PHH CORP
Form 10-Q
November 08, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission File Number: 1-7797

PHH CORPORATION

(Exact name of registrant as specified in its charter)

MARYLAND (State or other jurisdiction of incorporation or organization)	**52-0551284** (I.R.S. Employer Identification Number)
3000 LEADENHALL ROAD **MT. LAUREL, NEW JERSEY** (Address of principal executive offices)	**08054** (Zip Code)

856-917-1744

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of October 22, 2012, 56,701,439 shares of PHH common stock were outstanding.

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Except as expressly indicated or unless the context otherwise requires, the Company, PHH, we, our or us means PHH Corporation, a Maryl corporation, and its subsidiaries.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be made in other documents filed or furnished with the SEC or may be made orally to analysts, investors, representatives of the media and others.

Generally, forward-looking statements are not based on historical facts but instead represent only our current beliefs regarding future events. All forward-looking statements are, by their nature, subject to risks, uncertainties and other factors. Investors are cautioned not to place undue reliance on these forward-looking statements. Such statements may be identified by words such as expects, anticipates, intends, projects, estimates, plans, may increase, may fluctuate and similar expressions or future or conditional verbs such as will, should, would, may Forward-looking statements contained in this Form 10-Q include, but are not limited to, statements concerning the following:

- the impact of the adoption of recently issued accounting pronouncements on our financial statements;
- future origination volumes and loan margins in the mortgage industry;
- our belief that sources of liquidity will be adequate to fund operations;
- our expectations regarding our ability to achieve our liquidity plans;
- mortgage repurchase and indemnification requests and associated reserves and provisions; and
- our assessment of legal proceedings and associated reserves and provisions.

Actual results, performance or achievements may differ materially from those expressed or implied in forward-looking statements due to a variety of factors, including but not limited to the factors listed and discussed in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, Part II Item 1A. Risk Factors in this Form 10-Q and those factors described below:

- the effects of market volatility or macroeconomic changes on the availability and cost of our financing arrangements and the value of our assets;

- the effects of any further declines in the volume of U.S. home sales and home prices, due to adverse economic changes or otherwise, on our Mortgage Production and Mortgage Servicing segments;

- the effects of changes in current interest rates on our business and our financing costs;

- our decisions regarding the use of derivatives related to mortgage servicing rights, if any, and the resulting potential volatility of the results of operations of our Mortgage Servicing segment;

- the impact of the failure to maintain our credit ratings, including the impact on our cost of capital and ability to incur new indebtedness or refinance our existing indebtedness, as well as our current or potential customers   assessment of our counterparty credit risk;

- the effects of continued elevated volumes or increases in our actual and projected repurchases of, indemnification given in respect of, or related losses associated with, sold mortgage loans for which we have provided representations and warranties or other contractual recourse to purchasers and insurers of such loans, including increases in our loss severity and reserves associated with such loans;

- the effects of reinsurance claims in excess of projected levels and in excess of reinsurance premiums we are entitled to receive or amounts currently held in trust to pay such claims;

- the effects of any significant adverse changes in the underwriting criteria or existence or programs of government-sponsored entities, including Fannie Mae and Freddie Mac, including any changes caused by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other actions of the federal government;

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- the effects of any inquiries and investigations by attorneys general of certain states and the U.S. Department of Justice, the Bureau of Consumer Financial Protection or other state or federal regulatory agencies related to foreclosure procedures or other mortgage origination or servicing activities, any litigation related to our mortgage origination or servicing activities, or any related fines, penalties and increased costs;

- the ability to maintain our status as a government sponsored entity-approved seller and servicer, including the ability to continue to comply with the respective selling and servicing guides, including any changes caused by the Dodd-Frank Act;

- changes in laws and regulations, including changes in mortgage- and real estate-related laws and regulations (including changes caused by the Dodd-Frank Act) status of government sponsored-entities and state, federal and foreign tax laws and accounting standards;

- the effects of the insolvency of any of the counterparties to our significant customer contracts or financing arrangements or the inability or unwillingness of such counterparties to perform their respective obligations under, or to renew on terms favorable to us, such contracts, or our ability to continue to comply with the terms of our significant customer contracts, including service level agreements;

- the effects of competition in our existing and potential future lines of business, including the impact of consolidation within the industries in which we operate and competitors with greater financial resources and broader product lines;

- the ability to obtain financing (including refinancing and extending existing indebtedness) on acceptable terms, if at all, to finance our operations or growth strategy, to operate within the limitations imposed by our financing arrangements and to maintain the amount of cash required to service our indebtedness;

- the ability to maintain our relationships with our existing clients and to establish relationships with new clients;

- the effects of any failure in or breach of our technology infrastructure, or those of our outsource providers, or any failure to implement changes to our information systems in a manner sufficient to comply with applicable law and our contractual obligations;

- the ability to attract and retain key employees;

- a deterioration in the performance of assets held as collateral for secured borrowings;

- any failure to comply with covenants under our financing arrangements; and

- the impact of changes in the U.S. financial condition and fiscal and monetary policies, or any actions taken or to be taken by the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System on the credit markets and the U.S. economy.

Forward-looking statements speak only as of the date on which they are made. Factors and assumptions discussed above, and other factors not identified above, may have an impact on the continued accuracy of any forward-looking statements that we make. Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

PHH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(In millions, except per share data)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
REVENUES				
Mortgage fees	$ 91	$ 68	$ 254	$ 210
Fleet management fees	45	42	137	128
Net fee income	136	110	391	338
Fleet lease income	340	370	1,014	1,050
Gain on mortgage loans, net	257	203	695	381
Mortgage interest income	24	24	70	82
Mortgage interest expense	(54)	(48)	(162)	(150)
Mortgage net finance expense	(30)	(24)	(92)	(68)
Loan servicing income	112	112	333	337
Change in fair value of mortgage servicing rights	(225)	(410)	(451)	(601)
Net derivative gain related to mortgage servicing rights	8	1	5	1
Valuation adjustments related to mortgage servicing rights, net	(217)	(409)	(446)	(600)
Net loan servicing loss	(105)	(297)	(113)	(263)
Other income	26	22	65	127
Net revenues	624	384	1,960	1,565
EXPENSES				
Salaries and related expenses	159	124	438	375
Occupancy and other office expenses	15	14	43	44
Depreciation on operating leases	304	307	908	922
Fleet interest expense	18	19	52	60
Other depreciation and amortization	7	7	19	19
Other operating expenses	177	155	512	368
Total expenses	680	626	1,972	1,788
Loss before income taxes	(56)	(242)	(12)	(223)
Income tax benefit	(33)	(104)	(32)	(100)
Net (loss) income	(23)	(138)	20	(123)
Less: net income attributable to noncontrolling interest	19	10	44	17
Net loss attributable to PHH Corporation	$ (42)	$ (148)	$ (24)	$ (140)
Basic loss per share attributable to PHH Corporation	$ (0.74)	$ (2.62)	$ (0.42)	$ (2.48)
Diluted loss per share attributable to PHH Corporation	$ (0.74)	$ (2.62)	$ (0.42)	$ (2.48)

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net (loss) income	$ (23)	$ (138)	$ 20	$ (123)
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	7	(16)	7	(10)
Change in unrealized gains on available-for-sale securities, net			(1)	1
Change in unfunded pension liability, net		1	1	1
Total other comprehensive income (loss), net of tax	7	(15)	7	(8)
Total comprehensive (loss) income	(16)	(153)	27	(131)
Less: comprehensive income attributable to noncontrolling interest	19	10	44	17
Comprehensive loss attributable to PHH Corporation	$ (35)	$ (163)	$ (17)	$ (148)

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)
(In millions, except share data)

	September 30, 2012		December 31, 2011	
ASSETS				
Cash and cash equivalents	$	677	$	414
Restricted cash, cash equivalents and investments (including $126 and $226 of available-for-sale securities at fair value)		435		574
Mortgage loans held for sale		1,953		2,658
Accounts receivable, net of allowance for doubtful accounts of $4 and $2		742		700
Net investment in fleet leases		3,653		3,515
Mortgage servicing rights		1,002		1,209
Property, plant and equipment, net		68		64
Goodwill		25		25
Other assets		691		618
Total assets (1)	$	9,246	$	9,777
LIABILITIES AND EQUITY				
Accounts payable and accrued expenses	$	516	$	504
Debt		6,318		6,914
Deferred taxes		604		626
Other liabilities		309		272
Total liabilities (1)		7,747		8,316
Commitments and contingencies (Note 10)				
EQUITY				
Preferred stock, $0.01 par value; 1,090,000 shares authorized; none issued or outstanding				
Common stock, $0.01 par value; 273,910,000 shares authorized; 56,695,730 shares issued and outstanding at September 30, 2012; 56,361,155 shares issued and outstanding at December 31, 2011		1		1
Additional paid-in capital		1,120		1,082
Retained earnings		314		338
Accumulated other comprehensive income		28		21
Total PHH Corporation stockholders equity		1,463		1,442
Noncontrolling interest		36		19
Total equity		1,499		1,461
Total liabilities and equity	$	9,246	$	9,777

See accompanying Notes to Condensed Consolidated Financial Statements.

Continued.

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CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

(Unaudited)
(In millions)

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(1) The Condensed Consolidated Balance Sheets include assets of variable interest entities which can be used only to settle their obligations and liabilities of variable interest entities which creditors or beneficial interest holders do not have recourse to PHH Corporation and subsidiaries as follows:

	September 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 63	$ 57
Restricted cash, cash equivalents and investments	236	313
Mortgage loans held for sale	722	484
Accounts receivable, net	96	79
Net investment in fleet leases	3,547	3,390
Property, plant and equipment, net	2	1
Other assets	49	66
Total assets	$ 4,715	$ 4,390
LIABILITIES		
Accounts payable and accrued expenses	$ 35	$ 36
Debt	4,025	3,549
Other liabilities	22	9
Total liabilities	$ 4,082	$ 3,594

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

(In millions, except share data)

	PHH Corporation Stockholders Equity						
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
Nine Months Ended September 30, 2012							
Balance at December 31, 2011	**56,361,155**	**$ 1**	**$ 1,082**	**$ 338**	**$ 21**	**$ 19**	**$ 1,461**
Total comprehensive (loss) income				(24)	7	44	27
Distributions to noncontrolling interest						(27)	(27)
Stock compensation expense			3				3
Stock issued under share-based payment plans	334,575		(1)				(1)
Conversion option related to Convertible note issuance, net (Note 7)			33				33
Recognition of deferred taxes related to Convertible notes			3				3
Balance at September 30, 2012	**56,695,730**	**$ 1**	**$ 1,120**	**$ 314**	**$ 28**	**$ 36**	**$ 1,499**
Nine Months Ended September 30, 2011							
Balance at December 31, 2010	**55,699,218**	**$ 1**	**$ 1,069**	**$ 465**	**$ 29**	**$ 14**	**$ 1,578**
Total comprehensive (loss) income				(140)	(8)	17	(131)
Distributions to noncontrolling interest						(16)	(16)
Stock compensation expense			5				5
Stock issued under share-based payment plans	641,495		6				6
Balance at September 30, 2011	**56,340,713**	**$ 1**	**$ 1,080**	**$ 325**	**$ 21**	**$ 15**	**$ 1,442**

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows from operating activities:		
Net income (loss)	$ 20	$ (123)
Adjustments to reconcile Net income (loss) to net cash provided by operating activities:		
Capitalization of originated mortgage servicing rights	(244)	(357)
Net unrealized loss on mortgage servicing rights and related derivatives	446	600
Vehicle depreciation	908	922
Other depreciation and amortization	19	19
Origination of mortgage loans held for sale	(28,230)	(27,013)
Proceeds on sale of and payments from mortgage loans held for sale	29,655	29,131
Net gain on interest rate lock commitments, mortgage loans held for sale and related derivatives	(746)	(321)
Deferred income tax benefit	(42)	(109)
Other adjustments and changes in other assets and liabilities, net	16	(410)
Net cash provided by operating activities	1,802	2,339
Cash flows from investing activities:		
Investment in vehicles	(1,282)	(1,190)
Proceeds on sale of investment vehicles	227	280
Net cash received (paid) on derivatives related to mortgage servicing rights	7	(1)
Purchases of property, plant and equipment	(18)	(16)
Purchases of restricted investments	(151)	(185)
Proceeds from sales and maturities of restricted investments	187	204
Decrease (increase) in restricted cash and cash equivalents	105	(15)
Other, net	21	24
Net cash used in investing activities	(904)	(899)
Cash flows from financing activities:		
Proceeds from secured borrowings	48,063	42,065
Principal payments on secured borrowings	(48,472)	(43,668)
Proceeds from unsecured borrowings	518	610
Principal payments on unsecured borrowings	(671)	(530)
Issuances of common stock	1	8
Cash paid for debt issuance costs	(43)	(20)
Other, net	(31)	(15)
Net cash used in financing activities	(635)	(1,550)
Effect of changes in exchange rates on Cash and cash equivalents		(1)
Net increase (decrease) in Cash and cash equivalents	263	(111)
Cash and cash equivalents at beginning of period	414	195
Cash and cash equivalents at end of period	$ 677	$ 84

See accompanying Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

PHH Corporation and subsidiaries (collectively, PHH or the Company) is a leading outsource provider of mortgage and fleet management services operating in the following business segments:

- **Mortgage Production** provides mortgage loan origination services and sells mortgage loans.
- **Mortgage Servicing** performs servicing activities for originated and purchased loans.
- **Fleet Management Services** provides commercial fleet management services.

The Condensed Consolidated Financial Statements include the accounts and transactions of PHH and its subsidiaries, as well as entities in which the Company directly or indirectly has a controlling interest and variable interest entities of which the Company is the primary beneficiary. PHH Home Loans, LLC and its subsidiaries are consolidated within the Condensed Consolidated Financial Statements, and Realogy Corporation s ownership interest is presented as a noncontrolling interest. Intercompany balances and transactions have been eliminated from the Condensed Consolidated Financial Statements.

The Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States, which is commonly referred to as GAAP, for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In management s opinion, the unaudited Condensed Consolidated Financial Statements contain all adjustments, which include normal and recurring adjustments necessary for a fair presentation of the financial position and results of operations for the interim periods presented. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

On March 31, 2011, the Company sold 50.1% of the equity interests in its appraisal services business, Speedy Title and Appraisal Review Services, (STARS) to CoreLogic, Inc. for a total purchase price of $35 million. For the nine months ended September 30, 2011, a $68 million gain on the sale of the 50.1% equity interest was recorded within Other income. Subsequent to March 31, 2011, the Company participates in the appraisal services business through its 49.9% ownership interest in STARS, and is entitled to its proportionate share of STARS earnings.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions include, but are not limited to, those related to the valuation of mortgage servicing rights, mortgage loans held for sale, other financial instruments and goodwill, the estimation of liabilities for mortgage loan repurchases and indemnifications and reinsurance losses, and the determination of income tax assets and liabilities and associated valuation allowances. Actual results could differ from those estimates.

Unless otherwise noted and except for share and per share data, dollar amounts presented within these Notes to Condensed Consolidated Financial Statements are in millions.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CHANGES IN ACCOUNTING POLICIES

Comprehensive Income. In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income . Subsequently in December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 . The updates to comprehensive income guidance require all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The Company adopted the new accounting guidance effective January 1, 2012, and applied it retrospectively. The adoption added the Condensed Consolidated Statements of Comprehensive Income but did not impact the Company s results of operations, financial position, or cash flows.

Fair Value Measurement. In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards . This update to fair value measurement guidance addresses changes to concepts regarding performing fair value measurements including: (i) the application of the highest and best use and valuation premise; (ii) the valuation of an instrument classified in the reporting entity s shareholders equity; (iii) the valuation of financial instruments that are managed within a portfolio; and (iv) the application of premiums and discounts. This update also enhances disclosure requirements about fair value measurements, including providing information regarding Level 3 measurements such as quantitative information about unobservable inputs, further discussion of the valuation processes used and assumption sensitivity analysis. The Company adopted the new accounting guidance effective January 1, 2012. The updated disclosures are included in Note 12, Fair Value Measurements .

Transfers and Servicing. In April 2011, the FASB issued ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements . This update to transfers and servicing guidance removes 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. This update also eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The Company adopted the new accounting guidance effective beginning January 1, 2012 and the guidance will be applied prospectively to new transactions or modifications of existing transactions. The adoption of this update did not have an impact on the Company s financial statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Intangibles. In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. This update amends the current guidance on testing indefinite-lived intangibles for impairment and allows for the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangibles are impaired. If it is more likely than not that the indefinite-lived intangibles are impaired, the entity is required to determine the fair value of the indefinite-lived intangibles and perform the quantitative impairment test by comparing the fair value with the carrying amount. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 with early adoption permitted. The Company does not anticipate the adoption of this update will have a material impact on its financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Earnings Per Share

Basic loss per share attributable to PHH Corporation was computed by dividing Net loss attributable to PHH Corporation for the period by the weighted-average number of shares outstanding during the period. Diluted loss per share attributable to PHH Corporation was computed by dividing Net loss attributable to PHH Corporation for the period by the weighted-average number of shares outstanding during the period, assuming all potentially dilutive common shares were issued.

The weighted-average computation of the dilutive effect of potentially issuable shares of Common stock under the treasury stock method excludes the effect of any contingently issuable securities where the contingency has not been met and the effect of securities that would be anti-dilutive, which may include:

- outstanding stock-based compensation awards representing shares from restricted stock units and stock options;
- stock assumed to be issued related to convertible notes;
- purchased options and sold warrants related to the assumed conversion of the 2012 Convertible notes; and
- sold warrants related to the Company s 2014 Convertible notes.

The computation also excludes the assumed issuance of the 2014 Convertible notes and related purchased options as they are currently to be settled only in cash. Shares associated with anti-dilutive securities are outlined in the table below.

The following table summarizes the calculations of basic and diluted loss per share attributable to PHH Corporation for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions, except share and per share data)			
Net loss attributable to PHH Corporation	$ (42)	$ (148)	$ (24)	$ (140)
Weighted-average common shares outstanding basic and diluted(1)	56,842,323	56,436,649	56,768,027	56,297,629
Basic and diluted loss per share attributable to PHH Corporation	$ (0.74)	$ (2.62)	$ (0.42)	$ (2.48)

Anti-dilutive securities excluded from the computation of dilutive securities:				
Outstanding stock-based compensation awards	2,356,488	2,062,302	2,356,488	2,062,302
Assumed conversion of debt securities	5,494,884		3,750,848	594,876

(1) Due to the net loss recognized for the three and nine months ended September 30, 2012 and 2011, there were no potentially dilutive securities included in the calculations of diluted earnings per share, as their inclusion would have been antidilutive.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Restricted Cash, Cash Equivalents and Investments

The following table summarizes Restricted cash, cash equivalents and investment balances:

	September 30, 2012		December 31, 2011	
	(In millions)			
Restricted cash and cash equivalents	$	309	$	348
Restricted investments, at fair value		126		226
Total	$	435	$	574

The restricted cash related to our reinsurance activities is invested in certain debt securities as permitted under the reinsurance agreements. The restricted investments are classified as available-for-sale securities and remain in trust for capital fund requirements and potential reinsurance losses. In 2012, the Company terminated one of its reinsurance agreements. As a result, the restricted cash and investments held in trust to pay future losses were released and the remaining liability was settled with the primary mortgage insurer. See Note 9, Credit Risk for information regarding the termination.

The following tables summarize Restricted investments, at fair value:

	September 30, 2012								
	Amortized Cost		Fair Value		Unrealized Gains (In millions)		Unrealized Losses		Weighted-average remaining maturity
Corporate securities	$	30	$	31	$	1	$		26 mos.
Agency securities (1)		22		22					36 mos.
Government securities		72		73		1			18 mos.
Total	$	124	$	126	$	2	$		23 mos.

	December 31, 2011								
	Amortized Cost		Fair Value		Unrealized Gains (In millions)		Unrealized Losses		Weighted-average remaining maturity
Corporate securities	$	53	$	54	$	1	$		28 mos.
Agency securities (1)		118		119		1			19 mos.
Government securities		52		53		1			34 mos.
Total	$	223	$	226	$	3	$		25 mos.

(1) Represents bonds and notes issued by various agencies including, but not limited to, Fannie Mae, Freddie Mac and Federal Home Loan Banks.

During the three months ended September 30, 2012, the amount of realized gains and losses from the sale of available-for-sale securities was not significant. During the nine months ended September 30, 2012 and the three and nine months ended September 30, 2011, realized gains of $1 million from the sale of available-for-sale securities were recorded and realized losses were not significant.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Transfers and Servicing of Mortgage Loans

Residential mortgage loans are sold through one of the following methods: (i) sales to or pursuant to programs sponsored by Fannie Mae, Freddie Mac and Ginnie Mae, or (ii) sales to private investors. The Company may have continuing involvement in mortgage loans sold by retaining one or more of the following: servicing rights and servicing obligations, recourse obligations and/or beneficial interests (such as interest-only strips, principal-only strips, or subordinated interests). See Note 9, Credit Risk for a further description of recourse obligations.

The total servicing portfolio consists of loans associated with capitalized mortgage servicing rights, loans held for sale, and the servicing portfolio associated with loans subserviced for others. The total servicing portfolio, including loans subserviced for others was $185.1 billion and $182.4 billion as of September 30, 2012 and December 31, 2011, respectively. Mortgage servicing rights (MSRs) recorded in the Condensed Consolidated Balance Sheets are related to the capitalized servicing portfolio, and are created either through the direct purchase of servicing from a third party or through the sale of an originated loan.

The activity in the loan servicing portfolio associated with capitalized servicing rights consisted of:

	Nine Months Ended September 30, 2012		2011	
	(In millions)			
Balance, beginning of period	$	147,088	$	134,753
Additions		24,794		26,502
Payoffs, sales and curtailments		(27,102)		(16,980)
Balance, end of period	$	144,780	$	144,275

The activity in capitalized MSRs consisted of:

	Nine Months Ended September 30, 2012		2011	
	(In millions)			
Balance, beginning of period	$	1,209	$	1,442
Additions		244		357
Changes in fair value due to:				
Realization of expected cash flows		(199)		(146)
Changes in market inputs or assumptions used in the valuation model		(252)		(455)
Balance, end of period	$	1,002	$	1,198

The value of MSRs is driven by the net positive cash flows associated with servicing activities. These cash flows include contractually specified servicing fees, late fees and other ancillary servicing revenue and were recorded within Loan servicing income as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Servicing fees from capitalized portfolio	$ 106	$ 111	$ 329	$ 327
Late fees	5	5	15	15
Other ancillary servicing revenue	10	11	30	30

As of September 30, 2012 and December 31, 2011, the MSRs had a weighted-average life of approximately 4.1 years and 4.2 years, respectively. See Note 12, Fair Value Measurements for additional information regarding the valuation of MSRs.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth information regarding cash flows relating to loan sales in which the Company has continuing involvement:

	Nine Months Ended September 30, 2012	2011
	(In millions)	
Proceeds from new loan sales or securitizations	$ 25,895	$ 26,984
Servicing fees from capitalized portfolio(1)	329	327
Other cash flows on retained interests (2)	5	
Purchases of delinquent or foreclosed loans (3)	(70)	(32)
Servicing advances (4)	(975)	(1,296)
Repayment of servicing advances	942	1,253

(1) Excludes late fees and other ancillary servicing revenue.

(2) Represents cash flows received on retained interests other than servicing fees.

(3) Excludes indemnification payments to investors and insurers of the related mortgage loans.

(4) As of September 30, 2012 and December 31, 2011, outstanding servicing advance receivables of $278 million and $247 million, respectively, were included in Accounts receivable, net.

During the three and nine months ended September 30, 2012, pre-tax gains of $263 million and $689 million, respectively, related to the sale or securitization of residential mortgage loans were recognized in Gain on mortgage loans, net in the Condensed Consolidated Statements of Operations.

During the three and nine months ended September 30, 2011, pre-tax gains of $123 million and $441 million, respectively, related to the sale or securitization of residential mortgage loans were recognized in Gain on mortgage loans, net in the Condensed Consolidated Statements of Operations.

5. Derivatives

Derivative instruments and the risks they manage are as follows:

- **Forward delivery commitments** Related to interest rate and price risk for Mortgage loans held for sale and interest rate lock commitments
- **Option contracts** Related to interest rate and price risk for interest rate lock commitments
- **MSR-related agreements** Related to interest rate risk for mortgage servicing rights
- **Interest rate contracts** Related to interest rate risk for variable-rate debt arrangements and fixed-rate leases
- **Convertible note-related agreements** Related to the issuance of the Convertible notes due in 2014
- **Foreign exchange contracts** Related to exposure to currency fluctuations that would impact our investment in, or borrowings related to, our Canadian operations

Derivative instruments are recorded in Other assets and Other liabilities in the Condensed Consolidated Balance Sheets. The Company does not have any derivative instruments designated as hedging instruments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the balances of outstanding derivative instruments on a gross basis and the application of counterparty and collateral netting:

	September 30, 2012			December 31, 2011		
	Asset	Liability	Notional	Asset	Liability	Notional
	(In millions)					
Interest rate lock commitments	$ 221	$	$ 5,713	$ 184	$	$ 7,095
Forward delivery commitments: (1)						
Not subject to master netting arrangements	5	25	2,795	6	27	3,897
Subject to master netting arrangements(2)	35	116	10,879	32	100	11,893
Option contracts:						
Not subject to master netting arrangements	1		715	1		715
Subject to master netting arrangements			250	1		130
MSR-related agreements:						
Subject to master netting arrangements(2)	27		3,915	6		1,100
Interest rate contracts	1		697	1	1	477
Convertible note-related agreements(3)	22	22		4	4	
Total, gross	312	163		235	132	
Netting adjustments:						
Offsetting receivables/payables	(116)	(116)		(32)	(32)	
Cash collateral paid/received	69	2		(6)	(54)	
Total, net	$ 265	$ 49		$ 197	$ 46	

(1) The net notional amount of Forward delivery commitments was $5.4 billion and $8.3 billion as of September 30, 2012 and December 31, 2011, respectively.

(2) Represents derivative instruments that are executed with the same counterparties and subject to master netting arrangements. Amounts subject to netting shown above were presented in the Condensed Consolidated Balance Sheets as follows:

	September 30, 2012		December 31, 2011	
	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
	(In millions)			
Forward delivery commitments:				
Other assets	$ 22	$ 83	$	$
Other liabilities	13	33	32	100
Option contracts:				
Other assets			1	
MSR-related agreements:				
Other assets	7		6	
Other liabilities	20			

(3) The notional amount of derivative instruments related to the issuance of the 2014 Convertible notes was 9.6881 million shares of the Company s Common stock as of September 30, 2012 and December 31, 2011.

As of September 30, 2012 and December 31, 2011, cash collateral posted for derivative agreements that did not qualify for net presentation was $7 million and $13 million, respectively, which was included in Other assets in the Condensed Consolidated Balance Sheets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the gains (losses) recorded in the Condensed Consolidated Statements of Operations for derivative instruments:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(In millions)			
Gain on mortgage loans, net:				
Interest rate lock commitments	$ 425	$ 509	$ 1,185	$ 942
Forward delivery commitments	(152)	(247)	(305)	(337)
Options contracts	(4)	(7)	(14)	(14)
Net derivative gain related to mortgage servicing rights:				
MSR-related agreements	8	1	5	1
Fleet interest expense:				
Interest rate contracts		(2)	(1)	(3)
Foreign exchange contracts	(2)	(1)	(1)	(6)

6. Vehicle Leasing Activities

The following table summarizes the components of Net investment in fleet leases:

	September 30, 2012	December 31, 2011
	(In millions)	
Operating Leases:		
Vehicles under open-end operating leases	$ 8,099	$ 8,058
Vehicles under closed-end operating leases	156	176
Vehicles under operating leases	8,255	8,234
Less: Accumulated depreciation	(4,869)	(5,097)
Net investment in operating leases	3,386	3,137
Direct Financing Leases:		
Lease payments receivable	112	81
Less: Unearned income	(1)	(1)
Net investment in direct financing leases	111	80
Off-Lease Vehicles:		
Vehicles not yet subject to a lease	150	290
Vehicles held for sale	11	16
Less: Accumulated depreciation	(5)	(8)
Net investment in off-lease vehicles	156	298
Total	$ 3,653	$ 3,515

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Debt and Borrowing Arrangements

The following table summarizes the components of Debt:

	September 30, 2012		December 31, 2011	
	Balance	Wt. Avg- Interest Rate(1)	Balance	Wt. Avg- Interest Rate(1)
	(In millions)			
Term notes, in amortization	$ 529	2.1%	$ 1,196	2.1%
Term notes, in revolving period	993	1.2%	374	1.6%
Variable-funding notes	1,849	1.4%	1,516	1.4%
Other	26	5.1%	32	5.1%
Vehicle Management Asset-Backed Debt	3,397		3,118	
Secured Canadian Credit facility		%		%
Committed warehouse facilities	1,701	2.1%	2,313	2.0%
Uncommitted warehouse facilities		%	44	1.2%
Servicing advance facility	71	2.7%	79	2.8%
Mortgage Asset-Backed Debt	1,772		2,436	
Term notes	732	8.5%	879	8.2%
Convertible notes	417	5.0%	460	4.0%
Unsecured Credit facilities		%		%
Unsecured Debt	1,149		1,339	
Mortgage loan securitization debt certificates, at fair value		%	21	7.0%
Total	$ 6,318		$ 6,914	

(1) Represents the weighted-average stated interest rate of outstanding debt as of the respective date, which may be different from the effective rate due to the amortization of premiums, discounts and issuance costs. Facilities are variable-rate, except for the Unsecured Term notes, Convertible notes, and Mortgage loan securitization debt certificates which are fixed-rate.

Assets held as collateral for asset-backed borrowing arrangements that are not available to pay the Company s general obligations as of September 30, 2012 consisted of:

	Vehicle Asset-Backed Debt	Mortgage Asset-Backed Debt
	(In millions)	
Restricted cash and cash equivalents	$ 233	$ 5
Accounts receivable	65	88
Mortgage loans held for sale (unpaid principal balance)		1,755

Net investment in fleet leases		3,573		
Total	$	3,871	$	1,848

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the contractual debt maturities as of September 30, 2012:

	Vehicle Asset-Backed Debt(1)	Mortgage Asset-Backed Debt	Unsecured Debt(2)	Total
		(In millions)		
Within one year	$ 764	$ 1,772	$	$ 2,536
Between one and two years	1,057		250	1,307
Between two and three years	878			878
Between three and four years	525		450	975
Between four and five years	161		250	411
Thereafter	14		283	297
	$ 3,399	$ 1,772	$ 1,233	$ 6,404

(1) Maturities of vehicle management asset-backed notes, a portion of which are amortizing in accordance with their terms, represent estimated payments based on the expected cash inflows related to the securitized vehicle leases and related assets.

(2) Maturities of convertible notes have been reflected based on the contractual maturity date. Under certain circumstances, the convertible notes may be converted prior to the earliest conversion date and the principal portion of the notes would be due in cash prior to the contractual maturity date.

Capacity under all borrowing agreements is dependent upon maintaining compliance with, or obtaining waivers of, the terms, conditions and covenants of the respective agreements. Available capacity under asset-backed funding arrangements may be further limited by asset eligibility requirements. Available capacity under committed borrowing arrangements as of September 30, 2012 consisted of:

	Capacity	Utilized Capacity	Available Capacity
		(In millions)	
Vehicle Management Asset-Backed Debt:			
Term notes, in revolving period	$ 993	$ 993	$
Variable-funding notes	2,330	1,849	481
Secured Canadian Credit facility(1)	127	4	123
Mortgage Asset-Backed Debt:			
Committed warehouse facilities	3,545	1,701	1,844
Servicing advance facility	120	71	49
Unsecured Credit facilities	305		305

(1) Utilized capacity reflects $4 million of letters of credit issued under the Secured Canadian Credit facility, which are not included in Debt in the Condensed Consolidated Balance Sheet.

Capacity for Mortgage asset-backed debt shown above excludes $2.0 billion not drawn under uncommitted facilities. See Note 12, Fair Value Measurements for the measurement of the fair value of Debt.

VEHICLE MANAGEMENT ASSET-BACKED DEBT

Term Notes

In the third quarter 2012, Chesapeake Funding LLC (Chesapeake) fully repaid the 2009-1 and 2009-4 Term notes using the available capacity of the variable-funding notes.

On May 17, 2012, Chesapeake issued $643 million of Series 2012-1 Term notes. Proceeds from the notes were used to pay down a portion of the Series 2010-1 Notes and Series 2011-1 Notes.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Variable-funding Notes

On August 31, 2012, the Fleet Leasing Receivables Trust (FLRT) 2010-2 Series was further amended to increase capacity to $830 million (C$816 million) and extend the maturity date to August 30, 2013.

On June 27, 2012, Chesapeake fully repaid its 2010-1 and 2011-1 Class B Notes and amended its Series 2010-1 Indenture Supplement and Series 2011-1 Indenture Supplement to, among other things, extend the revolving period of the 2010-1 and 2011-1 Variable-funding notes to June 26, 2013 and June 26, 2014, respectively. Upon expiration of the revolving periods, the 2010-1 and 2011-1 Variable-funding notes amortization period will commence.

SECURED CANADIAN CREDIT FACILITY

On September 25, 2012, PHH Vehicle Management Services Inc. (PHH VMS Canada), an indirect wholly-owned subsidiary, entered into a secured revolving credit facility with a group of lenders providing up to $127 million (C$125 million) of committed revolving capacity. Borrowings under the facility bear interest at a variable-rate, and the facility fee and interest rate margin is dependent on the Company s senior unsecured long-term debt ratings issued by certain credit rating agencies. The facility is scheduled to expire on August 2, 2015.

Among other things, this facility can be used to warehouse vehicle leases, vehicles not yet subject to lease and certain account receivables. PHH VMS Canada s obligations under the facility are guaranteed by PHH Corporation and are secured by a first-priority lien on all of PHH VMS Canada s present and future assets and property (and corresponding security in any jurisdiction), subject to exceptions for client self-funded leases and related vehicles, and the assets of certain excluded subsidiaries.

MORTGAGE ASSET-BACKED DEBT

Committed Facilities

During the nine months ended September 30, 2012, the committed variable-rate mortgage repurchase facilities with Credit Suisse First Boston Mortgage Capital LLC were extended to May 22, 2013, the committed variable-rate mortgage repurchase facility with The Royal Bank of Scotland plc was extended to June 21, 2013 and the committed variable-rate mortgage repurchase facility with Bank of America was extended to October 10, 2013.

On April 27, 2012, the Company s master agreement with Fannie Mae was renewed and certain other agreements with Fannie Mae were amended, including an amendment to the $1.0 billion committed early funding letter agreement. Pursuant to the committed early funding letter amendment, the termination event related to the Company s credit ratings was removed and other termination events were added, most of which are generally consistent with existing covenants under the Company s various other debt facilities. See the Debt Covenants section below for further information. Unless earlier terminated, the committed early funding agreement expires on December 15, 2012.

Servicing Advance Facility

On June 29, 2012, the committed facility with Fannie Mae that provides for the early reimbursement of certain servicing advances made on behalf of Fannie Mae was extended to June 30, 2013.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNSECURED DEBT

Term Notes

On August 23, 2012, the Company completed an offering of $275 million aggregate principal amount of 7.375% Senior Notes due 2019 under an existing indenture, dated as of January 17, 2012 with The Bank of New York Mellon Trust Company, N.A., as trustee. The Company realized net proceeds of $270 million from the issuance after deducting underwriting fees. The notes are senior unsecured and unsubordinated obligations of the Company and rank equally with all existing and future senior unsecured debt. The notes are redeemable by the Company prior to the maturity date at any time, based on a make-whole redemption price specified in the indenture. The Company used the net proceeds of this offering, along with cash on hand, to repurchase the outstanding aggregate principal amount of the Medium-term notes due 2013, as described below. Interest on the notes is payable semiannually in arrears on March 1 and September 1 of each year, beginning on March 1, 2013. The 2019 Notes will mature on September 1, 2019, unless previously redeemed in accordance with their terms.

During the nine months ended September 30, 2012, the Company paid the outstanding principal balance of the Medium-term notes due 2013 and recorded a pre-tax loss of $13 million in Other operating expenses in the Condensed Consolidated Statements of Operations.

Credit Facilities

On August 2, 2012, the Company amended and restated the existing unsecured Amended Credit Facility with an Amended and Restated Credit Agreement among PHH, a group of lenders and JPMorgan Chase Bank, N.A., as administrative agent (the Revolving Credit Facility). As a result of the amendment, the commitments of the facility were reduced from $525 million (scheduled to expire on February 29, 2013) to $300 million of aggregate commitments (scheduled to expire between July 1, 2014 and August 2, 2015), as discussed further below.

The Revolving Credit Facility consists of two tranches: (i) a $250 million revolving credit tranche (Tranche A) that is scheduled to expire on August 2, 2015 and (ii) a $50 million revolving credit tranche (Tranche B) that is scheduled to expire on July 1, 2014. No borrowing may be made under Tranche B if there is unused availability under Tranche A. Borrowings under the Revolving Credit Facility are subject to satisfaction of certain conditions, including compliance with a borrowing base coverage ratio test of unencumbered assets to unsecured debt of at least 1.2 to 1.

The Company s obligations under Tranche A are guaranteed by each of its direct, indirect, existing and future domestic subsidiaries, subject to exceptions for (i) securitization subsidiaries, (ii) subsidiaries which are not substantially wholly-owned by the Company and (iii) certain other subsidiaries. The Company s obligations under Tranche B are not guaranteed by any of its existing subsidiaries.

The Revolving Credit Facility is variable-rate and the facility fee and interest rate margin under the facility are subject to change if the Company s senior unsecured long-term debt ratings are changed by certain credit rating agencies.

Convertible Notes

As of September 30, 2012, Convertible notes included: (i) $250 million of 4.0% Convertible senior notes with a maturity date of September 1, 2014; and (ii) $250 million of 6.0% Convertible senior notes with a maturity date of June 15, 2017.

2012 CONVERTIBLE NOTES

During the nine months ended September 30, 2012, the Company paid the outstanding principal balance of the Convertible notes due 2012.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2014 CONVERTIBLE NOTES

As of September 30, 2012 and December 31, 2011, the carrying amount of the Convertible notes due 2014 is net of an unamortized discount of $27 million and $40 million, respectively. The effective interest rate of the notes, which includes the accretion of the discount and issuance costs, is 13.0%. There have been no conversions of the notes since issuance.

2017 CONVERTIBLE NOTES

In January 2012, the Company completed an offering of $250 million in aggregate principal amount of 6.0% Convertible Senior Notes due 2017, governed by an indenture dated January 17, 2012 with The Bank of New York Mellon Trust Company, N.A., as trustee. After deducting the 3% underwriting discount and debt issue costs, the Company realized net proceeds of $243 million from the issuance. The notes are senior unsecured obligations of the Company and rank equally with all existing and future senior unsecured debt and are senior to all of the Company s existing and future subordinated debt. The notes are not redeemable by the Company prior to the maturity date. The Company used the net proceeds from this offering to repay the outstanding aggregate principal amount of the Convertible notes due 2012.

Interest on the notes is payable semiannually in arrears on June 15 and December 15 of each year, beginning June 15, 2012. The notes mature on June 15, 2017, unless previously repurchased or converted in accordance with their terms.

In accordance with GAAP, the liability and equity components of the Convertible notes due 2017 were separately accounted for based on estimates of the Company s non-convertible debt borrowing rate at the time of issuance. Accordingly, the liability component includes an original issue discount of $63 million, including the underwriting discount, and the value of the equity component is recorded separately. Additionally, the Company incurred $1 million of debt issue costs, which were allocated to the liability and equity components based on their relative fair values. At the time of issuance, the Company determined that the conversion option related to the notes was indexed to the Company s own stock and met all of the criteria for equity classification. Accordingly, the initial valuation of the liability component was $188 million recorded within Debt, and the initial valuation of the equity component was $33 million, net of $22 million of deferred taxes, recorded within Additional paid-in capital in the Condensed Consolidated Balance Sheets. Since the conversion option met all of the criteria for equity classification, there have been no changes in value recorded from the date of issuance.

The debt discount and issuance costs allocated to the liability are being accreted to Mortgage interest expense in the Condensed Consolidated Statements of Operations through the earliest conversion date of the notes, December 16, 2016. As of September 30, 2012, the carrying amount of the Convertible notes due 2017 is net of an unamortized discount of $56 million. The effective interest rate of the Convertible notes due 2017, which includes the cost of amortization of the discount and issuance costs, is 13.0%.

Conversion Features:

Holders of the Convertible notes due 2017 may convert all or any portion of the notes, at their option, prior to December 15, 2016 only upon the occurrence of certain triggering events related to (i) the price of the notes, (ii) the price of the Company s Common stock, or (iii) upon the occurrence of specified corporate events. Holders of the Convertible notes due 2017 may also convert all or any portion of the notes at any time, at their option from, and including, December 15, 2016 through the third scheduled trading day immediately preceding the maturity date.

Conversion Based on Note Price

Prior to the close of business on the scheduled trading day immediately preceding December 15, 2016, the notes may be converted during the five business day period after any five consecutive trading day period (the Measurement Period) in which the trading price per $1,000 in principal amount of the notes for each day of the Measurement Period was less than 98% of the product of the last reported sale price of the Company s Common stock and the applicable conversion rate for the notes of such date.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Conversion Based on Stock Price

Prior to the close of business on the scheduled trading day immediately preceding December 15, 2016, the notes may be converted during any calendar quarter after the calendar quarter ending March 31, 2012 and only during such calendar quarter, if the last reported sale price of the Company s Common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect for the notes on each such trading day.

The conversion price of the Convertible notes due 2017 is $12.79 per share (based on an initial conversion rate of 78.2014 shares per $1,000 principal amount of notes). Upon conversion, the principal amount of the converted notes is payable in cash and the Company will pay or deliver (at its election): (i) cash; (ii) shares of the Company s Common stock; or (iii) a combination of cash and shares of the Company s Common stock; to settle amounts due if the conversion value exceeds the principal of the converted notes. As of September 30, 2012, the if-converted value exceeded the principal amount of the notes by $148 million, and the notes met the requirements for conversion.

Subject to certain exceptions, the holders of the Convertible notes due 2017 may require the Company to repurchase all or a portion of their notes upon a fundamental change, as defined under the indenture. The Company will generally be required to increase the conversion rate for holders that elect to convert their notes in connection with a make-whole fundamental change, as defined under the indenture. The conversion rate and the conversion price will be subject to adjustment upon the occurrence of certain events as specified in the indenture; however, in no circumstance will the conversion rate exceed 97.7517 shares per $1,000 in principal amount of notes, subject to certain anti-dilution adjustments.

DEBT COVENANTS

Certain debt arrangements require the maintenance of certain financial ratios and contain other affirmative and negative covenants, termination events, and other restrictions, including, but not limited to, covenants relating to material adverse changes, liquidity maintenance, restrictions on indebtedness of the Company and its material subsidiaries, mergers, liens, liquidations, sale and leaseback transactions, and restrictions on certain types of payments, including dividends and stock repurchases. Certain other debt arrangements, including the Fannie Mae committed facility, contain provisions that permit the Company or our counterparty to terminate the arrangement upon the occurrence of certain events, including those described below.

During the three months ended September 30, 2012, the covenants of the Revolving Credit Facility were amended to require the Company to maintain: (i) on the last day of each fiscal quarter, net worth of at least $1.0 billion; (ii) at any time prior to October 1, 2013, a ratio of indebtedness to tangible net worth no greater than 6.0 to 1 and, thereafter, no greater than 5.75 to 1; (iii) a minimum of $1.0 billion in committed mortgage warehouse financing capacity excluding uncommitted mortgage warehouse facilities provided by the GSEs and certain mortgage gestation facilities; (iv) a minimum of $750 million in committed third party fleet vehicle lease financing capacity; and (v) certain minimum liquidity requirements as of October 31, 2012, and May 2, 2014.

There were no other significant amendments to the terms of debt covenants during 2012. As of September 30, 2012, the Company was in compliance with all financial covenants related to its debt arrangements.

During the nine months ended September 30, 2012, the termination events for the Fannie Mae committed facility were amended to require the Company to maintain (i) on the last day of each fiscal quarter, consolidated net worth of at least $1.0 billion; (ii) on the last day of each fiscal quarter, a ratio of indebtedness to tangible net worth no greater than 6.5 to 1; (iii) a minimum of $1.0 billion in committed mortgage warehouse or gestation facilities, with no more than $500 million of gestation facilities included towards the minimum, but excluding committed or uncommitted loan purchase arrangements or other funding arrangements from Fannie Mae and any mortgage warehouse capacity provided by government sponsored enterprises; and (iv) compliance with certain loan repurchase trigger event criteria related to the aging of outstanding loan repurchase demands by Fannie Mae.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under certain of the Company s financing, servicing, hedging and related agreements and instruments, the lenders or trustees have the right to notify the Company if they believe it has breached a covenant under the operative documents and may declare an event of default. If one or more notices of default were to be given, the Company believes it would have various periods in which to cure certain of such events of default. If the Company does not cure the events of default or obtain necessary waivers within the required time periods, the maturity of certain debt agreements could be accelerated and the ability to incur additional indebtedness could be restricted. In addition, an event of default or acceleration under certain agreements and instruments would trigger cross-default provisions under certain of the Company s other agreements and instruments.

8. Income Taxes

Interim income tax expense or benefit is recorded by applying a projected full-year effective income tax rate to the quarterly Income before income taxes for results that are deemed to be reliably estimable. Certain results dependent on fair value adjustments of the Mortgage Production and Mortgage Servicing segments are considered not to be reliably estimable and therefore discrete year-to-date income tax provisions are recorded on those results.

The following table and discussion summarizes items that significantly impacted Income tax benefit and increased (decreased) the effective tax rate:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(In millions)			
State and local income taxes, net of federal tax benefits	$ (4)	$ (15)	$ (3)	$ (14)
Liabilities for income tax contingencies	1		1	(8)
Changes in rate and apportionment factors			(6)	
Changes in valuation allowance	(1)		(1)	6
Noncontrolling interest	(8)	(3)	(17)	(6)

State and local income taxes, net of federal tax benefits. The impact to the effective tax rate from state and local income taxes primarily represents the volatility in the pre-tax income or loss, as well as the mix of income and loss from the operations by entity and state income tax jurisdiction. The effective state tax rate was lower for the nine months ended September 30, 2012 as compared to 2011.

Liabilities for income tax contingencies. The impact to the effective tax rate from changes in the liabilities for income tax contingencies primarily represents decreases in liabilities associated with the resolution and settlement with various taxing authorities, and increases in liabilities associated with new uncertain tax positions taken during the period. During the nine months ended September 30, 2011, the IRS concluded its examination and review of the Company s taxable years 2006 through 2009.

Changes in rate and apportionment factors. Represents the impact to the effective tax rate on deferred tax items for changes in apportionment factors and tax rate. For the nine months ended September 30, 2012, the amount represents the impact of applying statutory changes to apportionment weight, apportionment sourcing and corporate income tax rates that were enacted by various states, primarily New Jersey.

Changes in valuation allowance. The impact to the effective tax rate from changes in valuation allowance primarily represents state loss carryforwards generated during the year for which the Company believes it is more likely than not that the amounts will not be realized. For the nine months ended September 30, 2011, the change was primarily driven by state tax losses generated by our mortgage business.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Noncontrolling interest. The impact to the effective tax rate from noncontrolling interest represents Realogy Corporation s portion of income taxes related to the income or loss attributable to PHH Home Loans. The impact primarily represents the impact of PHH Home Loans election to report as a partnership for federal and state income tax purposes, whereby, the tax expense is reported by the individual LLC members. Accordingly, the Company s Income tax expense includes only its proportionate share of the income tax related to the income or loss generated by PHH Home Loans.

9. Credit Risk

The Company is subject to the following forms of credit risk:

- **Consumer credit risk** through mortgage banking activities as a result of originating and servicing residential mortgage loans

- **Commercial credit risk** through fleet management and leasing activities

- **Counterparty credit risk** through derivative transactions, sales agreements and various mortgage loan origination and servicing agreements

Consumer Credit Risk

The Company is not subject to the majority of the risks inherent in maintaining a mortgage loan portfolio because loans are not held for investment purposes and are generally sold to investors within 30 days of origination. The majority of mortgage loan sales are on a non-recourse basis; however, the Company has exposure in certain circumstances in its capacity as a loan originator and servicer to loan repurchases and indemnifications through representation and warranty provisions. Additionally, the Company has exposure through a reinsurance agreement that is inactive and in runoff.

The following tables summarize certain information regarding the total loan servicing portfolio, which includes loans associated with the capitalized Mortgage servicing rights as well as loans subserviced for others:

	September 30, 2012	December 31, 2011

	(In millions)			
Loan Servicing Portfolio Composition				
Owned	$	147,477	$	150,315
Subserviced		37,666		32,072
Total	$	185,143	$	182,387
Conventional loans	$	149,948	$	145,885
Government loans		30,616		29,903
Home equity lines of credit		4,579		6,599
Total	$	185,143	$	182,387
Weighted-average interest rate		4.4%		4.6%

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	September 30, 2012		December 31, 2011	
	Number of Loans	Unpaid Balance	Number of Loans	Unpaid Balance
Portfolio Delinquency(1)				
30 days	2.40%	1.91%	2.24%	1.83%
60 days	0.59%	0.47%	0.60%	0.51%
90 or more days	0.76%	0.66%	0.98%	0.95%
Total	3.75%	3.04%	3.82%	3.29%
Foreclosure/real estate owned(2)	1.99%	1.91%	1.83%	1.85%

(1) Represents portfolio delinquencies as a percentage of the total number of loans and the total unpaid balance of the portfolio.

(2) As of September 30, 2012 and December 31, 2011, there were 17,141 and 15,689 of loans in foreclosure with an unpaid principal balance of $3.0 billion and $2.8 billion, respectively.

Foreclosure-Related Reserves

Representations and warranties are provided to purchasers and insurers on a significant portion of loans sold and are assumed on purchased mortgage servicing rights. In the event of a breach of these representations and warranties, the Company may be required to repurchase a mortgage loan or indemnify the purchaser, and any loss on the mortgage loan may be borne by the Company. If there is no breach of a representation and warranty provision, there is no obligation to repurchase the loan or indemnify the investor against loss. In limited circumstances, the full risk of loss on loans sold is retained to the extent the liquidation of the underlying collateral is insufficient. In some instances where the Company has purchased loans from third parties, it may have the ability to recover the loss from the third party. Foreclosure-related reserves are maintained for probable losses related to repurchase and indemnification obligations and on-balance sheet loans in foreclosure and real estate owned.

A summary of the activity in foreclosure-related reserves is as follows:

	Nine Months Ended September 30,	
	2012	2011
	(In millions)	
Balance, beginning of period	$ 127	$ 111
Realized foreclosure losses	(109)	(62)
Increase in reserves due to:		
Changes in assumptions	145	59
New loan sales	13	12
Balance, end of period	$ 176	$ 120

Foreclosure-related reserves consist of the following:

Loan Repurchases and Indemnifications

The maximum exposure to representation and warranty provisions exceeds the amount of loans in the capitalized portfolio of $144.8 billion; however, the maximum amount of losses cannot be estimated because the Company does not service all of the loans for which it has provided representations or warranties. As of September 30, 2012, approximately $193 million of loans have been identified in which the Company has full risk of loss or has identified a breach of representation and warranty provisions; 12% of which were at least 90 days delinquent (calculated based upon the unpaid principal balance of the loans).

As of September 30, 2012 and December 31, 2011, liabilities for probable losses related to repurchase and indemnification obligations of $137 million and $95 million, respectively, are included in Other liabilities in the Condensed Consolidated Balance Sheets. The liability for loan repurchases and indemnifications represents management s estimate of probable losses based on the best information available and requires the application of a significant level of judgment and the use of a number of assumptions. These assumptions include the estimated amount and timing of repurchase and indemnification requests, the expected success rate in defending against

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requests, and estimated loss severities on repurchases and indemnifications. The liability for loan repurchases and indemnifications does not reflect losses from litigation or governmental and regulatory examinations, investigations or inquiries. While the Company uses the best information available in estimating the liability, our actual experience can vary significantly from the assumptions as the estimation process is inherently uncertain. Given the increased levels of repurchase requests and realized losses in recent periods, there is a reasonable possibility that future losses may be in excess of the recorded liability.

As of September 30, 2012, the estimated amount of reasonably possible losses in excess of the recorded liability was $70 million. This estimate assumes that repurchase and indemnification requests remain at an elevated level through the year ended December 31, 2013, the success rate in defending against requests declines and loss severities remain at current levels. The Company s estimate of reasonably possible losses does not represent probable losses and is based upon significant judgments and assumptions which can be influenced by many factors, including: (i) home prices and the levels of home equity; (ii) the criteria used by investors in selecting loans to request; (iii) borrower delinquency patterns; and (iv) general economic conditions.

Mortgage Loans in Foreclosure and Real Estate Owned

The carrying values of the mortgage loans in foreclosure and real estate owned were recorded within Other assets in the Condensed Consolidated Balance Sheets as follows:

	September 30, 2012		December 31, 2011	
	(In millions)			
Mortgage loans in foreclosure(1)	$	138	$	112
Allowance for probable losses		(23)		(19)
Mortgage loans in foreclosure, net	$	115	$	93
Real estate owned	$	62	$	51
Adjustment to estimated net realizable value		(16)		(13)
Real estate owned, net	$	46	$	38

(1) Includes $64 million and $62 million of recoverable advances as of September 30, 2012 and December 31, 2011, respectively.

Mortgage Reinsurance

In 2012, the Company terminated one of its inactive reinsurance contracts. The termination of the agreement settled the liability and exposure to loss under that contract and, as a result, $37 million of the related restricted cash and investments held in trust to pay future losses were distributed to the primary mortgage insurer and $24 million of previously restricted cash was released and distributed to the Company as unrestricted cash. During the nine months ended September 30, 2012, the termination resulted in a pre-tax loss of $16 million which was recorded in Loan servicing income in the Condensed Consolidated Statements of Operations.

As of September 30, 2012, the Company has remaining exposure to consumer credit risk through losses from one contract with a primary mortgage insurance company that is inactive and in runoff. The exposure to losses through this reinsurance contract is based on mortgage loans pooled by year of origination.

The contractual reinsurance period for each pool was 10 years and the weighted-average reinsurance period was 3 years as of September 30, 2012. Loss rates on these pools are determined based on the unpaid principal balance of the underlying loans. The Company indemnifies the primary mortgage insurer for losses that fall between a stated minimum and maximum loss rate on each annual pool. In return for absorbing this loss exposure, the Company is contractually entitled to a portion of the insurance premium from the primary mortgage insurer.

The Company is required to hold cash and securities in trust related to this potential obligation, which was $126 million, included in Restricted cash, cash equivalents and investments in the Condensed Consolidated Balance

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Sheets as of September 30, 2012. The amount of cash and securities held in trust is contractually specified in the reinsurance agreement and is based on the original risk assumed under the contract and the incurred losses to date.

As of September 30, 2012, $40 million was included in Other liabilities in the Condensed Consolidated Balance Sheets for incurred and incurred but not reported losses associated with mortgage reinsurance activities (estimated on an undiscounted basis), which includes $5 million of known unpaid reinsurance losses outstanding.

A summary of the activity in reinsurance-related reserves is as follows:

	Nine Months Ended September 30,	
	2012	2011
	(In millions)	
Balance, beginning of period	$ 84	$ 113
Realized reinsurance losses(1)	(57)	(49)
Increase in liability for reinsurance losses	13	30
Balance, end of period	$ 40	$ 94

(1) Realized reinsurance losses for the nine months ended September 30, 2012 includes $21 million related to the release of reserves associated with the termination of an inactive reinsurance agreement.

Commercial Credit Risk

Vehicle leases are primarily classified as operating leases; however, certain leases are classified as direct financing leases and recorded within Net investment in fleet leases in the Condensed Consolidated Balance Sheets. As of September 30, 2012 and December 31, 2011, both direct financing leases greater than 90 days past due and direct financing leases greater than 90 days past due that are still accruing interest were $3 million and $16 million, respectively. As of September 30, 2012 and December 31, 2011, there were no allowances for credit losses related to direct financing leases.

10. Commitments and Contingencies

LEGAL CONTINGENCIES

The Company and its subsidiaries are defendants in various legal proceedings, which include private and civil litigation as well as government and regulatory examinations, investigations and inquiries or other requests for information. These matters are at varying procedural stages and primarily relate to contractual disputes and other commercial, employment and tax claims. The resolution of these various matters may result in adverse judgments, fines, penalties, injunctions and other relief against the Company as well as monetary payments or other agreements and obligations. Alternately, the Company may engage in settlement discussions on certain matters in order to avoid the additional costs of engaging in litigation.

Reserves are established for pending or threatened litigation, claims or assessments when it is probable that a loss has been incurred and the amount of such loss can be reasonably estimated. In light of the inherent uncertainties involved in litigation and other legal proceedings, it is not always possible to determine a reasonable estimate of the amount of a probable loss, and the Company may estimate a range of possible loss for consideration in its estimates. The estimates are based upon currently available information and involve significant judgment taking into account the varying stages and inherent uncertainties of such matters. Accordingly, the Company s estimates may change from time to time and such changes may be material to the consolidated financial results. Given the inherent uncertainties and status of the Company s outstanding legal proceedings, the range of reasonably possible loss cannot be estimated for all matters. For matters where the Company can estimate the range of losses, the aggregate estimated amount of reasonably possible losses in excess of the recorded liability was $20 million as of September 30, 2012.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2012, the Company s recorded reserves associated with legal and regulatory contingencies were not material. There can be no assurance; however, that the ultimate resolution of the Company s pending or threatened litigation, claims or assessments will not result in losses in excess of the Company s recorded reserves. As a result, the ultimate resolution of any particular legal matter, or matters, could be material to the Company s results of operations or cash flows for the period in which such matter is resolved.

The following are descriptions of the Company s significant legal and regulatory matters, which may involve loss contingencies.

Contingencies Involving Mortgage Origination and Servicing Practices

The Company has received inquiries and requests for information from regulators and attorneys general of certain states as well as from the Committee on Oversight and Government Reform of the U.S. House of Representatives and the U.S. Senate Judiciary Committee, requesting information as to the Company s mortgage origination and servicing practices, including its foreclosure processes and procedures. Specifically, the New Jersey Attorney General has conducted an investigation of the Company s servicing practices and has informed the Company that it believes that the Company has violated the New Jersey Consumer Fraud Act in connection with customer service and other matters related to loss mitigation activities for certain borrowers in the wake of the financial crisis. The Company has also undergone a regulatory examination by a multistate coalition of certain mortgage banking regulators and such regulators have alleged various violations of federal and state laws related to the Company s mortgage servicing practices prior to July 2011. The Company believes it has meritorious defenses to these various allegations. However, there can be no assurance that claims or litigation will not arise from these inquiries or similar inquiries by other governmental authorities or that fines or penalties will not be assessed against the Company in connection with these matters.

In addition to the increased regulatory focus on origination and servicing practices described above, Fannie Mae and Freddie Mac have also had a continued focus on foreclosure practices. They have assessed compensatory fees against the Company for failing to meet certain foreclosure timelines specified in their respective servicing guides. Although such compensatory fees have not been material to date, there can be no assurance that the assessment of any such compensatory fees will not be material to the Company s results in the future.

CFPB Investigation

In January 2012, the Company was notified that the Bureau of Consumer Financial Protection (the CFPB) had opened an investigation to determine whether the Company s mortgage insurance premium ceding practices to captive reinsurers comply with the Real Estate Settlement Procedures Act and other laws enforced by the CFPB. The CFPB has requested certain related documents and information for review and has requested the answers to written questions pursuant to a Civil Investigative Demand (the CID). In June 2012, the Company filed a petition to modify or withdraw the CID and in September 2012 the CFPB denied the Company s petition. The Company has provided reinsurance services in exchange for premiums ceded and believes that it has complied with the Real Estate Settlement Procedures Act and other laws applicable to the Company s mortgage reinsurance activities. The Company did not provide reinsurance on loans originated after 2009.

11. Accumulated Other Comprehensive Income

The after-tax components of Accumulated other comprehensive income (loss) were as follows:

	September 30, 2012	December 31, 2011
	(In millions)	
Currency translation adjustment	$ 38	$ 31
Unrealized gains on available-for-sale securities, net of income taxes of $1 and $1	1	2
Pension adjustment, net of income tax benefit of $(7) and $(7)	(11)	(12)
Total	$ 28	$ 21

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All components of Accumulated other comprehensive income (loss) presented above are net of income taxes; however the currency translation adjustment presented above excludes income taxes on undistributed earnings of foreign subsidiaries, which are considered to be indefinitely invested.

There were no amounts of Accumulated other comprehensive income (loss) attributable to noncontrolling interests as of September 30, 2012 and December 31, 2011, or during the respective periods.

12. Fair Value Measurements

The Company updates the valuation of each instrument recorded at fair value on a quarterly basis, evaluating all available observable information which may include current market prices or bids, recent trade activity, changes in the levels of market activity and benchmarking of industry data. The assessment also includes consideration of identifying the valuation approach that would be used currently by market participants. If it is determined that a change in valuation technique or its application is appropriate, or if there are other changes in availability of observable data or market activity, the current methodology will be analyzed to determine if a transfer between levels of the valuation hierarchy is appropriate. Such reclassifications are reported as transfers into or out of a level as of the beginning of the quarter that the change occurs.

The incorporation of counterparty credit risk did not have a significant impact on the valuation of assets and liabilities recorded at fair value as of September 30, 2012 or December 31, 2011.

Recurring Fair Value Measurements

Discussion of the measurement of fair value for the assets and liabilities measured on a recurring basis follows:

Mortgage Loans Held for Sale. The Company elected to record Mortgage loans held for sale at fair value. This election is intended to both better reflect the underlying economics and eliminate the operational complexities of risk management activities related to MLHS and hedge accounting requirements.

The following table reflects the difference between the carrying amounts of Mortgage loans held for sale measured at fair value, and the aggregate unpaid principal amount that the Company is contractually entitled to receive at maturity:

	September 30, 2012		December 31, 2011	
	Total	Loans 90 days or more past due and on non-accrual status	Total	Loans 90 days or more past due and on non-accrual status
	(In millions)			
Mortgage loans held for sale:				
Carrying amount	$ 1,953	$ 15	$ 2,658	$ 23
Aggregate unpaid principal balance	1,906	22	2,592	34
Difference	$ 47	$ (7)	$ 66	$ (11)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the components of Mortgage loans held for sale:

	September 30, 2012	December 31, 2011
	(In millions)	
First mortgages:		
Conforming (1)	$ 1,765	$ 2,483
Non-conforming	117	109
Construction loans		4
Total first mortgages	1,882	2,596
Second lien	8	10
Scratch and Dent (2)	63	50
Other		2
Total	$ 1,953	$ 2,658

(1) Represents mortgage loans that conform to the standards of the government-sponsored entities.

(2) Represents mortgage loans with origination flaws or performance issues.

Derivative Instruments. The average pullthrough percentage used in measuring the fair value of Interest Rate Lock Commitments (IRLCs) was 73% and 74% as of September 30, 2012 and December 31, 2011, respectively. The pullthrough percentage is considered a significant unobservable input and represents an adjustment to the recorded value of the IRLCs to reflect the estimated percentage that will result in a closed mortgage loan under the original terms of the agreement. The estimate of pullthrough is modeled based on a historical analysis of loan closing and fallout data that considers current interest rates as well as changes in pullthrough resulting from fluctuations in interest rates and loan values. Actual loan pullthrough is compared to the modeled estimates in order to evaluate this assumption each period based on current trends. Generally, a change in interest rates is accompanied by a directionally opposite change in the assumption used for the pullthrough percentage, and the impact to fair value of a change in pullthrough would be partially offset by the related change in price.

Mortgage Servicing Rights. The fair value of Mortgage servicing rights (MSRs) is estimated based upon projections of expected future cash flows considering prepayment estimates (developed using a model described below), the Company s historical prepayment rates, portfolio characteristics, interest rates based on interest rate yield curves, implied volatility and other economic factors. On a quarterly basis, assumptions used in estimating fair value are validated against a number of third-party sources, which may include peer surveys, MSR broker surveys, third-party valuations and other market-based sources.

In the first quarter of 2012, the Company integrated an updated prepayment model used in the valuation of MSRs, which is more closely aligned with the actual prepayment speeds of the capitalized servicing portfolio. Additionally, the new model utilizes a combination of standard default curves and current delinquency levels to project future delinquencies and foreclosures, whereas the previous model assumed current delinquency and foreclosure rates would remain constant over the life of the asset. Based upon the results of our analysis of the modeled value and validation of our value and current assumptions against third-party sources, there was no change to the overall value of MSRs as a result of integrating the new prepayment model.

The significant assumptions used in estimating the fair value of MSRs were as follows (in annual rates):

	September 30, 2012	December 31, 2011
Weighted-average prepayment speed (CPR)	18%	18%
Option adjusted spread, in basis points	1,004	857
Weighted-average delinquency rate	7%	n/a

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the estimated change in the fair value of MSRs from adverse changes in the significant assumptions:

	September 30, 2012		
	Weighted-Average Prepayment Speed	Option Adjusted Spread (In millions)	Weighted-Average Delinquency Rate
Impact on fair value of 10% adverse change	$ (70)	$ (37)	$ (17)
Impact on fair value of 20% adverse change	(133)	(70)	(34)

These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, this analysis does not assume any impact resulting from management s intervention to mitigate these variations.

The effect of a variation in a particular assumption is calculated without changing any other assumption and the assumptions used in valuing the MSRs are independently aggregated. Although there are certain inter-relationships among the various key assumptions noted above, changes in one of the significant assumptions would not independently drive changes in the others. The prepayment speed assumptions are highly dependent upon interest rates, which drive borrowers propensity to refinance; however, there are other factors that can influence borrower refinance activity. These factors include housing prices, the levels of home equity, underwriting standards and loan product characteristics. The weighted average delinquency rate is based on the current and projected credit characteristics of the capitalized servicing portfolio and is dependent on economic conditions, home equity and delinquency and default patterns. The option adjusted spread is a measure of the risk in valuing the MSR, considering all other market-based assumptions.

Assets and liabilities measured at fair value on a recurring basis were included in the Condensed Consolidated Balance Sheets as follows:

	September 30, 2012				
	Level One	Level Two	Level Three (In millions)	Cash Collateral and Netting (1)	Total
ASSETS					
Restricted investments	$	$ 126	$	$	$ 126
Mortgage loans held for sale		1,941	12		1,953
Mortgage servicing rights			1,002		1,002
Other assets Derivative assets:					
Interest rate lock commitments			221		221
Forward delivery commitments		40		(21)	19
Option contracts		1			1
MSR-related agreements		27		(26)	1
Interest rate contracts		1			1
Convertible note-related agreements			22		22

LIABILITIES

Other liabilities Derivative liabilities:					
Forward delivery commitments	$	$ 141	$	$ (116)	$ 25
MSR-related agreements				2	2
Convertible note-related agreements			22		22

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2011				
	Level One	Level Two	Level Three (In millions)	Cash Collateral and Netting(1)	Total
ASSETS					
Restricted investments	$	$ 226	$	$	$ 226
Mortgage loans held for sale		2,641	17		2,658
Mortgage servicing rights			1,209		1,209
Other assets Derivative assets:					
Interest rate lock commitments			184		184
Forward delivery commitments		38		(32)	6
Option contracts		2			2
MSR-related agreements		6		(6)	
Interest rate contracts		1			1
Convertible note-related agreements			4		4
Securitized mortgage loans			28		28
LIABILITIES					
Debt:					
Mortgage loan securitization debt certificates	$	$	$ 21	$	$ 21
Other liabilities Derivative liabilities:					
Forward delivery commitments		127		(86)	41
Interest rate contracts		1			1
Convertible note-related agreements			4		4

(1) Represents adjustments to arrive at the carrying amount of assets and liabilities presented in the Condensed Consolidated Balance Sheets for the effect of netting the payable or receivable and cash collateral held or placed with the same counterparties under master netting arrangements.

Activity in assets and liabilities classified within Level Three of the valuation hierarchy consisted of:

	Three Months Ended September 30, 2012		
	Mortgage loans held for sale	Mortgage servicing rights (In millions)	Interest rate lock commitments, net
Balance, beginning of period	$ 12	$ 1,157	$ 179
Realized and unrealized gains (losses)	(1)	(225)	425
Purchases			
Issuances	2	70	
Settlements	(1)		(383)
Transfers into Level Three			
Transfers out of Level Three			
Balance, end of period	$ 12	$ 1,002	$ 221

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Nine Months Ended September 30, 2012					
	Mortgage loans held for sale	Mortgage servicing rights	Interest rate lock commitments, net	Investment securities	Securitized mortgage loans	Mortgage loan securitization debt certificates
	(In millions)					
Balance, beginning of period	$ 17	$ 1,209	$ 184	$	$ 28	$ 21
Realized and unrealized gains (losses)	(2)	(451)	1,185	(2)		
Purchases	2					
Issuances	3	244				
Settlements	(3)		(1,148)	(5)		
Transfers into Level Three						
Transfers out of Level Three	(5)					
Deconsolidation of entity(1)				7	(28)	(21)
Balance, end of period	$ 12	$ 1,002	$ 221	$	$	$

	Three Months Ended September 30, 2011				
	Mortgage loans held for sale	Mortgage servicing rights	Interest rate lock commitments, net	Securitized mortgage loans	Mortgage loan securitization debt certificates
	(In millions)				
Balance, beginning of period	$ 155	$ 1,508	$ 48	$ 34	$ 26
Realized and unrealized gains (losses) for assets	(1)	(410)	509	1	
Realized and unrealized losses for liabilities					1
Purchases	1				
Issuances		100			
Settlements	(2)		(382)	(3)	(2)
Transfers into Level Three	1				
Transfers out of Level Three	(134)				
Balance, end of period	$ 20	$ 1,198	$ 175	$ 32	$ 25

	Nine Months Ended September 30, 2011				
	Mortgage loans held for sale	Mortgage servicing rights	Interest rate lock commitments, net	Securitized mortgage loans	Mortgage loan securitization debt certificates
	(In millions)				
Balance, beginning of period	$ 172	$ 1,442	$ (4)	$ 42	$ 30
Realized and unrealized gains (losses) for assets	(11)	(601)	942		
Realized and unrealized losses for liabilities					3
Purchases	25				
Issuances	308	357			
Settlements	(306)		(763)	(10)	(8)
Transfers into Level Three	85				
Transfers out of Level Three	(253)				
Balance, end of period	$ 20	$ 1,198	$ 175	$ 32	$ 25

(1) In 2012, the Company sold its investment in the subordinated debt and residual interests of a Mortgage loan securitization trust that had been consolidated as a variable interest entity.

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Transfers into Level Three generally represent mortgage loans held for sale with performance issues, origination flaws or other characteristics that impact their salability in active secondary market transactions. Transfers out of Level Three generally represent mortgage loans held for sale with corrected performance issues or origination flaws or loans that were foreclosed upon. Mortgage loans in foreclosure are measured at fair value on a non-recurring basis.

For the three and nine months ended September 30, 2011, Transfers out of Level Three also represent the transfer of certain mortgage loans to Level Two of the valuation hierarchy based on an increase in the availability of market bids and increased trading activity.

Realized and unrealized gains (losses) related to assets and liabilities classified within Level Three of the valuation hierarchy were included in the Condensed Consolidated Statements of Operations as follows:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(In millions)			
Gain on mortgage loans, net:				
Mortgage loans held for sale	$ (1)	$ (2)	$ (3)	$ (18)
Interest rate lock commitments	425	509	1,185	942
Change in fair value of mortgage servicing rights:				
Mortgage servicing rights	(225)	(410)	(451)	(601)
Mortgage interest income:				
Mortgage loans held for sale		1	1	7
Securitized mortgage loans		2		4
Mortgage interest expense:				
Mortgage securitization debt certificates		(1)		(4)
Other income:				
Securitized mortgage loans		(1)		(4)
Investment securities			(2)	
Mortgage securitization debt certificates		1		1

Unrealized gains (losses) included in the Condensed Consolidated Statements of Operations related to assets and liabilities classified within Level Three of the valuation hierarchy that are included in the Condensed Consolidated Balance Sheets were as follows:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(In millions)			
Gain on mortgage loans, net	$ 208	$ 174	$ 219	$ 173
Change in fair value of mortgage servicing rights	(150)	(353)	(252)	(455)
Other income		(1)		(4)

Fair Value of Other Financial Instruments

As of September 30, 2012 and December 31, 2011, all financial instruments were either recorded at fair value or the carrying value approximated fair value, with the exception of Debt and derivative instruments included in Total PHH Corporation stockholders equity. For financial instruments that were not recorded at fair value, such as Cash and cash equivalents and Restricted cash and cash equivalents, the carrying value approximates fair value due to the short-term nature of such instruments. These financial instruments are classified within Level One of the valuation hierarchy.

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Debt. As of September 30, 2012 and December 31, 2011, the total fair value of Debt was $6.7 billion and $6.8 billion, respectively, and substantially all of the debt is measured using Level Two inputs. For Level Two Debt, fair value is estimated using either: (i) a market based on the current market pricing of recent trades for similar instruments or the current expected ask price for the Company s debt instruments; (ii) a discounted cash flow model using assumptions based on current market information available for similar debt instruments; or (iii) observable spreads and terms for recent pricing of similar instruments.

13. Variable Interest Entities

Assets and liabilities of significant consolidated variable interest entities are included in the Condensed Consolidated Balance Sheets as follows:

		September 30, 2012	
	PHH Home Loans	Chesapeake and D.L. Peterson Trust	FLRT and PHH Lease Receivables LP
		(In millions)	
ASSETS			
Cash	$ 57	$ 3	$
Restricted cash(1)	3	177	56
Mortgage loans held for sale	708		
Accounts receivable, net	31	65	
Net investment in fleet leases		2,853	694
Property, plant and equipment, net	2		
Other assets	30	10	9
Total assets	$ 831	$ 3,108	$ 759
Assets held as collateral(2)	$ 683	$ 3,095	$ 743
LIABILITIES			
Accounts payable and accrued expenses	$ 23	$ 2	$ 10
Debt	642	2,700	671
Other liabilities	20		
Total liabilities(3)	$ 685	$ 2,702	$ 681

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	December 31, 2011			
	PHH Home Loans	Chesapeake and D.L. Peterson Trust	FLRT and PHH Lease Receivables LP	Mortgage Securitization Trust
	(In millions)			
ASSETS				
Cash	$ 52	$ 2	$	$
Restricted cash(1)	2	262	49	
Mortgage loans held for sale	476			
Accounts receivable, net	21	58		
Net investment in fleet leases		2,818	572	
Property, plant and equipment, net	1			
Other assets	18	8	12	28
Total assets	$ 570	$ 3,148	$ 633	$ 28
Assets held as collateral(2)	$ 463	$ 3,138	$ 610	$
LIABILITIES				
Accounts payable and accrued expenses	$ 21	$ 2	$ 13	$
Debt	434	2,549	538	21
Other liabilities	9			
Total liabilities(3)	$ 464	$ 2,551	$ 551	$ 21

(1) Represents amounts specifically designated to purchase assets, repay debt and/or provide over-collateralization related to vehicle management asset-backed debt arrangements.

(2) Represents amounts not available to pay the Company s general obligations. See Note 7, Debt and Borrowing Arrangements for further information.

(3) Excludes intercompany payables.

PHH Home Loans

For the nine months ended September 30, 2012, approximately 26% of the mortgage loans originated by the Company were derived from Realogy Corporation s affiliates, of which approximately 85% were originated by PHH Home Loans.

Mortgage Loan Securitization Trust

In 2012, the Company sold the residual interests in a mortgage securitization trust that had been consolidated as a VIE. As a result, the Company is no longer the primary beneficiary of the VIE and the assets and liabilities of the trust were deconsolidated from the Condensed Consolidated Balance Sheets. The loss on the sale of these residual interests was not significant.

14. Segment Information

Operations are conducted through three business segments: Mortgage Production, Mortgage Servicing and Fleet Management Services.

- **Mortgage Production** provides mortgage loan origination services and sells mortgage loans.

- **Mortgage Servicing** performs servicing activities for originated and purchased loans.

- **Fleet Management Services** provides commercial fleet management services.

Certain income and expenses not allocated to the three reportable segments and intersegment eliminations are reported under the heading Other. The Company s operations are substantially located in the U.S.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Management evaluates the operating results of each of the reportable segments based upon Net revenues and segment profit or loss, which is presented as the income or loss before income tax expense or benefit and after net income or loss attributable to noncontrolling interest. The Mortgage Production segment profit or loss excludes Realogy Corporation s noncontrolling interest in the profit or loss of PHH Home Loans.

Segment results were as follows:

	Total Assets	
	September 30, 2012	December 31, 2011
	(In millions)	
Mortgage Production segment	$ 2,487	$ 3,085
Mortgage Servicing segment	1,726	2,018
Fleet Management Services segment	4,475	4,337
Other	558	337
Total	$ 9,246	$ 9,777

	Net Revenues			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Mortgage Production segment(1)	$ 337	$ 264	$ 909	$ 647
Mortgage Servicing segment	(118)	(312)	(155)	(313)
Fleet Management Services segment	405	432	1,207	1,233
Other			(1)	(2)
Total	$ 624	$ 384	$ 1,960	$ 1,565

	Segment Profit (Loss)(3)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Mortgage Production segment(1)	$ 122	$ 95	$ 317	$ 172
Mortgage Servicing segment	(205)	(368)	(427)	(467)
Fleet Management Services segment	21	21	67	56
Other(2)	(13)		(13)	(1)
Total	$ (75)	$ (252)	$ (56)	$ (240)

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(1) For the nine months ended September 30, 2011, Net revenues and segment profit for the Mortgage Production segment included a $68 million gain on the 50.1% sale of the equity interests in the Company s appraisal services business.

(2) For the three and nine months ended September 30, 2012, Other primarily represents the loss on the early retirement of the Medium-term notes due in 2013 which was not allocated to the reportable segments.

(3) The following is a reconciliation of Loss before income taxes to segment loss:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Loss before income taxes	$ (56)	$ (242)	$ (12)	$ (223)
Less: net income attributable to noncontrolling interest	19	10	44	17
Segment loss	$ (75)	$ (252)	$ (56)	