UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from to

Commission File Number: 1-7797

PHH CORPORATION

(Exact name of registrant as specified in its charter)

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

856-917-1744

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. Large accelerated filer R Accelerated filer £ Non-accelerated filer £ (Do not check if a smaller reporting company) Smaller reporting company £

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

As of July 24, 2013, 57,144,550 shares of PHH common stock were outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- the impact of the adoption of recently issued accounting pronouncements on our financial statements;
- our expectations of the impacts of regulatory changes on our businesses;
- our expected cost reductions and responses to the changing mortgage production environment;
- our expectations regarding improvements in our systems and processes, including our information technology infrastructure and systems;
- future origination volumes and loan margins in the mortgage industry;
- our expectations of origination volumes from our retail platform, including from our private label relationships and our relationship with Realogy Corporation;
- our ability to generate mortgage originations in excess of voluntary prepayments;
- potential acquisitions, dispositions, partnerships, joint ventures and changes in product offerings to achieve disciplined growth in our franchise platforms and to optimize our mortgage and fleet management services businesses;
- our belief that sources of liquidity will be adequate to fund operations;
- mortgage repurchase and indemnification requests and associated reserves and provisions; and
- our assessment of legal proceedings and associated reserves and provisions.

Actual results, performance or achievements may differ materially from those expressed or implied in forward-looking statements due to a variety of factors, including but not limited to the factors listed and discussed in Part I Item 1A. Risk Factors in our 2012 Form 10-K, Part II Item 1A. Risk Factors in this Form 10-Q and those factors described below:

- the effects of market volatility or macroeconomic changes on the availability and cost of our financing arrangements and the value of our assets;
- the effects of any further declines in the volume of U.S. home sales and home prices, due to adverse economic changes or otherwise, on our Mortgage Production and Mortgage Servicing segments;
- the effects of changes in current interest rates on our business and our financing costs;
- our decisions regarding the use of derivatives related to mortgage servicing rights, if any, and the resulting potential volatility of the results of operations of our Mortgage Servicing segment;
- the impact of the failure to maintain our credit ratings, including the impact on our cost of capital and ability to incur new indebtedness or refinance our existing indebtedness, as well as our current or potential customers assessment of our counterparty credit risk;

Table of Contents

- the effects of continued elevated volumes or increases in our actual and projected repurchases of, indemnification given in respect of, or related losses associated with, sold mortgage loans for which we have provided representations and warranties or other contractual recourse to purchasers and insurers of such loans, including increases in our loss severity and reserves associated with such loans;
- the effects of any significant adverse changes in the underwriting criteria or existence or programs of government-sponsored entities, including Fannie Mae and Freddie Mac, including any changes caused by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other actions of the federal government;
- the effects of any inquiries and investigations by attorneys general of certain states and the U.S. Department of Justice, the Bureau of Consumer Financial Protection, U.S. Department of Housing and Urban Development or other state or federal regulatory agencies related to foreclosure procedures or other mortgage origination or servicing activities, any litigation related to our mortgage origination or servicing activities, or any related fines, penalties and increased costs;
- the ability to maintain our status as a government sponsored entity-approved seller and servicer, including the ability to continue to comply with the respective selling and servicing guides, including any changes caused by the Dodd-Frank Act;
- the effects of changes in, or our failure to comply with, laws and regulations, including mortgage- and real estate-related laws and regulations (including changes caused by the Dodd-Frank Act), changes in the status of government sponsored-entities and changes in state, federal and foreign tax laws and accounting standards;
- the effects of the insolvency of any of the counterparties to our significant customer contracts or financing arrangements or the inability or unwillingness of such counterparties to perform their respective obligations under, or to renew on terms favorable to us, such contracts, or our ability to continue to comply with the terms of our significant customer contracts, including service level agreements;
- the effects of competition in our existing and potential future lines of business, including the impact of consolidation within the industries in which we operate and competitors with greater financial resources and broader product lines;
- the ability to obtain alternative funding sources for our mortgage servicing rights or to obtain financing (including refinancing and extending existing indebtedness) on acceptable terms, if at all, to finance our operations or growth strategies, to operate within the limitations imposed by our financing arrangements and to maintain the amount of cash required to service our indebtedness;
- the ability to maintain our relationships with our existing clients, including our efforts to amend the terms of certain of our private label client agreements, and to establish relationships with new clients;
- the effects of any failure in or breach of our technology infrastructure, or those of our outsource providers, or any failure to implement changes to our information systems in a manner sufficient to comply with applicable law and our contractual obligations;
- the ability to attract and retain key employees;
- a deterioration in the performance of assets held as collateral for secured borrowings;
- any failure to comply with covenants under our financing arrangements; and
- the impact of changes in the U.S. financial condition and fiscal and monetary policies, or any actions taken or to be taken by the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System on the credit markets and the U.S. economy.

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

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
REVENUES				
Mortgage fees	$ 82	$ 83	$ 161	$ 163
Fleet management fees	44	45	87	92
Net fee income	126	128	248	255
Fleet lease income	343	338	675	674
Gain on mortgage loans, net	197	208	384	438
Mortgage interest income	19	21	39	46
Mortgage interest expense	(48)	(53)	(96)	(108)
Mortgage net finance expense	(29)	(32)	(57)	(62)
Loan servicing income	88	100	196	221
Change in fair value of mortgage servicing rights	75	(205)	80	(226)
Net derivative (loss) gain related to mortgage servicing rights	(1)	2	(17)	(3)
Valuation adjustments related to mortgage servicing rights, net	74	(203)	63	(229)
Net loan servicing income (loss)	162	(103)	259	(8)
Other income	23	20	43	39
Net revenues	822	559	1,552	1,336
EXPENSES				
Salaries and related expenses	163	143	322	279
Occupancy and other office expenses	17	14	32	28
Depreciation on operating leases	305	303	607	604
Fleet interest expense	14	17	29	34
Other depreciation and amortization	9	6	16	12
Other operating expenses	156	156	292	335
Total expenses	664	639	1,298	1,292
Income (loss) before income taxes	158	(80)	254	44
Income tax expense (benefit)	56	(38)	88	1
Net income (loss)	102	(42)	166	43
Less: net income attributable to noncontrolling interest	12	15	24	25
Net income (loss) attributable to PHH Corporation	$ 90	$ (57)	$ 142	$ 18
Basic earnings (loss) per share attributable to PHH Corporation	$ 1.58	$ (1.00)	$ 2.48	$ 0.32

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

		June 30, 2013		December 31, 2012
ASSETS				
Cash and cash equivalents	$	1,044	$	829
Restricted cash, cash equivalents and investments (including $0 and $121 of available-for-sale securities at fair value)		349		425
Mortgage loans held for sale		1,751		2,174
Accounts receivable, net		972		797
Net investment in fleet leases		3,736		3,636
Mortgage servicing rights		1,247		1,022
Property, plant and equipment, net		76		79
Goodwill		25		25
Other assets		571		616
Total assets (1)	$	9,771	$	9,603
LIABILITIES AND EQUITY				
Accounts payable and accrued expenses	$	782	$	586
Debt		6,323		6,554
Deferred taxes		705		622
Other liabilities		274		279
Total liabilities (1)		8,084		8,041
Commitments and contingencies (Note 13)				
EQUITY				
Preferred stock, $0.01 par value; 1,090,000 shares authorized; none issued or outstanding				
Common stock, $0.01 par value; 273,910,000 shares authorized; 57,105,651 shares issued and outstanding at June 30, 2013; 56,975,991 shares issued and outstanding at December 31, 2012		1		1
Additional paid-in capital		1,133		1,127
Retained earnings		514		372
Accumulated other comprehensive income		14		26
Total PHH Corporation stockholders equity		1,662		1,526
Noncontrolling interest		25		36
Total equity		1,687		1,562
Total liabilities and equity	$	9,771	$	9,603

See accompanying Notes to Condensed Consolidated Financial Statements.

Continued.

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:

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

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

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

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

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

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

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

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

Company s 2012 Form 10-K.

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

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

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CHANGES IN ACCOUNTING POLICIES

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

Intangibles. In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment . This update amends the current guidance on testing indefinite-lived intangibles for impairment and allows for the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangibles are impaired. If it is more likely than not that the indefinite-lived intangibles are impaired, the entity is required to determine the fair value of the indefinite-lived intangibles and perform the quantitative impairment test by comparing the fair value with the carrying amount. The Company adopted the new accounting guidance effective January 1, 2013 and the guidance will be incorporated prospectively when performing impairment tests for intangible assets.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

2. Earnings Per Share

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

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

¡ outstanding stock-based compensation awards representing shares from restricted stock units and stock options;

¡ stock assumed to be issued related to convertible notes; and

¡ sold warrants related to the Company s Convertible notes due 2014.

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

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

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

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

3. Restricted Cash, Cash Equivalents and Investments

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

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

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Amortized Cost	Fair Value	Unrealized Gains	Unrealized Losses	Weighted-average remaining maturity
			(In millions)		
Corporate securities	$ 30	$ 31	$ 1	$	25 mos.
Agency securities (1)	39	39			21 mos.
Government securities	51	51			19 mos.
Total	$ 120	$ 121	$ 1	$	21 mos.

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

During both the three and six months ended June 30, 2013, $1 million of realized gains and $1 million of realized losses from the sale of available-for-sale securities were recorded. The amount of realized gains and losses from the sale of available-for-sale securities was not significant for the three months ended June 30, 2012. During the six months ended June 30, 2012, realized gains of $1 million from the sale of available-for-sale securities were recorded, and realized losses were not significant.

4. Transfers and Servicing of Mortgage Loans

Residential mortgage loans are sold through one of the following methods: (i) sales to or pursuant to programs sponsored by Fannie Mae, Freddie Mac and Ginnie Mae, or (ii) sales to private investors. The Company may have continuing involvement in mortgage loans sold by retaining one or more of the following: servicing rights and servicing obligations; recourse obligations; and/or beneficial interests (such as interest-only strips, principal-only strips, or subordinated interests). See Note 12, Credit Risk for a further description of recourse obligations.

The total servicing portfolio consists of loans associated with capitalized mortgage servicing rights, loans held for sale, and the servicing portfolio associated with loans subserviced for others. The total servicing portfolio was $228.6 billion and $183.7 billion as of June 30, 2013 and December 31, 2012, respectively. The increase in the total servicing portfolio relates to the assumption of a subservicing portfolio in the three months ended June 30, 2013.

Mortgage servicing rights (MSRs) recorded in the Condensed Consolidated Balance Sheets are related to the capitalized servicing portfolio and are created either through the direct purchase of servicing from a third party or through the sale of an originated loan.

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

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

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The activity in capitalized MSRs consisted of:

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

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

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

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

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

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

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

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

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

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

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

During the three and six months ended June 30, 2013, pre-tax gains of $186 million and $428 million, respectively, related to the sale or securitization of residential mortgage loans were recognized in Gain on mortgage loans, net in the Condensed Consolidated Statements of Operations.

During the three and six months ended June 30, 2012, pre-tax gains of $198 million and $426 million, respectively, related to the sale or securitization of residential mortgage loans were recognized in Gain on mortgage loans, net in the Condensed Consolidated Statements of Operations.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Derivatives

Derivative instruments and the risks they manage are as follows:

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

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

DERIVATIVE ACTIVITY

The following table summarizes the gross notional amount of derivatives:

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

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

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

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

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

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

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. Vehicle Leasing Activities

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

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

7. Other Assets

Other assets consisted of:

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

Total	$	571	$	616

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

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of:

		June 30, 2013	December 31, 2012
		(In millions)	
Accounts payable	$	330	331
Subservicing advance liabilities(1)		242	24
Repurchase eligible loans		88	99
Accrued payroll and benefits		70	