

PHH CORP  
Form 10-Q  
July 29, 2011

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q**

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

**For the quarterly period ended June 30, 2011**

**OR**

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

**For the transition period from  to  
Commission File No. 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  No

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  No

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

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

As of July 22, 2011, 56,330,713 shares of PHH Common stock were outstanding.

**TABLE OF CONTENTS**

	<u>Page</u>
<u>Cautionary Note Regarding Forward-Looking Statements</u>	2
 <b><u>PART I</u></b>	
<u>Item 1. Financial Statements</u>	4
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	67
<u>Item 4. Controls and Procedures</u>	68
 <b><u>PART II</u></b>	
<u>Item 1. Legal Proceedings</u>	69
<u>Item 1A. Risk Factors</u>	69
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	69
<u>Item 3. Defaults Upon Senior Securities</u>	69
<u>Item 4. (Removed and Reserved)</u>	69
<u>Item 5. Other Information</u>	69
<u>Item 6. Exhibits</u>	69
<u>Signatures</u>	70
<u>Exhibit Index</u>	71
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

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**Table of Contents**

*Except as expressly indicated or unless the context otherwise requires, the Company, PHH, we, our or us mean Corporation, a Maryland 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 similar expressions or future or conditional verbs such as will, should, would, may and could . 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;
- § the impact of the risk retention requirements and other provisions of the Dodd-Frank Act;
- § future origination volumes and loan margins in the mortgage industry;
- § our expectation of reinsurance losses and associated reserves; and
- § mortgage repurchase and indemnification requests 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, 2010 and those factors described below:

- § the effects of continued market volatility or continued economic decline on the availability and cost of our financing arrangements and the value of our assets;
- § the effects of a continued decline 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 effects of 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;
- § the effects of any inquiries and investigations of foreclosure procedures or other servicing activities by attorney generals of certain states and the U.S. Department of Justice, any litigation related to our mortgage servicing activities, or any related fines, penalties and increased costs;

**Table of Contents**

- § 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;
- § the effects of any changes to the servicing compensation structure for mortgage servicers pursuant to the programs of government sponsored-entities;
- § 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 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 ability to attract and retain key employees;
- § a deterioration in the performance of assets held as collateral for secured borrowings;
- § the impact of the failure to maintain our credit ratings;
- § any failure to comply with covenants under our financing arrangements;
- § the effects of the consolidation of financial institutions and the related impact on the availability of credit; and
- § the impact of a downgrade in the U.S. debt rating, a failure of the U.S. government to raise the debt ceiling 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.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

**PHH CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**  
**(In millions, except per share data)**

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenues</b>				
Mortgage fees	\$ 56	\$ 66	\$ 142	\$ 118
Fleet management fees	44	40	86	78
Net fee income	100	106	228	196
Fleet lease income	343	349	680	688
Gain on mortgage loans, net	119	139	178	244
Mortgage interest income	23	22	58	40
Mortgage interest expense	(48)	(41)	(102)	(79)
Mortgage net finance expense	(25)	(19)	(44)	(39)
Loan servicing income	117	97	225	198
Change in fair value of mortgage servicing rights	(159)	(320)	(191)	(372)
Net loan servicing (loss) income	(42)	(223)	34	(174)
Other income	21	19	105	33
<b>Net revenues</b>	<b>516</b>	<b>371</b>	<b>1,181</b>	<b>948</b>
<b>Expenses</b>				
Salaries and related expenses	117	119	251	233
Occupancy and other office expenses	15	14	30	29
Depreciation on operating leases	309	306	615	614
Fleet interest expense	21	25	41	48
Other depreciation and amortization	6	5	12	11
Other operating expenses	114	117	213	209
<b>Total expenses</b>	<b>582</b>	<b>586</b>	<b>1,162</b>	<b>1,144</b>
<b>(Loss) income before income taxes</b>	<b>(66)</b>	<b>(215)</b>	<b>19</b>	<b>(196)</b>
Income tax (benefit) expense	(29)	(89)	4	(78)

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<b>Net (loss) income</b>	(37)	(126)	15	(118)
Less: net income attributable to noncontrolling interest	4	7	7	7
<b>Net (loss) income attributable to PHH Corporation</b>	\$ (41)	\$ (133)	\$ 8	\$ (125)
<b>Basic (loss) earnings per share attributable to PHH Corporation</b>	\$ (0.73)	\$ (2.40)	\$ 0.14	\$ (2.26)
<b>Diluted (loss) earnings per share attributable to PHH Corporation</b>	\$ (0.73)	\$ (2.40)	\$ 0.14	\$ (2.26)

See accompanying Notes to Condensed Consolidated Financial Statements.

4

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**Table of Contents**

**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**  
**(In millions, except share data)**

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 212	\$ 195
Restricted cash, cash equivalents and investments (including \$241 and \$254 of available-for-sale securities at fair value)	535	531
Mortgage loans held for sale	1,707	4,329
Accounts receivable, net	672	573
Net investment in fleet leases	3,526	3,492
Mortgage servicing rights	1,508	1,442
Property, plant and equipment, net	60	46
Goodwill	25	25
Other assets	504	637
<b>Total assets <sup>(1)</sup></b>	<b>\$ 8,749</b>	<b>\$ 11,270</b>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable and accrued expenses	\$ 452	\$ 521
Debt	5,697	8,085
Deferred taxes	722	728
Other liabilities	280	358
<b>Total liabilities <sup>(1)</sup></b>	<b>7,151</b>	<b>9,692</b>
Commitments and contingencies (Note 10)		
<b>EQUITY</b>		
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; 56,330,713 shares issued and outstanding at June 30, 2011; 55,699,218 shares issued and outstanding at December 31, 2010	1	1
Additional paid-in capital	1,079	1,069
Retained earnings	473	465
Accumulated other comprehensive income	36	29
<b>Total PHH Corporation stockholders equity</b>	<b>1,589</b>	<b>1,564</b>
Noncontrolling interest	9	14
<b>Total equity</b>	<b>1,598</b>	<b>1,578</b>
<b>Total liabilities and equity</b>	<b>\$ 8,749</b>	<b>\$ 11,270</b>

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See accompanying Notes to Condensed Consolidated Financial Statements.

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5

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**Table of Contents**

**CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)**  
**(Unaudited)**  
**(In millions)**

- (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:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 36	\$ 47
Restricted cash, cash equivalents and investments	262	241
Mortgage loans held for sale	364	389
Accounts receivable, net	79	64
Net investment in fleet leases	3,311	3,356
Property, plant and equipment, net	1	1
Other assets	57	82
<b>Total assets</b>	<b>\$ 4,110</b>	<b>\$ 4,180</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 21	\$ 38
Debt	3,300	3,367
Other liabilities	5	5
<b>Total liabilities</b>	<b>\$ 3,326</b>	<b>\$ 3,410</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(Unaudited)**  
**(In millions, except share data)**

Six Months Ended June 30, 2011

	PHH Corporation Stockholders							Noncontrolling Interest	Total Equity
	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income				
<b>Balance at December 31, 2010</b>	55,699,218	\$ 1	\$ 1,069	\$ 465	\$ 29		\$ 14	\$ 1,578	
<b>Comprehensive income:</b>									
Net income				8			7		
Currency translation adjustment					6				
Unrealized gains on available-for-sale securities, net of income taxes of \$0					1				
<b>Total comprehensive income</b>				8	7		7	22	
Distributions to noncontrolling interest							(12)	(12)	
Stock compensation expense			4					4	
Stock issued under share-based payment plans, including excess tax benefit of \$0	631,495		6					6	
<b>Balance at June 30, 2011</b>	56,330,713	\$ 1	\$ 1,079	\$ 473	\$ 36		\$ 9	\$ 1,598	

Six Months Ended June 30, 2010

	PHH Corporation Stockholders							Noncontrolling Interest	Total Equity
	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)				
<b>Balance at December 31, 2009</b>	54,774,639	\$ 1	\$ 1,056	\$ 416	\$ 19		\$ 12	\$ 1,504	

**Comprehensive  
(loss) income:**

Net (loss) income		(125)		7	
Currency translation adjustment			(2)		
Unrealized gains on available-for-sale securities, net of income taxes of \$1			1		
<b>Total comprehensive (loss) income</b>		(125)	(1)	7	(119)
Distributions to noncontrolling interest				(5)	(5)
Stock compensation expense		5			5
Stock issued under share-based payment plans, including excess tax benefit of \$0	717,585		3		3

**Balance at June 30, 2010**