NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

August 4, 2014

Timothy Hayes
General Counsel
Ocwen Financial Corporation
1661 Worthington Road, Suite 100
West Palm Beach, FL 33409

Dear Mr. Hayes:

As part of the Department's ongoing examination of Ocwen's mortgage servicing practices, we are reviewing a troubling transaction involving Ocwen's related company, Altisource Portfolio Solutions, S.A. ("Altisource"), and the provision of force-placed insurance. Indeed, this complex arrangement appears designed to funnel as much as $65 million in fees annually from already-distressed homeowners to Altisource for minimal work. Additionally, the role that Ocwen's Executive Chairman William C. Erbey played in approving this arrangement appears to be inconsistent with public statements Ocwen has made, as well as representations in company SEC filings. As discussed below, we require certain information about this force-placed insurance arrangement and about Mr. Erbey's role in approving the arrangement.

Background

As you know, the Department has previously expressed concerns about Ocwen's use of related companies to provide fee-based services such as property inspections, online auction sites, foreclosure sales, real estate brokers, debt collection, and many others. Because mortgage servicing presents the extraordinary circumstance where there is effectively no customer to select a vendor for ancillary services, Ocwen's use of related companies to provide such services raises concerns about whether such transactions are priced fairly and conducted at arms-length.

The Department now seeks additional information about Ocwen's provision of force-placed insurance through related companies. As you are aware, the Department's recent investigation into force-placed insurance revealed that mortgage servicers were setting up affiliated insurance agencies to collect commissions on force-placed insurance, and funneling all of their borrowers' force-placed business through their own agencies, in violation of New York Insurance Law section 2324's anti-inducement provisions. The Department discovered that servicers' own insurance agencies had an incentive to purchase force-placed insurance with high premiums because the higher the premiums, the higher the commissions kicked back by insurers to the servicers or their affiliates. The extra expense of higher premiums, in turn, can push already struggling families over the foreclosure cliff. In light of this investigation, the Department last year imposed further prohibitions on these kickbacks to servicers or their affiliates.

However, as part of our broader review of ancillary services provided by non-bank mortgage servicers, we are concerned that certain non-bank mortgage servicers are seeking to side-step those borrower protections through complex arrangements with subsidiaries and affiliated companies. Indeed, in recent weeks, we halted one such arrangement at another non-bank mortgage servicing company.

Agreements with SWBC and Altisource

Based on its investigation and through the Monitor's work, the Department understands that Ocwen's force-placed arrangement with Altisource features the use of an unaffiliated insurance agent, Southwest Business Corporation ("SWBC"), apparently as a pass-through so that Ocwen and Altisource are not directly contracting with each other, but Altisource can still receive insurance commissions and certain fees seemingly for doing very little work.

These are the facts established by documents Ocwen provided to the Monitor: In August 2013, Ocwen appointed an Altisource subsidiary called Beltline Road Insurance Agency, Inc. ("Beltline") as its exclusive insurance representative, purportedly to negotiate and place a new force-placed insurance program for Ocwen. Ocwen's existing force-placed arrangement with the insurer Assurant was set to expire in March 2014, and Beltline's stated task was to find an alternative arrangement. In January 2014, Altisource provided a memo to the Credit Committee of Ocwen Mortgage Servicing, Inc., recommending, among other things, replacing Assurant with SWBC as Ocwen's managing general agent. SWBC would then be charged with managing Ocwen's force-placed insurance program, including negotiating premiums with insurers. As part of this arrangement, Altisource recommended itself to provide fee-based services to SWBC.

In emails dated January 15 and 16, 2014, the transaction was approved by the three members of the Credit Committee: William Erbey, Duo Zhang, and Richard Cooperstein. The Credit Committee did not meet to discuss this proposal, no minutes were taken of the Credit Committee's consideration of this proposed transaction, and the proposed transaction apparently was not presented for review or approval to any member of the Ocwen Board of Directors except Mr. Erbey, as Mr. Zhang and Mr. Cooperstein are not members of the Ocwen Board of Directors.

Just one month after this Credit Committee approval, on February 26, 2014, the company received the Department's letter raising concerns about potential conflicts of interest between Ocwen and its related public companies. In that letter, we identified facts that "cast serious doubts on recent public statements made by the company that Ocwen has a 'strictly arms-length business relationship' with those companies," and we specifically referenced the multiple roles played by Mr. Erbey as an area of concern.

Disregarding the concerns raised in our letter, Ocwen proceeded to execute contracts formalizing this new force-placed arrangement, apparently without further consideration by any Board member other than Mr. Erbey. Those contracts, dated as of June 1, 2014, indicate that Altisource will generate significant revenue from Ocwen's new force-placed arrangement while apparently doing very little work. Indeed, a careful review of these and other documents suggests that Ocwen hired Altisource to design Ocwen's new force-placed program with the expectation and intent that Altisource would use this opportunity to steer profits to itself.

First, Altisource will reap enormous insurance commissions for having recommended that Ocwen hire SWBC. Under the contracts, Ocwen promises to give its force-placed insurance business to SWBC. SWBC does the work of negotiating premiums, preparing policies, and handling renewals and cancellations. For these services, SWBC receives commissions from insurers. SWBC then passes on a portion of those commissions, constituting 15% of net written premium on the policies, to Altisource subsidiary Beltline, for "insurance placement services." Documents indicate that Ocwen expects to force-place policies on its borrowers in excess of $400 million net written premium per year; a 15% commission on $400 million would be $60 million per year. It is unclear what insurance placement services, if any, Altisource is providing to justify these commissions.

Second, Altisource will be paid a substantial annual fee for providing technology support that it appears to be already obligated to provide. This fee relates to monitoring services, whereby Ocwen pays a company to monitor whether its borrowers' insurance remains in effect. Such monitoring is necessary to establish which borrowers have lapsed on their payments and need to have insurance force-placed upon them. Prior to 2014, Ocwen was paying ten cents per loan per month to Assurant for monitoring. In this new arrangement, however, Ocwen agrees to pay double the prior amount – twenty cents per loan per month now paid to SWBC, for each of the approximately 2.8 million borrowers serviced by Ocwen. SWBC, in turn, agrees to pass on fifteen out of that twenty cents to Altisource, or an estimated $5 million per year. Altisource provides only one service in exchange for this fee: granting SWBC access to Ocwen's loan files. Altisource, of course, only has access to Ocwen's loan files through its own separate services agreements with Ocwen, which appear to contractually obligate Altisource to provide this access to business users designated by Ocwen to receive such access.

Third, the contracts require SWBC to use Altisource to provide loss draft management services for Ocwen borrowers; to pay Altisource $75 per loss draft for these services; and to pay Altisource an additional $10,000 per month for certain other services.

In an effort to better understand this arrangement, the Department requests that Ocwen provide the following information and documents:

1. Is Altisource already obligated to provide access to Ocwen's loan files to SWBC pursuant to separate agreements with Ocwen? If your answer is no, please specifically explain how the Technology Products Letter between Ocwen and Altisource, produced to the Department beginning at OFC00002496, does not impose this obligation.

2. What services, if any, does Altisource or its subsidiary provide to SWBC in exchange for SWBC paying the Altisource subsidiary a commission of 15% of insurance premiums? In addition, it appears that payment of this commission excludes premium generated by policies issued on properties in New York State. Please describe the negotiations that resulted in this exclusion, and identify any alternate compensation to be paid to Altisource or any affiliate to make up for the excluded commissions on New York properties.

3. What services, if any, does Altisource provide to SWBC in exchange for SWBC paying Altisource fifteen cents per loan per month?

4. What services, if any, does Altisource provide to SWBC in exchange for an additional $10,000 per month?

5. Under what circumstances do Ocwen policies and procedures permit approval of transactions solely through the Credit Committee? Did this force-placed insurance arrangement meet those requirements? Do Ocwen policies and procedures require any additional review or approvals for transactions involving related companies? If so, did Ocwen engage in that review or obtain those approvals for this arrangement?

6. Were any options presented to the Credit Committee other than the proposed SWBC transaction? If so, did all such options feature the retention of Altisource to provide fee-based services? Or were options presented that did not involve payments to Altisource?

7. Throughout this process, did members of the Credit Committee or any Ocwen personnel give any consideration to the impact that Altisource fees and commissions would have in increasing insurance premiums to be paid by struggling families?

8. After the Credit Committee approved Altisource's January 2014 proposal for Ocwen's new forced-placed insurance program, it appears that certain changes were made to the proposal, including an expansion of SWBC's and Altisource's roles in the program and their associated compensation. Please describe those changes and the negotiations that led to those changes, and identify all personnel involved in negotiating and approving those changes.

9. What process resulted in the August 2013 appointment of Altisource's subsidiary as Ocwen's exclusive insurance representative? Was this process competitive? What Ocwen Board members or personnel were involved in this appointment? Which Board members, if any, authorized this appointment? Did those Ocwen Board members or personnel know or anticipate that Altisource would return with a plan that would appear to be highly profitable for itself?

10. What amount of revenue has Altisource or its affiliates realized, and what amount of revenue is it projected to realize, from the services it is providing pursuant to this force-placed insurance arrangement? What are its costs for providing those services? How many employees at Altisource or its subsidiaries work on providing those services, and how much of their time is dedicated to this work?

11. Altisource's presentation to the Credit Committee stated that "Altisource will establish its own managing general underwriter during 2014 to provide LPI underwriting services starting in 2015." Please explain Altisource's intention to establish a managing general underwriter, state whether Ocwen supports Altisource's plan, and explain how this development will affect Ocwen's force-placed program, Altisource's revenue, and the fees to be charged to Ocwen borrowers or mortgage investors.

Ocwen's Public Statements Concerning Transactions with Related Companies

In addition to the issues raised above, the Department has serious concerns about the apparently conflicted role played by Ocwen Executive Chairman William Erbey and potentially other Ocwen officers and directors in directing profits to Altisource, which is "related" to Ocwen but is formally a separate, publicly-traded company. As you know, Mr. Erbey is Ocwen's largest shareholder and is also the Chairman of and largest shareholder in Altisource. In fact, Mr. Erbey's stake in Altisource is nearly double his stake in Ocwen: 29 percent versus 15 percent. Thus, for every dollar Ocwen makes, Mr. Erbey's share is 15 cents, but for every dollar Altisource makes, his share is 29 cents.

The Department and its Monitor have uncovered a growing body of evidence that Mr. Erbey has approved a number of transactions with the related companies, despite Ocwen's and Altisource's public claims – including in SEC filings[1] – that he recuses himself from decisions involving related companies. Mr. Erbey's approval of this force-placed insurance arrangement as described above appears to be a gross violation of this supposed recusal policy.

12. Please explain how and why Mr. Erbey approved the arrangement between Ocwen, SWBC, and Altisource.

13. Please provide every instance where Mr. Erbey has approved a transaction involving a related company notwithstanding Ocwen's statements to the contrary.

Finally, Ocwen and Altisource state in their public filings that rates charged under agreements with related companies are market rate,[2] but Ocwen has not been able to provide the Monitor with any analysis to support this assertion.

14. Please advise whether Ocwen has performed any independent analysis to determine whether the rates charged in the SWBC arrangement are market rate.

15. Please address whether Ocwen has performed any independent analysis to support the assertion that the rates charged under other related party agreements are market rate.

[1] Ocwen Financial Corporation 2013 Form 10-K Annual Report, at 18 ("We have adopted policies, procedures and practices to avoid potential conflicts with respect to our dealings with Altisource, HLSS, AAMC and Residential, including our Executive Chairmen recusing himself from negotiations regarding, and approvals of, transactions with these entities."); Altisource Portfolio Solutions S.A. 2013 Form 10-K Annual Report, at 17 ("We follow policies, procedures and practices to avoid potential conflicts with respect to our dealings with Ocwen, HLSS, AAMC and Residential, including our Chairman recusing himself from negotiations regarding, and approvals of, transactions with these entities.").

[2] Ocwen Financial Corporation 2013 Form 10-K Annual Report, at F-60 ("We believe the rates charged under [agreements with Altisource] are market rates as they are materially consistent with one or more of the following: the fees charged by Altisource to other customers for comparable services and the rates Ocwen pays to or observes from other service providers."); Altisource Portfolio Solutions S.A. 2013 Form 10-K Annual Report, at 7 ("We record revenue we earn from Ocwen and its subsidiaries under various long-term servicing contracts at rates we believe to be market rates as they are consistent with one or more of the following: the fees we charge to other customers for comparable services; the fees Ocwen pays to other service providers; and fees charged by our competitors.").

We intend to fully review all of the issues raised above. Please also provide documents that support your responses. We ask and expect that Ocwen will preserve all documents concerning the matters discussed in this letter.

Sincerely,

Benjamin M. Lawsky
Superintendent of Financial Services

cc: William C. Erbey, Executive Chairman, Ocwen Board of Directors
Ronald M. Faris, Ocwen Board of Directors
Ronald J. Korn, Ocwen Board of Directors
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