News Release

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FOR IMMEDIATE RELEASE

Morningstar Credit Ratings, LLC Places Operational Risk Assessment Rankings for Ocwen Financial Corporation on Alert

NEW YORK, DEC. 24, 2014—Morningstar Credit Ratings, LLC today placed four operational risk assessment rankings for Ocwen Financial Corporation (OFC) on Alert, including the 'MOR RS2' residential non-prime servicer, residential special servicer, and residential prime servicer rankings for Ocwen Loan Servicing, LLC and the 'MOR RV2' residential vendor ranking for Ocwen Financial Solutions Pvt. Ltd.

Morningstar placed these rankings on Alert as a result of the recent announcement that OFC reached a $150 million settlement with the New York State Department of Financial Services (NYDFS) related to deficient mortgage servicing practices and corporate governance issues. In addition, OFC Executive Chairman William C. Erbey will step down effective Jan. 16, 2015; he will also step down as chairman of the board of directors for four related companies: Altisource Portfolio Solutions S.A., Altisource Residential Corp., Altisource Asset Management Corp., and Home Loan Servicing Solutions, Ltd. Erbey will have no directorial, management, or oversight responsibilities for OFC or the related companies, according to a statement from the NYDFS. Barry Wish, a current member of the OFC board of directors, will assume the role of non-executive chairman.

The settlement between OFC the NYDFS will cost OFC $150 million in homeowner relief payments and contributions to New York housing recovery programs. However, Morningstar believes the mortgage servicing company's real losses may be Erbey's resignation as well as settlement terms that require ongoing monitoring of corporate governance and a ban on acquiring mortgage servicing rights until certain process and technology improvements are implemented to the satisfaction of the NYDFS. The real cost of compliance with the terms will undoubtedly be greater than the $150 million stated in the settlement and is likely to slow or altogether halt any long-term growth for OFC.

The settlement will provide $50 million in direct restitution to former and current homeowners in New York who had foreclosure actions filed against them by OFC and $100 million for "housing, foreclosure relief, and community redevelopment programs supporting New York's housing recovery," according to the NYDFS. The settlement also precludes OFC from acquiring additional mortgage servicing rights without the prior approval of the NYDFS. Additionally, as part of a 2011 agreement between OFC and New York regulators, an independent operations monitor appointed by the NYDFS will review the appointment of two new board members and the adequacy and effectiveness of OFC's servicing operations and consult with the OFC board of directors on a range of corporate governance and operational issues including any potential management changes for up to three more years.

The settlement has potentially far-reaching consequences for OFC's continued viability as a mortgage servicer. OFC is subject to the servicing standards established under the 2012 National Mortgage Settlement as well as a $2.1 billion settlement with the Consumer Financial Protection Bureau announced in December 2013. The homeowner relief payments and compliance costs associated with the NYDFS settlement and the cost of ongoing monitoring requirements and operational improvements could further endanger OFC's ability to adequately perform its loan servicing responsibilities. The change in corporate leadership and the influence of the operations monitor on daily governance issues will undoubtedly affect the company's future business course. Morningstar will continue to monitor developments as they occur.

As of June 30, 2014, OFC serviced a portfolio of approximately 972,331 non-prime residential mortgage loans with an aggregate unpaid principal balance (UPB) of approximately $167 billion. Its residential mortgage special servicing portfolio consisted of 4,613 loans with an aggregate UPB of approximately $1.1 billion, and its prime residential mortgage servicing portfolio consisted of nearly 1.1 million loans with an aggregate UPB of approximately $191 billion.

To access Morningstar's operational risk assessment methodology and all published reports, please visit https://ratingagency.morningstar.com. For more information about Morningstar's proprietary servicer score, please see the May 2012 Research Alert, "Servicer Performance Scoring: Using Cash Flow to Measure Servicer Success," under the Operational Risk tab in the Research Reports section.

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