

PHH CORP
Form 10-Q
May 02, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 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)

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MARYLAND

(State or other jurisdiction of
incorporation or organization)

52-0551284

(I.R.S. Employer
Identification Number)

**3000 LEADENHALL ROAD
MT. LAUREL, NEW JERSEY**

(Address of principal executive offices)

08054

(Zip Code)

856-917-1744

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of April 24, 2013, 57,098,148 shares of PHH common stock were outstanding.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- the impact of the adoption of recently issued accounting pronouncements on our financial statements;
- our expectations of the impacts of regulatory changes on our businesses;
- 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 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.

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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 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;
- the effects of continued elevated volumes or increases in our actual and projected repurchases of, indemnification given in respect of, or related losses associated with, sold mortgage loans for which we have provided representations and warranties or other contractual recourse to purchasers and insurers of such loans, including increases in our loss severity and reserves associated with such loans;
- the effects of reinsurance claims in excess of projected levels and in excess of reinsurance premiums we are entitled to receive or amounts currently held in trust to pay such claims;
- the effects of any significant adverse changes in the underwriting criteria or existence or programs of government-sponsored entities, including Fannie Mae and Freddie Mac, including any changes caused by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other actions of the federal government;

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

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

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

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

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

PHH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(In millions, except per share data)

	Three Months Ended March 31,	
	2013	2012
REVENUES		
Mortgage fees	\$ 79	\$ 80
Fleet management fees	43	47
Net fee income	122	127
Fleet lease income	332	336
Gain on mortgage loans, net	187	230
Mortgage interest income	20	25
Mortgage interest expense	(48)	(55)
Mortgage net finance expense	(28)	(30)
Loan servicing income	108	121
Change in fair value of mortgage servicing rights	5	(21)
Net derivative loss related to mortgage servicing rights	(16)	(5)
Valuation adjustments related to mortgage servicing rights, net	(11)	(26)
Net loan servicing income	97	95
Other income	20	19
Net revenues	730	777
EXPENSES		
Salaries and related expenses	159	136
Occupancy and other office expenses	15	14
Depreciation on operating leases	302	301
Fleet interest expense	15	17
Other depreciation and amortization	7	6
Other operating expenses	136	179
Total expenses	634	653
Income before income taxes	96	124
Income tax expense	32	39
Net income	64	85
Less: net income attributable to noncontrolling interest	12	10
Net income attributable to PHH Corporation	\$ 52	\$ 75
Basic earnings per share attributable to PHH Corporation	\$ 0.90	\$ 1.32
Diluted earnings per share attributable to PHH Corporation	\$ 0.79	\$ 1.30

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2013	2012
Net income	\$ 64	\$ 85
Other comprehensive (loss) income, net of tax:		
Currency translation adjustment	(5)	4
Change in unrealized gains on available-for-sale securities, net		(1)
Change in unfunded pension liability, net		1
Total other comprehensive (loss) income, net of tax	(5)	4
Total comprehensive income	59	89
Less: comprehensive income attributable to noncontrolling interest	12	10
Comprehensive income attributable to PHH Corporation	\$ 47	\$ 79

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)
(In millions, except share data)

	March 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	\$ 927	\$ 829
Restricted cash, cash equivalents and investments (including \$114 and \$121 of available-for-sale securities at fair value)	402	425
Mortgage loans held for sale	1,732	2,174
Accounts receivable, net	742	797
Net investment in fleet leases	3,678	3,636
Mortgage servicing rights	1,101	1,022
Property, plant and equipment, net	79	79
Goodwill	25	25
Other assets	570	616
Total assets (1)	\$ 9,256	\$ 9,603
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses	\$ 502	\$ 562
Debt	6,209	6,554
Deferred taxes	650	622
Other liabilities	287	303
Total liabilities (1)	7,648	8,041
Commitments and contingencies (Note 12)		
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; 57,089,341 shares issued and outstanding at March 31, 2013; 56,975,991 shares issued and outstanding at December 31, 2012	1	1
Additional paid-in capital	1,129	1,127
Retained earnings	424	372
Accumulated other comprehensive income	21	26
Total PHH Corporation stockholders' equity	1,575	1,526
Noncontrolling interest	33	36
Total equity	1,608	1,562
Total liabilities and equity	\$ 9,256	\$ 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:

	March 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	\$ 98	\$ 66
Restricted cash, cash equivalents and investments	238	249
Mortgage loans held for sale	552	730
Accounts receivable, net	79	90
Net investment in fleet leases	3,578	3,531
Property, plant and equipment, net	2	2
Other assets	42	39
Total assets	\$ 4,589	\$ 4,707
LIABILITIES		
Accounts payable and accrued expenses	\$ 35	\$ 36
Debt	3,952	4,074
Other liabilities	15	13
Total liabilities	\$ 4,002	\$ 4,123

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In millions, except share data)

	PHH Corporation Stockholders' Equity			Accumulated Other Comprehensive	Noncontrolling	Total
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Income (Loss)	Interest	Equity
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