given interest rate scenario is calculated by dividing the NPV that would result in that scenario by the present value of the institution's assets in that same scenario. The hypothetical scenarios are represented by immediate, permanent, parallel movements in the term structure of interest rates of plus and minus 100, 200, and 300 basis points from the actual term structure observed at quarter end. The minimum NPV Ratio for each of the seven rate shock scenarios and the corresponding limits approved by the Board of Directors of the Bank, is as follows at March 31, 1999.

| Rate Shock (in basis points) | Board Limits (minimum NPV Ratios) | Current NPV Ratios |
|---|---|---|
| +300 | 5.00% | 15.73% |
| +200 | 6.00 | 16.59 |
| +100 | 7.00 | 17.23 |
| 0 | 8.00 | 17.74 |
| -100 | 7.00 | 18.32 |
| -200 | 6.00 | 18.78 |
| -300 | 5.00 | 19.30 |

The Asset/Liability Committee also regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and NPV, and evaluating such impacts against the maximum potential changes in net interest income and NPV that is authorized by the Board of Directors of the Bank. The following table quantifies the potential changes in net interest income and NPV should interest rates go up or down (shocked) 300 basis points, assuming the yield curves of the rate shocks will be parallel to each other. The cash flows associated with the loan portfolios and securities available for sale are calculated based on prepayment and default rates that vary by asset. Projected losses, as well as prepayments, are generated based upon the actual experience with the subject pool, as well as similar, more seasoned pools. To the extent available, loan characteristics such as loan-to-value ratio, interest rate, credit history, prepayment penalty terms and product types are used to produce the projected loss and prepayment assumptions that are included in the cash flow projections of the securities. When interest rates are shocked, these projected loss and prepayment assumptions are further adjusted. For example, under current market conditions, a 100 basis point decline in the market interest rate is estimated to result in a 200 basis point increase in the prepayment rate of a typical subprime residential loan. Most commercial and multi-family loans are not subject to prepayments as a result of prepayment penalties and contractual terms which prohibit prepayments during specified periods. However, for those commercial and multi-family loans where prepayments are not currently precluded by contract, declines in interest rates are associated with steep increases in prepayment speeds in computing cash flows. A risk premium is then calculated for each asset, which, when added to the interest rate being modeled, results in a matrix of discount rates that are applied to the cash flows computed by the model. The base interest rate scenario assumes interest rates at March 31, 1999. Actual results could differ significantly from those estimated in the table.

| Change in interest Rates (Rate shock in basis points) | Estimated Changes in | |
|---|---|---|
| | Net Interest | NPV |
| +300 | 4.67% | (16.41)% |
| +200 | 3.11 | (9.93) |
| +100 | 1.56 | (4.60) |
| 0 | -- | -- |
| -100 | (1.56) | 5.19 |
| -200 | (3.11) | 9.66 |
| -300 | (4.67) | 14.69 |

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 NPV could vary substantially if different assumptions are used or actual experience differs from the historical experience on which they are based.

FOREIGN CURRENCY EXCHANGE RATE RISK MANAGEMENT. The Company uses foreign currency derivatives to hedge its equity investment in Ocwen UK and Kensington ("net investment hedges"). The Company's exposure to foreign currency exchange rates exists with the British Pound versus the U.S. dollar. It is the Company's policy to periodically adjust the amount of foreign currency derivative contracts it has entered into in response to changes in its recorded equity investment in these foreign entities.

During 1998, the Company entered into a foreign currency swap with a AAA-rated counterparty to hedge its equity investment in Kensington. Under the terms of the agreement, the Company will swap (pound)27.5 million for $43.5

million in five years based on the exchange rate on the date the contract became effective. On August 6, 1998, the Company also sold short foreign currency futures contracts to further hedge its foreign currency exposure related to its equity investment in Kensington. Under the terms of the currency futures, the Company had the right to receive $410,000 and pay (pound)250,000. These futures were closed during January 1999.

The Company sells short foreign currency futures to hedge its foreign currency exposure related to its equity investment in Ocwen UK. During the first quarter of 1999, the Company increased its derivative hedging instruments to include its foreign currency exposure resulting from the unrealized gain on securities available for sale related to Ocwen UK. Under the terms of the currency futures, at March 31, 1999 the Company had the right to receive $73.1 million and pay (pound)45.5 million. At December 31, 1998, the Company had the right to receive $43.8 million and pay (pound)26.6 million. The value of the currency futures is based on quoted market prices. See Note 4 to the Interim Consolidated Financial Statements included in Item 1 hereof.

The Company's net investment hedges and related foreign currency equity investments and net exposures as of March 31, 1999 and December 31, 1998 were as follows:

| | Equity Investment | Net Hedges | Net Exposure |
|---|---|---|---|
| | | (Dollars in thousands) | |
| MARCH 31, 1999: | | | |
| Ocwen UK (1)............... | $ 72,747 | $ 73,086 | $ (339) |
| Kensington................. | $ 44,075 | $ 43,546 | $ 529 |
| DECEMBER 31, 1998: | | | |
| Ocwen UK................... | $ 53,820 | $ 43,828 | $ 9,992 |
| Kensington................. | $ 46,586 | $ 45,093 | $ 1,493 |

(1) The unrealized gain on securities available for sale amounted to $20,005 at March 31, 1999.

The net exposures are subject to gain or loss if foreign currency exchange rates fluctuate.

LIQUIDITY, COMMITMENTS AND OFF-BALANCE SHEET RISKS

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

Sources of liquidity include certificates of deposit obtained primarily from wholesale sources. At March 31, 1999, the Company had $1.60 billion of certificates of deposit, including $1.54 billion of brokered certificates of deposit obtained through national investment banking firms, all of which are non-cancelable. At the same date scheduled maturities of certificates of deposit during the 12 months ending March 31, 1999 and 2000 and thereafter, amounted to $770.5 million, $335.8 million and $491.0 million, respectively. Brokered and other wholesale deposits generally are more responsive to changes in interest rates than core deposits and, thus, are more likely to be withdrawn from the Company upon maturity as changes in interest rates and other factors are perceived by investors to make other investments more attractive. Management of the Company believes that it can adjust the rates paid on certificates of deposit to retain deposits in changing interest rate environments, and that brokered and other wholesale deposits can be both a relatively cost-effective and stable source of funds. There can be no assurance that this will continue to be the case in the future, however.

Sources of borrowings include FHLB advances, which are required to be secured by single family and/or multi-family residential loans or other acceptable collateral, and reverse repurchase agreements. At March 31, 1999, the Company was eligible to borrow up to an aggregate of $569.0 million from the FHLB of New York (subject to the availability of acceptable collateral) and had $31.7 million of single family residential loans and $5.5 million of multi-family residential 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. At March 31, 1999, the Company had unrestricted cash and equivalents of $286.0 million (including $274.3 million held at the Bank), $322.9 million of short

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duration CMOs (all of which were held by the Bank), and $73.8 million of subordinate and residual mortgages that could be used to secure additional borrowings. At present, the Company has no outstanding FHLB advances.

The Company's lines of credit obtained through its subsidiaries to finance its subprime lending are as follows:

| Entity | Amount of Facility | Committed Amount | Balance Outstanding at 3/31/99 | Maturity Date | Interest Rate |
|---|---|---|---|---|---|
| | | (Dollars in thousands) | | | |
| OFS (1)........ | $ 200,000 | $ 100,000 | $ 82,856 | July 2001 | Libor + 75 - 150 basis points |
| | 200,000 | 100,000 | 4,284 | April 1999 | Libor + 60 - 150 basis points |
| | 50,000 | 50,000 | 21,325 | May 1999 | Libor + 112 basis points |
| Ocwen UK (1)... | 201,412 | 201,412 | 83,304 | Nov. 1999 | Libor + 80 basis point |
| (2)... | 161,130 | 161,130 | 130,474 | April 1999 | Libor + 87.5 basis points |
| IMI (3)........ | Lesser of $15,000 or 60% of market value of collateral | N/A | 2,517 | N/A | Libor + 150 basis points |
| Total.......... | | | $ 324,760 | | |

(1) These lines are used to fund mortgage loan originations and are generally advanced at a rate of 80% to 90% of the principal balance of the mortgage loan and are secured by such mortgage loans.

(2) Line was subsequently extended to April 2000.

(3) Line is collateralized by the shares held by the Company in OAC.

OFS's terms of the line of credit agreements contain, among other provisions, requirements for maintaining certain profitability, defined levels of net worth and debt-to-equity ratios. At March 31, 1999 and December 31, 1998, OFS failed to comply with the maintenance of profitability covenant for one of its credit lines. OFS obtained the lender's agreement waiving the requirement of this covenant for the three months ended March 31, 1999 and the year ended December 31, 1998.

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

The Company's operating activities used cash flows of $159.6 million and $320.9 million during the three months ended March 31, 1999 and 1998, respectively. During the foregoing periods, cash flows from operating activities were provided primarily by net income and proceeds from sales of loans available for sale, and cash resources were used primarily to purchase and originate loans available for sale. The increase in net cash flows used by operating activities during the first quarter of 1999 as compared to 1998 was due primarily to a decline in purchases of loans available for sale.

The Company's investing activities provided cash flows totaling $197.8 million and used cash flows of $12.5 million during the three months ended March 31, 1999 and 1998, respectively. During the foregoing periods, cash flows from investing activities were provided primarily by principal payments on and sales of discount loans and loans held for investment, maturities and principal payments on securities available for sale and proceeds from sales of real estate owned. Cash flows from investing activities were primarily utilized to purchase and originate discount loans and loans held for investment and purchase securities available for sale. The increase in net cash provided by investing activities during the first quarter of 1999 as compared to 1998 was due primarily to a decline in purchases of securities available for sale and an increase in maturities of and principal payments on such securities, offset by a decline in proceeds from sales of discount loans.

The Company's financing activities used cash flows of $183.7 million and provided cash flows totaling $334.3 million during the three months ended March 31, 1999 and 1998, respectively. During the foregoing periods, cash flows

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from financing activities were primarily related to changes in deposits and obligations outstanding under lines of credit.

The Bank is required under applicable federal regulations to maintain specified levels of "liquid" investments in qualifying types of U.S. Government, federal agency and other investments having maturities of five years or less. Current OTS regulations require that a savings association maintain liquid assets of not less than 4% of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. Monetary penalties may be imposed for failure to meet applicable liquidity requirements. The Bank's liquidity, as measured for regulatory purposes, amounted to 14.6% at March 31, 1999.

The Bank's ability to make capital distributions pursuant to the OTS capital distribution regulations is limited by the regulatory capital levels which it has committed to the OTS it would maintain, commencing on June 30, 1997. As a result of a verbal agreement between the Company and the OTS to dividend subordinate and residual mortgage-related securities resulting from securitization activities conducted by the Bank, which had an aggregate fair value of $11.8 million at March 31, 1999, the Bank may be limited in its ability to pay cash dividends to the Company. See "Regulatory Capital Requirements". In addition to the foregoing OTS limitations, there are certain contractual restrictions on the Bank's ability to pay dividends as set forth in the indenture governing the Bank's $98.0 million of 12% Debentures. See Note 5 to the Interim Consolidated Financial Statements included in Item 2 hereof. Taking into account such limitations and restrictions, the Bank could dividend to the Company approximately $24.0 million as of March 31, 1999. At March 31, 1999, the Bank held two subordinate securities with an aggregate fair value of $11.8 million. Future cash dividends also depend on future operating results of the Bank.

At March 31, 1999, the Company had $58.7 million of unfunded commitments related to the purchase and origination of loans. Management of the Company believes that the Company has adequate resources to fund all of its commitments to the extent required and that substantially all of such commitments will be funded during 1999. See Note 6 to the Interim Consolidated Financial Statements included in Item 1 hereof.

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 and foreign currency rate risk. See "Asset and Liability Management" above and Note 4 to the Interim Consolidated Financial Statements included in Item 1 hereof.

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

Following an examination in late 1996 and early 1997, the Bank committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9% and 13%, respectively. The Bank continues to be in compliance with this commitment as well as the regulatory capital requirements of general applicability, as indicated in Note 8 to the Interim Consolidated Financial Statements included in Item 1. Based on discussions with the OTS, the Bank believes that this commitment does not affect its status as a "well-capitalized" institution, assuming the Bank's continued compliance with the regulatory capital requirements required to be maintained by it pursuant to such commitment.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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RECENT ACCOUNTING DEVELOPMENTS

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

YEAR 2000 DATE CONVERSION

The Company is in the process of establishing the readiness of its computer systems and applications for the year 2000 with no effect on customers or disruption to business operations. The Company has established a project plan to achieve year 2000 readiness of its mission critical and non-mission critical systems, including hardware infrastructure and software applications. The project plan has a budget of approximately $2.0 million and is divided into six phases: identification, evaluation, remediation, validation, risk assessment and contingency planning. The addition of risk assessment and contingency planning efforts to the overall project plan accounts for the difference between the $2.0 million budget and the estimate of $1.5 million for achieving year 2000 compliance included in the Company's 10-Q for the quarter ended June 30, 1998. During 1998, the Company substantially completed the systems identification and evaluation phases of the project as well as remediation and validation of its mission critical systems.

As of March 31, 1999, the Company had expended approximately 73% of budgeted manhours and incurred costs of approximately $1.3 million, which included approximately $140,000 for Year 2000 testing tools, additional hardware, and outside consulting assistance, while the remainder consisted of labor and overhead expense from within the Company.

In its systems evaluation and validation efforts, the Company has employed automated testing tools that are designed to meet guidelines established by the Federal Financial Institution Examination Council (FFIEC) as required by the OTS. All new application development will include year 2000 readiness validation prior to implementation, followed by such end-to-end testing as necessary. During 1999 the Company is focusing on any remaining validation tasks, including remediation and validation of its non-mission critical systems and end-to-end testing with third parties. During the second and third quarters of 1999, the Company plans to participate in the Mortgage Banker Association Year 2000 Inter-System Readiness Test with other mortgage industry leaders as a means of coordinating critical end-to-end validation.

As part of the identification and evaluation phases of the project, the Company documented critical operating functions within each business unit, as well as strategic third-party and vendor relationships. These efforts also are serving as the basis of the Company's year 2000 risk assessment and contingency planning efforts. The Company has retained a business continuity expert to prepare contingency plans and assist with the testing and validation of these plans. Until the risk assessment phase is completed, the Company will not know the full extent of the risks associated with year 2000 readiness, including an analysis of the most reasonably likely worst case year 2000 scenario. The Company expects to complete its year 2000 risk assessment and contingency planning efforts during the first half of 1999.

FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS CONTAINED HEREIN ARE NOT, AND CERTAIN STATEMENTS CONTAINED IN FUTURE FILINGS BY THE COMPANY WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION"), IN THE COMPANY'S PRESS RELEASES OR IN THE COMPANY'S OTHER PUBLIC OR SHAREHOLDER COMMUNICATIONS MAY NOT BE BASED ON HISTORICAL FACTS AND ARE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS, WHICH ARE BASED ON VARIOUS ASSUMPTIONS (SOME OF WHICH ARE BEYOND THE COMPANY'S CONTROL), MAY BE IDENTIFIED BY REFERENCE TO A FUTURE PERIOD(S) OR BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "ANTICIPATE," "BELIEVE," "COMMITMENT," "CONSIDER," "CONTINUE," "COULD," "ENCOURAGE," "ESTIMATE," "EXPECT," "FORESEE," "INTEND," "IN THE EVENT OF," "MAY," "PLAN," "PRESENT," "PROPOSE," "PROSPECT," "UPDATE," "WHETHER," "WILL," "WOULD," FUTURE OR CONDITIONAL VERB TENSES, SIMILAR TERMS, VARIATIONS ON SUCH TERMS OR NEGATIVES OF SUCH TERMS. ALTHOUGH THE COMPANY BELIEVES THE ANTICIPATED RESULTS OR OTHER EXPECTATIONS REFLECTED IN SUCH FORWARD-LOOKING STATEMENTS ARE BASED ON REASONABLE ASSUMPTIONS, IT CAN GIVE NO ASSURANCE THAT THOSE RESULTS OR EXPECTATIONS WILL BE ATTAINED. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE INDICATED IN SUCH STATEMENTS DUE TO RISKS, UNCERTAINTIES AND CHANGES WITH RESPECT TO A VARIETY OF FACTORS, INCLUDING, BUT NOT LIMITED TO, INTERNATIONAL, NATIONAL, REGIONAL OR LOCAL ECONOMIC ENVIRONMENTS (PARTICULARLY IN THE MARKET AREAS WHERE THE COMPANY OPERATES), GOVERNMENT FISCAL AND MONETARY POLICIES (PARTICULARLY IN THE MARKET AREAS WHERE THE COMPANY OPERATES), PREVAILING INTEREST OR CURRENCY EXCHANGE RATES, EFFECTIVENESS OF INTEREST RATE, CURRENCY AND OTHER HEDGING STRATEGIES, LAWS AND REGULATIONS AFFECTING FINANCIAL INSTITUTIONS, REAL ESTATE INVESTMENT TRUSTS, INVESTMENT COMPANIES AND REAL ESTATE (INCLUDING REGULATORY FEES, CAPITAL REQUIREMENTS, INCOME AND PROPERTY TAXATION, ACCESS FOR DISABLED PERSONS AND ENVIRONMENTAL COMPLIANCE), UNCERTAINTY OF FOREIGN LAWS, COMPETITIVE PRODUCTS, PRICING AND CONDITIONS (INCLUDING FROM COMPETITORS THAT HAVE SIGNIFICANTLY GREATER RESOURCES THAN THE COMPANY), CREDIT, PREPAYMENT, BASIS, DEFAULT, SUBORDINATION AND ASSET/LIABILITY RISKS, LOAN SERVICING EFFECTIVENESS, ABILITY TO IDENTIFY ACQUISITIONS AND INVESTMENT OPPORTUNITIES MEETING THE COMPANY'S INVESTMENT STRATEGY, COURSE OF NEGOTIATIONS AND ABILITY TO REACH AGREEMENT WITH RESPECT TO MATERIAL TERMS OF ANY PARTICULAR TRANSACTION, SATISFACTORY DUE DILIGENCE RESULTS, SATISFACTION OR FULFILLMENT OF AGREED UPON TERMS AND CONDITIONS OF CLOSING OR PERFORMANCE, TIMING OF TRANSACTION CLOSINGS, RECENT EFFORTS TO REFOCUS ON CORE BUSINESSES AND INCREASE LIQUIDITY, DISPOSITIONS AND WINDING DOWN OF DISCONTINUED BUSINESSES, ACQUISITIONS AND INTEGRATION OF ACQUIRED BUSINESSES, SOFTWARE INTEGRATION, DEVELOPMENT AND LICENSING, AVAILABILITY OF AND COSTS ASSOCIATED WITH OBTAINING ADEQUATE AND TIMELY SOURCES OF LIQUIDITY, DEPENDENCE ON EXISTING SOURCES OF FUNDING, ABILITY TO REPAY OR REFINANCE INDEBTEDNESS (AT MATURITY OR UPON ACCELERATION), TO MEET COLLATERAL CALLS BY LENDERS (UPON RE-VALUATION OF THE UNDERLYING ASSETS OR OTHERWISE), TO GENERATE REVENUES SUFFICIENT TO MEET DEBT SERVICE PAYMENTS AND OTHER OPERATING EXPENSES AND TO SECURITIZE WHOLE LOANS, TAXABLE INCOME EXCEEDING CASH FLOW, AVAILABILITY OF DISCOUNT LOANS FOR PURCHASE, SIZE OF, NATURE OF AND YIELDS AVAILABLE WITH RESPECT TO THE SECONDARY MARKET FOR MORTGAGE LOANS AND FINANCIAL, SECURITIES AND SECURITIZATION MARKETS IN GENERAL, ALLOWANCES FOR LOAN LOSSES, CHANGES IN REAL ESTATE CONDITIONS (INCLUDING LIQUIDITY, VALUATION, REVENUES, RENTAL RATES, OCCUPANCY LEVELS AND COMPETING PROPERTIES), ADEQUACY OF INSURANCE COVERAGE IN THE EVENT OF A LOSS, KNOWN OR UNKNOWN ENVIRONMENTAL CONDITIONS, YEAR 2000 COMPLIANCE, OTHER FACTORS GENERALLY UNDERSTOOD TO AFFECT THE REAL ESTATE ACQUISITION, MORTGAGE AND LEASING MARKETS, SECURITIES INVESTMENTS AND RAPID GROWTH COMPANIES, AND OTHER RISKS DETAILED FROM TIME TO TIME IN THE COMPANY'S REPORTS AND FILINGS WITH THE COMMISSION, INCLUDING ITS REGISTRATION STATEMENTS ON FORMS S-1 AND S-3 AND PERIODIC REPORTS ON FORMS 10-Q, 8-K AND 10-K. SPECIFIC REFERENCE IS MADE TO EXHIBIT 99. 1, INCLUDED WITH THE COMPANY'S ANNUAL REPORT FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998 AND FILED WITH THE SEC, FOR A DESCRIPTION OF MATERIAL RISKS FACED BY THE COMPANY AND ITS SECURITIES HOLDERS. GIVEN THESE UNCERTAINTIES, READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH STATEMENTS. THE COMPANY DOES NOT UNDERTAKE, AND SPECIFICALLY DISCLAIMS ANY OBLIGATION, TO PUBLICLY RELEASE THE RESULT OF ANY REVISIONS THAT MAY BE MADE TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT THE OCCURRENCE OF ANTICIPATED OR UNANTICIPATED EVENTS OR CIRCUMSTANCES AFTER THE DATE OF SUCH STATEMENTS.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item appears under the caption "Asset and Liability Management" included in Item 2 hereof and Note 4 to the Interim Consolidated Financial Statements included in Item 1 hereof, and is incorporated herein by reference.

## PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

| | |
|---|---|
| 3.1 | Amended and Restated Articles of Incorporation (1) |
| 3.2 | Amended and Restated Bylaws (2) |
| 4.0 | Form of Certificate of Common Stock (1) |
| 4.1 | Form of Indenture between the Company and Bank One, Columbus, NA as Trustee (1) |
| 4.2 | Form of Note due 2003 (included in Exhibit 4.1) (1) |
| 4.3 | Certificate of Trust of Ocwen Capital Trust I (3) |
| 4.4 | Amended and Restated Declaration of Trust of Ocwen Capital Trust I (3) |
| 4.5 | Form of Capital Security of Ocwen Capital Trust I (4) |
| 4.6 | Form of Indenture relating to 10 7/8% Junior Subordinated Debentures due 2027 of the Company (3) |
| 4.7 | Form of 10 7/8% Junior Subordinated Debentures due 2027 of the Company (4) |
| 4.8 | Form of Guarantee of the Company relating to the Capital Securities of Ocwen Capital Trust I (3) |
| 4.9 | Form of Indenture between the Company and The Bank of New York as Trustee (5) |
| 4.10 | Form of Subordinated Debentures due 2005 (6) |
| 10.1 | Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, as amended (6) |
| 10.2 | Annual Incentive Plan (1) |
| 10.3 | Ocwen Financial Corporation 1996 Stock Plan for Directors, as amended (7) |
| 10.4 | Ocwen Financial Corporation 1998 Annual Incentive Plan (7) |
| 10.5 | Ocwen Financial Corporation Long-Term Incentive Plan (7) |
| 10.6 | Loan Facility Agreement between Ocwen Limited, Greenwich International, LTD, and Ocwen Financial Corporation (8) |
| 27.1 | Financial Data Schedule-For the three months ended March 31, 1999 |

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

(2) Incorporated by reference to the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998.

(3) Incorporated by reference to the similarly identified exhibit filed in connection with the Registrant's Registration Statement on Form S-1 (File No. 333-28889), as amended, declared effective by the Commission on August 6, 1997.

(4) Incorporated by reference to similarly described exhibit included with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.

(5) Incorporated by reference to the similarly described exhibit filed in connection with Amendment No. 2 to Offering Circular on Form OC (on Form S-1) filed on June 7, 1995.

(6) Incorporated by reference to the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-8, File No. 333-44999, effective when filed with the Commission on January 28, 1998.

(7) Incorporated by reference to the similarly described exhibit to the Registrant's Definitive Proxy Statement with respect to the Company's 1998 Annual Meeting as filed with the Commission on March 31, 1998.

(8) Incorporated by reference to the similarly described exhibit included with the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.

(b) Reports on Form 8-K.

(1) A Form 8-K was filed by the Company on April 16, 1999 which contained a news release announcing its proposed combination with Ocwen Asset Investment Corp. and share repurchase program.

(2) A Form 8-K was filed by the Company on May 6, 1999 which contained a news release announcing its financial results for the three months ended March 31, 1999.

SIGNATURE

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

Ocwen Financial Corporation

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

Date: May 17, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM OCWEN FINANCIAL CORPORATION'S CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AND CONSOLIDATED STATEMENT OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS FROM ITS FILING ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 1999.

0000873860
OCWEN FINANCIAL CORP.
1,000
USD

3-MOS
DEC-31-1999
JAN-01-1999
MAR-31-1999
1
80,399
18,798
200,500
0
566,739
10,825
10,825
1,444,785
27,838
3,130,694
1,841,427
403,234
89,204
223,000
0
0
608
447,636
3,130,694
44,298
17,840
3,396
65,534
26,828
38,798
26,736
3,739
4,394
55,522
11,805
11,805
0
0
9,470
0.16
0.16
11.52
489,335
0
0
0
26,330
2,384
153
27,838
27,838
0
0

TAG 9-03(7) INCLUDES LOANS AVAILABLE FOR SALE OF $374,094, LOAN PORTFOLIO OF $177,511, AND DISCOUNT LOAN PORTFOLIO OF $893,180.

TAG 9-03(7)(2) INCLUDES ALLOWANCE FOR LOAN LOSSES ON LOAN PORTFOLIO OF $3,970 AND ON THE DISCOUNT LOAN PORTFOLIO OF $23,868.

TAG 9-03(13) INCLUDES SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE OF $78,474 AND OBLIGATIONS OUTSTANDING UNDER LINES OF CREDIT OF $324,760.

TAG 9-04(1) INCLUDES INTEREST INCOME ON LOANS AVAILABLE FOR SALE OF $8,130, ON LOAN PORTFOLIO OF $6,165, AND ON DISCOUNT LOANS OF $30,003.

TAG 9-04(14) INCLUDES NON-INTEREST EXPENSE OF $52,123 AND DISTRIBUTIONS ON COMPANY OBLIGATED, MANDATORILY REDEEMABLE SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY OF $3,399.