UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from to

Commission File Number: 1-7797

PHH CORPORATION

(Exact name of registrant as specified in its charter)

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

856-917-1744

(Registrant s telephone number, including area code)

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

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

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

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

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

As of April 23, 2012, 56,645,733 shares of PHH common stock were outstanding.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

Actual results, performance or achievements may differ materially from those expressed or implied in forward-looking statements due to a variety of factors, including but not limited to the factors listed and discussed in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, 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 a continued decline in the volume of U.S. home sales and home prices, due to adverse economic changes or otherwise, on our Mortgage Production and Mortgage Servicing segments;

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

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

- the 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 Consumer Financial Protection Bureau 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 ability to attract and retain key employees;

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

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

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

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

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

PHH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per share data)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
REVENUES		
Mortgage fees	$ 80	$ 86
Fleet management fees	47	42
Net fee income	127	128
Fleet lease income	336	337
Gain on mortgage loans, net	230	59
Mortgage interest income	25	35
Mortgage interest expense	(55)	(54)
Mortgage net finance expense	(30)	(19)
Loan servicing income	121	108
Change in fair value of mortgage servicing rights	(21)	(32)
Net derivative loss related to mortgage servicing rights	(5)	
Valuation adjustments related to mortgage servicing rights, net	(26)	(32)
Net loan servicing income	95	76
Other income	19	84
Net revenues	777	665
EXPENSES		
Salaries and related expenses	136	134
Occupancy and other office expenses	14	15
Depreciation on operating leases	301	306
Fleet interest expense	17	20
Other depreciation and amortization	6	6
Other operating expenses	179	99
Total expenses	653	580
Income before income taxes	124	85
Income tax expense	39	33
Net income	85	52
Less: net income attributable to noncontrolling interest	10	3
Net income attributable to PHH Corporation	$ 75	$ 49
Basic earnings per share attributable to PHH Corporation	$ 1.32	$ 0.87
Diluted earnings per share attributable to PHH Corporation	$ 1.30	$ 0.84

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income	$ 85	$ 52
Other comprehensive income, net of tax:		
Currency translation adjustment	4	4
Change in unrealized gains on available-for-sale securities, net	(1)	
Change in unfunded pension liability, net	1	
Total other comprehensive income, net of tax	4	4
Total comprehensive income	89	56
Less: comprehensive income attributable to noncontrolling interest	10	3
Comprehensive income attributable to PHH Corporation	$ 79	$ 53

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions, except share data)

	March 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 875	$ 414
Restricted cash, cash equivalents and investments (including $205 and $226 of available-for-sale securities at fair value)	515	574
Mortgage loans held for sale	1,644	2,658
Accounts receivable, net of allowance for doubtful accounts of $3 and $2	693	700
Net investment in fleet leases	3,610	3,515
Mortgage servicing rights	1,296	1,209
Property, plant and equipment, net	63	64
Goodwill	25	25
Other assets	525	618
Total assets (1)	$ 9,246	$ 9,777
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses	$ 484	$ 504
Debt	6,216	6,914
Deferred taxes	683	626
Other liabilities	294	272
Total liabilities (1)	7,677	8,316
Commitments and contingencies (Note 10)		
EQUITY		
Preferred stock, $0.01 par value; 1,090,000 shares authorized; none issued or outstanding		
Common stock, $0.01 par value; 273,910,000 shares authorized; 56,645,733 shares issued and outstanding at March 31, 2012; 56,361,155 shares issued and outstanding at December 31, 2011	1	1
Additional paid-in capital	1,115	1,082
Retained earnings	413	338
Accumulated other comprehensive income	25	21
Total PHH Corporation stockholders equity	1,554	1,442
Noncontrolling interest	15	19
Total equity	1,569	1,461
Total liabilities and equity	$ 9,246	$ 9,777

See accompanying Notes to Condensed Consolidated Financial Statements.

Continued.

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CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

(Unaudited)

(In millions)

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

	March 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 30	$ 57
Restricted cash, cash equivalents and investments	274	313
Mortgage loans held for sale	509	484
Accounts receivable, net	62	79
Net investment in fleet leases	3,479	3,390
Property, plant and equipment, net	1	1
Other assets	35	66
Total assets	$ 4,390	$ 4,390
LIABILITIES		
Accounts payable and accrued expenses	$ 30	$ 36
Debt	3,662	3,549
Other liabilities	9	9
Total liabilities	$ 3,701	$ 3,594

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

(In millions, except share data)

	PHH Corporation Stockholders						
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
Three Months Ended March 31, 2012							
Balance at December 31, 2011	**56,361,155**	**$ 1**	**$ 1,082**	**$ 338**	**$ 21**	**$ 19**	**$ 1,461**
Total comprehensive income				75	4	10	89
Distributions to noncontrolling interest						(14)	(14)
Stock compensation expense			1				1
Stock issued under share-based payment plans	284,578		(2)				(2)
Conversion option related to Convertible note issuance, net (Note 7)			33				33
Recognition of deferred taxes related to Convertible notes			1				1
Balance at March 31, 2012	**56,645,733**	**$ 1**	**$ 1,115**	**$ 413**	**$ 25**	**$ 15**	**$ 1,569**
Three Months Ended March 31, 2011							
Balance at December 31, 2010	**55,699,218**	**$ 1**	**$ 1,069**	**$ 465**	**$ 29**	**$ 14**	**$ 1,578**
Total comprehensive income				49	4	3	56
Distributions to noncontrolling interest						(5)	(5)
Stock compensation expense			2				2
Stock issued under share-based payment plans	510,564		6				6
Balance at March 31, 2011	**56,209,782**	**$ 1**	**$ 1,077**	**$ 514**	**$ 33**	**$ 12**	**$ 1,637**

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)

	Three Months Ended March 31, 2012	2011
Cash flows from operating activities:		
Net income	$ 85	$ 52
Adjustments to reconcile Net income to net cash provided by operating activities:		
Capitalization of originated mortgage servicing rights	(108)	(180)
Net unrealized loss on mortgage servicing rights and related derivatives	26	32
Vehicle depreciation	301	306
Other depreciation and amortization	6	6
Origination of mortgage loans held for sale	(10,784)	(9,488)
Proceeds on sale of and payments from mortgage loans held for sale	12,012	12,648
Net (gain) loss on interest rate lock commitments, mortgage loans held for sale and related derivatives	(264)	13
Deferred income tax expense	36	30
Other adjustments and changes in other assets and liabilities, net	133	(265)
Net cash provided by operating activities	1,443	3,154
Cash flows from investing activities:		
Investment in vehicles	(481)	(381)
Proceeds on sale of investment vehicles	92	82
Net cash paid on derivatives related to mortgage servicing rights	(5)	
Purchases of property, plant and equipment	(6)	(4)
Purchases of restricted investments	(49)	(35)
Proceeds from sales and maturities of restricted investments	70	41
Decrease (increase) in restricted cash and cash equivalents	39	(32)
Other, net	19	21
Net cash used in investing activities	(321)	(308)
Cash flows from financing activities:		
Proceeds from secured borrowings	17,663	16,227
Principal payments on secured borrowings	(18,495)	(18,939)
Proceeds from unsecured borrowings	243	45
Principal payments on unsecured borrowings	(51)	(45)
Issuances of common stock		7
Cash paid for debt issuance costs	(7)	(4)
Other, net	(14)	(5)
Net cash used in financing activities	(661)	(2,714)
Effect of changes in exchange rates on Cash and cash equivalents		(2)
Net increase in Cash and cash equivalents	461	130
Cash and cash equivalents at beginning of period	414	195
Cash and cash equivalents at end of period	$ 875	$ 325

See accompanying Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

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

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

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

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

On March 31, 2011, the Company sold 50.1% of the equity interests in its appraisal services business, Speedy Title and Appraisal Review Services, (STARS) to CoreLogic, Inc. for a total purchase price of $35 million. For the three months ended March 31, 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 certain income tax assets and liabilities and associated valuation allowances. Actual results could differ from those estimates.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CHANGES IN ACCOUNTING POLICIES

Comprehensive Income. In 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.

2. Earnings Per Share

Basic earnings per share attributable to PHH Corporation was computed by dividing Net income attributable to PHH Corporation for the period by the weighted-average number of shares outstanding during the period. Diluted earnings per share attributable to PHH Corporation was computed by dividing Net income 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 as well as the effect of securities that would be anti-dilutive, which may include: (i) outstanding stock-based compensation awards representing shares from restricted stock units and stock options; (ii) stock assumed to be issued related to convertible notes; (iii) purchased options and sold warrants related to the assumed conversion of the 2012 Convertible notes; and (iv) 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended March 31, 2012	2011
	(In millions, except share and per share data)	
Net income attributable to PHH Corporation	$ 75	$ 49
Weighted-average common shares outstanding basic	56,657,040	56,108,525
Effect of potentially dilutive securities:		
Share-based payment arrangements(1)	224,084	934,730
Conversion of debt securities(2)	841,111	1,583,917
Weighted-average common shares outstanding diluted	57,722,235	58,627,172
Basic earnings per share attributable to PHH Corporation	$ 1.32	$ 0.87
Diluted earnings per share attributable to PHH Corporation	$ 1.30	$ 0.84
Anti-dilutive securities excluded from the computation of dilutive securities:		
Outstanding stock-based compensation awards	1,576,342	314,358

(1) Represents incremental shares from restricted stock units and stock options.

(2) Represents assumed conversion of the 2017 Convertible notes and the 2012 Convertible notes for the three months ended March 31, 2012 and 2011, respectively.

3. Restricted Cash, Cash Equivalents and Investments

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

	March 31, 2012	December 31, 2011
	(In millions)	
Restricted cash and cash equivalents	$ 310	$ 348
Restricted investments, at fair value	205	226
Total	$ 515	$ 574

The restricted cash related to our reinsurance activities was invested in certain debt securities as permitted under its reinsurance agreements. These restricted investments are classified as available-for-sale securities and remain in trust for capital fund requirements and potential reinsurance losses, as summarized in the following tables:

	March 31, 2012				
	Amortized Cost	Fair Value	Unrealized Gains	Unrealized Losses	Weighted-average remaining maturity
			(In millions)		
Corporate securities	$ 50	$ 51	$ 1	$	29 mos.
Agency securities (1)	89	90	1		21 mos.
Government securities	64	64			25 mos.
Total	$ 203	$ 205	$ 2	$	24 mos.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

During the three months ended March 31, 2012, realized gains of $1 million from the sale of available-for-sale securities were recorded and realized losses were not significant. During the three months ended March 31, 2011, the amount of realized gains and losses from the sale of available-for-sale securities was 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 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 $184.9 billion and $182.4 billion as of March 31, 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:

	Three Months Ended March 31,	
	2012	2011

	(In millions)			
Balance, beginning of period	$	147,088	$	134,753
Additions		10,794		12,347
Payoffs, sales and curtailments		(8,227)		(6,023)
Balance, end of period	$	149,655	$	141,077

The activity in capitalized MSRs consisted of:

	Three Months Ended March 31,			
	2012		2011	
	(In millions)			
Balance, beginning of period	$	1,209	$	1,442
Additions		108		180
Changes in fair value due to:				
Realization of expected cash flows		(64)		(60)
Changes in market inputs or assumptions used in the valuation model		43		28
Balance, end of period	$	1,296	$	1,590

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 March 31, 2012	Three Months Ended March 31, 2011
	(In millions)	
Servicing fees from capitalized portfolio	$ 112	$ 106
Late fees	5	6
Other ancillary servicing revenue	12	11

As of March 31, 2012 and December 31, 2011, the MSRs had a weighted-average life of approximately 5.1 years and 4.2 years, respectively. See Note 12, 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:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(In millions)	
Proceeds from new loan sales or securitizations	$ 11,220	$ 12,306
Servicing fees from capitalized portfolio(1)	112	106
Other cash flows on retained interests (2)	5	
Purchases of delinquent or foreclosed loans (3)	(16)	(9)
Servicing advances (4)	(361)	(436)
Repayment of servicing advances	359	426

(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 March 31, 2012 and December 31, 2011, outstanding servicing advance receivables of $252 million and $247 million, respectively, were included in Accounts receivable, net.

During the three months ended March 31, 2012 and 2011, pre-tax gains of $228 million and $178 million, respectively, related to the sale or securitization of residential mortgage loans were recognized in Gain on mortgage loans, net in the Condensed Consolidated Statements of Operations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Derivatives

Derivative instruments and the risks they manage are as follows:

- **Forward delivery commitments** Related to interest rate and price risk for Mortgage loans held for sale and interest rate lock commitments
- **Option contracts** Related to interest rate and price risk for 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.

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

	March 31, 2012			December 31, 2011		
	Asset	Liability	Notional	Asset	Liability	Notional
	(In millions)					
Interest rate lock commitments	$ 128	$	$ 5,464	$ 184	$	$ 7,095
Forward delivery commitments: (1)						
Not subject to master netting arrangements	5	2	2,030	6	27	3,897
Subject to master netting arrangements(2)	25	12	11,211	32	100	11,893
Option contracts	2		870	2		845
MSR-related agreements	2		1,100	6		1,100
Interest rate contracts	1		592	1	1	477
Convertible note-related agreements(3)	10	10		4	4	

Total, gross	173	24	235	132
Netting adjustments:				
Offsetting receivables/payables	(12)	(12)	(32)	(32)
Cash collateral paid/received	(10)	3	(6)	(54)
Total, net	$ 151	$ 15	$ 197	$ 46

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(1) The net notional amount of Forward delivery commitments was $5.8 billion and $8.3 billion as of March 31, 2012 and December 31, 2011, respectively.

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

	March 31, 2012		**December 31, 2011**	
	Asset Derivatives	**Liability Derivatives**	**Asset Derivatives**	**Liability Derivatives**
		(In millions)		
Other Assets	$ 23	$ 10	$	$
Other Liabilities	2	2	32	100
Total	$ 25	$ 12	$ 32	$ 100

(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 March 31, 2012 and December 31, 2011.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2012 and December 31, 2011, cash collateral posted for derivative agreements that did not qualify for net presentation was $1 million and $13 million, which was included in Other assets in the Condensed Consolidated Balance Sheets.

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(In millions)	
Gain on mortgage loans, net:		
Interest rate lock commitments	$ 386	$ 184
Forward delivery commitments	(29)	10
Options contracts	(4)	(3)
Net derivative loss related to mortgage servicing rights:		
MSR-related agreements	(5)	
Fleet interest expense:		
Foreign exchange contracts		(2)

6. Vehicle Leasing Activities

The following tables summarize the components of Net investment in fleet leases:

	March 31, 2012	December 31, 2011
	(In millions)	
Operating Leases:		
Vehicles under open-end operating leases	$ 8,005	$ 8,058
Vehicles under closed-end operating leases	173	176
Vehicles under operating leases	8,178	8,234
Less: Accumulated depreciation	(4,925)	(5,097)
Net investment in operating leases	3,253	3,137
Direct Financing Leases:		
Lease payments receivable	119	81
Less: Unearned income	(1)	(1)
Net investment in direct financing leases	118	80
Off-Lease Vehicles:		
Vehicles not yet subject to a lease	231	290
Vehicles held for sale	15	16
Less: Accumulated depreciation	(7)	(8)
Net investment in off-lease vehicles	239	298

Total	$	3,610	$	3,515

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7. Debt and Borrowing Arrangements

The following table summarizes the components of Debt:

	March 31, 2012		December 31, 2011	
	Balance	Wt. Avg- Interest Rate(1)	Balance	Wt. Avg- Interest Rate(1)
	(In millions)			
Term notes, in amortization	$ 969	2.1%	$ 1,196	2.1%
Term notes, in revolving period	389	1.6%	374	1.6%
Variable-funding notes	1,862	1.4%	1,516	1.4%
Other	31	5.1%	32	5.1%
Vehicle Management Asset-Backed Debt	3,251		3,118	
Committed warehouse facilities	1,405	2.1%	2,313	2.0%
Uncommitted warehouse facilities		%	44	1.2%
Servicing advance facility	79	2.7%	79	2.8%
Mortgage Asset-Backed Debt	1,484		2,436	
Term notes	879	8.2%	879	8.2%
Convertible notes	602	4.6%	460	4.0%
Credit facilities		%		%
Unsecured Debt	1,481		1,339	
Mortgage loan securitization debt certificates, at fair value		%	21	7.0%
Total	$ 6,216		$ 6,914	

(1) Represents the weighted-average stated interest rate of the facilities 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 Term notes, Convertible notes, and Mortgage loan securitization debt certificates which are fixed-rate.

Assets held as collateral that are not available to pay the Company s general obligations as of March 31, 2012 consisted of:

	Vehicle Asset-Backed Debt	Mortgage Asset-Backed Debt
	(In millions)	
Restricted cash and cash equivalents	$ 272	$ 5
Accounts receivable	44	92
Mortgage loans held for sale (unpaid principal balance)		1,452
Net investment in fleet leases	3,495	
Total	$ 3,811	$ 1,549

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The following table provides the contractual debt maturities as of March 31, 2012:

	Vehicle Asset-Backed Debt(1)	Mortgage Asset-Backed Debt	Unsecured Debt(2)	Total
		(In millions)		
Within one year	$ 952	$ 1,484	$ 619	$ 3,055
Between one and two years	917			917
Between two and three years	744		250	994
Between three and four years	443		450	893
Between four and five years	99			99
Thereafter	99		258	357
	$ 3,254	$ 1,484	$ 1,577	$ 6,315

(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.

In April 2012, the $199 million of remaining principal for the Convertible Notes due 2012 was repaid in full. The Company has developed a liquidity and capital plan to address other upcoming unsecured debt maturities with a focus on efforts to ensure that its operations are cash flow positive and may seek to dispose of certain assets or seek alternative funding sources.

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 March 31, 2012 consisted of:

	Capacity	Utilized Capacity	Available Capacity
		(In millions)	
Vehicle Management Asset-Backed Debt:			
Term notes, in revolving period	$ 389	$ 389	$
Variable-funding notes	2,097	1,862	235
Mortgage Asset-Backed Debt:			
Committed warehouse facilities	3,540	1,405	2,135
Servicing advance facility	120	79	41
Unsecured Credit facilities(1)	530	16	514

(1) Utilized capacity reflects $16 million of letters of credit issued under the Amended Credit Facility, which are not included in Debt in the Condensed Consolidated Balance Sheet.

Capacity for Mortgage asset-backed debt shown above excludes $2.2 billion not drawn under uncommitted facilities. See Note 12, Fair Value Measurements for the measurement of the fair value of Debt.

MORTGAGE ASSET-BACKED DEBT

Committed Facilities

As discussed in Note 15 Subsequent Events , the committed early funding facility agreement with Fannie Mae was amended in April 2012.

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UNSECURED DEBT

Credit Facilities

Credit facilities primarily represents an Amended and Restated Competitive Advance and Revolving Credit Agreement, dated as of January 6, 2006, among PHH, a group of lenders and JPMorgan Chase Bank, N.A., as administrative agent. During the three months ended March 31, 2012, $525 million of commitments under the Amended Credit Facility were extended to February 28, 2013.

Convertible Notes

As of March 31, 2012, Convertible notes include: (i) a private offering of $199 million of 4.0% Convertible senior notes with a maturity date of April 15, 2012; (ii) a private offering of $250 million of 4.0% Convertible senior notes with a maturity date of September 1, 2014; and (iii) a public offering of $250 million of 6.0% Convertible senior notes with a maturity date of June 15, 2017.

2012 CONVERTIBLE NOTES

During the first quarter of 2012, the Company purchased $51 million of its Convertible notes due 2012 in the open market, resulting in an insignificant gain on the extinguishment of debt. The remaining amount of Convertible Notes due 2012 was repaid in April 2012 as discussed in Note 15, Subsequent Events .

2014 CONVERTIBLE NOTES

As of March 31, 2012 and December 31, 2011, the carrying amount of the Convertible notes due 2014 is net of an unamortized discount of $36 million and $40 million, respectively. The effective interest rate of the convertible notes, which includes the accretion of the discount and issuance costs, was 13.0% as of March 31, 2012. There have been no conversions of the convertible notes since issuance.

2017 CONVERTIBLE NOTES ISSUANCE

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 approximately $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 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 has 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 approximately $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 2017 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.

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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 March 31, 2012, the carrying amount of the Convertible notes due 2017 is net of an unamortized discount of $61 million. The effective interest rate of the 2017 convertible note series, which includes the cost of amortization of the discount and issuance costs, is 13.0%.

Conversion Features:

Holders of the Convertible notes due 2017 may convert all or any portion of the notes, at their option, prior to December 15, 2016 only upon the occurrence of certain triggering events related to (i) the price of the notes, (ii) the price of the Company s Common stock, or (iii) upon the occurrence of specified corporate events. Holders of the Convertible notes due 2017 may 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.

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.

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. The conversion rate and the conversion price will be subject to adjustment in certain events as specified in the indenture; however, in no circumstance will the conversion rate exceed 97.7517 per $1,000 in principal amount of notes.

DEBT COVENANTS

Certain debt arrangements require the maintenance of certain financial ratios and contain affirmative and negative covenants, including, but not limited to, material adverse change, 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.

There were no significant amendments to the terms of debt covenants during the three months ended March 31, 2012. As of March 31, 2012, the Company was in compliance with all financial covenants related to its debt arrangements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Income tax expense was significantly impacted by the following items that increased (decreased) the effective tax rate:

	Three Months Ended March 31,	
	2012	2011
	(In millions)	
State and local income taxes, net of federal tax benefits	$ 5	$ 5
Liabilities for income tax contingencies		(8)
Changes in rate and apportionment factors	(6)	1
Changes in valuation allowance		4
Noncontrolling interest	(4)	(1)

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 three months ended March 31, 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, partially offset by increases in liabilities associated with new uncertain tax positions taken during the period. During the three months ended March 31, 2011, the IRS concluded its examination and review of the Company s taxable years 2006 through 2009.

Changes in rate and apportionment factors. Represents the impact to the effective tax rate on deferred tax items for changes in apportionment factors and tax rate. For the three months ended March 31, 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 three months ended March 31, 2011, the change was primarily driven by 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 its reinsurance agreements that are inactive and in runoff.

Loan performance is an indicator of the inherent risk associated with our origination and servicing activities. In limited circumstances, the Company has exposure to possible losses on loans within the servicing portfolio due to loan repurchases and indemnifications, as further discussed below.

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:

	March 31, 2012	December 31, 2011
	(In millions)	
Loan Servicing Portfolio Composition		
Owned	$ 152,237	$ 150,315
Subserviced	32,644	32,072
Total	$ 184,881	$ 182,387
Conventional loans	$ 147,523	$ 145,885
Government loans	30,877	29,903
Home equity lines of credit	6,481	6,599
Total	$ 184,881	$ 182,387
Weighted-average interest rate	4.5%	4.6%

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