

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

OR

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

Commission File No. 1-13219

OCWEN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Florida

65-0039856

(State or other jurisdiction
of incorporation or organization)

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

1661 Worthington Road, Suite 100, West Palm Beach, Florida 33409

(Address of principal executive offices) (Zip Code)

(561) 682-8000

(Registrant's telephone number, including area code)

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

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

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

Number of shares of Common Stock, \$0.01 par value, outstanding as of
November 7, 2005: 63,130,177 shares.

OCWEN FINANCIAL CORPORATION
FORM 10-Q

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

	September 30, 2005	December 31, 2004
	-----	-----
ASSETS		
Cash	\$ 188,673	\$ 542,891
Trading securities, at fair value		
Investment grade	41,717	86,215
Subordinates and residuals	30,078	39,527
Loans held for resale	163,003	8,437
Match funded assets (including advances on loans serviced for others of \$315,694 and \$276,626)	317,680	280,760
Advances on loans and loans serviced for others	285,903	240,430
Mortgage servicing rights	115,097	131,409
Receivables	53,139	126,719
Real estate	4,779	18,732
Loans (net of allowance for loan losses of \$47 and \$4,546) ..	505	3,792
Premises and equipment	39,562	37,440
Other assets	71,811	66,180
	-----	-----
Total assets	\$ 1,311,947	\$ 1,582,532
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Match funded liabilities	\$ 290,476	\$ 244,327
Servicer liabilities	285,349	291,265
Lines of credit and other secured borrowings	98,267	50,612
Debt securities	219,429	231,249
Other liabilities	71,306	56,850
Deposits	--	290,507
Escrow deposits	--	86,084
	-----	-----
Total liabilities	964,827	1,250,894
	-----	-----
Minority interest in subsidiaries	1,508	1,530
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
STOCKHOLDERS' EQUITY		
Common stock, \$.01 per value; 200,000,000 shares authorized; 63,099,987 and 62,739,478 shares issued and outstanding	631	627
Additional paid-in capital	184,054	181,336
Retained earnings	161,373	148,133
Accumulated other comprehensive income (loss), net of taxes	(446)	12
	-----	-----
Total stockholders' equity	345,612	330,108
	-----	-----
Total liabilities and stockholders' equity	\$ 1,311,947	\$ 1,582,532
	=====	=====

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 periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
REVENUE				
Servicing and related fees	\$ 50,886	\$ 35,767	\$ 139,433	\$ 116,549
Vendor management fees	11,600	11,342	33,264	35,832
Gain (loss) on trading securities, net	(743)	(171)	(3,409)	1,688
Valuation gains (losses) on real estate	13	(165)	106	(3,990)
Gain (loss) on sales of real estate	1,862	311	1,909	(149)
Operating income (losses) from real estate	(296)	444	(635)	1,017
Gain (loss) on debt repurchases	897	--	897	--
Other income	3,944	6,087	12,847	19,970
Non-interest revenue	68,163	53,615	184,412	170,917
Interest income	3,864	4,988	16,960	15,555
Interest expense	8,340	7,141	25,852	22,040
Net interest income (expense) before provision for loan losses	(4,476)	(2,153)	(8,892)	(6,485)
Provision for loan losses	(18)	(94)	(30)	(913)
Net interest income (expense) after provision for loan losses	(4,458)	(2,059)	(8,862)	(5,572)
Total revenue	63,705	51,556	175,550	165,345
NON-INTEREST EXPENSE				
Compensation and employee benefits	23,723	21,300	72,449	64,229
Occupancy and equipment	4,517	3,981	13,330	11,999
Technology and communication costs	7,589	6,190	22,850	19,476
Loan expenses	6,875	5,864	18,671	20,573
Professional services and regulatory fees	4,586	4,208	14,963	18,026
Loss (gain) on investments in affordable housing properties	1,193	(100)	1,717	(179)
Other operating expenses	4,995	2,653	13,233	7,841
Non-interest expense	53,478	44,096	157,213	141,965
Income (loss) before income taxes	10,227	7,460	18,337	23,380
Income tax expense (benefit)	2,282	(31,845)	5,097	(31,779)
Net income (loss)	\$ 7,945	\$ 39,305	\$ 13,240	\$ 55,159
EARNINGS (LOSS) PER SHARE				
Basic	\$ 0.13	\$ 0.61	\$ 0.21	\$ 0.83
Diluted	\$ 0.12	\$ 0.53	\$ 0.21	\$ 0.78
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	62,975,006	64,637,454	62,843,375	66,853,296
Diluted	77,397,469	75,816,676	63,843,042	71,505,567

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

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

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Net income (loss)	\$ 7,945	\$ 39,305	\$ 13,240	\$ 55,159
Other comprehensive income (loss), net of taxes:				
Change in unrealized foreign currency translation adjustment				
arising during the period (1)	(219)	43	(458)	(957)
Comprehensive income (loss)	\$ 7,726	\$ 39,348	\$ 12,782	\$ 54,202
	=====	=====	=====	=====

(1) Net of tax benefit (expense) of \$120 and \$181 for the three months and of \$247 and \$769 for the nine months ended September 30, 2005 and 2004, respectively.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005
(Dollars in thousands)

	Common Stock		Additional	Retained	Accumulated	
	Shares	Amount	Paid-in	Earnings	Other	Total
	-----	-----	-----	-----	Income (Loss), Net of Taxes	-----
Balances at December 31, 2004	62,739,478	\$ 627	\$ 181,336	\$ 148,133	\$ 12	\$ 330,108
Net income	--	--	--	13,240	--	13,240
Issuance of restricted common stock						
awards to employees and directors	185,393	2	1,925	--	--	1,927
Exercise of common stock options	175,116	2	793	--	--	795
Other comprehensive income (loss), net						
of taxes	--	--	--	--	(458)	(458)
Balances at September 30, 2005	63,099,987	\$ 631	\$ 184,054	\$ 161,373	\$ (446)	\$ 345,612
	=====	=====	=====	=====	=====	=====

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

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

For the nine months ended September 30,	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 13,240	\$ 55,159
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Net cash provided (used) by trading activities	(26,091)	(87,084)
Originations of loans held for resale.....	(203,945)	(56,799)
Proceeds from sales of loans held for resale.....	124,756	44,240
Premium amortization (discount accretion) on securities, net	423	(1,608)
Amortization of servicing rights	73,020	71,173
Depreciation and other amortization	9,578	10,354
Provision for loan losses	(30)	(913)
Valuation (gains) losses on real estate	(106)	3,990
(Gain) loss on trading and match funded securities	3,409	(1,688)
(Gain) loss on sales of real estate	(1,909)	149
(Gain) loss on sale of deposits	(1,750)	--
(Gain) loss on investments in affordable housing properties..	1,717	(179)
(Gain) loss on repurchase of debt securities.....	(897)	--
Increase (decrease) in servicer liabilities	(5,916)	96,094
(Increase) decrease in advances and match funded advances on loans and loans serviced for other	(84,541)	50,583
(Increase) decrease in receivables and other assets, net	61,955	(66,847)
Increase (decrease) in other liabilities, net	10,797	(9,699)
Other	2,740	(5,733)
Net cash provided (used) by operating activities	(23,550)	101,692
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal payments received on match funded loans	1,819	7,559
Acquisitions of match funded loans	--	(7,119)
Proceeds from sale of match funded loans	--	21,592
Proceeds from sale of affordable housing properties	6,325	327
Purchase of mortgage servicing rights	(56,708)	(39,997)
Principal payments received on loans	6,769	29,661
Purchases, originations and funded loan commitments, net	(218)	(16,007)
Capital improvements to real estate	--	(2,536)
Proceeds from sale of real estate	6,398	18,910
Additions to premises and equipment	(8,339)	(6,166)
Acquisition of subsidiary	--	1,376
Proceeds from sale of subsidiary	4,337	--
Net cash provided (used) by investing activities	(39,617)	7,600
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in deposits and escrow deposits	(210,850)	(14,431)
Sale of deposits	(165,741)	--
Premium received on sale of deposits	1,500	--
Proceeds from (repayment of) lines of credit and other secured borrowings, net	47,655	(94,882)
Proceeds from (repayment of) match funded liabilities, net ..	46,149	(17,682)
Repurchase of common stock	--	(49,449)
Repurchase of debt securities.....	(10,569)	--
Exercise of common stock options	805	2,317
Issuance of notes	--	175,000
Net cash provided (used) by financing activities	(291,051)	873
Net increase (decrease) in cash	(354,218)	110,165
Cash at beginning of period	542,891	316,167
Cash at end of period	\$ 188,673	\$ 426,332

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

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

For the nine months ended September 30,	2005	2004
-----	-----	-----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for		
Interest	\$ 29,958	\$ 23,746
Income tax payments (refunds)	(64,675)	1
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Assumption of line of credit by purchaser of real estate	\$ --	\$ 20,000
Equipment acquired through capital leases	3,659	--
SALE OF SUBSIDIARY		
Fair value of subsidiary sold	\$ 9,200	\$ --
Financing to buyer	(4,863)	--
Net cash received for subsidiary sold	\$ 4,337	\$ --
	=====	=====
ACQUISITION OF BUSINESS		
Estimated fair value of asset acquired(1)	\$ --	\$ (20,986)
Estimated fair value of liabilities assumed	--	10,743
Cash paid	--	(10,243)
Less cash acquired	--	11,619
Net cash acquired (paid) for assets	\$ --	\$ 1,376
	=====	=====

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

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Dollars in thousands)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The interim consolidated financial statements of Ocwen Financial Corporation ("OCN") include the accounts of OCN and its subsidiaries. At September 30, 2005, OCN owns all of the outstanding stock of its primary subsidiaries, Ocwen Loan Servicing, LLC ("OLS"), Investors Mortgage Insurance Holding Company, Ocwen Technology Xchange, Inc. ("OTX"), Ocwen Asset Investment Corp. ("OAC") and Ocwen Financial Solutions, Private Limited ("India"). OCN also owns 70% of Global Servicing Solutions, LLC ("GSS") with the remaining 30% minority interest held by ML IBK Positions, Inc. ("Merrill Lynch"). We have eliminated all significant intercompany transactions and balances in consolidation.

In our opinion, the accompanying unaudited financial statements contain all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of our financial condition at September 30, 2005 and December 31, 2004, the results of our operations for the three and nine months ended September 30, 2005 and 2004, our comprehensive income (loss) for the three and nine months ended September 30, 2005 and 2004, our changes in stockholders' equity for the nine months ended September 30, 2005 and our cash flows for the nine months ended September 30, 2005 and 2004. The results of operations and other data for the three and nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for any other interim period or the entire year ending December 31, 2005. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2004. Certain reclassifications have been made to the prior periods' interim consolidated financial statements to conform to the September 30, 2005 presentation.

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

NOTE 2 CURRENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards ("SFAS") No. 123 (R), "Share-Based Payment". This Statement was issued by the Financial Accounting Standards Board ("FASB") on December 16, 2004 and is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". This Statement also supersedes Accounting Principles Board ("APB") Opinion No. 25 and its related implementation guidance.

SFAS No. 123 (R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award - the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. The fair value of an award is not re-measured after its initial estimation on the grant date (except in the case of a liability award or if the award is subsequently modified). The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). The notes to financial statements will disclose information to assist users of financial information to understand the nature of share-based payment transactions and the effects of those transactions on the financial statements.

SFAS No. 123 (R) eliminates the alternative to use Opinion 25's intrinsic value method of accounting that was provided in SFAS No. 123 as originally issued. Under APB Opinion No. 25, issuing stock options to employees generally resulted in recognition of no compensation cost, except with respect to options that were granted with an exercise price that was less than fair value of the stock at the date of grant.

On April 14, 2005, the Securities and Exchange Commission ("SEC") approved a new rule that delays the effective date of SFAS 123 (R) for public companies. Under the SEC's rule, SFAS 123 (R) is now effective for public companies for annual, rather than interim, periods that begin after June 15, 2005. SFAS 123 (R) applies to all awards granted after the required effective date and to awards

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2005
(Dollars in thousands)

modified, repurchased, or cancelled after that date. The cumulative effect of initially applying this Statement, if any, is recognized as of the required effective date.

As of the required effective date, all public entities will apply this Statement using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under Statement 123 for either recognition or pro forma disclosures. For periods before the required effective date, public entities may elect to apply a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by SFAS No. 123.

We have not yet determined which transition method we will apply or the cumulative effect of initially adopting this Statement. We have determined that awards we have granted to date will be classified as equity awards (versus liability awards) because their terms contain service conditions. Therefore, the fair value of these awards will not be re-measured after our initial estimation on the grant date. We currently account for our stock option plans based on the intrinsic value method set forth in APB Opinion No. 25. Therefore, we anticipate that the amount of compensation expense we recognize in connection with our stock option awards will increase under the fair value based method of SFAS Nos. 123 and 123(R).

Earnings Per Share - An Amendment of SFAS No. 128. The FASB has decided to defer the issuance of a final standard on EPS until the first quarter of 2006. When issued, the provisions of the final standard are expected to be effective for interim and annual periods ending after June 15, 2006 and require retrospective application for all prior periods presented. When computing diluted EPS for year-to-date periods, it is expected that companies will be required to use the year-to-date average stock price to compute the number of treasury shares that could theoretically be purchased with the proceeds from exercise of share contracts such as options or warrants. The year-to-date computation would be performed independently from the quarterly computations. The old method required companies to calculate an average of the potential incremental common shares computed for each quarter when computing year-to-date incremental shares. This amendment is expected to impact OCN as we use the treasury stock method to determine the number of incremental shares from the assumed exercise of stock options to be included in the denominator of diluted EPS computations. Under the treasury stock method, the proceeds from the assumed exercise of options are assumed to be used to purchase common stock at the average market price during the period. The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted EPS computation.

Statement of Position 03-3, "Accounting for Certain Loans for Debt Securities Acquired in a Transfer" ("SOP 03-3"). This statement was issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants in December 2003 and requires that acquired impaired loans for which it is probable that the investor will be unable to collect all contractually required payments receivable to be recorded at the present value of expected cash flows. Under SOP 03-3, it is not appropriate to create or carry over a valuation allowance at the time of acquisition. SOP 03-3 was issued in December 2003 and is effective for loans acquired on or after January 1, 2005. The application of SOP 03-3 did not have a significant impact on our consolidated financial statements.

NOTE 3 BASIC AND DILUTED EARNINGS PER SHARE

Basic EPS excludes common stock equivalents and is calculated by dividing net income by the weighted average number of common shares outstanding during the year. We calculate diluted EPS by dividing net income, as adjusted to add back interest expense on the 3.25% Convertible Notes (if dilutive), by the weighted average number of common shares outstanding, including the dilutive potential common shares related to outstanding stock options, restricted stock awards and the Convertible Notes.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2005
(Dollars in thousands)

The following is a reconciliation of the calculation of basic EPS to diluted EPS for the periods ended:

	Three Months		Nine Months	
For the periods ended September 30,	2005	2004	2005	2004
Basic EPS:				
Net income (loss)	\$ 7,945	\$ 39,305	\$ 13,240	\$ 55,159
	=====	=====	=====	=====
Weighted average shares of common stock	62,975,006	64,637,454	62,843,375	66,853,296
	=====	=====	=====	=====
Basic EPS	\$ 0.13	\$ 0.61	\$ 0.21	\$ 0.83
	=====	=====	=====	=====
Diluted EPS:				
Net income (loss)	\$ 7,945	\$ 39,305	\$ 13,240	\$ 55,159
Interest expense on Convertible Notes, net of income tax (1)...	1,381	957	--	957
	-----	-----	-----	-----
Adjusted net income (loss)	\$ 9,326	\$ 40,262	\$ 13,240	\$ 56,116
	=====	=====	=====	=====
Weighted average shares of common stock	62,975,006	64,637,454	62,843,375	66,853,296
Effect of dilutive elements:				
Convertible Notes (1)	13,599,019	10,003,219	--	3,358,745
Stock options (2)	723,542	915,973	812,251	1,027,805
Restricted stock awards	99,902	260,030	187,416	265,721
	-----	-----	-----	-----
Dilutive weighted average shares of common stock	77,397,469	75,816,676	63,843,042	71,505,567
	=====	=====	=====	=====
Diluted EPS	\$ 0.12	\$ 0.53	\$ 0.21	\$ 0.78
	=====	=====	=====	=====

(1) Conversion of the Convertible Notes into shares of common stock has not been assumed for purposes of computing diluted EPS for the first nine months of 2005 because the effect would be anti-dilutive. Interest expense and related amortization, net of income taxes, have not been added back to net income in computing diluted EPS for this period. The effect is anti-dilutive whenever interest expense on the Convertible Notes, net of income tax, per common share obtainable on conversion exceeds basic EPS.

(2) Excludes the effect of an average of 1,551,865 and 1,453,008 of options that were anti-dilutive for the third quarter of 2005 and 2004, respectively, because their exercise price was greater than the average market price of our stock. Year to date, an average of 1,604,358 and 1,155,139 options were anti-dilutive for 2005 and 2004, respectively.

NOTE 4 FOREIGN CURRENCY EXCHANGE RATE RISK MANAGEMENT

We entered into foreign currency derivatives to hedge our net investments in foreign subsidiaries that own residual securities backed by subprime residential loans originated in the United Kingdom ("U.K.") and that owned a shopping center located in Halifax, Nova Scotia. During the first quarter of 2005, we sold our foreign subsidiary that owned the shopping center. However, in connection with the sale, OCN extended a short-term Canadian Dollar loan in the amount of C\$6,000 to the buyer. During the third quarter of 2005, the Canadian Dollar was repaid in full and the related currency futures contract was terminated. We have managed our exposure to foreign currency exchange rate risk related to this foreign currency-denominated transaction through the use of currency futures. Our remaining principal exposure to foreign currency exchange rates exists with the British Pound versus the U.S. dollar. Our policy is to periodically adjust the amount of foreign currency derivative contracts we have entered into in response to changes in our recorded investment as well as to changes in our assets denominated in a foreign currency. Our net exposures are subject to gain or loss if foreign currency exchange rates fluctuate. Currency futures are commitments to either purchase or sell foreign currency at a future date for a specified price. We have determined that the local currency of our investment in U.K. residuals is the functional currency. The foreign currency derivative financial instrument related to our foreign subsidiary that owns the residual securities was designated as a hedge. Accordingly, for this instrument we include the gains or losses in the net unrealized foreign currency translation in accumulated other comprehensive income in stockholders' equity. The foreign currency derivative financial instrument related to our Canadian Dollar-denominated loan was not designated as a hedge. Gains and losses from this instrument are included in earnings as an offset to the related foreign currency transaction gain or loss arising from remeasurement of the loan prior to its repayment in the third quarter.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2005
(Dollars in thousands)

The following table sets forth the terms and values of these foreign currency financial instruments at the dates indicated:

	Position	Maturity	Notional Amount (1)	Strike Rate	Fair Value
	-----	-----	-----	-----	-----
September 30, 2005:					
British Pound currency futures.....	Short	December 2005	(pound) 14,688	1.8169	\$ 831 =====
December 31, 2004:					
Canadian Dollar currency futures.....	Short	March 2005	C\$ 11,500	0.8416	\$ 109
British Pound currency futures.....	Short	March 2005	(pound) 17,000	1.9248	301 ----- \$ 410 =====

(1) The U.S. Dollar equivalent notional amount of the British Pound currency futures at September 30, 2005 was \$25,913. At December 31, 2004, the U.S. Dollar equivalent notional amounts of the Canadian Dollar and British Pound currency futures were \$9,570 and \$32,609, respectively.

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

NOTE 5 REGULATORY MATTERS

Effective June 30, 2005, Ocwen Federal Bank FSB (the "Bank"), a wholly owned subsidiary, terminated its status as a federal savings bank. This process, which we have referred to as "debanking," began on November 24, 2004, when the Bank filed an Application for Voluntary Dissolution with the Office of Thrift Supervision ("OTS"). Prior to returning its original thrift charter to the OTS on July 1, 2005, the Bank operated as a federal savings bank organized under the Home Owners' Loan Act (the "Act"), and OCN was a registered savings and loan holding company. We were subject to extensive federal and state regulation under the Act, as well as other U.S. federal and state laws. Our primary regulatory authority was the OTS.

In connection with our debanking process, on February 4, 2005, OCN and the Bank entered into a Branch Purchase and Deposit Assumption Agreement (the "Branch Purchase Agreement") with Marathon National Bank of New York ("Marathon"). Pursuant to the Branch Purchase Agreement, Marathon agreed to assume the deposit liabilities of the accounts associated with the Bank's branch facility in Fort Lee, New Jersey. In addition, Marathon agreed to take over the lease and other contracts and acquire the assets related to the branch. We agreed to make a cash payment to Marathon, which was calculated based upon, among other things, the amount of those deposit account liabilities as of the closing. On June 13, 2005, the OTS approved our plan of voluntary dissolution for the Bank subject to certain conditions, including, among other things, our entering into a guaranty of the obligations of the Bank (other than the deposit and other liabilities that were assumed by Marathon in connection with the Branch Purchase Agreement), a cash collateral agreement and a collateral trust agreement, all on terms acceptable to the OTS.

Following receipt of OTS approval, OCN entered into an Assignment and Assumption Agreement, dated June 28, 2005, with its subsidiaries Investors Mortgage Insurance Holding Company, Rocaille Acquisition Subsidiary, Inc., the Bank and OLS whereby the Bank assigned to OLS, directly or indirectly, all of its assets, liabilities and business remaining after the consummation of the transactions contemplated by the Branch Purchase Agreement (the "Assignment").

On the same date, pursuant to the conditions set forth in the OTS Approval, OCN entered into a Guaranty, dated June 28, 2005, in favor of the OTS and any holders of claims with respect to liabilities assumed by OLS from the Bank in connection with the Assignment (the "Assumed Liabilities"). Assumed Liabilities include all legal actions against the Bank. The Guaranty contains affirmative covenants relating to the maintenance of a cash collateral account, reporting requirements, transactions with affiliates, preservation of the existence of our subsidiaries and maintenance of not less than \$35,000 of unencumbered financial assets. Pursuant to the Guaranty, we also agreed that OCN and its subsidiaries would not, among other things:

- o incur debt (as defined) if, following the incurrence of such debt, the ratio of our consolidated debt to our tangible net worth (as defined) for the most recent fiscal quarter exceeds 7.25:1.00;

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- o enter into any merger transaction or sale of all or substantially all of our assets, except for certain mergers among us and our subsidiaries or with an entity with a specified minimum credit rating that agrees to assume our obligations under the Guaranty, and provided that we maintain a specified minimum net worth;
- o sell, lease, transfer or otherwise dispose of any assets, except in exchange for consideration of at least 85% cash for fair value and provided that, after giving effect to any such sale, lease, transfer or disposition, the ratio of our consolidated debt to our tangible net worth for the most recent fiscal quarter does not exceed 7.25:1.00; or
- o declare or pay any dividends or acquire any of our capital stock or ownership interests or make any distributions or return of capital to our stockholders, partners or members, except for (i) such dividends or distributions that are payable only in OCN's common stock, (ii) such declarations, dividends, acquisitions, distributions or returns of capital in cash if we maintain a minimum net worth of \$333,000 and rating of B2 from Moody's and B- from S&P on our unsecured, non credit-enhanced debt and any such capital distributions do not exceed our consolidated net income for the year plus our retained earnings for the two preceding years or (iii) cash dividends paid by a subsidiary of OCN to OCN or to any of OCN's wholly owned subsidiaries of which such entity is a subsidiary.

As of September 30, 2005, we were in compliance with all of the covenants specified in the Guaranty.

The Guaranty will remain in effect until the later of (a) the sixth anniversary of the date on which the Bank's federal bank charter was cancelled or (b) the date on which we have paid in full (i) any obligations that arise out of the Assumed Liabilities with respect to which a claim has been asserted on or prior to the sixth anniversary of the date on which the Bank's federal bank charter was cancelled and (ii) all other amounts payable by us under the Guaranty.

OCN also entered into a Cash Collateral Agreement and a Collateral Trust Agreement, each dated June 28, 2005, with the Bank of New York pursuant to which we established a collateral trust account to secure payment of our obligations under the Guaranty. We have agreed to maintain in the cash collateral account a minimum of \$5,000. The Cash Collateral Agreement and the Collateral Trust Agreement will terminate upon termination of the Guaranty and receipt of proper notice of such termination. This cash collateral deposit is included with other assets in the consolidated balance sheet.

On June 30, 2005, we completed our divestiture to Marathon of the deposit liabilities of the accounts associated with the branch and our assignment of the remaining assets, liabilities and business of the Bank to OLS. We recognized a gain of \$1,750 from the sale of our branch deposit liabilities to Marathon. In addition, we recorded a one-time provision of \$1,124, which is net of a related adjustment to the deferred tax asset valuation allowance, arising from the recapture of bad debt reserves in connection with our termination of the Bank's status as a federal savings bank.

Effective June 30, 2005, the Supervisory Agreement (the "Agreement") that the Bank and OTS had entered into on April 19, 2004 terminated because we were no longer an FDIC - insured institution. The OTS retains, for a period of six years after termination of the Agreement, the right to bring enforcement actions in respect of any breach or noncompliance by the Bank with the Agreement, or other applicable regulations, that may have occurred prior to debanking.

We are continuing the Bank's non-depository businesses, including its residential mortgage servicing business, under OLS, which is a licensed servicer in all fifty states, the District of Columbia and Puerto Rico. As a result of debanking, we are no longer able to accept deposits in the United States or benefit from federal preemption with regard to post-debanking activities.

Bankhaus Oswald Kruber GmbH & Co. KG ("BOK"), our German banking subsidiary that we acquired on September 30, 2004, is licensed as a credit institution (Kreditinstitut) under the laws of the Federal Republic of Germany and is supervised and regulated in Germany by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, or BaFin), the German Central Bank (Deutsche Bundesbank) and, in respect of minimum reserves on deposits, the European Central Bank.

Although currently not significant to our operations, BOK, under its license, may engage not only in a number of traditional banking activities such as deposit and lending business, but also in investment banking, underwriting and securities trading transactions, both for its own account and for customers.

German regulatory requirements applicable to BOK concern, in particular, the maintenance of adequate regulatory capital and liquidity, the monitoring of, and limitations on, large credit exposures, limitations on equity and equity-like participations in other companies,

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the protection of depositors and the adoption of certain accounting standards and business practices. The German Federal Financial Supervisory Authority and the German Central Bank monitor compliance with the applicable German banking laws, rules and regulations largely upon the basis of extensive reporting requirements as well as through general and specific audits. BOK is in compliance in all material respects with the German regulatory requirements that are applicable to its business.

NOTE 6 BUSINESS SEGMENT REPORTING

In the first quarter of 2005, we redefined our segment reporting. We have restated prior periods to conform to the new segment structure. A brief description of our segments, aligned within our two areas of focus, are as follows:

Servicing

- o Residential Servicing. Through this business we provide loan servicing, including asset management and resolution services, to third party owners of subprime residential mortgage and high loan-to-value loans for a fee. We acquire the rights to service loans and obtain such rights by purchasing them outright or by entering into sub-servicing contracts. This segment also includes our residential loan servicing system product (REALServicing(R)).
- o Commercial Servicing. This segment includes the results of both our domestic and international servicing of primarily commercial assets (loans and real estate), as well as our commercial loan servicing system product (REALSynergy(R)). International servicing is conducted through GSS.
- o Ocwen Recovery Group. This business conducts collection activities for third party owners of unsecured receivables and for a portfolio of unsecured credit card receivables that we acquired at a discount in 1999 and 2000.

Loan Processing and Origination Services

- o Residential Origination Services. This business provides various loan processing and origination services, including residential property valuation services (Ocwen Realty Advisors, or ORA), mortgage due diligence, title services, loan refinancing for Residential Servicing customers and our internet-based vendor management system (REALTrans(R)). This segment also includes the results of our subprime residual trading securities that were reported as a separate segment (Subprime Finance) prior to 2005.
- o Business Process Outsourcing. Business Process Outsourcing provides outsourcing services to third parties including mortgage underwriting, data entry, call center services and mortgage research.

Corporate Items and Other. This segment includes items of revenue and expense that are not directly related to a business, including business activities that are individually insignificant, interest income on short-term investments of cash and the related costs of financing these investments and certain other corporate expenses.

Based on the relative insignificance of the assets remaining in the following non-core segments, the remaining assets of these businesses and any related income or loss arising from their resolution have been included in the Corporate Items and Other segment beginning January 1, 2005.

- o Commercial Assets. This segment comprised operations to acquire sub-performing commercial loans at a discount, as well as operations to invest in and reposition under-performing real estate assets. No assets have been acquired since 2000; since that time, this business has consisted of the repositioning, management and resolution of the remaining non-core assets.
- o Affordable Housing. Includes our investments, primarily through limited partnerships, in qualified low-income rental housing for the purpose of obtaining Federal income tax credits pursuant to Section 42 of the Internal Revenue Code of 1986, as amended. Except to complete those projects in which an investment had already been made, we ceased making investments in properties in 2000. We sold our one remaining limited partnership interest in an affordable housing property in the third quarter of 2005.

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

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

	Total Assets	
	September 30, 2005	December 31, 2004
Residential Servicing	\$ 747,246	\$ 687,233
Commercial Servicing	12,247	13,659
Ocwen Recovery Group	1,237	541
Residential Origination Services (1)	204,887	49,348
Business Process Outsourcing	1,930	2,502
	967,547	753,283
Non-core businesses:		
Commercial Assets	--	24,149
Affordable Housing	--	36,715
	--	60,864
Corporate Items and Other (2)	344,400	768,385
	\$ 1,311,947	\$ 1,582,532
	=====	=====

(1) Includes loans held for resale of \$163,003 and \$8,437 at September 30, 2005 and December 31, 2004, respectively.

(2) Includes cash of \$182,668 and \$535,733 at September 30, 2005 and December 30, 2004, respectively.

	Non-Interest Revenue	Net Interest Income (Expense) after Provision for Loan Losses	Non-Interest Expense	Pre-Tax Income (Loss)
	-----	-----	-----	-----
For the three months ended September 30, 2005				
Residential Servicing.....	\$ 39,121	\$ (5,808)	\$ 25,618	\$ 7,695
Commercial Servicing.....	6,458	(85)	4,311	2,062
Ocwen Recovery Group.....	2,830	--	3,479	(649)
Residential Origination Services.....	13,869	1,504	15,468	(95)
Business Process Outsourcing.....	2,843	(23)	2,428	392
	65,121	(4,412)	51,304	9,405
	-----	-----	-----	-----
Corporate Items and Other.....	3,042	(46)	2,174	822
	-----	-----	-----	-----
	\$ 68,163	\$ (4,458)	\$ 53,478	\$ 10,227
	=====	=====	=====	=====
For the three months ended September 30, 2004				
Residential Servicing.....	\$ 30,812	\$ (4,338)	\$ 23,853	\$ 2,621
Commercial Servicing.....	3,712	(4)	3,888	(180)
Ocwen Recovery Group.....	3,299	--	2,591	708
Residential Origination Services.....	9,549	2,898	9,796	2,651
Business Process Outsourcing.....	2,551	(6)	1,859	686
	49,923	(1,450)	41,987	6,486
	-----	-----	-----	-----
Non-core businesses:				
Commercial Assets.....	(260)	(377)	1,208	(1,845)
Affordable Housing.....	--	(357)	531	(888)
	(260)	(734)	1,739	(2,733)
	-----	-----	-----	-----
Corporate Items and Other.....	3,952	125	370	3,707
	-----	-----	-----	-----
	\$ 53,615	\$ (2,059)	\$ 44,096	\$ 7,460
	=====	=====	=====	=====

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

	Non-Interest Revenue	Net Interest Income (Expense) after Provision for Loan Losses	Non-Interest Expense	Pre-Tax Income (Loss)
	-----	-----	-----	-----
For the nine months ended September 30, 2005				
Residential Servicing.....	\$ 108,220	\$ (15,121)	\$ 79,858	\$ 13,241
Commercial Servicing.....	15,963	(137)	13,407	2,419
Ocwen Recovery Group.....	10,019	--	9,920	99
Residential Origination Services.....	36,896	7,355	39,787	4,464
Business Process Outsourcing.....	8,287	(74)	7,459	754
	-----	-----	-----	-----
	179,385	(7,977)	150,431	20,977
	-----	-----	-----	-----
Corporate Items and Other.....	5,027	(885)	6,782	(2,640)
	-----	-----	-----	-----
	\$ 184,412	\$ (8,862)	\$ 157,213	\$ 18,337
	=====	=====	=====	=====
For the nine months ended September 30, 2004				
Residential Servicing.....	\$ 106,330	\$ (15,001)	\$ 75,775	\$ 15,554
Commercial Servicing.....	11,513	(7)	12,242	(736)
Ocwen Recovery Group.....	9,958	--	6,960	2,998
Residential Origination Services.....	31,547	8,988	30,493	10,042
Business Process Outsourcing.....	6,899	(14)	5,093	1,792
	-----	-----	-----	-----
	166,247	(6,034)	130,563	29,650
	-----	-----	-----	-----
Non-core businesses:				
Commercial Assets.....	(2,302)	605	3,198	(4,895)
Affordable Housing.....	17	(1,210)	1,853	(3,046)
	-----	-----	-----	-----
	(2,285)	(605)	5,051	(7,941)
	-----	-----	-----	-----
Corporate Items and Other.....	6,955	1,067	6,351	1,671
	-----	-----	-----	-----
	\$ 170,917	\$ (5,572)	\$ 141,965	\$ 23,380
	=====	=====	=====	=====

NOTE 7 COMMITMENTS AND CONTINGENCIES

Under the terms of the sales agreements entered into in connection with the sale of certain of our affordable housing properties, we have a commitment to fund cash deficits that may arise from the operations of those properties. The remaining term of these commitments ranges from two to five years. The obligation under these commitments was \$4,561 and \$4,813 as of September 30, 2005 and December 31, 2004, respectively. Any operating deficits we fund are supported by a promissory note to be repaid to us from future cash flows of the property. In addition, we have provided to the purchasers of certain affordable housing properties guaranties against the possible recapture of future tax credits. We have never experienced a recapture of tax credits on any of the affordable housing properties in which we invested or sold. We have not recognized these guaranties as a liability because the probability of recapture is considered remote.

As discussed in Note 5, under the terms of the Assignment and Assumption agreement OLS has become the successor to the Bank with respect to all legal actions. Therefore, any references to the Bank in connection with the following legal matters pertain to OLS as successor.

On April 13, 2004, the United States Judicial Panel on Multi-District Litigation granted our petition to transfer and consolidate a number of lawsuits against the Bank, OCN and various third parties arising out of the servicing of plaintiffs' mortgage loans into a single case to proceed in the United States District Court for the Northern District of Illinois under caption styled: In re Ocwen Federal Bank FSB Mortgage Servicing Litigation, MDL Docket No. 1604 (the "MDL Proceeding"). The consolidated lawsuits in which the Bank and/or OCN are defendants involve 61 mortgage loans currently or previously serviced by the Bank. Additional similar lawsuits have been brought in other courts, some of which may be transferred to and consolidated in the MDL Proceeding. The borrowers in these lawsuits seek class action certification. No class has been certified in the MDL Proceeding or any related lawsuits. On August 23, 2004, plaintiffs in the MDL

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Proceeding filed a Consolidated Complaint containing various claims under federal statutes, including the Real Estate Settlement Procedures Act and Fair Debt Collection Practices Act, state deceptive trade practices statutes and common law. The claims are generally based on allegations of improper loan servicing practices, including (i) charging borrowers allegedly improper or unnecessary fees such as breach letter fees, hazard insurance premiums, foreclosure-related fees, late fees and property inspection fees; (ii) untimely posting and misapplication of borrower payments; and (iii) improperly treating borrowers as in default on their loans. While the Consolidated Complaint does not set forth any specific amounts of claimed damages, plaintiffs are not precluded from requesting leave from the court to amend the Consolidated Complaint or otherwise seeking damages should the matter proceed to trial. On April 25, 2005, the court entered an Opinion and Order granting partial summary judgment to defendants finding that, as a matter of law, the mortgage loan contracts signed by plaintiffs authorize the imposition of breach letter fees and other legitimate default or foreclosure related expenses. The court explained that its ruling was in favor of defendants to the specific and limited extent that plaintiffs' claims challenge the propriety of the above-mentioned fees. The court has not yet ruled on any other claims presented in the MDL Proceeding. We cannot currently determine the ultimate outcome of the MDL Proceeding or the other matters described above and have not established a reserve in respect thereof. We believe the allegations in the MDL Proceeding and the other matters described above are without merit and will continue to vigorously defend against them.

On November 3, 2004, the trial judge in litigation brought by Cartel Asset Management, Inc. ("Cartel") against OCN, the Bank and OTX in federal court in Denver, Colorado entered final judgment in the amount of \$520 against OTX and nominal damages of two dollars against the Bank. No damages were entered against OCN. In the November 3, 2004 order, the judge reduced a prior jury verdict in the amount of \$9,320 after trial on this matter involving allegations of misappropriation of trade secrets and contract-related claims brought by a former vendor. The litigation does not relate to our core Residential Servicing business. Notwithstanding the nominal damage award against the Bank, it was assessed a statutory award to Cartel of attorneys' fees in an additional amount of \$170, and the Bank and OTX were further assessed costs in the amount of \$9. Cartel and defendants are pursuing cross-appeals in the United States Court of Appeals for the Tenth Circuit. We intend to continue to vigorously defend this matter.

On February 8, 2005, a jury in Circuit Court for Palm Beach County, Florida returned verdicts of \$1,000 and \$1,056 in compensatory damages in favor of two former employees of the Bank in a lawsuit against OCN and the Bank. The jury rejected plaintiffs' request for punitive damages. The plaintiffs brought claims under the Florida Civil Rights Act, the Florida Whistleblower Act and state tort law, arising out of an alleged invasion of privacy and related incidents allegedly committed by other former employees of the Bank in 1998 for which plaintiffs sought to hold the Ocwen defendants vicariously liable. We believe the verdicts, which were reduced to final judgments on May 20, 2005, are against the weight of evidence and contrary to law. On June 16, 2005, we filed a notice to take an appeal to the Florida Court of Appeals for the Fourth District and, in connection therewith, an appeal bond has been posted in the amount of \$2,397 to cover the amount of the judgments plus interest that may accrue during the period of the appeal. Also pending in the trial court is plaintiffs' motion for an award of attorneys' fees in the amount of \$1,100 as to which we have objected and requested a full accounting. We intend to continue to vigorously defend this matter.

On March 9, 2005, the Bank was served with a complaint filed in Superior Court for Los Angeles County, California, by Banco Popular North America, successor by merger to Quaker City Bank ("Banco Popular"), a holder of residual interest in two mortgage loan trusts for which the Bank provides loan servicing. The case was subsequently removed upon the Bank's motion to the United States District Court for the Central District of California. In this lawsuit, Banco Popular challenged the Bank's fee charges for recoveries on charged-off loans. The complaint variously alleged breach of contract, conversion, breach of fiduciary duty and fraud, and seeks declaratory and equitable relief, along with claimed compensatory damages in excess of \$3,000 and punitive damages in an unspecified amount. Following service upon the plaintiff and related parties of our counterclaim for damages, the parties entered into a definitive settlement agreement disposing of all claims in this matter. Pursuant to this settlement, the court on September 7, 2005, dismissed the case with prejudice. The settlement will not have any material effect on our financial condition, results of operations or cash flows.

On August 5, 2005, the trial judge in County Court for Nueces County, Texas, entered an Agreed Order of Dismissal ("Dismissal Order"), dismissing with prejudice all claims brought by two investor plaintiffs whose mortgage loan on an investment property was serviced by the Bank. After a trial in February 2005, the jury returned a verdict in favor of plaintiffs for compensatory and statutory damages in the amount of \$140. The jury rejected plaintiffs' request for punitive damages but awarded plaintiff attorneys' fees of \$2,900. In April 2005, we filed an opposition to plaintiffs' request for entry of judgment and a motion to instead set aside or substantially reduce the attorneys' fees award as unsupported by the evidence and impermissibly excessive under the controlling legal authorities. The parties subsequently entered into a definitive settlement agreement disposing of all claims. In entering the Dismissal Order, the court ordered that the attorneys' fees award is "null and void" and is to be "disregarded and deemed stricken". The amount of the settlement was within the

reserve amount established for the case.

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

We continuously monitor the status of our litigation, including advice from external legal counsel, and perform periodic assessments of our litigation for potential accrual of litigation reserves and disclosure. We have accrued and maintain litigation reserves where it is probable that a liability had been incurred and the amount of loss can be reasonably estimated.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousand, except share data)

GENERAL

OCN is a provider of servicing and origination processing solutions to the loan industry with headquarters in West Palm Beach, Florida, offices in Orlando, Florida and Chicago, Illinois and global operations in Canada, Germany, India, Japan and Taiwan. Our five core business segments, aligned within our two areas of focus, are as follows:

Servicing

- Residential Servicing
- Commercial Servicing
- Ocwen Recovery Group

Loan Processing and Origination Services

- Residential Origination Services
- Business Process Outsourcing

Based on the relative insignificance of the assets remaining in the Commercial Assets and Affordable Housing segments, the remaining assets of these businesses and any related income or loss arising from their resolution have been included in the Corporate Items and Other segment beginning January 1, 2005. See Note 6 to the Interim Consolidated Financial Statements and "Results of Operations - Segment Results" for additional information regarding segments.

Key elements of our business strategy are summarized as follows:

- o continue to grow our residential servicing business, including the opportunistic acquisition of servicing and sub-servicing rights;
- o grow our residential loan origination services, including mortgage due diligence, mortgage loan processing, property valuation and loan refinancing;
- o continue our globalization efforts through both the expansion of our international facilities and the expansion of the potential client base for our products and services; and
- o expand our other core businesses, such as unsecured debt collection and business process outsourcing.

As disclosed in Note 5 to the Interim Consolidated Financial Statements, we have terminated our subsidiary Bank's status as a federal savings bank, which eliminates the restrictions imposed on the amount of mortgage servicing rights that we may obtain and, therefore, provides us more flexibility to grow our residential servicing business. As a result of debanking, we are no longer able to take deposits in the United States or benefit from federal preemption.

OVERVIEW OF RISKS AND RELATED CRITICAL ACCOUNTING POLICIES

Risks Relating to Our Business. We include a discussion of the principal risk factors that relate to our businesses and that may affect future results on pages 13 through 18 of Management's Discussion and Analysis of Operations and Financial Conditions in our Annual Report on Form 10-K for the year ended December 31, 2004.

Critical Accounting Policies. Our strategy to grow our core businesses is affected by risks in the marketplace. Further, our ability to measure and report our operating results and financial position is heavily influenced by the need to estimate the impact or outcome of these risks or other future events. Our critical accounting policies are those that relate to the estimation and measurement of these risks; an understanding of these policies is fundamental to understanding Management's Discussion and Analysis of Results of Operations and Financial Condition. We summarize our more subjective and complex accounting policies as they relate to our overall business strategy on pages 18 through 21 of Management's Discussion and Analysis of Results of Operations and Financial Condition in our Annual Report on Form 10-K for the year ended December 31, 2004. We discuss our significant accounting policies in detail in Note 1 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2004.

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

RESULTS OF OPERATIONS

Overview. Net income for the third quarter of 2005 was \$7,945, a \$31,360 decline as compared to net income of \$39,305 for the third quarter of 2004. Net income for the third quarter of 2004 includes an income tax benefit of \$31,845 that largely resulted from a

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

\$36,985 partial reversal of the valuation allowance that we had established on our deferred tax asset in prior years. Net income for the third quarter of 2005 is net of an income tax provision of \$2,282. Pre-tax earnings were \$10,227 for the third quarter of 2005, an improvement of \$2,767 or 37% over the third quarter of 2004. Combined pre-tax earnings from our core businesses increased by \$2,919 in the third quarter of 2005 as compared to 2004, reflecting improvements in earnings from our Residential Servicing and Commercial Servicing segments that offset declines in earnings from Ocwen Recovery Group, Residential Origination Services and Business Process Outsourcing.

Net income for the first nine months of 2005 was \$13,240, a decline of \$41,919 as compared with the same period for 2004. Net income for the first nine months of 2004 includes an income tax benefit of \$31,779, while the results for the same period of 2005 are net of an income tax provision of \$5,097. Pre-tax income for the first nine months of 2005 declined by \$5,043 or 22% as compared to the same period of 2004. Combined pre-tax earnings from our core businesses declined \$8,673 in the first nine months of 2005 as compared to 2004.

Segment Results. The following is a discussion of income (loss) before income taxes for each of our business segments.

Residential Servicing. We earn fees for providing loan servicing, including asset management and resolution services, to third party owners of subprime and "high loan to value" residential mortgage loans. Subprime residential mortgages comprise the vast majority of loans we service. We acquire the rights to service loans by purchasing them outright or by entering into sub-servicing contracts. In 2005, increases in short-term interest rates have had a positive impact on our earnings ("float earnings") on funds that we have received from borrowers that are held on deposit with an unaffiliated bank until remitted to investors ("float balances"). However, prepayments in our servicing portfolio remain high. Not only do prepayments result in the loss of future servicing fees, they also result in increases to the rate at which we amortize the balance of our servicing rights. Prepayments also create an obligation for us to pay compensating interest expense to investors for the full month of interest on loans that are repaid before the end of a calendar month.

Selected information

	2005	2004
	-----	-----
Number of loans at September 30	331,876	327,562
Unpaid principal balance at September 30	\$ 36,513,699	\$ 34,365,953
Average unpaid principal balance for the following periods:		
Three months ended September 30	\$ 37,146,943	\$ 34,347,201
Nine months ended September 30	\$ 37,189,607	\$ 35,696,362

	Three Months		Nine Months	
	2005	2004	2005	2004
For the periods ended September 30,	-----	-----	-----	-----
Pre-tax income (loss)	\$ 7,695	\$ 2,621	\$ 13,241	\$ 15,554
Net interest income (expense)	\$ (5,808)	\$ (4,338)	\$ (15,121)	\$ (15,001)
Non-interest revenue:				
Servicing and related fees:				
Fees	\$ 65,723	\$ 59,345	\$ 191,329	\$ 191,623
Amortization of servicing rights	(22,975)	(22,504)	(73,020)	(71,173)
Compensating interest expense	(6,256)	(8,728)	(18,070)	(25,839)
Total servicing and related fees	36,492	28,113	100,239	94,611
Vendor management fees	1,782	1,978	5,622	6,205
Other	847	721	2,359	5,514
Total non-interest revenue	\$ 39,121	\$ 30,812	\$ 108,220	\$ 106,330
	=====	=====	=====	=====
Non-interest expense	\$ 25,618	\$ 23,853	\$ 79,858	\$ 75,775

- o The increase in fees in the third quarter of 2005, as compared to 2004, primarily reflects increases in float earnings and other miscellaneous fees, offset in part by declines in fees related to our VA contract, late charges and prepayment penalties.
- o Float earnings amounted to \$9,549 and \$4,958 for the third quarter of 2005 and 2004, respectively. For the first nine months of 2005 and 2004, such earnings amounted to \$22,614 and \$10,721, respectively. The increase in earnings is primarily due to an increase in short-term interest rates. The yield we earned on float balances averaged 3.24% and 1.57% during the third quarter of 2005 and 2004, respectively, and 3.92% and 1.08% for the first nine months of 2005 and 2004.

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- o Servicing fees for the third quarter of 2005 and 2004 include \$2,562 and \$4,466, respectively, of real estate property management fees associated with our contract with the VA. VA servicing fees for the first nine months of 2005 and 2004 were \$9,923 and \$14,878, respectively. The decline in fees in 2005 is primarily due to reduced transaction volumes.
- o The decline in other non-interest revenue for the first nine months of 2005 as compared to 2004 is primarily the result of \$2,900 of one-time fees recognized in the second quarter of 2004 in connection with a service contract for the use of our REALServicing system.
- o Non-interest expense for the third quarter of 2005 and 2004 includes bad debt expense of \$2,354 and \$26, respectively. Year to date, bad debt expense amounted to \$5,305 and \$1,482 for the 2005 and 2004 periods, respectively. The increase in bad debt expense in the 2005 periods is primarily the result of providing for aged reimbursable expenses that may be uncollectible.

See "Non-Interest Revenue - Servicing and Related Fees" for a detail of the principal components of servicing and related fees.

Commercial Servicing. This segment includes the results of both our domestic and international servicing of commercial assets, as well as our commercial loan servicing system product (REALSynergy). International servicing is conducted through GSS, our joint servicing venture with Merrill Lynch. We have established servicing offices in Tokyo, Japan, Taipei, Taiwan and Toronto, Canada. We have also established consulting operations in the U. K., Germany and China. At September 30, 2005, this segment serviced a total of 9,210 loans with an aggregate unpaid principal balance of \$12,913,039, of which our office in Japan serviced 8,514 loans with an unpaid principal balance of \$11,266,412.

Selected information

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Pre-tax income (loss)	\$ 2,062	\$ (180)	\$ 2,419	\$ (736)
Non-interest revenue:				
Servicing and related fees	\$ 4,898	\$ 2,085	\$ 10,673	\$ 6,718
Other	1,560	1,627	5,290	4,795
Total non-interest revenue	\$ 6,458	\$ 3,712	\$ 15,963	\$ 11,513
Non-interest expense	\$ 4,311	\$ 3,888	\$ 13,407	\$ 12,242

- o Both our domestic and international servicing and related fees increased in the 2005 periods as compared to 2004. Third quarter 2005 fees reflect an increase in asset and portfolio resolution fees earned in the Asia operations of GSS and in our domestic servicing operations. Further growth in the servicing portfolio will be required to earn these fees in future periods. See "Non-Interest Revenue - Servicing and Related Fees".
- o Other non-interest revenue is primarily comprised of fees for providing due diligence and underwriting services in Germany as well as fees and cost reimbursements related to our international consulting operations. See "Non-Interest Revenue - Other Income".

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

Selected information

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Pre-tax income (loss)	\$ (649)	\$ 708	\$ 99	\$ 2,998
Non-interest revenue:				
Servicing and related fees	\$ 2,459	\$ 2,785	\$ 8,820	\$ 8,416
Other	371	514	1,199	1,542
Total non-interest revenue	\$ 2,830	\$ 3,299	\$ 10,019	\$ 9,958
Non-interest expense	\$ 3,479	\$ 2,591	\$ 9,920	\$ 6,960

- o Servicing and related fees for this business represent fees earned for collection activities on behalf of third party owners of unsecured receivables. Other revenue is primarily comprised of recoveries of unsecured credit card receivables we own.
- o The increase in non-interest expense in 2005 as compared to 2004 is largely the result of an increase in staffing levels. Also, \$481 of

legal settlements were recorded during the third quarter of 2005 related to the settlement of contractual disputes.

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Residential Origination Services. This business provides various loan processing and origination services, including residential property valuation services, mortgage due diligence, title services, loan refinancing for Residential Servicing customers and our internet-based vendor management system (REALTrans). Beginning with our acquisition of a mortgage fulfillment center and due diligence operation in December 2004, we have continued to add resources and capacity in this business. This segment also includes the results of our subprime residual trading securities.

Selected information

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Pre-tax income (loss)	\$ (95)	\$ 2,651	\$ 4,464	\$ 10,042
Non-interest income (expense):				
Servicing and related fees	\$ 4,778	\$ 423	\$ 12,088	\$ 864
Vendor management fees	9,802	9,364	27,607	29,635
Gain (loss) on trading securities	(882)	(278)	(3,590)	47
Other	171	40	791	1,001
Total non-interest revenue	\$ 13,869	\$ 9,549	\$ 36,896	\$ 31,547
Net interest income (expense)	\$ 1,504	\$ 2,898	\$ 7,355	\$ 8,988
Non-interest expense	\$ 15,468	\$ 9,796	\$ 39,787	\$ 30,493

- o Servicing and related fees for this business are primarily comprised of mortgage due diligence fees and loan refinancing fees related to loans held for resale. We acquired a mortgage fulfillment center and due diligence operation in December 2004. Our loan refinancing program for Residential Servicing customers began earning fees in the second quarter of 2004. See "Non-Interest Revenue - Servicing and Related Fees" for a detail of the principal components of servicing and related fees.
- o Vendor management fees are primarily comprised of fees for residential property valuation services. Also includes title services and other fees earned across the business groups in this segment from vendors in our REALTrans network. See "Non-Interest Revenue - Vendor Management Fees" for a detail of the principal components of vendor management fees.
- o The losses on trading securities during the third quarter and first nine months of 2005 include unrealized losses of \$(2,902) and \$(5,608), respectively, on unrated subprime residual securities, primarily those backed by subprime residential loans originated in the U.K. A decline in cash flows from the U.K. securities has resulted in reduced interest income and a decline in fair value. These unrealized losses for 2005 are offset in part by a realized gain in the third quarter of 2005 of \$2,019, excluding approximately \$700 of consulting and other professional fees paid in connection with the transaction. See "Gain (Loss) on Trading Securities, Net."
- o The increase in non-interest expense in the 2005 periods is in large part due to increased staffing, technology and other operating expenses associated with the mortgage fulfillment center and due diligence operation we acquired in December 2004.
- o Non-interest expense for the third quarter of 2005 and 2004 includes \$4,877 and \$4,415, respectively, of fees incurred in connection with the residential property valuation services that we provided. For the first nine months of 2005 and 2004, property valuation fees incurred were \$13,882 and \$16,525, respectively.

Business Process Outsourcing. Business Process Outsourcing provides outsourcing services to third parties, including mortgage underwriting, data entry, call center services and mortgage research.

Selected information

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Pre-tax income (loss)	\$ 392	\$ 686	\$ 754	\$ 1,792
Servicing and related fees	\$ 2,843	\$ 2,551	\$ 8,287	\$ 6,899
Non-interest expense	\$ 2,428	\$ 1,859	\$ 7,459	\$ 5,093

- o The increase in non-interest expense in the 2005 periods as compared to 2004 reflects our continued investment in this business. Compensation and benefits costs are higher in 2005, reflecting an increase in staffing levels. Technology costs and sales and marketing costs are also higher in 2005.

Corporate Items and Other. Pre-tax results for this segment include items of revenue and expense that are not directly related to a business, including business activities that are individually insignificant, interest

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related costs of financing these investments and certain other corporate expense and income items. The table below presents the more significant amounts included in each of the periods indicated.

Selected information

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Pre-tax income (loss)	\$ 822	\$ 3,707	\$ (2,640)	\$ 1,671
Non-interest revenue	\$ 3,042	\$ 3,952	\$ 5,027	\$ 6,955
Net interest income (expense)	\$ (46)	\$ 125	\$ (885)	\$ 1,067
Non-interest expense	\$ 2,174	\$ 370	\$ 6,782	\$ 6,351

- o Net interest expense includes a portion of interest on the \$175,000 of 3.25% Convertible Notes that we issued in July 2004.
- o Non-interest revenue includes \$948 and \$2,730 of interest income recognized during the third quarter of 2005 and 2004, respectively, on federal income tax refund claims. Year to date, \$1,900 and \$6,476 of interest income was recognized on the refund claims for 2005 and 2004, respectively. See "Changes in Financial Condition - Receivables" for additional information regarding these claims.
- o Non-interest revenue for 2005 includes a gain of \$1,882 related to the sale of a commercial real estate investment during the third quarter.
- o Non-interest revenue for 2005 also includes \$897 of net gains on debt repurchases during the third quarter and a gain of \$1,750 we recognized in the second quarter in connection with the assumption of our customer deposit liabilities on June 30, 2005 by Marathon National Bank.
- o Non-interest expense for 2005 includes a loss of \$1,272 on the sale of our one remaining limited partnership interest in an affordable housing property during the third quarter.

See Note 6 to the Interim Consolidated Financial Statements, for additional information related to our segments.

Non-Interest Revenue. The following is a discussion of non-interest revenue during the three and nine month periods ended September 30, 2005 and 2004:

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

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Residential Servicing:				
Servicing fees (1)	\$ 40,309	\$ 41,264	\$ 127,959	\$ 132,902
Late charges	9,083	9,653	26,833	31,200
Earnings on custodial accounts (2)	9,549	4,958	22,614	10,721
Prepayment and collection related fees	2,071	2,926	6,514	11,738
Other fees, net	4,711	544	7,409	5,062
	65,723	59,345	191,329	191,623
Amortization of servicing rights	(22,975)	(22,504)	(73,020)	(71,173)
Compensating interest expense (3)	(6,256)	(8,728)	(18,070)	(25,839)
	36,492	28,113	100,239	94,611
Residential Origination Services:				
Mortgage due diligence fees (4)	2,420	--	6,409	--
Loan refinancing fees (4)	2,030	422	4,566	860
Other	328	1	1,113	4
	4,778	423	12,088	864
Commercial Servicing:				
International servicing fees	2,885	1,408	6,557	4,065
Domestic servicing fees	2,014	677	4,116	2,653
	4,899	2,085	10,673	6,718
Business Process Outsourcing	2,843	2,551	8,287	6,899
Ocwen Recovery Group	2,459	2,785	8,820	8,416
Corporate Items and Other	(585)	(190)	(674)	(959)
	\$ 50,886	\$ 35,767	\$ 139,433	\$ 116,549
	=====	=====	=====	=====

- (1) The decline in residential loan servicing fees in 2005 as compared to 2004 primarily reflects a decline in fees associated with our contract with the V.A. See "Segment Results - Residential Servicing".
- (2) Earnings on float balances during the holding period between collection of borrower payments and remittance to investors. These custodial accounts are held at an unaffiliated bank and are excluded from our balance sheet. The average balances held in these custodial accounts were approximately \$1,176,400 and \$1,259,700 for the third quarter of 2005 and 2004, respectively. Year to date, the balances in these accounts averaged approximately \$1,153,100 and \$1,322,200 for 2005 and 2004, respectively. The increase in earnings during the third quarter of 2005 and the first nine months of 2005 as compared to the same periods in 2004 is primarily due to an increase in short-term interest rates. See "Segment Results - Residential Servicing". The underlying servicing agreements restrict the investment of float balances to certain types of instruments. We are responsible for any losses incurred on the investment of these funds, although to date, we have not incurred any such losses.
- (3) A servicer of securitized loans is typically obligated to pay the securitization trust the difference between a full month of interest and the interest collected on loans that are repaid before the end of a calendar month.
- (4) We acquired a mortgage fulfillment center and due diligence operation in December 2004. Our loan refinancing program for Residential Servicing customers began earning fees in the second quarter of 2004.

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The following table sets forth information regarding loans and real estate we serviced at the dates indicated.

	Loans (1) (2) (3)		Real Estate (4)		Total	
	Amount	Count	Amount	Count	Amount	Count
Residential Servicing						
September 30, 2005:						
Performing.....	\$ 30,742,262	263,960	\$ --	--	\$ 30,742,262	263,960
Non-performing.....	4,640,753	54,123	1,130,684	13,793	5,771,437	67,916
	\$ 35,383,015	318,083	\$ 1,130,684	13,793	\$ 36,513,699	331,876
December 31, 2004:						
Performing.....	\$ 29,227,341	253,617	\$ --	--	\$ 29,227,341	253,617
Non-performing.....	3,971,439	48,711	1,325,711	17,857	5,297,150	66,568
	\$ 33,198,780	302,328	\$ 1,325,711	17,857	\$ 34,524,491	320,185
Commercial Servicing (5)						
September 30, 2005:						
Performing.....	\$ 1,701,455	324	\$ --	--	\$ 1,701,455	324
Non-performing (5).....	11,129,948	8,807	81,636	79	11,211,584	8,886
	\$ 12,831,403	9,131	\$ 81,636	79	\$ 12,913,039	9,210
December 31, 2004:						
Performing.....	\$ 847,811	365	\$ --	--	\$ 847,811	365
Non-performing (5).....	12,537,631	9,398	121,210	35	12,658,841	9,433
	\$ 13,385,442	9,763	\$ 121,210	35	\$ 13,506,652	9,798

(1) At September 30, 2005 we serviced 268,469 subprime loans with a total unpaid principal balance of \$31,199,651, as compared to 238,105 subprime loans with an unpaid principal balance of \$28,374,493 at December 31, 2004. Subprime loans represent residential loans we service that were made by others to borrowers who generally did not qualify under guidelines of Fannie Mae and Freddie Mac ("nonconforming loans").

(2) Non-performing loans have been delinquent for 90 days or more. Performing loans are current or have been delinquent for less than 90 days.

(3) Under sub-servicing contracts we serviced approximately 85,272 residential loans with an unpaid principal balance of \$9,074,088. This compares to approximately 58,776 residential loans with an unpaid principal balance of \$7,063,232 serviced under sub-servicing contracts at December 31, 2004.

(4) Includes \$650,511 and \$839,654 of foreclosed residential properties serviced for the VA at September 30, 2005 and December 31, 2004, respectively.

(5) At September 30, 2005, our international offices, primarily Japan, serviced a total of 8,798 loans with an unpaid principal balance of \$12,332,121. This compares to 9,267 loans with an unpaid principal balance of \$12,826,411 at December 31, 2004. Non-performing loans serviced by the Commercial Servicing segment include unsecured charged-off loans and deficiency loans.

Vendor Management Fees. Vendor management fees are primarily comprised of property valuation fees earned by the Residential Origination Services segment. The following table sets forth the principal components of vendor management fees by segment for the periods indicated:

	Three Months		Nine Months	
For the periods ended September 30,	2005	2004	2005	2004
Residential Servicing (1)	\$ 1,782	\$ 1,978	\$ 5,622	\$ 6,205
Residential Origination Services (2)	9,802	9,364	27,607	29,635
Corporate Items and Other	16	--	35	(8)
	\$ 11,600	\$ 11,342	\$ 33,264	\$ 35,832

(1) Includes \$1,012 and \$1,061 of fees earned from vendors in the REALTrans network during the third quarter of 2005 and 2004, respectively. These fees amounted to \$3,119 and \$3,633 during the year to date periods of 2005 and 2004, respectively.

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- (2) Includes residential property valuation fees of \$7,385 and \$7,042 earned during the third quarter of 2005 and 2004, respectively. For the year to date periods, property valuation fees of \$21,687 and \$23,639 were earned during 2005 and 2004, respectively. Also includes title service and other fees earned from vendors in the REALTrans network of \$2,417 and \$2,322 during the third quarter of 2005 and 2004, respectively. For the year to date periods, such fees amounted to \$5,920 and \$5,996 during 2005 and 2004, respectively.

Gain (Loss) on Trading Securities, Net. The following table sets forth unrealized and realized gains (losses) on trading securities for the periods indicated:

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Unrealized gains (losses):				
Residential Origination Services (1)	\$ (2,902)	\$ (278)	\$ (5,608)	\$ (10)
Commercial Assets (2)	--	(418)	--	948
Corporate Items and Other	140	52	176	221
	(2,762)	(644)	(5,432)	1,159
Realized gains (losses):				
Residential Origination Services (3)	2,019	--	2,019	57
Corporate Items and Other	--	473	4	472
	2,019	473	2,023	529
	<u>\$ (743)</u>	<u>\$ (171)</u>	<u>\$ (3,409)</u>	<u>\$ 1,688</u>

- (1) The unrealized losses in 2005 primarily represent unrealized losses on unrated residual securities backed by subprime residential loans originated in the U. K. A decline in expected cash flows from these securities has resulted in a decline in fair value.
- (2) Represents unrealized gains (losses) on a commercial unrated subordinate security. See "Changes in Financial Condition - Trading Securities."
- (3) On June 30, 2005, we purchased \$11,766 of unrated residual securities related to loans for which we were already the master servicer for the securitizations. As the master servicer, we had the clean-up call rights to collapse the related trusts once the balance of the underlying loans outstanding reached the optional termination amount of 10% of the original amount of loans in the securitization. In September 2005, we exercised our call rights and purchased the remaining loans from the trusts. As a result, the over collateralization was remitted to us, and we realized a gain of \$8,495 on the residual securities that we had purchased. We purchased the loans, which were classified as loans held for resale at September 30, 2005, with the intention of securitizing or selling them. A portion of the loans that we acquired were nonperforming, and we recorded a provision of \$6,476 to reduce these nonperforming loans to their market value, yielding a net gain of \$2,019. See "Changes in Financial Condition - Loans Held for Resale" for additional information regarding the purchased loans.

Valuation Gains (Losses) on Real Estate. We regularly assess the value of our remaining real estate assets and provide valuation allowances or record impairment charges as appropriate. The \$(3,990) of losses in the first nine months of 2004 consist primarily of impairment charges and provisions for losses in fair value on three commercial assets, two of which were subsequently sold. See "Changes in Financial Condition - Real Estate."

Gain (Loss) on Sales of Real Estate. The gains in the 2005 periods are primarily due to a gain of \$1,882 earned during the third quarter that resulted from the sale of assets by one of our commercial real estate partnerships. See "Changes in Financial Condition - Real Estate."

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

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Consulting fees (1)	\$ 488	\$ 76	\$ 2,130	\$ 76
Technology and related revenue (2)	1,087	1,030	3,043	6,116
Interest on federal tax refund claims (3)	948	2,730	1,900	6,476
Collections of credit card receivables (4)	248	492	960	1,457
Gain on sale on deposits (5)	--	--	1,750	--
Other	1,173	1,759	3,064	5,845
	<u>\$ 3,944</u>	<u>\$ 6,087</u>	<u>\$ 12,847</u>	<u>\$ 19,970</u>

- (1) Consulting fees and cost reimbursements earned by the international group of our Commercial Servicing segment.
- (2) Represents service contract fees, maintenance fees, consulting revenue and other fees earned through our technology products - REALServicing, REALSynergy and REALTrans. Revenue for 2004 includes \$2,900 of one-time fees (primarily documentation fees) earned during the second quarter associated with a service contract for the use of the REALServicing system.
- (3) Interest income on federal tax refund claims due from the Internal Revenue Service ("IRS"). Our policy is to recognize interest income on income tax receivable balances upon receipt of a written finding from the IRS agent that validates our claim. During the third quarter of 2005, we collected \$65,317 in connection with these federal tax refund claims, including \$8,772 of interest. See "Changes in Financial Condition - Receivables".
- (4) Comprised of collections of credit card receivables accounted for under the cost recovery method. See "Segment Results - Ocwen Recovery Group".
- (5) As disclosed in Note 5 to the Interim Consolidated Financial Statements, Marathon National Bank assumed the Bank's customer deposit liabilities on June 30, 2005. We earned \$1,750 as consideration for the sale of these deposits.

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Net Interest Income (Expense). Net interest income (expense) is the difference between the interest income earned from our interest-earning assets and the interest expense incurred on our interest-bearing liabilities. Our net interest income has been negative (i.e., net interest expense) since 2001 because the operations of our core businesses require a significant investment in non-interest earning assets, primarily advances on loans serviced for others and mortgage servicing rights, that are funded by interest-bearing liabilities. In addition to interest income reported in this caption, we also earn interest on the custodial accounts we hold in connection with our Residential Servicing business. These amounts are reported as a component of servicing fees and are not included in the following information. The following table presents the components of net interest income (expense) for each category of our interest-earning assets and interest-bearing liabilities for the periods indicated:

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Interest income:				
Interest earning cash and short-term cash investments	\$ 344	\$ 1,047	\$ 1,902	\$ 2,129
Trading securities (1)	3,263	3,448	14,482	11,000
Match funded loans	214	272	354	1,035
Loans	43	221	222	1,391
Total interest income	3,864	4,988	16,960	15,555
Interest expense:				
Match funded liabilities (2)	4,460	1,143	10,935	3,239
Lines of credit and other secured borrowings	452	149	1,613	2,177
Debt securities				
3.25% Convertible Notes (3)	1,726	1,196	5,258	1,196
10.875% Capital Securities	1,512	1,529	4,570	4,588
	3,238	2,725	9,828	5,784
Deposits	190	3,124	3,476	10,840
Total interest expense	8,340	7,141	25,852	22,040
Net interest income (expense) before provision for loan losses	\$ (4,476)	\$ (2,153)	\$ (8,892)	\$ (6,485)

(1) Consists primarily of interest income on subordinate and residual securities. See "Changes in Financial Condition - Trading Securities."

(2) The increase in interest expense on match funded liabilities in the 2005 periods is primarily due to an increase in the outstanding balance of match funded liabilities as a result of a servicing advance securitization that we executed in November 2004. See "Changes in Financial Condition - Match Funded Liabilities".

(3) In July 2004, we issued \$175,000 of 3.25% Contingent Convertible Senior Unsecured Notes that are due in 2024. See "Changes in Financial Condition - Debt Securities".

Non-Interest Expense. The following is a discussion of non-interest expense during the three and nine month periods ended September 30, 2005 and 2004:

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

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Salaries, bonuses and commissions (1)	\$ 20,559	\$ 18,690	\$ 62,466	\$ 55,162
Other (2)	3,164	2,610	9,983	9,067
	\$ 23,723	\$ 21,300	\$ 72,449	\$ 64,229

(1) Salaries include fees paid for the services of temporary employees. Bonus expense includes compensation related to employee incentive awards of restricted stock and stock options.

(2) Other consists primarily of payroll taxes, insurance, recruiting

expenses, matching contributions to our 401(K) plan, payments to independent contractors and other benefits.

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The increase in compensation and benefits in the 2005 periods as compared to the same periods of 2004 is primarily due to increases in salaries. The increase in salaries has occurred primarily because of an increase in the average number of our full-time employees in our India offices. The following table indicates average employment for the periods indicated:

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
India	2,402	1,822	2,249	1,642
United States and Other	1,011	1,097	1,034	1,066
Total	3,413	2,919	3,283	2,708
	=====	=====	=====	=====

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

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Postage and mailing	\$ 1,491	\$ 1,491	\$ 4,254	\$ 4,332
Rent	1,013	691	2,851	2,079
Depreciation	501	649	1,832	2,017
Other	1,512	1,150	4,393	3,571
	=====	=====	=====	=====
	\$ 4,517	\$ 3,981	\$ 13,330	\$ 11,999
	=====	=====	=====	=====

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

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Depreciation:				
Hardware	\$ 1,505	\$ 1,469	\$ 4,633	\$ 4,564
Software	799	716	2,504	2,150
Other	195	215	566	504
	=====	=====	=====	=====
	2,499	2,400	7,703	7,218
Telecommunications	2,088	1,725	5,585	5,013
Document imaging	241	251	1,723	1,144
Maintenance and other	2,761	1,814	7,839	6,101
	=====	=====	=====	=====
	\$ 7,589	\$ 6,190	\$ 22,850	\$ 19,476
	=====	=====	=====	=====

Loan Expenses. Loan expenses for the third quarter of 2005 and 2004 included \$4,877 and \$4,415, respectively, of fees incurred in connection with property valuation services we provided through the Residential Origination Services segment. Year to date, such property valuation fees amounted to \$13,882 and \$16,525 for 2005 and 2004, respectively. The decline in appraisal fees in 2005 primarily relates to the initial boarding of the VA portfolio of properties in 2004 and reduced transaction volumes in 2005. Loan expenses also include other miscellaneous expenses incurred in connection with the refinancing and servicing of loans for others.

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

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

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Legal fees and settlements (1)	\$ 1,120	\$ 2,130	\$ 6,209	\$ 11,136
Consulting fees (non-technology)	1,376	547	2,947	1,805
Audit and accounting fees (2)	1,108	610	2,863	1,742
Insurance	555	470	1,432	1,430
Other	427	451	1,512	1,913
	<u>\$ 4,586</u>	<u>\$ 4,208</u>	<u>\$ 14,963</u>	<u>\$ 18,026</u>

(1) Legal fees and settlements for 2004 include \$5,178 recorded during the first six months of the year to establish a reserve for multiple breach fees that we had ceased to collect directly from borrowers from early in 2004 through August 31, 2005. In the third quarter of 2005, legal fees and settlements were reduced by approximately \$2,600, as a result of our reversing all but \$300 of the remaining balance of the reserve. See "Changes in Financial Condition - Advances on Loans and Loans Serviced for Others."

(2) The increase in audit and accounting fees in the 2005 periods is primarily due to additional fees incurred in connection with our compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Loss (Gain) on Investments in Affordable Housing Properties. The loss in the 2005 periods is primarily the result of a \$1,272 loss that we incurred during the third quarter on the sale of our one remaining limited partnership interest in an affordable housing property.

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

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Bad debt expense (1)	\$ 2,937	\$ 850	\$ 5,969	\$ 2,619
Travel, lodging, meals and entertainment	918	815	3,109	2,430
Amortization of deferred costs	102	325	422	749
Deposit related expense	138	224	575	548
Other	900	439	3,158	1,495
	<u>\$ 4,995</u>	<u>\$ 2,653</u>	<u>\$ 13,233</u>	<u>\$ 7,841</u>

(1) Bad debt expense primarily represents provisions for estimated uncollectible servicing advances and other receivables related to our Residential Servicing segment.

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

For the periods ended September 30,	Three Months		Nine Months	
	2005	2004	2005	2004
Income tax expense (benefit) on income (loss) before taxes	\$ 2,282	\$ 930	\$ 3,973	\$ 5,206
Provision for (reversal of) valuation allowance on deferred tax asset (1)(2)	--	(32,775)	(843)	(36,985)
Provision for recapture of base year bad debt reserves (2)	--	--	1,967	--
Total income tax expense (benefit)	<u>\$ 2,282</u>	<u>\$ (31,845)</u>	<u>\$ 5,097</u>	<u>\$ (31,779)</u>

(1) The net reduction in the valuation allowance that was recorded in the third quarter of 2004 includes a \$36,985 reversal that was the result of refund claims of \$56,526 that had been filed with the IRS. These refund claims arose because of changes in the tax law that allowed us to carry back net operating losses from 2001 and 2002 to taxes paid in earlier years. See "Changes in Financial Condition - Receivables" for additional information regarding our refund claims and related income taxes receivable.

- (2) In the second quarter of 2005, we recorded a one-time provision, net of a related reversal of the valuation allowance on the deferred tax asset, to recognize a deferred tax liability arising from the recapture of bad debt reserves in connection with our termination of the Bank's status as a federal savings bank.

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

We maintain a valuation allowance in an amount sufficient to reduce our deferred tax asset to the amount that is more likely than not to be realized. The valuation allowance amounted to \$165,084 and \$165,927 at September 30, 2005 and December 31, 2004, respectively. The amount of the valuation allowance was based on consideration of all available evidence, both positive and negative, including our recent earnings history, current tax position and estimates of future taxable income. The tax character (ordinary versus capital) and the carry forward and carry back periods of certain tax attributes (e.g., capital losses and tax credits) were also considered. We assess the amount of the valuation allowance each quarter and in light of our positive recent earnings history, reversal of all or a portion of the valuation allowance may be appropriate in the future.

Income tax expense (benefit) on income (loss) before income taxes differs from amounts that would be computed by applying the Federal corporate income tax rate of 35% because of the effect of foreign taxes, non-economic tax residual payments, changes in the valuation allowance and low-income housing tax credits. Income tax expense for the first nine months of 2005 and 2004 reflects tax credits of \$1,100 and \$3,507, respectively. Although we have substantial unused tax credits available to reduce the liability arising from income taxes on our current year income, tax credits can be used to reduce income tax expense only to the corporate alternative minimum tax rate of 20% of taxable income.

CHANGES IN FINANCIAL CONDITION

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

	September 30, 2005	December 31, 2004
	-----	-----
Investment grade (1):		
U.S. Treasury	\$ --	\$ 1,594
Collateralized mortgage obligations (AAA-rated)	--	81,466
Commercial paper	39,987	--
Bonds and debentures (2)	1,730	3,155
	-----	-----
	\$ 41,717	\$ 86,215
	=====	=====
Subordinates and residuals (3):		
Single family residential		
BB-rated subordinates	\$ 231	\$ 256
B-rated subordinates	356	435
Unrated subordinates	183	217
Unrated residuals	26,641	35,277
	-----	-----
	27,411	36,185
Commercial unrated subordinates	2,667	3,342
	-----	-----
	\$ 30,078	\$ 39,527
	=====	=====

- (1) Investment grade securities declined by \$44,498 during the first nine months of 2005 primarily due to maturities, sales and principal repayments on CMOs, offset in part by the purchase of commercial paper. Prior to debanking we invested in CMOs as needed to meet the Qualified Thrift Lender requirements of the Bank.
- (2) These securities were acquired in connection with our acquisition of BOK on September 30, 2004.
- (3) During the first nine months of 2005, our subordinate and residual trading securities declined by \$9,449. This decline was primarily due to a decline in fair value of our unrated subprime residual securities.

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

Subordinate and residual interests are affected by the rate and timing of payments of principal (including prepayments, repurchase, defaults and liquidations) on the mortgage loans underlying a series of mortgage-related securities. The rate of principal

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
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payments may vary significantly over time depending on a variety of factors, such as the level of prevailing mortgage loan interest rates and economic, demographic, tax, legal and other factors. Prepayments on the mortgage loans underlying a series of mortgage-related securities are generally allocated to the more senior classes of mortgage-related securities. Although in the absence of defaults or interest shortfalls all subordinates receive interest, amounts otherwise allocable to residuals generally are used to make payments on more senior classes or to fund a reserve account for the protection of senior classes until over collateralization or the balance in the reserve account reaches a specified level. For residual interests in residential mortgage-backed securities, over collateralization is the amount by which the collateral balance exceeds the sum of the bond principal amounts. Over collateralization is achieved by applying monthly a portion of the interest payments of the underlying mortgages toward the reduction of the senior class certificate principal amounts, causing them to amortize more rapidly than the aggregate loan balance. Over collateralization represents the first tier of loss protection afforded to the non-residual holders. To the extent not consumed by losses on more highly rated bonds, over collateralization is remitted to the residual holders. In periods of declining interest rates, rates of prepayments on mortgage loans generally increase, and if the rate of prepayments is faster than anticipated, then the yield on subordinates will be positively affected and the yield on residuals will be negatively affected.

We periodically assess the carrying value of our subordinate securities and residual securities retained. There can be no assurance that our estimates used to determine the value of subordinate securities and residual securities retained will remain appropriate for the life of each securitization. If actual loan prepayments or defaults exceed our estimates, the carrying value of our subordinate securities and residual securities retained may be decreased during the period in which we recognized the disparity.

The following table presents information regarding our subordinate and residual trading securities summarized by classification and rating at September 30, 2005:

RATING/DESCRIPTION (1)	PERCENT OWNED BY OCWEN	ANTICIPATED YIELD TO MATURITY AT PURCHASE (2) (3)	ANTICIPATED YIELD TO MATURITY AT 9/30/2005 (2) (4)	COUPON	ANTICIPATED WEIGHTED AVERAGE REMAINING LIFE (2) (5)
Single family residential:					
BB-rated subordinates.....	100.00%	19.23%	12.75%	6.75%	3.02
B-rated subordinates.....	100.00%	12.79%	10.91%	6.10%	0.97
Unrated subordinates.....	100.00%	13.45%	43.64%	6.56%	1.25
Unrated residuals.....	100.00%	17.30%	12.97%	N/A	4.04
Commercial:					
Unrated subordinates.....	25.00%	15.84%	7.47%	N/A	3.27

- (1) Refers to the credit rating designated by the rating agency for each securitization transaction. Classes designated "A" have a superior claim on payment to those rated "B." Additionally, multiple letters have a superior claim to designations with fewer letters. The lowest potential class designation is "unrated" which, if included in a securitization, will always receive interest last and experience losses first.
- (2) Subordinate and residual securities do not have a contractual maturity but are paid down over time as cash distributions are received. Because they do not have a stated maturity, we disclose the weighted average life of these securities.
- (3) Represents the effective yield from inception to maturity based on the purchase price and anticipated future cash flows under pricing assumptions.
- (4) Represents the effective yield based on the purchase price, actual cash flows received from inception until the respective date, and the then current estimate of future cash flows under the assumptions at the respective date. Changes in the September 30, 2005 anticipated yield to maturity from that originally anticipated are due to differences between estimated and actual cash flows. Each quarter we update the assumptions used to estimate future cash flows based on the actual results to date. The primary assumptions include prepayment speeds, loss rates and the discount rate.
- (5) Represents the weighted average life in years based on the September 30, 2005 amortized cost.

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

The mortgages that underlie our trading subordinate and residual securities, which totaled \$169,046 at September 30, 2005, are secured by properties located in forty-nine states and the United Kingdom. The largest aggregate value of mortgages in any one state or foreign country is \$38,675 in the United Kingdom.

Loans Held for Resale. Loans held for resale represent single-family residential loans originated or acquired by our Residential Origination Services segment and amounted to \$163,003 at September 30, 2005, a \$154,566 increase over the \$8,437 balance at December 31, 2004. These loans are carried at the lower of cost or market value and were comprised of three components at September 30, 2005.

First, loans with a carrying value of \$75,377, net of a market valuation reserve of \$6,476, were acquired in September 2005 in connection with the termination of securitization trusts in which we were the servicer and holder of residual securities. These loans included \$16,888 of non-performing loans at the time of acquisition. At September 30, 2005, we were actively negotiating the sale or securitization of all of the loans. In October 2005, we completed a securitization involving \$59,756 of these loans. See "Results of Operations - Non-Interest Revenue - Gain (Loss) on Trading Securities, Net."

Second, \$71,267 of loans were originated in connection with our new origination services business. At September 30, 2005 we had commitments to sell all of these loans. We sold \$62,643 of these loans in October 2005.

Third, a balance of \$16,359 represented loans that were originated in response to requests from Residential Servicing customers to refinance their mortgage. A balance of \$8,437 of such loans was outstanding at December 31, 2004, all of which were sold in January 2005. Only loans with sales commitments prior to closing are originated under this program. Of the loans outstanding at September 30, 2005, \$15,739 were sold in October 2005.

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

	September 30, 2005	December 31, 2004
	-----	-----
Match funded advances on loans serviced for others:		
Principal and interest	\$ 124,938	\$ 107,102
Taxes and insurance	117,550	107,710
Other	73,206	61,814
	-----	-----
	315,694	276,626
Commercial loans	1,986	4,134
	-----	-----
	\$ 317,680	\$ 280,760
	=====	=====

Match funded advances on loans serviced for others resulted from the transfers of certain residential loan servicing related advances to qualified special purpose entities ("SPE") in exchange for cash. These advances are owned by the SPEs and are, therefore, not available to satisfy claims of our general creditors. These transfers did not qualify as sales under generally accepted accounting principles because we retained effective control of the advances. Accordingly, we report the amount of proceeds we received as secured borrowings with pledges of collateral (match funded liabilities). See "Match Funded Liabilities".

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

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

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

	September 30, 2005	December 31, 2004
	-----	-----
Loans serviced for others:		
Principal and interest	\$ 90,092	\$ 51,782
Taxes and insurance	100,715	94,926
Other	94,782	93,375
	-----	-----
	285,589	240,083
Loans	314	347
	-----	-----
	\$ 285,903	\$ 240,430
	=====	=====

During any period in which the borrower is not making payments, we are required under certain servicing agreements to advance our own funds to meet contractual principal and interest remittance requirements for investors, pay property taxes and insurance premiums and process foreclosures. We generally recover such advances from borrowers for reinstated and performing loans and from investors for foreclosed loans. We record a charge to the extent that we estimate that advances are uncollectible, taking into consideration the age and nature of the advance and our historical loss experience, among other factors. Advances on loans serviced for others are net of reserves of \$639 and \$5,212 as of September 30, 2005 and December 31, 2004, respectively. The reserve balance at December 31, 2004 included \$4,115 related to the remaining balance of forbearance plan fees and multiple breach fees that we were not collecting directly from borrowers at that time. As of September 30, 2005, this allowance had been reduced to \$300, including the reversal of approximately \$2,600 of reserve in the third quarter of 2005.

Mortgage Servicing Rights. The unamortized balance of our mortgage servicing rights is primarily related to residential assets. Our investment decreased by \$16,312 during the nine months ended September 30, 2005 as amortization exceeded purchases. The rate of amortization reflects high rates of actual and projected prepayments on subprime residential mortgage loans due to low interest rates. Purchases for the nine months ended September 30, 2005 reflects the more cautious acquisition strategy that we adopted given the uncertainty of prepayment speeds in the current environment. See "Results of Operations - Segment Results - Residential Servicing". The following table sets forth the activity in our mortgage servicing rights during the first nine months of 2005:

Balance at December 31, 2004	\$ 131,409
Purchases	56,708
Amortization	(73,020)

Balance at September 30, 2005	\$ 115,097
	=====

At September 30, 2005, we serviced loans under approximately 424 servicing agreements for 22 investors. Purchases during the nine months ended September 30, 2005 were all for residential assets.

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

	September 30, 2005	December 31, 2004
	-----	-----
Residential Servicing (1)	\$ 9,884	\$ 24,012
Residential Origination Services	12,419	3,455
Commercial Servicing	2,460	2,736
Business Process Outsourcing	1,915	1,532
Ocwen Recovery Group	1,092	341
Commercial Assets (2)	--	192
Affordable Housing (2)	--	18,308
Corporate Items and Other (3)(4)	25,369	76,143
	-----	-----
	\$ 53,139	\$ 126,719
	=====	=====

(1) Balances include \$2,342 and \$12,801 at September 30, 2005 and December 31, 2004, respectively, of receivables representing fees earned from the servicing of loans and real estate. The remaining balance consists principally of reimbursable expenses due from loan servicing investors. The total balance of receivables for this segment is net of reserves of \$7,285 and \$3,395 at September 30, 2005 and December 31, 2004, respectively.

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- (2) Based on the relative insignificance of the non-core assets remaining in these segments, the remaining assets have been included in the Corporate Items and Other segment beginning January 1, 2005. The Affordable Housing balance primarily represents payments to be received in future years (through June 2014) from the sale of investments in affordable housing properties. The December 31, 2004 balance of \$18,308 is net of discount and reserves of \$2,346 and \$5,596, respectively.
- (3) Balances include \$1,967 and \$68,463 of income taxes receivable at September 30, 2005 and December 31, 2004, respectively. As of December 31, 2004, income taxes receivable includes \$63,398 of federal tax refund claims, including \$6,872 of accrued interest on the claims. In September 2005, we collected the federal income tax refund claims, which totaled \$65,317, including \$8,772 of interest.
- (4) Balance at September 30, 2005 includes the Affordable Housing assets that were transferred to this segment effective January 1, 2005, as noted in (2) above. Those long-term receivables amounted to \$13,359, net of an unaccrued discount of \$1,701 and a reserve for doubtful accounts of \$5,924. Also includes \$5,248 and \$3,384, at September 30, 2005 and December 31, 2004, respectively, of receivables related to BOK.

Real Estate. Our investment in real estate declined from \$18,732 at December 31, 2004 to \$4,779 at September 30, 2005. Our investment in real estate at September 30, 2005 consists primarily of interests in two limited partnerships operating as multi-family real estate ventures with a net carrying value of \$3,693. The \$13,953 decline in real estate during the first nine months of 2005 is primarily the result of two transactions. First, during the first quarter we sold our consolidated subsidiary that owned a retail shopping center located in Halifax, Nova Scotia. This property had a net carrying value of \$8,827 at December 31, 2004. Second, during the third quarter the majority of the real estate assets owned by one of the partnerships were sold and our share of the cash proceeds resulted in a gain of \$1,882. The remaining real estate assets of this partnership were sold in October 2005, and our share of the proceeds resulted in a gain of approximately \$600.

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

	September 30, 2005	December 31, 2004
	-----	-----
Deferred tax assets, net (1)	\$ 18,301	\$ 17,684
Deferred debt related costs, net	10,219	11,216
Interest earning collateral deposits (2)	15,071	8,905
Interest earning debt service accounts (3)	16,696	5,851
Affordable housing properties (4)	--	5,641
Goodwill, net(5)	5,806	5,312
Prepaid expenses	2,958	4,067
Mutual fund and stocks (6)	24	2,886
Capitalized software development costs, net	265	1,148
Other	2,471	3,470
	-----	-----
	\$ 71,811	\$ 66,180
	=====	=====

- (1) Deferred tax assets are net of valuation allowances totaling \$165,083 and \$165,926 at September 30, 2005 and December 31, 2004, respectively. See "Results of Operations - Income Tax Expense (Benefit)".
- (2) The balance at September 30, 2005 and December 31, 2004 includes \$8,864 and \$8,905, respectively, of deposits that were required in order to obtain surety bonds for affordable housing properties that we sold before the end of the fifteen-year tax credit amortization period and on which we have previously claimed tax credits on our income tax returns. The surety bond is necessary in order to avoid the recapture of those tax credits previously claimed. The balance at September 30, 2005 also includes a \$5,000 cash collateral account required under a guaranty we entered into in connection with debanking. See Note 5 to the Interim Consolidated Financial Statements.
- (3) The balances at September 30, 2005 and December 31, 2004 include amounts set aside from the proceeds of one of our match funded advance facilities to provide for possible shortfalls in the funds available to pay certain expenses and interest. The balance at September 30, 2005 also includes collections on match funded advances related to our other advance facility that were forwarded to the trustee prior to the scheduled payment application date.
- (4) We sold our one remaining limited partnership interest in an affordable housing property during the third quarter of 2005 for a loss of \$1,272.
- (5) The increase in goodwill in 2005 is the result of our purchase from an unaffiliated third party of their 10% minority interest in a Japanese subsidiary of GSS.

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

- (6) The balance at December 31, 2004 primarily represented an investment by the Bank in a mutual fund that invested in assets that met the requirements of the Community Reinvestment Act. This investment was sold during the second quarter of 2005 in connection with debanking.

Match Funded Liabilities. Match funded liabilities represent proceeds received from transfers of loans and advances on loans serviced for others. Because we retained effective control over the assets transferred, these transfers did not qualify as sales for accounting purposes and, therefore, we report them as secured borrowings with pledges of collateral. See "Match Funded Assets" for additional details regarding these transactions. Match funded liabilities were comprised of the following at the dates indicated:

Collateral	Interest Rate	Available Borrowing Capacity	Balance Outstanding	
			September 30, 2005	December 31, 2004
Advances on loans serviced for others (1)	See (1) below	\$ 96,252	\$ 178,748	\$ 149,342
Advances on loans serviced for others (2)	LIBOR plus 175 basis points	90,258	109,742	90,851
Commercial loans (3)		--	1,986	4,134
		\$ 186,510	\$ 290,476	\$ 244,327

- (1) In November 2004, we executed a servicing advance securitization. This transaction involved the issuance of a term note for \$100,000 and a one-year variable funding note for a maximum of \$75,000. On March 31, 2005, we executed an indenture supplement to the November 2004 securitization with a closing date of April 6, 2005. This supplement included the issuance of a second term note for \$75,000. In addition, the maximum amount of the variable funding note was increased to \$100,000. The original term note bears interest at LIBOR plus 50 basis points, and the second term note bears interest at LIBOR plus 40 basis points. The variable funding note bears interest at a commercial paper rate plus a margin that approximates LIBOR plus 50 basis points. The original term note under this facility has a stated maturity of October 2013, and the second term note has a stated maturity of March 2014. The variable funding note has a stated maturity of November 2010.
- (2) Under the terms of the agreement, we are eligible to finance additional advances on loans serviced for others up to a maximum balance of \$200,000. This facility will mature in January 2006.
- (3) Represents a 100% participation interest held by a third party.

The lending agreements for our match funded liabilities contain various qualitative and quantitative covenants that, among other things, establish requirements for the monitoring and reporting of specified financial transactions and reporting on defined events affecting the collateral underlying the agreements. We are currently in compliance with these covenants.

Servicer Liabilities. Servicer Liabilities represent amounts we have collected, primarily from Residential Servicing borrowers, that will either be deposited in collection accounts held at an unaffiliated bank and excluded from our balance sheet, paid directly to an investment trust, or refunded to borrowers. Reclassifications have been made to the prior periods to conform to this presentation. The following table sets forth the principal components of servicer liabilities at the dates indicated:

	September 30, 2005	December 31, 2004
Borrower payments due to collection accounts	\$ 231,905	\$ 255,040
Escrow payments due to collection accounts	4,458	3,786
Partial payments and other unapplied balances	48,986	32,439
	\$ 285,349	\$ 291,265

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

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

Borrowing Type	Interest Rate (1)	Maturity	Available Borrowing Capacity	Balance Outstanding	
				September 30, 2005	December 31, 2004
Senior secured credit agreement (2)	LIBOR + 162.5 or 225 basis points	June 2006	\$ 56,462	\$ 83,538	\$ 24,218
Senior secured credit agreement (3)	LIBOR + 250 basis points	(3)	--	--	11,458
Mortgage note (4)	5.62%	October 2014	--	14,729	14,936
			\$ 56,462	\$ 98,267	\$ 50,612

(1) 1-month LIBOR was 3.86% and 2.40% at September 30, 2005 and December 31, 2004, respectively.

(2) Secured by mortgage servicing rights and advances on loans serviced by others.

(3) Secured by mortgage servicing rights. We repaid in full the balance outstanding under this credit agreement during the second quarter of 2005 and terminated the agreement.

(4) Collateral represents our loan servicing call center located in Orlando, Florida. We entered into this mortgage in October 2004.

Each of our lines contains qualitative and quantitative covenants that establish, among other things, the maintenance of specified net worth and restrictions on future indebtedness, as well as the monitoring and reporting of various specified transactions or events. We are currently in compliance with these covenants. While we have not historically paid dividends, our covenants, by establishing net worth requirements, in effect limit the amount of dividends that could be paid. As of September 30, 2005, the most restrictive limitation of all the covenants would limit dividends that could be paid to \$90,554. In addition to these covenants, the Guaranty that we entered into with the OTS as part of the debanking process limits cash dividends to our consolidated net income for the year plus our retained earnings for the preceding two years and requires that we maintain a minimum net worth of \$333,000. See Note 5 to the Interim Consolidated Financial Statements.

Debt Securities. Debt securities consisted of the following at the dates indicated:

	September 30, 2005	December 31, 2004
3.25% Convertible Notes due August 1, 2024 (1)	\$ 165,500	\$ 175,000
10.875% Capital Securities due August 1, 2027 (2)	53,929	56,249
	\$ 219,429	\$ 231,249

(1) The \$9,500 decline in the outstanding balance during the first nine months of 2005 is due to repurchases during the third quarter. These repurchases generated total gains of \$1,092, net of the write-off of unamortized issuance costs.

(2) The \$2,320 decline in the outstanding balance during the first nine months of 2005 is due to repurchases during the third quarter. These repurchases resulted in losses totaling \$195, including the write-off of unamortized issuance costs.

In addition to the specific requirements discussed below, each of our debt securities contain qualitative and quantitative covenants that establish, among other things, the maintenance of specified net worth and restrictions on future indebtedness, as well as the monitoring and reporting of various specified transactions or events. We are currently in compliance with these covenants.

Convertible Notes. In July 2004, OCN issued \$175,000 aggregate principal amount of 3.25% Contingent Convertible Senior Unsecured Notes due 2024 ("Convertible Notes") in a private placement as permitted by the Securities Act of 1933, as amended. We filed with the Securities and Exchange Commission a registration statement, which was declared effective March 15, 2005, covering resales by holders of the Convertible Notes and the common stock issuable upon conversion of the Convertible Notes. The Convertible Notes are senior unsecured obligations of Ocwen Financial Corporation and bear interest at the rate of 3.25% per year. Interest is payable on February 1 and August 1 of each year,

beginning on February 1, 2005. The Convertible Notes will mature on August 1, 2024.

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

Holders may convert all or a portion of their notes into shares of our common stock under the following circumstances: (1) at any time during any calendar quarter commencing after December 31, 2004, if the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the calendar quarter prior to such quarter is greater than 125% of the conversion price per share of common stock on such last day; (2) subject to certain exceptions, during the five business day period after any five-consecutive-trading-day period in which the trading price per \$1 principal amount of the notes for each day of the five-consecutive-trading-day period was less than 98% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of \$1 principal amount of the notes; (3) if the notes have been called for redemption; (4) upon the occurrence of specified corporate transactions; or (5) if we elect at our sole discretion to permit conversion following the implementation of EITF Issue 04-8. We elected not to permit conversion following the implementation of EITF 04-8 in the fourth quarter of 2004.

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

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

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

Capital Securities. In August 1997, Ocwen Capital Trust ("OCT") issued \$125,000 of 10.875% Capital Securities (the "Capital Securities"). OCT invested the proceeds from issuance of the Capital Securities in 10.875% Junior Subordinated Debentures issued by OCN. The Junior Subordinated Debentures, which represent the sole assets of OCT, will mature on August 1, 2027.

Holders of the Capital Securities are entitled to receive cumulative cash distributions accruing from the date of original issuance and payable semiannually in arrears on February 1 and August 1 of each year, commencing on February 1, 1998, at an annual rate of 10.875% of the liquidation amount of \$1 per Capital Security. OCN guarantees payment of distributions out of moneys held by OCT, and payments on liquidation of OCT or the redemption of Capital Securities, to the extent OCT has funds available. If Ocwen Financial Corporation does not make principal or interest payments on the Junior Subordinated Debentures, OCT will not have sufficient funds to make distributions on the Capital Securities, in which event the guarantee shall not apply to such distributions until OCT has sufficient funds available therefor.

We have the right to defer payment of interest on the Junior Subordinated Debentures at any time or from time to time for a period not exceeding 10 consecutive semiannual periods with respect to each deferral period, provided that no extension period may extend beyond the stated maturity of the Junior Subordinated Debentures. Upon the termination of any such extension period and the payment of all amounts then due on any interest payment date, we may elect to begin a new extension period. Accordingly, there could be multiple extension periods of varying lengths throughout the term of the Junior Subordinated Debentures. If we defer interest payments on the Junior Subordinated Debentures, distributions on the Capital Securities will also be deferred, and we may not, nor may any of our subsidiaries, (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire or make a liquidation payment with respect to, their capital stock or (ii) make any payment of principal, interest or premium, if any, on or repay, repurchase or redeem any debt securities that rank pari passu with or junior to the Junior Subordinated Debentures. During an extension period, interest on the Junior Subordinated Debentures will continue to accrue at the rate of 10.875% per annum, compounded semiannually.

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

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

Debentures at maturity or their earlier redemption, in an amount equal to the amount of the related Junior Subordinated Debentures maturing or being redeemed and at a redemption price equal to the redemption price of the Junior Subordinated Debentures, plus accumulated and unpaid distributions thereon to the date of redemption.

For financial reporting purposes, we treat OCT as a subsidiary and, accordingly, the accounts of OCT are included in our consolidated financial statements. We eliminate intercompany balances and transactions with OCT, including the balance of Junior Subordinated Debentures outstanding, in our consolidated financial statements.

Other Liabilities. Other liabilities consisted of the following at the dates indicated:

	September 30, 2005	December 31, 2004
	-----	-----
Accrued expenses (1)	\$ 34,949	\$ 35,342
BOK bank deposits (2)	12,509	10,792
Deferred income	7,663	6,179
Other	16,185	4,537
	-----	-----
	\$ 71,306	\$ 56,850
	=====	=====

(1) Consists primarily of accruals for incentive compensation awards, audit fees, interest on debt securities and operating expenses.

(2) Represents funds of third parties held on deposit by our German bank subsidiary.

Deposits. In connection with debanking, on June 30, 2005, Marathon National Bank assumed the customer deposits associated with the Bank's branch facility. As a result of our termination of the Bank's status as a federal savings bank, we are no longer able to take deposits in the United States. See Note 5 to the Interim Consolidated Financial Statements for additional information regarding debanking. Total customer deposits amounted to \$290,507 at December 31, 2004.

Escrow Deposits. Escrow deposits amounted to \$86,084 at December 31, 2004 and consisted of custodial deposit balances representing funds collected from borrowers for the payment of taxes and insurance premiums on mortgage properties underlying loans that we serviced for others. In connection with debanking, these custodial deposits were transferred from the Bank to an unaffiliated bank and are now excluded from our balance sheet.

Stockholders' Equity. Stockholders' equity amounted to \$345,612 at September 30, 2005 as compared to \$330,108 at December 31, 2004. The \$15,504 increase in stockholders' equity during the first nine months of 2005 was primarily due to net income of \$13,240 and the issuance of vested restricted stock to employees as part of our annual incentive awards. See the Consolidated Statements of Changes in Stockholders' Equity in the Interim Consolidated Financial Statements for additional information regarding changes in stockholders' equity during the first nine months of 2005.

We did not purchase any shares of our own common stock during the nine months ended September 30, 2005. A total of 5,568,900 shares may be purchased under a plan we announced on May 9, 2000 to repurchase up to 6,000,000 shares of our issued and outstanding common stock.

LIQUIDITY, COMMITMENTS AND OFF-BALANCE SHEET RISKS

Our primary sources of funds for liquidity are:

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

At September 30, 2005, we had \$187,333 of unrestricted cash and \$41,717 of short-term investment grade securities. Unrestricted cash and short-term investment grade securities combined represented 17% of total assets at September 30, 2005. Under certain of our credit facilities, we are required to maintain minimum liquidity levels. Among the risks and challenges associated with our funding activities are the following:

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

- o As a result of debanking, we are no longer able to take deposits in the United States, and we made a net cash payment of \$164,212 to Marathon National Bank on June 30, 2005 in connection with their assumption of our customer deposits.
- o Cash requirements to fund our acquisition of additional servicing rights and related advances.
- o The maturity of existing senior secured credit agreements with an outstanding balance of \$83,538 within the next twelve months.
- o Ongoing cash requirements to fund operations.

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

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

- o Under a match funding agreement that we entered into on December 20, 2001, we are eligible to sell advances on loans serviced for others up to a maximum debt balance of \$200,000 at any one time. At September 30, 2005, we had \$109,742 of match funded liabilities outstanding under this facility, which will mature in January 2006. The sales of advances do not qualify as sales for accounting purposes; therefore, we report them as secured borrowings with pledges of collateral.
- o In April 2003, we also entered into a secured credit agreement that may be used to fund servicing advances and acquisitions of servicing rights. The agreement matures in April 2006. In April 2005 we concluded a syndication of this credit line that increased our borrowing capacity under this agreement by \$70,000 for a total of \$140,000. The syndication closed effective July 1, 2005. At September 30, 2005, we had a balance outstanding under this agreement of \$83,538.
- o On November 17, 2004, we entered into a match funded agreement under which we transferred certain of our advances on loans serviced for others. As of September 30, 2005, proceeds received in connection with this transfer of advances were \$178,748. The two term notes of \$100,000 and \$75,000 under this facility have stated maturities of October 2013 and March 2014, respectively. The variable funding note, which has a maximum amount of \$100,000, has a stated maturity of November 2010.

We believe that our existing sources of liquidity, including internally generated funds, will be adequate to fund our planned activities for the foreseeable future, although there can be no assurances in this regard. At September 30, 2005, we had a total of \$242,972 of available borrowing capacity under existing credit agreements. We continue to evaluate other sources of liquidity, such as debt securities, lines of credit from unaffiliated parties, match funded debt and other secured borrowings.

Our operating activities provided (used) \$(23,550) and \$101,692 of cash flows during the nine months ended September 30, 2005 and 2004, respectively. Operating cash flow declined in 2005 primarily as a result of a decline in net collections on advances and match funded advances on loans serviced for others, a decline in the amount of borrower payments held by us prior to their being transferred to collection accounts and an increase in loans held for resale, offset in large part by the collection of federal income tax refund claims and related interest totaling \$65,317 in the third quarter of 2005 and a decrease in cash used by trading securities.

Our investing activities provided (used) cash flows totaling \$(39,617) and \$7,600 during the nine months ended September 30, 2005 and 2004, respectively. The decline in cash flows provided by investing activities in 2005 is largely the result of an increase in purchases of mortgage servicing rights, coupled with a decline in proceeds from the sale of real estate and a decline in principal payments received on loans. These increased cash outflows were partly offset by a decline loan originations in 2005.

Our financing activities provided (used) cash flows of \$(291,051) and \$873 during the nine months ended September 30, 2005 and 2004, respectively. Cash flows provided financing activities decreased principally because of the decline in deposits in 2005 as a result of maturing certificates of deposit and the cash payment to Marathon National Bank on June 30, 2005 in connection with their assumption of our customer deposits. Also, in the third quarter of 2004 we received proceeds from the issuance of \$175,000 of 3.25% Convertible Notes. Partially offsetting this increase in cash provided, match funded agreements provided additional net cash in 2005 as a result of increased borrowing capacity, and we repurchased 5,481,000 shares of our common stock. Also, a line of credit collateralized by servicing advances matured in 2004 resulting in a significant cash outflow.

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

See the Consolidated Statements of Cash Flows in the Interim Consolidated Financial Statements for additional details regarding cash flows during the nine months ended September 30, 2005 and 2004.

Commitments. We believe that we have adequate resources to fund all unfunded commitments to the extent required and meet all contractual obligations as they come due. Such contractual obligations include our Convertible Notes, Capital Trust Securities, lines of credit and other secured borrowings and operating leases. See Note 7 to the Interim Consolidated Financial Statements for additional information regarding commitments and contingencies.

Off-Balance Sheet Risks. In addition to commitments to extend credit, we are party to various off-balance sheet financial instruments in the normal course of our business to manage our foreign currency exchange rate risk. See Note 4 to the Interim Consolidated Financial Statements and "Quantitative and Qualitative Disclosures about Market Risk".

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

REGULATORY MATTERS

See Note 5 to the Interim Consolidated Financial Statements.

RECENT ACCOUNTING DEVELOPMENTS

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

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

Market risk includes interest rate risk, foreign currency exchange rate risk and liquidity risk. We are exposed to interest rate risk to the degree that our interest-bearing liabilities mature or reprice at different speeds, or different bases, than our interest-earning assets. We are exposed to foreign currency exchange rate risk in connection with our investment in non-U.S. dollar functional currency operations and to the extent our foreign exchange positions remain unhedged. Market risk also reflects the risk of declines in the valuation of trading securities, mortgage servicing rights and in the value of the collateral underlying loans and the value of real estate held.

We are also exposed to liquidity risk primarily because of the highly variable daily cash requirements to support the Residential Servicing business, including acquisitions of mortgage servicing rights, the requirement to make advances pursuant to servicing contracts and the process of remitting borrower payments to the custodial accounts. In general, we finance our operations through operating cash flows and various other sources, including long-term debt and financing facilities. See "Liquidity, Commitments and Off-Balance Sheet Risks" for additional discussion regarding liquidity.

The primary risk associated with mortgage servicing rights is that they will lose a portion of their value as a result of higher than anticipated prepayments occasioned by declining interest rates or because of higher than anticipated delinquency rates occasioned by deteriorating credit conditions. Interest rates, prepayment speeds and the payment performance of the underlying loans significantly affect both our initial and ongoing valuations and the rate of amortization of mortgage servicing rights. In general, the value of mortgage servicing assets is affected by increased mortgage refinance activity that is influenced by changes in borrowers' credit ratings, shifts in value in the housing market and interest rates. While such assets tend to decrease in value as interest rates decrease, they tend to increase in value as interest rates increase. Increases in prepayment speeds result in increases in the amortization expense of our mortgage servicing rights. As of September 30, 2005 and December 31, 2004, we held \$115,097 and \$131,409, respectively, of mortgage servicing rights.

We perform an interest rate sensitivity analysis of our mortgage servicing rights portfolio every quarter. We currently estimate that the fair value of the portfolio increases by approximately 4% for every 50 basis point (bps) increase in interest rates and reduces by approximately 4% for every 50 bps decline in interest rates. Mortgage servicing rights are carried at the lower of amortized cost or fair value by strata. To the extent that fair value were to decline below amortized cost, we would record an impairment charge to earnings and establish a valuation allowance. A subsequent increase in fair value could result in the recovery of some or all of a previously established valuation allowance. However, an increase in fair value of a particular stratum above its amortized cost would not be reflected in current earnings.

Our Residential Servicing business is characterized by non-interest earning assets financed by interest-bearing liabilities. Among the more significant non-interest earning assets are servicing advances and mortgage servicing rights. At September 30, 2005, we had servicing advances of \$601,283 consisting of advances on loans serviced for others of \$285,589 and match funded advances on loans serviced for others of \$315,694. See "Changes in Financial Condition - Match Funded Assets and - Advances on Loans and Loans Serviced for Others".

We are also exposed to interest rate risk because earnings on float balances are affected by short-term interest rates. These float balances, which are not included in our financial statements, amounted to \$810,518 and \$867,884 at September 30, 2005 and December 31, 2004, respectively. We report these earnings as a component of servicing and related fees. See "Results of Operations - Segment Results - Residential Servicing" and "Non-Interest Revenue - - Servicing and Related Fees" for additional information regarding float earnings and yields for the reported periods.

At September 30, 2005, the combined balance of our match funded liabilities, debt securities, lines of credit and other secured borrowings totaled \$608,172. Of this amount \$374,014 was variable rate debt, and therefore sensitive to changes in interest rates, and \$234,158 was fixed rate debt. See "Changes in Financial Condition - Match Funded Liabilities, Lines of Credit and Other Secured Borrowings and Debt Securities" for information regarding debt maturities.

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

We have entered into foreign currency futures to hedge our net investment in the foreign subsidiary that owns our U.K. supprime residual securities. Our principal exposure to foreign currency exchange rates exists with the British Pound versus the U.S. dollar. See Note 4 to our Interim Consolidated Financial Statements for additional information regarding this hedge.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our chief executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act) as of September 30, 2005. Based on this evaluation, our chief executive officer and principal financial officer concluded that, as of September 30, 2005 our disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to our chief executive officer and acting principal officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

FORWARD-LOOKING STATEMENTS

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

- o projections for growth of the residential loan servicing business and business opportunities in other core businesses;
- o assumptions related to the sources of liquidity and the adequacy of financial resources;
- o estimates regarding interest rates and foreign currency transactions; and
- o expectations related to pending litigation.

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

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

Further information on the risks specific to our business are detailed within this report and our other reports and filings with the Securities and Exchange Commission, including our periodic reports on Form 10-K for the year ended December 31, 2004, Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005 and our Forms 8-K filed during 2005. The forward-looking statements speak only as of the date they are made and should not be relied upon. OCN undertakes no obligation to update or revise the forward-looking statements.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See "Note 7 Commitments and Contingencies" of Ocwen Financial Corporation's Interim Consolidated Financial Statements.

ITEM 6. EXHIBITS.

- 2.1 Agreement of Merger dated as of July 25, 1999 among Ocwen Financial Corporation, Ocwen Asset Investment Corp. and Ocwen Acquisition Company (1)
 - 3.1 Amended and Restated Articles of Incorporation (2)
 - 3.2 Amended and Restated Bylaws (3)
 - 4.0 Form of Certificate of Common Stock (2)
 - 4.1 Certificate of Trust of Ocwen Capital Trust I (4)
 - 4.2 Amended and Restated Declaration of Trust to Ocwen Capital Trust I (4)
 - 4.3 Form of Capital Security of Ocwen Capital Trust I (Included in Exhibit 4.2) (4)
 - 4.4 Form of Indenture relating to 10.875% Junior Subordinated Debentures due 2027 of OCN (4)
 - 4.5 Form of 10.875% Junior Subordinated Debentures due 2027 of OCN (Included in Exhibit 4.4) (4)
 - 4.6 Form of Guarantee of OCN relating to the Capital Securities of Ocwen Capital Trust I (4)
 - 4.7 Registration Rights Agreement dated as of July 28, 2004, between OCN and Jeffries & Company Inc. (5)
 - 4.8 Indenture dated as of July 28, 2004, between OCN and the Bank of New York Trust Company, N.A., as trustee (5)
 - 10.1 Ocwen Financial Corporation 1996 Stock Plan for Directors, as amended (6)
 - 10.2 Ocwen Financial Corporation 1998 Annual Incentive Plan (7)
 - 10.3 Compensation and Indemnification Agreement, dated as of May 6, 1999, between OAC and the independent committee of the Board of Directors (8)
 - 10.4 Indemnity agreement, dated August 24, 1999, among OCN and OAC's Board of Directors (9)
 - 10.5 Amended Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, dated October 26, 1999 (9)
 - 10.6 First Amendment to Agreement, dated March 31, 2000, between HCT Investments, Inc. and OAIC Partnership I, L.P. (9)
 - 10.7 Ocwen Financial Corporation Deferral Plan for Directors, dated March 7, 2005 (10)
 - 10.8 Collateral Trust Agreement, dated June 28, 2005, between OCN and the Bank of New York Trust Company, N.A. (11)
 - 10.9 Guaranty, dated June 28, 2005, from OCN to the Guaranteed Parties (11)
 - 10.10 Cash Collateral Agreement, dated June 28, 2005 among OCN, Bank of New York Trust Company, N.A. as Collateral Trustee and Bank of New York Trust Company N.A. as Account Bank (11)
 - 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
 - 31.2 Certification of the Principal Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
 - 32.1 Certification of the Chief Executive Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
 - 32.2 Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- (1) Incorporated by reference from the similarly described exhibit included with the Registrant's Current Report on Form 8-K filed with the Commission on July 26, 1999.
- (2) Incorporated by reference from the similarly described exhibit in connection with the Registrant's Registration Statement on Form S-1 (File No. 333-5153), as amended, declared effective by the Commission on September 25, 1996.
- (3) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998.
- (4) Incorporated by reference from the similarly described exhibit filed in connection with Ocwen Financial Corporation's Registration Statement on Form S-1 (File No. 333-28889), as amended, declared effective by the Commission on August 6, 1997.
- (5) Incorporated by reference from the similarly described exhibit included with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004.
- (6) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-8 (File No. 333-44999), effective when filed with the Commission on January 28, 1998.
- (7) Incorporated by reference from the similarly described exhibit to Ocwen Financial Corporation's Definitive Proxy Statement with respect to Ocwen Financial Corporation's 1998 Annual Meeting of Shareholders filed with the Commission on March 31, 1998.

PART II - OTHER INFORMATION

- (8) Incorporated by reference from OAC's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999.
- (9) Incorporated by reference from the similarly described exhibit included with Registrant's Quarterly Report of Form 10-Q for the quarterly period ended March 31, 2000.
- (10) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.
- (11) Incorporated by reference from the similarly described exhibit included with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005.

SIGNATURES

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

OCWEN FINANCIAL CORPORATION

By: /s/ ROBERT J. LEIST, JR.

Robert J. Leist, Jr.,
Senior Vice President &
Principal Financial Officer
(On behalf of the Registrant and
as its principal financial officer)

Date: November 9, 2005

CERTIFICATION PURSUANT TO 15 U.S.C. SECTION 7241,
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, William C. Erbey, certify that:

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

Date: November 9, 2005

/s/ WILLIAM C. ERBEY

William C. Erbey
Chairman and Chief Executive Officer

CERTIFICATION PURSUANT TO 15 U.S.C. SECTION 7241,
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Robert J. Leist, Jr., certify that:

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

Date: November 9, 2005

/s/ ROBERT J. LEIST, JR.

Robert J. Leist, Jr.,
Senior Vice President &
Principal Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES OXLEY ACT OF 2002

I, William C. Erbey, state and attest that:

1. I am the Chief Executive Officer of Ocwen Financial Corporation (the "Registrant").
2. I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
 - o the Quarterly Report on Form 10-Q of the Registrant for the quarter ended September 30, 2005 (the "periodic report") containing financial statements fully complies with the requirements of Section 13(a) or 15(b) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
 - o the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ WILLIAM C. ERBEY

Title: Chairman and Chief Executive Officer

Date: November 9, 2005

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES OXLEY ACT OF 2002

I, Robert J. Leist, Jr., state and attest that:

1. I am the Principal Financial Officer of Ocwen Financial Corporation (the "Registrant").
2. I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
 - o the Quarterly Report on Form 10-Q of the Registrant for the quarter ended September 30, 2005 (the "periodic report") containing financial statements fully complies with the requirements of Section 13(a) or 15(b) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
 - o the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ ROBERT J. LEIST, JR.

Title: Senior Vice President & Principal Financial Officer

Date: November 9, 2005