PHH CORP
Form 10-Q
August 01, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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 Number: 1-7797

PHH CORPORATION

(Exact name of registrant as specified in its charter)

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

As of July 24, 2013, 57,144,550 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;
- our expectations of the impacts of regulatory changes on our businesses;
- our expected cost reductions and responses to the changing mortgage production environment;
- our expectations regarding improvements in our systems and processes, including our information technology infrastructure and systems;
- future origination volumes and loan margins in the mortgage industry;
- our expectations of origination volumes from our retail platform, including from our private label relationships and our relationship with Realogy Corporation;
- our ability to generate mortgage originations in excess of voluntary prepayments;
- potential acquisitions, dispositions, partnerships, joint ventures and changes in product offerings to achieve disciplined growth in our franchise platforms and to optimize our mortgage and fleet management services businesses;
- our belief that sources of liquidity will be adequate to fund operations;
- 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 2012 Form 10-K, 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;

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- 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 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;
- 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, U.S. Department of Housing and Urban Development 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;
- the effects of changes in, or our failure to comply with, laws and regulations, including mortgage- and real estate-related laws and regulations (including changes caused by the Dodd-Frank Act), changes in the status of government sponsored-entities and changes in 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 alternative funding sources for our mortgage servicing rights or to obtain financing (including refinancing and extending existing indebtedness) on acceptable terms, if at all, to finance our operations or growth strategies, 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, including our efforts to amend the terms of certain of our private label client agreements, 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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
REVENUES				
Mortgage fees	$ 82	$ 83	$ 161	$ 163
Fleet management fees	44	45	87	92
Net fee income	126	128	248	255
Fleet lease income	343	338	675	674
Gain on mortgage loans, net	197	208	384	438
Mortgage interest income	19	21	39	46
Mortgage interest expense	(48)	(53)	(96)	(108)
Mortgage net finance expense	(29)	(32)	(57)	(62)
Loan servicing income	88	100	196	221
Change in fair value of mortgage servicing rights	75	(205)	80	(226)
Net derivative (loss) gain related to mortgage servicing rights	(1)	2	(17)	(3)
Valuation adjustments related to mortgage servicing rights, net	74	(203)	63	(229)
Net loan servicing income (loss)	162	(103)	259	(8)
Other income	23	20	43	39
Net revenues	822	559	1,552	1,336
EXPENSES				
Salaries and related expenses	163	143	322	279
Occupancy and other office expenses	17	14	32	28
Depreciation on operating leases	305	303	607	604
Fleet interest expense	14	17	29	34
Other depreciation and amortization	9	6	16	12
Other operating expenses	156	156	292	335
Total expenses	664	639	1,298	1,292
Income (loss) before income taxes	158	(80)	254	44
Income tax expense (benefit)	56	(38)	88	1
Net income (loss)	102	(42)	166	43
Less: net income attributable to noncontrolling interest	12	15	24	25
Net income (loss) attributable to PHH Corporation	$ 90	$ (57)	$ 142	$ 18
Basic earnings (loss) per share attributable to PHH Corporation	$ 1.58	$ (1.00)	$ 2.48	$ 0.32

Diluted earnings (loss) per share attributable to PHH Corporation	$ 1.40	$ (1.00)	$ 2.18	$ 0.31

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Net income (loss)	$ 102	$ (42)	$ 166	$ 43
Other comprehensive (loss) income, net of tax:				
Currency translation adjustment	(6)	(4)	(11)	
Change in unrealized gains on available-for-sale securities, net	(1)		(1)	(1)
Change in unfunded pension liability, net				1
Total other comprehensive (loss) income, net of tax	(7)	(4)	(12)	
Total comprehensive income (loss)	95	(46)	154	43
Less: comprehensive income attributable to noncontrolling interest	12	15	24	25
Comprehensive income (loss) attributable to PHH Corporation	$ 83	$ (61)	$ 130	$ 18

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2013		December 31, 2012	
ASSETS				
Cash and cash equivalents	$	1,044	$	829
Restricted cash, cash equivalents and investments (including $0 and $121 of available-for-sale securities at fair value)		349		425
Mortgage loans held for sale		1,751		2,174
Accounts receivable, net		972		797
Net investment in fleet leases		3,736		3,636
Mortgage servicing rights		1,247		1,022
Property, plant and equipment, net		76		79
Goodwill		25		25
Other assets		571		616
Total assets (1)	$	9,771	$	9,603
LIABILITIES AND EQUITY				
Accounts payable and accrued expenses	$	782	$	586
Debt		6,323		6,554
Deferred taxes		705		622
Other liabilities		274		279
Total liabilities (1)		8,084		8,041
Commitments and contingencies (Note 13)				
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; 57,105,651 shares issued and outstanding at June 30, 2013; 56,975,991 shares issued and outstanding at December 31, 2012		1		1
Additional paid-in capital		1,133		1,127
Retained earnings		514		372
Accumulated other comprehensive income		14		26
Total PHH Corporation stockholders equity		1,662		1,526
Noncontrolling interest		25		36
Total equity		1,687		1,562
Total liabilities and equity	$	9,771	$	9,603

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:

	June 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 73	$ 66
Restricted cash, cash equivalents and investments	298	249
Mortgage loans held for sale	667	730
Accounts receivable, net	92	90
Net investment in fleet leases	3,634	3,531
Property, plant and equipment, net	2	2
Other assets	43	39
Total assets	$ 4,809	$ 4,707
LIABILITIES		
Accounts payable and accrued expenses	$ 35	$ 36
Debt	4,140	4,074
Other liabilities	17	13
Total liabilities	$ 4,192	$ 4,123

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		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
	Shares	Amount					
Six Months Ended June 30, 2013							
Balance at December 31, 2012	**56,975,991**	**$ 1**	**$ 1,127**	**$ 372**	**$ 26**	**$ 36**	**$ 1,562**
Total comprehensive income (loss)				142	(12)	24	154
Distributions to noncontrolling interest						(35)	(35)
Stock compensation expense			4				4
Stock issued under share-based payment plans	129,660						
Recognition of deferred taxes related to Convertible notes			2				2
Balance at June 30, 2013	**57,105,651**	**$ 1**	**$ 1,133**	**$ 514**	**$ 14**	**$ 25**	**$ 1,687**
Six Months Ended June 30, 2012							
Balance at December 31, 2011	**56,361,155**	**$ 1**	**$ 1,082**	**$ 338**	**$ 21**	**$ 19**	**$ 1,461**
Total comprehensive income				18		25	43
Distributions to noncontrolling interest						(14)	(14)
Stock compensation expense			2				2
Stock issued under share-based payment plans	284,942		(2)				(2)
Conversion option related to Convertible note issuance, net			33				33
Recognition of deferred taxes related to Convertible notes			2				2
Balance at June 30, 2012	**56,646,097**	**$ 1**	**$ 1,117**	**$ 356**	**$ 21**	**$ 30**	**$ 1,525**

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flows from operating activities:		
Net income	$ 166	$ 43
Adjustments to reconcile Net income to net cash provided by operating activities:		
Capitalization of originated mortgage servicing rights	(145)	(174)
Net (gain) loss on mortgage servicing rights and related derivatives	(63)	229
Vehicle depreciation	607	604
Other depreciation and amortization	16	12
Origination of mortgage loans held for sale	(15,842)	(19,168)
Proceeds on sale of and payments from mortgage loans held for sale	16,611	20,323
Net gain on interest rate lock commitments, mortgage loans held for sale and related derivatives	(379)	(510)
Deferred income tax expense (benefit)	85	(5)
Other adjustments and changes in other assets and liabilities, net	193	157
Net cash provided by operating activities	1,249	1,511
Cash flows from investing activities:		
Investment in vehicles	(924)	(970)
Proceeds on sale of investment vehicles	154	156
Net cash paid on derivatives related to mortgage servicing rights	(19)	(3)
Purchases of property, plant and equipment	(17)	(10)
Purchases of restricted investments	(85)	(95)
Proceeds from sales and maturities of restricted investments	166	130
(Increase) decrease in restricted cash and cash equivalents	(48)	41
Other, net	2	19
Net cash used in investing activities	(771)	(732)
Cash flows from financing activities:		
Proceeds from secured borrowings	25,675	32,351
Principal payments on secured borrowings	(25,885)	(32,797)
Proceeds from unsecured borrowings		243
Principal payments on unsecured borrowings		(252)
Issuances of common stock	1	
Cash paid for debt issuance costs	(11)	(22)
Other, net	(40)	(17)
Net cash used in financing activities	(260)	(494)
Effect of changes in exchange rates on Cash and cash equivalents	(3)	1
Net increase in Cash and cash equivalents	215	286
Cash and cash equivalents at beginning of period	829	414
Cash and cash equivalents at end of period	$ 1,044	$ 700

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.

Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications had no effect on reported totals for assets, liabilities, stockholders equity, cash flows or net income or loss. See Note 8, Accounts Payable and Accrued Expenses , for further information.

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 2012 Form 10-K.

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 and other financial instruments, the estimation of liabilities for mortgage loan repurchases and indemnifications and reinsurance losses, and the determination of certain 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 February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income . This update to the comprehensive income guidance requires additional disclosure about the amounts reclassified out of Accumulated other comprehensive income, including disclosing the amounts that impact each line item in the Statement of Operations within a reporting period. This update enhances the disclosure requirements for amounts reclassified out of Accumulated other comprehensive income but will not impact the Company s financial position, results of operations or cash flows. The Company adopted the new accounting guidance prospectively effective January 1, 2013. The updated disclosures are included in Note 14, Accumulated Other Comprehensive Income .

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 Company adopted the new accounting guidance effective January 1, 2013 and the guidance will be incorporated prospectively when performing impairment tests for intangible assets.

Offsetting Assets and Liabilities. In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities . This update requires disclosure of both gross and net information about instruments and transactions in the scope of these pronouncements. Subsequently in January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities which limited the disclosures to derivatives including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset in accordance with current derivative and netting guidance, or subject to a master netting arrangement or similar agreement. The Company adopted the new accounting guidance retrospectively effective January 1, 2013. The updated disclosures are included in Note 5, Derivatives .

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Income Taxes. In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists . This update to the income tax guidance clarifies the diversity in practice in the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This update requires the unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset or as a liability to the extent the entity cannot or does not intend to use the deferred tax asset for such purpose. The new accounting guidance is effective beginning January 1, 2014 and should be applied prospectively to all unrecognized tax benefits that exist at the effective date and retrospective application is permitted. The Company is currently evaluating the impact of adopting the new accounting standard.

2. Earnings Per Share

Basic earnings (loss) per share attributable to PHH Corporation was computed by dividing Net income (loss) attributable to PHH Corporation for the period by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share attributable to PHH Corporation was computed by dividing Net income (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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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. Anti-dilutive securities 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; and
- sold warrants related to the Company s Convertible notes due 2014.

The computation also excludes shares related to the assumed issuance of the Convertible notes due 2014 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 earnings (loss) per share attributable to PHH Corporation for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions, except share and per share data)			
Net income (loss) attributable to PHH Corporation	$ 90	$ (57)	$ 142	$ 18
Weighted-average common shares outstanding basic	57,320,953	56,803,903	57,285,088	56,730,471
Effect of potentially dilutive securities:				
Share-based payment arrangements(1)	140,484		189,649	152,126
Conversion of debt securities	7,360,737		7,826,754	2,518,414
Weighted-average common shares outstanding diluted	64,822,174	56,803,903	65,301,491	59,401,011
Basic earnings (loss) per share attributable to PHH Corporation	$ 1.58	$ (1.00)	$ 2.48	$ 0.32
Diluted earnings (loss) per share attributable to PHH Corporation	$ 1.40	$ (1.00)	$ 2.18	$ 0.31
Anti-dilutive securities excluded from the computation of dilutive securities:				
Outstanding stock-based compensation awards	1,109,118	2,066,270	650,818	1,623,297
Assumed conversion of debt securities		4,195,717		

(1) Represents incremental shares from restricted stock units and stock options. For the three and six months ended June 30, 2013, excludes 719,606 shares that are contingently issuable for which the contingency has not been met. For the three and six months ended June 30, 2012, excludes 358,984 shares that are contingently issuable for which the contingency has not been met.

3. Restricted Cash, Cash Equivalents and Investments

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

	June 30, 2013	December 31, 2012
	(In millions)	
Restricted cash and cash equivalents	$ 349	$ 304
Restricted investments, at fair value		121
Total	$ 349	$ 425

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

During the three months ended June 30, 2013, the Company terminated its remaining reinsurance agreement. 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. As of June 30, 2013, the Company no longer had any restricted investments classified as available-for-sale securities since the investments were sold in order to distribute unrestricted cash to the Company and primary mortgage insurer pursuant to the termination agreement. See Note 12, Credit Risk for information regarding the termination.

The following tables summarize Restricted investments, at fair value as of December 31, 2012:

	Amortized Cost	Fair Value	Unrealized Gains (In millions)	Unrealized Losses	Weighted-average remaining maturity
Corporate securities	$ 30	$ 31	$ 1	$	25 mos.
Agency securities (1)	39	39			21 mos.
Government securities	51	51			19 mos.
Total	$ 120	$ 121	$ 1	$	21 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 both the three and six months ended June 30, 2013, $1 million of realized gains and $1 million of realized losses from the sale of available-for-sale securities were recorded. The amount of realized gains and losses from the sale of available-for-sale securities was not significant for the three months ended June 30, 2012. During the six months ended June 30, 2012, realized gains of $1 million from the sale of available-for-sale securities were recorded, and realized losses were not significant.

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 12, 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 was $228.6 billion and $183.7 billion as of June 30, 2013 and December 31, 2012, respectively. The increase in the total servicing portfolio relates to the assumption of a subservicing portfolio in the three months ended June 30, 2013.

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:

	Six Months Ended June 30,	
	2013	2012
	(In millions)	
Balance, beginning of period	$ 140,381	$ 147,088
Additions	13,438	17,445
Payoffs, sales and curtailments	(20,758)	(16,639)
Balance, end of period	$ 133,061	$ 147,894

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The activity in capitalized MSRs consisted of:

	Six Months Ended June 30,	
	2013	2012
	(In millions)	
Balance, beginning of period	$ 1,022	$ 1,209
Additions	145	174
Changes in fair value due to:		
Realization of expected cash flows	(157)	(124)
Changes in market inputs or assumptions used in the valuation model	237	(102)
Balance, end of period	$ 1,247	$ 1,157

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
		(In millions)		
Servicing fees from capitalized portfolio	$ 99	$ 111	$ 199	$ 223
Late fees	4	5	9	10
Other ancillary servicing revenue	9	8	19	20

As of June 30, 2013 and December 31, 2012, the MSRs had a weighted-average life of approximately 5.8 years and 4.3 years, respectively. See Note 15, Fair Value Measurements , for additional information regarding the valuation of MSRs.

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

	Six Months Ended June 30,	
	2013	2012
	(In millions)	
Proceeds from new loan sales or securitizations	$ 13,805	$ 18,149
Servicing fees from capitalized portfolio(1)	199	223
Other cash flows on retained interests (2)		5

Purchases of delinquent or foreclosed loans (3)	(37)	(42)
Servicing advances (4)	(562)	(651)
Repayment of servicing advances	569	642

(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 June 30, 2013 and December 31, 2012, outstanding servicing advance receivables related to our total servicing portfolio of $477 million and $293 million, respectively, were included in Accounts receivable, net.

During the three and six months ended June 30, 2013, pre-tax gains of $186 million and $428 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 six months ended June 30, 2012, pre-tax gains of $198 million and $426 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 Mortgage loans held for sale and 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.

DERIVATIVE ACTIVITY

The following table summarizes the gross notional amount of derivatives:

	June 30, 2013	December 31, 2012
	(In millions)	
Notional amounts:		
Interest rate lock commitments	$ 4,375	$ 4,993
Forward delivery commitments	11,670	12,303
Option contracts	660	1,070
Interest rate contracts	692	614

Convertible note-related agreements(1)		
MSR-related agreements	1,565	3,915

(1) The notional of derivative instruments underlying the Convertible-note related agreements is 9.6881 million shares of the Company s Common stock. These instruments relate to the issuance of the Convertible notes due 2014.

The Company is exposed to risk in the event of non-performance by counterparties to our derivative contracts. In general, the Company manages such risk by evaluating the financial position and creditworthiness of counterparties, monitoring the amount of exposure and/or dispersing the risk among multiple counterparties. The Company s derivatives may also be governed by an ISDA or an MSFTA, and bilateral collateral agreements are in place with certain counterparties. When the Company has more than one outstanding derivative transaction with a single counterparty and a legally enforceable master netting agreement is in effect with that counterparty, the Company considers its exposure to be the net fair value of all positions with that counterparty including the value of any cash collateral amounts posted or received.

The Company also has collateral posting arrangements with certain counterparties that do not qualify for net presentation. As of December 31, 2012, $1 million was recorded in Other assets in the Condensed Consolidated Balance Sheets for collateral that did not qualify for net presentation, and as of June 30, 2013, the amount was not significant.

In addition, the Company has global netting arrangements with certain counterparties whereby the Company s outstanding derivative and cash collateral positions may be settled net against amounts outstanding under borrowing arrangements and other obligations when an event of default has occurred. These amounts are not presented net in the Condensed Consolidated Balance Sheets as the netting provisions are contingent upon an event of default.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Derivative instruments are recorded in Other assets and Other liabilities in the Condensed Consolidated Balance Sheets. The following tables present the balances of outstanding derivative instruments on a gross basis and the application of counterparty and collateral netting:

	June 30, 2013			
	Gross Assets	Offsetting Payables	Cash Collateral Received	Net Amount
	(In millions)			
ASSETS				
Subject to master netting arrangements:				
Forward delivery commitments	$ 165	$ (127)	$ (37)	$ 1
Option contracts	2	(2)		
Derivative assets subject to netting	167	(129)	(37)	1
Not subject to master netting arrangements:				
Interest rate lock commitments	26			26
Forward delivery commitments	49			49
Option contracts	22			22
Interest rate contracts	2			2
Convertible note-related agreements	12			12
Derivative assets not subject to netting	111			111
Total derivative assets	$ 278	$ (129)	$ (37)	$ 112

	Gross Liabilities	Offsetting Receivables	Cash Collateral Received	Net Amount
	(In millions)			
LIABILITIES				
Subject to master netting arrangements:				
Forward delivery commitments	$ 57	$ (127)	$ 84	$ 14
Option contracts		(2)	4	2
Derivative liabilities subject to netting	57	(129)	88	16
Not subject to master netting arrangements:				
Interest rate lock commitments	37			37
Forward delivery commitments	6			6
Convertible note-related agreements	12			12
Derivative liabilities not subject to netting	55			55
Total derivative liabilities	$ 112	$ (129)	$ 88	$ 71

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2012			
	Gross Assets	Offsetting Payables	Cash Collateral (Received) Paid	Net Amount
	(In millions)			
ASSETS				
Subject to master netting arrangements:				
Forward delivery commitments	$ 10	$ (12)	$ 5	$ 3
MSR-related agreements	5	(4)	(1)	
Derivative assets subject to netting	15	(16)	4	3
Not subject to master netting arrangements:				
Interest rate lock commitments	140			140
Forward delivery commitments	5			5
Option contracts	2			2
Interest rate contracts	1			1
Convertible note-related agreements	27			27
Derivative assets not subject to netting	175			175
Total derivative assets	$ 190	$ (16)	$ 4	$ 178

	Gross Liabilities	Offsetting Receivables	Cash Collateral (Paid) Received	Net Amount
	(In millions)			
LIABILITIES				
Subject to master netting arrangements:				
Forward delivery commitments	$ 14	$ (12)	$ (1)	$ 1
MSR-related agreements		(4)	9	5
Derivative liabilities subject to netting	14	(16)	8	6
Not subject to master netting arrangements:				
Interest rate lock commitments	1			1
Forward delivery commitments	5			5
Convertible note-related agreements	27			27
Derivative liabilities not subject to netting	33			33
Total derivative liabilities	$ 47	$ (16)	$ 8	$ 39

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
Gain on mortgage loans, net:				
Interest rate lock commitments	$ 67	$ 374	$ 269	$ 760
Forward delivery commitments	185	(124)	239	(153)
Options contracts	20	(6)	18	(10)
Net derivative (loss) gain related to mortgage servicing rights:				
MSR-related agreements	(1)	2	(17)	(3)

Fleet interest expense:		
Interest rate contracts	(1)	(1)
Foreign exchange contracts	1	1

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. Vehicle Leasing Activities

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

	June 30, 2013	December 31, 2012
	(In millions)	
Operating Leases:		
Vehicles under open-end operating leases	$ 8,176	$ 8,174
Vehicles under closed-end operating leases	139	154
Vehicles under operating leases	8,315	8,328
Less: Accumulated depreciation	(4,931)	(4,959)
Net investment in operating leases	3,384	3,369
Direct Financing Leases:		
Lease payments receivable	96	91
Less: Unearned income	(2)	
Net investment in direct financing leases	94	91
Off-Lease Vehicles:		
Vehicles not yet subject to a lease	253	169
Vehicles held for sale	12	15
Less: Accumulated depreciation	(7)	(8)
Net investment in off-lease vehicles	258	176
Total	$ 3,736	$ 3,636

7. Other Assets

Other assets consisted of:

	June 30, 2013	December 31, 2012
	(In millions)	
Mortgage loans in foreclosure, net	$ 151	$ 120
Derivatives	112	178
Repurchase eligible loans(1)	88	99
Real estate owned, net	50	53
Deferred financing costs	41	49
Equity method investments	40	38
Intangible assets	30	31
Other	59	48

Total	$	571	$	616

(1) Repurchase eligible loans represent sold mortgage loans that are held by investors where the Company has the right, but not the obligation, to repurchase the loan. Corresponding liabilities related to the loan balances were recorded within Accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of:

		June 30, 2013		December 31, 2012
		(In millions)		
Accounts payable	$	330		331
Subservicing advance liabilities(1)		242		24
Repurchase eligible loans		88		99
Accrued payroll and benefits		70		80
Accrued interest		30		32
Other		22		20
Total	$	782	$	586

(1) Amounts were reclassified from prior presentation in Other liabilities.

The Company is required under most of our mortgage servicing agreements to advance our own funds to meet contractual principal and interest payments for certain investors and to pay taxes, insurance, foreclosure costs and various other items that are required to preserve the assets being serviced. Servicing advance receivables are reduced by the collection of principal and interest or escrow payments from the respective borrowers, or upon foreclosure or liquidation. Amounts advanced as the servicer and subservicer of mortgage loans are recorded within Accounts receivable in the accompanying Condensed Consolidated Balance Sheets.

Under the terms of certain subservicing arrangements, the Company has required the subservicing counterparty to fund servicing advances for their respective portfolios of subserviced loans. A subservicing advance liability is recorded for cash received from the counterparty to fund advances, and is repaid to the counterparty upon the collection of the mortgage servicing advance receivables. Amounts received from counterparties to fund subservicing advances are recorded within Accounts payable and accrued expenses in the accompanying Condensed Consolidated Balance Sheets.

During the three months ended June 30, 2013, the Company assumed the role of subservicer for a mortgage loan portfolio. As of June 30, 2013, the subservicing portfolio that was assumed had an unpaid principal balance of $46.8 billion and related balances of servicing advance receivables and liabilities of $223 million and $219 million, respectively.

9. Other Liabilities

Other liabilities consisted of:

	June 30, 2013	December 31, 2012
	(In millions)	
Loan repurchase and indemnification liability	$ 141	$ 140
Derivatives	71	39
Pension and other post employment benefits liability	15	15
Lease syndication liability	13	16
Liability for reinsurance losses(1)		33
Other	34	36
Total	$ 274	$ 279

(1) Decrease in balance relates to the termination of the remaining inactive reinsurance contract. See Note 12, Credit Risk for further discussion.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. Debt and Borrowing Arrangements

The following table summarizes the components of Debt:

	June 30, 2013		December 31, 2012	
	Balance	Wt. Avg-Interest Rate(1)	Balance	Wt. Avg-Interest Rate(1)
	(In millions)			
Term notes, in amortization	$ 827	1.3%	$ 424	2.2%
Term notes, in revolving period	1,650	0.9%	1,593	1.0%
Variable-funding notes	1,036	2.1%	1,415	1.6%
Other	22	5.0%	25	5.1%
Vehicle Management Asset-Backed Debt	3,535		3,457	
Secured Canadian credit facility		%		%
Committed warehouse facilities	1,552	2.1%	1,875	2.0%
Uncommitted warehouse facilities		%		%
Servicing advance facility	65	2.7%	66	2.7%
Mortgage Asset-Backed Debt	1,617		1,941	
Term notes	732	8.5%	732	8.5%
Convertible notes(2)	439	5.0%	424	5.0%
Unsecured credit facilities		%		%
Unsecured Debt	1,171		1,156	
Total	$ 6,323		$ 6,554	

(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 and Convertible notes which are fixed-rate.

(2) Balance is net of unamortized discounts of $61 million and $76 million as of June 30, 2013 and December 31, 2012, respectively. The effective interest rate of the Convertible notes is 13%, which includes the accretion of the discount and issuance costs.

Assets held as collateral for asset-backed borrowing arrangements that are not available to pay the Company s general obligations as of June 30, 2013 consisted of:

	Vehicle Asset-Backed Debt	Mortgage Asset-Backed Debt

	(In millions)	
Restricted cash and cash equivalents	$ 294	$ 9
Accounts receivable	64	81
Mortgage loans held for sale (unpaid principal balance)		1,630
Net investment in fleet leases	3,678	
Total	$ 4,036	$ 1,720

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the contractual debt maturities as of June 30, 2013:

	Vehicle Asset-Backed Debt(1)	Mortgage Asset-Backed Debt	Unsecured Debt(2)	Total
		(In millions)		
Within one year	$ 936	$ 1,617	$	$ 2,553
Between one and two years	1,128		250	1,378
Between two and three years	822		450	1,272
Between three and four years	477		250	727
Between four and five years	160		8	168
Thereafter	12		275	287
	$ 3,535	$ 1,617	$ 1,233	$ 6,385

(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, and the principal portion of the notes and the conversion premium, if any, 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 June 30, 2013 consisted of:

	Capacity	Utilized Capacity	Available Capacity
		(In millions)	
Vehicle Management Asset-Backed Debt:			
Term notes, in revolving period	$ 1,650	$ 1,650	$
Variable-funding notes	2,276	1,036	1,240
Secured Canadian credit facility	119		119
Mortgage Asset-Backed Debt:			
Committed warehouse facilities	3,155	1,552	1,603
Servicing advance facility	120	65	55
Unsecured credit facilities(1)	305		305

(1) Capacity amount shown reflects the contractual maximum capacity of the facility. The available capacity of this facility is subject to the satisfaction of compliance with a borrowing base coverage ratio test.

Capacity for Mortgage asset-backed debt shown above excludes $2.3 billion not drawn under uncommitted facilities. See Note 15, Fair Value Measurements for the measurement of the fair value of Debt.

VEHICLE MANAGEMENT ASSET-BACKED DEBT

On June 13, 2013, Chesapeake Funding LLC (Chesapeake) issued $700 million of Series 2013-1 Term notes. Proceeds from the notes were used to repay a portion of the Series 2010-1 notes and Series 2011-1 notes.

On June 26, 2013, Chesapeake extended the revolving period of the 2010-1 Variable funding notes to July 26, 2013.

See Note 18, Subsequent Events , for a discussion of Chesapeake issuances in July 2013.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MORTGAGE ASSET-BACKED DEBT

On May 22, 2013, $675 million of commitments under the variable-rate mortgage repurchase facilities with Credit Suisse First Boston Mortgage Capital LLC were extended. The expiration of the facility is based on a 364-day rolling term and may continue, at CSFB s option, until the stated expiration of May 22, 2015.

On June 11, 2013, 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 September 30, 2013.

On June 21, 2013, the Company extended the term of $250 million of commitments with The Royal Bank of Scotland plc to June 20, 2014, and entered into terms for $250 million of uncommitted capacity with the lender.

UNSECURED DEBT

As of June 30, 2013, Convertible notes included: (i) $250 million of 4.0% Convertible notes with a maturity date of September 1, 2014; and (ii) $250 million of 6.0% Convertible notes with a maturity date of June 15, 2017.

As of June 30, 2013, the Convertible notes due 2014 do not meet the requirements for conversion and there have been no conversions of the notes since issuance.

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. 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 June 30, 2013, the if-converted value exceeded the principal amount of the notes by $148 million, and the notes met the requirements for conversion.

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.

There were no significant amendments to the terms of debt covenants during the six months ended June 30, 2013. As of June 30, 2013, the Company was in compliance with all financial covenants related to its debt arrangements.

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 agreements 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.

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11. 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 expense and increased (decreased) the effective tax rate:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
State and local income taxes, net of federal tax benefits	$ 6	$ (4)	$ 10	$ 1
Changes in rate and apportionment factors			(2)	(6)
Noncontrolling interest	(4)	(5)	(9)	(9)

State and local income taxes, net of federal tax benefits. The impact to the effective tax rate from state and local income taxes is primarily driven by 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 higher for the six months ended June 30, 2013 as compared to 2012.

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 six months ended June 30, 2013 and 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.

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 is driven by 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 generated by PHH Home Loans.

12. 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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:

	June 30, 2013	December 31, 2012
	(In millions)	
Loan Servicing Portfolio Composition		
Owned	$ 135,351	$ 142,930
Subserviced(1)	93,286	40,800
Total	$ 228,637	$ 183,730
Conventional loans	$ 192,301	$ 149,432
Government loans	30,211	29,842
Home equity lines of credit	6,125	4,456
Total	$ 228,637	$ 183,730
Weighted-average interest rate	4.2%	4.3%

	June 30, 2013		December 31, 2012	
	Number of Loans	Unpaid Balance	Number of Loans	Unpaid Balance
Portfolio Delinquency(2)				
30 days	2.58 %	2.03 %	2.45 %	1.93 %
60 days	0.75 %	0.60 %	0.64 %	0.52 %
90 or more days	1.04 %	0.95 %	0.80 %	0.70 %
Total(1)	4.37 %	3.58 %	3.89 %	3.15 %
Foreclosure/real estate owned(3)	2.49 %	2.44 %	2.05 %	1.92 %

(1) The total servicing portfolio increased during the three months ended June 30, 2013 due to the assumption of a new subservicing portfolio. Excluding the subservicing portfolio assumed during the three months ended June 30, 2013, the Company s total portfolio delinquency and foreclosure/real estate owned based on the number of loans were 3.84% and 2.01%, respectively and based on the unpaid principal balance were 2.97% and 1.79%, respectively.

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

(3) As of June 30, 2013 and December 31, 2012, the total servicing portfolio included 25,978 and 17,329 of loans in foreclosure with an unpaid principal balance of $4.9 billion and $3.0 billion, respectively. Excluding the subservicing portfolio assumed during the three months ended June 30, 2013, the Company s total servicing portfolio included 16,080 of loans in foreclosure with an unpaid principal balance of $2.8 billion.

Repurchase and Foreclosure-Related Reserves

Representations and warranties are provided to investors and insurers on a significant portion of loans sold and are also assumed on purchased mortgage servicing rights. In the event of a breach of these representations and warranties, the Company may be required to repurchase the mortgage loan or indemnify the investor against loss. 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 originator. Repurchase and foreclosure-related reserves are maintained for probable losses related to repurchase and indemnification obligations and for on-balance sheet loans in foreclosure and real estate owned.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Six Months Ended June 30, 2013	2012
	(In millions)	
Balance, beginning of period	$ 191	$ 127
Realized losses	(37)	(66)
Increase in reserves due to:		
Changes in assumptions	26	104
New loan sales	11	10
Balance, end of period	$ 191	$ 175

Repurchase and 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 $133.1 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 June 30, 2013, approximately $196 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; 14% of which were at least 90 days delinquent (calculated based upon the unpaid principal balance of the loans).

As of June 30, 2013 and December 31, 2012, liabilities for probable losses related to repurchase and indemnification obligations of $141 million and $140 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 requests, estimated insurance claim proceeds and denials 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, actual experience can vary significantly from the assumptions as the estimation process is inherently uncertain. Given the increased levels of repurchase requests and repurchase and foreclosure-related charges in recent periods, there is a reasonable possibility that future losses may be in excess of the recorded liability. As of June 30, 2013, the estimated amount of reasonably possible losses in excess of the recorded liability was approximately $45 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 repurchase requests declines and that the Company will incur increased foreclosure-related costs that are not expected to be reimbursed pursuant to government mortgage insurance programs. 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) the quality of our underwriting procedures; (iv) borrower delinquency and default patterns; and (v) general economic conditions.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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:

	June 30, 2013	December 31, 2012
	(In millions)	
Mortgage loans in foreclosure(1)	$ 176	$ 148
Allowance for probable foreclosure losses	(25)	(28)
Mortgage loans in foreclosure, net	$ 151	$ 120
Real estate owned	$ 75	$ 76
Adjustment to value for real estate owned	(25)	(23)
Real estate owned, net	$ 50	$ 53

(1) Includes $93 million and $65 million of recoverable advances as of June 30, 2013 and December 31, 2012, respectively.

Mortgage Reinsurance

During the three months ended June 30, 2013, the Company terminated its remaining inactive reinsurance contract which settled the liability and exposure to loss under that contract and released the $118 million restricted cash and investments held in trust to pay future losses. The primary mortgage insurer received a $49 million termination payment from the trust account and the Company was entitled to the remaining $69 million unrestricted cash balance. As of June 30, 2013, the Company received $30 million in unrestricted cash, and the remaining $39 million was recorded in Accounts receivable, net in the Condensed Consolidated Balance Sheets. During the three and six months ended June 30, 2013, the termination resulted in a pre-tax loss of $21 million which was recorded in Loan servicing income in the Condensed Consolidated Statements of Operations.

During the three months ended June 30, 2012, the Company terminated one of its inactive reinsurance contracts. During the three and six months ended June 30, 2012, this termination resulted in a pre-tax loss of $16 million which was recorded in Loan servicing income in the Condensed Consolidated Statements of Operations.

A summary of the activity in the liability for reinsurance losses is as follows:

	Six Months Ended June 30,	
	2013	2012
	(In millions)	
Balance, beginning of period	$ 33	$ 84
Realized losses(1)	(35)	(51)
Increase in liability for reinsurance losses	2	10
Balance, end of period	$	$ 43

(1) Realized reinsurance losses for the six months ended June 30, 2013 and 2012 includes $28 million and $21 million, respectively, related to the release of reserves associated with the termination of inactive reinsurance agreements.

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 June 30, 2013 and December 31, 2012, 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 $5 million, respectively and there were no allowances for credit losses related to direct financing leases at the end of either period.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. 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 $10 million as of June 30, 2013.

As of June 30, 2013, 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, and is subject to investigations by, regulators and attorneys general of certain states, the U.S. Department of Housing and Urban Development, the U.S. Attorney s Office for the Southern District of New York, 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.

During the three months ended June 30, 2013, the Company received document subpoenas from the Office of Inspector General of the U.S. Department of Housing and Urban Development (HUD) and the U.S. Attorney s Office for the Southern District of New York. The HUD subpoenas request production of certain documents related to, among other things, our origination and underwriting process for loans insured by the Federal Housing Administration (FHA). The U.S. Attorney s Office subpoena requests production of certain documents related to, among other things, foreclosure expenses that we incurred in connection with the foreclosure of loans insured or guaranteed by FHA, Fannie Mae or Freddie Mac. In addition, 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, penalties or increased legal costs will not be incurred 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 a response to written questions pursuant to a Civil Investigative Demand and the investigative demand is still ongoing. 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.

14. Accumulated Other Comprehensive Income

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

	June 30, 2013	December 31, 2012
	(In millions)	
Currency translation adjustment	$ 25	$ 36
Unrealized gains on available-for-sale securities, net of income taxes of $0 and $0		1
Pension adjustment, net of income tax benefit of $(8) and $(8)	(11)	(11)
Total	$ 14	$ 26

All components of Accumulated other comprehensive income (loss) are net of income taxes; however, currency translation adjustment 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 June 30, 2013 and December 31, 2012, or during the respective periods.

Amounts reclassified out of Accumulated other comprehensive income (loss) related to realized gains and losses from the sale of available-for-sale securities were recorded within Other income in the Condensed Consolidated Statements of Operations. During both the three and six months ended June 30, 2013, $1 million of realized gains and $1 million of realized losses from the sale of available-for-sale securities were recorded.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. Fair Value Measurements

For assets and liabilities measured at fair value, there has been no change in the valuation methodologies and classification pursuant to the valuation hierarchy during the three months ended June 30, 2013. 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 June 30, 2013 or December 31, 2012. Significant inputs to the measurement of fair value and further information on the assets and liabilities measured at fair value are as follows:

Mortgage Loans Held for Sale. 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:

	June 30, 2013		December 31, 2012	
	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	$ 1,751	$ 15	$ 2,174	$ 17
Aggregate unpaid principal balance	1,775	23	2,126	25
Difference	$ (24)	$ (8)	$ 48	$ (8)

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

	June 30, 2013	December 31, 2012
	(In millions)	
First mortgages:		
Conforming (1)	$ 1,556	$ 1,966
Non-conforming	140	143
Total first mortgages	1,696	2,109
Second lien	6	8
Scratch and Dent (2)	49	56
Other		1
Total	$ 1,751	$ 2,174

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(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 80% and 74% as of June 30, 2013 and December 31, 2012, respectively. The pullthrough percentage is considered a significant unobservable input and is estimated based on changes in pricing and actual borrower behavior using a historical analysis of loan closing and fallout data. 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Mortgage Servicing Rights. The following tables summarize certain information regarding the initial and ending capitalization rate of Mortgage Servicing Rights (MSRs):

	Six Months Ended June 30,	
	2013	2012
Initial capitalization rate of additions to MSRs	1.08 %	1.00%

	June 30, 2013	December 31, 2012
Capitalization servicing rate	0.94 %	0.73%
Capitalization servicing multiple	3.2	2.4
Weighted-average servicing fee (in basis points)	29	30

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

	June 30, 2013	December 31, 2012
Weighted-average prepayment speed (CPR)	11 %	17%
Option adjusted spread, in basis points	1,025	1,013
Weighted-average delinquency rate	5.6 %	6.8%

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

	June 30, 2013		
	Weighted-Average Prepayment Speed	Option Adjusted Spread	Weighted-Average Delinquency Rate
		(In millions)	
Impact on fair value of 10% adverse change	$ (55)	$ (58)	$ (23)
Impact on fair value of 20% adverse change	(106)	(110)	(47)

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 option adjusted spread is a component of the discount rate used to present value the cash flows of the MSR asset and represents the spread over a base interest rate that equates the present value of cash flows of an asset to the market price of that asset. 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2013				
	Level One	Level Two	Level Three (In millions)	Cash Collateral and Netting	Total
ASSETS					
Mortgage loans held for sale	$	$ 1,696	$ 55	$	$ 1,751
Mortgage servicing rights			1,247		1,247
Other assets Derivative assets:					
Interest rate lock commitments			26		26
Forward delivery commitments		214		(164)	50
Option contracts		24		(2)	22
Interest rate contracts		2			2
Convertible note-related agreements			12		12
LIABILITIES					
Other liabilities Derivative liabilities:					
Interest rate lock commitments	$	$	$ 37	$	$ 37
Forward delivery commitments		63		(43)	20
Option contracts				2	2
Convertible note-related agreements			12		12

	December 31, 2012				
	Level One	Level Two	Level Three (In millions)	Cash Collateral and Netting	Total
ASSETS					
Restricted investments	$	$ 121	$	$	$ 121
Mortgage loans held for sale		2,110	64		2,174
Mortgage servicing rights			1,022		1,022
Other assets Derivative assets:					
Interest rate lock commitments			140		140
Forward delivery commitments		15		(7)	8
Option contracts		2			2
MSR-related agreements		5		(5)	
Interest rate contracts		1			1
Convertible note-related agreements			27		27
LIABILITIES					
Other liabilities Derivative liabilities:					
Interest rate lock commitments	$	$	$ 1	$	$ 1
Forward delivery commitments		19		(13)	6
MSR-related agreements				5	5
Convertible note-related agreements			27		27

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended June 30, 2013		
	Mortgage loans held for sale	Mortgage servicing rights (In millions)	Interest rate lock commitments, net
Balance, beginning of period	$ 56	$ 1,101	$ 113
Realized and unrealized gains (losses)	(6)	75	67
Purchases	31		
Issuances		71	
Settlements	(26)		(191)
Transfers into Level Three	11		
Transfers out of Level Three	(11)		
Balance, end of period	$ 55	$ 1,247	$ (11)

	Six Months Ended June 30, 2013		
	Mortgage loans held for sale	Mortgage servicing rights (In millions)	Interest rate lock commitments, net
Balance, beginning of period	$ 64	$ 1,022	$ 139
Realized and unrealized (losses) gains	(12)	80	269
Purchases	56		
Issuances		145	
Settlements	(56)		(419)
Transfers into Level Three	25		
Transfers out of Level Three	(22)		
Balance, end of period	$ 55	$ 1,247	$ (11)

	Three Months Ended June 30, 2012		
	Interest Mortgage loans held for sale	Mortgage servicing rights (In millions)	rate lock commitments, net
Balance, beginning of period	$ 13	$ 1,296	$ 128
Realized and unrealized gains (losses)	(1)	(205)	374
Purchases	1		
Issuances	1	66	
Settlements	(1)		(323)
Transfers into Level Three			
Transfers out of Level Three	(1)		
Balance, end of period	$ 12	$ 1,157	$ 179

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Six Months Ended June 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)	(1)	(226)	760	(2)		
Purchases	2					
Issuances	1	174				
Settlements	(2)		(765)	(5)		
Transfers into Level Three						
Transfers out of Level Three	(5)					
Deconsolidation of entity(1)				7	(28)	(21)
Balance, end of period	$ 12	$ 1,157	$ 179	$	$	$

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(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.

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 Scratch and Dent loans that were foreclosed upon. Mortgage loans in foreclosure are measured at fair value on a non-recurring basis.

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
Gain on mortgage loans, net:				
Mortgage loans held for sale	$ (7)	$ (2)	$ (15)	$ (2)
Interest rate lock commitments	67	374	269	760
Change in fair value of mortgage servicing rights:				
Mortgage servicing rights	75	(205)	80	(226)
Mortgage interest income:				
Mortgage loans held for sale	1	1	3	1
Other income:				
Investment securities				(2)

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
Gain on mortgage loans, net	$ (23)	$ 169	$ (22)	$ 178
Change in fair value of mortgage servicing rights	155	(145)	237	(102)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value of Other Financial Instruments

As of June 30, 2013 and December 31, 2012, 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 and investments, 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.

Debt. As of June 30, 2013 and December 31, 2012, the total fair value of Debt was $6.7 billion and $7.0 billion, respectively, and substantially all of the debt is measured using Level Two inputs. For Level Two Debt as of June 30, 2013, fair value was estimated using the following valuation techniques: (i) $4.0 billion was measured using a market based approach, considering the current market pricing of recent trades for similar instruments or the current expected ask price for the Company s debt instruments; (ii) $1.6 billion was measured using observable spreads and terms for recent pricing of similar instruments; and (iii) $1.1 billion was measured using a discounted cash flow model incorporating assumptions based on current market information available for similar debt instruments.

16. Variable Interest Entities

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

	June 30, 2013 (In millions)		
	PHH Home Loans	Chesapeake and D.L. Peterson Trust	FLRT and PHH Lease Receivables LP
ASSETS			
Cash	$ 66	$ 1	$
Restricted cash(1)	4	244	50
Mortgage loans held for sale	658		
Accounts receivable, net	28	64	
Net investment in fleet leases		2,999	635
Property, plant and equipment, net	2		
Other assets	22	14	7
Total assets	$ 780	$ 3,322	$ 692
Assets held as collateral(2)	$ 658	$ 3,307	$ 685
LIABILITIES			
Accounts payable and accrued expenses	$ 24	$ 2	$ 8
Debt	619	2,881	632
Other liabilities	17		

Total liabilities(3)	$ 660	$ 2,883	$ 640

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2012 (In millions)		
	PHH Home Loans	Chesapeake and D.L. Peterson Trust	FLRT and PHH Lease Receivables LP
ASSETS			
Cash	$ 59	$ 2	$
Restricted cash(1)	4	186	59
Mortgage loans held for sale	716		
Accounts receivable, net	17	73	
Net investment in fleet leases		2,856	675
Property, plant and equipment, net	2		
Other assets	20	12	7
Total assets	$ 818	$ 3,129	$ 741
Assets held as collateral(2)	$ 691	$ 3,114	$ 731
LIABILITIES			
Accounts payable and accrued expenses	$ 25	$ 2	$ 8
Debt	629	2,771	662
Other liabilities	13		
Total liabilities(3)	$ 667	$ 2,773	$ 670

(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 10, Debt and Borrowing Arrangements for further information.

(3) Excludes intercompany payables.

PHH Home Loans

For the six months ended June 30, 2013, approximately 22% 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.

17. 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.

The heading Other includes certain income and expenses not allocated to the three reportable segments and intersegment eliminations. The operations of the Mortgage Production and Mortgage Servicing segments are located in the U.S, and the operations of the Fleet Management Services segment are located in the U.S. and Canada.

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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Segment results were as follows:

	Total Assets	
	June 30, 2013	December 31, 2012
	(In millions)	
Mortgage Production segment	$ 2,126	$ 2,587
Mortgage Servicing segment	2,158	1,791
Fleet Management Services segment	4,629	4,502
Other	858	723
Total	$ 9,771	$ 9,603

	Net Revenues			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
Mortgage Production segment	$ 265	$ 276	$ 517	$ 572
Mortgage Servicing segment	150	(118)	235	(37)
Fleet Management Services segment	407	401	801	802
Other			(1)	(1)
Total	$ 822	$ 559	$ 1,552	$ 1,336

	Segment Profit (Loss)(1)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
Mortgage Production segment	$ 44	$ 78	$ 89	$ 195
Mortgage Servicing segment	81	(196)	99	(222)
Fleet Management Services segment	21	22	42	46
Other		1		
Total	$ 146	$ (95)	$ 230	$ 19

(1) The following is a reconciliation of Income (loss) before income taxes to segment profit (loss):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
Income (loss) before income taxes	$ 158	$ (80)	$ 254	$ 44
Less: net income attributable to noncontrolling interest	12	15	24	25
Segment profit (loss)	$ 146	$ (95)	$ 230	$ 19

18. Subsequent Events

On July 10, 2013, Chesapeake Funding LLC (Chesapeake) issued Series 2013-2 and Series 2013-3 variable funding notes with available commitments of $780 million and $520 million, respectively. The revolving periods of the Series 2013-2 and Series 2013-3 notes end July 9, 2014 and July 10, 2015, respectively. Proceeds of the issuance were used to fully repay the existing Chesapeake Series 2010-1 and Series 2011-1 variable-funding notes.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Cautionary Note Regarding Forward-Looking Statements , Part II Item 1A. Risk Factors and our Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q and Part I Item 1. Business , Part I Item 1A. Risk Factors , Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and the notes thereto included in our 2012 Form 10-K.

Our Management s Discussion and Analysis of Financial Condition and Results of Operations is presented in sections as follows:

¡ Overview

¡ Results of Operations

¡ Risk Management

¡ Liquidity and Capital Resources

¡ Critical Accounting Policies and Estimates

¡ Recently Issued Accounting Pronouncements

OVERVIEW

We are a leading outsource provider of mortgage and fleet management services. We conduct our business through three operating segments: a Mortgage Production segment, a Mortgage Servicing segment and a Fleet Management Services segment. Our Mortgage Production segment originates, purchases and sells mortgage loans through PHH Mortgage. Our Mortgage Servicing segment services mortgage loans originated by PHH Mortgage and acts as a subservicer for certain clients that own the underlying servicing rights. Our Fleet Management Services segment provides commercial fleet management services to corporate clients and government agencies throughout the United States and Canada.

Although our Fleet Management Services segment has historically generated a larger portion of our Net revenues, our Mortgage Production and Mortgage Servicing segments have historically contributed a significantly larger portion of our Net income or loss. Our Mortgage Production and Mortgage Servicing segments have experienced, and may continue to experience, high degrees of earnings volatility due to significant exposure to interest rates and the real estate markets, which impacts our loan origination volumes, valuation of our mortgage servicing rights and repurchase and foreclosure-related charges. See Risk Management in this Form 10-Q for additional information regarding our interest rate and market risks.

In addition, we are monitoring a number of developments in regulations that are expected to impact our Mortgage segments, and there has been a heightened focus of regulators on the practices of the mortgage industry. The full impact of regulatory developments remains uncertain, although we expect the higher level of legislative and regulatory focus on mortgage origination and servicing practices will result in higher legal, compliance, and servicing related costs, potential regulatory fines and penalties, and we could experience an increase in mortgage origination or servicing related litigation in the future. For more information, see Part II Item 1A. Risk Factors Risks Related to Our Company *Our Mortgage businesses are complex and heavily regulated and the full impact of regulatory developments to our businesses remains uncertain. In addition, we are subject to litigation, regulatory investigations and inquiries and may incur fines, penalties, and increased costs that could negatively impact our future results of operations or damage our reputation.* in this Form 10-Q.

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Executive Summary

Corporate Strategy

We continue to focus on the four strategic priorities we implemented in 2012, which are to:

- pursue disciplined growth in our three franchise platforms which are mortgage private label services, our mortgage relationship with Realogy and our fleet management business;
- drive industry-leading operational excellence;
- continue our unwavering commitment to customer service; and
- prioritize liquidity and cash flow generation from our mortgage and fleet businesses and deleverage the balance sheet.

We believe these strategies enhance the ability of our business model to adapt to a rapidly-changing environment, and should enable us to focus on creating long-term value for our borrowers, clients, and shareholders. Consistent with our long-term value creation objective and as part of our four strategic priorities we implemented in 2012, we regularly evaluate our mortgage and fleet management services businesses, and their respective business lines and products, and we may examine potential acquisitions, dispositions, partnerships, joint ventures and changes in product offerings to achieve disciplined growth in our franchise platforms and to optimize our businesses. From time to time, we may be pursuing or evaluating the attractiveness and feasibility of one or more such transactions, which may or may not be material, to achieve our strategic priorities; however, there can be no assurance as to the timing, terms or success of these efforts.

As we have continued our near-term prioritization of liquidity and cash flow generation, our unrestricted cash balance at the end of the second quarter of 2013 was $1.0 billion compared to $927 million as of March 31, 2013. This increase in cash reflects a $129 million increase from cash collateral received for mortgage derivative agreements and $30 million from the termination of a reinsurance agreement, as discussed below, that were offset by $42 million of net decreases in cash resulting primarily from non-controlling interest distributions to Realogy, cash paid for debt issuance costs and continued investments in our information technology infrastructure.

We continue to maintain an excess cash position not only to fund our general working capital needs, but also to maintain cash reserves for contingencies and upcoming debt obligations. We believe our improved liquidity position provides us with increased flexibility in our capital planning objectives, which remain deleveraging, extending the maturities of our unsecured debt, lowering our cost of borrowing to more closely match our marginal cost of borrowing and seeking other funding alternatives, which may include sales of newly created MSRs with subservicing rights retained, among other actions.

During the second quarter of 2013 we observed a significant increase in mortgage interest rates as the Federal Reserve Board discussed potential changes to its quantitative easing program. Due in part to these recent rate increases, we are taking actions to rationalize our mortgage business for an origination environment that we believe will be characterized by a decline in total industry origination volumes and a greater proportion of purchase originations driven by lower refinance originations. From an operating perspective, we are focused on the underlying profitability of both our Mortgage Production and Servicing segments. We intend to rationalize staffing in our mortgage production operations and overhead functions to align our cost structure with the expected mortgage production environment. Assuming mortgage interest rates and our mortgage origination volumes remain near their current levels, we currently expect to reduce staffing during the remainder of 2013, which should generate annualized expense reductions of at least $35 million, resulting in an estimated severance expense of $7 million. We also intend to continue to explore other opportunities to optimize our mortgage business, which may include, among other things, amendments to our private label client agreements and outsourcing initiatives to improve business processes and reduce our operating costs.