

PHH CORP  
Form 10-Q  
November 08, 2012  
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

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**PHH CORPORATION**

(Exact name of registrant as specified in its charter)

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**MARYLAND**  
(State or other jurisdiction of  
incorporation or organization)

**52-0551284**  
(I.R.S. Employer  
Identification Number)

**3000 LEADENHALL ROAD**  
**MT. LAUREL, NEW JERSEY**  
(Address of principal executive offices)

**08054**  
(Zip Code)

**856-917-1744**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

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

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

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

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

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- the effects of market volatility or macroeconomic changes on the availability and cost of our financing arrangements and the value of our assets;
- the effects of any further declines in the volume of U.S. home sales and home prices, due to adverse economic changes or otherwise, on our Mortgage Production and Mortgage Servicing segments;
- the effects of changes in current interest rates on our business and our financing costs;
- our decisions regarding the use of derivatives related to mortgage servicing rights, if any, and the resulting potential volatility of the results of operations of our Mortgage Servicing segment;
- the impact of the failure to maintain our credit ratings, including the impact on our cost of capital and ability to incur new indebtedness or refinance our existing indebtedness, as well as our current or potential customers' assessment of our counterparty credit risk;
- the effects of continued elevated volumes or increases in our actual and projected repurchases of, indemnification given in respect of, or related losses associated with, sold mortgage loans for which we have provided representations and warranties or other contractual recourse to purchasers and insurers of such loans, including increases in our loss severity and reserves associated with such loans;
- the effects of reinsurance claims in excess of projected levels and in excess of reinsurance premiums we are entitled to receive or amounts currently held in trust to pay such claims;
- the effects of any significant adverse changes in the underwriting criteria or existence or programs of government-sponsored entities, including Fannie Mae and Freddie Mac, including any changes caused by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other actions of the federal government;

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- the effects of any inquiries and investigations by attorneys general of certain states and the U.S. Department of Justice, the Bureau of Consumer Financial Protection or other state or federal regulatory agencies related to foreclosure procedures or other mortgage origination or servicing activities, any litigation related to our mortgage origination or servicing activities, or any related fines, penalties and increased costs;
- the ability to maintain our status as a government sponsored entity-approved seller and servicer, including the ability to continue to comply with the respective selling and servicing guides, including any changes caused by the Dodd-Frank Act;
- changes in laws and regulations, including changes in mortgage- and real estate-related laws and regulations (including changes caused by the Dodd-Frank Act) status of government sponsored-entities and state, federal and foreign tax laws and accounting standards;
- the effects of the insolvency of any of the counterparties to our significant customer contracts or financing arrangements or the inability or unwillingness of such counterparties to perform their respective obligations under, or to renew on terms favorable to us, such contracts, or our ability to continue to comply with the terms of our significant customer contracts, including service level agreements;
- the effects of competition in our existing and potential future lines of business, including the impact of consolidation within the industries in which we operate and competitors with greater financial resources and broader product lines;
- the ability to obtain financing (including refinancing and extending existing indebtedness) on acceptable terms, if at all, to finance our operations or growth strategy, to operate within the limitations imposed by our financing arrangements and to maintain the amount of cash required to service our indebtedness;
- the ability to maintain our relationships with our existing clients and to establish relationships with new clients;
- the effects of any failure in or breach of our technology infrastructure, or those of our outsource providers, or any failure to implement changes to our information systems in a manner sufficient to comply with applicable law and our contractual obligations;
- the ability to attract and retain key employees;
- a deterioration in the performance of assets held as collateral for secured borrowings;

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- 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.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****PHH CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**  
**(In millions, except per share data)**

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

See accompanying Notes to Condensed Consolidated Financial Statements.





Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)****(In millions)**

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)  
(In millions, except share data)

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Continued.

Table of Contents**CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)****(Unaudited)**  
**(In millions)**

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Unaudited)

(In millions, except share data)

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

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See accompanying Notes to Condensed Consolidated Financial Statements.

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**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

(In millions)

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

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 Realty Corporation's ownership interest is presented as a noncontrolling interest. Intercompany balances and transactions have been eliminated from the Condensed Consolidated Financial Statements.

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

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

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

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

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**CHANGES IN ACCOUNTING POLICIES**

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

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

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

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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



Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****2. Earnings Per Share**

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

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

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

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

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

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

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Anti-dilutive securities excluded from the computation of dilutive securities:

Outstanding stock-based compensation awards	2,356,488	2,062,302	2,356,488	2,062,302
Assumed conversion of debt securities	5,494,884		3,750,848	594,876

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

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**3. Restricted Cash, Cash Equivalents and Investments**

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

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

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

The following tables summarize Restricted investments, at fair value:

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

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

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

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



Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****4. Transfers and Servicing of Mortgage Loans**

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

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

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

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

The activity in capitalized MSRs consisted of:

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

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

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

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

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

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

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

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

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

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

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

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

<b>5. Derivatives</b>
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Derivative instruments and the risks they manage are as follows:

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

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

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

**6. Vehicle Leasing Activities**

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

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





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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 7. Debt and Borrowing Arrangements

The following table summarizes the components of Debt:

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

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

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

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

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

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

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

**VEHICLE MANAGEMENT ASSET-BACKED DEBT**

*Term Notes*

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

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

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*Variable-funding Notes*

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

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

**SECURED CANADIAN CREDIT FACILITY**

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

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

**MORTGAGE ASSET-BACKED DEBT**

*Committed Facilities*

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

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

### *Servicing Advance Facility*

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

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**UNSECURED DEBT**

*Term Notes*

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

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

*Credit Facilities*

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

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

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

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

### *Convertible Notes*

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

### **2012 CONVERTIBLE NOTES**

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



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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2014 CONVERTIBLE NOTES**

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

**2017 CONVERTIBLE NOTES**

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

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

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

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

**Conversion Features:**

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

### *Conversion Based on Note Price*

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

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*Conversion Based on Stock Price*

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

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

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

**DEBT COVENANTS**

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

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

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

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

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

**8. Income Taxes**

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

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

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

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

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

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

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

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

**9. Credit Risk**

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

- **Consumer credit risk** through mortgage banking activities as a result of originating and servicing residential mortgage loans
- **Commercial credit risk** through fleet management and leasing activities
- **Counterparty credit risk** through derivative transactions, sales agreements and various mortgage loan origination and servicing agreements

**Consumer Credit Risk**

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

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

**September 30,  
2012**

**December 31,  
2011**

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



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

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

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

**Foreclosure-Related Reserves**

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

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

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

Foreclosure-related reserves consist of the following:

**Loan Repurchases and Indemnifications**

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

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

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

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

**Mortgage Loans in Foreclosure and Real Estate Owned**

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

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

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

**Mortgage Reinsurance**

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

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recorded in Loan servicing income in the Condensed Consolidated Statements of Operations.

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

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

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

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

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

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

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

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

***Commercial Credit Risk***

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

**10. Commitments and Contingencies****LEGAL CONTINGENCIES**

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

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

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

*Contingencies Involving Mortgage Origination and Servicing Practices*

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

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

*CFPB Investigation*

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

**11. Accumulated Other Comprehensive Income**

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

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



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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

**12. Fair Value Measurements**

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

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

**Recurring Fair Value Measurements**

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

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

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

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

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

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

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

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

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

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

In the first quarter of 2012, the Company integrated an updated prepayment model used in the valuation of MSRs, which is more closely aligned with the actual prepayment speeds of the capitalized servicing portfolio. Additionally, the new model utilizes a combination of standard default curves and current delinquency levels to project future delinquencies and foreclosures, whereas the previous model assumed current delinquency and foreclosure rates would remain constant over the life of the asset. Based upon the results of our analysis of the modeled value and validation

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of our value and current assumptions against third-party sources, there was no change to the overall value of MSR as a result of integrating the new prepayment model.

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

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

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

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

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

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

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

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

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**LIABILITIES**

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

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

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

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

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





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

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

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

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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.

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

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

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

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

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

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

**Fair Value of Other Financial Instruments**

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

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

**13. Variable Interest Entities**

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

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

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

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

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

(3) Excludes intercompany payables.

***PHH Home Loans***

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

***Mortgage Loan Securitization Trust***

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

### 14. Segment Information

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

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

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

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

Segment results were as follows:

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

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

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

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



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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Loss before income taxes	\$ (56)	\$ (242)	\$ (12)	\$ (223)
Less: net income attributable to noncontrolling interest	19	10	44	17
Segment loss	\$ (75)	\$ (252)	\$ (56)	\$ (240)

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**15. Subsequent Events**

On October 25, 2012, Chesapeake Funding, LLC issued \$600 million of Series 2012-2 Term notes. Proceeds from the notes were used to pay down a portion of the Series 2010-1 and 2011-1 Chesapeake 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 and Part I Item 1A. Risk Factors, 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 Annual Report on Form 10-K for the year ended December 31, 2011.*

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 also purchases mortgage servicing rights and acts as a servicer 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. 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 foreclosure-related charges.

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See Risk Management in this Form 10-Q for additional information regarding our interest rate and market risks.

### Executive Summary

For 2012, we are focusing on four key strategies to increase shareholder value:

- 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
- in the near-term, prioritize liquidity and cash flow generation from our mortgage and fleet businesses and deleverage the balance sheet.

These strategies represent a shift in focus for 2012 away from an emphasis on growing origination market share and mortgage servicing rights. Some of the actions we are taking to reposition the business, including prioritizing liquidity and cash flow generation in the near-term and investing in operational excellence and customer service initiatives, have had a negative impact on our 2012 earnings.

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We are continuing to execute on our plans to improve our liquidity and cash flow generation, and we accomplished several initiatives in the third quarter of 2012 including amending our existing Credit Facility to extend a portion of the commitments to 2015, repaying \$418 million outstanding principal of the Medium-term notes due 2013 and completing the offering of Senior Notes due 2019 with \$270 million of net cash proceeds. The early repayment of the Medium-term notes due 2013 generated a \$13 million pre-tax loss during the three and nine months ended September 30, 2012.

Our unrestricted cash balance was \$677 million as of September 30, 2012 compared to \$700 million as of June 30, 2012. The change in balance reflects a \$148 million net cash decrease from the term-debt actions outlined above and a reduction of \$53 million from the increase in cash collateral posted under derivative agreements and letters of credit. Excluding those changes, we generated \$178 million of positive cash flow for the third quarter of 2012, which resulted from our operations and the following actions:

- generated \$116 million of cash from the securitization of fleet leases, including the release of overcollateralization from prior securitizations;
- generated \$10 million from the sale of non-conforming mortgage loans;
- selectively originated loans in our wholesale/correspondent platform to control cash utilization; and
- aligned our business operations with established cash flow targets.

See [Liquidity and Capital Resources](#) for additional information regarding our outstanding indebtedness, debt ratings and our liquidity and capital plan.

In our Mortgage Production segment we continue to experience elevated margins and volume. Total loan margins during the third quarter of 2012 were 420 basis points, representing a 132 basis points increase over the same period in 2011. Wholesale/correspondent declined to 13% of our total closings during the third quarter of 2012 compared to 33% in 2011, reflecting the emphasis on our retail platform and our efforts to manage cash consumption and loan quality.

Our Mortgage Servicing segment continued to be negatively impacted by an increase in foreclosure-related charges. During the first nine months of 2012, we experienced increased levels of loan repurchase and indemnification requests, primarily from the Agencies, that exceeded our historical experience. This increase in repurchase and indemnification requests, coupled with a decline in our overall success rate in appealing repurchase requests resulted in \$41 million of provisions during the third quarter of 2012, compared to \$39 million during the second quarter of 2012, \$65 million during the first quarter of 2012 and \$20 million during the third quarter of 2011.

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During the third quarter of 2012, we received 997 repurchase and indemnification requests, compared to 1,171 in the second quarter of 2012 as further compared to 663 and 698 in the third and fourth quarters of 2011, respectively. The increase in repurchase requests in 2012 is primarily due to an increase in the number of loan file reviews by the Agencies as they focused more resources on clearing the backlog of previously requested loan files primarily related to the 2005 through 2008 origination years. The majority of repurchase requests continue to be related to the 2005 through 2008 origination years. We continue to monitor these trends and may need to further increase our loan repurchase and indemnification liability if the elevated levels of repurchase requests continue. Additionally, an increased level of repurchase requests could result in an increased use of cash, as compared to prior periods, to fund loan repurchases or make-whole payments under loan indemnification agreements. We expect foreclosure losses to remain elevated through the fourth quarter of 2012, and potentially into 2013, as investors continue to review both performing and non-performing loans for potential underwriting defects and representation and warranty violations. See Risk Management for additional information regarding our repurchase obligations and potential exposure.

Our Fleet Management Services segment continued with steady earnings in the third quarter of 2012, driven by growth in our net investment in leases and additions to maintenance service, fuel, and accident management average units.

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**Industry Trends**

**Regulatory Trends**

We are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on our business. By agreement with our private label clients in our mortgage business, we are required to comply with additional requirements that our clients may be subject to through their regulators. These laws, regulations and judicial and administrative decisions include those pertaining to the following areas:

- Real estate settlement procedures;
  
- Consumer credit provisions; fair lending, fair credit reporting and truth in lending;
  
- The establishment of maximum interest rates, finance charges and other charges;
  
- Secured transactions; collections, foreclosure, repossession and claims-handling procedures;
  
- Privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers and guidance on non-traditional mortgage loans issued by the federal financial regulatory agencies;
  
- Taxing and licensing of vehicles and environmental protection;
  
- Insurance regulations and licensing requirements pertaining to standards of solvency that must be met and maintained; reserves and provisions for unearned premiums, losses and other obligations and deposits of securities for the benefit of policyholders.

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. Regulatory and financial reform efforts continued in the third quarter of 2012, as regulatory agencies proposed and progressed on finalizing numerous rules. We are working diligently in assessing and understanding the implications of the ongoing regulatory changes, and are devoting substantial resources towards implementing all of the new rules and regulations while meeting the needs and expectations of our clients. Certain of these developments include the following:

On August 10, 2012, the Bureau of Consumer Financial Protection (the CFPB ) proposed two rules as part of an ongoing effort to address mortgage servicing reforms and create uniform standards for the mortgage servicing industry. The two proposed rules would increase requirements for communications with borrowers and would increase requirements around the maintenance of customer account records. The CFPB is expected to issue final rules for this proposal in January 2013. While we are continuing to evaluate these proposed rules, if enacted, they will likely lead to increased costs to service loans across the mortgage industry.

On September 11, 2012, the Federal Housing Finance Agency (the FHFA ) announced that Fannie Mae and Freddie Mac are establishing a new representation and warranty framework for conventional loans sold or delivered on or after January 1, 2013. The objective of the new framework is to provide increased transparency and certainty to lenders with respect to repurchase exposure on future loan sales. The new framework provides relief of certain repurchase obligations provided loans meet specific payment requirements consisting of 36 months of consecutive on-time payments, except for loans originated under the Home Affordable Refinance Program, which requires only 12 months of acceptable payment history. The new representation and warranty framework is also expected to change the quality control review processes of Fannie Mae and Freddie Mac, including changing the timing of reviews and establishing consistent guidelines around the review and appeal process. These rules will likely impact the processing of representation and warranty claims on a prospective basis, and may impact our future expectations of repurchase liabilities for loans originated after January 1, 2013.

On October 4, 2012, the FHFA released a whitepaper for industry comment seeking comments on proposed changes to the infrastructures of Fannie Mae and Freddie Mac. The whitepaper outlines a proposed framework for the future structure of the housing finance system, including a common securitization platform and a model Pooling and Servicing Agreement. The primary goals of the changes proposed are to: (i) replace the outmoded proprietary infrastructures of the Agencies with a common, more efficient model; and (ii) establish a framework



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that is consistent with multiple states of housing finance reform, including greater participation of private capital in assuming credit risk. We are monitoring the developments in this proposal and the potential impacts on the mortgage industry.

We have received inquiries and requests for information from regulators and attorneys general of certain states as well as from the Committee on Oversight and Government Reform of the U.S. House of Representatives and the U.S. Senate Judiciary Committee requesting information as to our mortgage origination and servicing practices, including our foreclosure processes and procedures. Specifically, the New Jersey Attorney General has conducted an investigation of our servicing practices and has informed us that it believes that we have 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. We have 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 our mortgage servicing practices prior to July 2011. We believe that we have meritorious defenses to these various allegations. However, there can be no assurance that claims or litigation will not arise from these inquiries or similar inquiries by other governmental authorities or that fines or penalties will not be assessed against us 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 us 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 our results in the future.

In January 2012, we were notified that the CFPB had opened an investigation to determine whether our mortgage insurance premium ceding practices to captive reinsurers comply with the Real Estate Settlement Procedures Act and other laws enforced by the CFPB. The CFPB has requested certain related documents and information for review and has requested the answers to written questions pursuant to a Civil Investigative Demand (the "CID"). In June 2012, we filed a petition to modify or withdraw the CID and in September 2012 the CFPB denied our petition. We have provided reinsurance services in exchange for premiums ceded and believe that we have complied with the Real Estate Settlement Procedures Act and other laws applicable to the Company's mortgage reinsurance activities. We did not provide reinsurance on loans originated after 2009. The CFPB's investigation is still ongoing and there can be no assurance that this investigation will not result in the imposition of any penalties or fines against us or our subsidiaries.

The U.S. Department of Justice has recently announced settlements with, and initiated various other actions against, major lenders under the False Claims Act and other statutes. In connection with these settlements and actions, the U.S. Department of Justice has alleged, among other things, reckless mortgage lending practices and improper or inadequate certification to the government in connection with the Federal Housing Administration's Direct Endorsement Lending Program. The U.S. Department of Justice's civil frauds unit has brought these cases as part of its continuing investigation of lending practices. Although we have not been notified that we are the subject of any investigation by the U.S. Department of Justice, there can be no assurance that future investigations may not arise.

We expect that the higher level of legislative and regulatory focus on mortgage origination and servicing practices will result in higher legal, compliance and servicing related costs as well as potential regulatory fines and penalties. It is also reasonably possible that 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. The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our business, financial position, results of operations or cash flows. 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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**Mortgage Production Trends**

As of October 2012, Fannie Mae's *Economics and Mortgage Market Analysis* forecasts an increase in industry loan originations to \$1.8 trillion during 2012 compared to \$1.5 trillion during 2011, consisting primarily of a 30% increase in projected refinance originations. Refinance originations are sensitive to interest rates which have remained historically low, and Fannie Mae is projecting interest rates will remain at these levels for the remainder of 2012 and into 2013, positively impacting consumer demand. Fannie Mae is also projecting purchase originations to remain relatively flat compared to 2011 despite an increase in new and existing home sales expected during 2012.

We have continued to experience elevated levels of pricing margins compared to historical periods as mortgage interest rates remained low and consumer demand persisted. In the third quarter of 2012, the Federal Reserve announced plans to purchase an additional \$40 billion of agency mortgage-backed securities per month, among other actions. The Federal Reserve stated their actions are intended to reinforce the low interest rate environment and support the mortgage markets. Although we expect margins to eventually decline from current levels, we believe that pricing margins could remain elevated during the fourth quarter of 2012 and potentially into 2013 reflecting a longer term industry view of the returns required to manage the underlying risk of a mortgage production and servicing business.

The Federal Housing Finance Agency increased guarantee fees on mortgage backed securities issued by Fannie Mae and Freddie Mac which became effective on April 1, 2012 with another increase that will become effective on December 1, 2012. These increases, and any future increases, will have the impact of increasing mortgage interest rates charged to borrowers, which could negatively impact future conforming loan origination volumes.

The increased consumer demand for mortgage loans, coupled with more stringent underwriting guidelines and the increasingly complex regulatory compliance environment have led to longer processing cycle times across the mortgage industry. Consistent with these industry trends, we have experienced loan processing delays and other service issues that have negatively impacted customer service delivery in our Mortgage Production segment. As a result, we have failed to satisfy certain service level agreements and other performance provisions under some of our mortgage origination assistance agreements. During the nine months ended September 30, 2012, we incurred an immaterial amount of contractual penalties related to these issues; however, a continuation of our failure to fully satisfy the terms of service-level and other performance provisions of these contracts could result in material penalties or the loss of client relationships. We are currently implementing measures to improve our loan processing and customer service delivery in an effort to more fully satisfy the terms of our mortgage origination assistance agreements.

For more information, see Part II Item 1A Risk Factors Changes in existing U.S. government sponsored mortgage programs or servicing eligibility standards could materially and adversely affect our business, financial position, results of operations or cash flows. in this Form 10-Q.

**Mortgage Servicing Trends**

We have continued to experience an elevated level of repurchase requests which have primarily been concentrated in Agency loans originated from 2005 through 2008. This trend has been volatile in recent periods and has accelerated during 2012 resulting in a 55% increase in repurchase requests during the nine months ended September 30, 2012 compared to 2011. Although we have reduced the amount of outstanding unresolved repurchase requests from the highs observed earlier in 2012, the amount of outstanding unresolved repurchase requests stands at

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\$250 million as of September 30, 2012 compared to \$222 million at the end of 2011. In September 2012, the Federal Housing Finance Agency reiterated its commitment to identify underwriting and documentation deficiencies in loans originated prior to 2009 that have resulted in significant taxpayer losses from the support of Fannie Mae and Freddie Mac. The Agencies are expected to continue with a strict enforcement of representation and warranty provisions to resolve contractual claims of deficiencies in those loan vintages and to provide an effective means of loss mitigation.

We believe repurchase requests and foreclosure costs will continue to remain high during the fourth quarter of 2012 and potentially into 2013. We expect that the Agencies will continue to focus on losses from origination years prior to 2009 since losses from those years have been intensified by the poor economic environment and challenging conditions in the housing market. The Agencies have also increased their reviews of more current loan production, which could further increase future repurchase activity.

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In addition to the increased focus on loan repurchases and indemnifications, we have experienced higher reinsurance losses resulting from elevated levels of delinquency and foreclosure experience and overall weakness in the housing market. During the nine months ended September 30, 2012, we paid \$36 million in reinsurance claims, which included \$8 million paid in connection with a reinsurance agreement that was terminated during the second quarter of 2012. Although we expect claim payments to remain elevated during the fourth quarter of 2012 as additional foreclosures are completed and insurance claims are processed, we do not expect paid claims to remain at the current levels since we have reached the maximum paid loss thresholds for certain origination years. We hold cash and securities in trust related to our potential obligation to pay such claims and we expect that the amount currently held in trust will be significantly higher than future claims for reinsurance losses.

See Risk Management for additional information regarding mortgage reinsurance and loan repurchases.

**Fleet Management Services Trends**

The fleet management industry continues to be influenced by the current condition of the U.S. economy and we would expect to see improvement in the industry if the U.S. economy improves. Although we have experienced a decline in our leased units in recent years, our net investment in leases has increased as our mix has changed to include more expensive truck and service-type vehicles. We have seen positive trends in our service units and we expect to balance the growth in our service unit counts with our leased units.

Table of Contents**RESULTS OF OPERATIONS****Consolidated Results**

The following table presents our consolidated results of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions, except per share data)			
Net fee income	\$ 136	\$ 110	\$ 391	\$ 338
Fleet lease income	340	370	1,014	1,050
Gain on mortgage loans, net	257	203	695	381
Mortgage net finance expense	(30)	(24)	(92)	(68)
Loan servicing income	112	112	333	337
Valuation adjustments relating to mortgage servicing rights, net	(217)	(409)	(446)	(600)
Other income	26	22	65	127
<b>Net revenues</b>	<b>624</b>	<b>384</b>	<b>1,960</b>	<b>1,565</b>
Depreciation on operating leases	304	307	908	922
Fleet interest expense	18	19	52	60
Total other expenses	358	300	1,012	806
<b>Total expenses</b>	<b>680</b>	<b>626</b>	<b>1,972</b>	<b>1,788</b>
<b>Loss before income taxes</b>	<b>(56)</b>	<b>(242)</b>	<b>(12)</b>	<b>(223)</b>
Income tax benefit	(33)	(104)	(32)	(100)
<b>Net (loss) income</b>	<b>(23)</b>	<b>(138)</b>	<b>20</b>	<b>(123)</b>
Less: net income attributable to noncontrolling interest	19	10	44	17
<b>Net loss attributable to PHH Corporation</b>	<b>\$ (42)</b>	<b>\$ (148)</b>	<b>\$ (24)</b>	<b>\$ (140)</b>
<b>Basic loss earnings per share attributable to PHH Corporation</b>	<b>\$ (0.74)</b>	<b>\$ (2.62)</b>	<b>\$ (0.42)</b>	<b>\$ (2.48)</b>
<b>Diluted loss earnings per share attributable to PHH Corporation</b>	<b>\$ (0.74)</b>	<b>\$ (2.62)</b>	<b>\$ (0.42)</b>	<b>\$ (2.48)</b>

The following table summarizes the key highlights that drove our operating performance and segment profit (loss) for our reportable segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
<b>Reportable Segments Profit (Loss):(1)</b>				
Mortgage Production segment	\$ 122	\$ 95	\$ 317	\$ 172
Mortgage Servicing segment	(205)	(368)	(427)	(467)
Fleet Management Services segment	21	21	67	56
Other(2)	(13)		(13)	(1)

(1) Segment profit (loss) is described in Note 14, Segment Information, in the accompanying Notes to Condensed Consolidated Financial Statements.

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(2) For the three and nine months ended September 30, 2012, Other primarily represents the loss on early retirement of our Medium-term notes due in 2013.

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*Mortgage Production Segment*

**Quarterly Comparison:**

- Segment profit was \$27 million higher compared to 2011 primarily due to 132 basis points of higher total margins and a 75% increase in fee-based loan closings, partially offset by a 41% decline in interest rate lock commitments expected to close.
- Interest rate lock commitments expected to close decreased to \$6.8 billion from \$11.4 billion in 2011, due to the decline in wholesale/correspondent volume and a shift in mix towards fee-based production. Total closings reflect the significant increase in refinance activity as refinance closings increased by 48% compared to 2011 due to the historically low interest rate environment.
- The mix of wholesale/correspondent originations declined to 13% in 2012 from 33% in 2011, reflecting our strategy to selectively manage originations in this platform considering cash consumption and loan quality.

**Year-to-Date Comparison:**

- Segment profit was \$145 million higher compared to 2011 primarily due to 123 basis points of higher total margins and a 13% increase in total closings, partially offset by a 15% decrease in the volume of interest rate lock commitments expected to close. In addition, the prior year profit includes a \$68 million gain on the sale of 50.1% of the equity interests in STARS.
- Total mortgage applications increased by 12% compared to 2011 and interest rate lock commitments expected to close decreased to \$20.4 billion from \$24.0 billion in 2011 due to a shift in mix towards fee-based production and the decline in wholesale/correspondent volume.

*Mortgage Servicing Segment*

**Quarterly Comparison:**

- Segment loss was unfavorably impacted by a \$21 million increase in foreclosure-related charges compared to 2011 driven by a significant increase in loan repurchase and indemnification requests in 2012 as discussed above under [Executive Summary](#).



- Loan payoffs in our capitalized servicing portfolio increased 92% compared to 2011, resulting in a \$27 million reduction in the fair value of our mortgage servicing rights and an additional \$5 million of curtailment interest expense.

**Year-to-Date Comparison:**

- Segment loss was unfavorably impacted by an \$86 million increase in foreclosure-related charges compared to 2011 driven by a significant increase in loan repurchase and indemnification requests in 2012, as discussed above under Executive Summary .
- Loan servicing income for 2012 includes a loss of \$16 million from the termination of one of our inactive reinsurance contracts as discussed under Risk Management .
- Loan payoffs in our capitalized servicing portfolio increased 77% compared to 2011, resulting in a \$57 million reduction in the fair value of our mortgage servicing rights and an additional \$12 million of curtailment interest expense.

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*Fleet Management Services Segment*

**Quarterly Comparison:**

- Segment profit was consistent with 2011, reflecting the growth in net investment in leases, higher units and usage of fee-based and asset-based management services, partially offset by lower syndication results and leasing revenues.
- Maintenance service, fuel, and accident management average units all increased in 2012 compared to 2011.

**Year-to-Date Comparison:**

- Segment profit increased by \$11 million to \$67 million in 2012, driven by growth in net investment in leases, lower funding costs and higher units and usage of fee-based and asset-based management services.
- Maintenance service, fuel, and accident management average units all increased in 2012 compared to 2011.
- The average number of leased vehicles declined by 3% compared to 2011; however, our net investment in leases increased by \$239 million compared to September 30, 2011.

The results of each of our reportable segments are discussed in detail below.

**Income tax expense**

We record our interim tax provisions or benefits by applying a projected full-year effective income tax rate to our quarterly pre-tax income or loss for results that we deem to be reliably estimable. Certain results dependent on fair value adjustments of our Mortgage Production and Mortgage Servicing segments are considered to not be reliably estimable and therefore we record discrete year-to-date income tax provisions on those results.

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For the nine months ended September 30, 2012, our effective tax rate was primarily impacted by: (i) the noncontrolling interest holder's portion of taxes on the income of PHH Home Loans; and (ii) 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, in the first quarter of 2012.

For the nine months ended September 30, 2011, our effective tax rate was primarily impacted by: (i) a decrease in our liability for tax contingencies resulting from the resolution and settlement with various taxing authorities including the conclusion of the IRS examination and review of our taxable years 2006 through 2009; and (ii) the noncontrolling interest holder's portion of taxes on the income of PHH Home Loans; partially offset by (iii) changes in the valuation allowance driven by state tax losses generated by our mortgage business.

See Note 8, **Income Taxes** in the accompanying Notes to Condensed Consolidated Financial Statements for further detail.

### **Appraisal Services Business Joint Venture**

On March 31, 2011, we sold 50.1% of the equity interests in our appraisal services business, Speedy Title and Appraisal Review Services, ( STARS ) to CoreLogic, Inc. for a total purchase price of \$35 million. We retained a 49.9% equity interest in STARS, which is accounted for under the equity method.

For the nine months ended September 30, 2012, earnings from the equity method investment in STARS of \$5 million are recorded as a component of Other income in the Mortgage Production segment. During the nine months ended September 30, 2011, a \$68 million gain on the sale of STARS was recorded within Other income of the Mortgage Production segment, which consisted of the net present value of the purchase price from CoreLogic plus the \$34 million from the initial valuation of our equity method investment.

Table of Contents**Other**

We leverage a centralized corporate platform to provide shared services for general and administrative functions to our reportable segments. These shared services include support associated with, among other functions, information technology, enterprise risk management, internal audit, human resources, accounting and finance, marketing and communications. The costs associated with these shared general and administrative functions, in addition to the cost of managing the overall corporate function, are incurred and recorded within Other and allocated back to our reportable segments through a corporate overhead allocation. Other also includes intersegment eliminations and certain income and expenses that are not allocated back to our reportable segments.

The following table presents the revenues and expenses recorded in Other:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
<b>Net revenues</b>	\$	\$	\$	\$
Salaries and related expenses		20	16	55
Occupancy and other office expenses		1	2	3
Fleet interest expense		1	(1)	(1)
Other depreciation and amortization		2	1	6
Other operating expenses		25	17	53
Corporate overhead allocation		(36)	(35)	(104)
<b>Total expenses</b>		13		12
<b>Net loss before income taxes</b>	\$	(13)	\$	(13)

*Net revenues*

Net revenues represent income that is not allocated to the reportable segments and intersegment eliminations.

*Salaries and Related Expenses*

Salaries and related expenses represent costs associated with operating corporate functions and our centralized management platform and consist of salaries, payroll taxes, benefits and incentives paid to shared service support employees. These expenses are primarily driven by the average number of permanent employees.

**Quarterly Comparison:** Salaries and related expenses increased by \$4 million compared to 2011 primarily due to an increase in management incentive compensation.

**Year-to-Date Comparison:** Salaries and related expenses increased by \$3 million compared to 2011 primarily due to an increase in management incentives related to 2012 compensation plans and an increase in the average number of permanent employees which was partially offset by \$2 million in lower actual payments related to 2011 incentive compensation plans.

*Other Operating Expenses*

The components of Other operating expenses were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Professional fees	\$ 4	\$ 7	\$ 22	\$ 21
Other expenses	21	10	31	16
Total	\$ 25	\$ 17	\$ 53	\$ 37

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**Quarterly Comparison:** Professional fees decreased by \$3 million compared to 2011 and was primarily attributable to fees incurred during 2011 related to the development of our information technology infrastructure that were nonrecurring in 2012. Other expenses increased by \$11 million compared to 2011 which was primarily driven by costs associated with the early retirement of the Medium-term notes due in 2013.

**Year-to-Date Comparison:** Professional fees increased by \$1 million compared to 2011 and was primarily attributable to an increase in information technology-related expenses associated with private label client implementations in our Mortgage Production segment that was offset by fees incurred during 2011 related to the development of our information technology infrastructure that were nonrecurring in 2012. Other expenses increased by \$15 million compared to 2011 which was primarily driven by costs associated with the early retirement of the Medium-term notes due in 2013 and higher computer software and hardware expenses resulting from investments in our information technology infrastructure.

*Corporate Overhead Allocation*

The table below provides a summary of our corporate overhead allocation by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Mortgage Production segment	\$ 20	\$ 20	\$ 58	\$ 50
Mortgage Servicing segment	5	4	13	11
Fleet Management Services segment	11	11	33	33
Other	(36)	(35)	(104)	(94)
Total	\$	\$	\$	\$

The amount of expense allocated to each segment is based upon the actual and estimated usage by function or expense category or based on the relative size of the operating segment.

Table of Contents**Mortgage Production Segment**

The following tables present a summary of our financial results and key related drivers for the Mortgage Production segment and are followed by a discussion of each of the key components of Net revenues and Total expenses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(\$ in millions, except average loan amount)			
Loans closed to be sold	\$ 8,793	\$ 9,552	\$ 27,529	\$ 26,082
Fee-based closings	5,595	3,197	13,642	10,244
Total closings	\$ 14,388	\$ 12,749	\$ 41,171	\$ 36,326
Purchase closings	\$ 4,731	\$ 6,211	\$ 13,591	\$ 16,078
Refinance closings	9,657	6,538	27,580	20,248
Total closings	\$ 14,388	\$ 12,749	\$ 41,171	\$ 36,326
Fixed rate	\$ 9,863	\$ 9,139	\$ 29,264	\$ 25,804
Adjustable rate	4,525	3,610	11,907	10,522
Total closings	\$ 14,388	\$ 12,749	\$ 41,171	\$ 36,326
Retail closings	\$ 12,466	\$ 8,597	\$ 33,012	\$ 25,373
Wholesale/correspondent closings	1,922	4,152	8,159	10,953
Total closings	\$ 14,388	\$ 12,749	\$ 41,171	\$ 36,326
Average loan amount	\$ 301,101	\$ 257,872	\$ 278,474	\$ 256,977
Loans sold	\$ 8,808	\$ 8,579	\$ 28,285	\$ 28,307
Applications	\$ 18,579	\$ 22,704	\$ 55,088	\$ 49,006
IRLCs expected to close	\$ 6,769	\$ 11,429	\$ 20,394	\$ 23,974

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Mortgage fees	\$ 91	\$ 68	\$ 254	\$ 210
Gain on mortgage loans, net	257	203	695	381
Mortgage interest income	22	21	64	72
Mortgage interest expense	(38)	(29)	(113)	(90)
Mortgage net finance expense	(16)	(8)	(49)	(18)
Other income	5	1	9	74
Net revenues	337	264	909	647
Salaries and related expenses	114	84	307	251
Occupancy and other office expenses	8	7	23	22
Other depreciation and amortization	2	2	5	7
Other operating expenses	72	66	213	178
Total expenses	196	159	548	458
Income before income taxes	141	105	361	189
Less: net income attributable to noncontrolling interest	19	10	44	17
Segment profit	\$ 122	\$ 95	\$ 317	\$ 172

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*Mortgage Production Statistics*

Mortgage loan originations are driven by the demand to fund home purchases and the demand to refinance existing loans. Purchase closings are influenced by the number of home sales and the overall condition of the housing market whereas refinance closings are sensitive to interest rate changes relative to borrowers' current interest rates. Refinance closings typically increase when interest rates fall and decrease when interest rates rise. Although the level of interest rates is a key driver of refinancing activity, there are other factors which influence the level of refinance closings including home prices, levels of home equity, underwriting standards and product characteristics.

As of October 2012, Fannie Mae's *Economics and Mortgage Market Analysis* shows an increase in mortgage industry origination volumes of approximately 36% and 28% during the third quarter and nine months ended September 30, 2012, respectively, as compared to the same periods of 2011. Refinance closings continued to be positively impacted by a sustained low interest rate environment despite the many borrowers who took advantage of refinance incentives during prior periods of low interest rates. Based on the October industry origination volumes reported by Fannie Mae, refinance closings represented 74% and 71% of total origination volumes during the third quarter and nine months ended September 30, 2012, respectively.

The level of wholesale/correspondent closings can be influenced by a variety of factors, including overall industry capacity, pricing margins and the competitive landscape. Our decline in wholesale/correspondent volume reflects our efforts to manage cash consumption and our strategy to generate mortgage servicing rights with minimal use of cash, while at the same time, focusing on the underlying quality of the loans originated in this platform. As of September 30, 2012, 25% of our outstanding Interest rate lock commitments (IRLCs) expected to close were wholesale/correspondent compared to 44% as of December 31, 2011. Wholesale/correspondent loans are generally less profitable than retail loans and have lower loan margins and expenses.

IRLCs represent an agreement to extend credit to a mortgage loan applicant, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to funding. IRLCs expected to close are adjusted for the amount of loans expected to close in accordance with the terms of the commitment. IRLCs expected to close result in loans closed to be sold as we do not enter into interest rate lock commitments on fee-based closings.

**Quarterly Comparison:** Our total closings increased by \$1.6 billion (13%) compared to 2011 and were comprised of a \$3.1 billion increase in refinance closings offset by a \$1.5 billion decrease in purchase closings. Refinance closings were positively impacted by the low interest rate environment and represented 67% of our total closing volumes during 2012 compared to 51% in 2011. While we have seen a positive trend in closings from our real estate channel driven by an improvement in home sales, our purchase closings decreased compared to 2011 due to our planned reduction in wholesale/correspondent volume.

Wholesale/correspondent closings represented 13% and 33% of our total closing volumes in 2012 and 2011, respectively which reflects our shift in focus to ensure that our operations are cash flow positive and to manage our wholesale/correspondent originations to control cash consumption. Although total loan margins have reached historical highs, we have maintained a focus on limiting the cash consumption and originating high quality loans in the wholesale/correspondent platform, which has reduced our wholesale/correspondent origination volume.



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Although total applications decreased by 18% compared to 2011 resulting from a decline in wholesale/correspondent volume, we continue to pursue growth in our retail platform where a low interest rate environment and higher consumer demand contributed to a 5% increase in retail applications. Our IRLCs expected to close declined by 41% primarily due to the change in mix to a greater composition of fee-based production where we do not enter into an interest rate lock commitment and lower wholesale/correspondent volume.

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**Year-to-Date Comparison:** Our total closings increased by \$4.8 billion (13%) compared to 2011 and were comprised of a \$7.3 billion increase in refinance closings offset by a \$2.5 billion decrease in purchase closings. Refinance closings were positively impacted by the low interest rate environment and represented 67% of our total closing volumes during 2012 compared to 56% in 2011. While we have seen a positive trend in closings from our real estate channel driven by an improvement in home sales, our purchase closings decreased compared to 2011 due to our planned reduction in wholesale/correspondent volume.

Wholesale/correspondent closings represented 20% and 30% of our total closing volumes in 2012 and 2011, respectively which reflects our shift in focus to ensure that our operations are cash flow positive and to manage our wholesale/correspondent originations to control cash consumption.

Total applications increased by 12% compared to 2011 resulting from growth in our retail platform where a low interest rate environment and higher consumer demand contributed to a 39% increase in retail applications which was offset by a decline in wholesale/correspondent volume. Our IRLCs expected to close declined by 15% primarily due to the change in mix to a greater composition of fee-based production where we do not enter into an interest rate lock commitment and lower wholesale/correspondent volume.

*Mortgage Fees*

Retail closings and fee-based closings are key drivers of Mortgage fees. Mortgage fees consist of fee income earned on all loan originations, including loans closed to be sold and fee-based closings. Fee income consists of amounts earned related to application and underwriting fees and fees on cancelled loans. Appraisal and other income generated by our appraisal services business is included through the quarter ended March 31, 2011. Fee income also consists of amounts earned from financial institutions related to brokered loan fees and origination assistance fees resulting from our private-label mortgage outsourcing activities. Fees associated with the origination and acquisition of mortgage loans are recognized as earned.

**Quarterly Comparison:** Mortgage fees increased by \$23 million (34%) compared to 2011 primarily due to a \$16 million increase in origination assistance fees from private label clients resulting from a 34% increase in private label closing units. Mortgage fees were also positively impacted by a \$5 million increase in appraisal income and a \$2 million increase in application revenue both driven by a 28% increase in the number of retail closing units compared to 2011.

**Year-to-Date Comparison:** Mortgage fees increased by \$44 million (21%) compared to 2011 primarily due to a \$31 million increase in origination assistance fees from private label clients resulting from a 24% increase in private label closing units. Mortgage fees were also positively impacted by an \$8 million increase in appraisal income and a \$5 million increase in application revenue both driven by a 25% increase in the number of retail closing units compared to 2011.

*Gain on Mortgage Loans, Net*

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IRLCs expected to close are the primary driver of Gain on mortgage loans, net. Gain on mortgage loans, net includes realized and unrealized gains and losses on our mortgage loans, as well as the changes in fair value of our interest rate locks and loan-related derivatives. The fair value of our IRLCs is based upon the estimated fair value of the underlying mortgage loan, adjusted for: (i) the estimated costs to complete and originate the loan and (ii) the estimated percentage of IRLCs that will result in a closed mortgage loan. The valuation of our interest rate lock commitments and mortgage loans approximates a whole-loan price, which includes the value of the related mortgage servicing rights. Mortgage servicing rights are recognized and capitalized at the date the loans are sold and subsequent changes in the fair value are recorded in Change in fair value of mortgage servicing rights in the Mortgage Servicing segment.

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The components of Gain on mortgage loans, net were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Gain on loans	\$ 227	\$ 200	\$ 589	\$ 341
Change in fair value of Scratch and Dent and certain non-conforming mortgage loans	(17)	(3)	(33)	(3)
Economic hedge results	47	6	139	43
Total change in fair value of mortgage loans and related derivatives	30	3	106	40
Total	\$ 257	\$ 203	\$ 695	\$ 381

Gain on loans is primarily driven by the volume of IRLCs expected to close, total loan margins and the mix of wholesale/correspondent closing volume. Margins generally widen when mortgage interest rates decline and tighten when mortgage interest rates increase, as loan originators balance origination volume with operational capacity. For wholesale/correspondent closings and certain retail closings from our private label clients, the cost to acquire the loan reduces the gain from selling the loan into the secondary market.

Change in fair value of Scratch and Dent and certain non-conforming mortgage loans is primarily driven by additions, sales and changes in value of Scratch and Dent loans, which represent loans with origination flaws or performance issues.

Economic hedge results represent the change in value of mortgage loans, interest rate lock commitments and related derivatives, including the impact of changes in actual pullthrough as compared to our initial assumptions. We use derivative instruments to economically hedge changes in value of mortgage loans and interest rate lock commitments from the date of interest rate lock commitment through the date the loan is sold into the secondary market. These derivatives are intended to mitigate the changes in value attributable to changes in interest rates. Economic hedge results also includes changes in value of mortgage loans held for sale due to changes in expected execution upon sale which may not be interest rate related and would not be offset by changes in value of derivative instruments.

**Quarterly Comparison:** Gain on loans increased by \$27 million compared to 2011 primarily due to a higher mix of retail IRLCs and higher total loan margins that were partially offset by a 41% decrease in IRLCs expected to close. Although total IRLCs expected to close declined compared to the third quarter of 2011, there was a greater mix of retail IRLCs expected to close during 2012, which had a positive impact to gain on loans. Average initial loan margins increased by 132 basis points primarily due to a reduction in mortgage interest rates and higher consumer demand.

The \$14 million unfavorable change in fair value of Scratch and Dent and certain non-conforming loans compared to 2011 was primarily attributable to an increase in the additions to the population of Scratch and Dent loans resulting from higher repurchase activity and a net loss on the sale of Scratch and Dent loans during the third quarter of 2012.

The \$41 million increase in economic hedge results compared to 2011 was driven by favorable execution gains on mortgage loans sold coupled with lower interest rate volatility and higher actual pullthrough as compared to assumptions.

**Year-to-Date Comparison:** Gain on loans increased by \$248 million compared to 2011 primarily due to higher total loan margins that were partially offset by a 15% decrease in IRLCs expected to close. Average initial loan margins increased by 123 basis points primarily due to a reduction in mortgage interest rates and higher consumer demand.

The \$30 million unfavorable change in fair value of Scratch and Dent and certain non-conforming loans compared to 2011 was primarily attributable to an increase in the additions to the population of Scratch and Dent loans resulting from higher repurchase activity and a net loss on the sale of Scratch and Dent loans during 2012.

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The \$96 million increase in economic hedge results compared to 2011 was driven by favorable execution gains on mortgage loans sold coupled with lower interest rate volatility and a higher impact of actual pullthrough of mortgage loans as compared to initial assumptions.

*Mortgage Net Finance Expense*

Mortgage net finance expense allocable to the Mortgage Production segment consists of interest income on mortgage loans, interest expense allocated on debt used to fund mortgage loans and an allocation of interest expense for working capital. Mortgage net finance expense is primarily driven by the average balance of loans held for sale, the average volume of outstanding borrowings, the note rate on loans held for sale and the cost of funds rate of our outstanding borrowings. A significant portion of our loan originations are funded with variable-rate short-term debt.

**Quarterly Comparison:** Mortgage net finance expense increased by \$8 million compared to 2011 and was comprised of a \$9 million (31%) increase in Mortgage interest expense which was offset by a \$1 million (5%) increase in Mortgage interest income. The increase in Mortgage interest expense was related to higher allocated financing costs of corporate unsecured borrowings and a higher average balance of loans held for sale.

**Year-to-Date Comparison:** Mortgage net finance expense increased by \$31 million compared to 2011 and was comprised of a \$23 million (26%) increase in Mortgage interest expense and an \$8 million (11%) decrease in Mortgage interest income. The increase in Mortgage interest expense was related to higher allocated financing costs resulting from an increase in the average balance of corporate unsecured borrowings which was partially offset by a lower average balance of loans held for sale. The decrease in Mortgage interest income was primarily due to a lower average balance and note rate of loans held for sale.

*Other Income*

**Quarterly Comparison:** Other income increased by \$4 million compared to 2011 primarily due to a termination fee resulting from the loss of a private label client relationship during the third quarter of 2012.

**Year-to-Date Comparison:** Other income decreased by \$65 million compared to 2011 primarily due to a \$68 million gain realized during the first quarter of 2011 related to the sale of 50.1% of our equity interests in STARS which was partially offset by a termination fee resulting from the loss of a private label client relationship and higher earnings from our equity interest in STARS subsequent to the sale.

*Salaries and Related Expenses*

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Salaries and related expenses allocable to the Mortgage Production segment consist of salaries, payroll taxes, benefits and incentives paid to employees in our mortgage production operations and commissions paid to employees involved in the loan origination process.

The components of Salaries and related expenses were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Salaries, benefits and incentives	\$ 70	\$ 49	\$ 189	\$ 158
Commissions	34	27	90	69
Contract labor and overtime	10	8	28	24
Total	\$ 114	\$ 84	\$ 307	\$ 251

Salaries, benefits and incentives are primarily driven by the average number of permanent employees. Commissions are primarily driven by the volume of retail closings. Contract labor and overtime are primarily driven by origination volumes and consists of overtime paid to permanent employees and amounts paid to temporary and contract personnel. We continue to balance the number of full-time employees and the use of temporary and contract personnel with anticipated loan origination volumes.

**Quarterly Comparison:** Salaries, benefits and incentives increased by \$21 million compared to 2011 primarily due to an increase in the average number of permanent employees in the mortgage production operations and an

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increase in management incentive compensation. The increase in the average number of permanent employees is attributable to the 28% increase in retail closing units during the third quarter of 2012 coupled with increased staffing levels associated with expected future mortgage origination activity as well as our continued development of our mortgage compliance programs, loan quality and customer service initiatives. The \$7 million increase in commissions was primarily attributable to a 26% increase in closings from our real estate channel which has higher commission rates than private label closings. Contract labor and overtime increased by \$2 million compared to 2011 and was driven by higher overall closing volumes.

**Year-to-Date Comparison:** Salaries, benefits and incentives increased by \$31 million compared to 2011 primarily due to an increase in the average number of permanent employees in the mortgage production operations and an increase in management incentive compensation. The increase in the average number of permanent employees is attributable to the 25% increase in retail closing units during the nine months ended September 30, 2012 coupled with increased staffing levels associated with expected future mortgage origination activity as well as our continued development of our mortgage compliance programs, loan quality and customer service initiatives. The \$21 million increase in commissions was primarily attributable to a 30% increase in closings from our real estate channel which has higher commission rates than private label closings. Contract labor and overtime increased by \$4 million compared to 2011 and was driven by higher overall closing volumes.

*Other Operating Expenses*

Other operating expenses allocable to the Mortgage Production segment consist of production-related direct expenses, allocations for corporate overhead and other production related expenses.

The components of Other operating expenses were as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011		2012	2011	
	(In millions)					
Production-related direct expenses	\$ 31	\$ 30	\$ 92	\$ 73		
Corporate overhead allocation	20	20	58	50		
Other expenses	21	16	63	55		
Total	\$ 72	\$ 66	\$ 213	\$ 178		

Production-related direct expenses represent variable costs directly related to the volume of loan originations and consist of appraisal, underwriting and other direct loan origination expenses. These expenses are incurred during the loan origination process and are primarily driven by applications. Corporate overhead allocations relate to segment allocations of shared general and administrative costs and costs associated with operating and managing corporate functions and are discussed above under Results of Operations Other. Other expenses consist of other production-related expenses that include, but are not limited to professional fees, information technology costs, outsourcing fees and customer service expenses.

**Quarterly Comparison:** The \$5 million increase in other expenses compared to 2011 was primarily attributable to a \$2 million increase in customer service-related expenses and higher consulting and outsourcing services.



***Year-to-Date Comparison:*** Production-related direct expenses increased by \$19 million compared to 2011 and was driven by an increase in the number of retail applications. The \$8 million increase in other expenses compared to 2011 was primarily attributable to a \$3 million increase in customer service-related expenses and a \$5 million increase in higher consulting and outsourcing services.

Table of Contents**Mortgage Servicing Segment**

The following tables present a summary of our financial results and key related drivers for the Mortgage Servicing segment, and are followed by a discussion of each of the key components of Net revenues and Total expenses:

	As of September 30,	
	2012	2011
	(\$ In millions)	
Ending total loan servicing portfolio	\$ 185,143	\$ 178,129
Number of loans serviced	1,032,823	1,048,291
Ending capitalized loan servicing portfolio	\$ 144,780	\$ 144,275
Capitalized servicing rate	0.69%	0.83%
Capitalized servicing multiple	2.3	2.8
Weighted-average servicing fee (in basis points)	30	30

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(\$ In millions)			
Average total loan servicing portfolio	\$ 189,287	\$ 176,019	\$ 186,323	\$ 172,298
Average capitalized loan servicing portfolio	146,189	143,396	147,722	140,909
Payoffs and principal curtailments of capitalized portfolio	10,463	6,014	27,102	16,980

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(\$ In millions)			
Mortgage interest income	\$ 2	\$ 3	\$ 7	\$ 11
Mortgage interest expense	(16)	(19)	(49)	(59)
Mortgage net finance expense	(14)	(16)	(42)	(48)
Loan servicing income	112	112	333	337
Change in fair value of mortgage servicing rights	(225)	(410)	(451)	(601)
Net derivative gain related to mortgage servicing rights	8	1	5	1
Valuation adjustments related to mortgage servicing rights, net	(217)	(409)	(446)	(600)
Net loan servicing loss	(105)	(297)	(113)	(263)
Other income (expense)	1	1		(2)
Net revenues	(118)	(312)	(155)	(313)
Salaries and related expenses	9	8	28	25
Occupancy and other office expenses	3	2	7	7
Other depreciation and amortization		1		1
Other operating expenses	75	45	237	121
Total expenses	87	56	272	154
Segment loss	\$ (205)	\$ (368)	\$ (427)	\$ (467)

*Mortgage Net Finance Expense*

Mortgage net finance expense allocable to the Mortgage Servicing segment consists of interest income from escrow balances, income from investment balances (including investments held in reinsurance trusts) and interest expense allocated on debt used to fund our Mortgage servicing rights ( MSRs ), which is driven by the average volume of outstanding borrowings and the cost of funds rate of our outstanding borrowings.

**Quarterly Comparison:** Mortgage net finance expense decreased by \$2 million compared to 2011 and was comprised of a \$3 million (16%) decrease in Mortgage interest expense that was offset by a \$1 million (33%)

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decrease in Mortgage interest income. The decrease in Mortgage interest expense was primarily attributable to a decrease in the interest expense allocated to fund our MSR's resulting from a lower average MSR balance. Mortgage interest expense and Mortgage interest income both decreased by \$1 million compared to 2011 due to the first quarter 2012 deconsolidation of a mortgage securitization trust where we sold the residual interest.

**Year-to-Date Comparison:** Mortgage net finance expense decreased by \$6 million compared to 2011 and was comprised of a \$10 million (17%) decrease in Mortgage interest expense that was partially offset by a \$4 million (36%) decrease in Mortgage interest income. The decrease in Mortgage interest expense was primarily attributable to a decrease in the interest expense allocated to fund our MSR's resulting from a lower average MSR balance. Mortgage interest expense and Mortgage interest income both decreased by \$3 million compared to 2011 due to the first quarter 2012 deconsolidation of a mortgage securitization trust where we sold the residual interest.

*Loan Servicing Income*

The components of Loan servicing income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Servicing fees from capitalized portfolio	\$ 106	\$ 108	\$ 329	\$ 317
Subservicing fees	3	3	10	10
Late fees and other ancillary servicing revenue	15	16	45	45
Curtailed interest paid to investors	(12)	(7)	(32)	(20)
Net reinsurance loss		(8)	(19)	(15)
Total	\$ 112	\$ 112	\$ 333	\$ 337

The primary drivers for Loan servicing income are the average capitalized loan servicing portfolio and average servicing fee. Service fee revenue is driven by recurring servicing fees that are recognized upon receipt of the coupon payment from the borrower and recorded net of guaranty fees. For loans that are subserviced for others, we receive a nominal stated amount per loan which is less than our average servicing fee related to the capitalized portfolio. Curtailed interest paid to investors represents uncollected interest from the borrower that is required to be passed onto investors and is primarily driven by the number of loan payoffs. Net reinsurance loss represents premiums earned on reinsurance contracts, net of ceding commission and provisions for reinsurance reserves. Net reinsurance loss for the nine months ended September 30, 2012 also includes a loss related to the termination of one of our inactive reinsurance contracts. Refer to Risk Management Consumer Credit Risk Mortgage Reinsurance for a description.

**Quarterly Comparison:** The \$2 million decrease in servicing fees from the capitalized portfolio compared to 2011 was primarily related to an increase in early stage delinquencies resulting from the timing of customer payments which was partially offset by a 2% increase in the average capitalized loan servicing portfolio. Curtailed interest paid to investors increased by \$5 million (71%) compared to 2011 primarily due to a 101% increase in loan payoffs in our total loan servicing portfolio. The \$8 million decrease in net reinsurance loss compared to 2011 was driven by a decrease in the provision for reinsurance reserves resulting from slowing loss progressions as the maximum loss rates for certain origination years has been reached that was offset by a decrease in premiums earned under reinsurance agreements due to the termination of a contract during the second quarter of 2012.

**Year-to-Date Comparison:** The \$12 million increase in servicing fees from the capitalized portfolio was primarily related to a 5% increase in the average capitalized loan servicing portfolio compared to 2011. Curtailment interest paid to investors increased by \$12 million (60%) compared to 2011 primarily due to an 83% increase in loan payoffs in our total loan servicing portfolio. The \$4 million increase in net reinsurance loss compared to 2011 was driven by a \$16 million loss related to the termination of an inactive reinsurance contract and a decrease in premiums earned under reinsurance agreements in runoff that was offset by a decrease in the

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provision for reinsurance reserves resulting from slowing loss progressions as the maximum loss rates for certain origination years have been reached.

*Valuation Adjustments Related to Mortgage Servicing Rights*

Valuation adjustments related to mortgage servicing rights include Change in fair value of mortgage servicing rights and Net derivative gain related to mortgage servicing rights. The components of Valuation adjustments related to mortgage servicing rights are discussed separately below.

*Change in Fair Value of Mortgage Servicing Rights:* The fair value of our MSR is estimated based upon projections of expected future cash flows considering prepayment estimates, our historical prepayment rates, portfolio characteristics, interest rates based on interest rate yield curves, implied volatility, servicing costs and other economic factors. Generally, the value of our MSR is expected to increase when interest rates rise and decrease when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. Other factors noted above as well as the overall market demand for MSR may also affect the valuation.

The components of Changes in fair value of mortgage servicing rights were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Actual prepayments of the underlying mortgage loans	\$ (65)	\$ (38)	\$ (168)	\$ (111)
Actual receipts of recurring cash flows	(10)	(11)	(31)	(37)
Market-related fair value adjustments	(150)	(361)	(252)	(453)
Total	\$ (225)	\$ (410)	\$ (451)	\$ (601)

The change in fair value of MSR due to actual prepayments is driven by two factors: (i) the number of loans that prepaid during the period and (ii) the current value of the mortgage servicing right asset at the time of prepayment. Market-related fair value adjustments represent the change in fair value of MSR due to changes in market inputs and assumptions used in the valuation model. Refer to Critical Accounting Policies and Estimates for a description of the updates made to the model used in the valuation of our mortgage servicing rights.

**Quarterly Comparison:** The \$27 million increase in actual prepayments of the underlying mortgage loans compared to 2011 was primarily due to a 92% increase in loan payoffs in the capitalized loan servicing portfolio which was partially offset by an 8 basis points decrease in the average MSR value of prepayments.

Market-related fair value adjustments decreased the value of our MSR by \$150 million during the third quarter of 2012 and was primarily attributable to a decrease in mortgage interest rates, including a 37 basis points decrease in the primary mortgage rate used to value our MSR. The \$361 million market-related fair value decrease during the third quarter of 2011 was primarily attributable to a decrease in mortgage interest

rates and a flattening of the yield curve.

***Year-to-Date Comparison:*** The \$57 million increase in actual prepayments of the underlying mortgage loans compared to 2011 was primarily due to a 77% increase in loan payoffs in the capitalized loan servicing portfolio which was partially offset by a 12 basis points decrease in the average MSR value of prepayments.

Market-related fair value adjustments decreased the value of our MSRs by \$252 million during the nine months ended September 30, 2012 and was primarily attributable to a decrease in mortgage interest rates, including a 69 basis points decrease in the primary mortgage rate used to value our MSR. The \$453 million market-related fair value decrease during the nine months ended September 30, 2011 was primarily attributable to a decrease in mortgage interest rates.

***Net Derivative Gain Related to Mortgage Servicing Rights:*** From time-to-time, we may use a combination of derivative instruments to protect against potential adverse changes in the fair value of our MSRs resulting from a

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decline in interest rates. The change in fair value of derivatives is intended to react in the opposite direction of the market-related change in the fair value of MSRs, and generally increase in value as interest rates decline and decrease in value as interest rates rise. The amount and composition of derivatives used depends on the exposure to loss of value on our MSRs, the expected cost of the derivatives, our expected liquidity needs and the increased earnings generated by origination of new loans resulting from the decline in interest rates.

The value of derivatives related to our MSRs increased by \$8 million and \$5 million during the third quarter and nine months ended September 30, 2012, respectively compared to \$1 million in both periods of 2011. The change in the value of derivatives was driven by a decrease in mortgage interest rates.

*Other Income*

Other income allocable to the Mortgage Servicing segment primarily consists of the change in the net fair value of a mortgage securitization trust where we hold a residual interest. These residual interests were sold during the first quarter of 2012.

**Year-to-Date Comparison:** Other income during the nine months ended September 30, 2012 was not significant however it included a \$2 million loss on sale of our residual interests in the mortgage securitization trust which was partially offset by \$1 million of realized gains from the sale of available-for-sale securities associated with restricted investments held in our reinsurance trust accounts.

The \$2 million reduction in Other income during the nine months ended September 30, 2011 was primarily attributable to an increase in projected credit losses of the underlying securitized mortgage loans which comprised the securitization trust which was partially offset by \$1 million of realized gains from the sale of available-for-securities associated with restricted investments held in our reinsurance trust accounts.

*Salaries and Related Expenses*

Salaries and related expenses allocable to the Mortgage Servicing segment consist of salaries, payroll taxes, benefits and incentives paid to employees in our servicing operations.

**Year-to-Date Comparison:** Salaries and related expenses increased by \$3 million compared to 2011 due to an increase in the average number of permanent employees as we continue to balance resources in order to implement new industry servicing and compliance practices.

*Other Operating Expenses*



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The following table presents a summary of Other operating expenses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Foreclosure-related charges	\$ 41	\$ 20	\$ 145	\$ 59
Corporate overhead allocation	5	4	13	11
Other expenses	29	21	79	51
Total	\$ 75	\$ 45	\$ 237	\$ 121

Foreclosure-related charges are driven by the volume of repurchase and indemnification requests, claims appeal success rates and expected loss severities. Repurchase requests from all investors and insurers have been volatile and the persistency of these recent trends remains extremely uncertain. Expected loss severities are impacted by various economic factors including delinquency rates and home price values while our success rate in appealing repurchase requests can fluctuate based on the validity and composition of repurchase demands and the underlying quality of the loan files. See [Risk Management Consumer Credit Risk Loan Repurchases and Indemnifications](#) for a further discussion of the sensitivity of our loan repurchase and indemnification liability.

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Corporate overhead allocations relate to segment allocations of shared general and administrative costs and costs associated with operating and managing corporate functions and are discussed above under Results of Operations Other.

Other expenses include operating expenses of the Mortgage Servicing segment, including costs directly associated with servicing loans in foreclosure and real estate owned, professional fees and outsourcing fees.

**Quarterly Comparison:** Foreclosure-related charges increased by \$21 million compared to 2011 and were primarily driven by a decline in our success rate in appealing repurchase requests that was partially offset by a decrease in our estimated future loss severities. The amount of unresolved repurchase and indemnification requests was 11% higher compared to September 30, 2011 and the total number of repurchase requests we received increased by 50% compared to the third quarter of 2011.

The \$8 million increase in other expenses compared to 2011 was primarily due to an increase in expenses associated with servicing delinquent and foreclosed loans and real estate owned.

**Year-to-Date Comparison:** Foreclosure-related charges increased by \$86 million compared to 2011 and were driven by a significant increase in the actual and future expected number of repurchase and indemnification requests, primarily from the Agencies, and a decline in our success rate in appealing repurchase requests that was partially offset by a decrease in our estimated future loss severities. The total number of repurchase requests we received increased by 55% compared to the nine months ended September 30, 2011.

The \$28 million increase in other expenses compared to 2011 was primarily due to an increase in expenses associated with servicing delinquent and foreclosed loans and real estate owned.

Table of Contents**Fleet Management Services Segment**

The following tables present a summary of our financial results and related drivers for the Fleet Management Services segment, and are followed by a discussion of each of the key components of our Net revenues and Total expenses:

	Average for the Three Months Ended September 30,		Average for the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands of units)			
Leased vehicles	264	272	267	275
Maintenance service cards	345	324	344	320
Fuel cards	308	296	302	293
Accident management vehicles	304	297	311	295

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Fleet management fees	\$ 45	\$ 42	\$ 137	\$ 128
Fleet lease income	340	370	1,014	1,050
Other income	20	20	56	55
Net revenues	405	432	1,207	1,233
Salaries and related expenses	16	16	48	47
Occupancy and other office expenses	3	3	10	11
Depreciation on operating leases	304	307	908	922
Fleet interest expense	17	20	53	63
Other depreciation and amortization	3	3	8	8
Other operating expenses	41	62	113	126
Total expenses	384	411	1,140	1,177
Segment profit	\$ 21	\$ 21	\$ 67	\$ 56

*Fleet Management Fees*

The drivers of Fleet management fees are leased vehicles and service unit counts as well as the usage of fee-based services. Fleet management fees consist primarily of the revenues of our principal fee-based products: fuel cards, maintenance services, accident management services and monthly management fees for leased vehicles. Fleet management fees also include driver safety training services fees.

**Quarterly Comparison:** Fleet management fees increased by \$3 million (7%) compared to 2011 due to a \$2 million increase in fees associated with fee-based products primarily driven by an increase in maintenance service card units and a \$1 million increase in asset-based fleet management services resulting from asset dispositions.

**Year-to-Date Comparison:** Fleet management fees increased by \$9 million (7%) compared to 2011 due to a \$6 million increase in fees associated with fee-based products primarily driven by an increase in maintenance service card units and higher client participation in driver safety training services. The remaining \$3 million increase in Fleet management fees compared to 2011 was due to higher usage of asset-based fleet management services resulting from asset dispositions.

Table of Contents*Fleet Lease Income*

The following table presents a summary of the components of Fleet lease income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Leasing revenue	\$ 333	\$ 336	\$ 1,000	\$ 1,013
Operating lease syndication revenue	7	34	14	37
Total	\$ 340	\$ 370	\$ 1,014	\$ 1,050

Fleet lease income consists of leasing revenue related to operating and direct financing leases as well as the gross sales proceeds associated with our operating lease syndications. We originate certain leases with the intention of syndicating to banks and other financial institutions, which includes the sale of the underlying assets and assignment of any rights to the leases. Upon the transfer and assignment of operating leases that qualify for sales treatment we record the proceeds from the sale within Fleet lease income and recognize the cost of goods sold within Other operating expenses for the undepreciated cost of the asset sold.

Leasing revenue related to operating leases consists of an interest component for the funding cost inherent in the lease as well as a depreciation component for the cost of the vehicles under lease. Leasing revenue related to direct financing leases consists of an interest component for the funding cost inherent in the lease.

**Quarterly Comparison:** Leasing revenue decreased by \$3 million compared to 2011 primarily due to a 3% decline in the average number of leased vehicles, which was partially offset by an increase in net investment in leases reflecting the growth in average lease balances from the change in mix to more expensive truck and service-type vehicles. The \$3 million decrease in leasing revenue had a related offset to Depreciation on operating leases of \$3 million as described below. The amount of gross sales proceeds related to operating lease syndications resulted in a \$27 million decrease in Fleet lease income compared to 2011.

**Year-to-Date Comparison:** Leasing revenue decreased by \$13 million compared to 2011 primarily due to a 3% decline in the average number of leased vehicles, which was partially offset by an increase in net investment in leases reflecting the growth in average lease balances from the change in mix to more expensive truck and service-type vehicles. The \$13 million decrease in leasing revenue had a related offset to Depreciation on operating leases of \$14 million as described below. The amount of gross sales proceeds related to operating lease syndications resulted in a \$23 million decrease in Fleet lease income compared to 2011.

*Other Income*

Other income primarily consists of gross sales proceeds from our owned vehicle dealerships, the gain or loss from the sale of used vehicles and other ancillary revenues.

**Quarterly Comparison:** There was no change in Other income as a decrease in gains on the sale of used vehicles was offset by an increase in gains associated with vehicle sales at our dealerships.

**Year-to-Date Comparison:** Other income increased by \$1 million compared to 2011 due to an increase in gains associated with vehicle sales at our dealerships and higher other ancillary revenues which were offset by a decrease in gains on the sale of used vehicles.

*Depreciation on Operating Leases*

Depreciation on operating leases is the depreciation expense associated with our vehicles under operating leases included in Net investment in fleet leases.

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**Quarterly Comparison:** Depreciation on operating leases decreased by \$3 million compared to 2011 primarily due to a 3% decline in the average number of leased vehicles which was partially offset by an increase in net investment in leases.

**Year-to-Date Comparison:** Depreciation on operating leases decreased by \$14 million compared to 2011 primarily due to a 3% decline in the average number of leased vehicles which was partially offset by an increase in net investment in leases.

*Fleet Interest Expense*

Fleet interest expense is primarily driven by the average volume and cost of funds rate of outstanding borrowings and consists of interest expense associated with borrowings related to leased vehicles, changes in market values of interest rate cap agreements related to vehicle asset-backed debt and amortization of deferred financing fees.

**Quarterly Comparison:** Fleet interest expense decreased by \$3 million (15%) compared to 2011 primarily due to favorable changes in the cost of funds rates resulting from debt renewals and fair value adjustments related to interest rate contracts associated with vehicle management asset-backed debt.

**Year-to-Date Comparison:** Fleet interest expense decreased by \$10 million (16%) compared to 2011 primarily due to favorable changes in the cost of funds rates resulting from debt renewals and fair value adjustments related to interest rate contracts associated with vehicle management asset-backed debt and a decrease in the amortization of deferred financing fees.

*Other Operating Expenses*

The following table presents a summary of the components of Other operating expenses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Cost of goods sold	\$ 21	\$ 44	\$ 53	\$ 71
Corporate overhead allocation	11	11	33	33
Other expenses	9	7	27	22
Total	\$ 41	\$ 62	\$ 113	\$ 126

Cost of goods sold represents the acquisition cost of vehicles at our dealerships and the carrying value of certain operating leases syndicated to banks and other financial institutions. The gross sales proceeds from our owned dealerships are included in Other income and the proceeds from

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syndications are recorded within Fleet lease income. Corporate overhead allocations relate to segment allocations of shared general and administrative costs and costs associated with operating and managing corporate functions and are discussed above under Results of Operations Other.

**Quarterly Comparison:** The \$23 million decrease in cost of goods sold compared to 2011 was primarily attributable to a decrease in the amount of operating lease syndications.

**Year-to-Date Comparison:** The \$18 million decrease in cost of goods sold compared to 2011 was primarily attributable to a decrease in the amount of operating lease syndications. Other expenses increased by \$5 million compared to 2011 primarily due to expenses associated with higher client participation in driver safety training services.



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## **RISK MANAGEMENT**

In the normal course of business we are exposed to various risks including, but not limited to, interest rate risk, consumer credit risk, commercial credit risk, counterparty credit risk, liquidity risk and foreign exchange risk. The Finance and Risk Management Committee of the Board of Directors provides oversight with respect to the assessment of our overall capital structure and its impact on the generation of appropriate risk adjusted returns, as well as the existence, operation and effectiveness of our risk management programs, policies and practices. Our Chief Risk Officer, working with each of our businesses, oversees governance processes and monitoring of these risks including the establishment of risk strategy and documentation of risk policies and controls.

### **Interest Rate Risk**

Our principal market exposure is to interest rate risk, specifically long-term Treasury and mortgage interest rates due to their impact on mortgage-related assets and commitments. Additionally, our escrow earnings on our mortgage servicing rights and our net investment in variable-rate lease assets are sensitive to changes in short-term interest rates such as LIBOR. We also are exposed to changes in short-term interest rates on certain variable rate borrowings including our mortgage warehouse asset-backed debt, vehicle management asset-backed debt and our unsecured revolving credit facility. We anticipate that such interest rates will remain our primary benchmark for market risk for the foreseeable future.

Refer to Item 3. Quantitative and Qualitative Disclosures About Market Risk for an analysis of the impact of 25 bps, 50 bps and 100 bps changes in interest rates on the valuation of assets and liabilities sensitive to interest rates.

### **Consumer Credit Risk**

Our exposures to consumer credit risk include:

- Loan repurchase and indemnification obligations from breaches of representation and warranty provisions of our loan sales or servicing agreements, which result in indemnification payments or exposure to loan defaults and foreclosures;
- Mortgage reinsurance losses; and
- A decline in the fair value of mortgage servicing rights as a result of increases in involuntary prepayments from increasing portfolio delinquencies.

*Loan Repurchases and Indemnifications*

Foreclosure-related reserves are maintained for probable losses related to repurchase and indemnification obligations and on-balance sheet loans in foreclosure and real estate owned. 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 of defending against requests and estimated loss severities on repurchases and indemnifications. The liability for loan repurchases and indemnifications does not reflect losses from litigation or governmental and regulatory examinations, investigations or inquiries. While the best information available is used in estimating our liability, our actual experience can vary significantly from our assumptions as the estimation process is inherently uncertain. Given the increased levels of repurchase requests and realized losses in recent periods, there is a reasonable possibility that future losses may be in excess of the recorded liability.

As of September 30, 2012, the estimated amount of reasonably possible losses in excess of the recorded liability was \$70 million. This estimate assumes that repurchases and indemnifications remain at an elevated level through the year ended December 31, 2013, our success rate in defending against requests declines and loss severities remain at current levels. Our 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

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levels of home equity; (ii) the criteria used by investors in selecting loans to request; (iii) borrower delinquency patterns; and (iv) general economic conditions.

Actual losses incurred in connection with loan repurchases and indemnifications could vary significantly from and exceed the recorded liability. We may also be required to increase our loan repurchase and indemnification liability in the future. Accordingly, there can be no assurance that actual losses or estimates of reasonably possible losses associated with loan repurchases and indemnifications will not be in excess of the recorded liability or that we will not be required to increase the recorded liability in the future.

Foreclosure-related reserves consist of the following:

	September 30, 2012	December 31, 2011
	(In millions)	
Loan repurchase and indemnification liability	\$ 137	\$ 95
Allowance for probable foreclosure losses	23	19
Adjustment to value for real estate owned	16	13
Total	\$ 176	\$ 127

The table below presents the trend over the most recent quarters of our foreclosure reserve activity and number of repurchase claim requests received:

	September 30, 2012	June 30, 2012	Three Months Ended March 31, 2012	December 31, 2011	September 30, 2011
	(In millions)				
Balance, beginning of period	\$ 175	\$ 165	\$ 127	\$ 120	\$ 122
Realized foreclosure losses	(43)	(33)	(33)	(20)	(27)
Increase in reserves due to:					
Change in assumptions	41	39	65	21	20
New loan sales	3	4	6	6	5
Balance, end of period	\$ 176	\$ 175	\$ 165	\$ 127	\$ 120
Repurchase requests received (number of loans)	997	1,171	1,407	698	663

Table of Contents*Loan Repurchase & Indemnification Liability*

We subject the population of repurchase and indemnification requests received to a review and appeal process to establish the validity of the claim and corresponding obligation. The following table presents the unpaid principal balance of our unresolved requests by status:

	As of September 30, 2012			As of December 31, 2011		
	Investor Requests	Insurer Requests	Total (4)	Investor Requests	Insurer Requests	Total (4)
<b>Agency Invested:</b>						
Claim pending (1)	\$ 44	\$ 1	\$ 45	\$ 33	\$ 1	\$ 34
Appealed (2)	60	11	71	24	10	34
Open to review (3)	70	17	87	101	14	115
Agency requests	174	29	203	158	25	183
<b>Private Invested:</b>						
Claim pending (1)	9		9	3		3
Appealed (2)	15	2	17	17	3	20
Open to review (3)	15	6	21	12	4	16
Private requests	39	8	47	32	7	39
Total	\$ 213	\$ 37	\$ 250	\$ 190	\$ 32	\$ 222

- (1) Claim pending status represents loans that have completed the review process where we have agreed with the representation and warranty breach and are pending final execution.
- (2) Appealed status represents loans that have completed the review process where we have disagreed with the representation and warranty breach and are pending response from the claimant. Based on claims received and appealed during the twelve months ended September 30, 2012 that have been resolved, we were successful in refuting approximately 85% of claims appealed.
- (3) Open to review status represents loans where we have not completed our review process. We appealed approximately 65% of claims received and reviewed during the twelve months ended September 30, 2012.
- (4) Investors may make repurchase demands based on unresolved mortgage insurance rescission notices. In these cases, the total unresolved requests balance includes certain loans that are currently subject to both an outstanding repurchase demand and an unresolved mortgage insurance rescission notice.

Approximately 81% and 70% of the unpaid principal balance of our unresolved repurchase requests related to loans originated between 2005 and 2008 as of September 30, 2012 and December 31, 2011, respectively.

See Note 9, *Credit Risk*, in the accompanying Notes to Condensed Consolidated Financial Statements for additional information regarding our foreclosure-related reserves.

*Mortgage Reinsurance*

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In 2012, we terminated one of our inactive reinsurance contracts that resulted in a pre-tax loss of \$16 million for the nine months ended September 30, 2012 which was recorded in Loan servicing income in the Condensed Consolidated Statements of Operations. See Note 9, Credit Risk, in the accompanying Notes to Condensed Consolidated Financial Statements for additional information regarding the termination agreement.

We have remaining exposure to consumer credit risk through losses from one contract with a primary mortgage insurance company that is inactive and in runoff. We are required to hold securities in trust related to this potential obligation, which were \$126 million as of September 30, 2012 and were included in Restricted cash, cash equivalents and investments in the accompanying Condensed Consolidated Balance Sheets. As of September 30, 2012, a liability of \$40 million was included in Other liabilities in the accompanying Condensed Consolidated Balance Sheets for incurred and incurred but not reported losses associated with our mortgage reinsurance activities, which was determined on an undiscounted basis.

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

	Three Months Ended September 30,			Nine Months Ended September 30,				
	2012		2011	2012		2011		
	(In millions)							
Balance, beginning of period	\$	43	\$	97	\$	84	\$	113
Realized reinsurance losses(1)		(6)		(16)		(57)		(49)
Increase in liability for reinsurance losses(2)		3		13		13		30
Balance, end of period	\$	40	\$	94	\$	40	\$	94

- (1) Realized reinsurance losses for the nine months ended September 30, 2012 includes \$21 million related to the release of reserves associated with the termination of an inactive insurance agreement.
- (2) The increase in reinsurance reserves is recorded as an expense within Loan servicing income in the accompanying Condensed Consolidated Statements of Operations.

The following table summarizes certain information regarding mortgage loans that are subject to reinsurance by year of origination as of September 30, 2012:

Year of Origination:	Unpaid Principal Balance (UPB)	Maximum Potential Exposure to Reinsurance Loss	Average Credit Score(3)	Delinquencies(1)(2)(3)	Foreclosures/ Real estate owned/ Bankruptcies(2)(3)
	(\$ In millions)				
2003	\$ 191	\$ 50	687	5.96%	8.54%
2004	545	70	687	5.90%	7.90%
2005	509	14	692	5.86%	10.67%
2006	284		690	5.47%	12.28%
2007	732		699	4.98%	10.36%
2008	512	17	718	3.44%	5.45%
2009	286	7	757	0.35%	0.51%
Total	\$ 3,059	\$ 158	703	4.81%	8.41%

- (1) Represents delinquent mortgage loans for which payments are 60 days or more outstanding as a percentage of the total unpaid principal balance.
- (2) Calculated as a percentage of the total unpaid principal balance.
- (3) Based on June 30, 2012 data.

**Commercial Credit Risk**

We are exposed to commercial credit risk for our clients under the lease and service agreements of our Fleet Management Services segment. We manage such risk through an evaluation of the financial position and creditworthiness of the client, which is performed on at least an annual basis. The lease agreements generally allow us to refuse any additional orders; however, the obligation remains for all leased vehicle units under

contract at that time. The fleet management service agreements can generally be terminated upon 30 days written notice.

**Counterparty & Concentration Risk**

We are exposed to risk in the event of non-performance by counterparties to various agreements, derivative contracts, and sales transactions. In general, we manage such risk by evaluating the financial position and creditworthiness of counterparties, monitoring the amount for which we are at risk, requiring collateral, typically cash, in instances in which financing is provided and/or dispersing the risk among multiple counterparties.

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As of September 30, 2012, there were no significant concentrations of credit risk with any individual counterparty or group of counterparties with respect to our derivative transactions. Concentrations of credit risk associated with receivables are considered minimal due to our diverse client base. With the exception of the financing provided to customers of our mortgage business, we do not normally require collateral or other security to support credit sales.

## **LIQUIDITY AND CAPITAL RESOURCES**

We manage our liquidity and capital structure to fund growth in assets, to fund business operations, and to meet contractual obligations, including maturities of our indebtedness. In developing our liquidity plan, we consider how our needs may be impacted by various factors including maximum liquidity needs during the period, fluctuations in assets and liability levels due to changes in business operations, levels of interest rates, and working capital needs. We also assess market conditions and capacity for debt issuance in various markets we access to fund our business needs. Our primary operating funding needs arise from the origination and financing of mortgage loans, the purchase and funding of vehicles under management and the retention of mortgage servicing rights. Our liquidity needs can also be significantly influenced by changes in interest rates due to collateral posting requirements from derivative agreements as well as the levels of repurchase and indemnification requests from investors and insurers of loans that have been previously sold.

Sources of liquidity include: equity capital (including retained earnings); the unsecured debt markets; committed and uncommitted credit facilities; secured borrowings, including the asset-backed debt markets; cash flows from operations (including service fee and lease revenues); cash flows from assets under management; and proceeds from the sale or securitization of mortgage loans and lease assets.

We are continuing to monitor developments in regulations that may impact our businesses including the Dodd-Frank Act and ongoing GSE reforms that could have a material impact on our liquidity. For more information, see Part II Item 1A. Risk Factors Risk Related to our Company The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our business, financial position, results of operations or cash flows. 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. and Item 1A. Risk Factors Risk Related to our Company Changes in existing U.S. government-sponsored mortgage programs or servicing eligibility standards could materially and adversely affect our business, financial position, results of operations or cash flows. in this Form 10-Q.

We have historically been reliant on accessing the capital markets for unsecured debt in order to refinance or extend the maturities of our unsecured debt at the parent company level and we may do so in the future. There has been a prolonged period of uncertainty and volatility in the economy, which may impair or limit our access to unsecured funding. Additionally, our senior unsecured long-term debt credit ratings are below investment grade, and as a result, our access to the public debt markets may be severely limited in comparison to the ability of investment grade issuers to access such markets.

### **Liquidity and Capital Plan**

Our goals for 2012 have included a focus on increasing liquidity and cash flow generation, addressing our near-term debt maturities and negotiating an extension of our unsecured revolving credit facility. Consistent with those goals, we developed a liquidity and capital plan



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consisting of various steps to improve our liquidity and capital position, which may involve one or more of the following:

- (i) focusing our efforts to ensure that our operations are cash flow positive, which may include reductions in our correspondent mortgage originations;
- (ii) disposing of assets that are not necessary to support our business strategies, which may include the assets of our reinsurance business; and
- (iii) generating mortgage servicing rights with minimal use of cash.

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We have taken the following actions in the nine months ended September 30, 2012 to improve our liquidity and capital position:

- completed an offering of 6.0% Convertible notes due 2017 with \$243 million of net cash proceeds;
- completed an offering of 7.375% Senior notes due 2019 with \$270 million of net cash proceeds;
- amended our Credit Facility agreement, extending a portion of commitments to August 2015;
- established a secured Canadian revolving credit facility with \$127 million of commitments;
- repaid \$671 million of unsecured term debt, including the Convertible notes due 2012 and the Medium-term notes due in 2013;
- generated \$161 million of cash from the securitization of fleet leases, including the release of overcollateralization from prior securitizations;
- generated \$42 million of cash from the sale of non-conforming mortgage loans and mortgage-backed residual investments;
- generated \$40 million of unrestricted cash from our reinsurance subsidiary, including \$24 million from the termination of a reinsurance agreement and \$16 million from the release of restricted cash in excess of the trust requirements;
- selectively originated loans in our wholesale/correspondent platform with minimal cash consumption; and
- aligned our business operations with established cash flow targets.

See Note 7, Debt and Borrowing Arrangements for further discussion of the debt arrangements discussed above.

As a result of these actions, we generated \$756 million of unrestricted cash and repaid \$671 million of unsecured debt during the nine months ended September 30, 2012. These specific actions, when combined with our cash flows from other operating, financing and investing activities, as discussed below, increased our Cash and cash equivalents by \$263 million from December 31, 2011.

We will continue to actively refine our liquidity plan and take all appropriate actions in an effort to ensure we have more than adequate liquidity. There can be no assurances that we will be successful implementing this plan, or if we are successful, there can be no assurances that our plan will be sufficient to meet our liquidity needs. We believe that the execution of our liquidity and capital plan will provide sufficient liquidity to fund potential increases in repurchase and indemnification requests and operate our business. However, the execution of our plan may have a negative impact on our future results of operations, including revenue and net income.

Given our expectation for business volumes, we believe that our sources of liquidity are adequate to fund our operations for at least the next 12 months. We expect aggregate capital expenditures to be between \$40 million and \$45 million for 2012, in comparison to \$25 million for 2011.

Table of Contents**Cash Flows**

At September 30, 2012, we had \$677 million of Cash and cash equivalents, an increase of \$263 million from \$414 million at December 31, 2011. The following table summarizes the changes in Cash and cash equivalents:

	Nine Months Ended		Change
	2012	September 30, 2011 (In millions)	
Cash provided by (used in):			
Operating activities	\$ 1,802	\$ 2,339	\$ (537)
Investing activities	(904)	(899)	(5)
Financing activities	(635)	(1,550)	915
Effect of changes in exchange rates on Cash and cash equivalents		(1)	1
Net increase (decrease) in Cash and cash equivalents	\$ 263	\$ (111)	\$ 374

***Operating Activities***

Our cash flows from operating activities reflect the net cash generated or used in our business operations and can be significantly impacted by the timing of mortgage loan originations and sales. In addition to depreciation and amortization, the operating results of our reportable segments are impacted by the following significant non-cash activities:

- **Mortgage Production** Capitalization of mortgage servicing rights
- **Mortgage Servicing** Change in fair value of mortgage servicing rights
- **Fleet Management Services** Depreciation on operating leases

During the nine months ended September 30, 2012, cash provided by operating activities was \$1.8 billion. This is primarily reflective of \$1.4 billion of net cash provided by the volume of mortgage loan sales in our Mortgage Production segment partially offset by \$35 million paid to counterparties related to cash collateral posted on derivative agreements associated with loan related derivatives. Cash provided by operating activities was further driven by positive cash flows from our Mortgage Servicing and Fleet Management Services segments.

The net cash provided by the operating activities of our Mortgage Production segment resulted from a \$705 million decrease in the Mortgage loans held for sale balance in our Condensed Consolidated Balance Sheets between September 30, 2012 and December 31, 2011, which is the result of timing differences between origination and sale as of the end of each period. The decrease in Mortgage loans held for sale also resulted

in a decrease in Mortgage Asset-Backed Debt as further described in Financing Activities below.

During the nine months ended September 30, 2011, cash provided by our operating activities was \$2.3 billion. This was reflective of \$2.1 billion of net cash provided by the volume of mortgage loan sales in our Mortgage Production segment and in the operating activities of our Fleet Management Services segment. Other adjustments and changes in other assets and liabilities, net primarily includes the \$68 million gain on the sale of an interest in our appraisal services business and a net cash outflow of \$290 million for cash collateral on derivative agreements.

***Investing Activities***

Our cash flows from investing activities include cash outflows for purchases of vehicle inventory, net of cash inflows for sales of vehicles within the Fleet Management Services segment as well as changes in the funding requirements of Restricted cash, cash equivalents and investments for all of our business segments. Cash flows related to the acquisition and sale of vehicles fluctuate significantly from period to period due to the timing of the underlying transactions.

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During the nine months ended September 30, 2012, cash used in our investing activities was \$904 million, which primarily consisted of \$1.1 billion in net cash outflows from the purchase and sale of vehicles, partially offset by a \$141 million net decrease in Restricted cash, cash equivalents and investments primarily due to a \$100 million reduction in restricted cash associated with our mortgage reinsurance activities from paid losses and the termination of one of our reinsurance agreements and a release of \$33 million of restricted cash related to the Chesapeake 2009-1 and 2009-4 Notes which were repaid during the third quarter of 2012.

During the nine months ended September 30, 2011, cash used in our investing activities was \$899 million, which primarily consisted of \$910 million in net cash outflows from the purchase and sale of vehicles, partially offset by \$20 million in net cash inflows from the sale of an interest in our appraisal services business.

*Financing Activities*

Our cash flows from financing activities include proceeds from and payments on borrowings under our vehicle management asset-backed debt, mortgage asset-backed debt and unsecured debt facilities. The fluctuations in the amount of borrowings within each period are due to working capital needs and the funding requirements for assets supported by our secured and unsecured debt, including Net investment in fleet leases, Mortgage loans held for sale and Mortgage servicing rights.

During the nine months ended September 30, 2012, cash used in our financing activities was \$635 million and related to \$409 million of net payments on secured borrowings resulting from the decreased funding requirements for Mortgage loans held for sale described in operating activities and \$153 million of net payments on unsecured borrowings resulting from the repayments of the Convertible notes due 2012 and the Medium-term Notes due 2013 which were offset by the issuances of the Convertible notes due 2017 and the Senior Notes due 2019. As of September 30, 2012, our financing activities reflect our efforts to maximize secured borrowings against the available asset base, increasing the ending cash balance. Within each quarter, excess available cash is utilized to fund assets rather than using the Mortgage and Vehicle asset-backed borrowing arrangements, given the relative borrowing costs and returns on invested cash.

During the nine months ended September 30, 2011, cash used in our financing activities was \$1.6 billion and related to net payments on borrowings resulting from the decreased funding requirements for Mortgage loans held for sale described in Operating Activities and Investing Activities above.

**Debt**

We utilize both secured and unsecured debt as key components of our financing strategy. Our primary financing needs arise from our assets under management programs which are summarized in the table below:

September 30, 2012	December 31, 2011
(In millions)	

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Restricted cash, cash equivalents and investments	\$	435	\$	574
Mortgage loans held for sale		1,953		2,658
Net investment in fleet leases		3,653		3,515
Mortgage servicing rights		1,002		1,209
Total	\$	7,043	\$	7,956

Asset-backed debt is used primarily to support our investments in vehicle management and mortgage assets, and is secured by collateral which include certain Mortgage loans held for sale and Net investment in fleet leases, among other assets. The outstanding balance under the asset-backed debt facilities varies daily based on our current funding needs for eligible collateral. In addition, amounts undrawn and available under our revolving credit facility can also be utilized to supplement asset-backed facilities and provide for the funding of vehicles in the U.S. and Canada as well as the funding of mortgage originations.

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The following table summarizes our Debt as of September 30, 2012:

	Balance	(In millions)	Total Assets Held as Collateral(1)
Vehicle Management Asset-Backed Debt	\$ 3,397		\$ 3,871
Mortgage Asset-Backed Debt		1,772	1,848
Unsecured Debt		1,149	
Total	\$ 6,318		\$ 5,719

(1) Assets held as collateral are not available to pay our general obligations.

**Vehicle Management Asset-Backed Debt**

Vehicle management asset-backed debt primarily represents variable-rate debt issued by our wholly owned subsidiary, Chesapeake Funding LLC, to support the acquisition of vehicles used by our Fleet Management Services segment's U.S. leasing operations and debt issued by Fleet Leasing Receivables Trust ( FLRT ), a special purpose trust, used to finance leases originated by our Canadian fleet operation.

Vehicle management asset-backed funding arrangements consisted of the following facilities as of September 30, 2012:

	Balance	Total Capacity (In millions)	Available Capacity(1)	End of Revolving Period(2)	Estimated Maturity Date(3)
Chesapeake 2009-2	\$ 436	n/a	n/a	n/a	02/15/14
Chesapeake 2009-3	39	n/a	n/a	n/a	08/07/14
FLRT 2010-1	54	n/a	n/a	n/a	08/15/13
Term notes, in amortization	529				
Chesapeake 2011-2	350	\$ 350	\$	09/19/13	09/07/16
Chesapeake 2012-1	643	643		04/18/13	04/07/16
Term notes, in revolving period	993	993			
Chesapeake 2010-1	719	875	156	06/26/13	09/07/16
FLRT 2010-2	617	830	213	08/30/13	04/15/22
Chesapeake 2011-1	513	625	112	06/26/14	09/07/17
Variable-funding notes	1,849	2,330	481		
Other	26	26			
Total	\$ 3,397	\$ 3,349	\$ 481		

(1) Capacity is dependent upon maintaining compliance with the terms, conditions, and covenants of the respective agreements and may be further limited by asset eligibility requirements.

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- (2) During the revolving period, the monthly collection of lease payments allocable to each outstanding series creates availability to fund the acquisition of vehicles and/or equipment to be leased to customers. Upon expiration, the revolving period of the related series of notes ends and the repayment of principal commences, amortizing monthly with the allocation of lease payments until the notes are paid in full.
- (3) Represents the estimated final repayment date of the amortizing notes.

In October 2012, Chesapeake issued \$600 million of Series 2012-2 Term Notes. Proceeds from the notes were used to pay down a portion of the Series 2010-1 and 2011-1 Chesapeake Variable-funding notes.

### *Secured Canadian Credit Facility*

On September 25, 2012, PHH Vehicle Management Services, Inc. entered into a secured revolving credit facility providing up to \$127 million (C\$125 million) of committed revolving capacity. The facility is scheduled to expire



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on August 2, 2015. As of and during the nine months ended September 30, 2012, there were no amounts outstanding under the Secured Canadian credit facility.

***Mortgage Asset-Backed Debt***

Mortgage asset-backed debt primarily represents variable-rate mortgage repurchase facilities to support the origination of mortgage loans. Mortgage repurchase facilities, also called warehouse lines of credit, are one component of our funding strategy, and they provide creditors a collateralized interest in specific mortgage loans that meet the eligibility requirements under the terms of the facility during the warehouse period. The source of repayment of the facilities is typically from the sale or securitization of the underlying loans into the secondary mortgage market. We utilize both committed and uncommitted warehouse facilities and we evaluate our needs under these facilities based on forecasted volume of mortgage loan closings and sales.

Our funding strategies for mortgage originations may also include the use of committed and uncommitted mortgage gestation facilities. Gestation facilities effectively finance mortgage loans that are eligible for sale to an agency prior to the issuance of the related MBS.

Mortgage asset-backed funding arrangements consisted of the following as of September 30, 2012:

	Balance	Total Capacity (In millions)	Available Capacity(1)	Maturity Date
<b>Debt:</b>				
<i>Committed facilities of PHH Mortgage:</i>				
Fannie Mae	\$ 557	\$ 1,000	\$ 443	12/15/12
Royal Bank of Scotland plc	264	500	236	06/21/13
Bank of America	107	420	313	10/10/13
Barclays Bank PLC	52	350	298	12/11/12
Wells Fargo Bank	21	250	229	10/09/12(3)
Credit Suisse First Boston Mortgage Capital LLC	58	250 (2)	192	05/22/13
<i>Committed facilities of PHH Home Loans:</i>				
Credit Suisse First Boston Mortgage Capital LLC	309	425 (2)	116	05/22/13
Wells Fargo Bank	188	200	12	10/09/12(3)
Barclays Bank PLC	145	150	5	12/11/12
Committed repurchase facilities	1,701	3,545	1,844	
<i>Uncommitted facilities of PHH Mortgage:</i>				
Fannie Mae		2,000	2,000	n/a
Uncommitted repurchase facilities		2,000	2,000	
Servicing advance facility	71	120	49	06/30/13
Total	\$ 1,772	\$ 5,665	\$ 3,893	
<b>Off-Balance Sheet Gestation Facilities:</b>				
JP Morgan Chase	\$ 180	\$ 500	\$ 320	10/31/12(4)

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- (1) Capacity is dependent upon maintaining compliance with the terms, conditions, and covenants of the respective agreements and may be further limited by asset eligibility requirements.
  - (2) We may allocate a limited amount of capacity from the committed facilities with Credit Suisse First Boston Mortgage Capital LLC between PHH Mortgage and PHH Home Loans; however, the aggregate combined borrowing capacity cannot exceed \$675 million. The borrowing capacities in the table above reflect the maximum available to PHH Home Loans.
  - (3) In October 2012, the Wells Fargo Bank facilities were amended and the respective maturity dates were extended to December 9, 2012.
  - (4) In October 2012, the JPM Gestation facility was amended and the maturity date was extended to October 31, 2013.

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Unsecured credit facilities are utilized to fund our short-term working capital needs to fund our MSR's and to supplement asset-backed facilities and provide for a portion of the operating needs of our mortgage and fleet management businesses. As of and during the nine months ended September 30, 2012, there were no amounts outstanding under the Revolving Credit Facilities.

Unsecured borrowing arrangements consisted of the following as of September 30, 2012:

	Balance	Balance at Maturity (In millions)	Total Capacity	Available Capacity	Maturity Date
4% notes due in 2014	\$ 223	\$ 250	n/a	n/a	09/01/14
6% notes due in 2017	194	250	n/a	n/a	06/15/17
Convertible notes	417	500			
9.25% notes due in 2016	449	450	n/a	n/a	03/01/16
7.375% notes due in 2019	275	275	n/a	n/a	09/01/19
Other	8	8	n/a	n/a	04/15/18
Term notes	732	733			
Revolving Credit Facility Tranche A			\$ 250	\$ 250	08/02/15
Revolving Credit Facility Tranche B			50	50	07/01/14
Other			5	5	09/30/13
Credit Facilities			\$ 305	\$ 305	
Total	\$ 1,149	\$ 1,233			

As of October 22, 2012, our credit ratings, and ratings outlook on our senior unsecured debt were as follows:

	Senior Debt	Short-Term Debt	Ratings Outlook/Watch
Moody's Investors Service	Ba2	NP	Negative
Standard & Poors	BB-	B	Negative
Fitch	BB	B	Negative

During the second quarter of 2012, Fitch Ratings downgraded our long-term Issuer Default Ratings and senior unsecured debt rating to BB from BB+, removed us from Ratings Watch Negative and maintained our Rating Outlook as Negative. In the first quarter of 2012, Moody's placed us on negative outlook and in the fourth quarter of 2011, S&P downgraded our debt rating from BB+ to BB- and placed us on negative outlook. The downgrades reflect the rating agencies' assessments of a variety of factors, including but not limited to: an increase in potential mortgage loan repurchases, our hedge practices related to our mortgage servicing rights, and uncertainties regarding our liquidity profile.

Our senior unsecured long-term debt credit ratings are below investment grade, and as a result, our access to the public debt markets may be severely limited in comparison to the ability of investment grade issuers to access such markets.

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A security rating is not a recommendation to buy, sell or hold securities, may not reflect all of the risks associated with an investment in our debt securities and is subject to revision or withdrawal by the assigning rating organization. Each rating should be evaluated independently of any other rating.

See Item 1A. Risk Factors Risk Related to Our Company Our senior unsecured long-term debt ratings are below investment grade (and were subject to recent downgrades) and, as a result, we may be limited in our ability to obtain or renew financing on economically viable terms or at all. in this Form 10-Q for more information.

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**Debt Covenants**

Certain of our 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 our indebtedness and the indebtedness of our 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 us or our counterparty to terminate the arrangement upon the occurrence of certain events, including those described below.

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

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

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

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

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

***Mortgage Servicing Rights.*** In the first quarter of 2012, we integrated an updated prepayment model used in the valuation of our mortgage servicing rights, which we believe is more closely aligned with the actual prepayment speeds of our capitalized servicing portfolio. Additionally, the new model utilizes a combination of standard default curves and current delinquency levels to project future delinquencies and

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foreclosures, whereas the previous model assumed current delinquency and foreclosure rates would remain constant over the life of the asset. Based upon the results of our analysis of the modeled value and validation of our value and current assumptions against third-party sources, there was no change to the overall value of MSR's as a result of the prepayment model update.

See Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates of our 2011 Form 10-K for further discussion of our critical accounting policies and estimates.

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## **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

For information regarding recently issued accounting pronouncements and the expected impact on our financial statements, see Note 1, Summary of Significant Accounting Policies in the accompanying Notes to Condensed Consolidated Financial Statements.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our principal market exposure is to interest rate risk, specifically long-term Treasury and mortgage interest rates due to their impact on mortgage-related assets and commitments. Additionally, our escrow earnings on our mortgage servicing rights and our net investment in variable-rate lease assets are sensitive to changes in short-term interest rates such as LIBOR. We also are exposed to changes in short-term interest rates on certain variable rate borrowings including our mortgage asset-backed debt, vehicle management asset-backed debt and our unsecured revolving credit facility. We anticipate that such interest rates will remain our primary benchmark for market risk for the foreseeable future.

### **Sensitivity Analysis**

We assess our market risk based on changes in interest rates utilizing a sensitivity analysis. The sensitivity analysis measures the potential impact on fair values based on hypothetical changes (increases and decreases) in interest rates.

We use a duration-based model in determining the impact of interest rate shifts on our debt portfolio, certain other interest-bearing liabilities and interest rate derivatives portfolios. The primary assumption used in these models is that an increase or decrease in the benchmark interest rate produces a parallel shift in the yield curve across all maturities.

We utilize a probability weighted option-adjusted spread model to determine the fair value of mortgage servicing rights and the impact of parallel interest rate shifts on mortgage servicing rights. The primary assumptions in this model are prepayment speeds, option-adjusted spread (discount rate) and weighted-average delinquency rates. However, this analysis ignores the impact of interest rate changes on certain material variables, such as the benefit or detriment on the value of future loan originations, non-parallel shifts in the spread relationships between mortgage-backed securities, swaps and Treasury rates and changes in primary and secondary mortgage market spreads. We rely on market sources in determining the impact of interest rate shifts for mortgage loans, interest rate lock commitments, forward delivery commitments on mortgage-backed securities or whole loans and option contracts. In addition, for interest-rate lock commitments, the borrower's propensity to close their mortgage loans under the commitment is used as a primary assumption.

Our total market risk is influenced by a wide variety of factors including market volatility and the liquidity of the markets. There are certain limitations inherent in the sensitivity analysis presented, including the necessity to conduct the analysis based on a single point in time and the inability to include the complex market reactions that normally would arise from the market shifts modeled.

We used September 30, 2012 market rates to perform the sensitivity analysis. The estimates are based on the market risk sensitive portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves. These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in fair value may not be linear.



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The following table summarizes the estimated change in the fair value of our assets and liabilities sensitive to interest rates as of September 30, 2012 given hypothetical instantaneous parallel shifts in the yield curve:

	Change in Fair Value					
	Down 100 bps	Down 50 bps	Down 25 bps	Up 25 bps	Up 50 bps	Up 100 bps
	(In millions)					
<b>Mortgage assets:</b>						
Restricted investments	\$ 1	\$ 1	\$ 1	\$ (1)	\$ (1)	\$ (2)
Mortgage loans held for sale	21	20	12	(15)	(32)	(72)
Interest rate lock commitments	49	45	28	(37)	(81)	(189)
Forward loan sale commitments	(76)	(68)	(41)	50	108	236
Option contracts	(1)	(1)	(1)	2	5	27
Total Mortgage loans held for sale, interest rate lock commitments and related derivatives	(7)	(4)	(2)			2
Mortgage servicing rights	(247)	(133)	(70)	76	155	308
Derivatives related to MSRs	104	40	17	(13)	(22)	(36)
Total Mortgage servicing rights and related derivatives	(143)	(93)	(53)	63	133	272
Total mortgage assets	(149)	(96)	(54)	62	132	272
Total vehicle assets	13	6	3	(3)	(6)	(12)
Interest rate contracts						1
Total liabilities	(56)	(28)	(14)	14	27	53
Total, net	\$ (192)	\$ (118)	\$ (65)	\$ 73	\$ 153	\$ 314

## Item 4. Controls and Procedures

### DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this Form 10-Q, management performed, with the participation of our Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on that evaluation, management concluded that our disclosure controls and procedures were effective as of September 30, 2012.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

For information regarding legal proceedings, see Note 10, Commitments and Contingencies in the accompanying Notes to Condensed Consolidated Financial Statements.

### **Item 1A. Risk Factors**

This Item 1A should be read in conjunction with Part I Item 1A. Risk Factors in our Form 10-K for the year ended December 31, 2011. Other than with respect to the risk factors discussed below, there have been no material changes from the risk factors disclosed in our Form 10-K.

*The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our business, financial position, results of operations or cash flows. 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.*

Our Mortgage Production and Mortgage Servicing segments are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on our business. These laws, regulations and judicial and administrative decisions to which our Mortgage Production and Mortgage Servicing segments are subject include those pertaining to: real estate settlement procedures; fair lending; fair credit reporting; truth in lending; compliance with net worth and financial statement delivery requirements; compliance with federal and state disclosure and licensing requirements; the establishment of maximum interest rates, finance charges and other charges; secured transactions; collection, foreclosure, repossession and claims-handling procedures; other trade practices and privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers and guidance on non-traditional mortgage loans issued by the federal financial regulatory agencies. By agreement with our private-label clients, we are required to comply with additional requirements that our clients may be subject to through their regulators.

During the third quarter of 2010, several of our mortgage servicing competitors announced the suspension of foreclosure proceedings in various judicial foreclosure states due to concerns associated with the preparation and execution of affidavits used in connection with foreclosure proceedings in such states. Due in part to these announcements, we have received inquiries from regulators and attorneys general of certain states requesting information as to our foreclosure processes and procedures. Furthermore, some local and state governmental authorities have taken, and others are contemplating taking, regulatory action to require increased loss mitigation outreach for borrowers, including the imposition of waiting periods prior to the filing of notices of default and the completion of foreclosure sales and, in some cases, moratoriums on foreclosures altogether.

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While we are continuing to monitor these developments, these developments have resulted and could continue to result in new legislation and regulations that could materially and adversely affect the manner in which we conduct our mortgage servicing business, heightened federal or state regulation and oversight of our mortgage servicing activities, increased costs and potential litigation associated with our mortgage servicing business and foreclosure related activities, and a temporary decline in home purchase loan originations in our mortgage production business due to the heightened number of distressed property sales that have recently characterized existing home sales. Such regulatory changes in the foreclosure process or delays in completing foreclosures could increase mortgage servicing costs and could reduce the ultimate proceeds received on the sale of foreclosed properties if real estate values continue to decline. In such event, these changes would also have a negative impact on our liquidity as we may be required to repurchase loans without the ability to sell the underlying property on a timely basis.

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Additionally, on July 21, 2010 the Dodd-Frank Act was signed into law for the express purpose of further regulating the financial services industry, including mortgage origination, sales, and securitization. Certain provisions of the Dodd-Frank Act may impact the operation and practices of Fannie Mae and Freddie Mac and require sponsors of securitizations to retain a portion of the economic interest in the credit risk associated with the assets securitized by them. Federal regulators have been authorized to provide exceptions to the risk retention requirements for certain qualified mortgages and mortgages meeting certain underwriting standards prescribed in such regulations. It is unclear whether future regulations related to the definition of qualified mortgages will include the types of conforming mortgage loans we typically sell into GSE sponsored mortgage-backed securities. If the mortgage loans we typically sell into GSE-sponsored mortgage-backed securities do not meet the definition of a qualified mortgage, then the GSEs may be required to retain a portion of the risk of assets they securitize, which may in turn substantially reduce or eliminate the GSEs' ability to issue mortgage-backed securities. Substantial reduction in, or the elimination of, GSE demand for the mortgage loans we originate would have a material adverse effect on our business, financial condition, results of operations and cash flows since we sell substantially all of our loans pursuant to GSE sponsored programs. It is also unclear what effect future laws or regulations may have on the ability of the GSEs to issue mortgage-backed securities and it is not currently possible to determine what changes, if any, Congress may make to the structure of the GSEs.

The Dodd-Frank Act also establishes an independent federal Bureau of Consumer Financial Protection (the CFPB) to enforce laws involving consumer financial products and services, including mortgage finance. The bureau is empowered with examination and enforcement authority over certain entities involved in mortgage origination and servicing, including PHH Mortgage and PHH Home Loans. The Dodd-Frank Act also establishes new standards and practices for mortgage originators, including determining a prospective borrower's ability to repay their mortgage, removing incentives for higher cost mortgages, prohibiting prepayment penalties for non-qualified mortgages, prohibiting mandatory arbitration clauses, requiring additional disclosures to potential borrowers and restricting the fees that mortgage originators may collect. In addition, our ability to enter into future asset-backed securities transactions may be impacted by the Dodd-Frank Act and other proposed reforms related thereto, the effect of which on the asset-backed securities market is currently uncertain. While we are continuing to evaluate all aspects of the Dodd-Frank Act, such legislation and regulations promulgated pursuant to such legislation could materially and adversely affect the manner in which we conduct our businesses, result in heightened federal regulation and oversight of our business activities, and result in increased costs and potential litigation associated with our business activities.

The U.S. Department of Justice has recently announced settlements of, and initiated various other actions against major lenders under the False Claims Act and other statutes. In connection with these settlements and actions, the U.S. Department of Justice has alleged, among other things, reckless mortgage lending practices and improper or inadequate certification to the government in connection with the Federal Housing Administration's Direct Endorsement Lending Program. The U.S. Department of Justice's civil frauds unit has brought these cases as part of its continuing investigation of lending practices. Although we have not been notified that we are the subject of any investigation by the U.S. Department of Justice, there can be no assurance that future investigations may not arise.

Our failure to comply with the laws, rules or regulations to which we are subject, whether actual or alleged, would expose us to fines, penalties or potential litigation liabilities, including costs, settlements and judgments, any of which could have a material adverse effect on our business, financial position, results of operations or cash flows.

We have received inquiries and requests for information from regulators and attorneys general of certain states as well as from the Committee on Oversight and Government Reform of the U.S. House of Representatives and the U.S. Senate Judiciary Committee, requesting information as to the Company's mortgage origination and servicing practices, including its foreclosure processes and procedures. Specifically, the New Jersey Attorney General has conducted an investigation of our servicing practices and has informed us that it believes that we have 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. We have 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 our mortgage servicing practices prior to July 2011. We believe we have meritorious defenses to these various allegations. However, there can be no assurance that claims or litigation will not arise from these inquiries or similar inquiries by other governmental authorities or that fines or penalties will not be assessed against us

in connection with these matters.

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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 that have not been material to date.

In January 2012, we were notified that the CFPB had opened an investigation to determine whether our mortgage insurance premium ceding practices to captive reinsurers comply with the Real Estate Settlement Procedures Act and other laws enforced by the CFPB. The CFPB has requested certain related documents and information for review and has requested the answers to written questions pursuant to a Civil Investigative Demand (the "CID"). In June 2012, we filed a petition to modify or withdraw the CID and in September 2012 the CFPB denied our petition. We have provided reinsurance services in exchange for premiums ceded and believe that we have 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.

In addition to those outlined above, we are also 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 any of these matters may result in adverse judgments, fines, penalties, injunctions and other relief against us, payments made in settlements arrangements, as well as monetary payments or other agreements and obligations, any of which could have a material adverse effect on our business, financial position, results of operations or cash flows.

***We are substantially dependent upon our secured and unsecured funding arrangements. If any of our funding arrangements are terminated, not renewed or otherwise become unavailable to us, we may be unable to find replacement financing on economically viable terms, if at all, which would have a material adverse effect on our business, financial position, results of operations and cash flows.***

We are substantially dependent upon various sources of funding, including unsecured credit facilities and other unsecured debt, as well as secured funding arrangements, including asset-backed securities, mortgage warehouse facilities and other secured credit facilities to fund mortgage loans and vehicle acquisitions, a significant portion of which is short-term in nature. Our access to both the secured and unsecured credit markets is subject to prevailing market conditions. Renewal of our existing series of, or the issuance of new series of, vehicle lease asset-backed notes on terms acceptable to us or our ability to enter into alternative vehicle management asset-backed debt arrangements could be adversely affected in the event of: (i) the deterioration in the quality of the assets underlying the asset-backed debt arrangement; (ii) increased costs associated with accessing or our inability to access the asset-backed debt market; (iii) termination of our role as servicer of the underlying lease assets in the event that we default in the performance of our servicing obligations or we declare bankruptcy or become insolvent or (iv) our failure to maintain a sufficient level of eligible assets or credit enhancements, including collateral intended to provide for any differential between variable-rate lease revenues and the underlying variable-rate debt costs. In addition, our access to and our ability to renew our existing mortgage asset-backed debt could suffer in the event of: (i) the deterioration in the performance of the mortgage loans underlying the asset-backed debt arrangement; (ii) our failure to maintain sufficient levels of eligible assets or credit enhancements; (iii) increased costs associated with accessing or our inability to access the mortgage asset-backed debt market; (iv) our inability to access the secondary market for mortgage loans; (v) termination of our role as servicer of the underlying mortgage assets in the event that (a) we default in the performance of our servicing obligations or (b) we declare bankruptcy or become insolvent or (vi) a lowering of our credit ratings.

Certain of our debt arrangements require us to comply with certain financial covenants and other affirmative and restrictive covenants, including requirements to post additional collateral or to fund assets that become ineligible under our secured funding arrangements. An uncured default of one or more of these covenants would result in a cross-default between and amongst our various debt arrangements. Consequently, an uncured default under any of our debt arrangements that is not waived by our lenders and that results in an acceleration of amounts payable to our lenders or the termination of credit facilities would materially and adversely impact our liquidity, could force us to sell assets at below market prices to

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repay our indebtedness, and could force us to seek relief under the U.S. Bankruptcy Code, all of which would have a material adverse effect on our business, financial position, results of operations and cash flows.



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If any of our credit facilities are terminated or are not renewed, including as a result of our breach or a lowering of our credit ratings, or if conditions in the credit markets worsen dramatically and it is not possible or economical for us to complete the sale or securitization of our originated mortgage loans or vehicle leases, we may be unable to find replacement financing on commercially favorable terms, if at all, which could adversely impact our operations and prevent us from: (i) executing our business plan and related risk management strategies; (ii) originating new mortgage loans or vehicle leases; or (iii) fulfilling commitments made in the ordinary course of business. These factors could reduce revenues attributable to our business activities or require us to sell assets at below market prices, either of which would have a material adverse effect on our overall business and consolidated financial position, results of operations and cash flows. Most of our mortgage asset backed debt facilities are 364-day facilities that mature within one year. Generally, these facilities require us to maintain a specified amount of available liquidity from other facilities. As such, our liquidity plan and compliance with debt covenants depends on our ability to renew multiple facilities within a short time frame.

***Our senior unsecured long-term debt ratings are below investment grade (and were subject to recent downgrades) and, as a result, we may be limited in our ability to obtain or renew financing on economically viable terms or at all.***

Our senior unsecured long-term debt ratings are below investment grade. As a result of our senior unsecured long-term debt credit ratings being below investment grade, our access to the public debt markets may be severely limited in comparison to the ability of investment grade issuers to access such markets. We may be required to rely on alternative financing, such as bank lines and private debt placements, and may also be required to pledge otherwise unencumbered assets. There can be no assurances that we would be able to find such alternative financing on terms acceptable to us, if at all. Furthermore, we may be unable to renew all of our existing bank credit commitments beyond the then-existing maturity dates. As a consequence, our cost of financing could rise significantly, thereby negatively impacting our ability to finance our mortgage loans held for sale, mortgage servicing rights and net investment in fleet leases. Any of the foregoing would have a material adverse effect on our business, financial position, results of operations and cash flows.

On December 21, 2011, Standard & Poor's Ratings Services ( S&P ) lowered our senior unsecured debt rating two notches with a negative outlook. S&P may lower our rating by another notch or more if we are unable to put in place sources of liquidity to fund our business satisfactory to S&P.

On January 10, 2012, Moody's Investors Service, Inc. ( Moody's ) affirmed our senior unsecured debt rating and corporate family rating and our commercial paper rating. Additionally, Moody's changed its outlook for our senior unsecured debt and corporate family ratings to negative from stable.

In addition, on May 30, 2012, Fitch removed our long-term issuer default rating and senior unsecured debt rating from Rating Watch Negative and lowered both ratings one notch with a negative rating outlook. Fitch may lower our ratings by another notch or more if losses arising from mortgage repurchase claims from the GSEs significantly exceed our operating cash flows and other liquidity sources; declines in mortgage origination cause our natural hedge ratio to materially worsen; or if we are unable to put in place sources of liquidity to fund our business satisfactory to Fitch.

The December 21, 2011 S&P downgrade and May 30, 2012 Fitch downgrade and any possible negative future action by S&P, Fitch or any of the other ratings agencies will exacerbate the risks described above. We cannot assure you what impact any debt ratings downgrade may have on our cost of capital, ability to incur new indebtedness or refinance our existing indebtedness or ability to retain or secure customers.

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There can be no assurances that our credit rating by the primary ratings agencies reflects all of the risks of an investment in our debt securities. Our credit ratings are an assessment by the rating agency of our ability to pay our obligations. Any of our credit ratings are subject to revision or withdrawal at any time by the applicable rating agency. Actual or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors on the market value of, or trading market for, our debt securities.

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***We are highly dependent upon programs administered by Fannie Mae, Freddie Mac and Ginnie Mae. Failure to maintain our relationships with each of Fannie Mae, Freddie Mac and Ginnie Mae could materially and adversely affect our business, financial position, results of operations or cash flows.***

Our ability to generate revenues through mortgage loan sales to institutional investors in the form of mortgage-backed securities depends to a significant degree on programs administered by Fannie Mae, Freddie Mac, Ginnie Mae and others that facilitate the issuance of mortgage-backed securities in the secondary market. These entities play a powerful role in the residential mortgage industry, and we have significant business relationships with them. Our status as a Fannie Mae, Freddie Mac and Ginnie Mae approved seller/servicer is subject to compliance with each entity's respective selling and servicing guidelines and failure to meet such guidelines could result in the unilateral termination of our status as an approved seller/servicer.

During 2011, 92% of our mortgage loan sales were sold to, or were sold pursuant to programs sponsored by, Fannie Mae, Freddie Mac or Ginnie Mae. We also derive other material financial benefits from our relationships with Fannie Mae, Freddie Mac and Ginnie Mae, including the assumption of credit risk by these entities on loans included in mortgage-backed securities in exchange for our payment of guarantee fees, the ability to avoid certain loan inventory finance costs through streamlined loan funding and sale procedures and the use of mortgage warehouse facilities with Fannie Mae pursuant to which, as of September 30, 2012, we had total capacity of \$3.0 billion, made up of \$1.0 billion of committed and \$2.0 billion uncommitted capacity. Due to the downgrade of our credit rating by S&P on December 21, 2011, Fannie Mae had the right to terminate its \$1.0 billion committed early funding letter agreement (the "Committed Funding Letter Agreement"). On April 27, 2012, we renewed our master agreement with Fannie Mae and amended certain other agreements with Fannie Mae, including an amendment to the Committed Funding Letter Agreement (the "Amended Committed Funding Letter Agreement"). Pursuant to the Amended Committed Funding Letter Agreement, the termination event related to our credit ratings was removed and other termination events were added, most of which are generally consistent with existing covenants under our various other debt facilities. These additional termination events include, among others, a failure to maintain (i) on the last day of each fiscal quarter, consolidated net worth of at least \$1.0 billion; (ii) on the last day of each fiscal quarter, a ratio of indebtedness to tangible net worth no greater than 6.5 to 1; (iii) a minimum of \$1.0 billion in committed mortgage warehouse facilities or Gestation Facilities, with no more than \$500 million of Gestation Facilities included towards the minimum, but excluding committed or uncommitted loan purchase arrangements or other funding arrangements from Fannie Mae and any mortgage warehouse capacity provided by GSEs; and (iv) compliance with certain loan repurchase trigger event criteria related to the aging of outstanding loan repurchase demands by Fannie Mae. Unless earlier terminated, the Amended Committed Funding Letter Agreement expires on December 15, 2012.

In addition, we service loans on behalf of Fannie Mae and Freddie Mac, as well as loans that have been securitized pursuant to securitization programs sponsored by Fannie Mae, Freddie Mac and Ginnie Mae in connection with the issuance of agency guaranteed mortgage-backed securities and a majority of our mortgage servicing rights relate to these servicing activities. These entities establish the base service fee to compensate us for servicing loans as well as the assessment of fines and penalties that may be imposed upon us for failing to meet servicing standards.

***Changes in existing U.S. government-sponsored mortgage programs or servicing eligibility standards could materially and adversely affect our business, financial position, results of operations or cash flows.***

In January 2011, the Federal Housing Finance Agency directed Fannie Mae and Freddie Mac to develop a joint initiative to consider alternatives for future mortgage servicing structures and compensation. Under this proposal, the GSEs are considering potential structures in which the minimum service fee would be reduced or eliminated altogether. This would provide mortgage bankers with the ability to either sell all or a portion of the retained servicing fee for cash up front, or retain an excess servicing fee. While the proposal provides additional flexibility in managing liquidity and capital requirements, it is unclear how the various options might impact mortgage-backed security pricing and the related pricing of excess servicing fees. The GSEs are also considering different pricing options for non-performing loans to better align servicer

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incentives with MBS investors and provide the loan guarantor the ability to transfer non-performing servicing. The Federal Housing Finance Agency has indicated that any change in the servicing compensation structure would be prospective and the changes, if implemented, could have a significant impact on the entire mortgage industry and on the results of operations and cash flows of our mortgage business.

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In February 2011 the Obama administration issued a report to Congress, and in February 2012 the Federal Housing Finance Agency issued a report to Congress outlining the long-term strategic plan for, and various options for long-term reform of Fannie Mae and Freddie Mac. These options involve gradually reducing the role of Fannie Mae and Freddie Mac in the mortgage market and ultimately winding down both institutions such that the private sector provides the majority of mortgage credit. Such reforms may include, among other actions: (i) further reductions in conforming loan limits; (ii) increases in guarantee fees; (iii) standardization of servicing protocols; (iv) changes to servicer compensation; and (v) increased MBS disclosures. In addition, it is possible that some of these reforms could be accelerated depending on the outcome of the 2012 U.S. Presidential and Congressional elections, among other things. Any of these options are likely to result in higher mortgage rates in the future, which could have a negative impact on our Mortgage production business. Additionally, it is unclear what impact these changes will have on the secondary mortgage markets, mortgage-backed securities pricing, and competition in the industry.

On August 17, 2012, the U.S. Treasury Department announced further steps to expedite the wind down of Fannie Mae and Freddie Mac, including an accelerated liquidation of Fannie Mae's and Freddie Mac's retained mortgage investment portfolios. To the extent that the accelerated liquidation of Fannie Mae's and Freddie Mac's retained mortgage investment portfolios impacts the pricing in the secondary mortgage market of mortgage related assets, it is reasonably possible that such pricing impacts could impact mortgage origination volumes and pricing margins across the mortgage industry, including our mortgage origination volumes and pricing margins, and such impacts could be material. Although we do not presently believe that the accelerated liquidation of Fannie Mae's and Freddie Mac's retained mortgage investment portfolios would have any direct impact on their respective mortgage guaranty programs, increases in guaranty fees that are charged by Fannie Mae and Freddie Mac to mortgage originators like us could result in higher mortgage rates charged to borrowers, which could result in reduced demand for mortgages, or reduced pricing margins or both. Accordingly, increases in such guaranty fees could also adversely impact mortgage origination volumes or pricing margins across the mortgage industry, including our mortgage origination volumes and pricing margins, and such impacts could be material.

The potential changes to the government-sponsored mortgage programs, and related servicing compensation structures, could require us to fundamentally change our business model in order to effectively compete in the market. Our inability to make the necessary changes to respond to these changing market conditions or loss of our approved seller/servicer status with any of these entities, would have a material adverse effect on our overall business and our consolidated financial position, results of operations and cash flows and could result in a lowering of our credit ratings. Any discontinuation of, significant reduction of or material change in, the operation or underwriting standards of these entities would likely prevent us from originating and selling most, if not all, of our salable mortgage loan originations and could result in the discontinuation of or material decrease in the availability of our mortgage warehouse facilities with Fannie Mae.

***Our Mortgage Production segment is substantially dependent upon our relationships with Realty and Merrill Lynch Home Loans, a division of Bank of America, National Association, and the termination or non-renewal of our contractual agreements with these clients would materially and adversely impact our mortgage loan originations and resulting Net revenues and Segment profit (loss) of our Mortgage Production segment and this would have a material adverse effect on our overall business and our consolidated financial position, results of operations and cash flows.***

We have relationships with several clients that represent a significant portion of our revenues and mortgage loan originations for our Mortgage Production segment. In particular, Realty and Merrill Lynch Home Loans, a division of Bank of America, National Association, represented approximately 22% and 21%, respectively, of our mortgage loan originations for the year ended December 31, 2011. The loss of any one of these clients, whether due to insolvency, their unwillingness or inability to perform their obligations under their respective contractual relationships with us, their termination of their respective contractual relationships with us due to our failure to fully satisfy our contractual obligations, or if we are not able to renew on commercially reasonable terms any of their respective contractual relationships with us, would materially and adversely impact our mortgage loan originations and resulting Net revenues and Segment profit (loss) of our Mortgage Production segment and this would also have a material adverse effect on our overall business and our consolidated financial position, results of operations and cash flows.



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In the third quarter of 2011, we were unable to reach an agreement to renew our existing relationship with Charles Schwab, which represented 9% of our mortgage loan originations for the year ended December 31, 2011, as well as approximately \$8.9 billion of subserviced loans as of December 31, 2011.

*The termination of our status as the exclusive recommended provider of mortgage products and services promoted by Realogy's affiliates would have a material adverse effect on our business, financial position, results of operations or cash flows.*

We are party to a strategic relationship agreement dated as of January 31, 2005 between PHH Mortgage, PHH Home Loans, PHH Broker Partner, Realogy Services Venture Partner, Inc. and Cendant Corporation (now known as Avis Budget Group, Inc.). Under the Strategic Relationship Agreement we are the exclusive recommended provider of mortgage loans to the independent sales associates affiliated with the real estate brokerage business owned and operated by Realogy's affiliates and certain customers of Realogy. The marketing agreement entered into between Coldwell Banker Real Estate Corporation, Century 21 Real Estate LLC, ERA Franchise Systems, Inc., Sotheby's International Affiliates, Inc. and PHH Mortgage

Corporation similarly provides that we are the exclusive recommended provider of mortgage loans and related products to the independent sales associates of Realogy's real estate brokerage franchisees, which include Coldwell Banker Real Estate Corporation, Century 21 Real Estate LLC, ERA Franchise Systems, Inc. and Sotheby's International Affiliates, Inc.

In addition, the Strategic Relationship Agreement provides that Realogy has the right to terminate the covenant requiring it to exclusively recommend us as the provider of mortgage loans to the independent sales associates affiliated with the real estate brokerage business owned and operated by Realogy's affiliates and certain customers of Realogy, following notice and a cure period, if:

- we materially breach any representation, warranty, covenant or other agreement contained in the Strategic Relationship Agreement, the Marketing Agreement, trademark license agreements or certain other related agreements, including, without limitation, our confidentiality agreements in the PHH Home Loans Operating Agreement and the Strategic Relationship Agreement, and our non-competition agreements in the Strategic Relationship Agreement;
- we become subject to any regulatory order or governmental proceeding and such order or proceeding prevents or materially impairs PHH Home Loans' ability to originate mortgage loans for any period of time (which order or proceeding is not generally applicable to companies in the mortgage lending business) in a manner that adversely affects the value of one or more of the quarterly distributions to be paid by PHH Home Loans pursuant to the PHH Home Loans Operating Agreement;
- PHH Home Loans otherwise is not permitted by law, regulation, rule, order or other legal restriction to perform its origination function in any jurisdiction, but in such case exclusivity may be terminated only with respect to such jurisdiction; or

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- PHH Home Loans does not comply with its obligations to complete an acquisition of a mortgage loan origination company under the terms of the Strategic Relationship Agreement.

If Realogy were to terminate its exclusivity obligations with respect to us, one of our competitors could replace us as the recommended provider of mortgage loans to Realogy and its affiliates and franchisees, which would result in our loss of most, if not all, of our mortgage loan originations, Net revenues and Segment profit (loss) of our Mortgage Production segment derived from Realogy's affiliates, which loss would have a material adverse effect on our overall business and our consolidated financial position, results of operations and cash flows.

Moreover, certain of the events that give Realogy the right to terminate its exclusivity obligations with respect to us under the Strategic Relationship Agreement would also give Realogy the right to terminate its other agreements and arrangements with us. For example, the PHH Home Loans Operating Agreement also permits Realogy to terminate the mortgage venture with us (i) upon our material breach of any representation, warranty, covenant or other agreement contained in the Strategic Relationship Agreement, the Marketing Agreement, the Trademark License Agreements or certain other related agreements that is not cured following any applicable notice or cure period; (ii) if we become subject to any regulatory order or governmental proceeding that prevents or materially impairs PHH



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Home Loans' ability to originate mortgage loans for any period of time (which order or proceeding is not generally applicable to companies in the mortgage lending business) in a manner that adversely affects the value of one or more of the quarterly distributions to be paid by PHH Home Loans pursuant to the PHH Home Loans Operating Agreement; (iii) in the event of a change in control of us, PHH Broker Partner Corporation or any other affiliate of ours involving certain competitors or other specified parties; (iv) if PHH Home Loans fails to make scheduled distributions pursuant to the PHH Home Loans Operating Agreement; (v) in the event of the bankruptcy or insolvency of us or PHH Mortgage; or (vi) upon any act or omission by us or our subsidiaries that causes or would reasonably be expected to cause material harm to Realogy or any of its subsidiaries. Upon a termination of the PHH Home Loans joint venture by Realogy or its affiliates, Realogy will have the right either (i) to require that we or certain of our affiliates purchase all of Realogy's interest in PHH Home Loans; or (ii) to cause us to sell our interest in PHH Home Loans to an unaffiliated third party designated by certain of Realogy's affiliates. If we were required to purchase Realogy's interest in PHH Home Loans, that could have an adverse impact on our liquidity. Additionally, any termination of PHH Home Loans will also result in a termination of the Strategic Relationship Agreement and our exclusivity rights under the Strategic Relationship Agreement. Pursuant to the terms of the PHH Home Loans Operating Agreement, beginning on February 1, 2015, Realogy will have the right at any time upon two years' notice to us to terminate its interest in PHH Home Loans. If Realogy were to terminate PHH Home Loans or our other arrangements with Realogy, including its exclusivity obligations with respect to us, any such termination would likely result in our loss of most, if not all, of our mortgage loan originations, Net revenues and Segment profit (loss) of our Mortgage Production segment derived from Realogy's affiliates, which loss would have a material adverse effect on our overall business and our consolidated financial position, results of operations, cash flows and liquidity.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Information in response to this Item is incorporated herein by reference to the Exhibit Index to this Form 10-Q.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

### PHH CORPORATION

By: /s/ Glen A. Messina  
Glen A. Messina  
President and Chief Executive Officer

Date: November 8, 2012

By: /s/ Robert B. Crowl  
Robert B. Crowl  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

Date: November 8, 2012

Table of Contents**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>	<b>Incorporation by Reference</b>
3.1	Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on February 1, 2005.
3.2	Articles Supplementary.	Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on March 27, 2008.
3.3	Articles of Amendment	Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on June 16, 2009.
3.4	Amended and Restated By-Laws.	Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on November 1, 2011.
4.1	Specimen common stock certificate.	Incorporated by reference to Exhibit 4.1 to our Annual Report on Form 10-K for the year ended December 31, 2004 filed on March 15, 2005.
4.2	See Exhibits 3.1, 3.2, 3.3 and 3.4 for provisions of the Amended and Restated Articles of Incorporation, as amended, and Amended and Restated By-laws of the registrant defining the rights of holders of common stock of the registrant.	Incorporated by reference to Exhibit 3.1 to our Current Reports on Form 8-K filed on February 1, 2005, March 27, 2008, June 16, 2009 and November 1, 2011, respectively.
4.3	Agreement to furnish to the Securities and Exchange Commission upon request a copy of instruments defining the rights of holders of certain long-term debt not being registered.	Filed herewith.
4.4	Amended and Restated Base Indenture dated as of December 17, 2008 among Chesapeake Finance Holdings LLC, as Issuer, and JP Morgan Chase Bank, N.A., as indenture trustee.	Incorporated by reference to Exhibit 10.76 to our Annual Report on Form 10-K for the year ended December 31, 2008 filed on March 2, 2009.
4.5	Trust Indenture made as of November 16, 2009, between Fleet Leasing Receivables Trust, BNY Trust Company of Canada, as issuer trustee, and ComputerShare Trust Company Of Canada, as indenture trustee.	Incorporated by reference to Exhibit 4.8 to our Annual Report on Form 10-K for the year ended December 31, 2009 filed on March 1, 2010.
4.6	Indenture dated as of November 6, 2000 between PHH Corporation and The Bank of New York Mellon (formerly known as The Bank of New York, as successor in interest to Bank One Trust Company, N.A.), as Trustee.	Incorporated by reference to Exhibit 4.3 to our Annual Report on Form 10-K for the year ended December 31, 2005 filed on November 22, 2006.
4.6.1	Supplemental Indenture No. 1 dated as of November 6, 2000 between PHH Corporation and The Bank of New York Mellon (formerly known as The Bank of New York, as successor in interest to Bank One Trust Company, N.A.), as Trustee.	Incorporated by reference to Exhibit 4.4 to our Annual Report on Form 10-K for the year ended December 31, 2005 filed on November 22, 2006.
4.6.2	Supplemental Indenture No. 2 dated as of January 30, 2001 between PHH Corporation and The Bank of New York Mellon (formerly known as The Bank of New York, as successor in interest to Bank One Trust Company, N.A.), as Trustee.	Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on February 8, 2001.

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Exhibit No.	Description	Incorporation by Reference
4.6.3	Supplemental Indenture No. 3 dated as of May 30, 2002 between PHH Corporation and The Bank of New York Mellon (formerly known as The Bank of New York, as successor in interest to Bank One Trust Company, N.A.), as Trustee.	Incorporated by reference to Exhibit 4.5 to our Quarterly Report on Form 10-Q for the period ended June 30, 2007 filed on August 8, 2007.
4.6.4	Supplemental Indenture No. 4 dated as of August 31, 2006 between PHH Corporation and The Bank of New York Mellon (formerly known as The Bank of New York, as successor in interest to Bank One Trust Company, N.A.), as Trustee.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on September 1, 2006.
4.6.5	Supplemental Indenture No. 5, dated as of August 23, 2012, between PHH Corporation and The Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York, as successor in interest to Bank One Trust Company, N.A.), as trustee.	Incorporated by reference to Exhibit 4.4 to our Current Report on Form 8-K filed on August 23, 2012.
4.6.6	Form of PHH Corporation Internotes.	Incorporated by reference to Exhibit 4.6 to our Quarterly Report on Form 10-Q for the period ended March 31, 2008 filed on May 9, 2008.
4.7	Indenture dated as of September 29, 2009, by and between PHH Corporation and The Bank of New York Mellon, as Trustee.	Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on October 1, 2009.
4.7.1	Form of Global Note 4.00% Convertible Senior Note Due 2014.	Incorporated by reference to Exhibit A of Exhibit 4.1 to our Current Report on Form 8-K filed on October 1, 2009.
4.8	Indenture dated as of August 11, 2010 between PHH Corporation, as Issuer, and The Bank of New York Mellon Trust Company, N.A., as Trustee.	Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on August 12, 2010.
4.8.1	Form of 91/4% Senior Note Due 2016.	Incorporated by reference to Exhibit A of Exhibit 4.1 to our Current Report on Form 8-K filed on August 12, 2010.
4.8.2	First Supplemental Indenture, dated December 12, 2011, between PHH Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee.	Incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on December 12, 2011.
4.9	Indenture, dated January 17, 2012, between PHH Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee.	Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on January 17, 2012.
4.9.1	First Supplemental Indenture, dated January 17, 2012, between PHH Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee.	Incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on January 17, 2012.
4.9.2	Form of 6.00% Convertible Senior Note due 2017.	Incorporated by reference to Exhibit A of Exhibit 4.2 to our Current Report on Form 8-K filed on January 17, 2012.
4.9.3	Second Supplemental Indenture, dated August 23, 2012, between PHH Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee.	Incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on August 23, 2012.

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Exhibit No.	Description	Incorporation by Reference
4.9.4	Form of 7.375% Senior Note due 2019.	Incorporated by reference to Exhibit A of Exhibit 4.2 to our Current Report on Form 8-K filed on August 23, 2012.
10.1	Amended and Restated Credit Agreement, dated August 2, 2012, among PHH Corporation, as borrower, the lenders referred to therein, Bank of America, N.A., Citibank, N.A., Manufacturers and Traders Trust Company, The Royal Bank of Scotland plc and Wells Fargo Bank, National Association, as syndication agents, Barclays Bank PLC, as documentation agent, and JPMorgan Chase Bank, N.A., as administrative agent.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on August 8, 2012.
10.2	Credit Agreement, dated as of September 25, 2012, by and between PHH Vehicle Management Services, Inc./PHH Services de Gestion de Véhicules, Inc., as Borrower, and The Bank of Nova Scotia, as Administrative Agent, Lead Arranger and Sole Bookrunner, and the subsidiaries of the borrower and the lenders from time to time party thereto.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on October 1, 2012.
10.2.1	Parent Guaranty, dated as of September 25, 2012, made by PHH Corporation, as guarantor, in favor of The Bank of Nova Scotia, as administrative agent.	Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on October 1, 2012.
10.3	Master Terms and Conditions for Warrants dated March 27, 2008 by and between PHH Corporation and J.P. Morgan Chase Bank, N.A.	Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on April 4, 2008.
10.3.1	Confirmation of Warrant dated March 27, 2008 by and between PHH Corporation and J.P. Morgan Chase Bank, N.A.	Incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed on April 4, 2008.
10.3.2	Master Terms and Conditions for Warrants dated March 27, 2008 by and between PHH Corporation and Wachovia Bank, N.A.	Incorporated by reference to Exhibit 10.7 to our Current Report on Form 8-K filed on April 4, 2008.
10.3.3	Confirmation of Warrant dated March 27, 2008 by and between PHH Corporation and Wachovia Bank, N.A.	Incorporated by reference to Exhibit 10.9 to our Current Report on Form 8-K filed on April 4, 2008.
10.3.4	Master Terms and Conditions for Warrants dated March 27, 2008 by and between PHH Corporation and Citibank, N.A.	Incorporated by reference to Exhibit 10.11 to our Current Report on Form 8-K filed on April 4, 2008.
10.3.5	Confirmation of Warrant dated March 27, 2008 by and between PHH Corporation and Citibank, N.A.	Incorporated by reference to Exhibit 10.13 to our Current Report on Form 8-K filed on April 4, 2008.
10.4	Purchase Agreement dated September 23, 2009, by and between PHH Corporation, Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Wells Fargo Securities, LLC, as representatives of the Initial Purchasers.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on September 29, 2009.
10.4.1	Master Terms and Conditions for Convertible Bond Hedging Transactions dated September 23, 2009, by and between PHH Corporation and JPMorgan Chase Bank, National Association, London Branch.	Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on September 29, 2009.

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Exhibit No.	Description	Incorporation by Reference
10.4.2	Master Terms and Conditions for Warrants dated September 23, 2009, by and between PHH Corporation and JPMorgan Chase Bank, National Association, London Branch.	Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on September 29, 2009.
10.4.3	Confirmation of Convertible Bond Hedging Transactions dated September 23, 2009, by and between PHH Corporation and JPMorgan Chase Bank, National Association, London Branch.	Incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed on September 29, 2009.
10.4.4	Confirmation of Warrants dated September 23, 2009, by and between PHH Corporation and JPMorgan Chase Bank, National Association, London Branch.	Incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed on September 29, 2009.
10.4.5	Master Terms and Conditions for Convertible Bond Hedging Transactions dated September 23, 2009, by and between PHH Corporation and Wachovia Bank, National Association.	Incorporated by reference to Exhibit 10.6 to our Current Report on Form 8-K filed on September 29, 2009.
10.4.6	Master Terms and Conditions for Warrants dated September 23, 2009, by and between PHH Corporation and Wachovia Bank, National Association.	Incorporated by reference to Exhibit 10.7 to our Current Report on Form 8-K filed on September 29, 2009.
10.4.7	Confirmation of Convertible Bond Hedging Transactions dated September 23, 2009, by and between PHH Corporation and Wachovia Bank, National Association.	Incorporated by reference to Exhibit 10.8 to our Current Report on Form 8-K filed on September 29, 2009.
10.4.8	Confirmation of Warrants dated September 23, 2009, by and between PHH Corporation and Wachovia Bank, National Association.	Incorporated by reference to Exhibit 10.9 to our Current Report on Form 8-K filed on September 29, 2009.
10.4.9	Master Terms and Conditions for Convertible Bond Hedging Transactions dated September 23, 2009, by and between PHH Corporation and Citibank, N.A.	Incorporated by reference to Exhibit 10.10 to our Current Report on Form 8-K filed on September 29, 2009.
10.4.10	Master Terms and Conditions for Warrants dated September 23, 2009, by and between PHH Corporation and Citibank, N.A.	Incorporated by reference to Exhibit 10.11 to our Current Report on Form 8-K filed on September 29, 2009.
10.4.11	Confirmation of Convertible Bond Hedging Transactions dated September 23, 2009, by and between PHH Corporation and Citibank, N.A.	Incorporated by reference to Exhibit 10.12 to our Current Report on Form 8-K filed on September 29, 2009.
10.4.12	Confirmation of Warrants dated September 23, 2009, by and between PHH Corporation and Citibank, N.A.	Incorporated by reference to Exhibit 10.13 to our Current Report on Form 8-K filed on September 29, 2009.
10.4.13	Amendment to Convertible Bond Hedging Transaction Confirmation dated September 29, 2009, by and between PHH Corporation and JPMorgan Chase Bank, National Association, London Branch.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on October 1, 2009.
10.4.14	Confirmation of Additional Warrants dated September 29, 2009, by and between PHH Corporation and JPMorgan Chase Bank, National Association, London Branch.	Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on October 1, 2009.

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Exhibit No.	Description	Incorporation by Reference
10.4.15	Amendment to Convertible Bond Hedging Transaction Confirmation dated September 29, 2009, by and between PHH Corporation and Wachovia Bank, National Association.	Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on October 1, 2009.
10.4.16	Confirmation of Additional Warrants dated September 29, 2009, by and between PHH Corporation and Wachovia Bank, National Association.	Incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed on October 1, 2009.
10.4.17	Amendment to Convertible Bond Hedging Transaction Confirmation dated September 29, 2009, by and between PHH Corporation and Citibank, N.A.	Incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed on October 1, 2009.
10.4.18	Confirmation of Additional Warrants dated September 29, 2009, by and between PHH Corporation and Citibank, N.A.	Incorporated by reference to Exhibit 10.6 to our Current Report on Form 8-K filed on October 1, 2009.
10.5	Form of Indemnification Agreement.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on August 20, 2010.
10.5.1	PHH Corporation Unanimous Written Consent of the Board of Directors effective August 18, 2010.	Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on August 20, 2010.
10.5.2	PHH Corporation Management Incentive Plan.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 6, 2010.
10.5.3	Form of PHH Corporation Management Incentive Plan Award Notice.	Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on April 6, 2010.
10.5.4	Amended and Restated 2005 Equity and Incentive Plan (as amended and restated through June 17, 2009).	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 22, 2009.
10.5.5	First Amendment to the PHH Corporation Amended and Restated 2005 Equity and Incentive Plan, effective August 18, 2010.	Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on August 20, 2010.
10.5.6	Form of PHH Corporation 2005 Equity and Incentive Plan Non-Qualified Stock Option Agreement, as amended.	Incorporated by reference to Exhibit 10.28 to our Quarterly Report on Form 10-Q for the period ended March 31, 2005 filed on May 16, 2005.
10.5.7	Form of PHH Corporation 2005 Equity and Incentive Plan Non-Qualified Stock Option Conversion Award Agreement.	Incorporated by reference to Exhibit 10.29 to our Quarterly Report on Form 10-Q for the period ended March 31, 2005 filed on May 16, 2005.
10.5.8	Form of PHH Corporation 2005 Equity and Incentive Plan Non-Qualified Stock Option Award Agreement, as revised June 28, 2005.	Incorporated by reference to Exhibit 10.36 to our Quarterly Report on Form 10-Q for the period ended June 30, 2005 filed on August 12, 2005.
10.5.9	Form of PHH Corporation 2005 Equity and Incentive Plan Restricted Stock Unit Award Agreement, as revised June 28, 2005.	Incorporated by reference to Exhibit 10.37 to our Quarterly Report on Form 10-Q for the period ended June 30, 2005 filed on August 12, 2005.
10.5.10	Letter Agreement between PHH Corporation and Alvarez & Marsal North America, LLC dated March 1, 2011.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on March 4, 2011.



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Exhibit No.	Description	Incorporation by Reference
10.5.11	Separation Agreement by and between Sandra Bell and PHH Corporation dated as of May 6, 2011.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 9, 2011.
10.5.12	Form of Restrictive Covenant Agreement.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on November 18, 2011.
10.5.13	Form of 2011 Non-Qualified Stock Option Award Notice and Agreement.	Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on November 18, 2011.
10.5.14	Form of 2011 Performance Restricted Stock Unit Award Notice and Agreement.	Incorporated by reference to Exhibit 10.6.16 to our Annual Report on Form 10-K filed on February 28, 2012.
10.5.15	Form of 2012 Non-Qualified Stock Option Award Notice and Agreement.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on February 24, 2012.
10.5.16	Form of 2012 Restricted Stock Unit Award Notice and Agreement.	Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on February 24, 2012.
10.5.17	Separation Agreement between PHH Corporation and Jerome J. Selitto dated as of April 30, 2012.	Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on May 1, 2012.
10.5.18	Restrictive Covenant Agreement between PHH Corporation and Robert B. Crowl dated as of May 9, 2012.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 9, 2012.
10.5.19	Restrictive Covenant Agreement between PHH Corporation and David E. Tucker dated as of May 25, 2012.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 25, 2012.
10.5.20	Separation Agreement between PHH Corporation and Luke Hayden dated as of June 25, 2012.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 28, 2012.
10.5.21	Form of Restrictive Covenant Agreement	Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on October 3, 2012.
10.5.22	Form of 2012 Performance Restricted Stock Unit Award Notice and Agreement	Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on October 3, 2012.
10.5.23	Form of 2012 Non-Qualified Stock Option Award Notice and Agreement	Incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed on October 3, 2012.
10.5.24	PHH Corporation Tier I Severance Pay Plan	Incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed on October 3, 2012.
10.6	Purchase Agreement, dated August 6, 2010, by and between PHH Corporation, Banc of America Securities LLC, Citigroup Global Markets Inc., J.P. Morgan Securities Inc., and RBS Securities Inc., as representatives of the Initial Purchasers.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on August 9, 2010.

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Exhibit No.	Description	Incorporation by Reference
10.7	Letter Agreement between Fannie Mae and PHH Mortgage Corporation dated December 15, 2011.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on December 21, 2011.
10.7.1	Amendment No. 1 to Letter Agreement between Fannie Mae and PHH Mortgage Corporation dated April 27, 2012.	Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 1, 2012.
10.8	Underwriting Agreement, dated August 9, 2012, by and between PHH Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the several Underwriters.	Incorporated by reference to Exhibit 1.1 to our Current Report on Form 8-K filed on August 14, 2012.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
101.INS	XBRL Instance Document	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.

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Confidential treatment has been requested for certain portions of this Exhibit pursuant to Rule 24b-2 of the Exchange Act which portions have been omitted and filed separately with the Commission.

Confidential treatment has been granted for certain portions of this Exhibit pursuant to an order under the Exchange Act which portions have been omitted and filed separately with the Commission.

Management or compensatory plan or arrangement required to be filed pursuant to Item 601(b)(10) of Regulation S-K.