UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of report
(Date of earliest event reported): December 27, 2012

OCWEN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Florida	1-13219	65-0039856
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

2002 Summit Boulevard, Sixth Floor

Atlanta, Georgia 30319
(Address of principal executive office)

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

Not applicable.
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

£ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

£ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

£ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

£ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Explanatory Note

On December 27, 2012, Ocwen Financial Corporation (“Ocwen”) completed the previously announced Merger (as defined below) pursuant to that certain Merger Agreement by and among Ocwen, O&H Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Ocwen (“Merger Sub”), Homeward Residential Holdings, Inc., a Delaware corporation (“Homeward,” formerly known as AHMSI Holdings, Inc.), and WL Ross & Co. LLC, a Delaware limited liability company as shareholder representative, pursuant to which Merger Sub merged with and into Homeward with Homeward continuing as the surviving corporation and becoming a wholly-owned subsidiary of Ocwen (the “Merger”). Information relating to the Merger was previously included in Ocwen’s Current Report on Form 8-K, filed with the Securities and Exchange Commission (the “SEC”) on October 5, 2012. The completion of the Merger was previously reported in Ocwen’s Current Report on Form 8-K, filed with the SEC on December 28, 2012.

This Amendment No. 1 on Form 8-K/A is being filed to amend the Current Report on Form 8-K (the “Initial 8-K”) filed by Ocwen Financial Corporation on December 28, 2012, to include the financial information referred to in Item 9.01(a) and (b), below, relating to the acquisition of Homeward and to provide the consent of the independent accountants. Pursuant to the instructions to Item 9.01 of Form 8-K, Ocwen Financial Corporation hereby amends Item 9.01 of the Initial 8-K to include previously omitted financial statements and pro forma financial information and to provide the consent of the independent accountants.

Forward Looking Statements

This 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 assumptions related to the valuation of assets and estimates utilized in development of the unaudited pro forma combined financial statements.

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

- general economic and market conditions;
- prevailing interest rates;
- governmental regulations and policies, including scrutiny regarding foreclosure processing;
- uncertainty related to the actions of loan owners, including mortgage-backed securities investors, regarding loan putbacks and other servicing practices; and
- uncertainty related to the processes for judicial and non-judicial foreclosure proceedings, including potential additional costs or delays in the future or claims pertaining to past practices.

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 report on Form 10-K for the year ended December 31, 2012, our quarterly reports on Form 10-Q and our current reports on Form 8-K. Forward-looking statements speak only as of the date they are made and should not be relied upon. Ocwen Financial Corporation undertakes no obligation to update or revise forward-looking statements.

Item 2.01 Completion of Acquisition of Assets

As previously reported, on December 27, 2012, Merger Sub merged with and into Homeward. Homeward was the surviving corporation in the Merger and, as a result, is now a wholly-owned subsidiary of Ocwen.

In the Merger, Ocwen acquired the mortgage servicing rights and subservicing for approximately 421,000 residential mortgage loans with an unpaid principal balance of approximately $77 billion. Ocwen also acquired Homeward’s loan origination platform and its diversified fee-based business that includes property valuation, REO management, title, closing and advisory services. As consideration for the Merger, Ocwen paid $243 million plus the book value amount of Homeward and its subsidiaries, for an aggregate purchase price of $765.7 million. Of this amount, $603.7 million was paid in cash and $162 million was paid in Preferred Stock. $85 million of the Merger Consideration has been placed into escrow for a period of 21 months following the closing date to fund any loss sharing payments and certain other indemnification payments that may become owed to Ocwen, as well as to fund certain expenses of WL Ross & Co. LLC as shareholder representative.

Item 9.01 Financial Statements and Exhibits

a) Financial Statements of Businesses Acquired.

(i) Audited consolidated balance sheets of Homeward at September 30, 2012 and September 30, 2011 and the consolidated statements of operations, statements of stockholders' equity and statements of cash flows for each of the two years in the period ended September 30, 2012 are attached as Exhibit 99.1.

(ii) Audited consolidated balance sheets of AHMSI Holdings, Inc. at September 30, 2011 and September 30, 2010 and the consolidated statements of operations, statements of stockholders' equity and statements of cash flows for each of the two years in the period ended September 30, 2011 are attached as Exhibit 99.2.

b) Pro Forma Financial Information.

Unaudited combined pro forma statement of operations for the year ended December 31, 2012 is attached as Exhibit 99.3. A pro forma balance sheet has not been included as the Merger is already reflected in Ocwen's balance sheet as of December 31, 2012, as reported in its Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 1, 2013.

c) Not applicable

d) Exhibits

The following exhibits are filed as part of this report:

Exhibit	**Description**
23.1	Consent of Independent Auditors.
99.1	Audited consolidated balance sheets of Homeward at September 30, 2012 and September 30, 2011 and the consolidated statements of operations, statements of stockholders' equity and statements of cash flows for each of the two years in the period ended September 30, 2012.
99.2	Audited consolidated balance sheets of AHMSI Holdings, Inc. at September 30, 2011 and September 30, 2010 and the consolidated statements of operations, statements of stockholders' equity and statements of cash flows for each of the two years in the period ended September 30, 2011.
99.3	Unaudited pro forma combined statement of operations of Ocwen Financial Corporation for the year ended December 31, 2012.

SIGNATURES

Pursuant to the requirements 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, hereunto duly authorized.

OCWEN FINANCIAL CORPORATION
(Registrant)

By: /s/ John V. Britti
John V. Britti
Executive Vice President and Chief Financial Officer
(On behalf of the Registrant and as its principal financial officer)

Date: March 15, 2013

INDEX TO EXHIBITS

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23.1	Consent of Independent Auditors.
99.1	Audited consolidated balance sheets of Homeward at September 30, 2012 and September 30, 2011 and the consolidated statements of operations, statements of stockholders’ equity and statements of cash flows for each of the two years in the period ended September 30, 2012.
99.2	Audited consolidated balance sheets of AHMSI Holdings, Inc. at September 30, 2011 and September 30, 2010 and the consolidated statements of operations, statements of stockholders’ equity and statements of cash flows for each of the two years in the period ended September 30, 2011.
99.2	Unaudited pro forma combined statement of operations of Ocwen Financial Corporation for the year ended December 31, 2012.

Exhibit 23.1

Consent of Independent Auditors

The Board of Directors
Homeward Residential Holdings, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-177833 and No. 333-163996) on Form S-3 and (No. 333-143275 and No. 333-44999) on Form S-8 of Ocwen Financial Corporation of our report dated December 21, 2012, with respect to the consolidated balance sheets of Homeward Residential Holdings, Inc. and subsidiaries as of September 30, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity and other comprehensive income, and cash flows, for the years then ended, and our report dated December 15, 2011, with respect to the consolidated balance sheets of AHMSI Holdings, Inc. and subsidiaries as of September 30, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and other comprehensive income, and cash flows for the years then ended, which reports appear in the Form 8-K/A of Ocwen Financial Corporation dated March 15, 2013.

/s/ KPMG LLP

Dallas, Texas
March 15, 2013

Exhibit 99.1

HOMEWARD RESIDENTIAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2012 and 2011

(With Independent Auditors’ Report Thereon)

Independent Auditors' Report

The Board of Directors
Homeward Residential Holdings, Inc. and subsidiaries:

We have audited the accompanying consolidated balance sheets of Homeward Residential Holdings, Inc. and subsidiaries (the Company) as of September 30, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity and other comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Homeward Residential Holdings, Inc. and subsidiaries as of September 30, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP
December 21, 2012

HOMEWARD RESIDENTIAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2012 and 2011

(Amounts in thousands, except share data)

		2012	2011
Assets:			
Cash and cash equivalents	$	84,589	95,329
Cash and cash equivalents – restricted		99,738	101,167
Servicing fees and income receivable, net		160,666	155,143
Servicing advances and related assets, net		2,214,034	2,681,611
Deferred tax asset		21,270	29,707
Income tax receivable		—	887
Goodwill		1,375	1,375
Prepaid expenses and other assets, net		85,028	36,021
Mortgage loans held for sale, net		547,631	—
Property and equipment, net		34,477	30,670
Mortgage servicing rights (MSRs):			
Amortized cost, net		166,662	187,883
Measured at fair value		66,360	4,331
Total assets	$	3,481,830	3,324,124
Liabilities and stockholders' equity:			
Accounts payable and other liabilities	$	164,810	97,143
Short-term debt		2,128,352	1,111,648
Income tax payable		2,245	—
Deferred revenue		8,459	10,490
Long-term debt		661,891	1,199,370
Total liabilities		2,965,757	2,418,651
Commitments and contingencies (note 14)			
Stockholders' equity:			
Common stock; $0.0001 par value per share. Authorized 1,000,000 shares; 372,770 shares issued and outstanding as of September 30, 2012 and 372,762 shares issued and outstanding as of September 30, 2011		—	—
Series A preferred stock; $0.0001 par value per share. Authorized 381,900 shares as of September 30, 2012 and 799,400 shares as of September 30, 2011; 141,385 shares issued and outstanding as of September 30, 2012 and 558,885 shares issued and outstanding as of September 30, 2011		160,970	578,470
Additional paid-in capital		328,962	327,447
Retained earnings		26,798	—
Accumulated other comprehensive loss		(657)	(444)
Total stockholders' equity		516,073	905,473
Total liabilities and stockholders' equity	$	3,481,830	3,324,124

See accompanying notes to consolidated financial statements.

HOMEWARD RESIDENTIAL HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Years ended September 30, 2012 and 2011
(Amounts in thousands)

	2012	2011
Revenues:		
Servicing income	$ 348,024	387,016
Amortization of MSRs	(47,971)	(60,014)
Change in valuation allowance for amortized MSRs	3,369	2,022
Change in value of MSRs at fair value	(19,252)	(240)
Net derivative gain related to MSRs	10,165	—
Ancillary servicing income	77,189	86,558
Lending fees	6,085	—
Gain on mortgage loans, net	15,869	—
Other revenues	100,499	119,487
Total revenues, net	493,977	534,829
Operating expenses:		
Compensation and benefits	159,539	157,892
General servicing expenses	89,653	101,868
General origination expenses	8,019	—
Technology and communications	15,969	17,598
Professional services	10,835	11,886
Occupancy and equipment	25,026	23,462
Depreciation	12,067	9,926
Other operating expenses	7,408	7,911
Total operating expenses	328,516	330,543
Income from operations	165,461	204,286
Other income (expense):		
Interest income	16,629	3,663
Interest expense	(106,428)	(109,376)
Other income	7,032	7,817
Total other expense	(82,767)	(97,896)
Income before income taxes	82,694	106,390
Income tax expense	30,146	37,405
Net income	$ 52,548	68,985

See accompanying notes to consolidated financial statements.

HOMEWARD RESIDENTIAL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity and Other Comprehensive Income

Years ended September 30, 2012 and 2011

(Amounts in thousands, except share amounts)

	Common stock, $0.0001 par	Series A preferred stock, $0.0001 par	Additional paid-in capital	Shareholder receivable	Retained earnings	Accumulated other comprehensive loss	Total
Balance at September 30, 2010	$ —	578,470	385,451	(493)	131,697	(252)	1,094,873
Share-based compensation	—	—	137	—	—	—	137
Repurchase of common stock	—	—	(91)	—	—	—	(91)
Common stock dividends paid	—	—	(58,050)	354	(167,149)	—	(224,845)
Preferred stock dividends paid	—	—	—	139	(33,533)	—	(33,394)
Net income	—	—	—	—	68,985	—	68,985
Other comprehensive loss:							
Change in unrealized currency translation loss, net of $84 deferred tax benefit	—	—	—	—	—	(192)	(192)
Total comprehensive income							68,793
Balance at September 30, 2011	—	578,470	327,447	—	—	(444)	905,473
Share-based compensation	—	—	1,536	—	—	—	1,536
Repurchase of preferred stock	—	(417,500)	—	—	—	—	(417,500)
Repurchase of common stock	—	—	(21)	—	—	—	(21)
Preferred stock dividends paid	—	—	—	—	(25,750)	—	(25,750)
Net income	—	—	—	—	52,548	—	52,548
Other comprehensive income:							
Change in unrealized currency translation loss, net of $160 deferred tax benefit	—	—	—	—	—	(213)	(213)
Total comprehensive income							52,335
Balance at September 30, 2012	$ —	160,970	328,962	—	26,798	(657)	516,073

See accompanying notes to consolidated financial statements.

HOMEWARD RESIDENTIAL HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended September 30, 2012 and 2011
(Amounts in thousands)

	2012	2011
Cash flows from operating activities:		
Net income	$ 52,548	68,985
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and valuation allowance of MSRs	44,602	57,992
Change in fair value of MSRs and related derivatives	9,087	240
Capitalization of originated mortgage servicing rights	(59,940)	—
Net gain on interest rate lock commitments, mortgage loans held for sale, and related derivatives	(183,146)	—
Depreciation and amortization	25,254	35,639
Provision for servicing loss	51,949	37,706
Change in value of amortizing interest rate cap	1,453	4,927
Realized gain on MSR derivatives	1,762	—
Equity in earnings from unconsolidated entities	(6,425)	(6,021)
Receipt of earnings from unconsolidated entities	5,926	—
Receipt of leasehold improvements allowance	1,101	—
Accretion income	(59)	(185)
Repurchases of loans held for sale, net	(3,316)	(8,793)
Origination and purchase of mortgage loans held for sale	(5,463,501)	—
Proceeds on sale and payments from mortgage loans held for sale	5,099,311	—
Share-based compensation	2,574	137
Changes in assets and liabilities:		
Servicing fees and income receivable	(9,289)	(3,077)
Prepaid expenses and other assets	(3,116)	38,327
Accounts payable and other accrued liabilities	20,805	(26,007)
Servicing advances and related assets, net	462,811	327,306
Net cash provided by operating activities	50,391	527,176
Cash flows from investing activities:		
Purchases of property and equipment	(14,494)	(13,541)
Acquisitions of MSRs	(24,706)	(4,571)
Sales of MSRs	3,453	270
Acquisition – MSRs and servicing advances	(35,798)	—
Acquisition – Cooper River, net of cash and cash equivalents	—	(609)
Return of investment in unconsolidated entity	297	124
Decrease in restricted cash	1,429	19,867
Net cash (used in) provided by investing activities	(69,819)	1,540
Cash flows from financing activities:		
Borrowings of short-term debt	8,659,425	4,078,991
Paydowns of short-term debt	(7,642,950)	(4,008,947)
Borrowings from long-term debt	2,829,416	2,190,740
Paydowns of long-term debt	(3,367,302)	(2,462,768)
Settlement of contingent consideration	(725)	—
Debt facility structuring fees	(25,165)	(24,651)
Purchase and sale of interest rate caps	(527)	(2,130)
Common stock dividends paid	—	(224,845)
Preferred stock dividends paid	(25,750)	(33,343)
Repurchases of common stock	(21)	(91)
Repurchases of preferred stock	(417,500)	—
Net cash provided by (used in) financing activities	8,901	(487,044)
Effect of exchange rate changes	(213)	(192)
Net (decrease) increase in cash	(10,740)	41,480
Cash at beginning of year	95,329	53,849
Cash at end of year	$ 84,589	95,329

See accompanying notes to consolidated financial statements.

(1) Organization and Business Overview

Homeward Residential Holdings, Inc. (Homeward) was incorporated in Delaware on March 22, 2011, and serves as the holding company for Homeward Residential, Inc. (ServicingCo). ServicingCo, a Delaware corporation, engages primarily in servicing residential mortgage loans for investors, the majority of which are nonprime mortgage loans. Homeward and ServicingCo were formerly known as AHMSI Holdings, Inc. and American Home Mortgage Servicing, Inc., respectively, and changed their legal name effective May 29, 2012.

On April 12, 2011, ServicingCo effected a reorganization through a merger transaction resulting in the placement of a holding company, Homeward, between ServicingCo and its stockholders. Certain private equity funds that are ultimately controlled by WL Ross & Co. LLC (collectively, the Parent) owned substantially all of the outstanding shares of stock of Homeward as of September 30, 2012 and 2011. The Parent owned substantially all of the outstanding shares of stock of ServicingCo prior to the reorganization.

At September 30, 2012, ServicingCo owned all of the outstanding stock of its primary operating subsidiaries: Cooper River Financial, LLC (Cooper River), Power REO Management Services, Inc. (Power REO), Power Valuation Services Inc. (Power Valuations), Power Default Services, Inc. (Default Services), Homeward Residential Corporation India Private Limited (AHIPL), Beltline Road Insurance Agency, Inc. (Insurance Agency), American Home Mortgage Lending Solutions, Inc. (ALSI), and MSR Holdings, Inc. (MSR Holdings). ServicingCo has three operating locations in the United States (Coppell, Texas; Addison, Texas; and Jacksonville, Florida); and back office support operations in Pune, India.

Homeward, ServicingCo and the operating subsidiaries of ServicingCo are collectively referred to as “the Company.” The prior activities of ServicingCo are included in the consolidated financial statements of the Company as the reorganization activities are between entities under common control. Presentation of the financial results of the Company and the accompanying notes are related to the years ended September 30, 2012 and 2011.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

These consolidated financial statements include the accounts of Homeward and its wholly owned subsidiaries and those variable interest entities (VIEs) where Homeward’s wholly owned subsidiaries are the primary beneficiaries. The Company applies the equity method of accounting to investments when the entity is not a variable interest entity, the Company owns less than 50% of the voting interest, or the Company is able to exercise significant influence, but not control, over the policies and procedures of the entity. The Company has eliminated intercompany accounts and transactions in consolidation.

Variable Interest Entities

On October 1, 2010, the Company adopted *Accounting Standards Update (ASU) 2009-16 (Accounting Standards Codification (ASC) 860, Transfers and Servicing): Accounting for Transfers of Financial Assets and ASU 2009-17, (ASC 810, Consolidations): Improvements to Financial Reporting by Enterprises Involved with Variable Entities*. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements as the Company is not a transferor with respect to the loans serviced on behalf of others, and the Company currently treats servicing advances, which secure the servicing advance facilities (SAFs) as secured borrowings as the Company retains control over the collateral securing the borrowings.

(Continued)

The Company evaluates each special purpose entity (SPE) for classification as a VIE. When a SPE meets the definition of a VIE and the Company determines that Homeward is the primary beneficiary, the Company includes the assets and liabilities of the SPE in the consolidated financial statements.

The Company has determined that the SPEs created in connection with its SAFs are VIEs of which the Company is the primary beneficiary. The assets and liabilities of those SPEs are included in the consolidated financial statements.

Servicer Advance Facilities

SAF advances result from the Company's transfer of residential loan servicing advances to SPEs in exchange for cash. The SPEs issue debt supported by collections on the transferred advances. The Company made these transfers under the terms of servicer advance facility agreements. These transfers do not qualify for sales accounting because the Company retains control over the transferred assets. As a result, the Company accounts for these transfers as financings and classifies the transferred advances on the consolidated balance sheets as Servicing advances and the related liabilities as either Short-term or Long-term debt (based on their scheduled maturities). Collections on the advances pledged to the SPEs are used to repay principal and interest and to pay the expenses of the SPEs. Holders of the debt issued by SPEs can look only to the assets of the SPEs themselves for satisfaction of the debt and have no recourse against Homeward.

The following table summarizes the assets and liabilities of the SPEs formed in connection with the Company's SAFs at September 30, 2012 and 2011 (in thousands):

	2012	2011
Servicing advances	$ 2,225,541	1,681,680
Cash and cash equivalents – restricted	47,636	38,250
Due from affiliates [1]	32,628	2,447
Other assets	11,613	12,468
Total assets	$ 2,317,418	1,734,845
Short-term debt	$ 1,628,572	324,989
Long-term debt	369,172	1,199,370
Other liabilities	3,831	3,501
Total liabilities	$ 2,001,575	1,527,860

[1] Amounts are receivable/payable to Homeward and its consolidated subsidiaries and eliminated in consolidation.

(Continued)

(b) Use of Estimates

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP). These principles require management to make certain estimates and assumptions, including those regarding fair value measurements, certain accruals, and the potential outcome of litigation, which may affect the amounts reported in the consolidated financial statements and the accompanying notes. These estimates and assumptions are based on management’s best estimates and judgment. As future events and their effects cannot be determined with precision, actual results could differ materially from these estimates.

(c) Reclassifications

Certain amounts in the prior years have been reclassified to conform to the current year presentation.

(d) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, cash due from banks, and money market accounts with original maturities of three months or less.

(e) Cash and Cash Equivalents – Restricted

Cash and cash equivalents – restricted consists primarily of SAF collected funds that are not applied to reduce the debt until the next payment date and SAF reserves for possible shortfalls in the funds available to pay interest (see note 13).

(f) Servicing Advances and Related Assets, Net

During any period in which the borrower does not make payments, most of the servicing agreements require that the Company advance funds to meet contractual principal and interest remittance requirements for the investors, pay property taxes and insurance premiums, and process foreclosures. The Company also advances funds to maintain, repair, and market foreclosed real estate properties on behalf of investors. These advances are made pursuant to the terms of each servicing contract. Each servicing contract is associated with specific loans identified as a pool.

When an advance is made on a loan under each servicing contract, the Company is entitled to recover that advance either from the borrower, for reinstated and performing loans, or from investors, for foreclosed loans. The Company’s servicing contracts provide that the advances made under the respective agreement have priority over all other cash payments from the proceeds of the loan, and in the majority of cases, the proceeds of the pool of loans, which are the subject of that servicing contract. As a result, the Company is entitled to repayment from loan proceeds before any interest or principal is paid to the investors, and in the majority of cases, advances in excess of loan proceeds may be recovered from pool level proceeds.

The Company recognizes a provision for uncollectible advances on servicing advances taking into consideration historical loss, aging experience, and the value of the underlying loan collateral. As of September 30, 2012 and 2011, the allowance for uncollectible advances was $10.7 million and $19.0 million, respectively.

(Continued)

(g) Mortgage Servicing Rights

Mortgage servicing rights (MSRs) are an intangible asset representing the right to service a portfolio of mortgage loans. The Company obtains MSRs through asset and flow purchases, business combination transactions, and by retaining the servicing rights on originated loans sold. Purchased MSRs are initially measured at fair value. Subsequently, MSRs are carried at either fair value or the lower of amortized cost or fair value using the amortization method, based on the Company's strategy for managing the risks of the underlying portfolios.

MSRs carried at the lower of amortized cost or fair value are amortized each month in proportion to and over the period of estimated net servicing income, and are subsequently measured for impairment based on the fair value at each quarter (see note 5). Amortization rates are adjusted prospectively each quarter to account for changes in the serviced portfolio and the projected net servicing income. Impairment is evaluated by tranche through a comparison of the carrying amount and current fair value of the MSRs, and recognized through a valuation allowance. The valuation allowance is adjusted at each reporting date and recognized as either impairment or recovery to reflect changes in the fair value. Any recoveries of impairment are only recognized to the extent of the previous impairments recognized.

MSRs carried at fair value are measured on a recurring basis and any changes in fair value are recognized in earnings in the period in which the change occurs. No amortization is recognized on MSRs carried at fair value.

(h) Property and Equipment, Net

Property and equipment, net are carried at amortized cost and the Company depreciates them over the estimated useful lives on the straight-line method as follows:

Furniture and fixtures	5 years
Office equipment	5 years
Computer hardware and software	2 – 3 years
Leasehold improvements	Term of the lease not to exceed the useful life

Internally developed software costs are capitalized during the application development stage. The costs capitalized include the external direct costs of materials and services and direct employee costs for time spent on the project during the capitalization period. Capitalized software is evaluated for impairment quarterly or when changing circumstances indicate that amounts capitalized may be impaired. Impaired items are written down to their estimated fair values.

(i) Goodwill

Goodwill is recorded in business combinations under the purchase method of accounting when the purchase price is greater than the fair value of the net assets acquired. The Company assesses goodwill for impairment annually on June 30th of each year. If the carrying amount of the goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized for the amount equal to the excess up to the carrying value of the goodwill. Subsequent reversals of goodwill impairment are prohibited.

(Continued)

(j) Repurchased Loans Held for Sale

The Company classifies loans repurchased under a warranty obligation assumed on one MSR acquisition as held for sale as the Company does not intend to hold-to-maturity. Repurchased loans held for sale are reported at the lower of cost or fair value. Fair value is determined based on the underlying collateral of the loan, less costs to sell, as the loans are collateral dependent. The Company accounts for the excess of cost over fair value, on an individual loan basis, as a valuation allowance with changes in the valuation allowance included in General servicing expenses in the period in which the change occurs.

(k) Mortgage Loans Held for Sale, Net

Mortgage loans held for sale comprise mortgage loans originated or purchased and held until sold to secondary market investors, primarily to Government Sponsored Enterprises (GSEs). Mortgage loans are typically warehoused for a period after origination or purchase before sale into the secondary market. The servicing rights and servicing obligations of mortgage loans are generally retained upon sale into the secondary market. The Company has elected to carry mortgage loans held for sale at fair value in accordance with Accounting Standards Codification (ASC) 825, *Financial Instruments* (ASC 825). Mortgage loans held for sale are measured at fair value on a recurring basis (see note 10).

(l) Lending Fees

Lending fees include fee income earned from borrowers when originating mortgage loans or from third-party originators when purchasing a mortgage loan.

(m) Gain on Mortgage Loans, Net

Gain on mortgage loans, net includes realized and unrealized gains and losses on mortgage loans held for sale, as well as the changes in fair value of interest rate locks and loan-related derivatives.

Gain on mortgage loans, net consisted of the following for the year ended September 30, 2012 (in thousands):

	2012
Gain on loans sold	$ 152,435
Capitalization of originated mortgage servicing rights on sold loans	59,940
Pair-off expense	(32,669)
Provision for repurchase reserve	(995)
Gain on fair value of interest rate lock commitments	19,226
Loss on origination hedge derivatives	(19,457)
Gain on fair value of mortgage loans held for sale	30,942
Discounts and premiums	(193,553)
Gain on mortgage loans, net	$ 15,869

(Continued)

Gain on loans sold represents the difference between the proceeds realized upon sale of mortgage loans held for sale and the unpaid principal balance of the mortgage loans sold. Pair-off expense represents the realized loss and fees incurred in connection with hedging mortgage loans held for sale when the Company is unable to fulfill a forward mortgage-backed securities (MBS) trade commitment. Discounts and premiums represent the net expense associated with the acquisition of the loan at either below (discount) or above (premium) par within our correspondent lending business. The discounts and premiums are recognized in earnings as incurred and not deferred, in accordance with ASC 825, as mortgage loans held for sale are carried at fair value.

There was no gain on mortgage loans for the year ended September 30, 2011 as the loan origination business had not yet commenced operations.

(n) Derivative Instruments and Hedging Activities

Derivative instruments are used as part of the overall strategy to manage exposure to market risks primarily associated with fluctuations in interest rates. The Company accounts for derivatives and hedging activities in accordance with ASC 815, *Derivatives and Hedging*, which requires entities to recognize all derivative instruments as either assets or liabilities in the consolidated balance sheets at their respective fair values (see note 6). The Company’s derivative instruments are included in Prepaid expenses and other assets or Accounts payable and other liabilities and are not designated in hedging relationships. Therefore, any realized or unrealized gains or losses created by changes in fair value are recognized in the consolidated statements of operations in Interest expense, Gain on mortgage loans, net, and Net derivative gain related to MSRs.

Derivative instruments that are executed with the same counterparties are subject to master netting arrangements; however, no netting occurred for the years ended September 30, 2012 and 2011. The collateral balances related to the derivative instruments are included in Prepaid expenses and other assets, net in the consolidated financial statements.

(o) Investments in Unconsolidated Entities

The Company accounts for investments in unconsolidated entities using the equity method. Under the equity method of accounting, investments are initially recorded at cost, and thereafter, adjusted for additional investments, distributions, and the proportionate share of earnings or losses of the investee. The Company evaluates its equity method investments for impairment when events or changes in circumstances indicate that an other-than-temporary decline in value may have occurred. The Company stops recording its share of investee losses if its share of losses reduces its investment to zero unless the Company has guaranteed the obligations of or is otherwise committed to provide further financial support to the investee. If the investee subsequently reports net income, the Company will only recognize its share of the net income after its share of net income equals the share of net losses not recognized during the periods that the recording of losses was suspended. The Company’s investment in unconsolidated entities as of September 30, 2012 consists of the following:

Powerlink	69.79%

(Continued)

For further information regarding the carrying amount of equity method investments, see note 9, “Prepaid Expenses and Other Assets, Net.”

(p) Deferred Revenue

Deferred revenue relates to a marketing services agreement made with an insurance company and insurance commission income on lender placed hazard insurance policies. The revenue on the marketing services agreement is recognized on a straight-line basis over the life of the agreement, and the revenue on the lender placed policies is recognized on a straight-line basis over the life of the policy. As of September 30, 2012, deferred revenue of $8.5 million comprised $2.2 million related to the marketing services agreement and $6.3 million related to insurance commission income on lender placed policies. As of September 30, 2011, deferred revenue of $10.5 million comprised $3.4 million related to the marketing services agreement and $7.1 million related to insurance commission income on lender placed policies. The Company recognized income of approximately $19.3 million and $22.4 million for the years ended September 30, 2012 and 2011, respectively, included in Other revenues in the consolidated statements of operations.

(q) Servicing and Ancillary Servicing Income

Servicing income represents revenue earned for servicing residential real estate mortgage loans owned by investors, as well as fees for subserviced and special serviced loans. Servicing income is recognized on both current and delinquent loans equal to the contractual servicing fee agreed with investors, which is generally expressed as a percentage of unpaid principal balance. Servicing fees for servicing mortgage loans are recognized when earned based on the terms of the related servicing agreements. All other fees, late charges, and other ancillary income are recognized when received.

(r) Interest Income

Interest income is earned on principal and interest collections held in trust for various investors, tax and insurance deposits held in trust for various borrowers, mortgage loans held for sale, and the Company’s operating cash accounts. The Company is also required to pay interest on borrower escrow accounts in certain states; this interest paid to borrowers is recorded within Interest expense. For the years ended September 30, 2012 and 2011, the Company paid $1.0 million and $0.7 million, respectively, of interest on escrows to borrowers.

(s) Other Revenues

Other revenues relate to shared commissions and other revenues on sales of real estate owned property, trustee fee income, and valuations income on broker price opinions, which are recognized in earnings when proceeds are received. In addition, Other revenues include insurance income on certain lender placed policies that is recognized on a straight-line basis over the life of the policy (see note 2(p)).

(t) Debt Issuance Costs

Debt issuance costs are incurred upon entering into each credit facility. These costs are amortized over the terms of the related agreement. At September 30, 2012 and 2011, there was $22.0 million and $11.2 million, respectively, of unamortized issuance cost included in Prepaid expenses and other assets, net. For the years ended September 30, 2012 and 2011, the Company recognized $12.3 million and $24.3 million, respectively, of amortized issuance costs included in Interest expense.

(Continued)

(u) Income Taxes

The Company files a consolidated federal income tax return. Deferred income taxes reflect the future tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts at year-end. Deferred taxes are recognized using the asset and liability method, whereby tax rates are applied to cumulative temporary differences based on when and how they are expected to affect cumulative temporary differences. Deferred tax assets and liabilities are adjusted for tax rate changes in effect for the year in which these temporary differences are expected to be recovered or settled. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company recognizes penalties and interest related to income tax matters in General servicing expense. The Company has no uncertain tax positions at September 30, 2012.

(v) Foreign Currency Translation

The functional currency of the Company is the U.S. dollar. Where the functional currency is not the U.S. dollar, the Company translates assets and liabilities of foreign operations into U.S. dollars at the spot exchange rate existing at the balance sheet date, while revenues and expenses are translated at average monthly exchange rates. The resulting translation adjustments are reported as a component of Accumulated other comprehensive loss, net of income taxes in Stockholders’ equity.

(w) Stock-Based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments. The grant-date fair value of the award is performed contemporaneously with the grant of the award by a third-party valuation firm. The value of the portion of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service period. The Company estimates forfeitures at the time of grant and revises, if necessary, in subsequent periods if actual forfeitures differ materially from those estimates.

(x) New Accounting Standards

Recently Adopted Accounting Standards

ASU 2011-04 (ASC 820, Fair Value Measurement): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments clarify Financial Accounting Standards Board’s (FASB’s) intent about the application of existing fair value measurement and disclosure requirements and prescribe certain additional disclosures about fair value measurements. The provisions of this ASU are effective for annual periods beginning after December 15, 2011, with early adoption permitted. The Company adopted this standard for the year ended September 30, 2012. The adoption of ASU 2011-04 enhanced the disclosure requirements but did not have a material impact on the Company’s consolidated financial statements.

(Continued)

ASU 2011-03 *(ASC 860, Transfers and Servicing): Reconsideration of Effective Control for Repurchase Agreements*. The amendments in this ASU remove from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The FASB concluded that the criterion is not a determining factor of effective control. Additionally, the amendments in this update eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The provisions of this ASU are effective for annual periods beginning after December 15, 2011. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

ASU 2011-08 (ASC 350, Intangibles – Goodwill and Other): Testing Goodwill for Impairment. With this ASU, the FASB has taken action to reduce the cost and complexity of the annual goodwill impairment test by providing reporting entities with the option of performing a "qualitative" assessment of impairment to determine if any further quantitative testing for impairment may be necessary. An entity can choose to apply the qualitative assessment to all, some or none of its reporting units. The ASU is effective for reporting periods beginning after December 15, 2011. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards

ASU 2011-05 *(ASC 220, Comprehensive Income): Presentation of Comprehensive Income*. Current U.S. GAAP allows reporting entities three alternatives for presenting other comprehensive income and its components in financial statements. One of those presentation options is to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This ASU eliminates that option. This ASU also requires consecutive presentation of the statement of net income and other comprehensive income and requires an entity to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. ASU 2011-12, which was issued on December 23, 2011, defers the provision regarding presentation of reclassification adjustments as separate line items on the income statement out of accumulated other comprehensive income into net income as required by ASU 2011-05. However, presentation of reclassifications adjustments within other comprehensive income is still required either on the face of the statement that reports other comprehensive income or in the notes to the financial statements. The provisions of this ASU are effective for annual and interim periods beginning after December 15, 2012, with early adoption permitted. The Company does not anticipate that the adoption of this standard will have a material impact on the Company's consolidated financial statements.

(Continued)

ASU 2011-11 (ASC 210, Balance Sheet): Disclosures about Offsetting Assets and Liabilities. This update requires disclosure of both gross and net information about instruments and transactions eligible for offset in the statement of financial position or subject to an agreement similar to a master netting agreement. This includes derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending arrangements. This ASU was issued in conjunction with the IASB's issuance of amendments to Disclosure – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The new standards require disclosures to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under IFRS. The provisions of this ASU are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods, with early application permitted. Retrospective application is required. The Company's adoption of this standard will require additional disclosure requirements for offsetting assets and liabilities, but will not have a material impact on the Company's consolidated financial statements.

(3) Supplemental Cash Flow Information

The following information is provided as a supplement to the consolidated statements of cash flows:

	2012	2011
Interest paid	$ 83,301	75,912
Taxes paid	18,417	23,701
Supplemental schedule of noncash investing activity:		
Acquisition of MSRs and servicing advances	3,500	—

Additionally, see note 12 regarding net assets acquired.

(4) Loan Servicing

The Company's mortgage servicing activities include the collection of loan and escrow payments from individual mortgagors, the deposit of these collections into restricted custodial accounts, the remittance of principal and interest to external investors and payment of property taxes and insurance premiums.

At September 30, 2012 and 2011, the Company's portfolio of residential mortgage loans serviced comprises the following of unpaid principal balance (UPB) (in thousands):

	2012	2011
Servicing	$ 70,584,527	69,027,422
Subservicing	5,937,984	1,760,875
Special servicing	562,332	763,809
Total residential mortgage loans serviced	$ 77,084,843	71,552,106

(Continued)

At September 30, 2012 and 2011, the Company held and managed cash for the benefit of investors and mortgagors in custodial bank accounts of approximately $1.0 billion and $631.0 million, respectively. This amount is not included in the accompanying consolidated financial statements as these accounts are held for the benefit of the investors.

Ancillary servicing income consisted of the following for the years ended September 30, 2012 and 2011 (in thousands):

		2012	2011
Home Affordable Modification Program (HAMP) fees	$	31,287	33,685
Late charges		28,217	32,113
Payment processing fees		9,232	10,298
Modification fees		3,672	6,087
Other ancillary servicing income		4,781	4,375
Total ancillary servicing income	$	77,189	86,558

Other revenues consisted of the following for the years ended September 30, 2012 and 2011 (in thousands):

		2012	2011
Valuations income	$	39,294	47,913
Real estate owned commission and other income		30,514	34,488
Insurance income		19,266	22,385
Trustee fee income		7,161	9,604
Accretion income		59	185
Compensating interest		(1,352)	(1,617)
Other revenues		5,557	6,529
Total other revenues	$	100,499	119,487

(Continued)

General servicing expense consisted of the following for the years ended September 30, 2012 and 2011 (in thousands):

	2012	2011
Valuation expenses	$ 24,766	33,958
Provision for losses	27,670	23,809
Outsourced services	9,362	12,465
Billing statements and correspondence	6,007	6,038
Consulting expense	7,109	5,910
Bank charges	3,471	3,584
Temporary help	2,871	2,841
Modification vendor fees	299	4,327
Other general servicing expenses	8,098	8,936
Total general servicing expenses	$ 89,653	101,868

(5) Mortgage Servicing Rights

MSRs are carried at either fair value (Fair Value MSRs) or the lower of amortized cost or fair value using the amortization method (Amortized Cost MSRs), based on the strategies for managing the risks of the underlying portfolios. The Amortized Cost MSR portfolio comprises predominantly nonprime mortgage loans, acquired through business combinations or portfolio asset purchases. The Fair Value MSR portfolio comprises prime mortgage loans, acquired through either asset or flow purchases and by retaining the rights to service loans from the sale of a loan to a GSE. Amortized Cost MSRs are subject to fair value measurements on a nonrecurring basis. Fair Value MSRs are subject to fair value measurements on a recurring basis.

The determination of fair value of MSRs requires management judgment because they are not actively traded. The determination of fair value for MSRs requires valuation processes that combine the use of discounted cash flow models and analysis of current market data to arrive at an estimate of fair value. The cash flow and prepayment assumptions used in the Company’s discounted cash flow models are based on empirical data drawn from the historical performance of the Company’s MSRs adjusted to reflect current market conditions, which the Company believes, are consistent with assumptions used by market participants valuing similar MSRs. The key assumptions used in the valuation of MSRs include mortgage prepayment rates, discount rates, servicing advances, custodial accounts, and delinquency and default rates. These variables can, and generally will, change from year to year as portfolio characteristics, market conditions, and interest rates change.

Mortgage Servicing Rights – Amortization Method

For the purpose of measuring impairment of Amortized Cost MSRs, the Company stratifies the MSRs into the following risk strata:

- Agency Fixed Rate
- Agency ARMs

(Continued)

- Non-Agency Fixed Rate
- Non-Agency ARMs
- Non-Agency Pay Option ARMs

Agency loans serviced represent loans pooled in securities backed by either the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC).

Impairment is assessed based on the fair value of each risk stratum. Each stratum was established based on the predominant risk characteristics of the underlying loans within each stratum.

The following table summarizes the activity in the Company's Amortized Cost MSRs for the years ended September 30, 2012 and 2011 (in thousands):

	2012	2011
Carrying amount, beginning of period	$ 208,196	268,480
Additions:		
Purchases of servicing assets	23,469	—
Subtractions:		
Amortization of MSRs	(47,971)	(60,014)
Servicing transfers and adjustments	(88)	(270)
Carrying amount before valuation allowance	183,606	208,196
Valuation allowance:		
Balance, beginning of year	(20,313)	(22,335)
Recovery, net	3,369	2,022
Balance, end of period	(16,944)	(20,313)
Carrying amount, end of period	$ 166,662	187,883
Fair value of amortized MSRs, end of period	$ 271,497	287,421

The Company established a valuation allowance for impairment on certain strata of the MSRs, as the fair value of the strata that are considered in the impairment analysis fell below the amortized cost of those certain strata within the MSRs. For the years ended September 30, 2012 and 2011, the Company recognized an impairment recovery of approximately $3.4 million and $2.0 million, respectively.

(Continued)

The estimated amortization expense for MSRs carried at the lower of amortized cost or fair value using the amortization method is projected as follows over the next five years (in thousands):

Year ending September 30:		
2013	$	35,360
2014		29,524
2015		26,095
2016		21,153
2017		18,774

We assess the market risk of Amortized Cost MSRs based on changes in certain market and portfolio based assumptions utilizing a sensitivity analysis. The sensitivity analysis measures the potential impact on fair values based on hypothetical changes (increases and decreases) in these market and portfolio assumptions.

We utilize a discounted cash flow model to determine the fair value of the Amortized Cost MSRs and the impact on fair value from stressing certain market and portfolio assumptions. The Amortized Cost MSR portfolio prepayments are primarily comprised of involuntary prepayments, driven by delinquency and the resulting loss mitigation efforts; whereas voluntary prepayments have historically been low across this portfolio. We consider prepayment risk (voluntary and involuntary), delinquency rates, discount rates and the costs incurred to finance advance balances, partially offset by interest income earned on float balances.

At September 30, 2012, the key assumptions used to determine fair value of the Amortized Cost MSRs were as follows:

Weighted average constant prepayment rate (voluntary and involuntary)	21.21%
Weighted average discount rate	22.06%
Weighted average delinquency and default rate	37.33%
Interest rate on servicing advances and custodial accounts:	
Servicing advances	4.24%
Custodial accounts	1.24%

The following table summarizes the estimated change in the fair value of the Amortized Cost MSRs as of September 30, 2012 given hypothetical instantaneous parallel shifts in the yield curve (in thousands):

	Adverse change in fair value	
	10%	20%
Weighted average prepayment speeds	$ (8,155)	(15,997)
Weighted average discount rate	(13,701)	(26,202)
Weighted average delinquency rate	(8,391)	(16,668)
	25 bps	50 bps
Interest rate on servicing advances and custodial accounts	(7,868)	(15,737)

(Continued)

Mortgage Servicing Rights – Fair Value Method

We utilize an option-adjusted spread model to determine the fair value of the Fair Value MSRs and the impact of parallel interest rate shifts on fair value. The primary assumptions in this model are prepayment speeds and option-adjusted spread (discount rate).

The following table summarizes the activity in the Company's Fair Value MSRs for the years ended September 30, 2012 and 2011 (in thousands):

	2012	2011
Fair value, beginning of year	$ 4,331	—
Purchases of servicing assets	24,706	4,571
Servicing resulting from transfers of financial assets	59,940	—
Sales of servicing assets	(3,365)	—
Changes in fair value:		
Due to changes in valuation inputs or assumptions	(4,468)	—
Realization of cash flows and other changes	(14,784)	(240)
Fair value, end of year	$ 66,360	4,331

At September 30, 2012, the key assumptions used to determine fair value of the Fair Value MSRs were as follows:

Weighted average constant prepayment rate (voluntary and involuntary)	17.0%
Discount rate (Option-Adjusted Spread) (in basis points) (1)	821

(1) The discount rate is 1 month LIBOR plus 800 basis points.

The following table summarizes the estimated change in the fair value of the Fair Value MSRs and related derivatives as of September 30, 2012 given hypothetical instantaneous parallel shifts in the yield curve (in thousands):

	Adverse change in fair value	
	10%	20%
Weighted average prepayment speeds	$ (5,519)	(10,524)
	100 bps	200 bps
Discount rate (Option-Adjusted Spread)	$ (3,233)	(6,200)

(Continued)

(6) Derivative Instruments and Hedging Activities

The Company's principal market exposure is to interest rate risk, specifically long-term U.S. Treasury and mortgage interest rates due to their impact on mortgage-related assets and commitments. We use derivative financial instruments to economically hedge our derivative loan commitments, loans held for sale and our MSRs measured at fair value. The Company did not have any derivative instruments designated as hedging instruments during the years ended September 30, 2012 and 2011.

The Company accounts for derivatives and hedging activities in accordance with ASC 815, *Derivatives and Hedging*, which requires entities to recognize all derivative instruments as either assets or liabilities in the consolidated balance sheets at their respective fair values. The Company's derivative instruments are included in Prepaid expenses and other assets, net or Accounts payable and other liabilities, and are not designated in hedging relationships. Therefore, any realized or unrealized gains or losses created by changes in fair value are recognized in the consolidated statements of operations in Interest expense, Gain on mortgage loans, net or Net derivative gain related to MSRs.

Interest rate lock commitments (IRLCs) represent an agreement to purchase loans from a third-party originator or an agreement to extend credit to a mortgage applicant, whereby the interest rate is set prior to funding. The loan commitment binds the Company (subject to the loan approval process) to fund the loan at the specified rate, regardless of whether interest rates have changed between the commitment date and the loan funding date. As such, outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of the commitment through the loan funding date or expiration date. The borrower is not obligated to obtain the loan, thus the Company is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. Our interest rate exposure on these derivative loan commitments is hedged with freestanding derivatives such as forward contracts. We enter into forward contracts with respect to fixed rate loan commitments. See note 18, "Fair Value Measurements" for further discussion regarding IRLCs.

The Company is subject to interest rate and price risk on mortgage loans held for sale from the loan funding date until the date the loan is sold into the secondary market. Generally, the fair value of a loan will decline in value when interest rates increase and will rise in value when interest rates decrease. To mitigate this risk, the Company enters into forward trades to provide an economic hedge against those changes in fair value on mortgage loans held for sale. Forward trades are primarily used to fix the forward sales price that will be realized upon the sale of mortgage loans into the secondary market. See note 18, "Fair Value Measurements" for additional information regarding mortgage loans and related forward contracts.

The Fair Value MSRs are subject to substantial interest rate risk as the mortgage notes underlying the servicing rights permit the borrowers to prepay the loans. Therefore, the value of the Fair Value MSRs generally tends to diminish in periods of declining interest rates (as prepayments increase) and increase in periods of rising interest rates (as prepayments decrease). Although the level of interest rates is a key driver of prepayment activity, there are other factors that influence prepayments, including home prices, underwriting standards and product characteristics. The amount and composition of derivatives used to economically hedge the Fair Value MSRs, if any, will depend on the exposure to loss of value on the MSRs, the expected cost of the derivatives, expected liquidity needs, and the expected increase to earnings generated by the origination of new loans resulting from the decline in interest rates.

(Continued)

The Company enters into economic hedges including interest rate swaps, U.S. Treasury futures and forward contracts to minimize the effects of loss in value of the fair value MSRs associated with increased prepayment activity that generally results from declining interest rates. Interest rate swap agreements generally require us to pay a variable interest rate based on LIBOR and receive a fixed rate. Futures contracts are exchange-traded contracts where two parties agree to purchase and sell a specific quantity of a financial instrument at a specific price, with delivery or settlement at a specified date. Forward contracts are over-the-counter contracts where two parties agree to purchase and sell a specific quantity of financial instruments at a specified price, with delivery and settlement at a specified date.

Interest rate caps were purchased to minimize future interest rate exposure from increases in one-month LIBOR interest rates. At September 30, 2012, the interest rate caps outstanding relate to the AH Mortgage Servicer Advance Revolving Trust 1 (2011-SART1), AH Servicer Advance Revolving Trust 2 (2011-SART2), and AH Servicer Advance Revolving Trust 3 (2012-SART3), as required by the respective funding arrangements, and are recorded at fair value with any subsequent changes in fair value recognized through earnings within Interest expense. At September 30, 2011, the interest rate caps outstanding relate to the 2011-SART1 and the 2011-SART2.

The following table provides the outstanding notional balances and fair values of outstanding positions for the dates indicated, and recorded gains and losses during the periods indicated (in thousands):

	Expiration dates	Outstanding notional	Fair value	Recorded gains (losses)	Income statement caption
Year ended September 30, 2012:					
Prepaid expenses and other assets, net:					
Interest rate cap	2015 – 2016	$ 1,025,000	225	(1,453)	Interest expense
IRLC’s	2012	1,024,813	19,226	19,226	Gain on mortgage loans, net
Interest rate swaps	2014 – 2032	307,500	5,756	7,423	Net derivative gain related to MSRs
U.S. Treasury futures	2012	134,000	493	95	Net derivative gain related to MSRs
Forward MBS trades	2012	40,000	1,236	2,647	Net derivative gain related to MSRs
Accounts payable and other liabilities:					
Forward MBS trades	2012	1,558,136	19,457	(19,457)	Gain on mortgage loans, net
Year ended September 30, 2011:					
Prepaid expenses and other assets, net:					
Interest rate cap	2015 – 2016	750,000	1,151	(4,927)	Interest expense

For the years ended September 30, 2012 and 2011, we had approximately $16.8 million and $0 million, respectively, of cash receivables related to collateral with derivative counterparties.

(Continued)

(7) Servicing Fees and Income Receivable, Net

Servicing fees and income receivable, net consisted of the following at September 30, 2012 and 2011 (in thousands):

	2012	2011
Servicing fees	$ 162,547	159,322
Allowance for servicing fees	(4,505)	(5,543)
Advisory fees – affiliate	—	167
Advisory fees	1,295	—
HAMP fees	522	728
Other income	807	469
Servicing fees and income receivable, net	$ 160,666	155,143

(8) Property and Equipment, Net

Property and equipment, net consisted of the following as of September 30, 2012 and 2011 (in thousands):

	2012	2011
Leasehold improvements	$ 11,744	11,346
Software and hardware	29,601	29,746
Furniture and office equipment	24,535	16,058
	65,880	57,150
Accumulated depreciation	(31,403)	(26,480)
Property and equipment, net	$ 34,477	30,670

(9) Prepaid Expenses and Other Assets, Net

Prepaid expenses and other assets, net consisted of the following as of September 30, 2012 and 2011 (in thousands):

	2012	2011
Derivative instruments	$ 26,936	1,151
Debt issuance costs	22,682	11,170
Due from broker	16,819	—
Prepaid expenses and other	7,993	9,078
Investments in unconsolidated entities	5,902	5,700
Repurchased loans held for sale, net	2,923	5,342
Other receivables	1,773	3,580
Prepaid expenses and other assets, net	$ 85,028	36,021

(Continued)

(a) Repurchased Loans Held for Sale, Net

Repurchased loans held for sale, net consists of repurchased residential loans where the Company assumed the warranties and obligations for the underlying loans that comprise a portfolio of acquired MSRs (see note 14). Repurchased loans held for sale, net are summarized as follows at September 30, 2012 and 2011 (in thousands):

	2012	2011
Outstanding UPB	$ 8,576	15,140
Allowance for market valuation	(5,653)	(9,798)
Repurchased loans held for sale, net	$ 2,923	5,342

(b) Interest Rate Caps

The following tables present the details of the interest rate caps (which are not designated in hedging relationships) as of September 30, 2012 and 2011 (in thousands):

SAF	Maturity	Initial notional balance 2012	Fair value 2012
2011 – SART1	May 10, 2016	$ 600,000	$ 181
2011 – SART2	February 15, 2015	150,000	14
2012 – SART3	August 13, 2015	275,000	30
			$ 225

SAF	Maturity	Initial notional balance 2011	Fair value 2011
2011 – SART1	May 10, 2016	$ 600,000	1,045
2011 – SART2	February 15, 2015	150,000	106
			$ 1,151

Net unrealized losses included in Interest expense on the consolidated statements of operations were $1.5 million and $4.9 million for the years ended September 30, 2012 and 2011, respectively. Under the terms of these caps, the Company would receive payments when one-month LIBOR is greater than 5.0% for 2011-SART1 SAF and 4.5% for 2011-SART2 and 2012-SART3 SAFs. To date, the Company has not received any payments related to these caps. See note 6 for additional information on interest rate caps.

(Continued)

(c) Other Receivables

Other receivables represent amounts earned that do not relate to servicing advances or the core operations of the business and primarily consist of amounts due from FNMA for loans subject to redelivery.

(10) Mortgage Loans Held for Sale, Net

Mortgage loans held for sale (MLHS), net represent mortgage loans originated or purchased by the Company and held until sold to secondary market investors, such as GSEs or other third party investors.

The Company elected to measure MLHS at fair value, which is intended to better reflect the underlying economics of our business. The Company estimates fair value by evaluating a variety of market indicators, including recent trades and outstanding commitments (see note 18 – Fair Value Measurements).

Mortgage loans held for sale, net as of September 30, 2012 consist of the following (in thousands):

		2012
Mortgage loans held for sale – unpaid principal balance	$	516,689
Mark-to-market adjustment		30,942
Mortgage loans held for sale, net	$	547,631

A reconciliation of the changes in mortgage loans held for sale to the amounts presented in the consolidated statements of cash flows for the year ended September 30, 2012 is presented in the following table (in thousands):

		2012
Mortgage loans held for sale – unpaid principal balance – beginning balance	$	—
Origination and purchase of mortgage loans held for sale		5,463,500
Proceeds on sale and payments from mortgage loans held for sale		(5,099,311)
Gain on loans sold		152,435
Other		65
Mortgage loans held for sale – unpaid principal balance – ending balance	$	516,689

(Continued)

(11) Servicing Advances and Related Assets, Net

At September 30, 2012 and 2011, advances, representing principal, interest and other servicing payments made to investors and third parties on mortgage loans serviced on behalf of these investors, as described in more information in note 2(f) Summary of Significant Accounting Policies, consisted of the following (in thousands):

	2012	2011
Principal and interest	$ 1,173,006	1,426,648
Taxes and insurance	802,532	835,067
Default and other advances	249,161	438,906
Allowance	(10,665)	(19,010)
Servicing advances and related assets, net	$ 2,214,034	2,681,611

(12) Acquisitions

On August 15, 2012, the Company purchased $15.8 million in servicing advances and $23.5 million in MSRs from JPMorgan Chase Bank, N.A. The servicing advances were financed through a $25.0 million servicing advance facility. The MSRs were financed through a $22.0 million deferred servicing fee receivable backed facility (see note 13).

On June 30, 2011, ALSI purchased Cooper River Financial, LLC for $2.1 million, comprising $1.4 million in cash paid and $0.7 million of accrued contingent consideration. The acquired net assets of $0.7 million included cash, prepaid expenses, payroll liabilities and miscellaneous deposits. As a result of the acquisition, the Company recorded $1.4 million in goodwill.

(Continued)

(13) Debt

The Company’s debt consisted of the following as of September 30, 2012 and 2011 (in thousands):

Borrowing type 2012	Collateral	Maturity 2012	Interest rate 2012	Line size 2012	Short-term 2012	Long-term 2012
2011 – SART1 SAF				$ 1,375,000		
Variable	Advances and Servicing Fees Receivable	May 10, 2013	One-month LIBOR + 300 bps		$ 214,794	—
Fixed	Advances and Servicing Fees Receivable	May 10, 2013	2.23%		325,000	—
Fixed	Advances and Servicing Fees Receivable	May 10, 2013	3.37% – 5.92%		525,000	—
					1,064,794	—
2011 – SART2 SAF				400,000		
Variable	Advances	September 16, 2013	One-month LIBOR + 315 bps		31,937	—
Fixed	Advances	September 16, 2013	3.27% – 6.90%		250,000	—
					281,937	—
2012 – SART3 SAF				823,277		
Variable	Advances and Servicing Fees Receivable	March 13, 2014	One-month LIBOR +300 bps – 675 bps		—	69,902
Fixed	Advances and Servicing Fees Receivable	March 13, 2013	2.98%		248,998	—
Fixed	Advances and Servicing Fees Receivable	March 13, 2014	3.72% – 7.04%		—	299,270
					248,998	369,172
2012 – HAART SAF	Advances	September 23, 2013	Cost of funds rate + 300 bps [1]	25,000	12,842	—
2012 – HDART SAF	Servicing Fees Receivable	December 17, 2012	One-month LIBOR + 450 bps	22,000	20,001	—
Seller-Financed Servicing Agreement	N/A	N/A	One-month LIBOR + 200 bps	922	922	—
$125 Million Master Repurchase Agreement	Mortgage Loans Held for Sale	January 18, 2013	One-month LIBOR + 175 bps	125,000	97,180	—
Participation Agreement	Mortgage Loans Held for Sale	February 28, 2013	N/A	67,605	67,605	—
$250 Million Master Repurchase Agreement	Mortgage Loans Held for Sale	February 3, 2013	One-month LIBOR + 200 bps	250,000	163,821	—
$300 Million Master Repurchase Agreement	Mortgage Loans Held for Sale	July 29, 2013	One-month LIBOR + 200 bps	300,000	170,252	—
Senior Secured Term Loan Facility	Non-Agency MSRs, Agency MSRs, Advances, Servicing Fees Receivable, Residual Interest in SAFs	August 8, 2017	One-month LIBOR [2] + 675 bps	292,719	—	292,719
Senior Secured Revolving Line of Credit Facility	Non-Agency MSRs, Agency MSRs, Advances, Servicing Fees Receivable, Residual Interest in SAFs	August 8, 2015	One-month LIBOR[2] + 675 bps	75,000	—	—
Total Short-term and Long-term debt				$ 3,756,523	$ 2,128,352	661,891

[1] The Cost of funds rate is equal to the daily rate for any issued commercial paper or LIBOR + 100 bps.

[2] The interest rate is based upon the greater of one-month LIBOR or 150 bps.

(Continued)

Borrowing Type 2011	Collateral	Maturity 2011	Interest rate 2011	Line size 2011	Short-term 2011	Long-term 2011
2011 – SART1 SAF				$ 1,450,000		
Variable	Advances and Servicing Fees Receivable	May 10, 2013	One-month LIBOR + 300 bps		$ —	338,635
Fixed	Advances and Servicing Fees Receivable	May 10, 2012	2.63%		324,989	—
Fixed	Advances and Servicing Fees Receivable	May 10, 2013	3.37% - 5.92%		—	524,222
					324,989	862,857
2011 – SART2 SAF:						
Variable	Advances	September 16, 2013	One-month LIBOR + 315 bps	400,000	—	86,540
Fixed	Advances	September 16, 2013	3.27% - 6.90%		—	249,973
					—	336,513
CRL SAF	Advances	February 10, 2013	One-month LIBOR + 0 - 200 bps	1,641,073	784,868	—
Seller-Financed Servicing Agreement	N/A	N/A	One-month LIBOR + 200 bps	1,791	1,791	—
Revolving Line of Credit	N/A	March 31, 2012	One-week LIBOR + 200 bps (3)	50,000	—	—
Total short-term and long-term debt				$ 3,542,864	1,111,648	1,199,370

(3) The interest rate is determined by the Company from the following options: one-week LIBOR + 200 bps; federal funds rate + 300 bps; or prime rate – 25 bps.

The Company is entitled to borrow against new servicing advances and/or servicing fees receivable, subject to the maximum borrowing limit on the SAF through the maturity date. If the SAF is not replaced or renewed and extended beyond the maturity date, the Company cannot borrow against any new servicing advances, and all collections of servicing advances pledged to the SAF are subsequently required to be used to pay down the outstanding SAF principal along with the related interest, including additional interest that accrues after the end of the funding period until amortization is complete. In the event that any principal is still outstanding after the maturity date, the remaining unpaid principal balance will become due and payable from the SAF at that time, with no recourse back to the Company.

(a) 2011-SART1 SAF and 2010-ADV2 SAF

On May 11, 2011, the Company refinanced the 2010-ADV2 SAF and entered into the $1.45 billion 2011-SART1 SAF to fund primarily Option One Mortgage Corporation (OOMC) related servicing advances, with a maturity date of May 10, 2012 and May 10, 2013. On May 9, 2012, the Company refinanced the 2011-SART1 SAF Class A-1 Term note and reduced the facility to a $1.38 billion SAF, with a maturity of May 10, 2013.

Interest paid for the 2011-SART1 for the year ended September 30, 2012 was $42.3 million and interest paid for the 2010-ADV2 SAF and 2011-SART1 SAF for the year ended September 30, 2011 was $50.1 million.

The 2011-SART1 SAF is subject to various triggers, events, or occurrences that could result in early termination. Additionally, the Company is required to maintain a reserve account in accordance with the SAF agreement. At September 30, 2012 and 2011, the reserve account was $24.9 million and $30.0 million, respectively, which is included in Cash and cash equivalents – restricted. Cash collections related to the servicing advance facility but not yet applied as of September 30, 2012 and 2011 were $3.1 million and $28.5 million, respectively, which are included in Cash and cash equivalents – restricted.

(Continued)

(b) 2011-SART2 SAF and 2010-ADV1 SAF

On September 1, 2011, the Company refinanced the 2010-ADV1 SAF and entered into a $400 million SAF to fund primarily American Home Mortgage (AHM) related servicing advances (2011-SART2 SAF).

Interest paid for the 2011-SART2 SAF for the year ended September 30, 2012 was $15.4 million and interest paid for the 2010-ADV1 SAF and 2011-SART2 SAF for the year ended September 30, 2011 was $16.3 million.

The 2011-SART2 SAF is subject to various triggers, events, or occurrences that could result in early termination. Additionally, the Company is required to maintain a reserve account in accordance with the SAF agreement. At September 30, 2012 and 2011, the reserve account was $6.2 million and $8.3 million, respectively, which is included in Cash and cash equivalents – restricted. Cash collections related to the servicing advance facility but not yet applied as of September 30, 2012 and 2011 were $2.1 million and $8.0 million, respectively, which are included in Cash and cash equivalents – restricted.

(c) 2012-SART3 SAF and CRL SAF

On January 27, 2012, the Company repaid the facility that financed the acquired Citi Residential Lending (CRL) portfolio and entered into an $823 million SAF to fund CRL related servicing advances (2012-SART3 SAF).

Interest paid for the CRL SAF and 2012-SART3 for the year ended September 30, 2012 was $17.8 million and interest paid for the CRL SAF for the year ended September 30, 2011 was $9.2 million.

The 2012-SART3 SAF is subject to various triggers, events, or occurrences that could result in early termination. Additionally, the Company is required to maintain a reserve account in accordance with the SAF agreement. At September 30, 2012, the reserve account was $15.9 million, which is included in Cash and cash equivalents – restricted. Cash collections related to the servicing advance facility but not yet applied as of September 30, 2012 and 2011 were $16.4 million and $13.9 million, respectively, which are included in Cash and cash equivalents – restricted.

(d) 2012-HAART SAF

On September 14, 2012, the Company entered into the $25 million Homeward Agency Advance Funding Trust 2012-1 (2012-HAART SAF), with a maturity date of September 23, 2013, to fund a portion of servicing advances acquired in the MSR and servicing advance asset purchase from JPMorgan Chase Bank, N.A. (see note 12). The 2012-HAART is collateralized by the acquired servicing advances.

(Continued)

The 2012-HAART is subject to various triggers, events, or occurrences that could result in early termination. Additionally, the Company is required to maintain a reserve account in accordance with the agreement. At September 30, 2012, the reserve account was $0.2 million, which is included in Cash and cash equivalents – restricted. Cash collections related to the servicing advance facility but not yet applied as of September 30, 2012 were $3.3 million, which are included in Cash and cash equivalents – restricted.

(e) 2012-HDART SAF

On September 17, 2012, the Company entered into the $22 million Homeward DSF Advance Revolving Trust 2012-1 (2012-HDART SAF), with a maturity date of December 17, 2012, to fund a portion of the MSRs acquired in the MSR and servicing advance asset purchase from JPMorgan Chase Bank, N.A. (see note 12). The 2012-HDART is collateralized by deferred servicing fee receivables. On December 10, 2012, the Company extended the 2012-HDART SAF maturity date to February 10, 2013.

The 2012-HDART is subject to various triggers, events, or occurrences that could result in early termination. Additionally, the Company is required to maintain a reserve account in accordance with the agreement. At September 30, 2012, the reserve account was $0.4 million, which is included in Cash and cash equivalents – restricted. Cash collections related to the deferred servicing fee receivable but not yet applied as of September 30, 2012 were $0.5 million, which are included in Cash and cash equivalents – restricted.

(f) Term Loan and Revolver

On August 8, 2012, the Company entered into a $300 million, 5-year Senior Secured Term Loan Facility (the Term Loan) and a $75 million, 3-year Senior Secured Revolving Line of Credit Facility (the Revolver; and collectively, the Facilities). The Term Loan proceeds were used to pay transaction costs and to redeem 292,500 preferred shares at a redemption price of $292.5 million plus accrued preferred share dividends of $2.0 million on August 9, 2012. The Revolver is used for general working capital purposes.

The Term Loan interest rate is LIBOR plus 6.75% and has an amortization of 2.5% on initial principal amount per quarter with mandatory prepayments of 50% of Consolidated Excess Cash Flow (as defined) starting after September 30, 2013. The Revolver interest rate is LIBOR plus 6.25% to 6.75%. Interest paid for the Term Loan for the year ended September 30, 2012 was $2.3 million.

The Term Loan and Revolver are collateralized by a pool of assets including Nonagency MSRs, Agency MSRs, unencumbered servicing advances, unencumbered servicing fee receivables, residual interest in SAFs and other asset types. The covenants and restrictions of the Term Loan limit the Company's ability to incur additional indebtedness, pay dividends, make certain investments, create liens, or enter into certain transactions with Nonguarantor subsidiaries. The Term Loan is subject to various triggers, events, or occurrences that could result in early termination.

(g) Seller-Financed Servicing Agreement

As part of the Option One Mortgage Corporation (OOMC) purchase in 2008, the Company entered into a Seller-Financed Servicing Agreement with the Seller. As part of the agreement, the Company assumed responsibility to service advances financed by the Seller. The Company is required to remit 97% of the servicing advance recoveries to the Seller after repayment of the servicing advance against any remaining seller-financed advance balance until the balance has been paid. Payments are due at the beginning of each month based on the average daily balance of aggregate advances. Interest paid for the years ended September 30, 2012 and 2011 was $30 thousand and $0.1 million, respectively.

(Continued)

(h) Revolving Line of Credit

The Company had a $50 million revolving line of credit agreement with a financial institution. The interest rate was based on one-week LIBOR plus 200 basis points. For the years ended September 30, 2012 and 2011, the Company paid interest of $0.2 million and $0.2 million, respectively. The agreement required that outstanding balances be paid down to zero at least once every sixty days for a minimum of two days. The revolving credit agreement was guaranteed by certain private equity funds that are ultimately controlled by the Parent up to $25.0 million. In connection with the Term Loan transaction, the Revolving Line of Credit was paid in full and closed, and the Parent guaranty was released. The facility is available only for the issuance of Letters of Credit. As of September 30, 2012, facility usage on the Letters of Credit was $5.1 million.

(i) Warehouse Facilities

$125 million Master Repurchase Agreement

On January 20, 2012, the Company entered into a $75 million Master Repurchase Agreement with a financial institution, with a maturity date of January 18, 2013 that serves as a warehouse facility for funding Mortgage loans held for sale. The Aggregate Transaction Limit is $75 million, of which $1 million is available on a committed basis and $74 million is available on an uncommitted basis. On March 6, 2012, the Company entered into a $50 million Temporary Increase of the uncommitted portion of the Aggregate Transaction Limit for a total Transaction Limit of $125 million. The Temporary Increase was extended on several occasions and expired on September 30, 2012. On October 1, 2012, the Company amended the Master Repurchase Agreement to increase the Aggregate Transaction Limit to $125 million, of which $1 million is available on a committed basis and $124 million is available on an uncommitted basis.

The Master Repurchase Agreement allows the Company to finance 97.5% of the UPB for a maximum period of 45 days. Interest paid for the year ended September 30, 2012 was $0.9 million under this facility. The transaction does not qualify as a sale of a financial instrument and is treated as a financing arrangement.

The repurchase agreement is subject to various triggers, events, or occurrences that could result in earlier termination. Additionally, the Company was required to maintain a margin account in accordance with the agreement, which is included in Cash and cash equivalents – restricted.

Participation Agreement

On December 22, 2011, the Company entered into a participation agreement with a financial institution with a maturity date of February 28, 2013 that serves as a warehouse facility for funding Mortgage loans held for sale. The financial institution provides financing on an uncommitted basis from $50 million to $90 million. The total capacity is made at the financial institution's sole discretion. The participation agreement allows the financial institution to acquire a 100% beneficial interest in the underlying mortgage loan. The transaction does not qualify as a sale of a financial instrument and is treated as a financing arrangement. The financial institution earns the stated interest rate of the loan while the loan is financed under the participation agreement. Interest and fees paid for the year ended September 30, 2012 was $1.9 million.

(Continued)

$250 million Master Repurchase Agreement

On February 3, 2012, the Company entered into a $150 million Master Repurchase Agreement with a financial institution, with a maturity date of February 3, 2013 that serves as a warehouse facility for funding Mortgage loans held for sale. On April 30, 2012 and on May 2, 2012, the Company amended the Master Repurchase Agreement for a temporary increase to $250 million. On June 29, 2012, the Company amended the Master Repurchase Agreement for a permanent increase of the facility to $250 million.

The Master Repurchase Agreement allows the Company to finance 95 – 98% of the UPB for a maximum period of 30 – 45 days (based on type of underlying mortgage loan). The transaction does not qualify as a sale of a financial instrument and is treated as a financing arrangement. Interest and fees paid for the year ended September 30, 2012 was $2.5 million.

The Master Repurchase Agreement is subject to various triggers, events, or occurrences that could result in earlier termination. Additionally, the Company maintains a margin account in accordance with the agreement. At September 30, 2012, the margin account was $4.6 million, which is included in Cash and cash equivalents.

$300 million Master Repurchase Agreement

On July 30, 2012, the Company entered into a $100 million Master Repurchase Agreement with a financial institution, with a maturity date of July 29, 2013 that serves as a warehouse facility for funding Mortgage loans held for sale. On September 11, 2012, the Company amended the Master Repurchase Agreement to increase the facility to $300 million.

The Master Repurchase Agreement allows the Company to finance 98% of the UPB for a maximum period of 60 days (based on type of underlying mortgage loan). The transaction does not qualify as a sale of a financial instrument and is treated as a financing arrangement. Interest and fees paid for the year ended September 30, 2012 was $0.4 million.

The Master Repurchase Agreement is subject to various triggers, events, or occurrences that could result in earlier termination. Additionally, the Company maintains a margin account in accordance with the agreement. At September 30, 2012, the margin account was $1.2 million, which is included in Cash and cash equivalents – restricted.

The Company was in compliance with all debt facility covenants and requirements as of September 30, 2012 and 2011.

(Continued)

(14) Commitments and Contingencies

The Company conducts its operations in leased facilities. Rental expense at leased facilities was $7.7 million and $6.8 million for the years ended September 30, 2012 and 2011, respectively. The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2012 (in thousands):

Year ending September 30:	
2013	$ 6,313
2014	6,438
2015	5,956
2016	5,607
2017	2,368
Thereafter	1,850
	$ 28,532

The Company is involved in various claims and legal proceedings that arise in the ordinary course of business. In view of the inherent difficulty of predicting the outcome of pending legal actions and proceedings, the Company cannot state with certainty the eventual outcome of any such proceedings. Based on current knowledge, management does not believe the liabilities, if any, arising from any ordinary course proceeding will have a material impact on the Company's consolidated financial position.

Certain whole loan sale contracts with investors such as Fannie Mae and Freddie Mac include provisions requiring Homeward to repurchase a loan if a borrower fails to make certain initial loan payments due to the investor or if the accompanying mortgage loan fails to meet customary representations and warranties. These representations and warranties are made to the investors about various characteristics of the loans, such as manner of origination, the nature, and extent of underwriting standards applied and the types of documentation being provided and typically are in place for the life of the loan. In the event of a breach of the representations and warranties, the Company may be required to either repurchase the loan or indemnify the investor for losses it sustains on the loan. In addition, an investor may request that the Company refund a portion of the premium paid on the sale of mortgage loans if a loan is prepaid within a certain amount of time from the date of sale. The Company records a provision for estimated repurchases and premium recapture on loans sold, which is either charged to gain (loss) on mortgage loans held for sale or provision for loan losses. The reserve for repurchases is included as a component of accounts payable and other liabilities. The current unpaid principal balance of loans sold by Homeward represents the maximum potential exposure to repurchases related to representations and warranties. Reserve levels are a function of expected losses based on actual pending and expected claims, repurchase requests, historical experience, and loan volume. While the amount of repurchases and premium recapture is uncertain, Homeward considers the liability to be adequate. For the year ended September 30, 2012, a provision of $1.5 million was recognized. No provision was recognized for the year ended September 30, 2011, as the loan origination business had not yet commenced operations.

(Continued)

As of September 30, 2012 and 2011, the Company had a reserve for $5.3 million and $5.4 million, respectively, included in Accounts payable and other liabilities, primarily related to mortgage insurance policies that were erroneously canceled. For the years ended September 30, 2012 and 2011, a recovery of $0.1 million and a provision of $1.2 million, respectively, were recognized. The following table summarizes the activity in the Company's mortgage insurance reserve for the years ended September 30, 2012 and 2011 (in thousands):

Balance as of September 30, 2010	$	4,305
Provision expense recognized		1,215
Net cash paid		(140)
Balance as of September 30, 2011		5,380
Recovery of previous provision expense		(149)
Net cash recovery		42
Balance as of September 30, 2012	$	5,273

Prior to the OOMC acquisition, a number of trust level mortgage insurance policies were erroneously auto-canceled. The mortgage insurance company has subsequently reinstated approximately half of the affected population, and the Company continues to work with the mortgage insurance company to reinstate the remaining canceled policies. The Company believes there is no exposure related to the canceled policies.

For one MSR acquisition, the Company assumed the warranties and obligations for the underlying loans that comprise the MSR. The loan repurchase reserve as of September 30, 2012 and 2011 was $25.3 million and $8.1 million, respectively, included in Accounts payable and other liabilities. The reserve is calculated using a model to estimate future loan referrals with historical loss rates applied to determine incurred losses. For the years ended September 30, 2012 and 2011, a provision of $26.3 million and a net recovery of $6.9 million, respectively, were recognized. The following table summarizes the activity in the Company's loan repurchase reserve for the years ended September 30, 2012 and 2011 (in thousands):

Balance as of September 30, 2010	$	27,658
Recovery of previous provision expense		(6,906)
Reserve transfers to repurchased loans held for sale		(7,479)
Net cash paid		(5,127)
Balance as of September 30, 2011		8,146
Provision expense recognized		26,315
Reserve transfers to repurchased loans held for sale		(3,133)
Net cash paid		(6,044)
Balance as of September 30, 2012	$	25,284

(Continued)

The Company is subject to compensatory fees for foreclosures that exceed investor timelines. As of September 30, 2012 and 2011, the Company's estimated exposure related to loans that have exceeded the investor foreclosure timelines was $6.9 million and $12.5 million, respectively, for which a liability was included in Accounts payable and other liabilities. The following table summarizes the activity in the Company's reserve for compensatory fees for the years ended September 30, 2012 and 2011 (in thousands):

Balance as of September 30, 2010	$ —
Provision expense recognized	12,468
Balance as of September 30, 2011	12,468
Recovery of previous provision expense	(3,259)
Reserve transfers to loans held for sale and charge-offs	(161)
Net cash paid	(2,117)
Balance as of September 30, 2012	$ 6,931

The Company has obligations to indemnify non-agency investors due to servicing errors or violations of the agency servicing guide. The following table summarizes the activity in the Company's indemnification reserve for the years ended September 30, 2012 and 2011 (in thousands):

Balance as of September 30, 2010	$ —
Provision expense recognized	733
Balance as of September 30, 2011	733
Provision expense recognized	1,987
Reserve transfers to loans held for sale and charge-offs	(17)
Net cash paid	(1,193)
Balance as of September 30, 2012	$ 1,510

The Company, with other mortgage loan servicers in the industry, has received inquiries from state Attorneys General and other state and federal regulators and officers and legislative committees into its mortgage foreclosure practices and procedures. The Company has responded to these inquiries and has conducted an internal review of its foreclosure practices and procedures. The Company will continue to cooperate with any federal or state inquiries. An estimated loss or range of exposure with respect to these inquiries cannot be made as of the financial statement date. The Company has an open examination with the Multi-State Mortgage Committee (MMC) regarding its mortgage loan servicing and foreclosure practices and procedures. We have participated in discussions with the MMC and plan to implement the attorney general servicing standards reached in settlement with several of the top bank mortgage loan servicers. Our discussions with the MMC are on going and an estimated loss or range of exposure with respect to the examination cannot be made as of the financial statement date.

The Company is a defendant in a lawsuit filed by the state of Texas in which violations of the state's consumer protection and debt collection acts related to the Company's customer service and loss mitigation practices are alleged. The case is on hold, by order of the Court, pursuant to a joint request by the parties. The Company believes there will be no loss related to this matter.

(Continued)

The Department of Housing and Urban Development (HUD) Mortgagee Review Board (MRB) issued a letter to the Company dated December 2, 2011, in which the MRB advised that it was considering taking an administrative action against the Company in connection with the Company's alleged violation of various HUD and Federal Housing Administration (FHA) requirements pertaining to the Company's submission of claims for FHA insurance benefits. The Company was alleged, in connection with various loans, to have: (1) Submitted or caused to be submitted false information to HUD; (2) failed to reconcile its portfolio data and allowed HUD records to incorrectly identify the Company as the holder of FHA-insured mortgage loans; and (3) submitted false information to HUD in support of certain claims for FHA insurance benefits and claimed benefits for ineligible holders. The Company has reached a settlement in principle and has agreed to pay HUD $1.2 million as settlement of this issue. The settlement amount was included within Accounts payable and other liabilities at September 30, 2012 and a loss provision was included within General servicing expenses for the year ended September 30, 2012.

(15) Related-Party Transactions

The Company performed due diligence services on behalf of its Parent and recorded $1.8 million in Other revenues in the consolidated statements of operations for the year ended September 30, 2011. No due diligence services were performed on behalf of the Company's Parent for the year ended September 30, 2012.

The Company acquired MSRs from third-party mortgage originators that were referred by a portfolio company that is owned by the Parent. The Company has an agreement to pay a commission expense as a percentage of the UPB of the acquired MSRs. During the year ended September 30, 2012, total commission expense of $0.9 million was recorded in General servicing expenses in the consolidated statements of operations. There were no commissions paid to the portfolio company for the year ended September 30, 2011.

The Company serviced loans on behalf of the portfolio company that is owned by the Parent and recognized total subservicing fee income of approximately $45 thousand for the year ended September 30, 2012. No subservicing fee income was recognized for the year ended September 30, 2011.

The Company performed special servicing on a portfolio of loans owned by the Parent and received $0.8 million and $0.9 million of servicing fee income for the years ended September 30, 2012 and 2011, respectively.

During the years ended September 30, 2012 and 2011, PowerLink and Recovco performed valuation and advisory services for the Company and $10.0 million and $12.1 million, respectively, was recorded in General servicing expenses in the consolidated statements of operations.

(16) Stockholders' Equity

(a) Preferred Stock

The Company had authorized 381,900 and 799,400 of Series A preferred shares as of September 30, 2012 and 2011, respectively, and had 141,385 and 558,885 issued and outstanding shares with a par value of $0.0001 per share as of September 30, 2012 and 2011, respectively.

(Continued)

The rights, preferences, privileges, and restrictions granted to and imposed upon the common stock and the preferred stock are as follows:

Rank

The Series A preferred shares have dividend rights, rights on liquidation, dissolution, and winding up of the affairs of the Company that rank senior to common stock and to all other classes and series of equity securities of the Company and to all other classes and series of equity securities hereafter issued.

Dividend Rights

(i) The holders of Series A preferred stock will be entitled to receive dividends at an annual rate of $60 per share prior to the payment of any dividends on the common stock. Dividends on the Series A preferred stock are cumulative whether or not earned or declared on a daily basis from the date of issuance and are payable quarterly in arrears on each dividend payment date commencing on January 1, 2008. Dividends in arrears as of September 30, 2012 totaled $2.2 million. There was no dividend amount in arrears at September 30, 2011.

(ii) The holders of common stock will be entitled to receive dividends after full payment of dividends to the holders of Series A preferred stock.

Liquidation Rights

Holders of Series A preferred stock have a liquidation preference to any payment or distribution on any shares of common stock in the event of liquidation or dissolution. Under the terms of the Amended and Restated Certificate of Incorporation, each share of Series A preferred stock has a liquidation preference of $1,000 per share as adjusted for stock splits, stock dividends, and combinations plus unpaid dividends (Liquidation Preference). If the Company does not have sufficient funds to settle the Liquidation Preference, then the entire available funds and assets, as defined in the Amended and Restated Certificate of Incorporation, are to be distributed among the holders of Series A preferred stock pro rata according to the number of outstanding Series A stock preferred held by each holder. Certain events as defined in the Amended and Restated Certificate of Incorporation could trigger a deemed liquidation for which the Company would then make a special distribution.

Voting Rights

Holders of Series A preferred stock do not have voting rights.

Redemption Rights

The Company may, at any time, at its option, redeem all or any of the outstanding shares of Series A preferred stock at a redemption price equal to the Liquidation Preference payable in cash. Any redemption will be made on a pro rata basis among the holders of the Series A preferred stock according to the number of Series A preferred stock held by each holder.

During the year ended September 30, 2012, the Company redeemed 417,500 of the outstanding shares of Series A preferred stock for $417.5 million.

(Continued)

Reissuance of Preferred Stock

Under the terms of the Amended and Restated Certificate of Incorporation, no share or shares of preferred stock acquired by the Company by reason of redemption, purchase, conversion, or otherwise can be issued, and all such shares are to be canceled, retired, and eliminated from the shares that the Company is authorized to issue.

(b) Common Stock

The Company had authorized 1,000,000 shares of common stock and had 372,770 issued and outstanding shares with a par value of $0.0001 per share at September 30, 2012 and 372,762 issued and outstanding shares with a par value of $0.0001 per share at September 30, 2011. Except for the rights provided to the holders of Series A preferred stock or at the discretion of the Board of Directors, only the holders of common stock of the Company will be entitled to voting rights for each share of common stock. The holders of common stock will be entitled to one vote per share.

Common Stock Dividend

No common stock dividends were declared by the Board of Directors or paid during the year ended September 30, 2012.

During the year ended September 30, 2011, the Board of Directors declared and paid the following common stock dividends (amounts in thousands, except share data):

Date	Dividend per share of common stock	Total dividend
November 30, 2010	67.10	$ 25,021
May 20, 2011	402.75	150,150
September 15, 2011	134.20	50,028
		$ 225,199

(c) Long-Term Incentive Compensation Plan

Effective as of July 31, 2012, the Homeward Long Term Incentive Program and the Homeward Residential Holdings, Inc. Equity and Performance Incentive Plan (the 2012 Equity Plan) were adopted by the Compensation Committee of our Board of Directors and approved by our stockholders. Initially, 35,000 shares of common stock in the aggregate are available for issuance under the 2012 Equity Plan. The 2012 Equity Plan provides for automatic adjustments to the number of shares available for issuance in the event of certain changes to the value of our common stock.

(Continued)

The 2012 Equity Plan authorizes the award of deferred cash compensation, performance awards, restricted share units (RSUs) and stock appreciation rights (SARs). In general, under the terms of the 2012 Equity Plan, each component will vest, subject to continued employment, over a three-year period, with 66 2⁄3rd of the applicable component vesting over 24 months and the remaining 33 1⁄3rd vesting in an additional 12 months, except that the performance award component is subject to additional performance vesting conditions, as discussed below.

The deferred cash compensation component comprises 20% of the total value of each grant. This component is a fixed amount that is paid in cash upon vesting. The performance award component comprises 40% of the total value of each grant and will be earned to the extent determined by the Compensation Committee, based on the level of achievement of specific return on equity (ROE) goals during the applicable performance period. The RSU component comprises 20% of the total value of each grant. The SARs component comprises 20% of the total value of each grant. Once the award vests, it must be exercised within 10 years from the grant date. The settlement value, as defined in the 2012 Equity Plan, of the performance awards, RSUs, and SARs is paid upon vesting in shares of our common stock based on the share price of the common stock on that date. The RSUs and SARs components contain change in control provisions whereby these awards will fully vest upon a change in control.

The grant date fair value of the RSUs granted in 2012 were determined based on the grant date fair value of the underlying common stock as determined by a third-party specialist through both market and income based approaches. The grant date fair values of the SARs granted in 2012 were measured on the date of grant using the Black-Scholes option pricing model, with the following weighted average assumptions – risk free rate of 0.26%, dividend yield of 0%, expected volatility factor of 40%, and expected life of 2.3 years.

Share-based compensation expense under the Long-Term Incentive Compensation Plan was $2.6 million for the year ending September 30, 2012 and is recorded in Compensation and Benefits. No amount of share-based compensation expense under the Long-Term Incentive Compensation Plan was recognized prior to fiscal year 2012. The Company classifies the deferred cash compensation and performance award components as liabilities in the consolidated balance sheet while the RSUs and SARs are recorded in equity.

A summary of RSUs outstanding as of September 30, 2011 and 2012, and related activity during fiscal 2012, under the Long-Term Incentive Compensation Plan is as follows:

Restricted Stock Units	Units	Weighted Average Grant Date Fair Value
Restricted stock units outstanding at September 30, 2011	—	$ —
Granted	4,611	2,184
Vested	—	—
Forfeited	—	—
Restricted stock units outstanding at September 30, 2012	4,611	

(Continued)

As of September 30, 2012, there was $30.2 million of unrecognized compensation cost related to nonvested Long-Term Incentive Compensation Plan arrangements, which was expected to be recognized over a weighted average period of 1.25 years (adjusted for the accelerated vesting based on the expected change in control as discussed in the subsequent events footnote). At September 30, 2012, the number of outstanding RSUs totaled 4,611 shares of common stock, the number of outstanding performance awards was equivalent to 5,671 shares of common stock, and the number of outstanding SARs was equivalent to 7,843 shares of common stock.

(17) Income Taxes

Components of the Company's provision for income taxes are as follows for the years ended September 30, 2012 and 2011 (in thousands):

	2012	2011
Current:		
Federal	$ 18,210	30,895
State	2,597	1,474
Foreign	742	516
	21,549	32,885
Deferred:		
Federal	8,628	5,530
State	(67)	118
Foreign	36	(1,128)
	8,597	4,520
Income tax expense	$ 30,146	37,405

Income tax expense differs from the amount determined by applying the statutory federal rate of 35% for the years ended September 30, 2012 and 2011 to earnings before taxes as follows (in thousands):

	2012		2011	
	(In dollars)	(In percentages)	(In dollars)	(In percentages)
Income taxes at federal statutory rates	$ 28,943	35.00%	$ 37,237	35.00%
State tax, net	1,651	2.00	747	0.69
Other, net	(448)	(0.54)	(579)	(0.53)
Income tax expense	$ 30,146	36.46%	$ 37,405	35.16%

(Continued)

The tax effects of temporary differences that give rise to the Company's deferred tax assets and liabilities at September 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
Deferred tax assets:		
Mortgage servicing rights	$ —	2,340
Servicing advance and other reserves	25,770	24,283
Repurchased loans held for sale	2,202	3,654
Bonus accrual	5,291	3,373
Fair value adjustment on interest rate cap	1,544	1,551
Other, net	2,611	2,863
Total deferred tax assets	37,418	38,064
Deferred tax liabilities:		
Mortgage servicing rights	9,494	—
Depreciation	1,995	3,528
Prepaid expenses	2,386	2,275
Goodwill	43	9
Investment in partnerships	737	1,732
Other, net	1,493	813
Total deferred tax liabilities	16,148	8,357
Deferred tax asset, net	$ 21,270	29,707

The Company has determined that a valuation reserve is not required for any of the deferred tax assets since it is more likely than not that these assets will be realized because of tax paid in prior years and future operations will generate sufficient taxable income to realize the deferred tax assets. In assessing the realization of deferred taxes, management believes it is more likely than not that the deferred tax assets will be recognized in future periods through either a tax carryback to the previous two years or the generation of taxable income or the reversal of taxable temporary differences. In assessing the likelihood of the generation of future taxable income, management considered current year results as well as management's outlook for future taxable income. The outlook was based on current and projected servicing revenue and management's belief in the ability of the Company to maintain a sufficient level of income over the periods in which the deferred tax assets are deductible.

The Company's major jurisdiction tax years that remain subject to examination are its U.S. federal tax return and India corporate tax returns for the years ended September 30, 2009 through present.

(Continued)

(18) Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. The standard applies when U.S. GAAP requires or allows assets or liabilities to be measured at fair value and, therefore, does not expand the use of fair value in any new circumstance.

Fair value is estimated through a hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions of what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels where the highest priority is given to Level 1 measurements and the lowest priority to Level 3 measurements. The three levels of the fair value hierarchy under FASB fair value measurements guidance are described as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Where available, the Company utilizes quoted market prices or observable inputs rather than unobservable inputs to determine the fair value. The degree of management judgment involved in determining fair value of a financial instrument is dependent upon the availability of quoted prices in active markets or observable market parameters. The Company classifies assets in their entirety based on the lowest level of input that is significant to the fair value measurement.

The fair value estimates were based on pertinent information that was available to management as of the respective dates. Furthermore, because active markets do not exist for a significant portion of our financial instruments and other assets and liabilities, management uses present value techniques and other valuation models to estimate the fair values of the financial instruments and other assets and liabilities. These valuation methods require considerable judgment, and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used. Accordingly, the estimates provided herein do not necessarily indicate amounts that could be realized in a current exchange.

(Continued)

Financial Instruments

The carrying amounts and the estimated fair values of our financial instruments at September 30, 2012 and 2011 are as follows (in thousands):

		2012		2011	
	Level	Carrying value	Fair value	Carrying value	Fair value
Financial assets:					
Servicing fees and income receivable, net [1]	3	$ 160,666	160,666	155,143	155,143
Servicing advances and related assets, net [1]	3	2,214,034	2,214,034	2,681,611	2,681,611
Mortgage loans held for sale	2	547,631	547,631	—	—
IRLCs	2	19,226	19,226	—	—
Interest rate swaps	2	5,756	5,756	—	—
Forward MBS trades	1	1,236	1,236	—	—
U.S. Treasury futures	1	493	493	—	—
Interest rate caps	2	225	225	1,151	1,151
Repurchased loans held for sale	3	2,923	2,923	5,342	5,342

		2012		2011	
	Level	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:					
Forward MBS trades	1	$ 19,457	19,457	—	—
Short-term debt [1]	3	$ 2,128,352		1,111,648	
Long-term debt [1]	3	661,891		1,199,370	
Total debt		$ 2,790,243	2,796,050	2,311,018	2,301,657

(1) Financial instruments disclosed, but not carried at fair value.

For all remaining financial assets and liabilities (i.e., cash and cash equivalents and accounts payable) not included in the table, carrying value approximates fair value.

The following describes the methods and assumptions used in estimating fair value for financial assets and liabilities:

Servicing Fees and Income Receivable, Net

The carrying value of servicing fees and income receivable generally approximates fair value due to the relatively short period of time between their origination and realization.

Servicing Advances and Related Assets, Net

Servicing advances are valued at their carrying amounts as they have no stated maturity, are generally realized within a relatively short period of time and do not bear interest.

(Continued)

Derivative Instruments

Derivative instruments are entered into in the ordinary course of business to manage our exposure to changes in interest rates. See note 6, “Derivative Instruments and Hedging Activities,” for additional information regarding derivative instruments.

Interest rate lock commitments (IRLCs) represent an agreement to purchase loans from a third-party originator, or an agreement to extend credit to a mortgage applicant, or an agreement to sell a loan to investors, whereby the interest rate is set prior to funding. IRLCs are classified within Level Two of the valuation hierarchy as the primary component of the price is obtained from observable values of mortgage forwards for loans of similar terms and characteristics. Fair value amounts of IRLCs are adjusted for expected “fallout” (locked pipeline loans not expected to close), using models that consider cumulative historical fallout rates and other factors.

The Company enters into derivative contracts including interest rate swaps, U.S. Treasury futures and forward contracts to hedge against the effects of changes in the fair value of MSRs. The fair value of interest rate swaps is based upon projected short-term interest rates and volatility based on published market based sources. Interest rate swaps are classified within Level two of the valuation hierarchy. Futures and forwards contracts are actively traded in the market, thus they are classified within Level One of the valuation hierarchy.

Interest rate caps were purchased to minimize future interest rate exposures on the variable rate debt issued in our servicing advance facilities from increases in one-month LIBOR interest rates. Fair value for interest rate caps is based on counterparty market prices and adjusted for counterparty credit risk and classified within Level two of the valuation hierarchy.

Repurchased Loans Held for Sale

Repurchased loans held for sale are reported at the lower of cost or fair value. The majority of the loans held for sale are nonperforming for which the fair value is determined based on the underlying collateral of the loan, less costs to sell, as the loans are collateral dependent. The collateral valuations use observable and unobservable inputs, adjusted for various considerations such as market conditions, economic and competitive environment, and other assets with similar characteristics (e.g., type, location, etc.) that, in management’s opinion, reflect elements a market participant would consider.

Mortgage Loans Held for Sale

Mortgage loans held for sale are subject to changes in fair value due to fluctuations in interest rates from the closing date through the date of the sale of the loan into the secondary market. Loans held for sale are classified within Level two of the valuation hierarchy as the primary component of the price is obtained from observable values of mortgage forwards for loans of similar terms and characteristics. The Company has the ability to access this market and it is the market into which conforming mortgage loans are typically sold.

(Continued)

Debt

The fair value of debt is approximated by the present value of the contractual cash flows discounted by the weighted average yield for term and variable noteholders on our recent SAF refinancing discussed in note 13 and classified within Level three of the valuation hierarchy.

The following tables set forth the assets and liabilities measured at fair value for the years ended September 30, 2012 and 2011, categorized by input level and frequency of measurement within the fair value hierarchy (in thousands):

	Carrying value	Level 1	Level 2	Level 3	Total gains (losses)
Year ended September 30, 2012:					
Measured at fair value on a recurring basis:					
Assets:					
Mortgage servicing rights, carried at fair value	$ 66,360	—	—	66,360	(19,252)
Mortgage loans held for sale	547,631	—	547,631	—	30,942
IRLCs	19,226	—	19,226	—	19,226
Interest rate swaps	5,756	—	5,756	—	7,423
Forward MBS trades	1,236	1,236	—	—	2,647
U.S. Treasury futures	493	493	—	—	95
Interest rate caps	225	—	225	—	1,453
Liabilities:					
Forward MBS trades	19,457	19,457	—	—	(19,457)
Measured at fair value on a nonrecurring basis:					
Assets:					
Mortgage servicing rights, carried at amortized cost	53,039	—	—	53,039	3,369
Repurchased loans held for sale	2,904	—	—	2,904	(879)
					$ 25,567

(Continued)

	Carrying value	Level 1	Level 2	Level 3	Total gains (losses)
Year ended September 30, 2011:					
Measured at fair value on a recurring basis:					
Assets:					
Mortgage servicing rights, carried at fair value	$ 4,331	—	—	4,331	(240)
Interest rate caps	1,151	—	1,151	—	(4,927)
Measured at fair value on a nonrecurring basis:					
Assets:					
Mortgage servicing rights, carried at amortized cost	56,976	—	—	56,976	2,022
Repurchased loans held for sale	4,840	—	—	4,840	2,551
					$ (594)

The following describes the fair value hierarchy classification and additional information on nonfinancial instrument assets and liabilities presented in the table above:

Mortgage Servicing Rights

MSRs carried at amortized cost for the years ended September 30, 2012 and 2011 is net of a valuation allowance for impairment of $16.9 million and $20.3 million, respectively. The carrying value of the impaired stratum, net of the valuation allowance, was $53.0 million and $57.0 million for the years ended September 30, 2012 and 2011, respectively. The estimated fair value exceeded carrying value for all other strata for the years ended September 30, 2012 and 2011.

Changes in the fair value of MSRs carried at fair value are reported in the period in which the change occurs. MSRs carried at fair value are classified within Level 3 of the valuation hierarchy due to the use of significant unobservable inputs and the inactive market for such assets. Fair value of MSRs is sensitive to changes in unobservable inputs, as a change in those inputs to a different amount might result in significantly higher or lower fair value measurement. Significant unobservable inputs include mortgage prepayment speeds, constant default rates, discount rates, servicing advances, and delinquency. See note 5 for additional information on MSRs carried at fair value and required Level Three rollforward.

Repurchased Loans Held for Sale

The Company classifies its fair value measurement for these assets as Level 3 as the inputs that are most significant to the fair value measurements are principally derived from assumptions and inputs that are corroborated by little or no observable market data.

(Continued)

(19) Subsequent Events

On October 3, 2012, our Parent entered into a merger agreement (Merger Agreement) with Ocwen Financial Corporation (Ocwen) pursuant to which Homeward and its subsidiaries will become a wholly owned subsidiary of Ocwen (the Merger). The Merger Agreement provides for a purchase price of approximately $750 million, comprised of approximately $588 million in cash and $162 million in Ocwen convertible preferred stock for all of the outstanding stock of Homeward. The completion of the Merger remains subject to various conditions, including receipt of certain regulatory approvals and other customary closing conditions. The Merger Agreement may be terminated under certain circumstances, including by mutual consent of Ocwen and Homeward or by either Ocwen or Homeward if the close of the transaction has not occurred by December 31, 2012 (with an option by either party to extend to March 31, 2013). Homeward expects the Merger to be completed during December 2012.

In December 2012, the Company reached a settlement under a confidential agreement with one of its former service providers related to certain indemnity claims surrounding foreclosure services that resulted in losses by the Company in previous years. The settlement resulted in a payment to the Company under the confidential settlement agreement that will be recognized as a gain in December 2012.

The Company has evaluated subsequent events from the balance sheet date through December 21, 2012, the date at which the financial statements were available to be issued, and determined that there are not other items to disclose.

Exhibit 99.2

AHMSI HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Financial Statements
and Supplemental Schedules

September 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
AHMSI Holdings, Inc. and subsidiaries:

We have audited the accompanying consolidated balance sheets of AHMSI Holdings, Inc. and subsidiaries (the Company) as of September 30, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and other comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AHMSI Holdings, Inc. and subsidiaries as of September 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP
December 15, 2011

AHMSI HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2011 and 2010
(Amounts in thousands, except share data)

Assets		**2011**	**2010**
Cash and cash equivalents	$	95,329	53,849
Cash and cash equivalents – restricted		101,167	121,034
Servicing fees and income receivable, net		155,143	153,073
Servicing advances and related assets, net		2,681,611	3,030,125
Deferred tax assets, net		38,619	43,018
Income tax receivable		—	1,257
Goodwill and intangible assets		1,375	—
Prepaid expenses and other assets, net		36,021	50,399
Property and equipment, net		30,670	27,044
Mortgage servicing rights (MSRs):			
Amortized cost, net		187,883	246,145
Measured at fair value		4,331	—
Total assets	$	3,332,149	3,725,944
Liabilities and Stockholders' Equity			
Accounts payable and other liabilities	$	97,143	106,068
Short-term debt		1,111,648	24,936
Income tax payable		8,025	—
Deferred revenue		10,490	13,369
Long-term debt		1,199,370	2,486,698
Total liabilities		2,426,676	2,631,071
Commitments and contingencies (note 12)			
Stockholders' equity:			
Common stock; $0.0001 par value per share. Authorized 1,000,000 shares; 372,790 shares issued and outstanding as of September 30, 2011 and 372,891 shares issued and outstanding as of September 30, 2010		—	—
Series A preferred stock; $0.0001 par value per share. Authorized 800,000 shares; 558,885 shares issued and outstanding as of September 30, 2011 and 2010		578,470	578,470
Additional paid-in capital		327,447	385,451
Shareholder receivable		—	(493)
Retained earnings		—	131,697
Accumulated other comprehensive loss, net of income taxes		(444)	(252)
Total stockholders' equity		905,473	1,094,873
Total liabilities and stockholders' equity	$	3,332,149	3,725,944

See accompanying notes to consolidated financial statements.

AHMSI HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Years ended September 30, 2011 and 2010
(Amounts in thousands)

	2011	2010
Revenues:		
Servicing income	$ 387,016	436,798
Amortization of MSRs	(60,014)	(72,891)
Change in valuation allowance for amortized MSRs	2,022	(1,467)
Change in value of MSRs at fair value	(240)	—
Ancillary servicing income	86,558	82,228
Other revenues	119,487	149,117
Total revenues, net of MSR amortization	534,829	593,785
Operating expenses:		
Compensation and benefits	157,892	157,003
General servicing	101,868	137,889
Technology and communications	17,598	19,413
Professional services	11,886	12,112
Occupancy and equipment	23,462	20,420
Depreciation	9,926	8,228
Restructuring costs	794	1,144
Other operating expenses	7,117	6,103
Total operating expenses	330,543	362,312
Income from operations	204,286	231,473
Other income (expense):		
Interest income	3,663	4,586
Interest expense	(109,376)	(86,088)
Other income	7,817	6,864
Income before income taxes	106,390	156,835
Income tax expense	37,405	56,692
Net income	$ 68,985	100,143

See accompanying notes to consolidated financial statements.

AHMSI HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity and Other Comprehensive Income

Years ended September 30, 2011 and 2010

(Amounts in thousands, except share data)

	Common stock, $0.0001 par	Series A preferred stock, $0.0001 par	Additional paid-in capital	Secured promissory note receivable	Shareholder receivable	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at September 30, 2009	$ —	428,914	286,090	(886)	—	112,750	(1,034)	825,834
Restricted stock, net	—	—	111	—	—	—	—	111
Shareholder receivable	—	—	—	—	(731)	—	—	(731)
Repurchase of preferred stock	—	(600)	—	600	—	—	—	—
Repurchase of common stock	—	—	(854)	222	—	—	—	(632)
Promissory note receivable advance	—	—	—	(12)	—	—	—	(12)
Convertible promissory note conversion	—	150,156	100,104	—	—	—	—	250,260
Common stock dividends paid	—	—	—	75	—	(50,002)	—	(49,927)
Preferred stock dividends paid	—	—	—	1	238	(31,194)	—	(30,955)
Net income	—	—	—	—	—	100,143	—	100,143
Other comprehensive income:								
Change in unrealized currency translation gain, net of $145 deferred tax expense	—	—	—	—	—	—	782	782
Total comprehensive income								100,925
Balance at September 30, 2010	—	578,470	385,451	—	(493)	131,697	(252)	1,094,873
Restricted stock, net	—	—	137	—	—	—	—	137
Repurchase of common stock	—	—	(91)	—	—	—	—	(91)
Common stock dividends paid	—	—	(58,050)	—	354	(167,149)	—	(224,845)
Preferred stock dividends paid	—	—	—	—	139	(33,533)	—	(33,394)
Net income	—	—	—	—	—	68,985	—	68,985
Other comprehensive loss:								
Change in unrealized currency translation loss, net of $84 deferred tax benefit	—	—	—	—	—	—	(192)	(192)
Total comprehensive income								68,793
Balance at September 30, 2011	$ —	578,470	327,447	—	—	—	(444)	905,473

See accompanying notes to consolidated financial statements.

AHMSI HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended September 30, 2011 and 2010
(Amounts in thousands)

	2011	2010
Cash flows from operating activities:		
Net income	$ 68,985	100,143
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization and change in valuation allowance for amortized MSRs	57,992	74,358
Change in value of MSRs at fair value	240	—
Depreciation and amortization	35,639	19,519
Provision for servicing loss and repurchase obligations	37,706	60,322
Change in value of amortizing interest rate cap	4,927	16,625
Accretion income	(185)	(539)
Loans held for sale, net	(8,793)	(20,782)
Other	137	34
Changes in assets and liabilities:		
Servicing fees and income receivable	(3,077)	29,195
Prepaid expenses and other assets	23,394	(2,483)
Accounts payable and other accrued liabilities	(17,095)	(109,588)
Servicing advances and related assets, net	327,306	(225,425)
Net cash provided by (used in) operating activities	527,176	(58,621)
Cash flows from investing activities:		
Acquisition – Cooper River, net of cash and cash equivalents	(609)	—
Purchases of furniture and fixtures	(13,541)	(17,178)
Sale of MSRs	270	192
Acquisitions of MSRs	(4,571)	—
Return of investment in joint venture	124	(433)
Decrease (increase) in restricted cash	19,867	(43,504)
Net cash provided by (used in) investing activities	1,540	(60,923)
Cash flows from financing activities:		
Borrowings of short-term debt	4,078,991	800,753
Paydowns of short-term debt	(4,008,947)	(1,884,929)
Borrowings from long-term debt	2,190,740	5,190,336
Paydowns of long-term debt	(2,462,768)	(3,849,963)
Servicing advance facility structuring fee	(24,651)	(18,085)
Purchase and sale of interest rate caps	(2,130)	(16,353)
Common stock dividends paid	(224,845)	(49,927)
Preferred stock dividends paid	(33,343)	(30,904)
Withholding taxes paid on behalf of shareholders	—	(731)
Repurchase of common stock	(91)	(632)
Net cash provided by (used in) financing activities	(487,044)	139,565
Effect of exchange rate changes	(192)	782
Net increase in cash and cash equivalents	41,480	20,803
Cash and cash equivalents at beginning of year	53,849	33,046
Cash and cash equivalents at end of year	$ 95,329	53,849

See accompanying notes to consolidated financial statements.

(1) Organization and Business Overview

AHMSI Holdings, Inc. (AHMSI) was incorporated in Delaware on March 22, 2011, and serves as the holding company for American Home Mortgage Servicing, Inc. (ServicingCo). ServicingCo, a Delaware corporation, engages primarily in servicing residential mortgage loans for investors, the majority of which are nonprime mortgage loans.

On April 12, 2011, ServicingCo effected a reorganization through a merger transaction resulting in the placement of a holding company, AHMSI, between ServicingCo and its stockholders. Certain private equity funds that are ultimately controlled by WL Ross & Co. LLC (collectively, the Parent) owned substantially all of the outstanding shares of stock of AHMSI as of September 30, 2011. The Parent owned substantially all of the outstanding shares of stock of ServicingCo on September 30, 2010, prior to the reorganization.

At September 30, 2011, ServicingCo owned all of the outstanding stock of its primary operating subsidiaries: Power REO Management Services, Inc. (Power REO), Power Valuation Services Inc. (Power Valuations), Power Default Services, Inc. (Default Services), American Home Mortgage Servicing India Private Limited (AHIPL), AHMSI Insurance Agency, Inc. (Insurance Agency), American Home Mortgage Lending Solutions, Inc. (ALSI) and MSR Holdings, Inc. (MSR Holdings). ServicingCo has four operating locations in the United States (Coppell, Texas; Addison, Texas; Jacksonville, Florida; and Irvine, California) and back office support operations in Pune, India.

AHMSI, ServicingCo and the primary operating subsidiaries of ServicingCo are collectively referred to as "the Company." The prior activities of ServicingCo are included in the consolidated financial statements of the Company as the reorganization activities are between entities under common control. Presentation of the financial results of the Company and the accompanying notes are related to the years ended September 30, 2011 and 2010.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

These consolidated financial statements include the accounts of AHMSI and its wholly owned subsidiaries. The Company applies the equity method of accounting to investments when the entity is not a variable interest entity (VIE), the Company owns less than 50% of the voting interest, and the Company is able to exercise significant influence, but not control, over the policies and procedures of the entity (see note 2(k)). The Company has eliminated intercompany accounts and transactions in consolidation.

Variable Interest Entities

On October 1, 2010, the Company adopted *Accounting Standards Update (ASU) 2009-16, (ASC 860, Transfers and Servicing): Accounting for Transfers of Financial Assets and ASU 2009-17, (ASC 810, Consolidations): Improvements to Financial Reporting by Enterprises Involved with Variable Entities*. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements as the Company is not a transferor with respect to the loans serviced on behalf of others, and the Company currently treats servicing advances which secure the servicing advance facilities (SAFs) as secured borrowings as the Company retains control over the collateral securing the borrowings.

(Continued)

The Company evaluates each special purpose entity (SPE) for classification as a VIE. When a SPE meets the definition of a VIE and the Company determines that AHMSI is the primary beneficiary, the Company includes the assets and liabilities of the SPE in the consolidated financial statements.

The Company has determined that the SPEs created in connection with its SAFs are VIEs of which the Company is the primary beneficiary. The assets and liabilities of those SPEs are included in the consolidated financial statements.

Servicer Advance Facilities

SAF advances result from the Company’s transfer of residential loan servicing advances to SPEs in exchange for cash. The SPEs issue debt supported by collections on the transferred advances. The Company made these transfers under the terms of servicer advance facility agreements. These transfers do not qualify for sales accounting because the Company retains control over the transferred assets. As a result, the Company accounts for these transfers as financings and classifies the transferred advances on the consolidated balance sheets as Servicing advances and the related liabilities as either Short-term or Long-term debt (based on their scheduled maturities). Collections on the advances pledged to the SPEs are used to repay principal and interest and to pay the expenses of the SPEs. Holders of the debt issued by SPEs can look only to the assets of the SPEs themselves for satisfaction of the debt and have no recourse against AHMSI.

The following table summarizes the assets and liabilities of the SPEs formed in connection with the Company’s SAFs at September 30, 2011 and 2010 (in thousands):

	2011	2010
Servicing advances	$ 1,681,680	1,961,562
Cash and cash equivalents – restricted	38,250	52,393
Due from affiliate (1)	2,447	—
Other assets	12,468	14,662
Total assets	$ 1,734,845	2,028,617
Short-term debt	$ 324,989	—
Long-term debt	1,199,370	1,471,206
Due to affiliate (1)	—	14,381
Other liabilities	3,501	2,510
Total liabilities	$ 1,527,860	1,488,097

(1) Amounts are receivable/payable to AHMSI and its consolidated subsidiaries and eliminated in consolidation.

(Continued)

(b) Use of Estimates

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP). These principles require management to make certain estimates and assumptions, including those regarding fair value measurements, certain accruals, and the potential outcome of litigation, which may affect the amounts reported in the consolidated financial statements and the accompanying notes. These estimates and assumptions are based on management's best estimates and judgment. As future events and their effects cannot be determined with precision, actual results could differ materially from these estimates.

(c) Reclassifications

Certain comparative prior year amounts have been reclassified to conform to the current year presentation.

(d) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, cash due from banks, and money market accounts with original maturities of three months or less.

(e) Cash and Cash Equivalents – Restricted

Cash and cash equivalents – restricted consists primarily of SAF collected funds that are not applied to reduce the debt until the next payment date and SAF reserves for possible shortfalls in the funds available to pay interest (see note 11).

(f) Servicing Advances and Related Assets, Net

During any period in which the borrower does not make payments, most of the servicing agreements require that the Company advance funds to meet contractual principal and interest remittance requirements for the investors, pay property taxes and insurance premiums and process foreclosures. The Company also advances funds to maintain, repair and market foreclosed real estate properties on behalf of investors. These advances are made pursuant to the terms of each servicing contract. Each servicing contract is associated with specific loans, identified as a pool.

When an advance is made on a loan under each servicing contract, the Company is entitled to recover that advance either from the borrower, for reinstated and performing loans, or from investors, for foreclosed loans. The Company's servicing contracts provide that the advances made under the respective agreement have priority over all other cash payments from the proceeds of the loan, and in the majority of cases, the proceeds of the pool of loans, which are the subject of that servicing contract. As a result, the Company is entitled to repayment from loan proceeds before any interest or principal is paid to the investors, and in the majority of cases, advances in excess of loan proceeds may be recovered from pool level proceeds.

The Company recognizes a provision for uncollectible advances on servicing advances taking into consideration historical loss, aging experience and the value of the underlying loan collateral. As of September 30, 2011 and 2010, the allowance for uncollectible advances was $19.0 million and $17.0 million, respectively.

(Continued)

(g) Mortgage Servicing Rights

Mortgage servicing rights (MSRs) are an intangible asset representing the right to service a portfolio of mortgage loans. The Company obtains MSRs through asset purchases or business combination transactions. Purchased MSRs are initially measured at fair value. Subsequently, MSRs are carried at either fair value or the lower of amortized cost or fair value using the amortization method, based on the Company's strategy for managing the risks of the underlying portfolios.

MSRs carried at the lower of amortized cost or fair value are amortized each month in proportion to and over the period of estimated net servicing income, and are subsequently measured for impairment based on the fair value at each quarter (see note 5). Amortization rates are adjusted prospectively each quarter to account for changes in the serviced portfolio and the projected net servicing income. Impairment is evaluated by tranche through a comparison of the carrying amount and current fair value of the MSRs, and recognized through a valuation allowance. The valuation allowance is adjusted at each reporting date and recognized as either impairment or recovery to reflect changes in the fair value. Any recoveries of impairment are only recognized to the extent of the previous impairments recognized.

MSRs carried at fair value are measured on a recurring basis and any changes in fair value are recognized in earnings in the period in which the change occurs. No amortization is recognized on MSRs carried at fair value.

(h) Property and Equipment, Net

Property and equipment, net are carried at amortized cost and the Company depreciates them over their estimated useful lives using the straight-line method as follows:

Furniture and fixtures	5 years
Office equipment	5 years
Computer hardware and software	3 – 5 years
Leasehold improvements	Term of the lease not to exceed the useful life

(i) Goodwill

Goodwill is recorded in business combinations under the purchase method of accounting when the purchase price is greater than the fair value of the net assets acquired. The Company assesses goodwill for impairment annually. If the carrying amount of the goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized for the amount equal to the excess up to the carrying value of the goodwill. Subsequent reversals of goodwill impairment are prohibited.

(j) Loans Held for Sale

The Company classifies loans that are not intended to be held-to-maturity as held-for-sale. Loans held for sale are reported at the lower of cost or fair value. Fair value is determined based on the underlying collateral of the loan, less costs to sell, as the loans are collateral dependent. The Company accounts for the excess of cost over fair value, on an individual loan basis, as a valuation allowance with changes in the valuation allowance included in General servicing expense in the period in which the change occurs.

(Continued)

(k) Investments in Unconsolidated Entities

The Company accounts for investments in unconsolidated entities using the equity method. These investments include both entities in which the Company holds a significant, but less than controlling, ownership interest and VIEs in which the Company is not deemed to be the primary beneficiary. Under the equity method of accounting, investments are initially recorded at cost, and thereafter, adjusted for additional investments, distributions and the proportionate share of earnings or losses of the investee. The Company evaluates its equity method investments for impairment when events or changes in circumstances indicate that an other-than-temporary decline in value may have occurred. The Company stops recording its share of investee losses if its share of losses reduces its investment to zero unless the Company has guaranteed the obligations of or are otherwise committed to provide further financial support to the investee. If the investee subsequently reports net income, the Company will only recognize its share of the net income after its share of net income equals the share of net losses not recognized during the periods that the recording of losses was suspended. The Company's investments in unconsolidated entities as of September 30, 2011 consist of the following:

PowerLink	69.79%
Recovco	35.00

(l) Derivative Instruments and Hedging Activities

The Company accounts for derivatives and hedging activities in accordance with U.S. GAAP guidance related to accounting for derivative instruments and hedging activities, which requires entities to recognize all derivative instruments as either assets or liabilities in the consolidated balance sheets at their respective fair values. The Company's only derivative instruments, interest rate caps, are included in Prepaid expenses and other assets, net and are not designated in hedging relationships. Therefore, any realized or unrealized gains or losses created by changes in fair value are recognized in the consolidated statements of operations in Interest expense.

(m) Deferred Revenue

Deferred revenue relates to a marketing services agreement made with an insurance company and insurance commission income on forced place policies. The revenue on the marketing services agreement is recognized on a straight-line basis over the life of the agreement, and the revenue on the forced place policies is recognized on a straight-line basis over the life of the policy. As of September 30, 2011, deferred revenue of $10.5 million comprised $3.4 million related to the marketing services agreement and $7.1 million related to insurance commission income on forced place policies. As of September 30, 2010, deferred revenue of $13.4 million comprised $4.7 million related to the marketing services agreement and $8.7 million related to insurance commission income on forced place policies. The Company recognized income of approximately $22.4 million and $25.9 million for the years ended September 30, 2011 and 2010, respectively, and are included in Other revenues in the consolidated statements of operations.

(Continued)

(n) Servicing and Ancillary Income

Servicing income represents revenue earned for servicing residential real estate mortgage loans owned by investors, as well as fees for subserviced and special serviced loans. Servicing income is recognized on both current and delinquent loans equal to the contractual servicing fee agreed with investors, which is generally expressed as a percentage of unpaid principal balance. Servicing fees for servicing mortgage loans are recognized when earned based on the terms of the related servicing agreements. All other fees, late charges and other ancillary income are recognized when received.

(o) Interest Income

Interest income is earned on principal and interest collections held in trust for various investors, tax and insurance deposits held in trust for various borrowers and the Company’s operating cash accounts. The Company is also required to pay interest on borrower escrow accounts in certain states; this interest paid to borrowers is recorded within Interest expense. For the years ended September 30, 2011 and 2010, the Company paid $0.7 million and $1.0 million, respectively, of interest on escrows to borrowers.

(p) Other Revenues

Other revenues relate to shared commissions and other revenues on sales of real estate owned property, trustee fee income, and valuations income on broker price opinions, which are recognized into earnings when proceeds are received. In addition, Other revenues include insurance income on certain force placed policies that is recognized on a straight-line basis over the life of the policy (see note 2(m)).

(q) Debt Issuance Cost

Debt issuance costs are incurred upon entering into each SAF. These costs are amortized over the terms of the related SAF agreement and represent approximately 1.5% – 2.0% of the available line of credit. At September 30, 2011 and 2010, there was $11.2 million and $10.9 million, respectively, of unamortized issuance cost included in Prepaid expenses and other assets, net. For the years ended September 30, 2011 and 2010, the Company recognized $24.3 million and $11.3 million, respectively, of amortized issuance costs included in Interest expense.

(r) Income Taxes

The Company files a consolidated federal income tax return. Deferred income taxes reflect the future tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts at year-end. Deferred taxes are recognized using the asset and liability method, whereby tax rates are applied to cumulative temporary differences based on when and how they are expected to affect cumulative temporary differences. Deferred tax assets and liabilities are adjusted for tax rate changes in effect for the year in which these temporary differences are expected to be recovered or settled. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company recognizes penalties related to income tax matters in General servicing expense. The Company has no uncertain tax positions at September 30, 2011 and 2010.

(Continued)

(s) Foreign Currency Translation

The functional currency of the Company is the U.S. dollar. Where the functional currency is not the U.S. dollar, the Company translates assets and liabilities of foreign operations into U.S. dollars at the spot exchange rate existing at the balance sheet date, while revenues and expenses are translated at average monthly exchange rates. The resulting translation adjustments are reported as a component of Accumulated other comprehensive loss, net of income taxes in Stockholders' equity.

(t) Stock-Based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments. The grant-date fair value of the award is performed contemporaneously with the grant of the award by a third-party valuation firm. The value of the portion of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service period. The Company estimates forfeitures at the time of grant and revises, if necessary, in subsequent periods if actual forfeitures differ materially from those estimates.

The Company has issued restricted stock to certain employees under its equity compensation plan. Stock-based compensation expense for the years ended September 30, 2011 and 2010 is approximately $137,000 and $169,000, respectively, and is recognized as Compensation and benefits within the consolidated statements of operations. At September 30, 2011, 80 vested restricted shares and 29 unvested restricted shares were outstanding under the plan.

(u) New Accounting Standards

ASU 2011-04 (ASC 820, Fair Value Measurement): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments clarify Financial Accounting Standards Board's (FASB's) intent about the application of existing fair value measurement and disclosure requirements and prescribe certain additional disclosures about fair value measurements. The provisions of this ASU are effective for annual periods beginning after December 15, 2011, with early adoption permitted. The Company does not anticipate that the adoption of this standard will have a material impact on the Company's consolidated financial statements.

ASU 2011-05 (ASC 220, Comprehensive Income): Presentation of Comprehensive Income. Current U.S. GAAP allows reporting entities three alternatives for presenting other comprehensive income and its components in financial statements. One of those presentation options is to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This ASU eliminates that option. This ASU also requires consecutive presentation of the statement of net income and other comprehensive income and requires an entity to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. The provisions of this ASU are effective for annual periods beginning after December 15, 2012, with early adoption permitted. The Company's adoption of this standard will not have a material impact on the Company's consolidated financial statements.

(Continued)

ASU 2011-08 *(ASC 350, Intangibles – Goodwill and Other): Testing Goodwill for Impairment*. With this ASU, the FASB has taken action to reduce the cost and complexity of the annual goodwill impairment test by providing reporting entities with the option of performing a "qualitative" assessment of impairment to determine if any further quantitative testing for impairment may be necessary. An entity can choose to apply the qualitative assessment to all, some or none of its reporting units. The ASU is effective for reporting periods beginning after December 15, 2011. The Company's adoption of this standard will not have a material impact on the Company's consolidated financial statements.

(3) Supplemental Cash Flow Information

The following information is provided as a supplement to the consolidated statements of cash flows (in thousands).

		2011	2010
Interest paid	$	75,912	59,326
Taxes paid		23,701	90,554
Supplemental schedule of noncash investing and financing activities:			
Conversion of convertible promissory note	$	—	250,260
Secured promissory note receivable		—	886
Shareholder receivable		—	238

Additionally, see note 10 regarding net assets acquired.

(4) Loan Servicing

The Company's mortgage servicing activities include the collection of loan and escrow payments from individual mortgagors, the deposit of these collections into restricted custodial accounts, the remittance of principal and interest to external investors and payment of property taxes and insurance premiums.

At September 30, 2011 and 2010, the Company's portfolio of residential mortgage loans serviced comprises the following of unpaid principal balance (UPB) (in thousands):

		2011	2010
Servicing	$	69,027,422	79,393,204
Special servicing		763,809	853,488
Subservicing		1,760,875	2,582,197
Total residential mortgage loans serviced	$	71,552,106	82,828,889

(Continued)

At September 30, 2011 and 2010, the Company held and managed cash for the benefit of investors and mortgagors in custodial bank accounts of approximately $631.0 million and $834.8 million, respectively. This amount is not included in the accompanying consolidated financial statements as these accounts are held for the benefit of the investors.

Ancillary servicing income consisted of the following for the years ended September 30, 2011 and 2010 (in thousands):

	2011	2010
Late charges	$ 32,113	40,750
Home Affordable Modification Program (HAMP) fees	33,685	15,543
Modification fees	6,087	6,143
Payment processing fees	10,298	10,828
Other ancillary servicing income	4,375	8,964
Total ancillary servicing income	$ 86,558	82,228

Other revenues consisted of the following for the years ended September 30, 2011 and 2010 (in thousands):

	2011	2010
Real estate owned commission and other income	$ 34,488	51,352
Trustee fee income	9,604	12,333
Insurance income	22,385	25,922
Valuations income	47,913	52,837
Accretion income	185	539
Compensating interest	(1,617)	(3,535)
Other revenues	6,529	9,669
Total other revenues	$ 119,487	149,117

(Continued)

(5) Mortgage Servicing Rights

MSRs are carried at either fair value (Fair Value MSRs) or the lower of amortized cost or fair value using the amortization method (Amortized Cost MSRs), based on the strategies for managing the risks of the underlying portfolios. The Amortized Cost MSR portfolio comprises predominantly nonprime mortgage loans, acquired through business combinations or portfolio asset purchases. The Fair Value MSR portfolio comprises prime mortgage loans, acquired through either asset or flow purchases. Amortized Cost MSRs are subject to fair value measurements on a nonrecurring basis. Fair Value MSRs are subject to fair value measurements on a recurring basis.

The determination of fair value of MSRs requires management judgment because they are not actively traded. The determination of fair value for MSRs requires valuation processes that combine the use of discounted cash flow models and analysis of current market data to arrive at an estimate of fair value. The cash flow and prepayment assumptions used in the Company's discounted cash flow models are based on empirical data drawn from the historical performance of the Company's MSRs adjusted to reflect current market conditions, which the Company believes, are consistent with assumptions used by market participants valuing similar MSRs. The key risks, and therefore, the key assumptions used in the valuation of MSRs, include mortgage prepayment speeds, constant default rates, discount rates, servicing advances, and delinquency. These variables can, and generally will, change from year to year as portfolio characteristics, market conditions and interest rates change.

Mortgage Servicing Rights – Amortization Method

For the purpose of measuring impairment of Amortized Cost MSRs, the Company stratifies the MSRs into the following risk stratums:

- Agency Fixed Rate
- Agency ARMs
- Non Agency Fixed Rate
- Non Agency ARMs
- Non Agency Pay Option ARMs

Agency loans serviced represent loans pooled in securities backed by either the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC).

Impairment is assessed based on the fair value of each risk stratum. Each stratum was established based on the predominant risk characteristics of the underlying loans within each stratum.

(Continued)

The following table summarizes the activity in the Company's Amortized Cost MSRs for the years ended September 30, 2011 and 2010 (in thousands):

	2011	2010
Carrying amount, beginning of year	$ 268,480	341,498
Amortization	(60,014)	(72,891)
Servicing transfers and adjustments	(270)	(127)
Carrying amount before valuation allowance	208,196	268,480
Valuation allowance:		
Balance, beginning of year	(22,335)	(20,868)
Recovery (provision), net	2,022	(1,467)
Balance, end of year	(20,313)	(22,335)
Carrying amount, end of year	$ 187,883	246,145
Fair value of amortized MSRs, end of year	$ 287,421	366,990

The Company established a valuation allowance for impairment on certain strata of the MSRs, as the fair value of the strata that are considered in the impairment analysis fell below the amortized cost of those certain strata within the MSRs. For the year ended September 30, 2011, the Company recognized an impairment recovery of approximately $2.0 million. For the year ended September 30, 2010, the Company recognized an impairment provision of approximately $1.5 million.

The estimated amortization expense for MSRs carried at the lower of amortized cost or fair value using the amortization method is projected as follows over the next five years (in thousands):

2012	$ 45,464
2013	30,724
2014	30,129
2015	22,839
2016	22,639

Mortgage Servicing Rights – Fair Value Method

The following table summarizes the activity in the Company's Fair Value MSRs for the years ended September 30, 2011 and 2010 (in thousands):

	2011	2010
Fair value, beginning of year	$ —	—
Purchases	4,571	—
Changes in fair value	(240)	—
Fair value, end of year	$ 4,331	—

(Continued)

For the year ended September 30, 2011, the Company recorded approximately $0.2 million in changes in fair value. No MSRs were carried at fair value during the year ended September 30, 2010.

At September 30, 2011, the key assumptions and the sensitivity of the current fair value of MSRs to immediate changes in those assumptions were as follows (in thousands):

Fair value of MSR	$	291,752
Weighted average constant prepayment rate (voluntary and involuntary)		21.2%
Impact on fair value of:		
10% adverse change	$	(7,077)
20% adverse change		(13,973)
Weighted average discount rate		21.8%
Impact on fair value of:		
10% adverse change	$	(13,902)
20% adverse change		(26,616)
Weighted average delinquency rate		37.4%
Impact on fair value of:		
10% adverse change	$	(9,838)
20% adverse change		(19,423)
Interest rate on servicing advances and custodial accounts:		
Servicing advances		4.21%
Custodial accounts		1.21
Impact on fair value of:		
50 basis point adverse change	$	(22,747)
100 basis point adverse change		(45,490)

(6) Servicing Fees and Income Receivable, Net

Servicing fees and income receivable, net consisted of the following at September 30, 2011 and 2010 (in thousands):

		2011	2010
Servicing fees	$	158,385	151,256
Allowance for servicing fees		(5,543)	(2,935)
Advisory fees – affiliate		167	1,843
Home Affordable Modification Program (HAMP) fees		728	1,678
Other income		1,406	1,231
Servicing fees and income receivable, net	$	155,143	153,073

(Continued)

(7) Property and Equipment, Net

Property and equipment, net consisted of the following as of September 30, 2011 and 2010 (in thousands):

	2011	2010
Leasehold improvements	$ 11,346	11,157
Software and hardware	29,746	24,093
Furniture and office equipment	16,058	9,239
	57,150	44,489
Accumulated depreciation	(26,480)	(17,445)
Property and equipment, net	$ 30,670	27,044

(8) Prepaid Expenses and Other Assets, Net

Prepaid expenses and other assets, net consisted of the following as of September 30, 2011 and 2010 (in thousands):

	2011	2010
Other receivables	$ 3,580	21,860
Debt issuance costs	11,170	10,864
Loans held for sale, net	5,342	7,089
Prepaid expenses and other	9,078	6,586
Interest rate cap	1,151	3,798
Investments in unconsolidated entities	5,700	202
Prepaid expenses and other assets, net	$ 36,021	50,399

(a) Other Receivables

Other receivables represent receivables incurred that do not relate to servicing advances or the core operations of the business.

(b) Loans Held for Sale, Net

Loans held for sale, net consists of repurchased residential loans where the Company assumed the warranties and obligations for the underlying loans that comprise the MSRs acquired (see note 12). Loans held for sale, net are summarized as follows at September 30, 2011 and 2010 (in thousands):

	2011	2010
Outstanding UPB	$ 15,140	17,310
Allowance for market valuation	(9,798)	(10,221)
Loans held for sale, net	$ 5,342	7,089

(Continued)

(c) Interest Rate Cap

Interest rate caps were purchased to minimize future interest rate exposure from increases in one-month LIBOR interest rates. At September 30, 2011, the interest rate caps outstanding relate to both the AH Mortgage Servicer Advance Revolving Trust 1 (2011-SART1 SAF) and the AH Servicer Advance Revolving Trust 2 (2011-SART2 SAF), as required by the respective funding arrangements, and are recorded at fair value with any subsequent changes in fair value recognized through earnings. At September 30, 2010, the interest rate caps outstanding relate to the AH Mortgage Advance Trust 2009 – ADV3 2009 SAF (2009-ADV3 SAF) and the AH Mortgage Advance Trust 2010 – ADV1 2010 SAF (2010-ADV1 SAF).

The following tables present the details of the interest rate caps (which are not designated in hedging relationships) as of September 30, 2011 and 2010 (in thousands):

SAF	Maturity	Initial notional balance 2011	Fair value 2011
2011-SART1	May 10, 2016	$ 600,000	1,045
2011-SART2	February 15, 2015	150,000	106
			$ 1,151

SAF	Maturity	Initial notional balance 2010	Fair value 2010
2009-ADV3	October 10, 2015	$ 1,300,000	3,436
2010-ADV1	February 15, 2015	150,000	362
			$ 3,798

Net realized and unrealized losses included in Interest expense on the consolidated statements of operations are $4.9 million and $16.6 million for the years ended September 30, 2011 and 2010, respectively. Under the terms of these caps, the Company would receive payments when one-month LIBOR is greater than 5.0% for 2011-SART1 SAF and 4.5% for 2011-SART2 SAF. To date, the Company has not received any payments related to these caps.

(Continued)

(9) Servicing Advances and Related Assets, Net

At September 30, 2011 and 2010, servicing advances, representing principal, interest and other servicing payments made to investors and third parties on mortgage loans serviced on behalf of these investors, as described in more information in note 2(f) – Summary of Significant Accounting Policies, consisted of the following (in thousands):

		2011	2010
Principal and interest	$	1,426,648	1,763,860
Taxes and insurance		835,067	835,231
Default and other advances		438,906	448,064
Allowance		(19,010)	(17,030)
Servicing advances and related assets, net	$	2,681,611	3,030,125

(10) Acquisitions

On June 30, 2011, ALSI purchased Cooper River Financial, LLC for $2.1 million, comprising $1.4 million in cash paid and $0.7 million of accrued contingent consideration. The acquired net assets of $0.7 million included cash, prepaid expenses, payroll liabilities and miscellaneous deposits. As a result of the acquisition, the Company recorded $1.4 million in goodwill.

(Continued)

(11) Debt

The Company's debt consisted of the following as of September 30, 2011 and 2010 (in thousands):

Borrowing type	Collateral	Interest rate 2011	Maturity 2011	Line size 2011	Short-term 2011	Long-term 2011
2011-SART1 SAF:						
Fixed	Advances	2.63%	May 10, 2012	$ 1,450,000	324,989	—
Variable	Advances	One-month LIBOR + 300 bps	May 10, 2013		—	338,635
Fixed	Advances	3.37% – 5.92%	May 10, 2013		—	524,222
					324,989	862,857
2011-SART2 SAF:						
Variable	Advances	One-month LIBOR + 315 bps	September 16, 2013	400,000	—	86,540
Fixed	Advances	3.27% – 6.90%	September 16, 2013		—	249,973
					—	336,513
CRL SAF	Advances	One-month LIBOR + 0 – 200 bps	February 10, 2012	1,641,073	784,868	—
Seller-financed servicing agreement	N/A	One-month LIBOR + 200 bps	N/A	1,791	1,791	—
Revolving line of credit	N/A	One-week LIBOR + 200 bps (1)	March 31, 2012	50,000	—	—
				$ 3,542,864	1,111,648	1,199,370

Borrowing type	Collateral	Interest rate 2010	Maturity 2010	Line size 2011	Short-term 2010	Long-term 2010
2009-ADV3 SAF	Advances	One-month LIBOR + 195 – 600 bps	October 31, 2011	$ 1,300,000	—	1,165,426
2010-ADV1 SAF:						
Variable	Advances	One-month LIBOR + 376 bps	August 15, 2012	400,000	—	55,780
Fixed	Advances	3.97% – 9.80%	August 15, 2012		—	250,000
					—	305,780
CRL SAF	Advances	One-month LIBOR + 0 – 200 bps	February 10, 2012	1,641,073	—	1,015,492
Seller-financed servicing agreement	N/A	One-month LIBOR + 200 bps	N/A	4,936	4,936	—
Revolving line of credit	N/A	One-week LIBOR + 200 bps (1)	January 21, 2011	50,000	20,000	—
				$ 3,396,009	24,936	2,486,698

(1) The interest rate is determined by the Company from the following options: one-week LIBOR + 200 bps; federal funds rate + 300 bps; or prime rate – 25 bps.

(Continued)

The Company is entitled to borrow against the new servicing advances, subject to the maximum borrowing limit on the SAF through the maturity date. If the funding period under the SAF is not replaced or renewed and extended beyond the maturity date, the Company cannot borrow against any new servicing advances, and any collections of servicing advances pledged against the SAF are subsequently required to be used to pay down the outstanding SAF principal along with the related interest, including additional interest that accrues after the end of the funding period until amortization is complete. In the event that any principal is still outstanding after the maturity date, the remaining unpaid principal balance will become due and payable from the facility at that time, with no recourse back to the Company.

(a) 2011-SART1 SAF and 2009-ADV3 SAF

On November 9, 2010, the Company refinanced the 2009-ADV3 SAF and entered into a $1.3 billion SAF to fund Option One Mortgage Corporation (OOMC) related servicing advances, AH Mortgage Advance Trust 2010-2 (2010-ADV2 SAF), with a maturity date of May 20, 2011. On May 11, 2011, the Company refinanced the 2010-ADV2 SAF and entered into a $1.45 billion SAF to fund OOMC related servicing advances (2011-SART1 SAF).

Interest paid for the 2010-ADV2 SAF and 2011-SART1 SAF for the year ended September 30, 2011 was $50.1 million and interest paid for the 2009-ADV3 SAF for the year ended September 30, 2010 was $31.3 million.

The 2011-SART1 SAF is subject to various triggers, events, or occurrences that could result in earlier termination. Additionally, the Company was required to maintain a reserve account in accordance with the SAF agreement. At September 30, 2011 and 2010, the reserve account was $30.0 million and $23.9 million, respectively, which is included in Cash and cash equivalents – restricted. Cash collections related to the SAF but not yet applied as of September 30, 2011 and 2010 were $28.5 million and $42.5 million, respectively, which are included in Cash and cash equivalents – restricted.

(b) 2011-SART2 SAF and 2010-ADV1 SAF

On September 1, 2011, the Company refinanced the 2010-ADV1 SAF and entered into a $400 million SAF to fund American Home Mortgage (AHM) related servicing advances (2011-SART2 SAF).

Interest paid for the 2010-ADV1 SAF and 2011-SART2 SAF for the year ended September 30, 2011 was $16.3 million and interest paid for the 2010-ADV1 SAF and its predecessor SAF for the year ended September 30, 2010 was $6.4 million.

The 2011-SART2 SAF is subject to various triggers, events, or occurrences that could result in earlier termination. Additionally, the Company was required to maintain a reserve account in accordance with the SAF agreement. At September 30, 2011 and 2010, the reserve account was $8.3 million and $28.5 million, respectively, which is included in Cash and cash equivalents – restricted. Cash collections related to the SAF but not yet applied as of September 30, 2011 and 2010 was $8.0 million and $6.8 million, which are included in Cash and cash equivalents – restricted.

(Continued)

(c) CRL SAF

The Company entered into a SAF with Citibank, N.A. to fund servicing advances and MSRs acquired in the Citi Residential Lending (CRL) acquisition. The CRL SAF provides funding of up to $1.6 billion through February 10, 2012 utilizing the acquired servicing advances and MSRs as collateral for the facility. The outstanding balance of the CRL SAF will vary with the collateralized servicing advances and fair value of the MSRs. The CRL SAF provides for interest on a tiered basis with rates ranging from one-month LIBOR to one-month LIBOR plus 200 basis points.

Interest paid for the years ended September 30, 2011 and 2010 was $9.2 million and $13.8 million, respectively. Cash collections related to the SAF but not yet applied as of September 30, 2011 and 2010 was $13.9 million and $5.5 million, respectively, which is included in Cash and cash equivalents – restricted. The CRL MSRs agreement requires that the Company pay down MSR outstanding borrowings in proportion to a percentage of the fair value of the CRL MSRs portfolio. As of September 30, 2011 and 2010, the Company repaid $16.2 million and $8.4 million, respectively, in outstanding CRL MSRs borrowings to cure borrowing base deficiencies, as the fair value of the MSRs fell below the borrowing base.

(d) Seller-Financed Servicing Agreement

As part of the OOMC purchase in 2008, the Company also entered into a Seller-Financed Servicing Agreement with H&R Block, Inc. As part of the agreement, the Company assumed responsibility to service advances financed by H&R Block, Inc. The Company is required to remit 97% of the servicing advance recoveries to H&R Block, Inc. after repayment of the servicing advance against any remaining seller-financed advance balance until the balance has been paid. Payments are due at the beginning of each month based on the average daily balance of aggregate advances. At September 30, 2011 and 2010, the interest rate was 2.37% and 2.26%, respectively. Interest paid was $0.1 million for the years ended September 30, 2011 and 2010.

(e) Revolving Line of Credit

The Company has a $50.0 million revolving line-of-credit agreement with The Private Bank and Trust Company. On March 31, 2011, the revolving line-of-credit agreement was amended to extend the agreement through March 31, 2012. The interest rate at September 30, 2011 and 2010 was based on one-week LIBOR plus 200 basis points. For the years ended September 30, 2011 and 2010, the Company paid interest of $0.2 million and $0.1 million, respectively. The agreement requires that outstanding balances be paid down to zero at least once every 60 days for a minimum of two days. The revolving credit agreement is guaranteed by the Parent up to $25.0 million.

At September 30, 2011 and 2010, the weighted average interest rate on outstanding short-term debt was 1.55% and 2.26%, respectively. The weighted average interest rate on outstanding long-term debt at September 30, 2011 and 2010 was 3.95% and 2.28%, respectively. The Company was in compliance with all covenants as of September 30, 2011 and 2010.

(Continued)

(12) Commitments and Contingencies

The Company conducts its operations in leased facilities. Rental expense at leased facilities is $6.8 million and $6.3 million for the years ended September 30, 2011 and 2010, respectively. The following is a schedule by years of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2011 (in thousands):

Year ending September 30:		
2012	$	7,498
2013		6,233
2014		6,230
2015		5,902
2016		5,540
Thereafter		4,201
	$	35,604

AHMSI is involved in various claims and legal proceedings that arise in the ordinary course of business. In view of the inherent difficulty of predicting the outcome of pending legal actions and proceedings, the Company cannot state with certainty the eventual outcome of any such proceedings. Based on current knowledge, management does not believe the liabilities, if any, arising from any ordinary course proceeding will have a material impact on the Company's consolidated financial position.

AHMSI filed a motion on May 23, 2008, for allowance and payment of an administrative expense claim against American Home Mortgage Investment Corp., American Home Mortgage Corp., and AHM SV, Inc. (formerly known as American Home Mortgage Servicing, Inc.) (collectively, AHMIC) alleging that AHMIC breached the Asset Purchase Agreement, dated September 25, 2007, as amended, by and among AHMIC and AH Mortgage Acquisition Co., Inc. (AHMAC), pursuant to which AHMAC acquired AHMIC's mortgage servicing business. As of September 30, 2009, the Company had a receivable of $8.7 million that was fully reserved for, with AHMIC. On March 16, 2010, the Company entered into a settlement agreement with AHMIC, which the bankruptcy court approved on May 11, 2010. In accordance with the settlement agreement, $8.2 million was received, of which $1.4 million relates to a recovery of advances assumed at acquisition. In addition, $4.4 million was paid to AHMIC as reimbursement for expenses incurred for servicing the loans prior to transfer to AHMSI. As a result of the settlement, $2.4 million was recorded as a gain in Other revenues.

(Continued)

As of September 30, 2011, the Company had a reserve for $5.4 million, included in Accounts payable and other liabilities, primarily related to mortgage insurance policies that were erroneously canceled. The following table summarizes the activity in the Company's mortgage insurance reserve for the years ended September 30, 2011 and 2010 (in thousands):

Balance as of September 30, 2009	$	34,829
Provision expense recognized		7,002
Recovery of previous provision expense		(27,774)
Net cash paid		(9,752)
Balance as of September 30, 2010		4,305
Provision expense recognized		1,215
Recovery of previous provision expense		—
Net cash paid		(140)
Balance as of September 30, 2011	$	5,380

During 2010, one of the mortgage insurance companies reversed their decision for a population of denied claims and AHMSI recovered $27.8 million related to claims that had previously been denied by the mortgage insurance company.

Prior to the OOMC acquisition, a number of trust level mortgage insurance policies were erroneously auto-canceled. The mortgage insurance company has subsequently reinstated approximately half of the affected population, and the Company continues to work with the mortgage insurance company to reinstate the remaining canceled policies. The Company believes there is no exposure related to the canceled policies.

For one MSR acquisition, the Company assumed the warranties and obligations for the underlying loans that comprise the MSR. The loan repurchase reserve as of September 30, 2011 and 2010 was $8.1 million and $27.7 million, respectively, included in Accounts payable and other liabilities. The reserve is calculated using a model to estimate future loan referrals with historical loss rates applied to determine future losses. For the year ended September 30, 2011, a net recovery of $6.9 million was recorded with reserve transfers to loans held for sale and charge-offs of $5.1 million. For the year ended September 30, 2010, provision of $34.0 million was recorded with reserve transfers to loans held for sale and charge-offs of $18.9 million.

The Company is subject to compensatory fees for foreclosures that exceed investor timelines. As of September 30, 2011, the Company's estimated exposure related to loans which have exceeded the investor foreclosure timelines was $12.5 million.

(Continued)

The Company, with other mortgage loan servicers in the industry, has received inquiries from state Attorneys General and other state and federal regulators and officers and legislative committees into its mortgage foreclosure practices and procedures. The Company has responded appropriately to these inquiries and has conducted an internal review of its foreclosure practices and procedures. The Company will continue to cooperate with any federal or state inquiries. An estimated loss or range of exposure with respect to these inquiries cannot be made as of the financial statement date.

The Company is a defendant in lawsuits filed by the states of Texas and Ohio. These states have alleged violations of the respective state's consumer protection and debt collection acts related to the Company's customer service and loss mitigation practices. Civil discovery has commenced and motions on various points of law and procedure have been filed by the parties. Currently, the Texas case is on hold at the request of the Attorney General for Texas. The Company believes there is no loss related to this matter. An agreement to resolve the case with the Attorney General of Ohio was reached on December 12, 2011 with no monetary loss incurred.

In July 2010, the Company received two subpoenas from the Federal Housing Finance Agency (FHFA) as conservator for FHLMC and FNMA in connection with several private label mortgage securitization transactions where Freddie Mac has invested. The transactions include mortgage loans serviced but not originated by the Company or its affiliates. The Company is cooperating with the FHFA's requests.

(13) Related Party Transactions

On February 18, 2010 and March 18, 2010, the Company entered into debt agreements of $100.0 million and $72.0 million, respectively, with the Company's Parent. On May 27, 2010, the Company paid down $50 million, and on August 13, 2010, paid down the remaining $122.0 million and related accrued interest utilizing the initial cash proceeds from the ADV2-2009 SAF renewal. The interest rate for these debt agreements was 9% and interest expense of $6.0 million is included within Interest expense in the consolidated statements of operations.

During the years ended September 30, 2011 and 2010, the Company performed due diligence services on behalf of its parent and recorded $1.8 million and $1.8 million, respectively, in Other revenues in the consolidated statements of operations.

During the years ended September 30, 2011 and 2010, PowerLink and Recovco performed valuation services for the Company and $12.1 million and $2.3 million, respectively, was recorded in General servicing expenses in the consolidated statements of operations.

Convertible Promissory Note

On April 30, 2008, AHMSI issued $250 million aggregate principal amount of 2.5% Convertible Senior Notes due April 29, 2011 (the Convertible Notes) to various investment vehicles affiliated with the Parent. The Convertible Notes were issued at 100% of their face value. AHMSI used these proceeds and other financing to fund its acquisition of OOMC assets.

On January 15, 2010, the Parent exercised the optional conversion feature for the $250 million convertible promissory note and related accrued and unpaid interest. The conversion resulted in the extinguishment of the convertible promissory note in exchange for the issuance of 87,047 common stock shares and 130,571 preferred stock shares. The conversion rate was 522 shares of preferred stock and 348 shares of common stock per $1.0 million of principal or accrued but unpaid interest of the convertible notes, which is equivalent to approximately $1,150 per share. Interest expense of $1.9 million is included in the consolidated statements of operations related to this debt instrument for the year ended September 30, 2010.

(Continued)

(14) Stockholders' Equity

(a) Preferred Stock

The Company had authorized 800,000 of Series A preferred shares and had 558,885 issued and outstanding shares with a par value of $0.0001 per share as of September 30, 2011 and 2010.

The rights, preferences, privileges, and restrictions granted to and imposed upon the common stock and the preferred stock is as follows:

Rank

The Series A preferred shares have dividend rights, rights on liquidation, dissolution, and winding up of the affairs of the Company that rank senior to common stock and to all other classes and series of equity securities of the Company and to all other classes and series of equity securities hereafter issued.

Dividend Rights

(i) The holders of Series A preferred stock will be entitled to receive dividends at an annual rate of $60 per share prior to the payment of any dividends on the common stock. Dividends on the Series A preferred stock are cumulative whether or not earned or declared on a daily basis from the date of issuance and are payable quarterly in arrears on each dividend payment date commencing on January 1, 2008. There were no dividend amounts in arrears at September 30, 2011 and 2010.

(ii) The holders of common stock will be entitled to receive dividends after full payment of dividends to the holders of Series A preferred stock.

Liquidation Rights

Holders of Series A preferred stock have a liquidation preference to any payment or distribution on any shares of common stock in the event of liquidation or dissolution. Under the terms of the amended and restated certificate of incorporation, each share of Series A preferred stock has a liquidation preference of $1,000 per share as adjusted for stock splits, stock dividends, combinations, or the like plus unpaid dividends (Liquidation Preference). If the Company does not have sufficient funds to settle the Liquidation Preference, then the entire available funds and assets, as defined in the amended and restated certificate of incorporation, are to be distributed among the holders of Series A preferred stock pro-rata according to the number of outstanding Series A preferred stock held by each holder. Certain events as defined in the amended and restated certificate of incorporation could trigger a deemed liquidation for which the Company would then make a special distribution.

(Continued)

Voting Rights

Holders of Series A preferred stock do not have voting rights.

Redemption Rights

The Company may, at any time, at its option, redeem all or any of the outstanding shares of Series A preferred stock at a redemption price equal to the Liquidation Preference payable in cash. Any redemption will be made on a pro-rata basis among the holders of the Series A preferred stock according to the number of Series A preferred stock held by each holder.

Reissuance of Preferred Stock

Under the terms of the amended and restated certificate of incorporation, no share or shares of preferred stock acquired by the Company by reason of redemption, purchase, conversion, or otherwise can be issued, and all such shares are to be canceled, retired, and eliminated from the shares that the Company is authorized to issue.

(b) Common Stock

The Company had authorized 1,000,000 shares of common stock and had 372,790 issued and outstanding shares with a par value of $0.0001 per share at September 30, 2011 and 372,891 issued and outstanding shares with a par value of $0.0001 per share at September 30, 2010. Except for the rights provided to the holders of Series A preferred stock or at the discretion of the board of directors, only the holders of common stock of the Company will be entitled to voting rights for each share of common stock. The holders of common stock will be entitled to one vote per share.

Common Stock Dividend

The board of directors declared and paid a $133.88 per share common stock dividend or $50.0 million in total on January 15, 2010, which was paid on the same day.

During the year ended September 30, 2011, the board of directors declared and paid the following common stock dividends (amounts in thousands, except share data):

Date	Dividend per share of common stock	Total dividend
November 30, 2010	$ 67.10	25,021
May 20, 2011	402.75	150,150
September 15, 2011	134.20	50,028
		$ 225,199

(Continued)

(15) Income Taxes

Components of the Company's provision (benefit) for income taxes are as follows (in thousands):

	2011	2010
Current:		
Federal	$ 30,934	66,160
State	1,474	3,901
Foreign	515	—
	32,923	70,061
Deferred:		
Federal	5,552	(13,484)
State	58	115
Foreign	(1,128)	—
	4,482	(13,369)
Income tax expense	$ 37,405	56,692

Income tax expense differs from the amount determined by applying the statutory federal rate of 35% for the years ended September 30, 2011 and 2010 to earnings before taxes as follows (in thousands):

	2011		2010	
	(In dollars)	(In percentages)	(In dollars)	(In percentages)
Income taxes at federal statutory rates	$ 37,237	35.00%	$ 54,892	35.00%
State tax, net	747	0.69	2,556	1.63
Other, net	(579)	(0.53)	(756)	(0.48)
Income tax expense	$ 37,405	35.16%	$ 56,692	36.15%

(Continued)

The tax effects of temporary differences that give rise to the Company's deferred tax assets and liabilities at September 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Deferred tax assets:		
Mortgage servicing rights	$ 11,449	15,042
Servicing advance and other reserves	24,283	23,843
Inventoried loans	3,654	—
Bonus accrual	3,373	—
Fair value adjustment on interest rate caps	1,551	5,686
Other, net	2,842	1,254
Total deferred tax assets	47,152	45,825
Deferred tax liabilities:		
Depreciation	3,528	1,824
Prepaids	2,275	—
Goodwill	9	—
Investment in unconsolidated entities	1,732	344
Other, net	989	639
Total deferred tax liabilities	8,533	2,807
Deferred tax assets, net	$ 38,619	43,018

The Company has determined that a valuation reserve is not required for any of the deferred tax assets since it is more likely than not that these assets will be realized because of tax paid in prior years and future operations will generate sufficient taxable income to realize the deferred tax assets. In assessing the realization of deferred taxes, management believes it is more likely than not that the deferred tax assets will be recognized in future periods through either the generation of taxable income or the reversal of taxable temporary differences. In assessing the likelihood of the generation of future taxable income, management considered current year results with taxable income of approximately $97.2 million, as well as management's outlook for future taxable earnings. The outlook was based on current and projected servicing revenue and management's belief in the ability of the Company to maintain a sufficient level of income over the periods in which the deferred tax assets are deductible.

The Company's major jurisdiction tax years that remain subject to examination are its U.S. federal tax return and India corporate tax returns for the years ended September 30, 2008 through present.

(Continued)

(16) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at September 30, 2011 and 2010. The fair value estimates, methods, and assumptions for the Company's financial instruments at September 30, 2011 and 2010 are outlined below. The fair value estimates were based on pertinent information that was available to management as of the respective dates. Furthermore, because active markets do not exist for a significant portion of the Company's financial instruments, management uses present value techniques and other valuation models to estimate the fair values of its financial instruments. These valuation methods require considerable judgment, and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used. Accordingly, the estimates provided herein do not necessarily indicate amounts that could be realized in a current exchange.

The carrying amounts and the estimated fair values of the Company's financial assets and liabilities at September 30, 2011 and 2010 are as follows (in thousands):

	2011		2010	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets:				
Servicing fees and income receivable, net	$ 155,143	155,143	153,073	153,073
Servicing advances and related assets, net	2,681,611	2,681,611	3,030,125	3,030,125
Interest rate caps	1,151	1,151	3,798	3,798
Loans held for sale, net	5,342	5,847	7,089	7,089

	2011		2010	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial liabilities:				
Short-term debt	$ 1,111,648		24,936	
Long-term debt	1,199,370		2,486,698	
Total debt	$ 2,311,018	2,301,657	2,511,634	2,432,158

For all remaining financial assets and liabilities (i.e., Cash and cash equivalents and Accounts payable and other liabilities) not included in the table, carrying value approximates fair value.

Servicing Fees and Income Receivable, Net

The carrying value of servicing fees and income receivable approximates fair value due to the relatively short period of time between their origination and realization.

(Continued)

Servicing Advances and Related Assets, Net

Servicing advances are valued at their carrying amounts as they have no stated maturity, are generally realized within a relatively short period of time and do not bear interest.

Interest Rate Caps

Fair value for interest rate caps is based on counterparty market prices and adjusted for counterparty credit risk.

Loans Held for Sale, Net

Loans held for sale are reported at the lower of cost or fair value. The majority of the loans held for sale are nonperforming for which the fair value is determined based on the underlying collateral of the loan, less costs to sell, as the loans are collateral dependent. The collateral valuations use observable and unobservable inputs, adjusted for various considerations such as market conditions, economic and competitive environment and other assets with similar characteristics (e.g. type, location, etc.) that, in management's opinion, reflect elements a market participant would consider.

Debt

The fair value of debt is approximated by the present value of the contractual cash flows discounted by the weighted average yield for term and variable noteholders on the Company's recent SAF refinancing discussed in note 11.

Fair Value Hierarchy

Fair value is estimated through a hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions of what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels where the highest priority is given to Level 1 measurements and the lowest priority to Level 3 measurements. The three levels of the fair value hierarchy under FASB fair value measurements guidance are described as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

(Continued)

Where available, the Company utilizes quoted market prices or observable inputs rather than unobservable inputs to determine the fair value. The Company classifies assets in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table sets forth the assets measured at fair value at September 30, 2011 and 2010, categorized by input level within the fair value hierarchy:

	Carrying value	Level 1	Level 2	Level 3	Total gains/ (losses)
At September 30, 2011:					
Measured at fair value on a recurring basis:					
Interest rate caps	$ 1,151	—	1,151	—	(4,927)
Mortgage servicing rights, carried at fair value	4,331	—	—	4,331	(240)
Measured at fair value on a nonrecurring basis:					
Mortgage servicing rights, carried at amortized cost	56,976	—	—	56,976	2,022
Loans held for sale, net	4,840	—	—	4,840	2,551
					$ (594)
At September 30, 2010:					
Measured at fair value on a recurring basis:					
Interest rate caps	$ 3,798	—	3,798	—	(16,625)
Measured at fair value on a nonrecurring basis:					
Mortgage servicing rights, carried at amortized cost	94,126	—	—	94,126	(1,467)
Loans held for sale, net	6,975	—	—	6,975	(979)
					$ (19,071)

Mortgage Servicing Rights

MSRs carried at amortized cost at September 30, 2011 and 2010 are net of a valuation allowance for impairment of $20.3 million and $22.3 million, respectively. The carrying value of the impaired stratum, net of the valuation allowance, was $57.0 million and $94.1 million at September 30, 2011 and 2010, respectively. The estimated fair value exceeded carrying value for all other strata at September 30, 2011 and 2010.

Changes in the fair value of MSRs carried at fair value are reported in Change in value of MSRs at fair value in the period in which the change occurs. See note 5 for additional information on MSR valuations.

(Continued)

Loans Held for Sale, Net

The Company classifies its fair value measurement for these assets as Level 3 as the inputs that are most significant to the fair value measurements are principally derived from assumptions and inputs that are corroborated by little or no observable market data.

(17) Subsequent Events

The Company reviewed all subsequent events and transactions through the date of the independent auditors' report.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

On December 27, 2012, Ocwen Financial Corporation ("Ocwen") completed the previously announced Merger (as defined below) pursuant to that certain Merger Agreement by and among Ocwen, O&H Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Ocwen ("Merger Sub"), Homeward Residential Holdings, Inc., a Delaware corporation ("Homeward"), and WL Ross & Co. LLC, a Delaware limited liability company as shareholder representative, pursuant to which Merger Sub merged with and into Homeward with Homeward continuing as the surviving corporation and becoming a wholly-owned subsidiary of Ocwen (the "Merger"). Information relating to the Merger was previously included in Ocwen's Current Report on Form 8-K, filed with the Securities and Exchange Commission (the "SEC") on October 5, 2012. The completion of the Merger was previously reported in Ocwen's Current Report on Form 8-K, filed with the SEC on December 28, 2012.

The unaudited pro forma combined statement of operations combines the consolidated results of operations of Ocwen for the year ended December 31, 2012 and the consolidated results of operations of Homeward for the year ended September 30, 2012 and is presented as if the Merger had occurred on January 1, 2012. A pro forma balance sheet has not been included as the Merger is already reflected in Ocwen's balance sheet as of December 31, 2012, as reported in its Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 1, 2013.

The historical consolidated financial information of Ocwen and the historical consolidated financial information of Homeward have been adjusted in the unaudited pro forma combined statement of operations to give effect to pro forma events that are (1) directly attributable to the Merger, (2) factually supportable and (3) expected to have a continuing impact on the combined results. The unaudited pro forma combined statement of operations should be read in conjunction with the accompanying notes thereto. In addition, the unaudited pro forma combined financial information was based on and should be read in conjunction with the:

- Historical audited consolidated financial statements of Ocwen for the year ended December 31, 2012 and the related notes that are included in its Annual Report on Form 10-K; and
- Historical audited consolidated financial statements of Homeward for the year ended September 30, 2012 and the related notes that are included as Exhibit 99.1.

The unaudited pro forma combined statement of operations is provided for informational purposes only and is not necessarily, and should not be assumed to be, an indication of the results that would have been achieved had the Merger been completed as of the date indicated because of differences in servicing practices and cost structure between Ocwen and Homeward. In addition, the unaudited pro forma combined statement of operations does not purport to project the future operating results of the combined companies nor does it reflect expected realization of any cost savings associated with the Merger.

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Dollars in thousands, except share data)

	Ocwen Historical	Homeward Historical	Reclassifications	Note 3	Pro Forma Adjustments	Note 4	Ocwen Pro Forma
Revenue							
Servicing and subservicing fees	$ 804,425	$ —	$ 425,213	A,B	(14,118)	A,B	$ 1,215,520
Servicing income	—	348,024	(348,024)	A	—		—
Amortization of MSRs	—	(47,971)	—		47,971	C	—
Change in valuation allowance for amortized MSRs	—	3,369	(3,369)	C	—		—
Change in fair value of MSRs	—	(19,252)	19,252	D	—		—
Net derivative gain related to MSRs	—	10,165	(10,165)	E	—		—
Ancillary servicing income	—	77,189	(77,189)	B	—		—
Lending fees	—	6,085	(6,085)	F	—		—
Gain on mortgage loans, net	—	15,869	(15,869)	G	—		—
Process management fees	37,067	—	96,235	H	(1,052)	A	132,250
Other revenues	3,514	100,499	(88,798)	F,H,I	—		15,215
Total revenues	845,006	493,977	(8,799)		32,801		1,362,985
Operating expenses							
Compensation and benefits	122,341	159,539	—		(2,256)	A	279,624
Amortization of servicing rights	72,897	—	—		49,015	A,D	121,912
Servicing and origination	25,537	—	107,798	C,D,I,J,K	(728)	A,E	132,607
General servicing expenses	—	89,653	(89,653)	J	—		—
General origination expenses	—	8,019	(8,019)	J	—		—
Technology and communications	45,362	15,969	—		5,597	A,F	66,928
Professional services	29,236	10,835	7,109	K	(1,280)	A	45,900
Occupancy and equipment	47,044	25,026	—		271	A,F	72,341
Depreciation	—	12,067	—		(12,067)	G	—
Other operating expenses	21,508	7,408	—		(297)	A	28,619
Total operating expense	363,925	328,516	17,235		38,255		747,931
Income (loss) from operations	481,081	165,461	(26,034)		(5,454)		615,054
Other income (expense)							
Interest income	8,329	16,629	—		(317)	A	24,641
Interest expense	(223,455)	(106,428)	—		18,302	A,H,I,J	(311,581)
Gain (loss) on loans held for sale, net	(3,364)	—	15,869	G	(1,440)	A	11,065
Equity in losses of unconsolidated entities	114	—	6,425		(59)	A	6,480
Other, net	(5,197)	7,032	3,740	E	1,207	A	6,782
Other income (expense), net	(223,573)	(82,767)	26,034		17,693		(262,613)
Income before income taxes	257,508	82,694	—		12,239		352,441
Income tax expense	76,585	30,146	—		4,415	A,K	111,146
Net income	180,923	52,548	—		7,824		241,295
Preferred stock dividends	(145)	—	—		(10,274)	L	(10,419)
Net income attributable to Ocwen common stockholders	$ 180,778	$ 52,548	$ —		$ (2,450)		$ 230,876
Earnings per share attributable to Ocwen common stockholders							
Basic earnings per share	$ 1.35						$ 1.72
Diluted earnings per share	$ 1.31						$ 1.67
Weighted average common shares outstanding							
Basic	133,912,643						133,912,643
Diluted	138,521,279						138,521,279

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

(Dollars in thousands, unless otherwise indicated)

The pro forma adjustments are based upon the following assumptions with regard to the Merger.

1. Merger Transaction

On December 27, 2012, Ocwen Financial Corporation ("Ocwen") completed the previously announced Merger (as defined below) pursuant to that certain Merger Agreement by and among Ocwen, O&H Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Ocwen ("Merger Sub"), Homeward Residential Holdings, Inc., a Delaware corporation ("Homeward"), and WL Ross & Co. LLC, a Delaware limited liability company as shareholder representative, pursuant to which Merger Sub merged with and into Homeward with Homeward continuing as the surviving corporation and becoming a wholly-owned subsidiary of Ocwen (the "Merger").

As consideration, Ocwen paid an aggregate purchase price of $765.7 million. Of this amount, $603.7 million was paid in cash and $162 million was paid in Preferred Stock. $85 million of the consideration has been placed into escrow for a period of 21 months following the closing date to fund any loss sharing payments and certain other indemnification payments that may become owed to Ocwen, as well as to fund certain expenses.

Payment of the cash consideration was financed, in part, by a $100 million incremental senior secured term loan ("SSTL") from Barclays Bank PLC, pursuant to the existing $575 million SSTL facility Ocwen entered into on September 1, 2011 and $75 million from Altisource Portfolio Solutions S.A. ("Altisource"), pursuant to a new senior unsecured loan agreement. Payment of the cash consideration was also financed, in part, out of the proceeds from a sale of the right to receive the servicing fees, excluding ancillary income, relating to certain mortgage servicing rights and related servicing advanced receivables to Home Loan Servicing Solutions, Ltd.

Following the acquisition, Ocwen paid $350.0 million to terminate the senior secured term loan facility and the senior secured revolving line of credit facility that were assumed from Homeward.

For accounting purposes, Ocwen has treated the Acquisition as a purchase of a business pursuant to FASB Accounting Standards Codification 805, "Business Combinations," which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date using the acquisition method of accounting. For U.S. tax purposes, the acquisition of Homeward was treated as a stock purchase.

Pending the final valuation of the assets and liabilities acquired, the following table summarizes the initial fair values of the assets acquired and the liabilities assumed:

Cash	$	79,511
Loans held for sale (1)		558,721
Mortgage servicing rights (1)		358,119
Advances and match funded advances (1)		2,266,882
Deferred tax assets (1)		47,346
Premises and equipment (1)		16,803
Debt service accounts		69,287
Investment in unconsolidated entities (1)		5,485
Receivables and other assets (1)		56,886
Match funded liabilities		(1,997,459)
Lines of credit and other secured borrowings		(864,969)
Accrued bonuses		(35,201)
Checks held for escheat (1)		(16,418)
Other liabilities (1)		(80,112)
Total identifiable net assets		464,881
Goodwill (1)		300,843
Total consideration	$	765,724

(1) Initial fair value estimate

The purchase agreement with Homeward allows Ocwen to fully assess the valuation of the assets and liabilities acquired during an evaluation period. Because the measurement period is still open, Ocwen expects that certain fair value estimates will change once all information necessary to make a final fair value assessment has been received. Ocwen expects that the measurement period will extend until at least June 30, 2013. Any measurement period adjustments determined to be material will be applied retrospectively to the period of acquisition in Ocwen's consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could also be affected.

2. Accounting Policies

The unaudited pro forma combined statement of operations reflects adjustments to conform the results of Homeward to the accounting policies of Ocwen with regard to the timing of servicing revenue recognition.

Homeward recognized servicing fees when the fees were earned, which it generally considered to be the period during which the services were provided. Ocwen generally considers servicing fees to be earned when the borrowers' payments are collected and recognizes servicing fees at that time.

3. Reclassifications

Certain amounts in the historical statement of operations of Homeward have been reclassified to conform to Ocwen's presentation. The details of these reclassifications are as follows:

A. To reclassify $348,024 of revenues from Servicing income to Servicing and subservicing fees.

B. To reclassify $77,189 of revenues from Ancillary servicing income to Servicing and subservicing fees.

C. To reclassify $3,369 of Change in the valuation allowance for amortized MSRs to Servicing and origination expense.

D. To reclassify $19,252 of Change in fair value of MSRs to Servicing and origination expense.

E. To reclassify $10,165 of Net derivative gain related to MSRs to Other, net.

F. To reclassify $6,085 of Lending fees to Other revenues.

G. To reclassify $15,869 of Gain on mortgage loans, net to Gain (loss) on loans held for sale, net.

H. To reclassify Valuation income of $39,294, REO commissions of $30,514, Insurance income of $19,266 and Trustee fee income of $7,161 from Other revenues to Process management fees.

I. To reclassify $1,352 of compensating interest expense from Other revenues to Servicing and origination expense.

J. To reclassify $89,653 of General servicing expenses and $8,019 of General origination expenses to Servicing and origination expense.

K. To reclassify consulting expenses of $7,109 from Servicing and origination expense to Professional services expense.

4. Unaudited Pro Forma Combined Statement of Operations

The unaudited pro forma combined statement of operations gives effect to the Merger as if it had occurred on January 1, 2012. The pro forma adjustments to the Ocwen unaudited pro forma combined statement of operations are based on the following adjustments to the historical statements of operations of Ocwen and Homeward:

A. To eliminate 5 days of Homeward operating results included in the historical consolidated statement of operations of Ocwen, as follows:

Revenue		
Servicing and subservicing fees	$	4,829
Process management fees		1,052
Total revenues		5,881
Operating expenses		
Compensation and benefits		2,256
Amortization of servicing rights		584
Servicing and origination		448
Technology and communications		467
Professional services		290
Occupancy and equipment		271
Other operating expenses		297
Total operating expense		4,613
Income from operations		1,268
Other income (expense)		
Interest income		317
Interest expense		(1,799)
Loss on loans held for resale, net		1,440
Equity in losses of unconsolidated entities		59
Other, net		(1,207)
Other income (expense), net		(1,190)
Income before income taxes		78
Income tax expense		34
Net income	$	44

B. To eliminate the effect of the change in the Homeward accrual for servicing fees to conform to Ocwen's policy for servicing fee revenue recognition, resulting in a reduction of $9,289.

C. To reverse $47,971 of Amortization of acquired MSRs based on historical carrying value.

D. To record $49,599 of amortization of acquired amortized MSRs, reflecting amortization that would have been recognized using Ocwen's amortization policy if the acquired amortized MSRs had been recorded on January 1, 2012 at their December 27, 2012 fair value.

E. To eliminate acquisition-related expenses of $280 from Servicing and origination expense and $990 from Professional services expense.

F. To record depreciation expense on acquired fixed assets in Technology and communications of $6,064, which consisted principally of data processing equipment and software related to the Homeward platforms, and in Occupancy and equipment of $542. Depreciation expense is based on the fair values of the acquired assets at December 27, 2012 using Ocwen's capitalization policies.

G. To eliminate historical depreciation expense on acquired fixed assets recorded by Homeward.

H. To eliminate interest expense of $106,428 associated with the pre-acquisition debt of Homeward.

I. To record interest expense of $76,478 on the pre-acquisition debt of Homeward that was assumed by Ocwen as if it had been outstanding on January 1, 2012, excluding Homeward's senior secured term loan and senior secured revolving line of credit which Ocwen repaid immediately following the acquisition. For purposes of determining pro forma interest expense on borrowings under Homeward's match funded facilities, declines in match funded debt proportional to the decline in advances that Homeward experienced during the year ended September 30, 2012 were considered.

If interest rates were to increase by 0.125%, interest expense on the Homeward debt would increase by $831.

J. To record interest expense of $13,447 on the new acquisition-related debt. The interest rate Ocwen elected to pay on the $100 million incremental SSTL is based on 1-Month LIBOR (as a base rate) plus a predetermined margin of 5.50% subject to a floor of 1.50%. For purposes of this pro forma adjustment, an annual interest rate of 7.00% was utilized for the incremental SSTL based on the 1-Month LIBOR rate at December 27, 2012 of 0.2117%. If 1-Month LIBOR were to increase by 0.1250%, to 0.3367%, the interest rate on the incremental SSTL would be unchanged at 7.00% as the base rate would remain below the floor of 1.50%. The contractual quarterly principal repayments of $2,500 on the incremental SSTL were considered in determining the pro forma interest expense.

For the senior unsecured term loan from Altisource, pro forma interest expense adjustments were based on 1-Month Eurodollar (LIBOR) rate (as a base rate) plus a predetermined margin of 6.75% subject to a floor of 1.50%. For purposes of this pro forma adjustment, an annual interest rate of 8.25% was utilized for the senior unsecured term loan based on the 1-Month LIBOR rate at December 27, 2012 of 0.2117%. If 1-Month LIBOR were to increase by 0.125%, to 0.3367%, the interest rate on the incremental SSTL would be unchanged at 8.25% as the base rate would remain below the floor of 1.50%.

Interest expense also includes amortization of deferred financing fees and original issue discount on the incremental SSTL using the effective interest rate method.

K. To record income taxes at the combined federal and state statutory rate of 36.12%.

L. To reverse the dividend reported on the consolidated statement of operations of Ocwen and record a full year dividend of $6,075 based on a dividend rate of 3.75% on the $162,000 of Series A Perpetual Convertible Preferred Stock issued by Ocwen in connection with the Merger. In addition, to record a deemed dividend of $4,344, representing the amortization of the beneficial conversion feature associated with the Series A Perpetual Convertible Preferred Stock.

5. Earnings per Share

Ocwen paid cash and issued 162,000 shares of its Series A Perpetual Convertible Preferred Stock to consummate the Merger.

Conversion of the Series A Perpetual Convertible Preferred Stock into shares of common stock has not been assumed for purposes of computing pro forma diluted earnings per share for 2012 because the effect would be anti-dilutive. The effect of the Convertible Preferred Stock on diluted earnings per share is computed using the if-converted method. Dividends applicable to the Convertible Preferred Stock are added back to net income. The effect is anti-dilutive whenever dividends on the Convertible Preferred Stock per common share obtainable on conversion exceeds basic earnings per share.