

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1998

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  
-----  
(State or other jurisdiction  
of incorporation or organization)

65-0039856  
-----  
(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  No .

Number of shares of Common Stock, \$.01 par value, outstanding as of May 12, 1998: 60,708,739

OCWEN FINANCIAL CORPORATION  
FORM 10-Q

I N D E X

=====

PART I - FINANCIAL INFORMATION	Page
	----
Item 1. Interim Consolidated Financial Statements (Unaudited).....	3
Consolidated Statements of Financial Condition at March 31, 1998 and December 31, 1997.....	3
Consolidated Statements of Operations for the three months ended March 31, 1998 and 1997.....	4
Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 1998 and the year ended December 31, 1997.....	5
Consolidated Statements of Cash Flows for the three months ended March 31, 1998 and 1997.....	6
Notes to Consolidated Financial Statements.....	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk.....	44
PART II - OTHER INFORMATION	
Item 6. Exhibits and Reports on Form 8-K.....	46
Signature.....	48



PART I - FINANCIAL INFORMATION

ITEM 1. INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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

	March 31, 1998	December 31, 1997
	-----	-----
<b>Assets</b>		
Cash and amounts due from depository institutions .....	\$ 17,830	\$ 12,243
Interest earning deposits .....	31,269	140,001
Federal funds sold and repurchase agreements .....	104,000	--
Securities available for sale, at market value .....	650,200	476,796
Loans available for sale, at lower of cost or market .....	493,106	177,041
Investment securities, net .....	61,314	13,295
Loan portfolio, net .....	280,518	266,299
Discount loan portfolio, net .....	1,171,623	1,434,176
Investments in low-income housing tax credit interests .....	118,964	128,614
Investment in joint ventures .....	1,056	1,056
Real estate owned, net .....	172,693	167,265
Investment in real estate .....	60,946	65,972
Premises and equipment, net .....	22,568	21,542
Income taxes receivable .....	19,422	--
Deferred tax asset .....	48,261	45,148
Excess of purchase price over net assets acquired .....	23,403	15,560
Principal, interest and dividends receivable .....	23,076	17,284
Escrow advances on loans .....	48,214	47,888
Other assets .....	72,679	38,985
	-----	-----
	\$ 3,421,142	\$ 3,069,165
	=====	=====
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Deposits .....	\$ 1,933,594	\$ 1,982,822
Securities sold under agreements to repurchase .....	168,419	108,250
Obligations outstanding under lines of credit .....	441,671	118,304
Notes, debentures and other interest bearing obligations .....	226,812	226,975
Accrued interest payable .....	42,258	32,238
Income taxes payable .....	--	3,132
Accrued expenses, payables and other liabilities .....	34,695	51,709
	-----	-----
Total liabilities .....	2,847,449	2,523,430
	-----	-----
Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company .....	125,000	125,000
Minority interest .....	1,381	1,043
<b>Commitments and contingencies (Note 9)</b>		
<b>Stockholders' equity:</b>		
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; 60,708,735 and 60,565,835 shares issued and outstanding at March 31, 1998 and December 31, 1997, respectively .....	607	606
Additional paid-in capital .....	164,865	164,751
Retained earnings .....	281,695	259,349
Unrealized gain (loss) on securities available for sale, net of taxes .....	145	(5,014)
	-----	-----
Total stockholders' equity .....	447,312	419,692
	-----	-----
	\$ 3,421,142	\$ 3,069,165
	=====	=====

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,	1998	1997
<b>Interest income:</b>		
Federal funds sold and repurchase agreements .....	\$ 1,032	\$ 1,658
Securities available for sale .....	3,962	8,173
Securities held for trading .....	--	248
Loans available for sale .....	9,503	2,851
Loans .....	6,262	10,692
Discount loans .....	36,797	30,224
Investment securities and other .....	485	681
	58,041	54,527
<b>Interest expense:</b>		
Deposits .....	27,845	29,894
Securities sold under agreements to repurchase .....	1,639	272
Advances from the Federal Home Loan Bank .....	100	283
Obligations outstanding under lines of credit .....	4,520	--
Notes, debentures and other interest bearing obligations .....	6,752	6,715
	40,856	37,164
Net interest income before provision for loan losses ...	17,185	17,363
Provision for loan losses .....	2,254	9,742
	14,931	7,621
<b>Non-interest income:</b>		
Servicing fees and other charges .....	9,772	5,236
Gains on sales of interest earning assets, net .....	28,737	16,778
Gain (loss) on real estate owned, net .....	1,026	(794)
Other income .....	5,871	131
	45,406	21,351
<b>Non-interest expense:</b>		
Compensation and employee benefits .....	21,482	14,923
Occupancy and equipment .....	6,457	2,829
Net operating loss on investments in real estate and certain low-income housing tax credit interests .....	1,246	1,093
Other operating expenses .....	4,868	3,852
	34,053	22,697
Distributions on Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company .....	3,398	--
Equity in earnings of investment in joint venture .....	--	14,372
Income before income taxes .....	22,886	20,647
Income tax expense .....	(573)	(3,606)
Minority interest in net loss of consolidated subsidiary ..	33	--
	\$ 22,346	\$ 17,041
	=====	=====
<b>Earnings per share:</b>		
Basic .....	\$ 0.37	\$ 0.32
	=====	=====
Diluted .....	\$ 0.36	\$ 0.31
	=====	=====
<b>Weighted average common shares outstanding:</b>		
Basic .....	60,708,735	53,599,006
	=====	=====
Diluted .....	61,542,122	54,146,732
	=====	=====

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)  
FOR THE THREE MONTHS ENDED MARCH 31, 1998 AND THE YEAR ENDED DECEMBER 31, 1997

	Common Stock		Additional paid-in capital	Retained earnings	Unrealized gain (loss) on securities, net of taxes	Notes receivable on exercise of common stock options	Total
	Shares	Amount					
Balances at December 31, 1996 .....	53,488,340	\$ 535	\$ 22,990	\$ 180,417	\$ 3,486	\$ (3,832)	\$ 203,596
Net income .....	--	--	--	78,932	--	--	78,932
Repurchase of common stock options .	--	--	(3,208)	--	--	--	(3,208)
Exercise of common stock options ...	171,297	2	3,035	--	--	--	3,037
Issuance of common stock .....	6,906,198	69	141,934	--	--	--	142,003
Repayment of notes receivable on exercise of common stock options, net of advances .....	--	--	--	--	--	3,832	3,832
Change in unrealized gain (loss) on securities net of taxes .....	--	--	--	--	(8,500)	--	(8,500)
Balances at December 31, 1997 .....	60,565,835	606	164,751	259,349	(5,014)	--	419,692
Net income .....	--	--	--	22,346	--	--	22,346
Repurchase of common stock options .	--	--	(14,107)	--	--	--	(14,107)
Exercise of common stock options ...	142,900	1	14,221	--	--	--	14,222
Change in unrealized gain (loss) on securities, net of taxes .....	--	--	--	--	5,159	--	5,159
Balances at March 31, 1998 .....	60,708,735	\$ 607	\$ 164,865	\$ 281,695	\$ 145	\$ --	\$ 447,312

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,	1998	1997
<b>Cash flows from operating activities:</b>		
Net income .....	\$ 22,346	\$ 17,041
Adjustments to reconcile net income to net cash provided by operating activities:		
Net cash provided from trading activities .....	24,629	85,167
Proceeds from sales of loans available for sale .....	166,577	88,184
Purchases of loans available for sale .....	(321,716)	(37,667)
Origination of loans available for sale .....	(182,522)	(28,164)
Principal payments received on loans available for sale .....	19,868	3,010
Premium amortization (discount accretion), net .....	40,524	11,029
Depreciation and amortization .....	7,940	4,579
Provision for loan losses .....	2,254	9,742
Gains on sales of interest in tax credit partnership interests .....	(28,737)	(16,778)
Provision for real estate owned .....	4,234	2,337
Gain on sale of real estate owned, net .....	(8,763)	(3,898)
Gain on sale of interest in tax credit partnership interests .....	(4,746)	--
(Increase) decrease in principal, interest and dividends receivable ....	(5,792)	1,080
(Increase) decrease in income taxes receivable .....	(22,554)	918
(Increase) decrease in deferred tax asset .....	(1,558)	2,181
Increase in escrow advances .....	(326)	(6,419)
(Increase) decrease in other assets .....	(25,582)	1,254
Decrease in accrued expenses, interest payable and other liabilities ...	(6,994)	(9,400)
	(320,918)	124,196
	=====	=====
<b>Cash flows from investing activities:</b>		
Proceeds from sales of securities available for sale .....	3,658	14,631
Purchases of securities available for sale .....	(242,565)	(21,679)
Maturities of and principal payments received on securities available for sale .....	31,738	3,831
Purchase of securities held for investment .....	(45,415)	(2,306)
Purchase of low income housing tax credit interests .....	(8,226)	(9,966)
Proceeds from sales of discount loans .....	240,688	86,061
Proceeds from sales of loans held for investment .....	--	1,192
Purchase and originations of loans held for investment, net of undisbursed loan funds .....	(43,713)	(31,104)
Purchase of discount loans .....	(64,774)	(401,390)
Decrease in real estate held for investment .....	5,026	--
Decrease in investment in joint ventures .....	--	34,542
Principal payments received on loans held for investment .....	29,995	19,303
Principal payments received on discount loans .....	49,267	48,117
Proceeds from sales of real estate owned .....	50,660	48,768
Purchase of real estate owned in connection with discount loan purchases	(2,915)	--
Acquisition of DTS Communications, Inc. ....	(8,064)	--
Additions to premises and equipment .....	(7,847)	--
Other, net .....	--	(2,826)
	(12,487)	(212,826)
	=====	=====

(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,	1998	1997
Cash flows from financing activities:		
(Decrease) increase in deposits .....	\$ (49,228)	\$ 187,180
Increase (decrease) in securities sold under agreements to repurchase	60,169	(35,322)
Repayment of short-term notes.....	(163)	--
Proceeds from issuance of obligations under lines of credit, net of repayments .....	323,367	--
Loans made to executive officers, net of repayments .....	--	1,505
Exercise of common stock options .....	14,222	1,722
Repurchase of common stock options .....	(14,107)	(1,870)
Other, net .....	--	(36)
	-----	-----
Net cash provided by financing activities .....	334,260	153,179
	-----	-----
Net increase in cash and cash equivalents .....	855	64,549
Cash and cash equivalents at beginning of period .....	152,244	52,219
	-----	-----
Cash and cash equivalents at end of period .....	\$ 153,099	\$ 116,768
	=====	=====
Reconciliation of cash and cash equivalents at end of period:		
Cash and amounts due from depository institutions .....	\$ 17,830	\$ 8,966
Interest earning deposits .....	31,269	8,802
Federal funds sold and repurchase agreements .....	104,000	99,000
	-----	-----
	\$ 153,099	\$ 116,768
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest .....	\$ 30,836	\$ 36,206
	=====	=====
Income taxes .....	\$ 21,653	\$ 509
	=====	=====
Supplemental schedule of non-cash investing and financing activities:		
Real estate owned acquired through foreclosure .....	\$ 43,704	\$ 42,095
	=====	=====

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

OCWEN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

=====

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 ("Ocwen" or the "Company") and its subsidiaries. Ocwen owns directly and indirectly all of the outstanding common and preferred stock of its primary subsidiaries, Ocwen Federal Bank FSB (the "Bank") and Investors Mortgage Insurance Holding Company ("IMI"). Ocwen also owns 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.

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, 1998 and December 31, 1997, the results of its operations for the three months ended March 31, 1998 and 1997, its cash flows for the three months ended March 31, 1998 and 1997, and its changes in stockholders' equity for the year ended December 31, 1997 and the three months ended March 31, 1998. The results of operations and other data for the three month period ended March 31, 1998 are not necessarily indicative of the results that may be expected for any other interim periods or the entire year ending December 31, 1998. 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 Form 10-K for the year ended December 31, 1997. Certain reclassifications have been made to the prior period's consolidated financial statements to conform to the March 31, 1998 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 ADOPTION OF RECENTLY ISSUED ACCOUNTING STANDARDS

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

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires the inclusion of comprehensive income, either in a separate statement for comprehensive income, or as part of a combined statement of income and comprehensive income in a full-set of general-purpose financial statements. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. SFAS No. 130 requires that comprehensive income be presented beginning with net income, adding the elements of comprehensive income not included in the determination of net income, to arrive at comprehensive income. SFAS No. 130 also requires that an enterprise display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the statement of financial position. SFAS No. 130 is effective for the Company's fiscal year beginning January 1, 1998. SFAS No. 130 requires the presentation of



OCWEN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

=====

information already contained in the Company's financial statements and therefore did not have an impact on the Company's financial position or results of operation upon adoption.

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

NOTE 3 ACQUISITION AND DISPOSITION TRANSACTIONS

On November 6, 1997, the Company acquired AMOS, Inc., a Connecticut based company engaged primarily in the development of mortgage loan servicing software. AMOS' products are Microsoft(R) Windows(R) based, client/server architecture and feature real-time processing, year 2000 compliance, a scaleable database platform and strong workflow capabilities. The aggregate purchase price was \$9.7 million, including \$4.9 million which is contingent on AMOS, Inc. meeting certain software development performance criteria. The excess of purchase price over net assets acquired related to this transaction, which amounted to \$4,807, net of accumulated amortization of \$131 at March 31, 1998, is amortized on a straight-line basis over a period of 15 years.

On January 20, 1998, the Company acquired DTS Communications, Inc. ("DTS"), a real estate technology company located in San Diego, California, for a purchase price of \$13.0 million in cash, common stock of the Company and repayment of certain indebtedness. DTS has developed technology tools to automate real estate transactions over the Internet. DTS has been recognized by Microsoft Corporation for the Microsoft(R) component-based architecture to facilitate electronic data interchange. The common stock of the Company issued in the acquisition was acquired from affiliates of the Company at the same price per share as was used to calculate the number of shares issued in the acquisition. The excess of purchase price over net assets acquired related to this transaction, which amounted to \$7,959, net of accumulated amortization of \$105 at March 31, 1998, is amortized on a straight-line basis over a period of 15 years.

The Company's investment in joint venture includes an investment in BCFL, L.L.C. ("BCFL"), a limited liability corporation formed in January 1997 between the Company and BlackRock Capital Finance L.P. ("BlackRock"). The Company owns a 10% interest in BCFL which was formed to acquire multifamily loans. At March 31, 1998, the Company's 10% investment, which is accounted for under the cost method, amounted to \$1,056.

On December 12, 1997, BCBF, L.L.C., (the "LLC"), a limited liability company formed in March 1996 between the Company and BlackRock distributed all of its assets to the Company and its other 50% investor, BlackRock. Simultaneously, the Company acquired BlackRock's portion of the distributed assets.

The Company's equity in earnings of the LLC of \$0 and \$14,372 for the first quarter of 1998 and 1997, respectively, includes 50% of the net income of the LLC before deduction of the Company's 50% share of loan servicing fees which are paid 100% to the Bank. Equity in earnings for the three months ended March 31, 1997 includes the recapture of \$2,641 of valuation allowances established in 1996 by the Company on its equity investment in the joint venture as a result of the resolution and securitization of loans during the first quarter of 1997. The Bank has recognized 50% of the loan servicing fees not eliminated in consolidation in servicing fees and other charges.

OCWEN FINANCIAL CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 MARCH 31, 1998  
 (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

Set forth below is the statement of operations of the LLC for the three months ended March 31, 1997.

BCBF, L.L.C.  
 STATEMENTS OF OPERATIONS  
 For the Three Months Ended March 31, 1997

Interest income .....	\$ 3,485
Interest expense .....	--
	-----
Net interest income .....	3,485
	-----
Non-interest income:	
Gain on sale of loans held for sale .....	18,412
Gain on real estate owned, net .....	1,543
Loan fees .....	22
	-----
	19,977
	-----
Operating expenses:	
Loan servicing fees .....	676
Other loan expenses .....	--
	-----
	676
	-----
Net income .....	\$ 22,786
	=====

In March, 1997, as part of a larger transaction involving the Company and an affiliate of BlackRock, the LLC securitized 1,196 loans with an unpaid principal balance of \$51,714 and past due interest of \$14,209, and a net book value of \$40,454. Proceeds from sales of such securities by the LLC amounted to \$58,866.

NOTE 4 CAPITAL SECURITIES

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

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

OCWEN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

=====

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, Ocwen Capital Trust I is treated as a subsidiary of the Company and, accordingly, the accounts of Ocwen Capital Trust I are included in the consolidated financial statements of the Company. 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. 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 5 COMPREHENSIVE INCOME

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. SFAS No. 130 requires that comprehensive income be presented beginning with net income, adding the elements of comprehensive income not included in the determination of net income, to arrive at comprehensive income. Comprehensive income for the three months ended March 31, 1998 and 1997 amounted to \$27,505 and \$20,203, respectively.

OCWEN FINANCIAL CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 MARCH 31, 1998  
 (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 6 INTEREST RATE RISK MANAGEMENT INSTRUMENTS

In managing its interest rate risk, the Company on occasion enters into swaps. Under swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The terms of the swaps provide for the Company to receive a floating rate of interest 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 of the mortgages underlying the securities being hedged. The terms of the outstanding interest rate swaps at March 31, 1998 and December 31, 1997 follow:

	Maturity	Notional Amount	LIBOR Index	Fixed Rate	Floating Rate at End of Period	Fair Value
MARCH 31, 1998.....	1998	\$ 36,860	1-Month	6.18%	6.69%	\$ (843)
DECEMBER 31, 1997....	1998	\$ 36,860	1-Month	6.18%	5.69%	\$ (94)

The 1-month LIBOR was 5.69% and 5.72% on March 31, 1998 and December 31, 1997, respectively.

On February 25, 1998, the Company entered into a foreign currency swap with a AAA-rated counterparty to hedge certain cash flows in connection with its investment in 35% of the outstanding common stock of Kensington Mortgage Company, a leading originator of nonconforming residential mortgages in the U.K. Under the terms of the agreement, 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 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. U.S. Treasury futures have been sold by the Company to hedge the risk of a reduction in the market value of fixed-rate mortgage loans and certain fixed-rate mortgage-backed and related securities available for sale in a rising interest rate environment.

Terms and other information on interest rate futures contracts sold short were as follows at the dates indicated:

	Maturity	Notional Principal	Fair Value
MARCH 31, 1998:			
U.S. Treasury futures...	1998	\$ 326,000	\$ (508)
DECEMBER 31, 1997:			
U.S. Treasury futures...	1998	\$ 194,500	\$ 1,996

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

NOTE 7 STOCK SPLIT

On October 29, 1997, the Company's Board of Directors approved a 2-for-1 stock split of its issued and outstanding common stock, par value \$.01 per share. The stock split was effected through the distribution of authorized but unissued shares of its common stock on November 20, 1997, to holders of record of its common stock at the close

OCWEN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

=====

of business on November 12, 1997. All references in the interim consolidated financial statements to the number of shares and per share amounts have been adjusted retroactively for the stock split.

NOTE 8 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, 1998, the minimum regulatory capital requirements were:

- o Tangible and core capital of 1.5 percent and 3.0 percent of total adjusted assets, respectively, consisting principally of stockholders' equity, but excluding most intangible assets, such as goodwill and any net unrealized holding gains or losses on debt securities available for sale.
- o Risk-based capital consisting of core capital plus certain subordinated debt and other capital instruments and, subject to certain limitations, general valuation allowances on loans receivable, equal to 8.0 percent of the value of risk-weighted assets.

At March 31, 1998, 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 and must not be subject to any written agreement, order or directive issued by the OTS to meet and maintain a specific capital level for any capital measure. 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, 1998 that management believes have changed the institution's category.

OCWEN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

The following tables summarize the Bank's actual and required regulatory capital at March 31, 1998:

	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized for Prompt Corrective Action Provisions		Agreed Upon Capital Requirements
	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Stockholders' equity, and ratio to total assets.....	10.16%	\$ 253,746					
Net unrealized loss on certain available for sale securities ....		3,544					
Excess mortgage servicing rights and deferred tax assets .....		(1,217)					
Tangible capital, and ratio to adjusted total assets.....	10.24%	\$ 256,073	1.50%	\$ 37,501			
Tier 1 (core) capital, and ratio to adjusted total assets.....	10.24%	\$ 256,073	3.00%	\$ 75,003	5.00%	\$ 125,005	9.00%
Tier 1 capital, and ratio to risk-weighted assets.....	12.82%	\$ 256,073			6.00%	\$ 119,876	
Allowance for loan and lease losses.		19,249					
Subordinated debentures.....		100,000					
Tier 2 capital.....		119,249					
Low-level recourse deduction.....		(15,917)					
Total risk-based capital, and ratio to risk-weighted assets.....	17.99%	\$ 359,405	8.00%	\$ 159,835	10.00%	\$ 199,794	13.00%
Total regulatory assets.....		\$ 2,497,768					
Adjusted total assets.....		\$ 2,500,095					
Risk-weighted assets.....		\$ 1,997,940					

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 March 31, 1998. A Tier 1 association that before and after a proposed capital distribution meets or exceeds its fully phased-in capital requirements may make capital distributions during any calendar year equal to the greater of (i) 100% of net income for the calendar year to date plus 50% of its "surplus capital ratio" at the beginning of the year or (ii) 75% of its net income over the most recent four-quarter period. In order to make these capital distributions, the Bank must submit written notice to the OTS 30 days in advance of making the distribution. Notwithstanding the foregoing, however, the Bank's ability to make capital distributions as a Tier 1 institution is limited by agreements between it and the OTS to maintain specified capital levels and to dividend to Ocwen subordinate and residual securities resulting from the Bank's securitization activities.

In addition to these OTS regulations governing capital distributions, the indenture governing the \$100,000 of 12% subordinated debentures (the "Debentures") due 2005 and issued by the Bank on June 12, 1995 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.

In connection with an examination of the Bank in late 1996 and early 1997, the staff of the OTS expressed concern about many of the Bank's non-traditional operations, which generally are deemed by the OTS to involve higher risk, certain of the Bank's accounting policies and the adequacy of the

Bank's capital in light of the Bank's lending and investment strategies. The activities which were of concern to the OTS included the Bank's subprime

OCWEN FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

=====

single family residential lending activities, the Bank's origination of acquisition, development and construction loans with terms which provide for shared participation in the results of the underlying real estate, the Bank's discount loan activities, which involve significantly higher investment in nonperforming and classified assets than the majority of the savings and loan industry, and the Bank's investment in subordinated classes of mortgage-related securities issued in connection with the Bank's asset securitization activities and otherwise.

Following the above-referenced examination, the Bank committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9% and 13%, respectively. The Bank continues to be in compliance with this commitment as well as the regulatory capital requirements of general applicability (as indicated 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 required to be maintained by it pursuant to such commitment.

NOTE 9 COMMITMENTS AND CONTINGENCIES

At March 31, 1998 the Company had commitments to (i) purchase and originate \$107,812 of subprime loans secured by single family residential properties, (ii) fund \$29,956 of loans secured by multi-family residential buildings, (iii) fund \$16,798 of loans secured by office buildings and (iv) fund \$5,125 of loans secured by hotel properties. The Company, through its investment in subordinate securities and REMIC residuals which had a book value of \$108,852 at March 31, 1998, supports senior classes of mortgage-related securities having an outstanding principal balance of \$2,383,241.



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

GENERAL

The Company's business activities currently consist primarily of its single family, small commercial and large commercial discount loan acquisition and resolution activities, commercial real estate lending, subprime single family residential lending, mortgage loans serviced for others, 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.

At March 31, 1998, the only significant subsidiaries of the Company, other than the Bank, were IMI, OFS and Ocwen Capital Trust I. Prior to July 15, 1997, IMI, through subsidiaries, owned and managed the Westin Hotel (the "Hotel") in Columbus, Ohio. On July 15, 1997, IMI sold a 69% partnership interest in the Hotel for a minimal gain and no longer manages the Hotel. In addition, as of March 31, 1998, IMI owned 8.12% or 1,540,000 shares of the outstanding common stock of Ocwen Asset Investment Corp. ("OAC"), as well as 1.74% or 335,000 units of Ocwen Partnership, L.P. ("OPLP"), the operating partnership formed to undertake the business of OAC and, through subsidiaries, also owns non-residential real estate properties as well as residential units in cooperative buildings. OFS was formed in October 1996 for the purpose of purchasing substantially all of the assets of Admiral (a transaction which closed on May 1, 1997), the Company's primary correspondent mortgage banking firm for subprime single family residential loans, and assuming all of the Bank's subprime single family residential lending operations. Ocwen Capital Trust I, a wholly owned subsidiary of Ocwen, was formed for the express purpose of issuing \$125.0 million of 10 7/8% Capital Securities, the proceeds of which were invested in 10 7/8% Junior Subordinated Debentures issued by Ocwen.

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

RECENT DEVELOPMENTS

On January 30, 1998, the Company was assigned the special servicing rights to a pool of 6,309 subprime mortgage loans underlying a subordinate security acquired by OAC, a publicly held real estate investment trust managed by Ocwen Capital Corporation ("OCC"), a wholly owned subsidiary of Ocwen. The Company, through the Bank, will become the special servicer of any loans which are 60 days or more delinquent.

On March 13, 1998, DTS Communications, Inc. ("DTS"), a wholly-owned real estate technology subsidiary of Ocwen, was honored from over 100 nominees as the recipient of this year's Inman Innovator Award for "Software Applications that help the Real Estate Industry be more efficient and speed up the Real Estate Transaction Process." DTS has developed technology tools to automate real estate transactions over the Internet. DTS Data Trak (TM) software allows real estate professionals access to ancillary services necessary to close a real estate transaction or loan. DTS has been recognized by Microsoft Corporation for its Microsoft(R) component-based architecture to facilitate electronic data interchange. DTS continues to attract mortgage origination, loss mitigation, mortgage servicing and real estate brokerage firms seeking to reduce the time necessary to order, track and process services used to close real estate transactions. It is anticipated that five of the top mortgage originators will be on-line by the end of the fourth quarter.

On March 17, 1998, pursuant to a definitive agreement executed by OAC with a Wall Street firm related to OAC's acquisition of a subordinate security, the Bank was designated the special servicer for the nonperforming securitized loans underlying the subordinate security.

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

=====

On March 18, 1998, the Company completed the securitization of 1,439 subprime single family residential mortgage loans with an aggregate unpaid principal balance of \$161.4 million. The Company recorded total gains of \$7.9 million on the sale of the senior classes of securities in connection with this transaction. The Company continues to service the loans for a fee and has retained an interest in the related subordinate security.

On March 25, 1998, Standard & Poor's raised its counterparty rating on Ocwen to "BB-" from "B+". Standard & Poor's also raised the counterparty rating on the Bank to "BB+" from "BB". The "B-" trust preferred rating of Ocwen Capital Trust I was affirmed.

On March 26, 1998, the Company, as part of a larger transaction involving the Company, BlackRock and Union Bank of Switzerland ("UBS"), completed the securitization of 3,777 discount single family residential mortgage loans with an aggregate unpaid principal balance of \$227.5 million. The Company recorded total gains of \$16.7 million on the sale of the senior classes of securities in connection with this transaction. The Company continues to service the loans for a fee and has retained an interest in the related subordinated security.

On March 31, 1998, the Company completed the sale of its investment in two low-income housing tax credit projects and realized a gain of \$4.7 million on proceeds of \$21.9 million.

On March 31, 1998, the Company purchased 7,518 additional shares of common stock of OFS for \$40.0 million, increasing its ownership from 93.7% to 97.8%.

On April 28, 1998, the Company and OAC announced the joint closing of the transaction previously agreed to by the Company for the acquisition of substantially all of the assets, and certain liabilities, of the United Kingdom operations of Cityscape Financial Corp. ("Cityscape"). As consummated, the Company acquired Cityscape's U.K. mortgage loan portfolio and mortgage loan origination and servicing businesses for (pound)249.6 million (\$407.5 million) and assumed (pound)7.2 million (\$11.8 million) of Cityscape's liabilities. OAC acquired Cityscape's U.K. securitized mortgage loan residuals for (pound)33.7 million (\$55.0 million). The amount paid by the Company was funded with both cash on hand and a loan from Greenwich International Ltd. in the principal amount of (pound)225.3 million (\$367.8 million) and is subject to adjustment to account for the actual balances on the closing date of the mortgage loan portfolio and the assumed liabilities. In addition, the Company and OAC entered into an agreement for the Bank to service the securitized mortgage loan residuals purchased by OAC in the transaction.

On May 1, 1998, the Company acquired 3,228 single family residential discount loans with an unpaid principal balance of \$217.7 million from UBS for approximately \$185.5 million.

On March 31, 1998, the Company entered into a master repurchase agreement with Lehman Commercial Paper, Inc. to finance the Company's purchase of \$292.8 million of single family residential loans from the U.S. operations of Cityscape.

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

=====

CONSOLIDATED FINANCIAL HIGHLIGHTS

	At or for the Three Months Ended March 31,		
	1998	1997	Change
	-----		
	(Dollars in thousands, except share data)		
Net interest income.....	\$ 17,185	\$ 17,363	(1)%
Provision for loan losses.....	2,254	9,742	(77)
Non-interest income.....	45,406	21,351	113
Non-interest expense.....	34,053	22,697	50
Equity in earnings of investment in joint ventures...	--	14,372	(100)
Net income.....	22,346	17,041	31
PER COMMON SHARE (1)			
Earnings per share:			
Basic.....	\$ 0.37	\$ 0.32	16%
Diluted.....	\$ 0.36	\$ 0.31	16%
Stock price:			
High .....	\$ 30.75	34.75	(12)%
Low .....	22.25	25.25	(12)
Close.....	27.75	29.00	(4)
AVERAGE BALANCES			
Interest-earning assets.....	\$ 2,641,517	\$ 2,167,601	22%
Interest-bearing liabilities.....	2,459,400	2,259,367	9
Stockholders' equity.....	430,681	212,706	102
KEY RATIOS			
Interest rate spread:			
Yield on interest-earning assets.....	8.79%	10.06%	(13)%
Cost of interest-bearing liabilities.....	6.64	6.58	1
Interest rate spread.....	2.15	3.48	(38)
Annualized return on average assets (2).....	2.88	2.61	10
Annualized return on average equity .....	20.75	32.05	(35)
Efficiency ratio(3).....	54.41	42.76	27
Core (leverage) capital ratio.....	10.24	9.48	8
Risk-based capital ratio.....	17.99	13.22	36

- (1) Retroactively adjusted for the 2-for-1 stock split approved by the Company's Board of Directors on October 29, 1997.
- (2) Includes the Company's pro rata share of average assets held by its 50% joint venture for the three months ended March 31, 1997.
- (3) Before provision for loan losses and including for the three months ended March 31, 1997 equity in earnings of investment in joint venture.

FIRST QUARTER SUMMARY

The Company recorded net income of \$22.3 million for the three months ended March 31, 1998 as compared to \$17.0 million for the same period in 1997. This increase in net income was attributable to an increase in non-interest income and a lower provision for loan losses, offset in part by an increase in non-interest expense. Diluted earnings per share were \$0.36 for the first quarter of 1998 as compared to \$0.31 for the first quarter of 1997.

The \$178,000 or 1% decrease in net interest income during the first quarter of 1998 as compared to the first quarter of 1997 is primarily due to an \$8.5 million write down offset by the reversal of \$4.5 million of reserves related to the securities available for sale portfolio during the first quarter of 1998 due to declining interest rates and the resulting increase in prepayment speeds. This decline is largely offset by a \$473.9 million increase in average interest-earnings assets, primarily discount loans and loans available for sale.

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

The \$7.5 million decrease in the provision for loan losses for the three months ended March 31, 1998 as compared to the same period in 1997, is due primarily to a \$6.5 million decline in the loan loss provision for discount loans, which was largely attributable to the recapture of previously established provisions in connection with the securitization of single family residential discount loans during the first quarter of 1998.

The \$24.1 million or 113% increase in non-interest income for the three months ended March 31, 1998 is due primarily to a \$12.0 million increase in gains on sales of interest earning assets, a \$4.7 million gain recognized in connection with the sale of investments in two low-income housing tax credit projects and a \$4.5 million increase in servicing fees and other charges, reflecting a 200% increase in the average balance of loans serviced for others.

On December 12, 1997, the LLC distributed all of its remaining assets to its partners. As a result, no equity in earnings of investment in joint venture was recorded during the first quarter of 1998. During the first quarter of 1997, the Company recorded \$14.4 million of income related to its investment in joint venture.

Non-interest expense increased \$11.4 million or 50% during the three months ended March 31, 1998 as compared to the same period in 1997 primarily as a result of (i) a \$6.6 million increase in compensation and benefits, due to an 82% increase in the average number of employees and (ii) a \$3.6 million increase in occupancy and equipment expense.

Distributions on the 10 7/8% Capital Securities issued in August 1997 amounted to \$3.4 million for the first quarter of 1998 as compared to \$0 for the same period in 1997.

RESULTS OF OPERATIONS: THREE MONTHS ENDED MARCH 31, 1998 VERSUS THREE MONTHS ENDED MARCH 31, 1997

The Company continues to engage in significant discount loan acquisition and resolution activities and a variety of other mortgage lending activities, which generally reflect the Company's focus on business lines which offer the potential for greater returns without increased risk of loss. The following table presents the estimated contribution by business activity to the Company's net income for the periods indicated.

For the Three Months Ended March 31, (Dollars in Thousands)	1998		1997	
	Amount	%	Amount	%
Discount Loans:				
Single family residential loans .....	\$ 16,995	76%	\$ 6,329	37%
Large commercial real estate loans .....	2,863	13	2,610	15
Small commercial real estate loans .....	3,683	16	483	3
Investment in low-income housing tax credits .....	4,750	21	3,566	21
Commercial real estate lending .....	(384)	(2)	525	3
Subprime single family residential lending .	974	4	544	3
Mortgage loan servicing .....	1,528	7	934	6
Investment securities .....	(6,782)	(30)	1,714	10
Other .....	(1,281)	(5)	336	2
	\$ 22,346	100%	\$ 17,041	100%
	=====	===	=====	===

The Company's discount loan activities include asset acquisition, servicing and resolution of single family residential, large commercial and small commercial loans and the related real estate owned. Investment in low-income housing tax credits includes the Company's investments, primarily through limited partnerships, in qualified low-income rental housing for the purpose of obtaining Federal income tax credits pursuant to Section 42 of the Code. Low-income housing tax credits and benefits of \$4.7 million and \$3.6 million are included as credits against income tax expense for the three months ended March 31, 1998 and 1997, respectively. Commercial lending includes the

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

=====  
Company's origination of multi-family and commercial real estate loans held for investment. Subprime single family lending includes the Company's acquisition and origination of single family residential loans to nonconforming borrowers which are recorded as available for sale, and the Company's historical loan portfolio of single family residential loans held for investment. Mortgage loan servicing includes the Company's fee-for-services business of providing loan servicing, including asset management and resolution services, to third-party owners of nonperforming, underperforming and subprime assets. Investment securities includes the results of the securities portfolio, whether available for sale, trading or investment, other than REMIC residuals and subordinate interests related to the Company's securitization activities which have been included in the related business activity.

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

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.

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

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.

	Three months ended March 31,					
	1998			1997		
	Average Balance	Interest	Annualized Yield/Rate	Average Balance	Interest	Annualized Yield/Rate
(Dollars in thousands)						
<b>AVERAGE ASSETS:</b>						
Federal funds sold and repurchase agreements.....	\$ 79,885	\$ 1,032	5.17%	\$ 132,337	\$ 1,658	5.01%
Securities available for trading..	--	--	--	13,179	248	7.53
Securities available for sale (2).	527,058	3,962	3.01	338,956	8,173	9.64
Loans available for sale (1).....	339,394	9,503	11.20	118,729	2,851	9.61
Investment securities and other...	34,855	485	5.57	23,032	681	11.83
Loan portfolio (1).....	281,215	6,262	8.91	423,135	10,692	10.11
Discount loan portfolio.....	1,379,110	36,797	10.67	1,118,233	30,224	10.81
<b>Total interest-earning assets, interest income .....</b>	<b>2,641,517</b>	<b>58,041</b>	<b>8.79</b>	<b>2,167,601</b>	<b>54,527</b>	<b>10.06</b>
Non-interest earning cash.....	38,524			11,350		
Allowance for loan losses.....	(25,889)			(16,515)		
Investments in low-income housing tax credit interests ...	131,699			90,398		
Investment in joint ventures.....	1,056			63,637		
Real estate owned, net.....	171,952			112,227		
Other assets.....	147,630			179,156		
<b>Total assets.....</b>	<b>\$3,106,489</b>			<b>\$2,607,854</b>		
<b>AVERAGE LIABILITIES AND STOCKHOLDERS' EQUITY:</b>						
Interest-bearing demand deposits..	\$ 32,907	\$ 356	4.33%	\$ 24,699	\$ 227	3.68%
Savings deposits.....	1,735	10	2.31	2,620	15	2.29
Certificates of deposit.....	1,790,973	27,479	6.14	1,964,020	29,652	6.04
<b>Total interest-bearing deposits Notes, debentures and other.....</b>	<b>1,825,615</b>	<b>27,845</b>	<b>6.10</b>	<b>1,991,339</b>	<b>29,894</b>	<b>6.00</b>
Obligations outstanding under lines of credit.....	230,453	6,752	11.72	225,573	6,715	11.91
Securities sold under agreements to repurchase .....	281,218	4,520	6.43	--	--	--
Federal Home Loan Bank advances...	114,633	1,639	5.72	20,934	272	5.20
	7,481	100	5.35	21,521	283	5.26
<b>Total interest-bearing liabilities, interest expense</b>	<b>2,459,400</b>	<b>40,856</b>	<b>6.64</b>	<b>2,259,367</b>	<b>37,164</b>	<b>6.58</b>
Non-interest bearing deposits.....	23,536			15,543		
Escrow deposits.....	111,094			71,713		
Other liabilities.....	81,778			48,525		
<b>Total liabilities.....</b>	<b>2,675,808</b>			<b>2,395,148</b>		
Stockholders' equity.....	430,681			212,706		
<b>Total liabilities and stockholders' equity.....</b>	<b>\$3,106,489</b>			<b>\$2,607,854</b>		
Net interest income before provision for loan losses .....		\$ 17,185			\$ 17,363	
Net interest rate spread.....			2.15%			3.48%
Net interest margin.....			2.60%			3.20%
Ratio of interest-earning assets to interest-bearing liabilities.....	107%			96%		

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

- (1) The average balances of loans available for sale and loan portfolio include non-performing loans, interest on which is recognized on a cash basis.
- (2) Excludes effect of unrealized gains or losses on securities available for sale.

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 quarter ended March 31, (Dollars in thousands)	1998 vs. 1997		
	Increase (decrease) due to		
	Rate	Volume	Total
<b>Interest-Earning Assets:</b>			
Federal funds sold and repurchase agreements .....	\$ 50	\$ (676)	\$ (626)
Securities held for trading .....	--	(248)	(248)
Securities available for sale .....	(7,353)	3,142	(4,211)
Loans available for sale .....	546	6,106	6,652
Loans .....	(1,158)	(3,272)	(4,430)
Discount loans .....	(392)	6,965	6,573
Investment securities and other .....	(454)	258	(196)
<b>Total interest-earning assets .....</b>	<b>(8,761)</b>	<b>12,275</b>	<b>3,514</b>
<b>Interest-Bearing Liabilities:</b>			
Interest-bearing demand deposits .....	45	84	129
Savings deposits .....	--	(5)	(5)
Certificate of deposit .....	475	(2,648)	(2,173)
<b>Total interest-bearing deposits .....</b>	<b>520</b>	<b>(2,569)</b>	<b>(2,049)</b>
Notes, debentures and other interest-bearing obligations .....	(107)	144	37
Securities sold under agreements to repurchase .....	32	1,335	1,367
Obligations outstanding under lines of credit .....	--	4,520	4,520
Federal Home Loan Bank advances .....	5	(188)	(183)
<b>Total interest-bearing liabilities .....</b>	<b>450</b>	<b>3,242</b>	<b>3,692</b>
<b>Decrease in net interest income .....</b>	<b>\$ (9,211)</b>	<b>\$ 9,033</b>	<b>\$ (178)</b>

The Company's net interest income of \$17.2 million decreased \$178,000 or 1% during the three months ended March 31, 1998 as compared to the comparable period in the prior year. Interest income increased \$3.5 million or 6% due to a \$473.9 million or 22% increase in the Company's average interest-earning assets from period to period offset by an \$8.5 million write down net of the reversal of \$4.5 million of reserves taken against the securities available for sale portfolio during the first quarter of 1998, resulting in a 127 basis point decrease in the weighted average yield earned. Interest expense increased \$3.7 million or 10% due to a \$200.0 million or 9% increase in the Company's average interest-bearing liabilities. Of the \$200.0 million net increase in the average balance of interest-bearing liabilities, \$281.2 million and \$93.7 million related to increases in borrowings under lines of credit and securities sold under agreements to repurchase, respectively, offset by a \$173.0 million decline in certificates of deposit.

**INTEREST INCOME.** Interest income on the discount loan portfolio increased by \$6.6 million or 22% in the three months ended March 31, 1998 versus the three months ended March 31, 1997 primarily as a result of a \$260.9 million or 23% increase in the average balance of the discount loan portfolio.

Interest income on the loan portfolio decreased by \$4.4 million or 41% in the first quarter of 1998 from the comparable period in 1997 primarily due to \$141.9 million or 34% decrease in the average balance of the loan portfolio and a 120 basis point decline in the weighted average yield earned.

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

Interest income on loans available for sale increased \$6.7 million or 233% during the first quarter of 1998 as compared to the same period in 1997 primarily as a result of a \$220.7 million increase in the average balance and a 159 basis point increase in the weighted average yield earned.

Interest income on securities available for sale decreased by \$4.2 million or 52% during the first quarter of 1998 as compared to the same period in 1997 primarily as a result of a \$8.5 million write down net of the reversal of \$4.5 million of reserves taken against the securities available for sale portfolio, offset by a \$188.1 million or 55% increase in the average balance. The \$8.5 million write down recorded by the Company against its interest-only securities portfolio resulted from increases in projected prepayment speeds during this period and a resulting shortening of the weighted average lives of certain individual securities in the portfolio. As a result, a determination was made to write down the recorded investment in those securities where the reduction in fair value was considered to be other than temporary. The Company believes that the current low levels of interest rates, and the inverted shape of the yield curve, are relatively short-term phenomena. To the extent that longer term interest rates increase or the relationship between short-term and long-term rates revert to their historical spreads, the value of the portfolio should recover. To the extent that the current environment persists, or that rates decrease further, additional impairment losses may be recognized.

INTEREST EXPENSE. The \$3.7 million increase in interest expense during the three months ended March 31, 1998 as compared to the same period in 1997 is primarily due to \$4.5 million of interest expense incurred in connection with Company's use of lines of credit at OFS to fund its subprime single family residential lending growth. The average amount of the Company's borrowings under lines of credit increased from \$0 during the three months ended March 31, 1997 to \$281.2 million during the three months ended March 31, 1998. 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 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,	1998	1997
	(Dollars in Thousands)	
Discount loans.....	\$ 1,924	\$ 8,431
Loan portfolio.....	330	1,311
Total.....	\$ 2,254	\$ 9,742

The decline in the loan loss provision for discount loans during the three months ended March 31, 1998 is related to several factors. First, the provision for the three months ended March 31, 1998 includes the recapture of previously established provisions in connection with the securitization of single family residential discount loans during the first quarter of 1998. Second, the loan loss provision fluctuates in direct relation to net acquisitions and resolutions of discount loans. In the first quarter of 1998, the balance of discount loans (before allowance for losses) decreased by \$266.6 million, whereas in the first quarter of 1997, the balance of discount loans (before allowance for losses) increased by \$225.3 million. Third, the provision for the first quarter of 1997 included \$2.0 million of additional reserves provided in connection with the unsecuritized discount loans remaining from the first quarter securitization. No similar charges were taken in 1998. The decline in the loan loss provision for the loan portfolio is primarily due to a one-time charge of \$1.1 million in the first quarter of 1997 to reserve for losses on a specific loan.

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 1998. 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



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

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,	1998	1997
	(Dollars in Thousands)	
Servicing fees and other charges.....	\$ 9,772	\$ 5,236
Gains on sales of interest-earning assets, net.....	28,737	16,778
Gain on real estate owned, net.....	1,026	(794)
Other income.....	5,871	131
Total.....	\$ 45,406	\$ 21,351

The \$4.5 million increase in servicing fees and other charges during the first quarter of 1998 was due to an increase in loan servicing and related fees as a result of the Company's increase in loans (primarily subprime and non-performing) serviced for others. The average unpaid principal balance of loans serviced for others amounted to \$6.12 billion during the three months ended March 31, 1998, as compared to \$2.04 billion during the three months ended March 31, 1997.

The following table sets forth the Company's loans serviced for others at March 31, 1998.

	Discount Loans		Subprime Loans		Other Loans		Total	
	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans
Loans securitized .....	\$ 836,580	14,588	\$ 681,908	6,125	\$ --	--	\$1,518,488	20,713
Loans serviced for third parties .....	1,715,748	24,631	3,068,791	33,166	269,269	1,167	5,053,808	58,964
	\$2,552,328	39,219	\$3,750,699	39,291	\$ 269,269	1,167	\$6,572,296	79,677

Net gains on sales of interest-earning assets in the first quarter of 1998 were primarily comprised of a \$7.9 million gain recognized in connection with the securitization of 1,439 subprime single-family residential mortgage loans with an aggregate unpaid principal balance of \$161.4 million, a \$16.7 million gain recognized in connection with the securitization of 3,777 discount single family residential mortgage loans with an aggregate unpaid principal balance of \$227.5 million, a \$2.0 million gain recognized on the sale of \$12.9 million in unpaid principal balance of small commercial discount loans, and a \$2.3 million gain recognized on the sale of certain REMIC residual securities. The Company continues to service the securitized loans for a fee and has retained an interest in the related subordinate class securities with a combined book value of \$25.8 million. See table below. Net gains on sales of interest-earning assets in the first quarter of 1997 were primarily comprised of \$2.7 million of gains from sales of single family nonconforming loans, \$3.5 million of gains from sales of certain large commercial loans in the Company's discount loan portfolio and a \$9.5 million net gain in connection with the securitization completed in March 1997 of single family residential mortgage loans with an unpaid principal balance of \$44.8 million acquired from HUD.

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

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

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

Type of Loans	Loans Securitized		Book Value of Securities	
	Principal	No. of Loans	Retained	Net Gain
For the Three Months Ended March 31, 1998:				
Single family discount .....	\$ 227,549	3,777	\$ 15,917	\$ 16,698
Single family subprime .....	161,400	1,439	9,862	7,932
	<u>\$ 388,949</u>	<u>5,216</u>	<u>\$ 25,779</u>	<u>\$ 24,630</u>
For the Three Months Ended March 31, 1997:				
Single family discount .....	\$ 44,755	881	\$ 2,953	\$ 9,498

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,	1998	1997
	(Dollars in Thousands)	
Gains on sales .....	\$ 8,763	\$ 3,898
Provision for loss in fair value .....	(4,234)	(2,337)
Rental income (carrying costs), net .....	(3,503)	(2,355)
Gain (loss) on real estate owned, net .....	<u>\$ 1,026</u>	<u>\$ (794)</u>

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

Included in other income for the three months ended March 31, 1998 was a \$4.7 million gain recognized in connection with the sale of investments in two low-income housing tax credit projects. See "Changes in Financial Condition-Investments in Low-Income Housing Tax Credit Interests."

NON-INTEREST EXPENSE. 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,	1998	1997
	(Dollars in Thousands)	
Compensation and employee benefits .....	\$ 21,482	\$ 14,923
Occupancy and equipment .....	6,457	2,829
Net operating loss on investments in real estate and certain low-income housing tax credit interests	1,246	1,093
Other operating expenses .....	4,868	3,852
Total .....	<u>\$ 34,053</u>	<u>\$ 22,697</u>

The increase in compensation and employee benefits during the three months ended March 31, 1998 reflects an increase in the average number of employees from 629 during the three months ended March 31, 1997 to 1,147 during the three months ended March 31, 1998.

The \$3.6 million increase in occupancy and equipment expenses during the three months ended March 31, 1998, as compared to the same period in the prior year, was primarily due to a \$1.1 million increase in data processing costs, a \$1.3 million increase in general office and equipment expenses and a \$1.3 million increase in occupancy related

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

=====  
expenses, all largely attributable to the increase in leased corporate and loan production office space and the increase in employees discussed above.

The \$1.0 million increase in other operating expenses during the first quarter of 1998 as compared to the first quarter of 1997, is due primarily to a \$1.1 million increase in loan expenses, an \$800,000 increase in professional fees, \$400,000 amortization of excess of purchase price over net assets acquired and a \$400,000 increase in regulatory and insurance expenses, offset in part by a \$1.7 million decline in miscellaneous expenses primarily as a result of management's decision to reverse general reserves no longer deemed necessary.

DISTRIBUTIONS ON COMPANY-OBLIGATED, MANDATORILY REDEEMABLE SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY. In August 1997, Ocwen Capital Trust I issued \$125.0 million of 10 7/8% Capital Securities. Cash distributions on the Capital Securities are payable semi-annually in arrears on February 1 and August 1 of each year, commencing on February 1, 1998, at an annual rate of 10 7/8% of the liquidation amount of \$1,000 per Capital Security. For the three months ended March 31, 1998, the Company has recorded \$3.4 million of distributions to holders of the Capital Securities.

EQUITY IN EARNINGS OF INVESTMENT IN JOINT VENTURES. On December 12, 1997, the LLC distributed all of its remaining assets to its partners. As a result, no equity in earnings of investment in joint venture was recorded during the first quarter of 1998. During the first quarter of 1997, the Company recorded \$14.4 million of income related to its investment in joint venture. The Company's pro rata share of the income from the joint venture in the first quarter of 1997 consisted primarily of \$1.7 million of net interest income, a \$9.2 million net gain related to the securitization of single family residential loans and the recapture of \$2.5 million of valuation allowances established in 1996 by the Company on its equity investment in the LLC as a result of the resolution and securitization of loans.

INCOME TAX EXPENSE. Income tax expense amounted to \$573,000 and \$3.6 million during the three months ended March 31, 1998 and 1997, respectively. The Company's income tax expense is reported net of tax credits of \$4.7 million and \$3.6 million during the first quarter of 1998 and 1997, respectively, resulting from the Company's investment in certain low-income housing tax credit interests. Exclusive of such amounts, the Company's effective tax rate amounted to 23.0% and 34.7% during the three months ended March 31, 1998 and 1997, respectively. The decline in the effective tax rate is primarily the result of the utilization of \$8.6 million of net operating loss carry forwards by IMI. IMI had at March 31, 1998 net operating loss carryforwards of \$1.1 million which can only be used to offset future taxable income of IMI. See "Changes in Financial Condition-Investments in Low Income Housing Tax Credit Interests".

MINORITY INTEREST. Minority interest in net loss of consolidated subsidiary represents the loss attributable to the 2.2% interest in OFS owned by Admiral. See Note 1 to the Interim Consolidated Financial Statements included in Item 1 hereof.

CHANGES IN FINANCIAL CONDITION

GENERAL. From December 31, 1997 to March 31, 1998 total assets increased by \$352.0 million or 11%. This increase was primarily due to a \$316.1 million increase in the loans available for sale, a \$173.4 million increase in securities available for sale, a \$48.0 million increase in investment securities and a \$33.7 million increase in other assets, offset in part by a \$262.6 million decrease in discount loans. Total liabilities increased by \$324.0 million from December 31, 1997 to March 31, 1998 primarily due to a \$323.4 million increase in obligations outstanding under lines of credit and a \$60.2 million increase in securities sold under agreements to repurchase, offset by a \$49.2 million decrease in deposits.

SECURITIES AVAILABLE FOR SALE. At March 31, 1998, securities available for sale amounted to \$650.2 million or 19% of the Company's total assets. Securities available for sale are carried at market 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, 1998 included an aggregate of \$8.5 million of unrealized losses (\$145,000 unrealized gain net of deferred taxes) as compared to \$11.7 million of unrealized losses (\$5.0 million unrealized loss net of deferred taxes) at December 31, 1997.

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

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

	March 31, 1998	December 31, 1997
	-----	-----
	(Dollars in Thousands)	
Mortgage-related securities:		
Single family residential:		
CMOs (AAA-rated) .....	\$ 310,705	\$ 160,451
Interest-only:		
FHLMC .....	60,276	64,745
FNMA .....	53,977	59,715
GNMA .....	25,190	29,766
AAA-rated .....	15,199	13,863
Subordinates .....	114,579	67,830
REMIC residuals .....	14,644	15,693
Swap contracts .....	(843)	(94)
	-----	-----
	593,727	411,969
	-----	-----
Multi-family residential and commercial:		
Interest-only:		
AAA-rated .....	3,896	1,030
Non-investment grade .....	--	3,477
Subordinates .....	14,381	14,048
	-----	-----
	18,277	18,555
	-----	-----
Marketable equity securities:		
Common stocks .....	38,196	46,272
	-----	-----
Total .....	\$ 650,200	\$ 476,796
	=====	=====

The Company's securities available for sale of \$650.2 million at March 31, 1998 increased by \$173.4 million or 36% from December 31, 1997 due primarily to \$242.6 million of purchases, offset by \$3.7 million of sales, \$31.7 million of maturities and principal repayments and \$38.9 million of net premium amortization.

At March 31, 1998, the carrying value of the Company's investment in interest-only and inverse interest-only securities (together "IOs") amounted to \$158.5 million or 24% of total securities available for sale. IOs 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 mortgage collateral. Increased prepayments of the underlying mortgage collateral resulting from a decrease in market interest rates or other factors can result in a loss of all or part of the purchase price of such security. At March 31, 1998, all of the Company's IO securities were either issued by FHLMC, GNMA, or FNMA or were rated AAA by national rating agencies. At March 31, 1998, unrealized losses on the Company's portfolio of IO securities amounted to \$30.0 million, excluding deferred taxes.

At March 31, 1998 the carrying value of the Company's investment in subordinate interests amounted to \$129.0 million or 20% of total securities available for sale and supported senior classes of securities having an outstanding principal balance of \$2.38 billion. Because of their subordinate position, subordinate classes of mortgage-related securities involve more risk than the other classes. The Company does not intend to purchase subordinate classes of mortgage-related securities created by unaffiliated parties. The Company may however retain subordinate classes resulting from the securitization of assets held by it directly, although it is intended that any such securities held by the Bank will be distributed to the Company as a dividend, subject to the Bank's ability to declare such dividends under applicable limitations. Five such securities with an aggregate book value of \$40.6 million were distributed to the Company from the Bank in the form of a dividend during January 1998. At March 31, 1998, the Bank held one subordinate security with a carrying value and book value of \$19.2 million and \$15.9 million, respectively.

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

LOANS AVAILABLE FOR SALE. The Company's loans available for sale at March 31, 1998, which are carried at the lower of cost or fair value, increased by \$316.1 million or 179% from December 31, 1997 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, 1998 and December 31, 1997. The Company's single family residential lending activities to subprime borrowers is conducted by OFS.

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, 1998	December 31, 1997
(Dollars in thousands)		
Single family residential loans .....	\$ 492,667	\$ 176,554
Consumer loans .....	439	487
	\$ 493,106	\$ 177,041

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,	1998	1997
(Dollars in Thousands)		
Balance at beginning of period .....	\$ 177,041	\$ 126,366
Purchases:		
Single family residential .....	321,720	37,667
Originations:		
Single family residential .....	182,522	28,164
Sales .....	(166,159)	(85,486)
Increase (decrease) in lower of cost or market reserve .....	(327)	158
Loans transferred to loan portfolio .....	--	(13,694)
Principal repayments, net of capitalized interest ....	(21,003)	(2,959)
Transfer to real estate owned .....	(688)	(1,705)
Net increase (decrease) in loans .....	316,065	(37,855)
Balance at end of period .....	\$ 493,106	\$ 88,511

During the three months ended March 31, 1998 and 1997 the Company purchased and originated \$479.8 million and \$64.5 million, respectively, of single family residential loans to subprime borrowers. 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. The Company also securitized \$161.4 million of subprime loans during the three months ended March 31, 1998 for a gain of \$7.9 million.

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, 1998	December 31, 1997
(Dollars in thousands)		
Non-performing loans:		
Single family .....	\$ 8,006	\$ 13,509
Consumer .....	35	25
	\$ 8,041	\$ 13,534
Non-performing loans as a percentage of:		
Total loans available for sale .....	1.63%	7.64%
Total assets .....	0.23%	0.44%

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

Non-performing loans available for sale 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 of nonperforming loans will make its subprime borrower loan program successful.

INVESTMENT SECURITIES. Investment securities increased by \$48.0 million from December 31, 1997 to March 31, 1998 as a result of the Company's \$45.4 million investment in 35% of the outstanding common stock of Kensington Mortgage Company, a leading originator of nonconforming residential mortgages in the U.K., and a \$2.6 million additional investment in OPLP in exchange for an additional 175,000 limited partnership units. The additional investment in OPLP increases the Company's ownership to 335,000 units or 1.74%. See Note 1 to the Interim Consolidated Financial Statements included in Item 1 hereof.

DISCOUNT LOAN PORTFOLIO. At March 31, 1998, the Company's net discount loan portfolio amounted to \$1.17 billion or 34% 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, 1998	December 31, 1997
	(Dollars in thousands)	
Single family residential loans.....	\$ 630,776	\$ 900,817
Multi-family residential loans.....	165,366	191,302
Commercial real estate loans (1).....	701,858	701,035
Other loans.....	6,878	1,865
Total discount loans.....	1,504,878	1,795,019
Unaccrued discount (2).....	(313,765)	(337,350)
Allowance for loan losses.....	(19,490)	(23,493)
Discount loans, net.....	\$ 1,171,623	\$ 1,434,176

(1) The balance at March 31, 1998 consisted of \$377.5 million of loans secured by office buildings, \$107.1 million of loans secured by hotels, \$106.0 million of loans secured by retail properties or shopping centers and \$111.3 million of loans secured by other properties. The balance at December 31, 1997 consisted of \$363.7 million of loans secured by office buildings, \$98.9 million of loans secured by hotels, \$106.8 million of loans secured by retail properties or shopping centers and \$131.6 million of loans secured by other properties.

(2) The balance at March 31, 1998 consisted of \$150.5 million on single family residential loans, \$38.8 million on multi-family residential loans, \$122.0 million on commercial real estate loans and \$2.5 million on other loans. The balance at December 31, 1997 consisted of \$170.7 million on single family residential loans, \$46.0 million on multi-family residential loans, \$120.5 million on commercial real estate loans and \$0.2 million on other loans.

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

	Three months ended March 31			
	1998		1997	
	Balance	No. of Loans	Balance	No. of Loans
	(Dollars in thousands)			
Balance at beginning of period .....	\$1,795,019	12,980	\$1,314,399	5,460
Acquisitions(1) .....	90,550	572	442,878	8,211
Resolutions and repayments (2) .....	(75,526)	(497)	(63,553)	(194)
Loans transferred to real estate owned ....	(64,802)	(687)	(51,586)	(392)
Sales(3) .....	(240,363)	(3,797)	(79,753)	(883)
Balance at end of period .....	\$1,504,878	8,571	\$1,562,385	12,202

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

- (1) During 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 and \$41.2 million of commercial real estate and \$5.0 million of other loans. Included in acquisitions for the three months ended March 31, 1997 are the Company's approximate one-half allocated share of 13,781 single family residential loans with an aggregate unpaid principal balance of \$855.7 million, acquired by the Company and its co-investor at an auction by HUD for a purchase price of \$757.4 million.
- (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, 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, 1998		December 31, 1997	
	Principal Amount	% of Loans	Principal Amount	% of Loans
<b>Loans without Forbearance Agreements:</b>				
Current .....	\$ 630,045	41.87%	\$ 670,115	37.33%
Past due 31 to 89 days .....	64,712	4.30	21,098	1.18
Past due 90 days or more .....	551,592	36.65	638,319	35.56
Acquired and servicing not yet transferred	31,394	2.09	28,053	1.56
Subtotal .....	1,277,743	84.91	1,357,585	75.63
<b>Loans with Forbearance Agreements:</b>				
Current .....	1,134	0.08	3,140	0.18
Past due 31 to 89 days .....	5,138	0.34	1,688	0.09
Past due 90 days or more (1) .....	220,863	14.67	432,606	24.10
Subtotal .....	227,135	15.09	437,434	24.37
<b>Total .....</b>	<b>\$1,504,878</b>	<b>100.00%</b>	<b>\$1,795,019</b>	<b>100.00%</b>

- (1) Includes \$213.4 million of loans which were less than 90 days past due under the terms of the forbearance agreements at March 31, 1998, of which \$114.1 million were current and \$99.3 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.

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

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, 1998	December 31, 1997
	(Dollars in thousands)	
Single family residential loans .....	\$ 41,326	\$ 46,226
Multi-family residential loans .....	66,038	71,382
Commercial real estate and land loans:		
Hotel .....	90,274	89,362
Office buildings .....	90,967	68,759
Land .....	2,541	2,858
Other .....	13,701	16,094
Total .....	197,483	177,073
Consumer .....	225	244
Total loans .....	305,072	294,925
Undisbursed loan funds .....	(18,077)	(22,210)
Unaccrued discount .....	(2,451)	(2,721)
Allowance for loan losses .....	(4,026)	(3,695)
Loans, net .....	\$ 280,518	\$ 266,299

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,	1998	1997
	(Dollars in Thousands)	
Balance at beginning of period .....	\$ 294,925	\$ 501,114
Originations:		
Single family residential loans .....	--	1,769
Multi-family residential loans .....	13,771	12,680
Commercial real estate loans and land loans ..	18,985	--
Commercial non-mortgage and consumer loans ...	--	1,134
Total loans originated .....	32,756	15,583
Loans transferred from available for sale .....	--	13,802
Principal repayments, net of capitalized interest	(22,609)	(17,652)
Transfer to real estate owned .....	--	(353)
Net increase in loans .....	10,147	11,380
Balance at end of period(1) .....	\$ 305,072	\$ 512,494

(1) The decline in the balance of the gross loan portfolio at March 31, 1998 as compared to March 31, 1997, is primarily due to significant payoffs of commercial real estate loans secured by hotel and office buildings during the latter part of 1997.



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

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, 1998	December 31, 1997
(Dollars in Thousands)		
Nonperforming loans (1) .....		
Single family residential loans .....	\$ 1,307	\$ 1,575
Multi-family residential loans .....	12,200	7,583
	\$ 13,507	\$ 9,158
Nonperforming loans as a percentage of:		
Total loans (2) .....	4.71%	3.36%
Total assets .....	0.39%	0.30%
Allowance for loan losses as a percentage of:		
Total loans (2) .....	1.41%	1.37%
Nonperforming loans .....	29.81%	40.35%

(1) The Company did not have any loans which were accruing interest but 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 asset classification process, in accordance with applicable regulations, provides for the classification of assets into the categories of satisfactory, special mention, substandard, doubtful or loss. 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 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.

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, 1998			December 31, 1997		
	Allowance	Gross Loan Balance	Percent	Allowance	Gross Loan Balance	Percent
Loan portfolio:						
Single family .....	\$ 375	\$ 41,326	13.5%	\$ 512	\$ 46,226	15.7%
Multi-family .....	2,164	66,038	21.7%	2,163	71,382	24.2%
Commercial real estate	1,477	197,483	64.7%	1,009	177,073	60.0%
Consumer .....	10	225	0.1%	11	244	0.1%
	\$ 4,026	\$ 305,072	100.0%	\$ 3,695	\$ 294,925	100.0%
Discount loan portfolio:						
Single family .....	\$ 8,144	\$ 630,776	41.9%	\$ 15,017	\$ 900,817	50.2%
Multi-family .....	2,673	165,366	11.0%	2,616	191,302	10.7%
Commercial real estate	8,673	701,858	46.6%	5,860	701,035	39.0%
Other .....	--	6,878	0.5%	--	1,865	0.1%
	\$ 19,490	\$1,504,878	100.0%	\$ 23,493	\$1,795,019	100.0%

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

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, 1998.

	Balance December 31, 1997	Additions	Charge-offs	Recoveries	Balance March 31, 1998
<b>Loan portfolio:</b>					
Single family .....	\$ 512	\$ (137)	\$ --	\$ --	\$ 375
Multi-family .....	2,163	1	--	--	2,164
Commercial real estate	1,009	467	--	--	1,476
Consumer .....	11	(1)	--	--	10
	-----	-----	-----	-----	-----
	\$ 3,695	\$ 330	\$ --	\$ --	\$ 4,025
	=====	=====	=====	=====	=====
<b>Discount loans:</b>					
Single family .....	\$ 15,017	\$ (2,214)	\$ (4,717)	\$ 58	\$ 8,144
Multi-family .....	2,616	428	(371)	--	2,673
Commercial .....	5,860	3,710	(897)	--	8,673
	-----	-----	-----	-----	-----
	\$ 23,493	\$ 1,924	\$ (5,985)	\$ 58	\$ 19,490
	=====	=====	=====	=====	=====

INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS. In 1993, the Company commenced a program to invest in multi-family residential projects which have been allocated low income housing tax credits under Section 42 of the Internal Revenue Code by a state tax credit allocating agency. At March 31, 1998 the Company had \$119.0 million of investments in low-income housing tax credit interests as compared to \$128.6 million at December 31, 1997. On March 31, 1998, the Company completed the sale of its investment in two low-income housing tax credit projects which had a carrying value of \$17.2 million for a gain of \$4.7 million.

Investments by the Company in low-income housing tax credit interests made on or after May 18, 1995 in which the Company invests solely as a limited partner, which amounted to \$32.6 million at March 31, 1998, are accounted for using the equity method in accordance with the consensus of the Emerging Issues Task Force through Issue Number 94-1. Limited partnership investments made prior to May 18, 1995, which amounted to \$30.6 million at March 31, 1998, are accounted for under the effective yield method as a reduction of income tax expense. Low-income housing tax credit partnerships in which the Company invests as both a limited and, through a subsidiary, general partner amounted to \$55.8 million at March 31, 1998 and are presented on a consolidated basis.

INVESTMENT IN JOINT VENTURES. From time to time the Company and a co-investor acquire discount loans by means of a co-owned joint venture. At March 31, 1998 and December 31, 1997, the Company's \$1.1 million investment in joint venture, net consisted of a 10% interest in BCFL, a limited liability Company which was formed by the Bank and BlackRock in January 1997 to acquire discount multi-family residential loans from HUD. In December 1997, the LLC distributed its assets to the Company and its other 50% investor, BlackRock. Simultaneous with the distribution, the Company acquired BlackRock's portion of the distributed assets.

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

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

=====

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.

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

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

	March 31, 1998	December 31, 1997
(Dollars in thousands)		
Discount loan portfolio:		
Single family residential .....	\$ 82,867	\$ 76,409
Multi-family residential .....	14,798	16,741
Commercial real estate .....	72,152	71,339
Total .....	169,817	164,489
Loan portfolio .....	312	357
Loans available for sale portfolio.....	2,564	2,419
	<u>\$ 172,693</u>	<u>\$ 167,265</u>

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,	1998	1997
(Dollars in Thousands)		
Balance at beginning of period.....	\$ 12,346	\$ 11,493
Provision for loss in fair value.....	4,234	2,337
Charge-offs and sales.....	(3,338)	(6,239)
Balance at end of period.....	<u>\$ 13,242</u>	<u>\$ 7,591</u>

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

	Three months ended March 31,			
	1998		1997	
	Amount	No. of Properties	Amount	No. of Properties
(Dollars in thousands)				
Balance at beginning of period .....	\$ 167,265	1,505	\$ 103,704	825
Properties acquired through foreclosure or deed-in-lieu thereof	43,703	694	37,653	407
Acquired in connection with acquisitions of discount loans ...	2,915	53	70	3
Sales .....	(40,294)	(610)	(46,863)	(533)
Change in allowance .....	(896)	--	3,902	--
Balance at end of period(1) .....	<u>\$ 172,693</u>	<u>1,642</u>	<u>\$ 98,466</u>	<u>702</u>

(1) The increase in the balance of real estate owned at March 31, 1998 as compared to March 31, 1997 is primarily the result of single family and multi-family properties acquired through foreclosures on discount loans.

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

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

	March 31, 1998	December 31, 1997
	-----	
	(Dollars in thousands)	
One to two months .....	\$ 43,231	\$ 83,144
Three to four months .....	22,648	28,912
Five to six months .....	34,065	20,929
Seven to twelve months .....	56,213	23,621
Over twelve months .....	16,536	10,659
	-----	-----
	\$ 172,693	\$ 167,265
	=====	=====

INVESTMENT IN REAL ESTATE. The Company's investments in real estate amounted to \$60.9 million at March 31, 1998 as compared to \$66.0 million at December 31, 1997, a decrease of \$5.1 million.

In conjunction with its multi-family and commercial real estate lending business activities, the Company has made certain acquisition, development and construction loans in which the Company participates in the expected residual profits of the underlying real estate and the borrower has not made an equity contribution substantial to the overall project. As such, the Company accounts for these loans under the equity method of accounting as though it has made an investment in a real estate limited partnership. The Company's investment in such loans decreased to \$53.0 million at March 31, 1998, as compared to \$62.0 million at December 31, 1997, primarily as a result of principal repayments.

DEFERRED TAX ASSET. At March 31, 1998 the deferred tax asset, net of deferred tax liabilities, amounted to \$48.3 million, an increase of \$3.1 million from the \$45.1 million deferred tax asset at December 31, 1997. At March 31, 1998, the gross deferred tax asset amounted to \$53.1 million and consisted primarily of \$2.9 million of mark-to-market adjustments and reserves on real estate owned, \$7.7 million of deferred interest expense on the discount loan portfolio, \$11.3 million of loan loss reserves, \$3.2 million of profit sharing expense, \$5.1 million related to tax residuals, \$5.6 million of gains on loan foreclosures, \$9.3 million of reserves on securities available for sale, \$1.2 million mark-to-market on securities available for sale and \$900,000 of contingency reserves. The gross deferred tax liability amounted to \$4.8 million and consisted primarily of \$2.3 million of deferred interest income on the discount loan portfolio. At December 31, 1997, the gross deferred tax asset amounted to \$49.5 million and consisted primarily of \$3.5 million related to tax residuals, \$5.6 million of gains on loan foreclosures, \$3.2 million of mark-to-market adjustments and reserves on real estate owned, \$9.8 million of loan loss reserves, \$4.0 million of reserves on securities available for sale, \$2.0 million of contingency reserves, \$3.2 million of accrued profit sharing expense, \$7.7 million of deferred interest expense on the discount loan portfolio and \$6.7 million mark-to-market on securities available for sale. The gross deferred tax liability amounted to \$4.4 million and consisted primarily of \$2.3 million of deferred interest income on the discount loan portfolio.

As a result of the Company's earnings history, current tax position and taxable income projections, management believes that the Company will generate sufficient taxable income in future years to realize the deferred tax asset which existed at March 31, 1998. In evaluating the expectation of sufficient future taxable income, management considered future reversals of temporary differences and available tax planning strategies that could be implemented, if required. A valuation allowance was not required at March 31, 1998 because it was management's assessment that, based on available information, it is more likely than not that all of the deferred tax asset will be realized. A valuation allowance will be established in the future to the extent of a change in management's assessment of the amount of the net deferred tax asset that is expected to be realized.

EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED. During 1997, the Company consolidated its subprime single family lending operations within OFS in connection with its acquisition of substantially all of the assets of Admiral in May 1997. The excess of purchase price over net assets acquired related to this transaction amounted to \$10.6 million at March 31, 1998 and is being amortized on a straight-line basis over a period of 15 years.

As part of its strategic focus to market its advanced loan resolution technology to third parties in the mortgage industry through software licenses, the Company recently acquired two software technology companies. On November 6, 1997, the Company acquired AMOS, Inc., a Connecticut based company engaged primarily in the development of

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

mortgage loan servicing software for an aggregate purchase price of \$9.7 million, including \$4.9 million which is contingent on AMOS, Inc. meeting certain software development performance criteria. Subsequently, on January 20, 1998, the Company acquired DTS Communications, Inc. ("DTS"), a real estate technology company located in San Diego, California, for a purchase price of \$13.0 million in cash, common stock of the Company and repayment of certain indebtedness. DTS has developed technology tools to automate real estate transactions over the Internet and has been recognized by Microsoft Corporation for the Microsoft (R) component-based architecture to facilitate electronic data interchange. The common stock of the Company issued in the acquisition was acquired from affiliates of the Company at the same price per share as was used to calculate the number of shares issued in the acquisition. The aggregate excess of purchase price over net assets acquired related to these transactions amounted to \$12.8 million, net of accumulated amortization at March 31, 1998 and is being amortized on a straight-line basis over a period of 15 years.

**DEPOSITS.** Deposits decreased \$49.2 million or 2% from December 31, 1997 to March 31, 1998. The decrease in deposits during the first quarter of 1998 was primarily the result of a \$55.7 million decrease in brokered deposits obtained through national investment banking firms which solicit deposits from their customers, a \$4.9 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 \$22.4 million decrease in checking and money funds, offset by a \$33.7 million increase in escrow deposits. Brokered deposits obtained through national investment banking firms amounted to \$1.29 billion at March 31, 1998, as compared to \$1.34 billion at December 31, 1997. Deposits obtained through direct solicitation and marketing amounted to \$424.9 million at March 31, 1998, as compared to \$429.8 million at December 31, 1997. At March 31, 1998 the Company had \$184.0 million of certificates of deposit in amounts of \$100,000 or more, including \$93.3 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.

**SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE.** Securities sold under agreements to repurchase increased \$60.2 million to \$168.4 million from December 31, 1997 to March 31, 1998. From time to time, the Company utilizes such collateralized borrowings as additional sources of liquidity.

**NOTES, DEBENTURES AND OTHER INTEREST-BEARING OBLIGATIONS.** Notes, debentures and other interest-bearing obligations of \$226.8 million at March 31, 1998 decreased \$163,000 during the three months ended March 31, 1998 primarily as a result of repayments of short-term notes payable. Notes, debentures and other interest-bearing obligations consist of \$100.0 million of 12% debentures issued by the Bank in June 1995 and due June 2005, \$125.0 million of 11.875%. Notes issued by the Company in September 1996 and due September 2003 and \$1.8 million of short-term notes payable.

**OBLIGATIONS OUTSTANDING UNDER LINES OF CREDIT.** Obligations outstanding under lines of credit increased by \$323.4 million to \$441.7 million from December 31, 1997 to March 31, 1998 primarily as a result of new borrowings to fund the acquisition and origination of subprime single family loans at OFS. Borrowings under lines of credit 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.

Through March 31, 1998, the Company had recorded \$3.4 million of distributions to holders of the Capital Securities. See Note 4 to the Interim Consolidated Financial Statements included in Item 1 hereof.

**STOCKHOLDERS' EQUITY.** Stockholders' equity increased \$27.6 million or 7% during the three months ended March 31, 1998. The increase in stockholders' equity during this period was primarily attributable to net income of \$22.3 million and an increase of \$5.2 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.

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

=====

ASSET AND LIABILITY MANAGEMENT

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. It is the objective of the Company to attempt to control risks associated with interest rate movements. In general, management's strategy is to match asset and liability balances within maturity categories to limit the Company's exposure to earnings variations and variations in the value of assets and liabilities as interest rates change over time. The Company's asset and liability management strategy is formulated and monitored by the Asset/Liability Committee, which is composed of directors and officers of the Company, 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 agreements, pursuant to which the parties exchange the difference between fixed-rate and floating-rate interest payments on a specified principal amount (referred to as the "notional amount") for a specified period without the exchange of the underlying principal amount. Interest rate exchange agreements are utilized by the Company to protect against the decrease in value of a fixed-rate asset or the increase in borrowing cost from a short-term, fixed-rate liability, such as reverse repurchase agreements, in an increasing interest-rate environment. At March 31, 1998, the Company had entered into interest rate exchange agreements with an aggregate notional amount of \$36.9 million. Interest rate exchange agreements had the effect of decreasing the Company's net interest income by \$38,000 and \$74,000 during the three months ended March 31, 1998 and 1997, respectively.

On February 25, 1998, the Company entered into a foreign currency swap with a AAA-rated counterparty to hedge certain cash flows in connection with its investment in 35% of the outstanding common stock of Kensington Mortgage Company, a leading originator of nonconforming residential mortgages in the U.K. Under the terms of the agreement, 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 Company also enters into interest rate futures contracts, which are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may be settled in cash or through delivery. Eurodollar futures contracts have been sold by the Company to hedge the repricing or maturity risk of certain short duration mortgage-related securities, and U.S. Treasury futures contracts have been sold by the Company to offset declines in the market value of its fixed-rate loans and certain fixed-rate mortgage-backed and related securities available for sale in the event of an increasing interest rate environment. At March 31, 1998, the Company had entered into U.S. Treasury futures (short) contracts with an aggregate notional amount of \$326.0 million. The Company had no outstanding Eurodollar futures contracts at March 31, 1998. Futures contracts had the effect of decreasing the Company's net interest income by \$49,000 and 904,000 during the three months ended March 31, 1998 and 1997, respectively. See Note 6 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.

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

The following table sets forth the estimated maturity or repricing of the Company's interest-earning assets and interest-bearing liabilities at March 31, 1998. 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 \$148.5 million at March 31, 1998, 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, 1998				
	Within 3 Months	4 to 12 Months	More than 1 Year to 3 Years	3 Years and Over	Total
<b>Rate-Sensitive Assets:</b>					
Interest-earning cash, federal funds sold and repurchase agreements .....	\$ 135,269	\$ --	\$ --	\$ --	\$ 135,269
Securities available for sale .....	104,800	219,792	158,441	167,167	650,200
Loans available for sale (1) .....	92,683	273,871	61,738	64,814	493,106
Investment securities, net .....	--	--	--	61,314	61,314
Loan portfolio, net (1) .....	100,074	55,882	93,399	31,163	280,518
Discount loan portfolio, net .....	116,187	351,183	286,810	417,443	1,171,623
<b>Total rate-sensitive assets .....</b>	<b>549,013</b>	<b>900,728</b>	<b>600,388</b>	<b>741,901</b>	<b>2,792,030</b>
<b>Rate-Sensitive Liabilities:</b>					
NOW and money market checking deposits .....	7,205	2,055	4,095	7,635	20,990
Savings deposits .....	82	220	435	1,023	1,760
Certificates of deposit .....	292,125	575,861	570,901	323,450	1,762,337
<b>Total interest-bearing deposits .....</b>	<b>299,412</b>	<b>578,136</b>	<b>575,431</b>	<b>332,108</b>	<b>1,785,087</b>
Securities sold under agreements to repurchase ...	168,419	--	--	--	168,419
Obligations outstanding under lines of credit ...	441,671	--	--	--	441,671
Notes, debentures and other interest bearing obligations .....	--	--	--	226,812	226,812
<b>Total rate-sensitive liabilities .....</b>	<b>909,502</b>	<b>578,136</b>	<b>575,431</b>	<b>558,920</b>	<b>2,621,989</b>
Interest rate sensitivity gap before off-balance sheet financial instruments .....	(360,489)	322,592	24,957	182,981	170,041
<b>Off-Balance Sheet Financial Instruments:</b>					
Futures contracts and interest rate swap .....	88,649	(7,294)	(13,848)	(67,507)	--
<b>Interest rate sensitivity gap .....</b>	<b>(271,840)</b>	<b>315,298</b>	<b>11,109</b>	<b>115,474</b>	<b>\$ 170,041</b>
<b>Cumulative interest rate sensitivity gap .....</b>	<b>\$ (271,840)</b>	<b>\$ 43,458</b>	<b>\$ 54,567</b>	<b>\$ 170,041</b>	
<b>Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets .....</b>	<b>(9.74)%</b>	<b>1.56%</b>	<b>1.95%</b>	<b>6.09%</b>	

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



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

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

The following table sets forth at March 31, 1998 the estimated percentage change in the Company's net interest income over a four-quarter period and MVPE based upon the indicated changes in interest rates, assuming an instantaneous and sustained uniform change in interest rates at all maturities.

Change (in Basis Points) in Interest Rates	Estimated Change in	
	Net Interest Income	MVPE
+400	(8.90)%	(22.18)%
+300	(6.62)	(15.05)
+200	2.47	(7.05)
+100	1.67	(0.39)
0	--	--
-100	(10.82)	(5.94)
-200	(19.36)	(5.38)
-300	(21.01)	(1.04)
-400	(22.88)	3.81

The negative estimated changes in MVPE for -100 to -300 changes in interest rates is attributable to the Company's sensitivity to decreases in interest rates. Such sensitivity stems primarily from the Company's investments in IOs. IOs exhibit considerably more price volatility than mortgage or ordinary mortgage pass-through securities, due in part to the uncertain cash flows that result from changes in the prepayment rates of the underlying mortgages. In the case of IOs, increased prepayments of the underlying mortgages as a result of a decrease in market interest rates or other factors can result in a loss of all or part of the purchase price of such security. See "Results of Operations - Interest Income", and "Changes in Financial Condition-Securities Available for Sale."

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

LIQUIDITY, 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 significant 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, 1998 the Company had \$1.76 billion of certificates of deposit, including \$1.29 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 \$868.0 million, \$332.5 million and \$561.8 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

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

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, 1998, the Company was eligible to borrow up to an aggregate of \$621.9 million from the FHLB of New York (subject to the availability of acceptable collateral) and had \$83.7 million of single family residential loans, \$10.3 million of multi-family residential loans and \$14.1 million of loans secured by hotel properties which could be pledged as security for such advances. At the same date, the Company had contractual relationships with 12 brokerage firms and the FHLB of New York pursuant to which it could obtain funds from reverse repurchase agreements and had \$249.3 million of unencumbered mortgage-related securities which could be used to secure such borrowings. At present, the Company has no outstanding FHLB advances due to the availability of other less costly sources of funding, a circumstance which the Company evaluates on a regular basis.

The liquidity of the company at March 31, 1998 includes lines of credit obtained by OFS subsequent to its assumption of the subprime lending activities of the Bank and acquisition of substantially all of the assets of Admiral, as follows: (i) a \$200.0 million secured line of credit from Morgan Stanley Mortgage Capital Inc., of which \$100 million was committed, (ii) a \$50.0 million secured line of credit from Texas Commerce Bank National Association, (iii) a \$200 million secured line of credit from Merrill Lynch, of which \$100 million was committed, and (iv) a \$350 million secured line of credit from Lehman Commercial Paper, Inc., of which \$100 million was committed. An aggregate of \$437.4 million was outstanding to OFS under these lines of credit at March 31, 1998, which have interest rates which float in accordance with a designated prime rate. In addition, the company has provided a \$30.0 million unsecured, subordinated credit facility to OFS, of which \$30.0 million was outstanding at March 31, 1998. At present OFS intends to continue to seek appropriate leverage with respect to its underlying business, and thus, will seek additional lines of credit as its assets warrant.

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

The Company's operating activities used cash flows of \$320.9 million and provided cash flows of \$124.2 million during the three months ended March 31, 1998 and 1997, respectively. During the foregoing periods cash flows from operating activities were provided primarily by net income, the sale of securities held for trading 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 1998 as compared to 1997 was due primarily to increased purchases and originations of loans available for sale.

The Company's investing activities used cash flows totaling \$12.5 million and \$212.8 million during the three months ended March 31, 1998 and 1997, 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 and proceeds from sales of securities available for sale and 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 decline in net cash used by investing activities during the first quarter of 1998 as compared to 1997 was due primarily to a decline in purchases of discount loans, net of sales, and securities available for sale.

The Company's financing activities provided \$334.3 million and \$153.2 million during the three months ended March 31, 1998 and 1997, respectively. During the foregoing periods, cash flows from financing activities were provided primarily by proceeds from the issuance of obligations under lines of credit, and changes in the Company's deposits and reverse repurchase agreements.

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.

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

Monetary penalties may be imposed for failure to meet applicable liquidity requirements. The Bank's liquidity, as measured for regulatory purposes, averaged 4.49% during the three months ended March 31, 1998.

Management of the Company believes that the Bank's ability to make capital distributions as a Tier 1 association pursuant to the OTS capital distribution regulation are limited by the regulatory capital levels which it has committed to the OTS it would maintain, commencing on June 30, 1997. Taking into account such commitments and applicable laws and regulations, management estimates that the Bank could dividend to the Company \$30.0 million as of March 31, 1998. As a result of an agreement by the Company with the OTS to dividend subordinate and residual mortgage-related securities resulting from securitization activities conducted by the Bank, which had an aggregate book value of \$15.9 million at March 31, 1998, the Bank may not be able to pay any cash dividends to the Company without prior OTS approval, however. See "Regulatory Capital Requirements" below.

At March 31, 1998, the Company had \$159.7 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 1998. See Note 9 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 risk. See "Asset and Liability Management" above and Note 5 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.

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

Following the above-referenced examination, the Bank committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9% and 13%, respectively. The Bank continues to be in compliance with this commitment as well as the regulatory capital requirements of general applicability, as indicated in Note 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

RECENT ACCOUNTING DEVELOPMENTS

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

CERTAIN STATEMENTS CONTAINED HEREIN ARE NOT, AND CERTAIN STATEMENTS CONTAINED IN FUTURE FILINGS BY THE COMPANY WITH THE SECURITIES AND EXCHANGE COMMISSION, IN THE COMPANY'S PRESS RELEASES OR IN THE COMPANY'S OTHER PUBLIC OR SHAREHOLDER COMMUNICATIONS, MAY NOT BE BASED ON HISTORICAL FACTS AND ARE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES 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," "INTEND," "MAY," "PLAN," "PRESENT," "PROPOSE," "PROSPECT," "WILL," 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, GOVERNMENT REGULATIONS AFFECTING FINANCIAL INSTITUTIONS OR REAL ESTATE INVESTMENT TRUSTS (INCLUDING REGULATORY FEES, CAPITAL REQUIREMENTS AND TAXATION), COMPETITIVE PRODUCTS AND PRICING, CREDIT, PREPAYMENT, BASIS AND ASSET/LIABILITY RISKS, LOAN SERVICING EFFECTIVENESS, THE COURSE OF NEGOTIATIONS AND THE ABILITY TO REACH AGREEMENT WITH RESPECT TO THE MATERIAL TERMS OF ANY PARTICULAR TRANSACTION, SATISFACTORY DUE DILIGENCE RESULTS, SATISFACTION OR FULFILLMENT OF AGREED UPON TERMS AND CONDITIONS OF CLOSING OR PERFORMANCE, THE TIMING OF TRANSACTION CLOSINGS, ACQUISITIONS AND THE INTEGRATION OF ACQUIRED BUSINESSES, SOFTWARE INTEGRATION, DEVELOPMENT AND LICENSING, THE FINANCIAL AND SECURITIES MARKETS, THE AVAILABILITY OF AND COSTS ASSOCIATED WITH OBTAINING ADEQUATE AND TIMELY SOURCES OF LIQUIDITY, DEPENDENCE ON EXISTING SOURCES OF FUNDING, AVAILABILITY OF DISCOUNT LOANS FOR PURCHASE, SIZE AND NATURE OF THE SECONDARY MARKET FOR MORTGAGE LOANS AND THE MARKET FOR SECURITIZATIONS, GEOGRAPHIC CONCENTRATIONS OF ASSETS (TEMPORARY OR OTHERWISE), OTHER FACTORS GENERALLY UNDERSTOOD TO AFFECT THE REAL ESTATE ACQUISITION, MORTGAGE AND LEASING MARKETS AND SECURITIES INVESTMENTS, AND OTHER RISKS DETAILED FROM TIME TO TIME IN THE COMPANY'S REPORTS AND FILINGS WITH THE SEC, INCLUDING ITS REGISTRATION STATEMENT ON FORM S-1 AND PERIODIC REPORTS ON FORMS 10-Q, 8-K AND 10-K. THE COMPANY DOES NOT UNDERTAKE, AND SPECIFICALLY DISCLAIMS ANY OBLIGATION, TO PUBLICLY RELEASE THE RESULT(S) OF ANY REVISIONS WHICH MAY BE MADE TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT THE OCCURRENCE OF ANTICIPATED OR UNANTICIPATED EVENTS OR CIRCUMSTANCES AFTER THE DATE OF SUCH STATEMENTS.

FORWARD-LOOKING 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 6 to the Interim Consolidated Financial Statements included in Item 1 hereof, and is incorporated herein by reference.

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

=====

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 Bylaws (1)
  - 4.0 Form of Certificate of Common Stock (1)
  - 4.1 Form of Indenture between the Company and Bank One, Columbus, NA as Trustee (1)
  - 4.2 Form of Note due 2003 (included in Exhibit 4.1) (1)
  - 4.3 Certificate of Trust of Ocwen Capital Trust I (3)
  - 4.4 Amended and Restated Declaration of Trust of Ocwen Capital Trust I (3)
  - 4.5 Form of Capital Security of Ocwen Capital Trust I (4)
  - 4.6 Form of Indenture relating to 10 7/8% Junior Subordinated Debentures due 2027 of the Company (3)
  - 4.7 Form of 10 7/8% Junior Subordinated Debentures due 2027 of the Company (4)
  - 4.8 Form of Guarantee of the Company relating to the Capital Securities of Ocwen Capital Trust I (3)
  - 4.9 Form of Indenture between the Company and The Bank of New York as Trustee
  - 4.10 Form of Subordinated Debentures due 2005 (5)
  - 10.1 Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, as amended (1)
  - 10.2 Annual Incentive Plan (1)
  - 10.3 Ocwen Financial Corporation 1996 Stock Plan for Directors, as amended (2)
  - 10.4 Ocwen Financial Corporation 1998 Annual Incentive Plan (6)
  - 10.5 Ocwen Financial Corporation Long-Term Incentive Plan (6)
  - 10.6 Agreement for the Sale and Purchase of the Business of City Mortgage Corporation Limited and its Subsidiaries and the Entire Issued Share Capital of City Mortgage Receivables 7 PLC (7)
  - 10.7 Loan Facility Agreement between Ocwen Limited, Greenwich International, Ltd., and Ocwen Financial Corporation
  - 10.8 Form of Master Repurchase Agreement Governing Purchases and Sales of Mortgage Loans between Lehman Commercial Paper Inc., and Ocwen Financial Services, Inc.
  - 27.1 Financial Data Schedule-For the three months ended March 31, 1998

- 
- (1) Incorporated by reference to the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-1, File No. 333-5153, declared effective by the commission on September 25, 1996.
  - (2) Incorporated by reference to the similarly described exhibit included with the Registrants Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.
  - (3) Incorporated by reference to the similarly identified exhibit filed in connection with the Company's Registration Statement on Form S-1 (File No. 333-28889), as amended, declared effective by the Commission on August 6, 1997.
  - (4) Incorporated by reference to similarly described exhibit included with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.
  - (5) Incorporated by reference to the similarly described exhibit filed in connection with Amendment No.2 to Offering Circular on Form OC (on Form S-1) filed on June 7, 1995.
  - (6) Incorporated by reference to the similarly described exhibit to the Company's Definitive Proxy Statement with respect to the Company's 1998 Annual Meeting as filed with the Commission on March 31, 1998.
  - (7) Incorporated by reference to the similarly described exhibit included with Cityscape Financial Corp.'s Form 8-K, as filed with the Commission on April 4, 1998.

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

(b) Reports on Form 8-K.

- (1) A Form 8-K was filed by the Company on January 30, 1998 which contained a news release announcing its financial results for the three months and the year ended December 31, 1997, including consolidated financial statements for the three months and the year ended December 31, 1997.
- (2) A Form 8-K was filed by the Company on April 7, 1998 which contained a news release announcing an agreement to acquire substantially all of the United Kingdom operations of Cityscape Financial.
- (3) A Form 8-K was filed by the Company on May 12, 1998 which contained a news release announcing its financial results for the three months ended March 31, 1998.

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

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

Date: May 15, 1998



THIS AGREEMENT is made on 24 April 1998 between:

- (1) OCWEN LIMITED, a company incorporated under the laws of England and Wales, registered number 3542994 whose registered office is at 18 Southampton Place, London WC1A 2AJ (the "BORROWER"); and
- (2) GREENWICH INTERNATIONAL, LTD. a company incorporated under the laws of Bermuda, whose branch office in the United Kingdom is at 1 Jermyn Street, 7th Floor, London (the "LENDER"); and
- (3) OCWEN FINANCIAL CORPORATION, a company incorporated in the State of Florida, USA and whose principal place of business is at The Forum, 1675 Palm Beach Lakes Boulevard, West Palm Beach, Florida 33401 ("OFC" or the "Guarantor")

WHEREAS:

- (1) City Mortgage Corporation Limited ("CMC"), Mortgage Management Limited ("MML"), a wholly owned subsidiary of CMC and the Lender have entered into, inter alia, a Loan Facility Agreement dated 27 February 1998 pursuant to which a loan facility was made available to MML to enable MML to purchase mortgage loans originated by CMC and its subsidiaries (the "MML LOAN FACILITY AGREEMENT").
- (2) OFC and CMC together with other parties referred to therein have entered into an agreement for the sale and purchase of the business of CMC and its subsidiaries dated 31 March 1998 (the "SALE AGREEMENT") pursuant to which OFC has agreed to buy or procure another Buyer Group Company (as therein defined) or any OAIC Group Company (as therein defined) to buy the assets specified therein and the entire issued share capital of City Mortgage Receivables 7 Plc.
- (3) The Borrower, CMC and the other Donors (as defined therein) have agreed to enter into the Supplemental Sale Agreement pursuant to which Pipeline Loans will be originated by the Borrower, as agent of CMC and the other Donors and immediately thereafter sold by CMC (or other Donors) to the Borrower as principal.
- (4) The Lender has agreed to provide a facility to the Borrower to finance the acquisition by the Borrower of certain of the assets under the Sale Agreement and to finance the origination by the Borrower of New Production Mortgage Loans or the purchase of Pipeline Loans, on the terms and subject to the conditions contained herein.
- (5) OFC has agreed to indemnify the Lender in respect of inter alia, the obligations of the Borrower under this Agreement.

1

## 1. INTERPRETATION

### 1.1 DEFINITIONS

In this Agreement (including the recitals hereto) the following terms shall have the respective meanings set forth below:

"ACCELERATION" means any acceleration of the Advances hereunder following the occurrence of an Event of Default.

"ACCOUNT ASSIGNMENTS" means the Borrower Collection Account Assignment and the Borrower Funding Account Assignment.

"ACCOUNT BANK" means National Westminster Bank Plc or such other bank or financial institution as may be substituted as account bank with the prior written consent of the Lender.

"ADVANCE" means, save as otherwise provided herein, an advance (as from time to time reduced by repayment and prepayment) made or to be made by the Lender hereunder pursuant to the Term Loan or the Revolving Commitment.

"ADVANCE DATE" means each date on which the Lender from time to time shall make Advances to fund the origination or purchase of Mortgage Loans hereunder.

"ADVANCE DATE PRINCIPAL BALANCE" means as to any Mortgage Loan, the unpaid principal balance thereof as of the related Advance Date (or, if later, the date of origination of such Mortgage Loan) provided that (unless otherwise agreed between the Lender and the Borrower) such unpaid principal balance shall be calculated after application of all payments of principal due and received on or prior thereto, but without giving effect to any instalments of principal received in respect of due dates thereafter.

"ADVANCE PERCENTAGE" in respect of any Mortgage Loan to be funded pursuant to a Revolving Advance hereunder means the lesser of (a) the Market Value Percentage for such Mortgage Loan and (b) (i) 100% in the case of Performing Senior Mortgage Loans, and (ii) 95% in the case of Performing Junior Mortgage Loans.

"AGREED FORM UNDERTAKINGS AND DOCUMENTATION LETTERS" means the letters of even date from the Lender, addressed respectively to (i) the

Borrower, Tomlinsons and Bernard Elliston Sandler & Co. and (ii) the Borrower and Turner MFarlane Green, with agreed form documentation attached, in each case signed by way of acknowledgement and acceptance by the relevant solicitors and the Borrower.

"AGREEMENT" means this Loan Facility Agreement, including all schedules and annexures hereto, which expression shall include the same as varied, supplemented, re-stated, extended or replaced from time to time.

"AVAILABLE COMMITMENT" means, at any time, the Revolving Commitment at such time LESS the principal amount of the Revolving Loan then outstanding.

"AVAILABILITY PERIOD" means the period commencing on the date of this Agreement and ending on the earlier of:-

- (1) the date on which the Lender ceases to be under any obligation to make further Advances to the Borrower hereunder pursuant to the terms hereof; and
- (2) the Final Maturity Date.

"BORROWER COLLECTION ACCOUNT" means the account in the name of the Borrower with the Account Bank number 36156914 assigned to the Lender pursuant to the Borrower Collection Account Assignment.

"BORROWER COLLECTION ACCOUNT ASSIGNMENT" means the assignment of the Borrower Collection Account in favour of the Lender dated on or about the date hereof in form and substance satisfactory to the Lender.

"BORROWER FUNDING ACCOUNT" means an account in the name of the Borrower at the Account Bank number 36156892 assigned to the Lender under the Borrower Funding Account Assignment.

"BORROWER FUNDING ACCOUNT ASSIGNMENT" means the assignment of the Borrower Funding Account in favour of the Lender dated on or about the date hereof in form and substance satisfactory to the Lender.

"BORROWER WORKING CAPITAL ACCOUNT" means the account in the name of the Borrower with the Account Bank number 36156906 charged by way of floating charge in favour of the Lender pursuant to the Debenture.

"BORROWING BASE DEFICIENCY" means, on any day by reference to which the same falls to be calculated, the excess (if any) of Outstanding Advances over Collateral Value calculated and agreed in accordance with clause 19.

"BUSINESS DAY" means a day (other than a Saturday or Sunday) on which banks are generally open for business in London and New York.

"CCA" means the Consumer Credit Act 1974.

"CMC TRANSFER POWER OF ATTORNEY" means the power of attorney granted to the Borrower and Solicitors by City Mortgage Corporation Limited and the other Donors (as therein defined) pursuant to the Supplemental Sale Agreement the form of which is annexed thereto ;

"CMC COLLECTION ACCOUNT" means account number 76694895 with the Account Bank utilized for the time being for the purpose of collection of sums payable by Mortgagors under all Mortgage Loans originated by CMC and J&J.

"CMC COLLECTION ACCOUNT DECLARATION OF TRUST" means the declaration of trust dated 21 March 1996, as supplemented by all supplemental declarations of trust relating thereto, pursuant to which trusts over all amounts credited from time to time to the CMC Collection Account are (prior to execution of the Novation Agreements) constituted in favour of, inter alia, GIL, CMF, certain Issuers and the trustee under each Securitisation Receivables Trust.

"CMF" means City Mortgage Funding 1 Limited, incorporated under the laws of England and Wales, number 3299937, whose registered office is at Cityscape House, Croxley Business Park, Watford.

"CMF COLLECTION ACCOUNT" means an account in the name of CMF with the Account Bank number 95660208.

"CMF COLLECTION ACCOUNT DECLARATION OF TRUST" means the declaration of trust dated 30 April 1997, as supplemented by all supplemental declarations of trust relating thereto, pursuant to which trusts over all amounts credited from time to time to the CMF Collection Account are (prior to execution of the Novation Agreements) constituted in favour of, inter alia, GIL and City Mortgage Receivables 6 plc.

"COLLATERAL PERCENTAGE" in respect of any category of Mortgage Loan means the percentage set out in the table below by reference to such category of Mortgage Loan:-

Performing Senior Mortgage Loan	100%
Performing Junior Mortgage Loan	95%
Non Performing Senior Mortgage Loan	70%
Non Performing Junior Mortgage Loan	30%

"COLLATERAL SECURITY" has the meaning attributed to it in the Debenture.

"COLLATERAL VALUE" means, on any Interest Payment Date by reference to which the same falls to be determined, the aggregate of the values attributed to each Existing Mortgage Loan, each New Production Mortgage Loan and each Pipeline Loan financed under the Facility as at the related Determination Date, the value to be attributed to each such Mortgage Loan for such purpose to be determined by multiplying the lesser of the Collateral Percentage and the Market Value Percentage for each Mortgage Loan (on the basis of the status of such Mortgage Loan as at the related Determination Date) by the outstanding principal amount of each such Mortgage Loan as at the relevant Determination Date.

"COLLECTION ACCOUNTS" means the CMC Collection Account, the GFS Master Collection Account, the CMF Collection Account and the Greyfriars Originator Collection Accounts.

"COLLECTION ACCOUNT NOVATION AGREEMENT" means the agreement to be entered into on or about the date hereof between, inter alia, the Lender, the Borrower, each Greyfriars Originator, CMC, CMF and the Account Bank pursuant to which, inter alia, the bank account agreements relating to the Collection Accounts are to be amended and novated.

"COLLECTION PERIOD" means the calendar month immediately prior to the calendar month in which the relevant Interest Payment Date falls.

"CONSOLIDATED INDEBTEDNESS" means for any period, the aggregate Indebtedness of the relevant entity determined on a consolidated basis in accordance with GAAP less any non-specific balance sheet reserves maintained in accordance with GAAP.

"CONSOLIDATED TANGIBLE NET WORTH" means all amounts included as capital on the relevant entity's consolidated balance sheet determined in accordance with GAAP less amounts owing to affiliates and less any intangible assets including, without limitation, goodwill and deferred tax assets.

"COUNTER INDEMNITY" means the counter indemnity to be entered into on or about the date hereof between OFC and the Borrower in respect of the Indemnity, in form and substance satisfactory to the Lender.

"DEBENTURE" means the debenture to be entered into on or about the date hereof in form and substance satisfactory to the Lender by the Borrower in favour of the Lender creating fixed and floating charges over all of the Borrower's undertaking and assets.

"DEFERRED ASSIGNMENT OF COLLATERAL SECURITY" means the assignments of Collateral Security by the relevant Originator, direct to the Borrower, pursuant to the Sale Agreement in relation to Existing Mortgage Loans originated since 27 February 1998 but in respect of which the relevant Collateral Security has not been assigned to MML.

"DETERMINATION DATE" means the last day of each Collection Period.

"DRAWDOWN REQUEST" means the form of written request for an Advance to be delivered by the Borrower to the Lender prior to the relevant Advance Date, substantially in the form set out in Schedule 1 together, where the Advance is under the Revolving Commitment, with a Solicitors Certificate of Title and Undertaking attached thereto in relation to each Mortgage Loan to be originated and/or each Pipeline Loan to be acquired.

"DUE DATE" means the due date for payment by the Mortgagor of principal and/or interest under the terms of the relevant Mortgage Loan.

"ELIGIBLE COLLATERAL" means any Mortgage Loan which is not, at the date on which the same is charged in favour of the Lender under clause 15.5 already subject to the Debenture and:-

- (a) which has not already been financed hereunder; and
- (b) which would, were it to be financed hereunder, fulfill all required criteria including, without limitation, compliance with all representations and warranties.

"ENGLISH MORTGAGE LOAN" means a Mortgage Loan secured over a Mortgaged Property situated in England or Wales.

"EVENT OF DEFAULT" means any one of the conditions or circumstances referred to in clause 17.

"EXCLUDED LOANS" means any mortgage loans acquired or originated by the Borrower from time to time but which are not funded pursuant to this Agreement, other than Securitised Mortgage Loans.

"EXISTING MORTGAGE LOANS" means those Mortgage Loans to be purchased by the Borrower from, inter alia, MML pursuant to the terms of the Sale Agreement and listed in Schedule 1 to the Debenture (which schedule shall exclude the Excluded Loans and the Securitised Mortgage Loans).

"EXTENSION" means any renewal of the Revolving Facility, for one or more further periods pursuant to clauses 2.8 and 2.9.

"EXTENSION PERIOD" means each period by which the Revolving Facility may, from time to time, be extended.

"FACILITY" means the facility granted to the Borrower by the Lender under this Agreement.

"FACILITY OFFICE" means the office of the Lender through which it makes any Advance to the Borrower.

"FINAL MATURITY DATE" means:

- (a) the day falling 180 days from the date hereof unless that day is not a Business Day in which case the Final Maturity Date shall be the immediately preceding day which is a Business Day; or

- (b) in the event that there is any Extension or Extensions of the Revolving Facility, the last Business Day of (and falling within) the first Extension Period (if there is not more than one Extension) or, if there is more than one Extension, the final Extension Period.

"GFS MASTER COLLECTION ACCOUNT" means an account in the name of Greystriars Financial Services Limited with the Account Bank number 80126243 to which are credited all payments made by Mortgagors under Mortgage Loans originated by any Greystriars Originator.

"GFS MASTER COLLECTION ACCOUNT DECLARATION OF TRUST" means the declaration of trust dated 18 October 1996 (as supplemented by all supplemental declarations of trust relating thereto) constituting trusts over all amounts standing to the credit of the GFS Master Collection Account (prior to execution of the Novation Agreement) in favour of, inter alia, GIL, CMF, certain Issuers and the trustees of each Securitisation (prior to execution of the Novation Agreement) Receivables Trust.

"GREYFRIARS ORIGINATOR" means each of Home Funding Corporation Limited, Assured Funding Corporation Limited and Home Mortgage Corporation Limited.

"GREYFRIARS ORIGINATOR COLLECTION ACCOUNTS" has the meaning attributed thereto in the Greystriars Originator Collection Account Declaration of Trust.

"GREYFRIARS ORIGINATOR COLLECTION ACCOUNT DECLARATION OF TRUST" means the declaration of trust dated 18 October 1996 (as supplemented by all supplemental declarations of trust relating thereto) constituting trusts (declared by, inter alia, each Greystriars Originator) over all amounts standing to the credit of the Greystriars Originator Collection Accounts in favour of (prior to execution of the Novation Agreements), inter alia, GIL, certain Issuers and the trustees of each Securitisation Receivables Trust.

"HOLDING COMPANY" of a company or corporation means any company or corporation of which the first-mentioned company or corporation is a subsidiary, and references to a company or corporation shall be deemed to include a company or corporation which is not formed and registered under the Companies Act 1985.

"INDEBTEDNESS" means any obligation (whether incurred as principal, cautioner or surety) for the payment or repayment of money in respect of:

- (a) monies borrowed and debit balances at banks;
- (b) any loan note, bond, note, loan stock, commercial paper, debenture or other security;
- (c) any acceptance or documentary credit;

- (d) the deferred purchase price of property or services, except accounts payable and accrued expenses arising in the ordinary course of business;
- (e) any receivable sold or discounted (otherwise than on a non-recourse basis);
- (f) the capital value of any lease (whether in respect of land, machinery, equipment or otherwise) entered into primarily as a method of raising finance or financing the acquisition of the asset leased;
- (g) any currency or interest swap, cap, collar, floor or corridor transaction, any repurchase or reverse repurchase transaction, any foreign exchange, spot or forward transaction, any stock lending transaction, any financial option, or any combination of any of the foregoing; or
- (h) without double counting, any guarantee, indemnity or contingent liability in respect of any borrowings of any person of a type referred to in (a) to (g) above but only to the extent the borrowings thereby guaranteed or indemnified against are outstanding.

"INDEMNITY" means the indemnity to be given by OFC on or about the date hereof in form and substance satisfactory to the Lender indemnifying, inter alia, the Lender for, inter alia, the obligations of the Borrower under this Agreement.

"INITIAL ADVANCE" means the advance of the Term Loan.

"INTEREST PAYMENT DATE" means the 15th day of each month unless that day is not a Business Day in which case the Interest Payment Date shall be the immediately preceding day which is a Business Day.

"INTEREST PERIOD" means, for each Advance, each of the following periods:

- (a) the period commencing on (and including) the day the relevant Advance is made and ending on (but excluding) the next following Interest Payment Date; and
- (b) thereafter, each period commencing on (and including) an Interest Payment Date and ending on (but excluding) the next following Interest Payment Date,

provided that any Interest Period which would otherwise overrun the Final Maturity Date or the Repayment Date (of the relevant Advance) shall end upon whichever is the earlier of the Final Maturity Date or the relevant Repayment Date.

"INTIMATIONS OF ASSIGNATIONS OF TRUST PROPERTY" means the intimations of the Scottish Trust Assignations, in the form set out in Schedule 5.



"ISSUERS" means each of City Mortgage Receivables 1 Plc (Company No. 3126751), City Mortgage Receivables 2 Plc (Company No. 3245450), City Mortgage Receivables 3 Plc (Company No. 3245445), City Mortgage Receivables 4 Plc (Company No. 3246090), City Mortgage Receivables 5 Plc (Company No. 3304205) and City Mortgage Receivables 6 Plc (Company No. 3328209).

"J&J" means J&J Securities Limited, a company incorporated in England and Wales under number 1335672 whose registered office is at Cityscape House, Croxley Business Park, Watford, Herts, WD1 8YF.

"JUNIOR MORTGAGE LOAN" means any Existing Mortgage Loan, New Production Mortgage Loan or Pipeline Loan financed or to be financed hereunder and which is secured other than by way of a first ranking legal mortgage or first ranking Standard Security.

"LIBOR" in respect of a particular period and in relation to an Advance or other amount in respect of which an interest rate is to be determined pursuant to this Agreement, means the percentage interest rate per annum for the time being offered in the London Interbank Market to prime banks for one month sterling deposits at or about 11.00 a.m. (London time) on the first day of such period as published on the relevant page of The Bloomberg (Bloomberg L.P.) under the heading "Money Market-Money Market Rates".

"MANUALS" has the meaning attributed to it in the Servicing Agreement.

"MARGIN" means (a) 1.50% with respect to the Initial Advance under the Term Loan and (b) with respect to all Revolving Advances under the Revolving Facility (i) 1.50% until the Interest Payment Date immediately following the date on which at least (pound sterling) 200,000,000 in aggregate principal amount of the Initial Advance has been repaid to the Lender and (ii) 0.875% for any Interest Payment Date thereafter.

"MARKET VALUE PERCENTAGE" in respect of any Mortgage Loan on any date of determination means the market value of such Mortgage Loan (expressed as a percentage of the unpaid principal balance of such Mortgage Loan) determined by the Lender in its sole discretion acting reasonably following consultation with the Borrower, which determination in the absence of manifest error shall be conclusive.

"MASTER NOVATION AGREEMENT" means the novation agreement to be entered into on or about the date hereof between, inter alia, the Lender, Ocwen Asset Investment - UK, LLC, each Issuer, CMC, CMF, each Greyfriars Originator and CMS, pursuant to which, inter alia:-

- (a) contracts relating to the Securitisations are amended and novated or, as the case may be, amended and rights thereunder assigned; and

(b) trusts in favour of the Borrower over all amounts credited, inter alia, to any Collection Account from time to time which represent or relate to monies received or recovered from Mortgagors under Mortgage Loans owned (whether legally or beneficially) by the Borrower, other than Securitisation Mortgage Loans, are constituted.

"MHA DOCUMENTATION" means in relation to any Scottish Mortgage Loan, any affidavit, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 given in connection with such Scottish Mortgage Loan or the Mortgaged Property secured thereunder.

"MINDED TO REVOKE NOTICE" means any notice given under section 32 of the CCA.

"MIRAS SCHEME" means the mortgage interest relief at source scheme specified in section 369 of the Income and Corporation Taxes Act 1988.

"MML" means Mortgage Management Limited;

"MML ASSIGNMENT OF COLLATERAL SECURITY" means the assignment of Collateral Security by, inter alia, MML to the Borrower of even date hereto pursuant to the terms of the Sale Agreement.

"MML TRANSFERS" means the transfers of even date of all Existing Mortgage Loans executed by, inter alia, MML and CMF in favour of the Borrower pursuant to the Sale Agreement.

"MORTGAGE DEED" means in relation to each Mortgage Loan, the deed creating the charge by way of first or subsequent ranking legal mortgage or first or subsequent ranking Standard Security over the relevant Mortgaged Property, and incorporating the terms and conditions on which the relevant advance to the Mortgagor was made.

"MORTGAGE FILE" means the Mortgage Loan Documents pertaining to a particular Mortgage Loan, together with the related mortgage application forms completed by the relevant Mortgagor(s), credit agency checks, if any, carried out in respect of such Mortgagor(s), correspondence files and all other material documents, papers and computer records held by or for the relevant Originator in respect of the particular Mortgage Loan.

"MORTGAGE LOAN" means the relevant loan (and, as the context admits, all security therefor (including Collateral Security in relation thereto) and all rights and entitlements of the relevant Originator in relation thereto and all references to Mortgage Loan in or connection with any representation and warranty herein shall be construed as a reference to the Mortgage Loan, together with the related Mortgage and all Collateral Security related thereto) made by an Originator to a Mortgagor secured by a first or junior ranking legal mortgage or first or junior ranking Standard Security in favour of the Originator over the relative Mortgaged Property.

"MORTGAGE LOAN DOCUMENTS" means the documents listed in Schedule 3 pertaining to any Mortgage Loan.

"MORTGAGE LOAN PACKAGE" means the Mortgage Loans requested to be financed hereunder under any Drawdown Notice.

"MORTGAGE LOAN PURCHASE AGREEMENT" means the agreement dated 14 June 1996 between the Lender (1) and CMC (2) whereby the Lender agreed to purchase and CMC agreed to sell mortgage loans originated by CMC and its approved affiliates.

"MORTGAGE LOAN SCHEDULE" means the schedule of Mortgage Loans annexed to each Drawdown Request.

"MONTHLY PAYMENT" means in respect of any Existing Mortgage Loan or New Production Mortgage Loan financed hereunder the monthly payment due and payable by the relevant Mortgagor on the relevant Monthly Payment Date.

"MORTGAGED PROPERTIES" means each and all (as the context admits) freehold and/or leasehold properties in England or Wales mortgaged under and/or properties held on heritable title or long lease in Scotland secured under the relative Mortgage Deeds.

"MORTGAGE TRANSFER AGREEMENT" means the Agreement dated 27 February 1998 made between Greenwich International, Ltd., City Mortgage Funding 1 Limited, MML and the Originators.

"MORTGAGOR" means the party (or parties) referred to as such or as "THE BORROWER" in the relevant Mortgage Deed.

"NEW PRODUCTION MORTGAGE LOANS" means Mortgage Loans originated by the Borrower on or after the date hereof.

"NON PERFORMING JUNIOR MORTGAGE LOANS" means a Junior Mortgage Loan which as of the last day of the related Collection Period has due and unpaid all or any part of at least one Monthly Payment.

"NON PERFORMING SENIOR MORTGAGE LOANS" means each Existing Mortgage Loan, New Production Mortgage Loan and Pipeline Loan financed hereunder and which:

- (a) is a Senior Mortgage Loan; and
- (b) as of the last day of the related Collection Period has due and unpaid all or any part of at least two Monthly Payments.

"NOVATION AGREEMENTS" means the Master Novation Agreement and the Collection Account Novation Agreement.

"OFT" means the Office of Fair Trading.

"OFT GUIDELINES" means the guidelines issued by the OFT relating to the non-status lending market in effect from time to time.

"ORIGINATION SALE AND PURCHASE AGREEMENT" means the agreement dated 27 February 1998 made between City Mortgage Corporation Limited and others and MML;

"ORIGINATOR" means in relation to all New Production Mortgage Loans, the Borrower, and in relation to all Existing Mortgage Loans and Pipeline Loans the originator of such Mortgage Loan (which, for the avoidance of doubt, shall, in relation to Pipeline Loans, be construed as a reference to the relevant Donor (as defined in the CMC Transfer Power of Attorney)).

"ORIGINATOR ASSIGNMENTS OF COLLATERAL SECURITY" means the assignments of Collateral Security executed by Originators in favour of MML dated 27 February 1998 and executed pursuant to the Mortgage Transfer Agreement;

"ORIGINATOR ASSIGNMENTS OF NEW COLLATERAL SECURITY" means the assignments of Collateral Security executed by Originators in favour of MML pursuant to the terms of the Origination Sale and Purchase Agreement.

"ORIGINATOR TRANSFERS" means the transfers of Pre-Existing Mortgage Loans by Originators in favour of MML pursuant to the Mortgage Transfer Agreement and dated 27 February 1998, and transfers of Existing Mortgage Loans originated since that date, dated the date of the origination of the relevant Existing Mortgage being transfers by Originators in favour of MML pursuant to the Originator Sale and Purchase Agreement.

"ORIGINATORS AND MML POWER OF ATTORNEY" means the Power of Attorney of even date in the form annexed to the Sale Agreement and therein referred to as the "Buyer's Power of Attorney" executed by, inter alia, the Originators (of Existing Mortgage Loans) and MML in favour of the Borrower and the Lender.

"OUTSTANDING ADVANCES" means, on any day by reference to which the same falls to be determined, the aggregate amount of all Advances outstanding under the Facility.

"PERFORMING JUNIOR MORTGAGE LOAN" means a Junior Mortgage Loan which is not a Non Performing Junior Mortgage Loan.

"PERFORMING SENIOR MORTGAGE LOAN" means each Existing Mortgage Loan, New Production Mortgage Loan or Pipeline Loan financed hereunder and which:

- (a) is a Senior Mortgage Loan; and
- (b) is not a Non Performing Senior Mortgage Loan.

"PIPELINE LOANS" means the Mortgage Loans acquired by the Borrower pursuant to the terms of the Supplemental Sale Agreement from time to time, and financed hereunder;

"POTENTIAL EVENT OF DEFAULT" means any event which with the giving of notice or the passing of time or both or the occurrence of any other event will become an Event of Default.

"PRE-EXISTING MORTGAGE LOAN" means each Existing Mortgage Loan originated on or before 27 February, 1998.

"REGISTERS OF SCOTLAND" means the Land Register of Scotland and/or the General Register of Sasines.

"REGULATED MORTGAGE LOAN" means a Mortgage Loan that is a regulated or partly regulated agreement for the purposes of the Consumer Credit Act 1974.

"REPAYMENT DATE" means in relation to any Advance, the date which shall be 180 days following its Advance Date or the Final Maturity Date, whichever is the earlier.

"REVOLVING ADVANCE" means an Advance drawn under the Revolving Facility.

"REVOLVING COMMITMENT" means an initial commitment of 50,000,000 (fifty million pounds) increasing to 100,000,000 (one hundred million pounds) in the circumstances set out in clause 2.6 or such lesser amount following a cancellation pursuant to clause 5 hereof.

"REVOLVING FACILITY" means the revolving credit facility made available pursuant to clause 2.1(b).

"REVOLVING LOAN" means the aggregate of Advances drawn down against the Revolving Commitment by the Borrower save to the extent that any such Advances have been repaid to the Lender.

"SCOTTISH MORTGAGE LOAN" means a Mortgage Loan secured over a Mortgaged Property situated in Scotland.

"SCOTTISH TRUST ASSIGNATION" has the meaning defined in the Debenture.

"SECURED LIABILITIES" means all liabilities and obligations of whatever nature of the Borrower, OFC or any other person secured under any Security Document.

"SECURITISATION BANK AGREEMENTS" means the six bank agreements dated 21 March 1996, 18 October 1996, 31 October 1996, 31 January 1997 and 30 April 1997 in relation to the Securitisations.

"SECURITISATION COLLECTION ACCOUNT TRUSTS" means the CMC Collection Account Declaration of Trust, the CMF Collection Account Declaration of Trust, the GFS Master Collection Account Declaration of Trust and the Greyfriars Originator Collection Account Declaration of Trust.

"SECURITISATIONS" means each of the six securitisations of Mortgage Loans originated by CMC and certain of its subsidiaries, effected through sales of the Mortgage Loans to the Issuers on 21 March, 1996, 18 October, 1996, 31 October, 1996, 31 January, 1997 and 30 April, 1997.

"SECURITISED MORTGAGE LOANS" has the meaning attributed to it in the Debenture.

"SECURITY" includes any mortgage, sub mortgage, Standard Security, fixed or floating charge, sub charge, encumbrance, lien, pledge, hypothecation, absolute assignment, assignment by way of security, or title retention arrangement, and any agreement or arrangement having substantially the same economic or financial effect as any of the foregoing (including any "hold back" or "flawed asset" arrangement).

"SECURITY DOCUMENTS" means the Debenture, (and each further security document executed pursuant thereto including, without limitation, any Supplemental Deed of Charge), the Account Assignments and any security executed in respect of additional collateral provided pursuant to the terms hereof.

"SENIOR MORTGAGE LOANS" means each Existing Mortgage Loan, New Production Mortgage Loan and Pipeline Loan financed or to be financed hereunder and which is secured by way of a first ranking legal mortgage or first ranking Standard Security.

"SERVICE DOCUMENT" means "a writ, summons, order, judgment or other process issued out of the courts of England and Wales in connection with any Proceedings.

"SERVICER" means Ocwen UK Servicing Limited.

"SERVICING AGREEMENT" means the interim servicing agreement in form and substance satisfactory to the Lender to be entered into on or about the date hereof between the Borrower, the Lender and the Servicer.

"SOLICITOR LETTERS OF INSTRUCTION" means the form of letters of instruction so described and annexed to each of the Agreed Form Undertakings and Documentation Letters.

"SOLICITORS" means each of Tomlinsons, Bernard Elliston Sandler & Co, and in relation to Scottish Mortgage Loans, Turner MacFarlane Green and each other firm of solicitors approved in writing by the Lender, each comprising a minimum of two partners holding current practicing certificates issued by the Law Society or the Law Society of Scotland, engaged by the Borrower to undertake conveyancing and/or security enforcement services in relation to Mortgaged Properties, and who carry professional indemnity insurance in the sum of at least (pound sterling) 1,000,000 for each and every claim against them by any party in any one year or such increased amount as may from time to time be prescribed by the Lender, acting reasonably.

"SOLICITORS CERTIFICATE OF TITLE AND UNDERTAKING" means the certificate of title and undertaking to be attached to each Drawdown Request in relation to Advances under the Revolving Commitment in the form set out in Schedule 5 addressed to the Borrower and the Lender (in relation to both the origination of New Production Mortgage Loans and the acquisition of Pipeline Loans).

"SOLICITORS UNDERTAKING" means the Solicitors Certificate of Title and Undertaking, the Solicitors Undertaking re: Existing Mortgage Loans; the Solicitors Undertaking re: New Advance Monies; and the Solicitors Undertaking re: New Mortgage Loans in the forms set out in Schedule 5.

"SOLICITOR'S UNDERTAKING RE: EXISTING MORTGAGE LOANS" means the form of undertaking so described and annexed to each of the Agreed Form Undertakings and Documentation Letters and set out in Schedule 5 hereto;

"SOLICITOR'S UNDERTAKING RE: NEW ADVANCE MONIES" means the form of undertaking so described and annexed to each of the Agreed Form Undertakings and Documentation Letters and set out in Schedule 5 hereto;

"SOLICITOR'S UNDERTAKING RE: NEW MORTGAGE LOANS" means the form of undertaking so described and annexed to each of the Agreed Form Undertakings and Documentation Letters and set out in Schedule 5;

"STANDARD SECURITY" means a standard security in terms of the Conveyancing and Feudal Reform (Scotland) Act 1970.

"STANDARD FORM DOCUMENTATION" means the standard form documents used or to be used by the Borrower or CMC and the other Donors (as defined under the Supplemental Sale Agreement) where origination has continued in the name of such companies after the date hereof in the origination of Mortgage Loans as the same have been initialled by the parties hereto for the purpose of identification and annexed hereto in Annexure 2 or as otherwise changed, varied or substituted by or on behalf of the Borrower as approved and agreed by the Lender.

"SUBSIDIARY" has the meaning given to it by section 736 of the Companies Act 1985 save that references therein to company shall be deemed to include a company which has not been formed and registered under the Companies Act 1985.

"SUPPLEMENTAL SALE AGREEMENT" means the origination and transfer agreement to be entered into on or about the date hereof between, inter alia, the Borrower, CMC and the Donors (as defined thereunder).

"SUPPLEMENTAL SECURITY POWERS OF ATTORNEY" means the powers of attorney granted by the Borrower in favour of the Solicitors in the form set out in Schedule 5 hereto.

"SUPPLEMENTAL DEED OF CHARGE" means any supplemental charge or assignation in security made by the Borrower in favour of the Lender pursuant to the Debenture.

"TERM" means save as otherwise provided herein, in relation to any Advance, the period commencing on (and including) the date on which such Advance is made and ending on (but excluding) the Repayment Date relating to such Advance.

"TERM LOAN" means a loan in the amount of (pound sterling) 225,276,933.93 to be made available to finance the purchase of all Existing Mortgage Loans to be acquired by the Borrower pursuant to the Sale Agreement.

"TERM LOAN REPAYMENT DATE" means the date which shall be 180 days after the date on which the Term Loan is drawn or, if such day is not a Business Day the immediately preceding Business Day.

"TRANSACTION DOCUMENTS" means this Agreement, the Security Documents, the Indemnity, the Servicing Agreement, and each other document at any time entered into between all or any of the Borrower, OFC, the Lender, the Servicer and any third party pursuant to or in connection with any document which is a Transaction Document.

"UNDERTAKING" means the undertaking to be given by OFC to the Borrower on or about the date hereof, in form and substance satisfactory to the Lender.

"UNDERWRITING GUIDELINES" means the underwriting guidelines published by City Mortgage Corporation Limited as adopted by the Borrower as at the date of completion under the Sale Agreement, and initialled by the parties hereto for the purpose of identification and attached hereto as Annexure 2 as the same may be amended or supplemented from time to time with the prior written consent of the Lender.

the "LENDER" shall be construed so as to include its and any subsequent successors and assigns in accordance with their respective interests.

a "MONTH" is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next following calendar month; PROVIDED that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the following succeeding Business Day, unless that day falls in the calendar month next following that in which it would otherwise have ended, in which case it shall end on the immediately preceding Business Day; and provided further that, if there is no numerically corresponding day in the next following calendar month, that period shall end on the last Business Day in that next following calendar month (and references to "MONTHS" shall be construed accordingly).



a "PERSON" shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing.

"REPAY" (or any derivative form thereof) shall, subject to any contrary indication, be construed to include "PREPAY" (or, as the case may be, the corresponding derivative form thereof).

"TAX" shall be construed so as to include any present or future tax, levy, impost, duty or other charge of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

"VAT" shall be construed as a reference to value added tax including any similar tax which may be imposed in place thereof from time to time.

the "WINDING-UP", "DISSOLUTION" or "ADMINISTRATION" of a company or corporation shall be construed so as to include any equivalent or analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or any jurisdiction in which such company or corporation carries on business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors.

## 1.2 INTERPRETATION

For the purposes of this Agreement except as otherwise expressly provided or unless the context otherwise requires:-

- (1) accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles save that references herein to GAAP are to generally accepted accounting principles in the United States of America;
- (2) references herein to "clauses", "sub-clauses", "paragraphs", and other subdivisions without reference to a document are to designated clauses, sub-clauses paragraphs and other subdivisions of this Agreement;
- (3) reference to a sub-clause without further reference to a clause is a reference to such sub-clause as contained in the same clause in which the reference appears, and this rule shall also apply to paragraphs and other subdivisions;
- (4) the words "herein", "hereof", "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular provision;

- (5) headings to clauses and Schedules are for convenience only and do not affect the interpretation of this Agreement;
- (6) references to a "company" shall be construed so as to include any company, corporation or other body corporate, wherever and however incorporated or established;
- (7) references to times of the day are to London time;
- (8) references to any agreement (including without limitation to each Transaction Document), shall be construed as a reference to such agreement as the same may be, or may from time to time have been, amended, modified, supplemented or restated in accordance with the terms of the Transaction Documents;
- (9) "(pound sterling)", "POUNDS" and "STERLING" denote the lawful currency of the United Kingdom;
- (10) any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended, modified or re-enacted.

2. THE FACILITY AND PURPOSE

2.1 The Lender hereby grants to the Borrower a credit facility comprising:-

- (1) the Term Loan; and
- (2) a revolving credit facility in an initial maximum aggregate principal amount of 50,000,000 (fifty million pounds) increasing to 100,000,000 (one hundred million pounds) in the circumstances set out in clause 2.6 or such lesser amount following a cancellation pursuant to Clause 5, on and subject to the terms of this Agreement.

2.2 At no time may the aggregate principal amount of Advances drawn under the Revolving Facility hereunder exceed the Revolving Commitment.

2.3 The Initial Advance will be used by the Borrower for the sole purpose of financing the purchase of the Existing Mortgage Loans from inter alia, MML on the terms of the Sale Agreement.

2.4 Advances drawn under the Revolving Facility will be used by the Borrower for the sole purpose of financing the origination of New Production Mortgage Loans or the purchase of Pipeline Loans pursuant to the Supplemental Sale Agreement.

- 2.5 The Lender shall not be obliged to concern itself with the application of amounts borrowed by the Borrower under this Agreement and application by the Borrower of funds so borrowed contrary to the provisions of clauses 2.3 and 2.4 shall not prejudice the Lender's rights hereunder or under any other Transaction Document.
- 2.6 The Revolving Commitment shall increase in the following manner:-
- (a) upon repayment of (pound sterling) 200,000,000 of the Term Loan, from 50,000,000 (fifty million pounds) to 75,000,000 (seventy five million pounds);
  - (b) thereafter for every (pound sterling) 1.00 repaid under the Term Loan, by (pound sterling) 1.00; and
  - (c) in any event, upon repayment of the Term Loan in full to 100,000,000 (one hundred million pounds).
- 2.7 The Lender shall cease to be obliged to make any Advances hereunder on the Final Maturity Date and any undrawn portion of the Revolving Commitment shall be automatically cancelled on that date.
- 2.8 The Borrower may, not later than 7 days prior to the then current Final Maturity Date, by written notice to the Lender, request an extension of the Revolving Facility for a further period provided that the Borrower may only request an extension which would not, if granted, cause the overall term of the Revolving Facility to exceed 364 days.
- 2.9 In the event that the Borrower requests an extension of the Revolving Facility pursuant to clause 2.8 the Lender may, in its sole discretion, agree to the requested extension or may agree to an extension of the Revolving Facility for a further period which is less than the requested extension, and shall, by notice in writing to the Borrower to be given no later than 2 days prior to the then current Final Maturity Date inform the Borrower of its decision. For the avoidance of doubt the Lender shall be under no obligation whatsoever to agree to any requested extension of the Revolving Facility.

### 3. AVAILABILITY

- 3.1 The Facility will not become available to the Borrower and the Lender shall be under no obligation to make any Advance hereunder until each of the following conditions precedent shall have been fulfilled to the satisfaction of the Lender:
- (1) the Lender shall have received each of the following documents, each in form and substance satisfactory to it:-
    - (1) a certified copy of the Certificate of Incorporation and Memorandum and Articles of Association or constitutional documents of each of the Borrower, OFC (comprising, in the case of OFC, articles of incorporation, byelaws and a certificate of good standing) and the Servicer each duly certified by the secretary or a director of the relevant company as true, accurate and complete as at the date of drawing of the Initial Advance;

- (2) originals (or, where the Lender is not party to the relevant document, certified copies) of each of the following documents, duly executed by each party thereto other than the Lender:-
- (1) the Indemnity, Counter Indemnity and Undertaking;
  - (2) the Security Documents and all notices and acknowledgements thereof to be given and received thereunder and all consents to any such security being granted;
  - (3) the Servicing Agreement;
  - (4) the Collection Account Novation Agreement, the Master Novation Agreement and all documents referred to therein, including without limitation mandates relating to the Collection Accounts and declarations of trust;
  - (5) the Sale Agreement including all schedules thereto and the disclosure letter relating thereto;
  - (6) the Supplemental Sale Agreement (and the CMC Transfer Power of Attorney annexed thereto);
  - (7) Solicitors Undertaking re: Existing Mortgage Loans;
  - (8) MML Transfers;
  - (9) Scottish Trust Assignment;
  - (10) Intimations of Assignment of Trust Property;
  - (11) MML Assignment of Collateral Security;
  - (12) Originator and MML Power of Attorney;
  - (13) Deferred Assignment of Collateral Security;
  - (14) Agreed Form Undertakings and Documentation Letters;
  - (15) Originator Transfers;
  - (16) Originator Assignments of Collateral Security;

- (17) Solicitor Letters of Instruction;
  - (18) Solicitors Undertaking re: New Advance Monies;
  - (19) Supplemental Security Power of Attorney;
  - (20) CMC Transfer Power of Attorney;
  - (21) Standard Security Sasine Register and Land Register;
- (3) in respect of each of the Borrower, OFC and the Servicer, a copy (certified by the secretary or a director or equivalent officer of the relevant company to be true, complete and up to date as at the date of drawing of the Initial Advance) of all board minutes and all other resolutions and authorisations passed or given in relation to the Transaction Documents;
  - (4) in respect of the Borrower, a solvency certificate in the form set out in Schedule 2 dated the date of the Initial Advance;
  - (5) in respect of each of the Borrower, OFC and the Servicer a copy (certified by the secretary or a director or equivalent officer of the relevant company to be true, complete and up to date as at the date of advance of the Initial Advance) of all consents, approvals, authorisations or orders of any court or governmental agency or body (including, without limitation, the OFT) required for the execution, delivery and performance by it of, or compliance by it with, the terms of any Transaction Document or the consummation of the transactions contemplated thereby;
  - (6) in relation to each of the Borrower and the Servicer a copy (certified by the secretary or a director of the relevant company as in full force and effect) of the Consumer Credit Act license held by such company together with evidence of registration of each such company under the Data Protection Act 1984;
  - (7) duly executed account mandates in relation to the Borrower Funding Account and the Borrower Collection Account, specifying the authorised signatories for the Borrower;
  - (8) Assignations of the Scottish Declarations of Trust or Supplemental Declarations of Trust (as the case may be) in favour of the Borrower executed by MML.

- (2) the Lender shall have received confirmation as to the identity of all Solicitors engaged or intended by the Borrower as at the date of this Agreement to be engaged in relation to conveyancing and/or security enforcement concerning Mortgaged Properties, together with evidence as to their respective professional indemnity insurance cover;
- (3) all conditions precedent under each other Transaction Document (other than any requirement that the Facility shall have become available hereunder) shall have been fulfilled or expressly waived by the Lender;
- (4) the Lender shall have received legal opinions, each in form and substance satisfactory to it, from each of the following firms:
  - (1) Edge and Ellison;
  - (2) Tods Murray;
  - (3) Akin, Gump, Strauss, Hauer & Feld LLP; and
  - (4) in house counsel to OFC.
- (5) all conditions precedent to the Novation Agreements shall have been satisfied; and
- (6) the Lender shall have received a copy of the acceptances of appointment as agent for service of process under clause 30.

#### 4. DRAWINGS

##### 4.1 Subject to:-

- (1) The conditions precedent in Clause 3 having been fulfilled to the satisfaction of the Lender or waived by the Lender;
- (2) no Event of Default or Potential Event of Default having occurred and subsisting unremedied (to the satisfaction of the Lender) and unwaived;
- (3) there having been received from the Borrower by the Lender not later than 5pm (London time) on the Business Day before the date on which the Initial Advance is to be made a duly completed Drawdown Request relating thereto including a schedule giving required details of each Existing Mortgage Loan,

the Lender will make the Initial Advance to the Borrower on the date hereof.

##### 4.2 Subject to:-

- (1) each condition precedent in Clause 3 having been fulfilled to the satisfaction of the Lender or waived by the Lender;

- (2) no Event of Default or Potential Event of Default having occurred and subsisting unremedied (to the satisfaction of the Lender) and unwaived;
- (3) there having been received from the Borrower by the Lender not later than 5pm (London time) on the Business Day before the date on which an Advance under the Revolving Commitment is to be made a Solicitor's Certificate of Title and Undertaking in respect of each Mortgage Loan the origination or acquisition of which the Borrower proposes to finance by the relevant Advance and a duly completed Drawdown Request (and a schedule thereto) together with a copy of the schedules of all Mortgage Loans to be originated or acquired on its behalf on the relevant date and a data tape in respect of the relevant Mortgage Loans, in computer readable form, containing such information regarding the Mortgage Loans as was previously provided to the Lender under the MML Loan Facility Agreement immediately prior to the date hereof;
- (4) the Lender having approved the Mortgage Loans to be financed, such approval to be evidenced by the Lender by signing the schedule of Mortgage Loans and the related Drawdown Request having deleted therefrom any Mortgage Loans which do not meet the Underwriting Guidelines;
- (5) no event described under 17.1 (l), (m), (n) or (o) having occurred;
- (6) no Minded to Revoke Notice having been served on the Borrower or the Servicer;
- (7) no injunction or interdict having been obtained by (or on behalf of) the OFT against the Borrower or the Servicer which relates to its respective residential mortgage lending activities including, without limitation, any Mortgage Loan financed hereunder;
- (8) where the proposed Advance is to fund Mortgage Loans secured by a Mortgage over unregistered land where the Borrower does not hold the title deeds to such Mortgaged Property (and in relation to which the Borrower's legal mortgage is therefore a second or subsequent ranking legal mortgage protected at Central Land Charges Registry by registration of a C(i) Land Charge) the Lender shall have received a schedule of such Mortgage Loans (together in relation to such Mortgage Loans with the full names of the owners of such Mortgaged Property and the full address of that Mortgaged Property);
- (9) where the proposed Advance is to fund a Pipeline Loan:-
  - (1) the date of the Advance being no later than two months after the date hereof;

- (2) no event described under 17.1(1) having occurred and no petition for an administration order having been presented in relation to CMC or other Donor (as defined in the CMC Transfer Power of Attorney); and
- (3) each Donor (as described in the CMC Transfer Power of Attorney) having, at the time of the proposed Advance, a valid consumer credit license,

the Borrower may draw additional Advances under the Revolving Commitment (subject to the provisions of this Agreement) Provided always that:-

- (i) Advances may be made on Business Days during the Availability Period;
- (ii) each Advance shall be a minimum of (pound sterling) 100,000 or, if less than (pound sterling) 100,000, the Available Commitment;
- (iii) no Advance shall be made to the extent that, if as a result thereof the Revolving Loan for the time being outstanding would exceed the Revolving Commitment;
- (iv) no Advance shall be made or may be requested to refinance any Mortgage Loan the origination or purchase of which was financed by a prior Advance under this Agreement;
- (v) the amount of each Advance requested shall not be greater than the amount equal to the Advance Percentage of the Advance Date Principal Balance of the particular Mortgage Loan.

4.3 Subject to the foregoing provisions of this Clause 4, upon receipt of a duly executed Drawdown Request, the Lender shall, not later than 10 am New York time on the date on which the Advance is to be made (or such later time as maybe agreed between the Borrower and the Lender), make the Advance requested, such Advance to be credited to the Borrower Funding Account or, after prior consultation with and written notice to the Borrower, the applicable Solicitors and the Servicer, to be advanced to the Solicitors acting for the Borrower in relation to the particular New Production Mortgage Loans or Pipeline Loans, against the Solicitors Undertaking re: New Advance Monies from the relevant Solicitors, and it is acknowledged (for the avoidance of doubt) that any Advance paid to Solicitors under clause 4.3 shall be deemed to have been drawn by the Borrower under this Agreement on the date of such payment.

4.4 If the Borrower fails for any reason whatsoever (other than as a consequence of a breach of the Lender's obligations) to draw down an Advance after a Drawdown Request has been received by the Lender (whether such failure be the result of the occurrence of an Event of Default or otherwise), the Borrower will pay to the Lender on demand such amount as the Lender certifies to be necessary to compensate for all losses excluding loss of Margin incurred or to be incurred on account of deposits acquired or arranged in order to fund the Advance. Any such certificate by the Lender shall be PRIMA FACIE evidence of such losses.



4.5 In the event that no duly completed Solicitors Undertaking re: New Mortgage Loans shall have been received by the Lender in respect of any Mortgage Loan(s) in respect of which an Advance shall have been made hereunder by the close of business on the third Business Day following the making of the Advance the Lender shall immediately notify the Borrower and an amount equal to the Advance, or such part thereof as was advanced in respect of such Mortgage Loan or Mortgage Loans shall become immediately due and repayable by the Borrower to the Lender together with accrued interest thereon.

4.6 If all or any part of any Advance made to finance a Mortgage Loan which is subject to the provisions of Clause 4.5 shall be held by any Solicitors payment in full by such Solicitors to the Lender of the amounts due under Clause 4.5 shall discharge the Borrower's obligation to pay the same.

4.7 All parties hereby agree and acknowledge that:

(1) all sums credited to the Borrower Funding Account shall be subject to the Borrower Funding Account Assignment; and (1)

(2) all sums credited to the Borrower Collection Account shall be subject to the Borrower Collection Account Assignment.

## 5. CANCELLATION

5.1 The Borrower may at any time by giving not less than two Business Days irrevocable written notice to the Lender cancel any amount (in integral multiples of (pound sterling) 5,000,000) of the Revolving Commitment to the extent not currently outstanding or requested in a current Drawdown Request Provided that the cancelled amount does not reduce the Revolving Commitment below the outstanding principal amount of Advances drawn under the Revolving Commitment plus the amount of Advances requested in a current Drawdown Request.

5.2 During such period of notice the Borrower may not serve a Drawdown Request purporting to draw all or any part of the amount of the subject of such notice of cancellation.

5.3 Upon such cancellation becoming effective, the Revolving Commitment shall be appropriately reduced.

6. INTEREST ON ADVANCES

- 6.1 The Borrower will pay interest on each Advance on each Interest Payment Date in respect of each Interest Period referable thereto at the rate per annum equal to the aggregate of (i) the Margin and (ii) LIBOR for the relevant Interest Period.
- 6.2 The Lender will, as soon as practicable after commencement of each Interest Period advise the Borrower of LIBOR for that Interest Period. Any certificate of the Lender as to the rate and amount of interest determined by it under this Agreement in respect of any Interest Period shall, save for manifest error, be conclusive and binding on the Borrower and OFC.
- 6.3 Interest at the rate determined as aforesaid shall be calculated on each Advance and each part thereof on the basis of actual days elapsed and a 365 day year, shall accrue from day to day from and including the first day of each Interest Period to but excluding the date of repayment of such Advance.
- 6.4 If LIBOR cannot be determined for any reason the rate of interest applicable to such Advance shall be the sum of the Margin and the rate, expressed as a percentage rate per annum, which is the actual cost to the Lender of funding such Advance from whatever sources it may select during such Interest Period (as applicable) and, if the Lender so requires, within five days of such notification the Lender and the Borrower shall enter into negotiations with a view to agreeing a substitute basis for determining the rates of interest which may be applicable to Advances in the future.

7. REPAYMENT AND APPLICATION OF RECEIPTS

- 7.1 The Borrower shall, subject as provided herein, repay the amount of the Term Loan then outstanding in full on the Term Loan Repayment Date. Any amount repaid, or any part thereof, may not be redrawn.
- 7.2 The Borrower shall repay the whole of the outstanding amount of each Revolving Advance on the Repayment Date relating thereto. Any amount repaid or any part thereof may, subject to the provisions of this Agreement, be redrawn.
- 7.3 If on any Interest Payment Date there is a BORROWING BASE DEFICIENCY the Borrower shall, at its option, on the Business Day immediately following the Interest Payment Date either:-
- (1) prepay an amount equal to the amount of the Borrowing Base Deficiency; or
  - (2) provide additional Eligible Collateral of a value which is determined by the Lender to be at least equal to the amount of the Borrowing Base Deficiency, charged (by way of first fixed charge) in favour of the Lender.

- 7.4 On each Interest Payment Date all amounts standing to the credit of the Borrower Collection Account shall be applied in or toward satisfaction of obligations of the Borrower in the following order of priority:-
- (a) first, in or toward payment of all interest falling due to the Lender hereunder on the relevant Interest Payment Date together with any overdue interest accrued thereon up to and including the relevant distribution date;
  - (b) second, in or towards repayment of any Borrowing Base Deficiency or any other amount due under Clause 7 on such date;
  - (c) third, in or towards payment of all amounts due and owing to the Lender under all Transaction Documents other than the foregoing; and
  - (d) the balance to be released to the Borrower,

Provided that at all times following an Acceleration the provisions of this Clause 7.4 shall cease to apply and after such time all amounts received or recovered in respect of the assets subject to the Security Documents may be applied by the Lender in or towards satisfaction of the Secured Liabilities in such order as the Lender in its absolute discretion shall determine.

- 7.5 If the Borrower is required to repay principal on any Advance on any day other than an Interest Payment Date, the Borrower shall be obliged to pay such amount together with interest accrued thereon to the date of such repayment.
- 7.6 If all or any part of any Advance is repaid under this clause other than on an Interest Payment Date, the Borrower will pay to the Lender on demand such amount as the Lender certifies to be necessary to compensate it for all losses excluding loss of Margin incurred or to be incurred by it on account of deposits acquired or arranged in order to fund the relevant Advance except in the case of repayment of any Advance pursuant to a securitisation underwritten by Greenwich Capital Markets, Inc. of Mortgage Loans financed hereunder. Any such certificate by the Lender shall be PRIMA FACIE evidence of such losses.
- 7.7 Subject to Clause 7.6, the Borrower may on any Business Day, upon five Business Days prior written notice to the Lender, prepay in whole or in part any Advance outstanding hereunder together with all accrued interest thereon.
- 7.8 If the outstanding Advances are prepaid pursuant to clause 10.6 or clause 11.4, the Revolving Commitment shall be reduced to zero and the Lender shall cease to be obliged to make Advances hereunder.

8. EXAMINATION OF MORTGAGE FILES

- 8.1 The Lender shall have the right to examine the Mortgage Files to determine whether the Mortgage Loans to be financed fulfill the Underwriting Guidelines. Such examination may be made by the Lender at any time before or after the date on which any Advance is to be or was made.
- 8.2 If the Lender makes such examination prior to the date on which an Advance is to be made and properly identifies any Mortgage Loans which do not fulfill the Underwriting Guidelines such Mortgage Loans shall be deleted from the schedule of Mortgage Loans appended to the Drawdown Request.
- 8.3 The Lender may make an Advance without conducting any partial or complete examination. The fact that the Lender has conducted or has failed to conduct any partial or complete examination of the Mortgage Files shall not affect the Lender's (or any of its successor's) rights provided herein.

9. EVIDENCE OF DEBT

The Lender shall maintain in accordance with its usual practice accounts evidencing the amounts from time to time lent by and owing to it hereunder, and in any legal action or proceeding arising out of or in connection with this Agreement, the entries made in such accounts shall in the absence of manifest error be PRIMA FACIE evidence of the existence and amounts of the specified obligations of the Borrower.

10. TAXES

10.1 The Lender and the Borrower intend:

- (1) that they shall not vary this Agreement so as to extend:
- (1) the term of the Term Loan;
  - (2) the period during which any Advance may be drawn down or outstanding, beyond the Final Maturity Date, and
- (2) that the Lender shall not make any further advance or advances to the Borrower after the Final Maturity Date under or pursuant to any further agreement; and
- (3) that this clause 10.1 shall be without prejudice to the provisions of clause 16.9.

10.2 Accordingly, all payments to be made by the Borrower to the Lender hereunder shall be made free and clear of and without deduction or withholding for or on account of tax.

- 10.3 If the Borrower is nevertheless required as a result of any change in law or in its interpretation or administration to make any payment to the Lender hereunder subject to any deduction or withholding on account of tax the sum payable by the Borrower in respect of which such deduction or withholding is required to be made shall (subject to Clause 10.8) be increased to the extent necessary to ensure that, after the making of the required deduction or withholding, the Lender receives and retains (free from any liability in respect of such deduction or withholding) a net sum equal to the sum which it would have received and so retained had no such deduction or withholding been made or required to be made.
- 10.4 If the Borrower makes any payment hereunder in respect of which it is required by law to make any deduction or withholding on account of tax, it shall pay the full amount required to be deducted or withheld to the relevant taxation or other authority within the time allowed for such payment under applicable law and shall deliver to the Lender, within thirty days after it has made such payment to the applicable authority, an original receipt (or a certified copy thereof) issued by such authority evidencing the payment to such authority of all amounts so required to be deducted or withheld in respect of such payment or any other written evidence acceptable to the Lender.
- 10.5 All amounts payable under this Agreement are expressed to be exclusive of any VAT chargeable in respect thereof. If any VAT is chargeable in respect of such amounts, the Borrower shall, in addition, pay to the Lender an amount equal to such VAT, and the Lender shall provide the Borrower with a proper VAT invoice in respect thereof.
- 10.6 If the Lender or the Borrower becomes aware that the Borrower will be required as a result of any change in law or its interpretation or administration to make any payment to the Lender hereunder subject to any deduction or withholding on account of tax, the Lender or, as the case may be, the Borrower shall, promptly upon becoming aware of the same, notify the other party, in writing, setting out the reasons for the anticipated deduction or withholding and the date from which such deduction or withholding will be required by law to be made (such date the "WITHHOLDING DATE").
- 10.7 The Borrower shall be entitled, at any time within 45 days after the giving or receipt of notice under clause 10.6 to prepay all (but not part) of the Advances (together with all interest accrued thereon and other amounts then due hereunder) provided that:-
- (1) notice of prepayment pursuant to this clause 10.7 must state that the prepayment is to be made pursuant to this clause 10.7; and
  - (2) the provisions of clause 7.6 shall not apply in respect of any such prepayment.
- 10.8 If, during the 45 day period, the Borrower is required to make any payment to the Lender hereunder subject to a deduction or withholding, the Borrower shall be entitled to make such payment net of the deduction or withholding but shall be obliged to pay the amount deducted or withheld to the relevant taxation authority in accordance with clause 10.4.

10.9 If, at the expiration of the 45 day period the Borrower has not prepaid under clause 10.7, the provisions of clause 10.3 shall apply from the 46th day.

11. INCREASED COSTS

11.1 If, by reason of:-

- (1) the introduction of, or any change in any applicable law, regulation or regulatory requirement or any change in the interpretation or application of any thereof in each case after the date hereof and/or
- (2) compliance by the Lender or any holding company of the Lender with any applicable directive, request or requirement whether or not having the force of law but, if not having the force of law being of general application and of a type with which the Lender or a holding company of the Lender is accustomed to comply of any central bank or any self regulating organisation or any governmental, fiscal, monetary or other authority (including, but not limited to, a directive, request or requirement which affects the manner in which any bank allocates capital in support of its assets or liabilities or contingent liabilities or deposits with it or for its account or advances or commitments made by it) which is brought into effect after the date hereof,

and if, to the extent of compliance with either or both of paragraphs (a) and (b):-

- (3) the Lender or any holding company of the Lender is unable to obtain the rate of return on its capital which it would have been able to obtain but for the Lender's entering into or assuming or maintaining a commitment or performing its obligations (including its obligation to make Advances) under this Agreement;
- (4) the Lender or any holding company of the Lender incurs a cost as a result of the Lender's entering into or assuming or maintaining a commitment or performing its obligations (including its obligation to make Advances) under this Agreement;
- (5) there is any increase in the cost to the Lender or any holding company of the Lender of funding or maintaining all or any of the Advances;
- (6) the Lender or any holding company of the Lender becomes liable to make any payment on account of tax or otherwise (except on account of any tax imposed on and calculated by reference to the net income of the Facility Office by the jurisdiction in which the Lender (or its holding company) is incorporated or in

which the Facility Office is located), or foregoes any interest or other return, on or calculated by reference to the amount of any Advance or the amount of any sum received or receivable by it (or its subsidiary) under this Agreement,

then the Borrower shall, from time to time on demand of the Lender, promptly pay to the Lender amounts sufficient to indemnify the Lender and its holding company against, as the case may be, (1) such reduction in the rate of return of capital, (2) such cost, (3) such increased cost (or such proportion of such increased cost as is, in the opinion of the Lender, attributable to its or its holding company funding or maintaining the Advance), or (4) such liability.

11.2 If the Lender intends to make a claim pursuant to clause 11.1 it shall notify the Borrower of the event by reason of which it is entitled to do so, such notification to be given as soon as practicable following the Lender becoming aware of the same, PROVIDED that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

11.3 If the Borrower receives notice under clause 11.2, then without prejudice to the Lender's rights under clause 11.1, the Lender shall consult with the Borrower as to possible steps that could be taken to reduce any such increased costs, provided that the Lender shall be under no obligation to take any such steps considered.

11.4 Upon receipt of a notice under clause 11.2 the Borrower shall be entitled, upon the giving of 5 Business Days written notice, to prepay all (but not part) of the Advances (together with all interest accrued thereon and other amounts then due hereunder) provided that the provisions of clause 7.6 shall not apply in respect of any such prepayment.

## 12. ILLEGALITY

If, at any time, it is or becomes unlawful for the Lender to make, fund or allow to remain outstanding all or part of any of the Advances, then the Lender shall, promptly after becoming aware of the same, deliver to the Borrower a notice to that effect, the Lender shall not thereafter be obliged to make any Advances hereunder, the Revolving Commitment shall be immediately reduced to zero and, if the Lender so requires, the Borrower shall on such date as the Lender shall have specified repay any outstanding Advances, in each case together with accrued interest thereon and all other amounts owing to the Lender hereunder.

## 13. PAYMENTS

Any payment to be paid by the Borrower to the Lender pursuant to this Agreement shall be made in sterling, in immediately available, freely transferrable and cleared funds for value same day, to such account of the Lender as the Lender shall, from time to time, have specified in writing for such purpose.

14. REPRESENTATIONS AND WARRANTIES

14.1 The Borrower and OFC (each in relation to itself) hereby represent, warrant, covenant and undertake to the Lender that (except as previously disclosed to the Lender in writing on or prior to the date hereof):-

- (1) it is a limited liability company duly incorporated under the laws of England and Wales and, in the case of OFC, it is a corporation duly incorporated and validly existing and in good standing under the laws of the State of Florida and is duly authorised and qualified to transact any and all business contemplated by this Agreement and the other Transaction Documents to be conducted by it and is in compliance with such laws to the extent necessary to ensure its ability to enforce each Mortgage Loan;
- (2) it has the full corporate power and authority to execute, deliver and perform, and to enter into and consummate the transactions contemplated by this Agreement and the other Transaction Documents to which it is a party and has been duly authorised by all necessary corporate action on its part the execution, delivery and performance of this Agreement and the other Transaction Documents to which it is a party; and this Agreement and each Transaction Document to which it is a party, assuming the due authorisation, execution and delivery thereof by the Lender, constitutes its legal, valid and binding obligation, enforceable against it in accordance with its respective terms, except to the extent that (a) the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, receivership and other similar laws relating to creditors' rights generally and (b) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to the equitable defenses and to the discretion of the court before which any proceeding therefor may be brought;
- (3) its execution and delivery of this Agreement and each Transaction Document to which it is a party, the consummation of any other of the transactions herein or therein contemplated on its part and the fulfillment of or compliance with the terms hereof or thereof will not (i) result in a material breach of any term or provision of its Memorandum and Articles of Association and/or its other constitutional documents or (ii) materially conflict with, result in a material breach, violation or acceleration of, or result in a material default under, the terms of any other material agreement or instrument to which it is a party or by which it may be bound, or any statute, order or regulation applicable to it of any court, regulatory body, administrative agency or governmental body having jurisdiction over it;
- (4) it is not party to, bound by, or in breach or violation of any material indenture or other material agreement or instrument, or subject to or in violation of any statute, order or regulation of any court, regulatory body, administrative agency or governmental body having jurisdiction over it, which materially and adversely affects or, to its knowledge, would in the future materially and adversely affect, (i) its ability to perform its obligations under this Agreement or the Transaction Documents to which it is a party or (ii) its business, operations, financial condition, properties or assets taken as a whole;



- (5) no litigation is pending or, to the best of its knowledge, threatened against it that would materially and adversely affect the execution, delivery or enforceability of this Agreement or the Transaction Documents to which it is a party or its ability to perform any of its obligations hereunder or thereunder in accordance with the terms hereof or thereof;
- (6) no consent, approval, authorisation or order of any court or governmental agency or body is required for the execution, delivery and performance by it of, or compliance by it with, this Agreement or any Transaction Document to which it is a party or the consummation of the transactions contemplated hereby or thereby, or if any such consent, approval, authorisation or order is required, it has obtained or it is in the process of obtaining the same.

14.2 The representations and warranties under clause 14.1(a)-(f) inclusive shall be given on the date of this Agreement and shall be repeated on each date on which any Advance is outstanding hereunder by reference to the facts and circumstances existing at the relevant time.

14.3 The Lender represents and warrants to the Borrower in terms of clauses 14.1(a) to (f) (inclusive), mutatis mutandis, provided that the reference in clause 14.1(a) to England and Wales shall be construed as a reference to Bermuda.

14.4 (a) The Borrower hereby represents and warrants (as of the date hereof and the date on which the Initial Advance is made) that:

- (1) with respect to each Pre-Existing Mortgage Loan, each of the representations and warranties set out in paragraph 7.3 of the Mortgage Loan Purchase Agreement as set out in Schedule 4 Part I hereto was, on the date on which such Pre-Existing Mortgage Loan was completed true and accurate in all respects; and
- (2) with respect to each Existing Mortgage Loan which is not a Pre-Existing Mortgage Loan, each of the representations and warranties set out in paragraph 14.3(B) of the MML Loan Facility Agreement as set out in Schedule 4 Part II hereto was on the date referred to therein in respect of such Existing Mortgage Loan true and accurate in all respects.

(2) The Borrower hereby represents and warrants to the Lender in relation to each New Production Mortgage Loan and each Pipeline Loan, in each case as of the Advance Date on which an Advance was made to fund the origination or the purchase of the same hereunder or, if later, the date on which a Solicitors Undertaking re: New Mortgage Loans in respect thereof is issued, as follows (but on the basis that each reference in each representation and warranty to:-

(1) a Mortgage Loan shall be construed as a reference to the relevant New Production Mortgage Loan and/or Pipeline Loan; and

(ii) the Advance Date shall be construed as a reference to whichever is the later of the relevant Advance Date or the date on which the relevant Solicitors Undertaking re. New Mortgage Loans is given):

(1) The information set forth on the Mortgage Loan Schedule with respect to each Mortgage Loan is true and correct in all material respects;

(2) Unless otherwise agreed from time to time with respect to Non Performing Senior Mortgage Loans and Non Performing Junior Mortgage Loans, all payments due prior to the Advance Date have been made and none of the Mortgage Loans will have been contractually delinquent for 31 or more days more than once since the origination thereof, the Lender hereby agreeing that where the Mortgage Loan is funded hereunder on its origination, this warranty shall not apply;

(3) Each Mortgage Deed constitutes (i) in the case of English Mortgage Loans, a valid and enforceable legal mortgage of the relevant Mortgaged Property subject only in certain cases to registration of the relevant Mortgage Deed at HM Land Registry, or (ii) in the case of Scottish Mortgage Loans, a valid and enforceable Standard Security over the relevant Mortgaged Property subject only in certain cases to registration or recording of the relevant Mortgage Deed in the Registers of Scotland, in either case duly executed by the Mortgagor named in the relevant Mortgage Deed;

(4) On the date upon which an Advance is made the Borrower (subject only to registration of legal title at HM Land Registry or the Registers of Scotland as appropriate) has good title to each Mortgage Loan and the Collateral Security in respect of each such Mortgage Loan, has full right and authority to charge and assign the same by way of security and the same is the absolute property of the Borrower (subject to any registration or recording in favour of the Borrower which may be pending at

HM Land Registry or the Registers of Scotland) free and clear of all mortgages, securities, charges, liens, encumbrances, claims and equities (including, without limitation, rights of set off or counterclaim, overriding interest within the meaning of Section 3(xvi) of the Land Registration Act 1925 or Section 28(1) of the Land Registration (Scotland) Act 1979 and adverse entries or notices of application therefor against any title at HM Registry or the Registers of Scotland to any relevant Mortgaged Property) except any such encumbrances, claims, equities, overriding interests or entries which rank after the interests of the Borrower, the Lender in the Mortgaged Loans or which do not have an adverse effect on the value of the relevant Mortgaged Property as security for the relevant Mortgage Loan or which are the subject of a duly completed and signed Postponement Agreement or appropriate executed MHA Documentation as contemplated in sub-clause (X) below;

- (5) Each Mortgaged Property is a residential property or mixed commercial and residential property in the United Kingdom;
- (6) The steps necessary to perfect the vesting of full legal and equitable title to each Mortgage Loan and the Collateral Security in the Borrower have been duly taken at the appropriate time or are in the course of being taken with all due diligence;
- (7) To the best of its knowledge, each Mortgaged Property is free of material damage;
- (8) Each Mortgage Loan at origination complied in all material respects with applicable laws and regulations including, where applicable, the Consumer Credit Act 1974 and any regulations made thereunder (and in particular no Mortgage Loan is cancellable thereunder) and consummation of the transactions contemplated hereby will not involve the violation of any such laws and regulations;
- (9) Neither it nor any prior holder of any Mortgage Loan has; (a) modified the Mortgage Loan in any material respect, except that a Mortgage Loan may have been modified by a written instrument in respect of which any applicable registration(s) have been completed; (b) satisfied, cancelled or subordinated such Mortgage Loan in whole or in part; (c) released the related Mortgaged Property in whole or in part from the security created by the relevant Mortgage Deed; or (d) executed any instrument of release, cancellation, discharge, modification or satisfaction with respect thereto;

- (10) No sub-mortgage, sub-charge, pledge, lien or right of set off or counterclaim or other security interest or other adverse right or interest has been created or has arisen between it and any Mortgagor which entitles or entitled the Mortgagor to reduce the amount of any payment otherwise due under the terms of such Mortgagor's Mortgage Loan (save, in the case of junior mortgages, the relevant prior ranking legal mortgage or mortgages of or Standard Security over the relevant Mortgaged Property created by the Mortgagor and any related security for the loan secured thereby);
- (11) Each Mortgage Loan was originated in all material respects in accordance with the criteria set out in the Underwriting Guidelines;
- (12) In relation to each Mortgaged Property:-
- 1) in respect of title to property in England or Wales which is not registered, the relevant Mortgagor had or was acquiring good and marketable title to the fee simple absolute in possession (if freehold) or a term of years absolute of not less than thirty years beyond the term of the Mortgage Loan (if leasehold) relating to such Mortgaged Property and is free from any encumbrance which would adversely affect such title;
  - 2) in relation to title which is registered at HM Registry, it was so registered with title absolute in the case of freehold property or absolute leasehold or good leasehold title of the requisite title aforesaid in the case of leasehold property;
  - 3) in relation to which title is registered or recorded in the Registers of Scotland, it was so registered or recorded with valid and marketable title (whether feudal or long lease), having in the case of a long lease an unexpired term of not less than thirty years beyond the term of the Mortgage Loan;
  - 4) no works on the relevant Mortgaged Property were carried out in violation of any applicable planning law or regulation or building regulations;

- 5) if the relevant Mortgaged Property is leasehold or (in Scotland) held under long lease, any requisite consent of the landlord to or notice to the landlord of the creation of the relevant Mortgage had been obtained or given and no consents of or notices to such landlord are required to any transfer, assignation or sub-charge of the relevant Mortgage, and a copy of any such consent or notice is held with the title deeds to the relevant Mortgaged Property or held to the order of the Lender or its Solicitors;
  - 6) the relevant Mortgaged Property is not subject to any adverse third party claim or proceeding for compulsory acquisition thereof;
- (13) Each Mortgage relating to a Mortgage Loan (and any other documents entered into in relation to the relevant Mortgage Loan) is the legal, valid and binding obligation of the grantor thereof, enforceable in accordance with its terms and with applicable laws and parties thereto had legal capacity to execute the same and the same have been duly and properly executed by such parties;
- (14) Either:
- 1) the proceeds of the Mortgage Loans have been fully disbursed and there is no requirement for further advances thereunder; or
  - 2) if any retention was recommended by the Borrower or its valuer, the recommendation to make a retention was implemented and cash was not advanced until the Borrower had received a certificate (or other evidence acceptable to it) of completion of the relevant repairs or other works.
- (15) Each Mortgage Deed is in, or substantially in, the form of the relevant attachment annexed hereto in Annexure 2 or as otherwise agreed and approved by the Lender.
- (16) The origination and underwriting practices used by the Borrower with respect to each Mortgage Loan have been in all respects legal, proper, prudent and customary in the mortgage servicing business in the United Kingdom and comply with the Underwriting Guidelines;

(17) Either:

- 1) each Mortgaged Property is insured under the block insurance policy from time to time maintained by the Borrower to provide, where it is agreed that the Mortgagor will not insure, cover against such risks and contingencies as are commonly insured against in a fully comprehensive buildings insurance for residential properties to a minimum of the full cost of reinstatement thereof together with inflation cost over any period that may be required for obtaining any relevant planning permission and other approvals and the reinstatement or repair period and architects and other professional fees; or
  - 2) where the Mortgagor insures, the Borrower has established that such insurance was, at the date of origination of the relevant Mortgage Loan, in accordance with the foregoing provisions of this sub-clause, with a reputable insurer, with an acknowledgement by the insurer that the interest of the Borrower has been or will be promptly following the relevant Advance Date noted on the relevant policy. In the case of leasehold property in England and Wales, the relevant Mortgaged Property is insured under arrangements effected by the freeholder or any intermediate leaseholder, on a fully comprehensive basis as aforesaid.
- (18) Prior to making the relevant advance the subject of a Mortgage Loan, the Borrower carried out or caused to be carried out its behalf the investigations, searches (other than local authority searches) and other actions and made or caused to be made on its behalf the enquiries as to the Mortgagor's status that were required in accordance with the relevant lending criteria of the Borrower applicable at the time when the offer of advance was made and the results thereof were acceptable to the Borrower in accordance with such lending criteria for the purposes of the proposed advance;
- (19) Any further advances after the date of the Mortgage Deed but made prior to the Advance Date have been advanced under separate mortgage documentation (and, accordingly, have not been consolidated with the outstanding principal amount secured by the Mortgage), and all ground rents, ground burdens and service charges and other payments required in relation to

leasehold property or heritable property which previously became due and owing have been paid. Except for interest accruing from the date of the relevant Mortgage Deed or date of advance to the relevant Mortgagor, whichever is later, to the day which precedes by one month the date for payment of the first installment of principal and interest, the Borrower has not advanced funds, or induced, solicited or knowingly received any advance of funds by a party other than the Mortgagor, directly or indirectly, for the payment of any amount in relation to the relevant Mortgage Loan save to the extent that the same reduces the Mortgage Loan;

- (20) To the best of the Borrower's knowledge and belief (the Borrower having made all reasonable enquiries) there is no default, breach, violation or event of acceleration existing under any Mortgage Loans and it has not waived any default, breach, violation or event of acceleration other than any waiver which is in accordance with and permitted under the relevant Manuals;
- (21) Each Mortgage File contains a valuation of the relevant Mortgaged Property undertaken on the instructions of the Borrower or instructions issued on its behalf or as the case may be by any predecessor in title in relation to the relevant Mortgage Loan) by an independent qualified valuer being an associate or fellow of the Royal Institute of Chartered Surveyors or, as the case may be, Society of Valuers and Auctioneers, in each case approved by the Borrower and unless otherwise agreed between the Lender and the Borrower, the principal amount advanced to the relevant Mortgagor was not more than the amount permissible under the terms of the relevant Program;
- (22) At the time of the making of the Mortgage Loan, the Mortgaged Property was not located within a 1 mile radius of any contaminated land or any land with environmental or hazardous waste risks known to the Borrower or, where such was the case, an environmental audit was procured by the Borrower or evaluated in accordance with its established environmental review procedures, and found to be satisfactory;
- (23) In selecting the Mortgage Loans in respect of which Advances are made hereunder, no selection procedure was employed by the Borrower which was intended to adversely affect the interests of the Lender;

- (24) Prior to the making of the relevant mortgage advance, enquiry was made of each Mortgagor as to the identity of the persons in actual occupation of the Mortgaged Property and (i) in the case of English Mortgage Loans, any person who at the date when the advance was made had attained the age of 18 and who was identified in writing to the Borrower or its Solicitor by the Mortgagor as residing or being about to reside in the relevant Mortgaged Property is either named as joint mortgagor on the relevant Mortgage Deed or has signed a legally binding agreement postponing (each a "POSTPONEMENT AGREEMENT") all rights and entitlements to which such person may be entitled in the Mortgaged Property to the interests, rights and entitlements of the Borrower or such other person as may have or acquire as mortgagee or chargee of the property from time to time, such agreement in a form as was satisfactory to such Solicitor, and (ii) in the case of Scottish Mortgage Loans, prior to the making of the advance, the Borrower or its Solicitor obtained all necessary validly executed MHA Documentation so as to ensure that neither the relevant Mortgage Loan nor the relevant Mortgaged Property was subject to or affected by any statutory right of occupancy in favour of a non-entitled spouse;
- (25) The Borrower has kept, or caused to be kept, full and proper accounts, books and records showing all transactions payments, receipts and proceedings relating to that Mortgage and all such accounts, books and records are up to date and in its possession or held to its order;
- (26) There exists no litigation, dispute or complaint (subsisting or pending or threatened) calling into question in any way title of the Borrower to any Mortgage Loan or, to the best of its knowledge, the relevant Mortgagor's title to his Mortgaged Property;
- (27) The Mortgage Loan Documents are held to the order of the Lender by the relevant Solicitor or have been lodged at H.M. Land Registry or the Registers of Scotland and in the case of each Mortgaged Property the title to which is registered or for which application for first registration has been made the Borrower knows the title number under which the Mortgaged Property is (or, in the case of first registration, is to be) registered at H.M. Land Registry or the Registers of Scotland;
- (28) In relation to each Mortgage Deed for Mortgaged Property where registration is pending at H.M. Land Registry, there is no caution, notice or other entry which would prevent the registration of the Mortgage Deed as a charge by way of first or, as the case may be, second or third subsequent legal mortgage.



(29) None of the Mortgagors which pay interest is a company.

14.5 It is acknowledged, that references in this clause 14 to Mortgage Loans shall include reference to the relevant Collateral Security, as appropriate.

15. REMEDIES FOR BREACH OF REPRESENTATIONS AND WARRANTIES

15.1 It is understood and agreed that the representations and warranties set forth in clauses 14.1, 14.2 and 14.4 shall survive the charging of Mortgage Loans to the Lender and shall enure to the benefit of the Lender notwithstanding the examination by the Lender or failure by the Lender to examine any Mortgage File.

15.2 With respect to the representations and warranties contained in clauses 14.1. and 14.4 which are made to the best of the Borrower's (or OFC's) knowledge, after reasonable inquiry and investigation, if it is discovered by either the Borrower or OFC or the Lender that the substance of such representation and warranty is inaccurate and in the case of those in clause 14.4 such inaccuracy materially and adversely affects the value of the related Mortgage Loan or the Lender's interest in the Mortgage Loan then, notwithstanding the Borrower's (or OFC's) lack of knowledge with respect to the inaccuracy at the time the representation or warranty was made, the Lender shall have the same rights in respect of the breach thereof as it would have if the applicable representation or warranty was breached.

15.3 Upon discovery by OFC (but only with respect to the representation and warranties made by OFC in clause 14.1) the Borrower or the Lender of a breach of any of the foregoing representations and warranties

(a) given under clause 14.1; or

(b) given under clause 14.4 which materially and adversely affects the value of the Mortgage Loans or the interest of the Lender in the Mortgage Loan (or which materially and adversely affects the interests of the Lender in or to the related Mortgage Loan in the case of a representation and warranty relating to a particular Mortgage Loan)

the party discovering such breach shall give prompt written notice to the other.

15.4 If following a review undertaken by the Lender within a period of 30 days after the date of any Revolving Advance, a material breach of the warranties in clause 14.4 shall be discovered, the same shall constitute a breach of such representation and warranty irrespective of whether the same materially and adversely affects the value of the relevant Mortgage Loan(s) provided that notice regarding such breach shall have been delivered by the Lender to the Borrower promptly following such review.

15.5 Within 60 days of the earlier of either discovery by or notice to the Borrower of any breach of a representation or warranty given under clause 14.4 which materially and adversely affects the value of any Mortgage Loan, the Borrower shall use all reasonable endeavours promptly to cure such breach and, if such breach cannot be cured or is not cured at the end of such 60 day period or if it is determined at any time following discovery or notice that such breach cannot be cured, the Borrower shall:-

- (1) repay the Advance (or such part thereof) made hereunder to fund the relevant Mortgage Loan, together with accrued interest thereon, on demand of the Lender; or
- (2) with the Lender's prior consent provide additional collateral of a type and amount reasonably acceptable to the Lender (which may include Eligible Collateral Loans), charged in favour of the Lender pursuant to such security documents as shall be acceptable to the Lender;

and when the Borrower has repaid the Advance (or relevant part thereof) under sub-clause 15.5(a) or provided additional collateral in accordance with sub-clause 15.5(b) the Lender shall, at the cost of the Borrower, release the relevant Mortgage Loan or Mortgage Loans from the security constituted by the Debenture together with all Collateral Security related thereto.

15.6 Without prejudice to the Lender's rights under clause 15.5(a), and for such time as the Borrower's obligations thereunder shall remain undischarged, the Lender shall be entitled to satisfy and discharge any obligation it may have to make an Advance hereunder through set-off of the Borrower's obligations to it under clause 15.5(a) and if the Lender does so it shall be treated for all purposes as if it had satisfied its obligation to make the relevant Advance through remittance of the relevant funds in cash.

15.7 The Lender agrees that, in respect of breaches of warranty under clause 14.4 (but not under clause 14.1) its sole remedies shall be those provided in this clause 15.

#### 16. UNDERTAKINGS AND COVENANTS

16.1 The Borrower and (but only where the covenant or undertaking relates to OFC) OFC hereby undertake with the Lender that from and after the date hereof and until all sums due and to become due hereunder have been paid or repaid in full and the Facility shall no longer exist:

- (1) the Borrower and OFC shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licenses and consents required in or by the laws and regulations of England, Scotland and (in the case of OFC) Florida to enable it lawfully to enter into and perform its obligations under this Agreement and each Transaction Document and to ensure the legality, validity, enforceability or admissibility in evidence in England and in Scotland of this Agreement and each Transaction Document and shall ensure that none of the foregoing are revoked or modified;
- (2) the Borrower and OFC shall promptly inform the Lender of the occurrence of any Event of Default or Potential Event of Default and, upon receipt of a written request to that effect from the Lender, confirm to the Lender that, save as previously notified to the Lender or as notified in such confirmation, no such event has occurred;
- (3) the Borrower shall ensure that at all times the claims of the Lender against it under this Agreement are secured as provided in the Security Documents and that the security thereunder will be of the nature and will rank in the priority it is expressed to have in the Security Documents;
- (4) the Borrower shall not, without the prior written consent of the Lender, create or permit to subsist any Security over all or any of its present or future revenues or assets save for security created (or permitted) under the Security Documents;
- (5) the Borrower shall not, without the prior written consent of the Lender, make any loans, grant any credit or give any guarantee or indemnity (except (i) as contemplated in the Transaction Documents; or (ii) to OFC or any of its subsidiary companies or affiliates) to or for the benefit of any person or otherwise voluntarily assume any liability, whether actual or contingent, in respect of any obligation of any other person;
- (6) the Borrower shall not, without the prior written consent of the Lender, sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets except as permitted under the Debenture;
- (7) the Borrower undertakes to continue to endeavour to settle all matters outstanding and pending with the OFT from time to time as expeditiously as reasonably practicable;
- (8) the Borrower will procure that the origination of all New Production Mortgage Loans and Pipeline Loans does not violate in any material respect:-
  - (1) OFT Guidelines and;

- (2) any undertakings or agreements from time to time between the Borrower, any holding company or any subsidiary of the Borrower and the OFT;
- (9) the Borrower will procure that the Lender is promptly provided with copies of any OFT related correspondence sent or received on or after the date hereof provided that nothing in this or any other undertaking shall entitle the Lender to receive access to or copies of privileged correspondence between the Borrower and its counsel;
- (10) the Borrower will procure that all Mortgage Files are delivered to Hayes Business Services Limited or such other storer as the Lender may have approved (acting reasonably) from time to time (subject always to clause 3.10(c) of the Debenture) as soon as reasonably practicable following receipt of the recorded deed and shall use reasonable endeavours to procure that the Lender has, upon 1 Business Day's notice, access to the offices of all Solicitors, Hayes Business Services Limited or other storage provider aforesaid) during normal business hours and shall procure that the Solicitors are instructed to allow the Lender to take possession of any Mortgage File in relation to any Mortgage Loan financed or to be financed hereunder;
- (11) all New Production Mortgage Loans will be originated and all Pipeline Loans acquired have been originated in accordance with the Underwriting Guidelines;
- (12) the Borrower will not amend the Standard Documentation without the prior written consent of the Lender;
- (13) the Borrower shall deliver to the Lender as soon as the same are available, and in any event within one hundred and twenty (120) days after the end of each of its financial years a copy of its audited annual financial statements;
- (14) the Borrower shall provide the Lender promptly upon request with any information relating to it and/or its financial condition as the Lender may from time to time reasonably require in connection with this Agreement;
- (15) the Borrower shall ensure that each set of audited annual financial statements delivered pursuant to sub-clause (m) are prepared in accordance with generally accepted accounting principles and on the same basis every year and half year (save as may be required from time to time as a result of changes in law or regulation or generally accepted accounting principles);
- (16) each of the Borrower and OFC shall, promptly upon receipt of the same, deliver to the Lender a copy of any independent accountants' management letters received by it relating to it;

- (17) the legal and equitable title of each Existing Mortgage Loan and New Production Mortgage Loan and Pipeline Loan financed hereunder and not sold or otherwise disposed of (whether through a securitisation, whole loan sale or otherwise) by the Borrower will be held in the name of the Borrower;
- (18) the Borrower shall procure that:
- (1) the transfer to it of legal and equitable title to all Existing Mortgage Loans pursuant to the Sale Agreement is perfected in the name of the Borrower; and
  - (2) the transfer to it of legal and equitable title to any New Production Mortgage Loan the origination of which is financed hereunder or to any Pipeline Loan the acquisition of which is financed hereunder is perfected in the name of the Borrower,

and shall procure that in each case all necessary steps are undertaken to protect the Borrower's Security including as appropriate registration of the relevant mortgages in the name of the Borrower at HM Land Registry or Registers of Scotland which registration shall be completed within 6 months from the date of application to the relevant registry and will submit each such application promptly (and within any applicable priority time periods) and shall procure that the Solicitors will comply with the Solicitors Undertakings and the Borrower shall be responsible for and meet any registration fees and other costs in connection therewith, provided that breach by the Borrower of this provision in relation to any one or more Existing Mortgage Loans, New Production Mortgage Loans or Pipeline Loans shall not constitute an Event of Default but shall entitle the Lender to require repayment of the Advance, or part thereof, (and all interest accrued thereon) which funded the acquisition of the relevant New Production Mortgage Loan or Existing Mortgage Loan or Pipeline Loan against release by the Lender of the relevant Mortgage Loan from the security created by the Debenture;

- (19) the Borrower shall procure that where any retention is made in respect of a Mortgage Loan funded hereunder, the amount retained is, pending advance of the same against the relevant certificate (or other evidence) of completion of the relevant works, held either in the Borrower Funding Account or with the relevant Solicitor under the terms of the Solicitor's Undertaking re: New Monies Advance.

16.2 The Borrower shall procure that the Servicer provides such certificates as required by the Lender pursuant to the Servicing Agreement.

16.3 The Borrower shall, or shall procure that either the Servicer or the Solicitors shall, within 5 days of the date hereof in relation to Existing Mortgage Loans and within 5 days of the requisition of a Pipeline Loan forward to the relevant Mortgagor and any other relevant Mortgagee of a Mortgaged Property a notice of transfer in the form approved in writing by the Lender.

- 16.4 The Borrower shall not originate any MIRAS loans without the prior written consent of the Lender.
- 16.5 The Borrower shall, if required by the Lender give notice to Borrowers requiring the Borrowers to redirect payment so as to pay direct to the Borrower Collection Account, or such other account of the Borrower or (following an Acceleration) such other Account as the Lender shall specify.
- 16.6 The Borrower shall not be entitled, without the prior written consent of the Lender, to give Notice to any Borrower requiring such Borrower to redirect payments so as to make payments directly to any account other than the relevant Collection Account, or other account to which they are, at the relevant time, required to make such payments.
- 16.7 The Borrower shall procure, in so far as it is able to do so, that all amounts payable under each Existing Mortgage Loan, New Production Mortgage Loans and Pipeline Loans financed hereunder is, for so long as it is so financed, paid by the relevant Mortgagor:
- (1) to the relevant Collection Account until notice is given in accordance with the Transaction Documents to any Mortgagor requiring the relevant Mortgagor to pay all amounts under the relevant Mortgage Loan directly to the Borrower Collection Account, or other account specified in any such notice; and
  - (2) thereafter (save for amounts properly deducted therefrom by the Servicer as permitted by the Servicing Agreement) directly to the Borrower Collection Account or other account so specified in such notice;
- 16.8 The Guarantor shall, for so long as this Agreement is in effect:
- (a) maintain a minimum Consolidated Tangible Net Worth of \$320,000,000.00 (three hundred and twenty million United States dollars);
  - (b) not permit the ratio of its Consolidated Indebtedness to Consolidated Tangible Net Worth to exceed 12:1; and
  - (c) maintain liquid assets consisting of cash and cash equivalents on an unconsolidated basis of not less than \$15,000,000.00 (fifteen million United States dollars);

provided that if the Guarantor is or becomes obligated to another creditor during the term of this Agreement to comply with financial covenants of a type substantially similar to the foregoing but on terms more favourable to such creditor, the Guarantor shall, so long as such more favourable covenants shall be in effect, be obligated to comply with such covenants as though set out in full herein.

16.9 The parties hereto covenant with each other to use reasonable best endeavours to procure that a further loan facility (and associated security and guarantee documentation) (the "New Facility") is entered into between the Borrower, the Guarantor and Greenwich Capital Financial Products Inc. or such other Greenwich entity (other than the Lender) as is agreed between the parties (the "NEW LENDER") prior to the Final Maturity Date, pursuant to which the New Facility would be provided:-

- (1) to refinance indebtedness under the Revolving Facility; and
- (2) to refinance indebtedness under the Term Loan, but only until the Term Loan Repayment Date,

on substantially the same terms and conditions as set out in the Transaction Documents save that:-

- (1) the Final Maturity Date (subject to extension in the sole discretion of the Lender) of the revolving facility thereunder shall be the day falling 364 days after the date of this Agreement;
- (2) the repayment date of the term loan thereunder shall be the Term Loan Repayment Date; provided that the repayment date for up to (pound sterling) 25,000,000 of the Term Loan may have a final maturity date of up to 90 days beyond the Term Loan Repayment Date;
- (3) the New Lender shall obtain to its satisfaction a valid first priority Security interest in, to and under, inter alia, the Scottish Mortgage Loans;
- (4) the New Lender shall, at its option, either have valid, first priority fixed Security over buildings policies (including all block policies), contingency policies, mortgage indemnity policies, life policies, ASU policies and protected income cover policies relating to the Mortgage Loans, or shall be named as an additional assured in respect of its interest on such policies, subject to such endorsements as the Lender shall reasonably request; and
- (5) under the New Facility up to 20% of the aggregate credit available under the New Facility may be used to fund in any combination:
  - (1) non performing mortgage loans provided such loans have not been financed under this Agreement and the New Facility (in the aggregate) longer than 180 days; and

- (2) performing mortgage loans which have been financed under this Agreement and the New Facility (in the aggregate) longer than 180 days, provided that such loans remain performing and are removed from the facility no later than the 270th day;
- (6) except as provided in clause (ii) and (v) above, no mortgage loan may be funded under this Agreement and the New Facility (in the aggregate) longer than 180 days;
- (7) from a date to be mutually agreed advances under the revolving facility may only be made once a week on Business Days during the Availability Period.

In the event that a New Facility is entered into the Borrower will procure that the Mortgage Loans are serviced for the duration of such facility by the Servicer (or other servicer acceptable to the Lender and the Borrower in accordance with clause 16.9 of the Servicing Agreement) pursuant to a servicing agreement on substantially the same terms as those under the Servicing Agreement.

## 17. DEFAULT

### 17.1 In the event of:-

- (1) any default by the Borrower in the payment of any amount due for payment hereunder or under any Transaction Document within two Business Days after receipt of written notice by the Lender requiring payment of the same; or
- (2) the Borrower failing to observe or perform any other covenants, obligations or agreements of the Borrower under this Agreement or any Transaction Document which, if (in the good faith opinion of the Lender) capable of remedy shall not have been remedied (to the satisfaction of the Lender) within thirty days of being required by the Lender to do so; or
- (3) any representation or warranty made or repeated by the Borrower under this Agreement (other than any representation or warranty made or deemed to be made pursuant to clause 14.4) or under any other Transaction Document or any representation and warranty made or repeated by OFC hereunder being or proving to be or have been untrue or incorrect or misleading in any material respect as at the date at which it was made or repeated, and in the case of any such breach which is (in the good faith opinion of the Lender) capable of remedy, the relevant breach not having been remedied within thirty days of the Lender requiring the Borrower or, as the case may be, OFC to do so; or
- (4) any default by OFC in the payment of any amount due for payment hereunder or under the Indemnity on the due date therefor; or



- (5) OFC failing to observe or perform any other covenant, obligation or agreement contained hereunder or in the Indemnity which, if (in the good faith opinion of the Lender) is capable of remedy has not been remedied (to the satisfaction of the Lender) within thirty days of the Lender requiring OFC to do so; or
- (6) the Servicing Agreement being terminated, or becoming capable of being terminated (after expiration of any applicable grace periods) in accordance with its terms other than by reason of a Disposal that by its terms is conditional upon a release of servicing in respect of such Mortgage Loans; or
- (7) OFC or the Servicer failing to observe or perform any material covenant, obligation or agreement (including any obligation to make any payment) on its part to be observed or performed under any Transaction Document (other than, in the case of OFC, this Agreement, or the Indemnity and, in the case of the Servicer the Servicing Agreement) which is (in the good faith opinion of the Lender) capable of remedy shall not have been remedied (to the satisfaction of the Lender) within thirty days (or such shorter or longer grace period as may apply in respect of the relevant breach under the relevant Transaction Document) of the Lender requiring remedy of the same; or
- (8) any representation or warranty made or repeated by OFC or the Servicer under any Transaction Document (other than, in the case of OFC, this Agreement and the Indemnity and in the case of the Servicer, the Servicing Agreement) being or becoming untrue or misleading as of the date on which made or repeated and, in the case of any such breach which is (in the good faith opinion of the Lender) capable of remedy, the relevant breach not having been remedied to the satisfaction of the Lender within thirty days (or such shorter or longer grace period as may apply in respect of the relevant breach under the relevant Transaction Document) of the Lender requiring OFC or the Servicer, as the case may be, to do so; or
- (9) the loss by the Borrower or the Servicer of its Consumer Credit Act License; or
- (10) an adverse determination being made by the OFT in respect of any Minded to Revoke Notice served by the OFT on any of the Borrower or the Servicer in respect of the Consumer Credit Act License of the Borrower or the Servicer irrespective of any right to appeal (or other right) which the Borrower, or the Servicer may have thereafter, a "determination" being the decision or determination made by the Director (as defined under the CCA) under section 34(3) CCA in respect of the relevant Minded to Revoke Notice; or
- (11) an injunction or interdict (which relates to its residential mortgage lending business including, without limitation, Mortgage Loans financed hereunder) being obtained by (or on behalf of) the OFT against the Servicer or the Borrower which remains in effect for more than 60 days;

- (12) an order being made or an effective resolution being passed for winding up of the Borrower, the Servicer or OFC or any analogous provision or order being made under any applicable jurisdiction; or
- (13) the Borrower, the Servicer or OFC ceasing or threatening to cease to carry on business or a substantial part of such business or stopping payment or threatening to stop payment of its debts or being or becoming unable to pay its debts within the meaning of Section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986, as that section may be amended, (or as the case may be any analogous provision under any applicable jurisdiction) or otherwise becoming unable to pay its debts as they fall due or the value of its assets falling to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or the Borrower, the Servicer or OFC otherwise becoming insolvent;
- (14) proceedings being initiated against the Borrower, the Servicer or OFC under any applicable liquidation, insolvency, composition, bankruptcy, reorganisation (other than a reorganisation the terms of which have been approved by the Lender and where the Borrower, the Servicer or OFC is solvent) or other similar laws, or a petition for an administration order being presented against the Borrower, or the Servicer or OFC or an administrative or other receiver, administrator or other similar official in any applicable jurisdiction being appointed in relation to the Borrower, or the Servicer or OFC or in relation to the whole or any substantial part of the undertaking of or assets of the Borrower, or the Servicer or OFC or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Borrower, or the Servicer or OFC or the Servicer or OFC or a distress, diligence or execution or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Borrower, or the Servicer or OFC or the Borrower, or the Servicer or OFC initiating or consenting to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally; or
- (15) any material adverse change in the condition (financial, business, prospects or otherwise) of any of the Borrower or OFC occurring, which, in the reasonable judgment of the Lender is reasonably likely to prevent the Borrower or OFC, as the case may be, from performing its respective material obligations under any Transaction Document or is likely to adversely affect the value (to the Lender) of its security whether by adversely affecting the value of such security, the prospects of a sale thereof or otherwise; or

- (16) the Borrower ceasing to be a wholly owned subsidiary of the Guarantor; or
- (17) any Indebtedness, arising under any one or more transactions of the Guarantor and/or the Borrower, in excess (in aggregate) of \$5,000,000 or the equivalent thereof in any other currency (determined by translating the other currency into dollars at the mean of National Westminster Bank Plc's spot buying and selling rates (based on the market rates prevailing at the relevant time) for the exchange of dollars and such currency at the relevant time):-
  - (1) not being paid on its due date or within any applicable grace period; or
  - (2) if payable on demand, not being paid on demand or within any applicable grace period; or
  - (3) becoming due by reason of a declared (or automatic) event of default (howsoever described) prior to its original maturity date and not being paid within 5 days of its required date of payment.

(each of the foregoing an "EVENT OF DEFAULT"), the Lender may, for so long as such event is continuing unwaived by the Lender do each or any of the following:

- (i) declare, by notice in writing to the Borrower, any undrawn portion of the Revolving Commitment or any of it to be no longer available to the Borrower; and/or
- (ii) declare, by written notice to the Borrower, all Advances outstanding together with all interest accrued thereon and all other sums then due and outstanding hereunder from the Borrower to be immediately due and payable, whereupon the same shall become immediately due and payable; and/or
- (iii) enforce all or any of its security under the Security Documents; and/or
- (iv) terminate the Servicing Agreement pursuant to its terms; and/or
- (v) terminate this Agreement,

whereupon the Lender shall cease to be obliged to make Advances hereunder.

17.2 If any Advance shall be declared immediately due and payable as aforesaid, the Borrower shall pay to the Lender such amount as the Lender certifies to be necessary to compensate it for any loss incurred (excluding loss of Margin) or to be incurred on account of deposits acquired or arranged in order to fund such Advances as a consequence of such Event of Default.

- 17.3 The rights conferred on the Lender pursuant to this clause 17 shall be in addition to whatever rights the Lender may have both at law and in equity.
- 17.4 The Lender may waive any default by the Borrower in the performance of its obligations hereunder and its consequences. Upon any such waiver of a past default, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been remedied for every purpose of this Agreement. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon except to the extent expressly so waived.
- 17.5 The Borrower agrees to indemnify and keep indemnified the Lender from and against any loss, cost (including any cost of enforcement), liability (including any tax liability), claim or damage which the Lender incurs or suffers as a consequence of the occurrence of any Event of Default and the indemnity may, without limiting the Lender's rights, be claimed as a debt or liquidated demand. 1.1

18. DEFAULT INTEREST

- 18.1 If any sum due and payable by the Borrower hereunder is not paid on the due date therefor or if any sum due and payable by the Borrower under any judgement or decree of any court in connection herewith is not paid on the date of such judgement or decree, the period beginning on the date seven days after such due date (in the case of non payment by the Borrower of an amount due hereunder) or, as the case may be, the date of such judgement or decree and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an "UNPAID SUM") is discharged shall be divided into successive periods, each of which (other than the first) shall start on the last day of the preceding such period and the duration of each of which shall (except as otherwise provided in this clause 18) be selected by the Lender.
- 18.2 During each such period relating thereto as is mentioned in clause 18.1 an unpaid sum shall bear interest at the rate per annum which is the sum from time to time of two per cent and the Margin in respect thereof at such time and LIBOR on the first day of the relevant period provided that:
- (1) if, for any such period, LIBOR cannot be determined, the rate of interest applicable to such unpaid sum shall be the rate per annum which is the sum of two per cent and the Margin in respect thereof at such time and the rate per annum determined by the Lender to be equal to the rate which express as a percentage rate per annum equals the cost to it of funding such unpaid sum for such period from whatever sources it may select; and
  - (2) if such unpaid sum is all or part of an Advance which became due and payable on a day other than the Repayment Date therefor, the first such period applicable thereto shall be of a duration equal to the unexpired portion of that Term and the rate of interest applicable thereto from time to time during such period shall be that which exceeds by two per cent the rate which would have been applicable to it had it not so fallen due.

- 18.3 Any interest which shall have accrued under clause 18 in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.
19. CALCULATIONS
- 19.1 The Borrower shall, for each Interest Payment Date, calculate the Borrowing Base Deficiency for that date such calculation to be done as soon as possible after the applicable Determination Date and in any event no later than the third Business Day prior to the Interest Payment Date in question and shall notify the same to the Lender, immediately upon calculation of the same.
- 19.2 The Lender shall, for the purposes of the calculation under clause 19.1, notify the Borrower of the fair market value of all Existing Mortgage Loans, New Production Mortgage Loans and Pipeline Loans financed under this Agreement which have not, at the relevant time, been sold or otherwise disposed of by the Borrower, as determined by the Lender in good faith.
- 19.3 The Lender's determination of the matters to be notified to the Borrower under clause 19.2 shall, in the absence of manifest error or bad faith, be final and binding on the parties hereto.
- 19.4 The Borrower's determination of the Borrowing Base Deficiency once agreed by the Lender under clause 19.5 shall, in the absence of manifest error or bad faith (on the part of either party), be final and binding on the parties hereto.
- 19.5 The Lender shall use reasonable endeavours to agree the Borrower's determinations of the Borrowing Base Deficiency within three Business Days of notification of the same to the Lender.
20. CURRENCY OF ACCOUNT
- 20.1 Sterling is the currency of account and payment for each and every sum at any time due from the Borrower hereunder provided that each payment in respect of costs and expenses shall be made in the currency in which the same were incurred.
- 20.2 If any sum due from the Borrower under this Agreement or any order or judgement given or made in relation hereto has to be converted from the currency (the "FIRST CURRENCY") in which the same is payable hereunder or under such order, decree or judgement into another currency (the "SECOND CURRENCY") for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order, decree or judgement in any court or other tribunal or (c) enforcing any order, decree or

judgement given or made in relation hereto, the Borrower shall indemnify and hold harmless each of the persons to whom such sum is due from and against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such person may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgement, decree, claim or proof.

21. SET-OFF

21.1 The Borrower authorizes the Lender to apply any credit balance to which the Borrower is entitled on any account of the Borrower with the Lender in satisfaction of any sum due and payable from the Borrower to the Lender hereunder but unpaid.

21.2 All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off, deduction or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off, deduction or counterclaim.

22. CALCULATION OF INTEREST

22.1 Interest shall accrue from day to day and shall be calculated on the basis of a year of 365 days and the actual number of days elapsed.

23. COSTS AND EXPENSES

23.1 The Borrower shall, save where expressed to the contrary in any other Transaction Document, from time to time on demand of the Lender, reimburse the Lender for all reasonable costs and expenses (including legal fees) together with any VAT thereon incurred by it in connection with the negotiation, preparation and execution of this Agreement, the Transaction Documents and the completion of the transactions pursuant to this Agreement or the Transaction Documents or in connection with the preservation and/or enforcement of any of the rights of the Lender under this Agreement and the Transaction Documents.

23.2 The Borrower shall pay all stamp, registration and similar taxes to which this Agreement or any judgement or decree given in connection herewith is or at any time may be subject (including in relation to the perfection of security granted by the Security Documents) and shall, from time to time on demand of the Lender, indemnify the Lender against any liabilities, costs, claims and expenses resulting from any failure to pay or any delay in paying any such tax.

23.3 The Borrower shall, from time to time on demand of the Lender compensate the Lender at such daily and/or hourly rates as the Lender shall from time to time reasonably determine for the time and expenditure, all costs and expenses (including

telephone, fax, copying, travel and personnel costs) incurred by the Lender in connection with its taking such action as it may deem appropriate or in complying with any request by the Borrower in connection with (a) the granting or proposed granting of any waiver or consent requested hereunder by the Borrower; (b) any actual, potential or reasonably suspected breach by the Borrower of its obligations hereunder; (c) the occurrence of any event which is an Event of Default or a Potential Event of Default; or (d) any amendment or proposed amendment hereto requested by the Borrower.

24. REMEDIES AND WAIVERS

No failure to exercise, nor any delay in exercising, on the part of the Lender, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. Save as otherwise expressly provided herein the rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

25. CONFIDENTIALITY

The Borrower shall not, without the prior written consent of the Lender, disclose to any person the existence or any details concerning the Transaction Documents except to the extent such disclosure is contemplated in any Transaction Document, or is required pursuant to the application of any applicable law or an order of a court of competent jurisdiction, or is made to the Borrower's auditors or other professional advisors who are subject to confidentiality restrictions imposed by a professional body which are substantially similar to those set forth above.

26. NOTICES

26.1 ADDRESSES

Any notice or other communication or document to be made or delivered under this Agreement shall be made or delivered by fax or otherwise in writing. Each notice, communication or other document to be delivered to any party to this Agreement shall (unless that other person has by fifteen days' written notice to the other party specified another address or fax number) be made or delivered to that person at the address(es) or fax number (if any) set out below:-

(a) in the case of the Lender to their branch office in the United Kingdom, facsimile number: 0171 375 5510, attention Jeff Beckwith with a simultaneous copy to the office of the General Counsel located at 600 Steamboat Road, Greenwich, Connecticut 06830, USA, facsimile number: 001 203 629 4571, attention General Counsel;

(b) in the case of the Borrower, to its offices at 18-19 Southampton Place, London WC1A 2AJ facsimile number: 0171 831 9152, care of Edge & Ellison;

(c) in the case of OFC, to its offices at:

The Forum  
1675 Palm Beach Lakes Boulevard  
Suite 1002  
West Palm Beach, Florida 33401  
Attention: John R. Erbey, Corporate Secretary  
Telephone No.: 561-682-8000  
Telefax No.: 561-682-8177

With a copy to:

John Erbey  
Company Secretary  
Ocwen Financial Corporation  
The Forum  
1675 Palm Beach Lakes Boulevard  
Suite 1002  
West Palm Beach, Florida 33401  
Telephone No.: 561-682-8661  
Telefax No.: 561-682-8163

26.2 DEEMED DELIVERY

Any notice, communication or document to be delivered to any person shall be deemed to have been delivered:-

- (1) in the case of personal delivery, at the time of such delivery;
- (2) in the case of delivery by post, on the business day following the day on which it was posted and in proving such delivery it shall be sufficient to prove that the relevant notice, communication or document was properly addressed, stamped and posted (by airmail, if to another country) in the United Kingdom or, in the case of service to or from an address outside the United Kingdom at 9.00 a.m. on the fourth day following the day on which it was posted;
- (3) in the case of any notice or other communication by fax, (a) on the business day the same was transmitted so long as there is evidence that such fax message was received prior to 5.00 p.m. local time of the recipient on such day and such day is a business day for the recipient, otherwise (b) on the business day following the day on which it was transmitted and, in either case, in proving such delivery it shall be sufficient to prove that the whole of the fax message was received on any fax machine of the recipient and that there was no evidence that such transmission had been interrupted.



27. SEVERABILITY

If at any time any provision of this Agreement is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, that shall not affect or impair:-

- (1) the legality, validity or enforceability in that jurisdiction of any other provision of this Agreement; or
- (2) the legality, validity or enforceability under the law of any other jurisdiction of that or any other provision of this Agreement.

28. ASSIGNMENT

28.1 The Lender may at any time:-

- (1) sub-participate any part (but not the whole) of its rights or benefits under this Agreement provided that at any time no more than 51% of its rights and benefits hereunder may be sub-participated; and
- (2) assign or transfer any part (but not the whole) of its rights or benefits under this Agreement provided that at any time, no more than 51% of its rights and benefits may be assigned or transferred so as to be held by a person other than the Lender and provided further that:-
  - (1) if such assignment or transfer is to any person other than a subsidiary, holding company of or other member of the Lender's group such assignment or transfer shall require the prior consent of the Borrower (such consent not to be unreasonably withheld); and
  - (2) if, at the time and as a result of any proposed transfer or assignment, the Borrower would incur any increased cost or be liable to make payments in excess of those required to be made hereunder immediately prior thereto (other than any minimum liquid asset costs) such assignment or transfer is on terms that the Borrower is not and will not be liable for any such increased cost or liability.

28.2 The Borrower shall not be entitled to assign, transfer or otherwise dispose of all or any of its rights or benefits under this Agreement without the prior written consent of the Lender.

28.3 The Lender may disclose to a proposed assignee, transferee or sub-participant information in its possession relating to the provisions of this Agreement and the Transaction Documents which it considers necessary or desirable to disclose for the purposes of the proposed assignment, transfer or sub-participation, notwithstanding the provisions of clause 25 (Confidentiality) provided that the Lender obtains from such assignee, transferee or sub-participant a confidentiality undertaking on substantially the same terms as clause 25 (but substituting references to such proposed assignee, transferee or sub-participant for references therein to the Borrower) or on such other terms as may be agreed between the Borrower and the Lender.

28.4 This Agreement shall bind and inure to the benefit of and be enforceable by the Lender and its respective successors, transferees and assigns and references to the Lender shall be deemed to include references to each of the foregoing.

29. FURTHER ASSURANCE

The Borrower shall, from time to time on being required to do so by the Lender, now or at any time in the future, do or procure the doing of all such acts and/or execute or procure the execution of all such documents in a form satisfactory to the Lender as the Lender may consider necessary for giving full effect to this Agreement and the Transaction Documents and securing to the Lender the full benefit of the rights, powers and remedies conferred upon the Lender in this Agreement or any Transaction Documents.

30. ENTIRE AGREEMENT

This Agreement (together with the Transaction Documents entered into on or after the date hereof) constitutes the whole and only agreement between the parties relating to the secured, guaranteed facility provided by the Lender to the Borrower described herein and supersedes and extinguishes any prior drafts, agreements, undertakings, representations, warranties and arrangements of any nature whatsoever, including without limitation the "secured loan facility" described in the commitment letter between OFC and Greenwich Capital Markets Inc dated 31 March 1998.

31. AGENT FOR SERVICE

31.1 OFC irrevocably agrees that any Service Document may be sufficiently and effectively served on it in connection with Proceedings, whether pursuant to this Agreement or any other Transaction Document, in England and Wales by service on its agent Ocwen Limited, if no replacement agent has been appointed and notified to the Lender pursuant to sub-clause 31.4, or on the replacement agent if one has been appointed and notified to the Lender.

31.2 Any Service Document served pursuant to this clause shall be marked for the attention of:

- (a) Ocwen Limited (care of Edge & Ellison) at 18 Southampton Place, London, WC1A 2AJ or such other address within England and Wales as may be notified to the Lender by OFC; or

(b) such other person as is appointed as agent for service pursuant to sub-clause 31.4 at the address notified pursuant to sub-clause 31.4.

31.3 Any document addressed in accordance with sub-clause 30.2 shall be deemed to have been duly served if:-

(a) left at the specified address, when it is left; or

(b) sent by first class post, two clear Business Days after the date of posting.

31.4 If the agent referred to in sub-clause 31.4 (or any replacement agent appointed pursuant to this sub-clause) at any time ceases for any reason to act as such, OFC shall appoint a replacement agent to accept service having an address for service in England or Wales and shall notify the Lender of the name and address of the replacement agent; failing such appointment and notification, the Lender shall be entitled by notice to OFC to appoint such a replacement agent to act on OFC's behalf.

31.5 A copy of any Service Document served on an agent pursuant to this clause shall be sent by post to OFC at its address for the time being for the service of notices and other communications under clause 26 (Notices), but no failure or delay in so doing shall prejudice the effectiveness of service of the Service Document in accordance with the provisions of sub-clause 31.1.

31.6 Each of OFC and the Lender irrevocably consent to the service of process of any of the aforesaid courts in Submitted States in any such action or Proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid to the party's notice address specified above, such service to become effective upon receipt of evidence of the receipt thereof.

32. GOVERNING LAW AND JURISDICTION

- 32.1 This Agreement shall be governed by and construed in accordance with the laws of England.
- 32.2 The parties to this Agreement irrevocably agree that the courts of England are to have jurisdiction to settle any dispute which may arise out of or in connection with this Agreement and each other Transaction Document and that accordingly any proceeding, suit, or action arising out of or in connection with this Agreement or any other Transaction Document ("Proceedings") may be brought in such courts.
- 32.3 Without prejudice to sub-Clause 32.2, all the parties further irrevocably agree that any Proceedings may be brought in any court of the State of New York, or the State of Florida or any other state of the United States, where any party has its chief executive office (all of such states being the "Submitted States") or federal court sitting in the Submitted State and any court having jurisdiction over appeals of matters heard in such courts and each of the parties hereto irrevocably submits to the non-exclusive jurisdiction of such courts.
- 32.4 Each of the parties hereto irrevocably waives any objection it may have now or hereafter to the laying of the venue of any Proceedings in any such court as is referred to in this clause and any claim of FORUM NON CONVENIENS and further irrevocably agrees that a judgment in any Proceedings brought in any court referred to in this clause shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

IN WITNESS WHEREOF, this Agreement is duly executed the date and year first above written at London.

/s/ JOSEPH A. DLUTOWSKI

-----  
for and on behalf of  
OCWEN LIMITED

Witness /s/ JITENDRA PATEL

-----  
Occupation. Jitendra Patel - Solicitor

Address: Edge & Ellison  
18/19 Southampton Place  
London WC1A 2AJ

/s/ JOHN C. ANDERSON

-----  
for and on behalf of GREENWICH  
INTERNATIONAL, LTD.

Witness /s/ JITENDRA PATEL

-----  
Occupation. Jitendra Patel - Solicitor

Address: Edge & Ellison  
18/19 Southampton Place  
London WC1A 2AJ

/s/ JOSEPH A. DLUTOWSKI

-----  
for and on behalf of OCWEN FINANCIAL CORPORATION

Witness /s/ JITENDRA PATEL

-----  
Occupation. Jitendra Patel - Solicitor

Address: Edge & Ellison  
18/19 Southampton Place  
London WC1A 2AJ

The following schedules have been omitted from this filing, but copies thereof are available to the Commission upon request:

- SCHEDULE 1      FORM OF DRAWDOWN REQUEST(INITIAL ADVANCE)
- FORM OF DRAWDOWN REQUEST(REVOLVING ADVANCES)
- SCHEDULE 2      FORM OF SOLVENCY CERTIFICATE
- SCHEDULE 3      MORTGAGE LOAN DOCUMENTS
- SCHEDULE 4      PART I

SCHEDULE 4

PART II

- (1) The information set forth on the Mortgage Loan Schedule with respect to each Mortgage Loan is true and correct in all material respects;
- (2) Unless otherwise agreed from time to time, all payments due prior to the Advance Date have been made and none of the Mortgage Loans will have been contractually delinquent for 31 or more days more than once since the origination thereof;
- (3) Each Mortgage Deed constitutes (i) in the case of English Mortgage Loans, a valid and enforceable legal mortgage of the relevant Mortgaged Property subject only in certain cases to registration of the relevant Mortgage Deed at HM Land Registry, or (ii) in the case of Scottish Mortgage Loans, a valid and enforceable Standard Security over the relevant Mortgaged Property subject only in certain cases to registration or recording of the relevant Mortgage Deed in the Registers of Scotland, in either case duly executed by the Mortgagor named in the relevant Mortgage Deed;
- (4) On the date upon which an Advance is made the Borrower (subject only to registration of legal title at HM Land Registry or the Registers of Scotland as appropriate) has good title to each Mortgage Loan and the Collateral Security in respect of each such Mortgage Loan, has full right and authority to charge and assign the same by way of security and the same is the absolute property of the Borrower (subject to any registration or recording in favour of the Borrower which may be pending at HM Land Registry or the Registers of Scotland) free and clear of all mortgages, securities, charges, liens, encumbrances, claims and equities (including, without limitation, rights of set off or counterclaim, overriding interest within the meaning of Section 3(xvi) of the Land Registration Act 1925 or Section 28(1) of the Land Registration (Scotland) Act 1979 and adverse entries or notices of application therefor against any title at HM Registry or the Registers of Scotland to any relevant Mortgaged Property) except any such encumbrances, claims, equities, overriding interests or entries which rank after the interests of the Borrower, the Lender in the Mortgaged Loans or which do not have an adverse effect on the value of the relevant Mortgaged Property as security for the relevant Mortgage Loan or which are the subject of a duly completed and signed Postponement Agreement or appropriate executed MHA Documentation as contemplated in sub-clause 14.3(B)(2) below;

- (5) Each Mortgaged Property is a residential property or mixed commercial and residential property in the United Kingdom;
- (6) The steps necessary to perfect the vesting of full legal and equitable title to each Mortgage Loan and the Collateral Security in the Borrower have been duly taken at the appropriate time or are in the course of being taken with all due diligence;
- (7) To the best of its knowledge, each Mortgaged Property is free of material damage;
- (8) Each Mortgage Loan at origination complied in all material respects with applicable laws and regulations including, where applicable, the Consumer Credit Act 1974 and any regulations made thereunder (and in particular no Mortgage Loan is cancellable thereunder) and consummation of the transactions contemplated hereby will not involve the violation of any such laws and regulations;
- (9) Neither it nor any prior holder of any Mortgage Loan has; (a) modified the Mortgage Loan in any material respect, except that a Mortgage Loan may have been modified by a written instrument in respect of which any applicable registration(s) have been completed; (b) satisfied, cancelled or subordinated such Mortgage Loan in whole or in part; (c) released the related Mortgaged Property in whole or in part from the security created by the relevant Mortgage Deed; or (d) executed any instrument of release, cancellation, discharge, modification or satisfaction with respect thereto;
- (10) No sub-mortgage, sub-charge, pledge, lien or right of set off or counterclaim or other security interest or other adverse right or interest has been created or has arisen between it and any Mortgagor which entitles or entitled the Mortgagor to reduce the amount of any payment otherwise due under the terms of such Mortgagor's Mortgage Loan (save, in the case of junior mortgages, the relevant prior ranking legal mortgage or mortgages of or Standard Security over the relevant Mortgaged Property created by the Mortgagor and any related security for the loan secured thereby);
- (11) Each Mortgage Loan was originated in all material respects in accordance with the criteria set out in the Underwriting Guidelines;
- (12) In relation to each Mortgaged Property:-
  - (1) in respect of title to property in England or Wales which is not registered, the relevant Mortgagor had or was acquiring good and marketable title to the fee simple absolute in possession (if freehold) or a term of years absolute of not less than thirty years beyond the term of the Mortgage Loan (if leasehold) relating to such Mortgaged Property and is free from any encumbrance which would adversely affect such title;



- (2) in relation to title which is registered at HM Registry, it was so registered with title absolute in the case of freehold property or absolute leasehold or good leasehold title of the requisite title aforesaid in the case of leasehold property;
  - (3) in relation to which title is registered or recorded in the Registers of Scotland, it was so registered or recorded with valid and marketable title (whether feudal or long lease), having in the case of a long lease an unexpired term of not less than thirty years beyond the term of the Mortgage Loan;
  - (4) no works on the relevant Mortgaged Property were carried out in violation of any applicable planning law or regulation or building regulations;
  - (5) if the relevant Mortgaged Property is leasehold or (in Scotland) held under long lease, any requisite consent of the landlord to or notice to the landlord of the creation of the relevant Mortgage had been obtained or given and no consents of or notices to such landlord are required to any transfer, assignation or sub-charge of the relevant Mortgage, and a copy of any such consent or notice is held with the title deeds to the relevant Mortgaged Property or held to the order of the Lender or its Solicitors;
  - (6) the relevant Mortgaged Property is not subject to any adverse third party claim or proceeding for compulsory acquisition thereof;
- (13) Each Mortgage relating to a Mortgage Loan (and any other documents entered into in relation to the relevant Mortgage Loan) is the legal, valid and binding obligation of the grantor thereof, enforceable in accordance with its terms and with applicable laws and parties thereto had legal capacity to execute the same and the same have been duly and properly executed by such parties;
- (14) Either:
- (1) the proceeds of the Mortgage Loans have been fully disbursed and there is no requirement for further advances thereunder; or
  - (2) if any retention was recommended by CMC's or the relevant Approved Affiliate's valuer, the recommendation to make a retention was implemented and cash was not advanced until CMC or relevant Approved Affiliate had received a certificate (or other evidence acceptable to it) of completion of the relevant repairs or other works.

- (15) Each Mortgage Deed is in, or substantially in, the form of the relevant attachment annexed hereto in Annexure 2.
- (16) The origination and underwriting practices used by CMC or relevant Approved Affiliate or with respect to each Mortgage Loan have been in all respects legal, proper, prudent and customary in the mortgage servicing business in the United Kingdom and comply with the Underwriting Guidelines;
- (17) Either:
- (1) each Mortgaged Property is insured under the block insurance policy from time to time maintained by CMC or, as the case may be, the relevant Approved Affiliate to provide, where it is agreed that the Mortgagor will not insure, cover against such risks and contingencies as are commonly insured against in a fully comprehensive buildings insurance for residential properties to a minimum of the full cost of reinstatement thereof together with inflation cost over any period that may be required for obtaining any relevant planning permission and other approvals and the reinstatement or repair period and architects and other professional fees; or
  - (2) where the Mortgagor insures, CMC or, as the case may be, the relevant Approved Affiliate has established that such insurance was, at the date of origination of the relevant Mortgage Loan, in accordance with the foregoing provisions of this sub-clause, with a reputable insurer, with an acknowledgement by the insurer that the interest of CMC or relevant Approved Affiliate has been or will be promptly following the relevant Advance Date be noted on the relevant policy. In the case of leasehold property in England and Wales, the relevant Mortgaged Property is insured under arrangements effected by the freeholder or any intermediate leaseholder, on a fully comprehensive basis as aforesaid.
- (18) Prior to making the relevant advance the subject of a Mortgage Loan, CMC or the relevant Approved Affiliate (as originator) carried out or caused to be carried on its behalf the investigations, searches (other than local authority searches) and other actions and made or caused to be made on its behalf the enquiries as to the Mortgagor's status that were required in accordance with the relevant lending criteria of CMC or the Approved Affiliate or Relevant Affiliate (as originator) applicable at the time when the offer of advance was made and the results thereof were acceptable to CMC or the relevant Approved Affiliate or Relevant Affiliate (as originator) in accordance with such lending criteria for the purposes of the proposed advance;

- (19) Any further advances after the date of the Mortgage Deed but made prior to the Advance Date have been advanced under separate mortgage documentation (and, accordingly, have not been consolidated with the outstanding principal amount secured by the Mortgage), and all ground rents, ground burdens and service charges and other payments required in relation to leasehold property or heritable property which previously became due and owing have been paid. Except for interest accruing from the date of the relevant Mortgage Deed or date of advance to the relevant Mortgagor, whichever is later, to the day which precedes by one month the date for payment of the first installment of principal and interest, none of CMC, the Approved Affiliate or Relevant Affiliate (as originator) has advanced funds, or induced, solicited or knowingly received any advance of funds by a party other than the Mortgagor, directly or indirectly, for the payment of any amount in relation to the relevant Mortgage Loan save to the extent that the same reduces the Mortgage Loan;
- (20) Subject to clause 14.3(B), to the best of the Borrower's knowledge and belief (the Borrower having made all reasonable enquiries of CMC or relevant Originator) there is no default, breach, violation or event of acceleration existing under any Mortgage Loan: and neither CMC nor any Approved Affiliate (as originator) has waived any default, breach, violation or event of acceleration other than any waiver which is in accordance with and permitted under the relevant Manuals;
- (21) Each Mortgage File contains a valuation of the relevant Mortgaged Property undertaken on the instructions of CMC, the relevant Approved Affiliate or Relevant Affiliate (as originator), or instructions issued on its behalf or as the case may be by any predecessor in title in relation to the relevant Mortgage Loan) by an independent qualified valuer being an associate or fellow of the Royal Institute of Chartered Surveyors or, as the case may be, Society of Valuers and Auctioneers, in each case approved by CMC, the relevant Approved Affiliate or Relevant Affiliate (as originator) and unless otherwise agreed between the Lender and the Borrower, the principal amount advanced to the relevant Mortgagor was not more than the amount permissible under the terms of the relevant Program;
- (22) At the time of the making of the Mortgage Loan, the Mortgaged Property was not located within a 1 mile radius of any contaminated land or any land with environmental or hazardous waste risks known to CMC or the relevant Approved Affiliate or (as originator) or, where such was the case, an environmental audit was procured by CMC or the relevant Approved Affiliate or (as originator) or evaluated in accordance with such relevant originator's established environmental review procedures, and found to be satisfactory;

- (23) In selecting the Mortgage Loans in respect of which Advances are made hereunder, no selection procedure was employed by the Borrower which was intended to adversely affect the interests of the Lender;
- (24) Prior to the making of the relevant mortgage advance, enquiry was made of each Mortgagor as to the identity of the persons in actual occupation of the Mortgaged Property and (i) in the case of English Mortgage Loans, any person who at the date when the advance was made had attained the age of 18 and who was identified in writing to CMC, the relevant Approved Affiliate (as originator) or its Solicitor by the Mortgagor as residing or being about to reside in the relevant Mortgaged Property is either named as joint mortgagor on the relevant Mortgage Deed or has signed a legally binding agreement postponing (each a "POSTPONEMENT AGREEMENT") all rights and entitlements to which such person may be entitled in the Mortgaged Property to the interests, rights and entitlements of CMC or the relevant Approved Affiliate (as originator) or such other person as may have or acquire as mortgagee or chargee of the property from time to time, such agreement in a form as was satisfactory to such Solicitor, and (ii) in the case of Scottish Mortgage Loans, prior to the making of the advance, CMC or the relevant Approved Affiliate (as originator) or its Solicitor obtained all necessary validly executed MHA Documentation so as to ensure that neither the relevant Mortgage Loan nor the relevant Mortgaged Property was subject to or affected by any statutory right of occupancy in favour of a non-entitled spouse;
- (25) CMC and each Approved Affiliate have kept, or caused to be kept, full and proper accounts, books and records showing all transactions payments, receipts and proceedings relating to that Mortgage and all such accounts, books and records are up to date and in its possession or held to its order;
- (26) There exists no litigation, dispute or complaint (subsisting or pending or threatened) calling into question in any way title of CMC or any Approved Affiliate to any Mortgage Loan or, to the best of its knowledge, the relevant Mortgagor's title to his Mortgaged Property;
- (27) The Mortgage Loan Documents are held to the order of the Lender by the relevant Solicitor or have been lodged at H.M. Land Registry or the Registers of Scotland and in the case of each Mortgaged Property the title to which is registered or for which application for first registration has been made the Borrower knows the title number under which the Mortgaged Property is (or, in the case of first registration, is to be) registered at H.M. Land Registry or the Registers of Scotland;
- (28) In relation to each Mortgage Deed for Mortgaged Property where registration is pending at H.M. Land Registry, there is no caution, notice or other entry which would prevent the registration of the Mortgage Deed as a charge by way of first or, as the case may be, second or third subsequent legal mortgage.
- (29) None of the Mortgagors which pay interest is a company.

MASTER REPURCHASE AGREEMENT GOVERNING

PURCHASES AND SALES OF MORTGAGE LOANS

Dated as of March 31, 1998

Between

LEHMAN COMMERCIAL PAPER INC.,

as Buyer

and

OCWEN FINANCIAL SERVICES, INC.

as Seller

WHEREAS, Seller and Buyer entered into that certain Master Repurchase Agreement Governing the Purchases and Sales of Mortgage Loans dated as of December 15, 1997 (the "December Master Repurchase Agreement") in the Committed Amount of One hundred million Dollars (\$100,000,000), and Seller is utilizing the December Master Repurchase Agreement in the ordinary course of its business as an originator of subprime mortgage loans (the "Ordinary Course Mortgage Loans"); and

WHEREAS, Seller was offered the opportunity to acquire a single pool of mortgage loans with an aggregate principal balance of \$309,723,997 as of November 1, 1997, and Buyer was willing to enter into this repurchase agreement to enable Seller to acquire the new loans; and

WHEREAS, Ocwen Financial Corporation acquired certain mortgage loans (the "Mortgage Loans") from Lehman Capital, a division of Lehman Brothers Holdings, Inc., as buyer, pursuant to that certain Purchase and Sale Agreement dated as of December 3, 1997 by and between Cityscape Corp., as seller, and Lehman Capital, which was assigned to Ocwen Financial Corporation pursuant to that certain Bill of Sale and Assignment dated as of February 27, 1998 by and between Lehman Capital, as assignor, and Ocwen Financial Corporation, as assignee (the "Mortgage Loan Purchase and Sale Agreement"); and

WHEREAS, Seller has agreed to buy and Ocwen Financial Corporation has agreed to sell the Mortgage

Loans to Seller subject to the agreement of Buyer to purchase the Mortgage Loans from Seller in accordance with this Master Repurchase Agreement Governing Purchases and Sales of Mortgage Loans (this "Agreement").

1. APPLICABILITY

Commencing on the date hereof and continuing through and including the Termination Date, Lehman Commercial Paper Inc. ("BUYER") agrees, subject to the terms and conditions hereof, to enter into a transaction upon the request of Ocwen Financial Services, Inc. ("SELLER") in which Seller agrees to transfer to Buyer all those Mortgage Loans acquired by Seller pursuant to and in accordance with that certain Purchase and Sale Agreement dated as of December 3, 1997 by and between Cityscape Corp., as seller, and Lehman Capital, a division of Lehman Brothers Holdings, Inc., as buyer (the "Mortgage Loans") as assigned to Ocwen Financial Corporation pursuant to that certain Bill of Sale and Assignment dated as of February 27, 1998 by and between Lehman Capital, as assignor, and Ocwen Financial Corporation, as assignee, as further assigned to Ocwen Financial Services, Inc., pursuant to that certain Bill of Sale and Assignment dated March 31, 1998 (as so assigned, the "Mortgage Loan Purchase and Sale Agreement") against the transfer of funds by Buyer in a single advance to Seller on the date hereof (the "TRANSACTION"). The Transaction is entered into with the understanding that on the Termination Date, or earlier upon the demand of Seller, the Buyer agrees to transfer such Mortgage Loans to Seller, at a date certain not later than 30 days after the transfer or on demand, as specified in the Confirmation, against the transfer of funds by Seller. The Transaction shall be governed by this Agreement and the related Confirmation, unless otherwise agreed in writing. The Mortgage Loans are more fully set forth on Annex A to Exhibit I, attached hereto and made a part hereof.

2. DEFINITIONS

"ACT OF INSOLVENCY" means, with respect to any party and its Affiliates, (i) the

filing of a petition, commencing, or authorizing the commencement of any case or proceeding under any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar law relating to the protection of creditors, or suffering any such petition or proceeding to be commenced by another which is consented to, not timely contested or results in entry of an order for relief; (ii) the seeking the appointment of a receiver, trustee, custodian or similar official for such party or an Affiliate or any substantial part of the property of either, (iii) the appointment of a receiver, conservator, or manager for such party or an Affiliate by any governmental agency or authority having the jurisdiction to do so; (iv) the making or offering by such party or an Affiliate of a composition with its creditors or a general assignment for the benefit of creditors, (v) the admission by such party or an Affiliate of such party of its inability to pay its debts or discharge its obligations as they become due or mature; or (vi) that any governmental authority or agency or any person, agency or entity acting or purporting to act under governmental authority shall have taken any action to condemn, seize or appropriate, or to assume custody or control of, all or any substantial part of the property of such party or of any of its Affiliates, or shall have taken any action to displace the management of such party or of any of its Affiliates or to curtail its authority in the conduct of the business of such party or of any of its Affiliates.

"ADDITIONAL LOANS" means Mortgage Loans or cash provided by Seller to Buyer or its designee pursuant to Section 4(a).

"AFFILIATE" means, with respect to any Person, another Person that directly or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (including, with its correlative meanings, "controlled by" and "under common control with") means possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise).

"AGENCY" means FNMA, FHLMC or GNMA.

"AGREEMENT" means this Master Repurchase Agreement Governing Purchases and Sales of Mortgage Loans between Buyer and Seller, as amended from time to time.

"BALLOON MORTGAGE LOAN" means any Mortgage Loan that provided on the date of origination for scheduled payments by the Mortgagor based upon an amortization schedule extending beyond its maturity date.

"BUSINESS DAY" means a day other than (i) a Saturday or Sunday, or (ii) a day in which the New York Stock Exchange is authorized or obligated by law or executive order to be closed.

"BUYER" has the meaning specified in Section 1.

"COLLATERAL" has the meaning specified in Section 6.

"COLLATERAL AMOUNT" means, with respect to any Transaction, the amount obtained by application of the applicable Collateral Amount Percentage to the related Repurchase Price for such Transaction.

"COLLATERAL AMOUNT PERCENTAGE" means the amount set forth in the Confirmation which, in any event (i) shall not be less than 105.26% with respect to the Mortgage Loans in determining whether a Market Value Collateral Deficit exists pursuant to the first sentence of Section 4(a) hereof and (ii) shall not be less than 105.26% with respect to all Mortgage Loans in determining whether a Securitization Value Collateral Deficit exists pursuant to the second sentence of Section 4(a) hereof.

"COLLATERAL DEFICIT" means either a Market Value Collateral Deficit or a Securitization Value Collateral Deficit.

"COLLATERAL INFORMATION" means the following information with respect to each Mortgage Loan: (i) Seller's loan number, (ii) the Mortgagor's name, (iii) the address of the Mortgaged Property, (iv) the current interest rate, (v) the original balance, (vi) current balance as of the last day of the

immediately preceding month, (vii) the paid to date, (viii) the appraisal value of the Mortgaged Property, (ix) whether interest rate is fixed or adjustable (and if adjustable, the ARM terms, including the index, spread, adjustment frequency, next adjustment date, caps and floors), (x) whether the Mortgage Loan is convertible from ARM to fixed, (xi) the occupancy status of the Mortgaged Property (including whether owner occupied), (xii) whether the Mortgage Loan is a Balloon Loan, (xiii) the first payment date, (xiv) the maturity date, (xv) the principal and interest payment, (xvi) the property type of the Mortgaged Property, (xvii) the applicable credit grade, (xviii) the note date and (xix) whether the Mortgage Loan is a Wet Ink Mortgage Loan.

"CONFIRMATION" has the meaning specified in Section 3(a).

"CUSTODIAL AGREEMENT" means that certain custodial agreement, dated as of February 27, 1998, by and among Buyer, Seller and the Custodian.

"CUSTODIAL DELIVERY" means the form executed by Seller in order to deliver the Mortgage Loan Schedule and/or the Mortgage File to Buyer or its designee (including the Custodian) pursuant to Section 7, a form of which is attached hereto as Exhibit II.

"CUSTODIAN" means the custodian under the Custodial Agreement. The custodian is First Trust National Association.

"DELINQUENT" means, with respect to any Mortgage Loan, the period of time from the date on which a Mortgagor fails to pay an obligation under the terms of such Mortgage Loan (without regard to any applicable grace periods) to the date on which such payment is made.

"Event of Default" has the meaning specified in Section 13.

"FHLMC" means the Federal Home Loan Mortgage Corporation.

"FNMA" means the Federal National Mortgage Association.

"GNMA" means the Government National Mortgage Association.

"HEDGE" means, with respect to any or all of the Purchased Mortgage Loans, any interest rate swap, cap or collar agreement or similar arrangements providing for protection against fluctuations in interest rates or the exchange of nominal interest obligations, either generally or under specific contingencies, entered into by Seller with Buyer or its Affiliates, and reasonably acceptable to the Buyer.

"HUD" means the United States Department of Housing and Urban Development.

"INCOME" means, with respect to any Purchased Mortgage Loan at any time, any principal thereof then payable and all interest, dividends or other distributions payable thereon less any related servicing fee(s) charged by a subservicer.



"LIBOR" means the London Interbank Offered Rate for one-month United States dollar deposits as set forth on page 3750 of Telerate as of 11:00 a.m., London time, on the date of determination.

"LOAN-TO-VALUE RATIO" means with respect to any Mortgage Loan as of any date, the fraction, expressed as a percentage, the numerator of which is the principal balance of such Mortgage Loan at the date of determination and the denominator of which is the value of the related Mortgaged Property as set forth in the appraisal of such Mortgaged Property obtained in connection with the origination of such Mortgage Loan. .

"MARKET VALUE" means as of any date with respect to any Mortgage Loan, the price at which such Mortgage Loan could readily be sold as determined by Buyer in its sole discretion; provided, however, that Buyer shall not take into account, for purposes of calculating Market Value, any Mortgage Loans that (i) are more than 59 days Delinquent or (ii) with respect to which there is a breach of a representation, warranty or covenant made by Seller in this Agreement that materially adversely affects Buyer's interest in such Mortgage Loan and which breach has not been cured.

"MARKET VALUE COLLATERAL DEFICIT" has the meaning specified in Section 4(a).

"MORTGAGE" means a mortgage, deed of trust, deed to secure debt or other instrument, creating a valid and enforceable first lien on or a first priority ownership interest in an estate in fee simple in real property and the improvements thereon, securing a mortgage note or similar evidence of indebtedness.

"MORTGAGE FILE" means the documents specified as the "Mortgage File" in Section 7(d), together with any additional documents and information required to be delivered to Buyer or its designee (including the Custodian) pursuant to this Agreement.

"MORTGAGE LOAN" means (i) a non-securitized whole loan, namely a conventional mortgage loan secured by a first lien on a one to four family residential property which conform to Seller's underwriting guidelines or (ii) another type of non-securitized whole loan as may be agreed upon in writing by the parties hereto from time to time.

"MORTGAGE LOAN SCHEDULE" means a schedule of Mortgage Loans attached to each Trust Receipt, Confirmation and Custodial Delivery.

"MORTGAGE NOTE" means a note or other evidence of indebtedness of a Mortgagor secured by a Mortgage.

"MORTGAGED PROPERTY" means the real property securing repayment of the debt evidenced by a Mortgage Note.

"MORTGAGEE" means the record holder of a Mortgage Note secured by a Mortgage.

"MORTGAGOR" means the obligor on a Mortgage Note and the grantor of the related Mortgage.

"PERIODIC PAYMENT" has the meaning specified in Section 5(b).

"PERSON" means an individual, partnership, corporation, joint stock company, trust or unincorporated organization or a governmental agency or political subdivision thereof.

"PRICE DIFFERENTIAL" means, with respect to any Transaction hereunder as of any date, the aggregate amount obtained by daily application of the Pricing Rate for such Transaction to the Purchase Price for such Transaction on a 360 day per year basis for the actual number of days during the period commencing on (and including) the Purchase Date for such Transaction and ending on (but excluding) the Repurchase Date (reduced by any amount of such Price Differential previously paid by Seller to Buyer with respect to such Transaction).

"PRICING RATE" means the per annum percentage rate specified in the Confirmation for determination of the Price Differential which shall not exceed LIBOR plus the applicable Pricing Spread.

"PRICING SPREAD" means .75% (or 75bp) with respect to the Transactions.

"PRIME RATE" means the rate of interest published by THE WALL STREET JOURNAL, northeast edition, as the "prime rate".

"PURCHASE AMOUNT" shall mean Two hundred seventy- eight million two hundred thousand Dollars (\$278,200,000.00).

"PURCHASE DATE" means the date on which Purchased Mortgage Loans are transferred by Seller to Buyer or its designee (including the Custodian) as specified in the Confirmation.

"PURCHASE PRICE" means on the Purchase Date, the price at which Purchased Mortgage Loans are transferred by Seller to Buyer or its designee (including the Custodian), which, subject to compliance with the collateral maintenance requirements of Section 4, shall equal ninety-five per cent (95%) of the aggregate outstanding principal amount of the Mortgage Loans on the Purchase Date; provided, however, that the Purchase Price of any Mortgage Loan shall not in any event exceed the outstanding principal amount thereof.

"PURCHASED MORTGAGE LOANS" means the Mortgage Loans sold by Seller to Buyer in a Transaction, any Additional Loans and any Substituted Mortgage Loans.

"REPLACEMENT LOANS" has the meaning specified in Section 14(b)(ii).

"REPURCHASE DATE" means the date on which Seller is to repurchase the Purchased Mortgage Loans from Buyer, including any date determined by application of the provisions of Sections 3

or 14, as specified in the Confirmation; provided that in no event shall such date later than the Termination Date.

"REPURCHASE PRICE" means the price at which Purchased Mortgage Loans are to be transferred from Buyer or its designee (including the Custodian) to Seller upon termination of a Transaction, which will be determined in each case (including Transactions terminable upon demand) as the sum of the Purchase Price and the Price Differential as of the date of such determination decreased by all cash, Income and Periodic Payments actually received by Buyer pursuant to Sections 4(a), 5(a) and 5(b), respectively.

"SECURITIZATION VALUE" means, as of any date with respect to any Mortgage Loans, the price at which such Mortgage Loans could be securitized and sold in a securitization as determined by Buyer in its sole discretion; provided, however, that Buyer shall not take into account, for purposes of calculating Securitization Value, any Mortgage Loan (i) which are more than 59 days Delinquent or (ii) with respect to which there is a breach of a representation, warranty or covenant made by Seller in this Agreement that materially adversely affects Buyer's interest in such Mortgage Loan and which breach has not been cured.

"SECURITIZATION VALUE COLLATERAL DEFICIT" has the meaning specified in Section 4(a).

"SELLER" has the meaning specified in Section 1.

"SERVICING AGREEMENT" has the meaning specified in Section 25.

"SERVICING RECORDS" has the meaning specified in Section 25.

"SUBSTITUTED MORTGAGE LOANS" means any Mortgage Loans substituted for Purchased Mortgage Loans in accordance with Section 9 hereof.

"TERMINATION DATE" shall mean that date which is the last to occur of (i) the ninety-first (91st) day following the date upon which the Purchase Amount is advanced by Buyer to Seller under the terms of this Agreement, or (ii) such later date as the parties may determine by mutual written agreement .

"TRANSACTION" has the meaning specified in Section 1.

"TRUST RECEIPT" means a trust receipt issued by Custodian to Buyer confirming the Custodian's possession of certain mortgage loan files which are the property of and held by Custodian for the benefit of the Buyer or the registered holder of such trust receipt.

### 3. INITIATION; CONFIRMATION; TERMINATION; MAXIMUM TRANSACTION AMOUNTS

(a) An agreement to enter into the Transaction shall be in writing at the initiation of either Buyer or Seller. In any event, Buyer shall confirm the terms of the Transaction by issuing a written confirmation to Seller promptly after the parties enter into the Transaction in the form of Exhibit I attached hereto (a "CONFIRMATION"). Such Confirmation shall describe the Purchased Mortgage Loans, identify Buyer and Seller and set forth (i) the Purchase Date, (ii) the Purchase Price, (iii) the Repurchase Date, unless the Transaction is to be terminable on demand, (iv) the Pricing Rate applicable to the Transaction, (v) the applicable Collateral Amount Percentages and (vi) additional terms or conditions not inconsistent with this Agreement. After receipt of the Confirmation, Seller shall, subject to the provisions of subsection (c) below, sign the Confirmation and promptly return it to Buyer.

(b) Any Confirmation by Buyer shall be deemed to have been received by Seller on the date actually received by Seller.

(c) The Confirmation, together with this Agreement, shall be conclusive evidence of the terms of the Transaction covered thereby unless objected to in writing by Seller no more than two (2) Business Days after the date the Confirmation was received by Seller or unless a corrected Confirmation is sent by Buyer. An objection sent by Seller must state specifically that writing which is an objection, must specify the provision(s) being objected to by Seller, must set forth such provision(s) in the manner that the Seller believes they should be stated, and must be received by Buyer no more than two (2) Business Days after the Confirmation was received by Seller.

(d) In the case of Transactions terminable upon demand, such demand shall be made by Seller by telephone or otherwise, no later than 1:00 p.m. (New York Time) on the Business Day prior to the day on which such termination will be effective.

(e) On the Repurchase Date, termination of the Transaction will be effected by transfer to Seller or its designee of the Purchased Mortgage Loans (and any Income in respect thereof received by Buyer not previously credited or transferred to, or applied to the obligations of, Seller pursuant to Section 5) against the simultaneous transfer of the Repurchase Price to an account of Buyer. Seller is obligated to obtain the Mortgage Files from Buyer or its designee at Seller's expense on the Repurchase Date.

### 4. COLLATERAL AMOUNT MAINTENANCE

(a) If at any time the aggregate Market Value of all Purchased Mortgage Loans subject to then outstanding Transactions is less than the aggregate Collateral Amount for all such Transactions (a "MARKET VALUE COLLATERAL DEFICIT"), then Buyer may by notice to Seller require Seller to transfer to Buyer or its designee (including the Custodian) Mortgage Loans ("ADDITIONAL LOANS") or cash, so that the cash and aggregate Market Value of the Purchased Mortgage Loans,

including any such Additional Loans, will thereupon equal or exceed the aggregate Collateral Amount. If at any time the aggregate Securitization Value of all Mortgage Loans subject to then outstanding Transactions is less than the aggregate Collateral Amount for all such Transactions (a "SECURITIZATION VALUE COLLATERAL DEFICIT"), then Buyer may by notice to Seller require Seller to transfer to Buyer or its designee (including the Custodian) Additional Loans or cash, so that the cash and aggregate Securitization Value of such Mortgage Loans, including any such Additional Loans, will thereupon equal or exceed the aggregate Collateral Amount.

(b) Notice required pursuant to subsection (a) above may be given by any means of telecopier or telegraphic transmission. A notice for the payment or delivery in respect of a Collateral Deficit received before 9:00 a.m. on a Business Day, local time of the party receiving the notice, must be met not later than 5:00 p.m. on the Business Day following the day upon which the notice was given, local time of the party receiving the notice. Any notice given on a Business Day after 9:00 a.m., local time of the party receiving the notice, shall be met not later than 2:00 p.m. (New York time) on the following Business Day. The failure of Buyer, on any one or more occasions, to exercise its rights under subsection (a) of this Section shall not change or alter the terms and conditions to which this Agreement is subject or limit the right of the Buyer to do so at a later date. Buyer and Seller agree that a failure or delay to exercise its rights under subsections (a) of this Section shall not limit Buyer's rights under this Agreement or otherwise existing by law or in any way create additional rights for Seller.

(c) In the event that Seller fails to comply with the provisions of this Section 4, Buyer shall not enter into any additional Transactions hereunder after the date of such failure.

#### 5. INCOME PAYMENTS

(a) Where a particular Transaction's term extends over an Income payment date on the Purchased Mortgage Loans subject to that Transaction such Income shall be the property of Buyer. Notwithstanding the foregoing, so long as no Event of Default shall have occurred and be continuing, Seller shall be entitled to all Income with respect to Purchased Mortgage Loans subject to Transactions. Upon the occurrence and continuance of an Event of Default, all Income with respect to Purchased Mortgage Loans subject to Transactions shall be held in a segregated account established by the Custodian for the benefit of Buyer and distributed under the Custodial Agreement.

(b) Notwithstanding that Buyer and Seller intend that the Transactions hereunder be sales to Buyer of the Purchased Mortgage Loans, Seller shall pay by wire transfer to Buyer the accreted value of the Price Differential (less any amount of such Price Differential previously paid by Seller to Buyer)(each such payment, a "PERIODIC PAYMENT") on the first Business Day of each month.

(c) Buyer shall offset against the Repurchase Price of each such Transaction all Income and Periodic Payments actually received by Buyer pursuant to Sections 5(a) and (b), respectively.

#### 6. SECURITY INTEREST; ADDITIONAL COLLATERAL

(a) Buyer and the Seller intend that the Transaction hereunder be sales to Buyer of the Purchased Mortgage Loans and not loans from Buyer to Seller secured by the Purchased Mortgage Loans. However, in order to preserve Buyer's rights under this Agreement in the event that a court or other forum recharacterizes the Transactions hereunder as loans and as security for the

performance by Seller of all of Seller's obligations to Buyer under this Agreement and the December Master Repurchase Agreement and the Transactions entered into pursuant to this Agreement and the December Master Repurchase Agreement, Seller grants Buyer a first priority security interest in the Transactions set forth in the December Master Repurchase Agreement and the Ordinary Course Mortgage Loans, and the Purchased Mortgage Loans, Servicing Records, insurance relating to the Ordinary Course Mortgage Loans and the Purchased Mortgage Loans, Income, any and all Hedges, any and all custodial accounts and escrow accounts relating to the Purchased Mortgage Loans and the Ordinary Course Mortgage Loans, and any other contract rights, general intangibles and other assets relating to the Ordinary Course Mortgage Loans or the Purchased Mortgage Loans or any interest in the Ordinary Course Mortgage Loans or the Purchased Mortgage Loans and the servicing of the Ordinary Course Mortgage Loans and the Purchased Mortgage Loans and any and all replacements, substitutions, distributions on or proceeds of any and all of the foregoing (collectively, the "COLLATERAL").

(b) Seller shall pay all fees and expenses associated with perfecting Buyer's security interest in the Collateral, including, without limitation, the cost of filing financing statements under the Uniform Commercial Code and recording assignments of Mortgage, as and when required by Buyer in its sole discretion.

(c) Seller covenants to take such further actions as are necessary in order to perfect Buyer's first priority security interest in the Hedges.

#### 7. PAYMENT, TRANSFER AND CUSTODY

(a) Unless otherwise mutually agreed in writing, all transfers of funds hereunder shall be in immediately available funds.

(b) On or before each Purchase Date, Seller shall deliver or cause to be delivered to Buyer or its designee the Custodial Delivery in the form attached hereto as Exhibit II.

(c) On the Purchase Date for the Transaction, ownership of the Purchased Mortgage Loans shall be transferred to the Buyer or its designee (including the Custodian) against the simultaneous transfer of the Purchase Price to an account of Seller specified in the Confirmation. Seller, simultaneously with the delivery to Buyer or its designee (including the Custodian) of the Purchased Mortgage Loans relating to the Transaction hereby sells, transfers, conveys and assigns to Buyer or its designee (including the Custodian) without recourse, but subject to the terms of this Agreement, all the right, title and interest of Seller in and to the Purchased Mortgage Loans together with all right, title and interest in and to the proceeds of any related insurance policies.

(d) In connection with the sale, transfer, conveyance and assignment, on or prior to each Purchase Date with respect to each Mortgage Loan, the Seller shall deliver or cause to be delivered and released to the Custodian the following original documents (collectively the "MORTGAGE FILE"), pertaining to each of the Purchased Mortgage Loans identified in the Custodial Delivery delivered therewith:

(i) the original Mortgage Note bearing all intervening endorsements, endorsed "Pay to the order of \_\_\_\_\_ without recourse, and without representation or warranty, express or implied" and signed in the name of the last endorsee (the "LAST ENDORSEE") by an authorized officer (in the event that the Mortgage Loan was acquired by the Last Endorsee in a merger, the signature must be in the following form: "[the Last Endorsee], successor by merger to [name of predecessor]"; in the event that the Mortgage Loan was

acquired or originated while doing business under another name, the signature must be in the following form: "[the Last Endorsee], formerly known as [previous name]");

(ii) the original of any guarantee executed in connection with the Mortgage Note (if any);

(iii) the original Mortgage with evidence of recording thereon or copies certified by Seller to have been sent for recording;

(iv) the originals of all assumption, modification, consolidation or extension agreements, with evidence of recording thereon or copies certified by Seller to have been sent for recording;

(v) the original assignment of Mortgage in blank for each Mortgage Loan, in form and substance acceptable for recording and signed in the name of the Last Endorsee (in the event that the Mortgage Loan was acquired by the Last Endorsee in a merger, the signature must be in the following form: "[the Last Endorsee], successor by merger to [name of predecessor]"); in the event that the Mortgage Loan was acquired or originated while doing business under another name, the signature must be in the following form: "[the Last Endorsee], formerly known as [previous name]");

(vi) the originals of all intervening assignments of mortgage with evidence of recording thereon or copies certified by Seller to have been sent for recording;

(vii) the original policy of title insurance or a true copy thereof or, if such policy has not yet been delivered by the insurer, the commitment or binder to issue the same; and

(viii) the original of any security agreement, chattel mortgage or equivalent document executed in connection with the Mortgage (if any).

(e) Intentionally deleted.

(f) With respect to all of the Mortgage Loans delivered by Seller to Buyer or its designee (including the Custodian), Seller shall execute an omnibus power of attorney substantially in the form of Exhibit III attached hereto irrevocably appointing Buyer its attorney-in-fact with full power to complete and record the assignment of Mortgage, complete the endorsement of the Mortgage Note and take such other steps as may be necessary or desirable to enforce Buyer's rights against such Mortgage Loans, the related Mortgage Files and the Servicing Records.

(g) Buyer shall deposit the Mortgage Files representing the Purchased Mortgage Loans, or direct that the Mortgage Files be deposited directly, with the Custodian. The Mortgage Files shall be maintained in accordance with the Custodial Agreement.

(h) Any Mortgage Files not delivered to Buyer or its designee (including the Custodian) are and shall be held in trust by Seller or its designee for the benefit of Buyer as the owner thereof. Seller or its designee shall maintain a copy of the Mortgage File and the originals of the Mortgage File not delivered to Buyer or its designee. The possession of the Mortgage File by Seller or its designee is at the will of the Buyer for the sole purpose of servicing the related Purchased Mortgage Loan, and such retention and possession by the Seller or its designee is in a custodial capacity only. The books and records (including, without limitation, any computer records or tapes) of Seller or its designee shall be marked appropriately to reflect clearly the sale of the related Purchased Mortgage Loan to Buyer. Seller or its designee (including the

Custodian) shall release its custody of the Mortgage File only in accordance with written instructions from Buyer, unless such release is required as incidental to the servicing of the Purchased Mortgage Loans or is in connection with a repurchase of any Purchased Mortgage Loan by Seller.

#### 8. REHYPOTHECATION OR PLEDGE OF PURCHASED MORTGAGE LOANS

Title to all Purchased Mortgage Loans shall pass to Buyer and Buyer shall have free and unrestricted use of all Purchased Mortgage Loans. Nothing in this Agreement shall preclude Buyer from engaging in repurchase transactions with the Purchased Mortgage Loans or otherwise pledging, repledging, hypothecating, or rehypothecating the Purchased Mortgage Loans, but no such transaction shall relieve Buyer of its obligations to transfer Purchased Mortgage Loans to Seller pursuant to Section 3 or of any other obligation under this Agreement during a Transaction. Nothing contained in this Agreement shall obligate Buyer to segregate any Purchased Mortgage Loans delivered to Buyer by Seller; provided that Buyer acknowledges that the Custodian is contractually obligated to segregate the Mortgage Files pursuant to the Custodial Agreement.

#### 9. SUBSTITUTION

(a) Subject to Section 9(b), Seller may, upon one (1) Business Days' written notice to Buyer, with a copy to Custodian, substitute other Mortgage Loans for any Purchased Mortgage Loans. Such substitution shall be made by transfer to Buyer or its designee (including the Custodian) of the Mortgage Files of such other Mortgage Loans together with a Custodial Delivery and transfer to Seller or its designee of the Purchased Mortgage Loans requested for release. After substitution, the substituted Mortgage Loans, shall be deemed to be Purchased Mortgage Loans subject to the same Transaction as the released Mortgage Loans.

(b) Notwithstanding anything to the contrary in this Agreement, Seller may not substitute other Mortgage Loans for any Purchased Mortgage Loans (i) if after taking into account such substitution, a Collateral Deficit would occur or (ii) such substitution would cause a breach of any provision of this Agreement.

#### 10. REPRESENTATIONS AND WARRANTIES

(a) Each of Buyer and Seller represents and warrants to the other that (i) it is duly authorized to execute and deliver this Agreement, to enter into the Transactions contemplated hereunder and to perform its obligations hereunder and has taken all necessary action to authorize such execution, delivery and performance; (ii) it will engage in such Transactions as principal; (iii) the person signing this Agreement on its behalf is duly authorized to do so on its behalf; (iv) this Agreement is legal, valid and binding obligation of it, enforceable against it in accordance with its terms, (v) no approval, consent or authorization of the Transactions contemplated by this Agreement from any federal, state, or local regulatory authority having jurisdiction over it is required or, if required, such approval, consent or authorization has been or will, prior to the Purchase Date, be obtained; (vi) the execution, delivery, and performance of this Agreement and the Transactions hereunder will not violate any law, regulation, order, judgment, decree, ordinance, charter, by-law, or rule applicable to it or its property or constitute a default (or an event which, with notice or lapse of time, or both would constitute a default) under or result in a breach of any agreement or other instrument by which it is bound or by which any of its assets are affected; (vii) it has received approval and authorization to enter into this Agreement and each and every Transaction actually entered into hereunder pursuant to its internal policies and procedures; and



(viii) neither this Agreement nor any Transaction pursuant hereto are entered into in contemplation of insolvency or with intent to hinder, delay or defraud any creditor.

- (b) Seller represents and warrants to Buyer that as of the Purchase Date for the purchase of any Purchased Mortgage Loans by Buyer from Seller and as of the date of this Agreement and any Transaction hereunder and at all times while this Agreement and any Transaction hereunder is in full force and effect:
- (i) ORGANIZATION. Seller is duly organized, validly existing and in good standing under the laws of the State of Florida and is duly licensed, qualified, and in good standing in every state where Seller transacts business and in any state where any Mortgaged Property is located if the laws of such state require licensing or qualification in order to conduct business of the type conducted by Seller therein.
- (ii) No Litigation. There is no action, suit, proceeding, arbitration or investigation pending or threatened against Seller which, either in any one instance or in the aggregate, may result in any material adverse change in the business, operations, financial condition, properties or assets of Seller, or in any material impairment of the right or ability of Seller to carry on its business substantially as now conducted, or in any material liability on the part of Seller, or which if adversely determined would affect the validity of this Agreement or any of the Purchased Mortgage Loans or of any action taken or to be taken in connection with the obligations of Seller contemplated herein, or which would be likely to impair materially the ability of Seller to perform under the terms of this Agreement;
- (iii) No Broker. OTHER THAN Lehman Brothers Holdings, Inc., Seller has not dealt with any broker, investment banker, agent, or other person, except for Buyer, who may be entitled to any commission or compensation in connection with the sale of Purchased Mortgage Loans pursuant to this Agreement;
- (iv) Good Title to Collateral. Purchased Mortgage Loans shall be free and clear of any lien, encumbrance or impediment to transfer, and Seller has good, valid and marketable title and the right to sell and transfer such Purchased Mortgage Loans to Buyer.
- (v) Delivery of Mortgage File. With respect to each Purchased Mortgage Loan which is not a Wet Ink Mortgage Loan, the Mortgage Note, the Mortgage, the assignment of Mortgage and any other documents required to be delivered under this Agreement and the Custodial Agreement for such Mortgage Loan has been delivered to the Custodian. Seller or its designee is in possession of a complete, true and accurate Mortgage File with respect to each Mortgage Loan, except for such documents the originals of which have been delivered to the Custodian.
- (vi) Selection Process. Intentionally Deleted.
- (vii) [Reserved].

- (viii) No Untrue Statements. To the best of Seller's knowledge, neither this Agreement nor any written statement made, or any report or other document issued or delivered or to be issued or delivered by Seller pursuant to this Agreement or in connection with the transactions contemplated hereby contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading;
- (ix) Origination Practices. Intentionally Deleted.
- (x) Performance of Agreement. Seller does not believe, nor does it have any reason or cause to believe, that it cannot perform each and every covenant contained in this Agreement on its part to be performed;
- (xi) Seller Not Insolvent. Seller is not, and with the passage of time does not expect to become, insolvent; and
- (xii) No Event of Default. No Event of Default has occurred and is continuing hereunder.

(c) Seller represents and warrants to the Buyer that each Purchased Mortgage Loan sold hereunder, as of the related Purchase Date conform to the representations and warranties set forth in Exhibit V attached hereto. Seller further represents and warrants to the Buyer that, as of the date of its delivery, the Collateral Information with respect to each Purchased Mortgage Loan is complete, true and correct. It is understood and agreed that the representations and warranties set forth on Exhibit V hereto, if any, shall survive delivery of the respective Mortgage File to Buyer or its designee (including the Custodian).

(d) On the Purchase Date for any Transaction, Buyer and Seller shall each be deemed to have made all the foregoing representations with respect to itself as of such Purchase Date.

#### 11. NEGATIVE COVENANTS OF THE SELLER

On and as of the date of this Agreement and each Purchase Date and until this Agreement is no longer in force with respect to any Transaction, Seller covenants that it will not:

- (a) take any action which would directly or indirectly impair or adversely affect Buyer's title to or the value of the Purchased Mortgage Loans;
- (b) pledge, assign, convey, grant, bargain, sell, set over, deliver or otherwise transfer any interest in the Purchased Mortgage Loans to any person not a party to this Agreement nor will the Seller create, incur or permit to exist any lien, encumbrance or security interest in or on the Purchased Mortgage Loans except as described in Section 6 of this Agreement; or
- (c) create, incur or permit to exist any lien, encumbrance or security interest in or on any of the Collateral without the prior express written consent of Buyer.

12. AFFIRMATIVE COVENANTS OF THE SELLER

For so long as this Agreement is in effect:

(a) Seller covenants that it will promptly notify Buyer of any material adverse change in its business operations and/or financial condition;

(b) Seller shall provide Buyer with copies of such documentation as Buyer may reasonably request evidencing the truthfulness of the representations set forth in Section 10, including but not limited to resolutions evidencing the approval of this Agreement by Seller's board of directors or loan committee, copies of the minutes of the meetings of Seller's board of directors or loan committee at which this Agreement and the Transactions contemplated by this Agreement were approved;

(c) Seller shall, at Buyer's request, take all action necessary to ensure that Buyer will have a first priority security interest in the Collateral, including, among other things, filing such Uniform Commercial Code financing statements as Buyer may reasonably request;

(d) Seller shall notify Buyer no later than one (1) Business Day after obtaining actual knowledge thereof, if any event has occurred that constitutes an Event of Default with respect to Seller or any event that with the giving of notice or lapse of time, or both, would become an Event of Default with respect to Seller;

(e) Intentionally Deleted.

(f) Seller covenants, upon request of Buyer after the occurrence of a Collateral Deficit, to enter into hedging transactions with respect to fixed rate Purchased Mortgage Loans in order to provide adequate protection, in Seller's reasonable judgment, against interest rate risks;

(g) Seller covenants to provide Buyer on the first Business Day of each month, either by direct modem electronic transmission or via a computer diskette, the Collateral Information in computer readable format with respect to all Purchased Mortgage Loans then subject to Transactions;

(h) Intentionally Deleted.

(i) Seller covenants to provide Buyer with the following financial and reporting information:

(i) Within 120 days after the last day of its fiscal year, Seller's audited consolidated statements of income and statements of changes in cash flow for such year and balance sheets as of the end of such year in each case presented fairly in accordance with GAAP, and accompanied, in all cases, by an unqualified report of a nationally recognized independent certified public accounting firm consented to by Buyer (which consent shall not be unreasonably withheld);

(ii) Within 90 days after the last day of the first three fiscal quarters in any fiscal year, Seller's consolidated statements of income and statements of changes in cash flow for such quarter and balance sheets as of the end of such quarter presented fairly in accordance with GAAP; and

(iii) Upon request and in any event not more frequently than quarterly, an officer's certificate from a senior officer of the Seller addressed to Buyer certifying that, as of such calendar month, (x) Seller is in compliance with all of the terms, conditions and requirements of this Agreement, and (y) no Event of Default exists.

13. EVENTS OF DEFAULT

(a) If any of the following events (each an "EVENT OF DEFAULT") occur, Seller and Buyer shall have the rights set forth in Section 14, as applicable:

- (i) Seller or Buyer fails to satisfy or perform either (i) any payment obligation under this Agreement or (ii) any other material obligation or covenant under this Agreement within five (5) Business Days of notice of such breach;
- (ii) an Act of Insolvency occurs with respect to Seller or Buyer;
- (iii) any representation made by Seller shall have been incorrect or untrue in any material respect when made or repeated or deemed to have been made or repeated and such representation is not corrected or cured of its inaccuracy within five (5) Business Days of notice of such breach;
- (iv) Seller or Buyer shall admit its inability to, or its intention not to, perform any of its obligations hereunder;
- (v) any governmental, regulatory, or self-regulatory authority, including, but not limited to, the Agencies, takes any action to remove, limit, restrict, suspend or terminate the rights, privileges, or operations of the Seller or any of its Affiliates, including suspension as an issuer, lender or seller/servicer of mortgage loans, which suspension has a material adverse effect on the ordinary business operations of Seller or Seller's Affiliate, and which continues for more than 24 hours;
- (vi) Seller dissolves, merges or consolidates with another entity (unless (A) it is the surviving party or (B) the entity into which it merges has equity and a market value of at least that of the Seller immediately prior to such merger and such entity expressly assumes the obligations of the Seller at the time of such merger), or sells, transfers, or otherwise disposes of a material portion of its business or assets without Buyer's prior written consent;
- (vii) Buyer, in its good faith judgment, believes that there has been a material adverse change in the business, operations, corporate structure or financial condition of Seller or that Seller will not meet any of its obligations under any Transaction pursuant to this Agreement, this Agreement or any other agreement between the parties, and two (2) Business Days have elapsed since Buyer has delivered to Seller written notice to such effect;
- (viii) Seller is in default under any indenture or other agreement with respect to the borrowing of money to which it is a party, PROVIDED, HOWEVER, such a default shall not constitute an Event of Default if the exercise of

such remedies as are available to Seller's counterparty with respect to such default would not result in a material adverse change in the business operations or financial condition of the Seller;

- (ix) A final nonappealable judgment by any competent court in the United States of America for the payment of money in an amount of at least \$250,000 is rendered against the Seller, and the same remains undischarged or unpaid for a period of sixty (60) days during which execution of such judgment is not effectively stayed;
- (x) This Agreement shall for any reason cease to create a valid, first priority security interest in any of the Purchased Mortgage Loans purported to be covered hereby;
- (xi) A Market Value Collateral Deficit occurs with respect to Seller or Buyer, as applicable, and is not eliminated within the time period specified in Section 4(b); or
- (xii) An "event of default" has occurred pursuant to a hedging transaction entered into upon request of Buyer pursuant to Section 12(h) hereof.
- (xiii) An "event of default" shall have occurred and be continuing under the terms of the December Master Repurchase Agreement.

#### 14. REMEDIES

(a) If an Event of Default occurs with respect to Seller, the following rights and remedies are available to Buyer:

- (i) At the option of Buyer, exercised by written notice to Seller (which option shall be deemed to have been exercised, even if no notice is given, immediately upon the occurrence of an Act of Insolvency), the Repurchase Date for each Transaction hereunder shall be deemed immediately to occur,
- (ii) If Buyer exercises or is deemed to have exercised the option referred to in subsection (a)(i) of this Section,

(A) Seller's obligations hereunder to repurchase all Purchased Mortgage Loans in such Transactions shall thereupon become immediately due and payable,

(B) to the extent permitted by applicable law, the Repurchase Price with respect to each such Transaction shall be increased by the aggregate amount obtained by daily application of, on a 360 day per year basis for the actual number of days during the period from and including the date of the exercise or deemed exercise of such option to but excluding the date of payment of the Repurchase Price as so increased, (x) the greater of the Prime Rate or the Pricing Rate for each such Transaction to (y) the Repurchase Price for such Transaction as of the Repurchase Date as determined pursuant to subsection (a)(i) of this Section (decreased as of any day by (I) any amounts actually in the possession of Buyer pursuant to clause (C) of this subsection, (II) any proceeds from the sale of Purchased Mortgage Loans applied to the Repurchase Price pursuant to

subsection (a)(xii) of this Section, and (III) any amounts applied to the Repurchase Price pursuant to subsection (a)(iii) of this Section), and

(C) all Income actually received by the Buyer or its designee (including the Custodian) pursuant to Section 5 shall be applied to the aggregate unpaid Repurchase Price owed by Seller.

(iii) After one Business Day's notice to Seller (which notice need not be given if an Act of Insolvency shall have occurred, and which may be the notice given under subsection (a)(i) of this Section), Buyer may (A) immediately sell, without notice or demand of any kind, at a public or private sale and at such price or prices Buyer may reasonably deem satisfactory any or all Purchased Mortgage Loans subject to a Transaction hereunder or (B) in its sole discretion elect, in lieu of selling all or a portion of such Purchased Mortgage Loans, to give Seller credit for such Purchased Mortgage Loans in an amount equal to the Market Value of the Purchased Mortgage Loans against the aggregate unpaid Repurchase Price and any other amounts owing by Seller hereunder. The proceeds of any disposition of Purchased Mortgage Loans shall be applied first to the costs and expenses incurred by Buyer in connection with Seller's default; second to the actual costs of cover and/or related hedging transactions; third to the Repurchase Price; and fourth to any other outstanding obligation of Seller to Buyer or its Affiliates.

(iv) The parties recognize that it may not be possible to purchase or sell all of the Purchased Mortgage Loans on a particular Business Day, or in a transaction with the same purchaser, or in the same manner because the market for such Purchased Mortgage Loans may not be liquid. In view of the nature of the Purchased Mortgage Loans, the parties agree that liquidation of a Transaction or the underlying Purchased Mortgage Loans does not require a public purchase or sale and that a good faith private purchase or sale shall be deemed to have been made in a commercially reasonable manner. Accordingly, Buyer may elect, in its sole discretion, the time and manner of liquidating any Purchased Mortgage Loan and nothing contained herein shall (A) obligate Buyer to liquidate any Purchased Mortgage Loan on the occurrence of an Event of Default or to liquidate all Purchased Mortgage Loans in the same manner or on the same Business Day or (B) constitute a waiver of any right or remedy of Buyer. However, in recognition of the parties' agreement that the Transactions hereunder have been entered into in consideration of and in reliance upon the fact that all Transactions hereunder constitute a single business and contractual relationship and that each Transaction has been entered into in consideration of the other Transactions, the parties further agree that Buyer shall use its best efforts to liquidate all Transactions hereunder upon the occurrence of an Event of Default as quickly as is prudently possible in the reasonable judgment of Buyer.

(v) Buyer shall, without regard to the adequacy of the security for the Seller's obligations under this Agreement, be entitled to the appointment of a receiver by any court having jurisdiction, without notice, to take possession of and protect, collect, manage, liquidate, and sell the Collateral or any portion thereof, and collect the payments due with

respect to the Collateral or any portion thereof. Seller shall pay all costs and expenses incurred by Buyer in connection with the appointment and activities of such receiver.

- (vi) Seller agrees that Buyer may obtain an injunction or an order of specific performance to compel Seller to fulfill its obligations as set forth in Section 25, if Seller fails or refuses to perform its obligations as set forth therein.
- (vii) Seller shall be liable to Buyer for the amount of all expenses, reasonably incurred by Buyer in connection with or as a consequence of an Event of Default, including, without limitation, reasonable legal fees and expenses and reasonable costs incurred in connection with hedging or covering transactions.
- (viii) Buyer shall have all the rights and remedies provided herein, provided by applicable federal, state, foreign, and local laws (including, without limitation, the rights and remedies of a secured party under the Uniform Commercial Code of the State of New York, to the extent that the Uniform Commercial Code is applicable, and the right to offset any mutual debt and claim), in equity, and under any other agreement between Buyer and Seller.
- (ix) Buyer may exercise one or more of the remedies available to Buyer immediately upon the occurrence of an Event of Default and, except to the extent provided in subsections (a)(i) and (iii) of this Section, at any time thereafter without notice to Seller. All rights and remedies arising under this Agreement as amended from time-to-time hereunder are cumulative and not exclusive of any other rights or remedies which Buyer may have.
- (x) In addition to its rights hereunder, Buyer shall have the right to proceed against any assets of Seller which may be in the possession of Buyer or its designee (including the Custodian) including the right to liquidate such assets and to set off the proceeds against monies owed by Seller to Buyer pursuant to this Agreement. Buyer may set off cash, the proceeds of the liquidation of the Purchased Mortgage Loans, any Collateral or its proceeds, and all other sums or obligations owed by Seller to Buyer against all of Seller's obligations to Buyer, whether under this Agreement, under a Transaction, or under any other agreement between the parties, or otherwise, whether or not such obligations are then due, without prejudice to Buyer's right to recover any deficiency. Any cash, proceeds, or property in excess of any amounts due, or which Buyer reasonably believes may become due, to it from Seller shall be returned to Seller after satisfaction of all obligations of Seller to Buyer.
- (xi) Buyer may enforce its rights and remedies hereunder without prior judicial process or hearing, and Seller hereby expressly waives any defenses Seller might otherwise have to require Buyer to enforce its rights by judicial process. Seller also waives any defense Seller might otherwise have arising from the use of nonjudicial process, enforcement and sale of all or any portion of the Collateral, or from any other election

of remedies. Seller recognizes that nonjudicial remedies are consistent with the usages of the trade, are responsive to commercial necessity and are the result of a bargain at arm's length.

- (xii) Buyer and Seller hereby agree that sales of the Purchased Mortgage Loans shall be deemed to include and permit the sales of Purchased Mortgaged Loans pursuant to a securities offering.
- (xiii) Notwithstanding the foregoing remedies, if the Event of Default (other than an Event of Default under Section 13(a)(xi)) arises from a breach of any representation or warranty set forth in Sections 10(b)(iii), (v) or (ix) or in Exhibit V attached hereto with respect to a Purchased Mortgage Loan, then Seller may elect, subject to Buyer's written consent (which consent shall not be unreasonably withheld or delayed), to cure such default by repurchasing such Mortgage Loan or substituting for such Mortgage Loan within two (2) Business Days of such Event of Default, PROVIDED, HOWEVER, that Seller shall not have the right to make the foregoing election if such breach causes a default with respect to Mortgage Loans that in the aggregate represent ten percent (10%) or more of the aggregate Purchase Price of all Purchased Mortgage Loans subject to then outstanding Transactions. The repurchase price for any such repurchase shall be the outstanding Repurchase Price of such Mortgage Loan, as the case may be. Any such substitution shall be performed in accordance with Section 9 of this Agreement.

(b) If an Event of Default occurs with respect to Buyer, the following rights and remedies are available to Seller:

- (i) Upon tender by Seller of payment of the aggregate Repurchase Price for all such Transactions, Buyer's right, title and interest in all Purchased Mortgage Loans subject to such Transactions shall be deemed transferred to Seller, and Buyer shall deliver or cause to be transferred all such Purchased Mortgage Loans to Seller or its designee at Buyer's expense.
- (ii) If Seller exercises the option referred to in subsection (b)(i) of this Section and Buyer fails to deliver or cause to be delivered the Purchased Mortgage Loans to Seller or its designee, after one Business Day's notice to Buyer, Seller may (A) purchase Mortgage Loans ("REPLACEMENT LOANS") that are as similar as is reasonably practicable in characteristics, outstanding principal amounts (as a pool) and interest rate to any Purchased Mortgage Loans that are not delivered by Buyer to Seller or its designee as required hereunder or (B) in its sole discretion elect, in lieu of purchasing Replacement Loans, to be deemed to have purchased Replacement Loans at a price therefor on such date, equal to the Market Value of the Purchased Mortgage Loans.
- (iii) Buyer shall be liable to the Seller, and Buyer shall pay to the Seller on demand, (A) with respect to Purchased Mortgage Loans (other than Additional Loans), for any excess of the price paid (or deemed paid) by Seller for Replacement Loans therefor over the Repurchase Price for such Purchased Mortgage Loans and (B) with respect to Additional Loans, for the price paid (or deemed paid) by Seller for the Replacement



Loans therefor. In addition, Buyer shall be liable to Seller for interest on such remaining liability with respect to each such purchase (or deemed purchase) of Replacement Loans calculated on a 360-day year basis for the actual number of days during the period from and including the date of such purchase (or deemed purchase) until paid in full by Buyer. Such interest shall be at the greater of the Pricing Rate or the Prime Rate.

- (iv) Buyer shall be liable to Seller for the amount of all expenses reasonably incurred by Seller in connection with or as a consequence of an Event of Default, including, without limitation, reasonable legal expenses and reasonable expenses incurred in connection with covering existing hedging transactions with respect to the Purchased Mortgage Loans.
- (v) Seller shall have all the rights and remedies provided herein, provided by applicable federal, state, foreign, and local laws, in equity, and under any other agreement between Buyer and Seller, including, without limitation, the right to offset any debt or claim.
- (vi) Seller may exercise one or more of the remedies available to Seller immediately upon the occurrence of an Event of Default and at any time thereafter without notice to Buyer. All rights and remedies arising under this Agreement as amended from time-to-time hereunder are cumulative and not exclusive of any other rights or remedies which Seller may have.

15. ADDITIONAL CONDITION

Seller shall, on the date of the initial Transaction hereunder and, upon the request of Buyer, on the date of any subsequent Transaction, cause to be delivered to Buyer, with reliance thereon permitted as to any Person that purchases the Purchased Mortgage Loan from Buyer in a repurchase transaction, a favorable opinion or opinions of counsel with respect to the matters set forth in Exhibit IV attached hereto.

16. SINGLE AGREEMENT

Buyer and Seller acknowledge that, and have entered hereinto and will enter into each Transaction hereunder in consideration of and in reliance upon the fact that, the Transaction hereunder constitute a single business and contractual relationship. Accordingly, each of Buyer and Seller agrees (i) to perform all of its obligations in respect of each Transaction hereunder, and that a default in the performance of any such obligations shall constitute a default by it in respect of all Transactions hereunder, (ii) that each of them shall be entitled to set off claims and apply property held by them in respect of any Transaction against obligations owing to them in respect of any other Transactions hereunder and (iii) that payments, deliveries, and other transfers made by either of them in respect of any Transaction shall be deemed to have been made in consideration of payments, deliveries, and other transfers in respect of any other Transactions hereunder, and the obligations to make any such payments, deliveries, and other transfers may be applied against each other and netted; provided, however, that the parties hereto acknowledge and agree that each Purchased Mortgage Loan is identified and unique and nothing in this Agreement should limit or reduce Buyer's obligation to deliver the Purchased Mortgage Loans to Seller as and when provided herein.

17. NOTICES AND OTHER COMMUNICATIONS

Unless another address is specified in writing by the respective party to whom any written notice or other communication is to be given hereunder, all such notices or communications shall in in writing or confirmed in writing and delivered at the respective addresses set forth in the Confirmation.

18. ENTIRE AGREEMENT; SEVERABILITY

This Agreement together with the applicable Confirmation constitutes the entire understanding between Buyer and Seller with respect to the subject matter it covers and shall supersede any existing agreements between the parties containing general terms and conditions for repurchase transactions involving Purchased Mortgage Loans. By acceptance of this Agreement, Buyer and Seller acknowledge that they have not made, and are not relying upon, any statements, representations, promises or undertakings not contained in this Agreement. Each provision and agreement herein shall be treated as separate and independent from any other provision or agreement herein and shall be enforceable notwithstanding the unenforceability of any such other provision or agreement.

19. ASSIGNABILITY

The rights and obligations of the parties under this Agreement and under any Transactions shall not be assigned by Seller without the prior written consent of Buyer. This Agreement and the Transaction shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. Nothing in this Agreement express or implied, shall give to any person, other than the parties to this Agreement and their successors hereunder, any benefit or any legal or equitable right, power, remedy or claim under this Agreement.

20. TERMINABILITY

This Agreement shall terminate upon the written notice from either party to the other party to such effect, except that this Agreement shall, notwithstanding the above clause, remain applicable to the Transaction through and including the Termination Date. Notwithstanding any such termination or the occurrence of an Event of Default, all of the representations and warranties hereunder (including those made in Exhibit V) shall continue and survive.

21. GOVERNING LAW

THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF.

22. CONSENT TO JURISDICTION

The parties irrevocably agree to submit to the personal jurisdiction of the United States District Court for the Southern District of New York, the parties irrevocably waiving any objection thereto. If, for any reason, federal jurisdiction is not available, and only if federal jurisdiction is not available, the parties irrevocably agree to submit to the personal jurisdiction of the Supreme Court of the State of New York, the parties irrevocably waiving any objection thereto.

23. NO WAIVERS, ETC.

No express or implied waiver of any Event of Default by either party shall constitute a waiver of any other Event of Default and no exercise of any remedy hereunder by any party shall constitute a waiver of its right to exercise any other remedy hereunder. No modification or waiver of any provision of this Agreement and no consent by any party to a departure herefrom shall be effective unless and until such shall be in writing and duly executed by both of the parties hereto. Any such waiver or modification shall be effective only in the specific instance and for the specific purpose for which it was given.

24. INTENT

The parties understand and intend that this Agreement and each Transaction hereunder constitute a "repurchase agreement" and a "securities contract" as those terms are defined under the relevant provisions of Title 11 of the United States Code, as amended.

25. SERVICING

(a) Notwithstanding the purchase and sale of the Purchased Mortgage Loans hereby, Seller shall continue to service the Purchased Mortgage Loans for the benefit of Buyer and, if Buyer shall exercise its rights to pledge or hypothecate the Purchased Mortgage Loan prior to the related Repurchase Date pursuant to Section 8, Buyer's assigns; provided, however, that the obligations of Seller to service the Purchased Mortgage Loans shall cease, at Seller's option, upon the payment by Seller to Buyer of the Repurchase Price therefor. Seller shall service the Purchased Mortgage Loans in accordance with the servicing standards maintained by other prudent mortgage lenders with respect to mortgage loans similar to the Purchased Mortgage Loans.

(b) Seller agrees that Buyer is the owner of all servicing records, including but not limited to any and all servicing agreements, files, documents, records, data bases, computer tapes, copies of computer tapes, proof of insurance coverage, insurance policies, appraisals, other closing documentation, payment history records, and any other records relating to or evidencing the servicing of Purchased Mortgage Loans (the "SERVICING RECORDS") so long as the Purchased Mortgage loans are subject to this Agreement. Seller grants Buyer a security interest in all servicing fees and rights relating to the Purchased Mortgage Loans and all Servicing Records to secure the obligation of the Seller or its designee to service in conformity with this Section and any other obligation of Seller to Buyer. Seller covenants to safeguard such Servicing Records and to deliver them promptly to Buyer or its designee (including the Custodian) at Buyer's request.

(c) Upon the occurrence and continuance of an Event of Default, Buyer may, in its sole discretion, (i) sell its right to the Purchased Mortgage Loans on a servicing released basis or (ii) terminate the Seller as servicer of the Purchased Mortgage Loans with or without cause, in each case without payment of any termination fee.

(d) Seller shall not employ sub-servicers to service the Purchased Mortgage Loans without the prior written approval of Buyer, which approval shall not be unreasonably withheld.

(e) Seller shall cause any sub-servicers engaged by Seller to execute a letter agreement with Buyer acknowledging Buyer's security interest and agreeing that, upon notice from Buyer (or the Custodian on its behalf) that an Event of Default has occurred and in continuing hereunder, it shall deposit all Income with respect to the Purchased Mortgage Loans in the account specified in the third sentence of Section 5(a).

#### 26. DISCLOSURE RELATING TO CERTAIN FEDERAL PROTECTIONS

The parties acknowledge that they have been advised that in the case of Transactions in which one of the parties is an "insured depository institution" as that term is defined in Section 1831(a) of Title 12 of the United States Code, as amended, funds held by the financial institution pursuant to a Transaction hereunder are not a deposit and therefore are not insured by the Federal Deposit Insurance Corporation, the Savings Association Insurance Fund or the Bank Insurance Fund, as applicable.

#### 27. NETTING

If Buyer and Seller are "financial institutions" as now or hereinafter defined in Section 4402 of Title 12 of the United States Code ("SECTION 4402") and any rules or regulations promulgated thereunder:

(a) All amounts to be paid or advanced by one party to or on behalf of the other under this Agreement or any Transaction hereunder shall be deemed to be "payment obligations" and all amounts to be received by or on behalf of one party from the other under this Agreement or any Transaction hereunder shall be deemed to be "payment entitlements" within the meaning of Section 4402, and this Agreement shall be deemed to be a "netting contract" as defined in Section 4402.

(b) The payment obligations and the payment entitlements of the parties hereto pursuant to this Agreement and any Transaction hereunder shall be netted as follows. In the event that either party (the "DEFAULTING PARTY") shall fail to honor any payment obligation under this Agreement or any Transaction hereunder, the other party (the "NONDEFAULTING PARTY") shall be entitled to reduce the amount of any payment to be made by the Nondefaulting Party to the Defaulting Party by the amount of the payment obligation that the Defaulting Party failed to honor.

#### 28. MISCELLANEOUS

(a) Time is of the essence under this agreement and all Transactions and all references to a time shall mean New York time in effect on the date of the action unless otherwise expressly stated in this Agreement.

(b) Buyer shall be authorized to accept orders and take any other action affecting any accounts of the Seller in response to instructions given in writing or orally by telephone or otherwise by any person with apparent authority to act on behalf of the Seller, and the Seller shall indemnify

Buyer, defend, and hold Buyer harmless from and against any and all liabilities, losses, damages, costs, and expenses of any nature arising out of or in connection with any action taken by Buyer in response to such instructions received or reasonably believed to have been received from the Seller.

(c) If there is any conflict between the terms of this Agreement or any Transaction entered into hereunder and the Custodial Agreement, this Agreement shall prevail.

(d) If there is any conflict between the terms of a Confirmation or a corrected Confirmation issued by the Buyer and this Agreement, the Confirmation shall prevail.

(e) This Agreement may be executed in counterparts, each of which so executed shall be deemed to be an original, but all of such counterparts shall together constitute but one and the same instrument.

(f) Intentionally Deleted.

(g) The headings in this Agreement are for convenience of reference only and shall not affect the interpretation or construction of this Agreement

IN WITNESS WHEREOF, the parties have entered into this Master Agreement  
Governing Purchases and Sales of Mortgage Loans as of the date set forth above.

Seller:

OCWEN FINANCIAL SERVICES, INC.  
a Florida corporation

By: \_\_\_\_\_ (Seal)

Title: \_\_\_\_\_

Date: \_\_\_\_\_

IN WITNESS WHEREOF, the parties have entered into this Master Agreement  
Governing Purchases and Sales of Mortgage Loans as of the date set forth above.

LEHMAN COMMERCIAL PAPER, INC.

as Buyer

By: \_\_\_\_\_ (Seal)

Title: \_\_\_\_\_

Date: \_\_\_\_\_

The following exhibits have been deleted herefrom, but are available to the Commission upon request.

EXHIBIT I	Confirmation
EXHIBIT II	Form of Custodial Delivery
EXHIBIT III	Form of Power of Attorney
EXHIBIT IV	Opinion of Counsel to Seller
EXHIBIT V	Representations and Warranties Regarding Mortgage Loan
EXHIBIT VI	Seller's Underwriting Guidelines



THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM OCWEN FINANCIAL CORPORATION'S CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AND STATEMENT OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000873860  
Ocwen Financial Corporation  
1,000  
USD

3-MOS

DEC-31-1998		
JAN-01-1998		
MAR-31-1998		
	1	17,830
	31,269	
	104,000	
	0	
650,200	61,314	
	61,314	
		1,945,247
		23,516
	3,421,142	
		1,933,954
		610,090
	76,953	
		226,812
	0	
		0
		607
		446,705
3,421,142		
	52,562	
	4,447	
	1,032	
	58,041	
	27,845	
	40,856	
	17,185	
		2,254
	19,088	
		37,451
		22,886
22,886		
	0	
		0
	22,346	
	0.37	
	0.36	
	8.79	
	593,242	
	0	
	0	
	27,188	
		5,985
		58
	23,516	
23,516		
	0	
0		

Tag 18 includes Loans Available for Sale of \$493,106, Loan Portfolio of \$280,518, and Discount Loan Portfolio of \$1,171,623.

Tag 19 includes Allowance for Loan Losses on Loan Portfolio of \$4,026, and on Discount Loan Portfolio of \$19,490.

Tag 22 includes Securities sold under agreements to repurchase of \$168,419, and Obligations outstanding under lines of credit of \$441,671.

Tag 30 includes Interest Income on Loans Available for Sale of \$9,503, Loans of \$6,262, and Discount Loans of \$36,797.

Tag 39 includes Non-interest expense of \$34,053 and Distributions on Company-obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company of \$3,398.