

PHH CORP  
Form 10-Q  
May 07, 2015  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2015**

**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)*

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

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

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

**08054**  
*(Zip Code)*

**856-917-1744**

*(Registrant's telephone number, including area code)*

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

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

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

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

As of April 29, 2015, 49,656,148 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 execution of our strategic priorities, including re-engineering our mortgage business, executing our growth strategies, executing our capital structure initiatives and our expectations regarding future operating benefits from the achievement of those priorities;

§ other potential acquisitions, dispositions, partnerships, joint ventures and changes in product offerings to achieve disciplined growth in our franchise platforms and to optimize our mortgage business;

§ our expectations of the impacts of regulatory changes on our businesses;

§ future origination volumes and loan margins in the mortgage industry;

§ our expectations regarding the impacts of the shift in our volume to a greater mix of subserviced loans, including the impacts on our earnings and potential benefits to our capital structure;

§ our expectations around future losses from representation and warranty claims, and associated reserves and provisions;

§ the impact of the adoption of recently issued accounting pronouncements on our financial statements; and

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§ 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 2014 Form 10-K and those factors described below:

§ our ability to successfully re-engineer our mortgage business, re-negotiate our private label agreements, and implement changes to meet our operational and financial objectives;

§ 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 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 business;

§ 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;

§ the effects on our business of any further declines in the volume of U.S. home sales and home prices, due to adverse economic changes or otherwise;

§ 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 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;

§ the effects of changes in, or our failure to comply with, laws and regulations, including mortgage- and real estate-related laws and regulations, changes in the status of government sponsored-entities and changes in state, federal and foreign tax laws and accounting standards;

§ the effects of the outcome or resolutions of any inquiries and investigations related to our 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 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 competition in our business, including the impact of consolidation within the industry in which we operate and competitors with greater financial resources and broader product lines;

§ the inability or unwillingness of any of the counterparties to our significant customer contracts or financing arrangements 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;

§ the impact of the failure to maintain our credit ratings, including the impact on our cost of capital and ability to access the debt markets, as well as on our current or potential customers' assessment of our long-term stability;

§ the ability to obtain alternative funding sources for our mortgage servicing rights, servicing advances 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 and operate our business;

§ any failure to comply with covenants or asset eligibility requirements under our financing arrangements; and

§ 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 laws, regulations and our contractual obligations.

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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**Item 1. Financial Statements**

**PHH CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

(In millions, except per share data)

|   | Three Months Ended<br>March 31, |                |
|---|---------------------------------|----------------|
|   | 2015                            | 2014           |
| <b>REVENUES</b>   |                                 |                |
| Origination and other loan fees                                 | \$ 58                           | \$ 47          |
| Gain on loans held for sale, net                                | 82                              | 51             |
| <i>Net loan servicing income:</i>                               |                                 |                |
| Loan servicing income   | 104                             | 115            |
| Change in fair value of mortgage servicing rights               | (26)                            | (79)           |
| Net derivative gain related to mortgage servicing rights        | 53                              | 6              |
| Net loan servicing income                                       | 131                             | 42             |
| <i>Net interest expense:</i>                                    |                                 |                |
| Interest income   | 9                               | 8              |
| Secured interest expense  | (9)                             | (9)            |
| Unsecured interest expense                                      | (17)                            | (29)           |
| Net interest expense  | (17)                            | (30)           |
| Other income  | 7                               | 1              |
| <b>Net revenues</b>   | <b>261</b>                      | <b>111</b>     |
| <b>EXPENSES</b>   |                                 |                |
| Salaries and related expenses                                   | 87                              | 89             |
| Commissions   | 19                              | 15             |
| Loan origination expenses                                       | 24                              | 19             |
| Foreclosure and repossession expenses                           | 15                              | 14             |
| Professional and third-party service fees                       | 42                              | 28             |
| Technology equipment and software expenses                      | 10                              | 8              |
| Occupancy and other office expenses                             | 12                              | 13             |
| Depreciation and amortization                                   | 5                               | 6              |
| Other operating expenses  | 16                              | 12             |
| <b>Total expenses</b>   | <b>230</b>                      | <b>204</b>     |
| Income (loss) from continuing operations before income taxes    | 31                              | (93)           |
| Income tax expense (benefit)                                    | 8                               | (33)           |
| <b>Income (loss) from continuing operations, net of tax</b>     | <b>23</b>                       | <b>(60)</b>    |
| <b>Income from discontinued operations, net of tax</b>          |                                 | <b>16</b>      |
| Net income (loss)   | 23                              | (44)           |
| Less: net income (loss) attributable to noncontrolling interest | 2                               | (2)            |
| <b>Net income (loss) attributable to PHH Corporation</b>        | <b>\$ 21</b>                    | <b>\$ (42)</b> |
| <b>Basic earnings (loss) per share:</b>                         |                                 |                |
| From continuing operations                                      | \$ 0.40                         | \$ (1.01)      |
| From discontinued operations                                    |                                 | 0.28           |
| Total attributable to PHH Corporation                           | \$ 0.40                         | \$ (0.73)      |
| <b>Diluted earnings (loss) per share:</b>                       |                                 |                |
| From continuing operations                                      | \$ 0.34                         | \$ (1.01)      |
| From discontinued operations                                    |                                 | 0.28           |



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|                                       |    |      |    |        |
|---------------------------------------|----|------|----|--------|
| Total attributable to PHH Corporation | \$ | 0.34 | \$ | (0.73) |
|---------------------------------------|----|------|----|--------|

See accompanying Notes to Condensed Consolidated Financial Statements.

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**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

**(In millions)**

|   | Three Months Ended<br>March 31, |         |
|---|---------------------------------|---------|
|   | 2015                            | 2014    |
| <b>Net income (loss)</b>  | \$ 23                           | \$ (44) |
| Other comprehensive income (loss), net of tax:                            |                                 |         |
| Change in unfunded pension liability, net                                 | 1                               |         |
| Currency translation adjustment   |                                 | (7)     |
| Total other comprehensive income (loss), net of tax                       | 1                               | (7)     |
| <b>Total comprehensive income (loss)</b>                                  | 24                              | (51)    |
| Less: comprehensive income (loss) attributable to noncontrolling interest | 2                               | (2)     |
| <b>Comprehensive income (loss) attributable to PHH Corporation</b>        | \$ 22                           | \$ (49) |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In millions, except share data)**

|  | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|---------------------------|------------------------------|
| <b>ASSETS</b>  |                           |                              |
| Cash and cash equivalents  | \$ 1,269                  | \$ 1,259                     |
| Restricted cash  | 46                        | 56                           |
| Mortgage loans held for sale   | 971                       | 915                          |
| Accounts receivable, net   | 126                       | 123                          |
| Servicing advances, net  | 680                       | 694                          |
| Mortgage servicing rights  | 986                       | 1,005                        |
| Property and equipment, net  | 35                        | 36                           |
| Other assets   | 225                       | 208                          |
| <b>Total assets (1)</b>  | <b>\$ 4,338</b>           | <b>\$ 4,296</b>              |
| <b>LIABILITIES AND EQUITY</b>  |                           |                              |
| Accounts payable and accrued expenses  | \$ 209                    | \$ 244                       |
| Subservicing advance liabilities   | 357                       | 347                          |
| Debt   | 1,784                     | 1,739                        |
| Deferred taxes   | 259                       | 262                          |
| Loan repurchase and indemnification liability  | 62                        | 63                           |
| Other liabilities  | 68                        | 70                           |
| <b>Total liabilities (1)</b>   | <b>2,739</b>              | <b>2,725</b>                 |
| Commitments and contingencies (Note 11)  |                           |                              |
| <b>EQUITY</b>  |                           |                              |
| Preferred stock, \$0.01 par value; 1,090,000 shares authorized;<br>none issued or outstanding  |                           |                              |
| Common stock, \$0.01 par value; 273,910,000 shares authorized;<br>49,654,752 shares issued and outstanding at March 31, 2015;<br>51,143,723 shares issued and outstanding at December 31, 2014 |                           | 1                            |
| Additional paid-in capital   | 999                       | 989                          |
| Retained earnings  | 582                       | 566                          |
| Accumulated other comprehensive loss(2)  | (10)                      | (11)                         |
| <b>Total PHH Corporation stockholders equity</b>   | <b>1,571</b>              | <b>1,545</b>                 |
| Noncontrolling interest  | 28                        | 26                           |
| <b>Total equity</b>  | <b>1,599</b>              | <b>1,571</b>                 |
| <b>Total liabilities and equity</b>  | <b>\$ 4,338</b>           | <b>\$ 4,296</b>              |

See accompanying Notes to Condensed Consolidated Financial Statements.

**Continued.**



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

(1) The Condensed Consolidated Balance Sheets include assets of variable interest entities which can be used only to settle the 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,<br>2015 | December 31,<br>2014 |
|---------------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                         |                   |                      |
| Cash and cash equivalents             | \$ 82             | \$ 85                |
| Restricted cash                       | 12                | 23                   |
| Mortgage loans held for sale          | 482               | 378                  |
| Accounts receivable, net              | 14                | 8                    |
| Servicing advances, net               | 151               | 155                  |
| Property and equipment, net           | 1                 | 1                    |
| Other assets                          | 9                 | 8                    |
| <b>Total assets</b>                   | <b>\$ 751</b>     | <b>\$ 658</b>        |
| <b>LIABILITIES</b>                    |                   |                      |
| Accounts payable and accrued expenses | \$ 16             | \$ 16                |
| Debt                                  | 535               | 443                  |
| Other liabilities                     | 11                | 11                   |
| <b>Total liabilities</b>              | <b>\$ 562</b>     | <b>\$ 470</b>        |

(2) Includes amounts recorded related to the Company's defined benefit pension plan, net of income tax benefits of \$6 million as of both March 31, 2015 and December 31, 2014. During both the three months ended March 31, 2015 and 2014, there were no amounts reclassified out of Accumulated other comprehensive loss.

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<br>Shares               | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Noncontrolling<br>Interest | Total<br>Equity |
| <b>Three Months Ended</b>                                  |                                      |                        |                                  |                      |   |                            |                 |
| <b>March 31, 2015</b>                                      |                                      |                        |                                  |                      |   |                            |                 |
| <b>Balance at December 31, 2014</b>                        | <b>51,143,723</b>                    | <b>\$ 1</b>            | <b>\$ 989</b>                    | <b>\$ 566</b>        | <b>\$ (11)</b>  | <b>\$ 26</b>               | <b>\$ 1,571</b> |
| Total comprehensive income                                 |                                      |                        |                                  | 21                   | 1   | 2                          | 24              |
| Stock compensation expense                                 |                                      |                        | 2                                |                      |   |                            | 2               |
| Stock issued under share-based payment plans               | 85,281                               |                        | 2                                |                      |   |                            | 2               |
| Repurchase of Common stock                                 | (1,574,252)                          | (1)                    | 5                                | (5)                  |   |                            | (1)             |
| Recognition of deferred taxes related to Convertible notes |                                      |                        | 1                                |                      |   |                            | 1               |
| <b>Balance at March 31, 2015</b>                           | <b>49,654,752</b>                    | <b>\$</b>              | <b>\$ 999</b>                    | <b>\$ 582</b>        | <b>\$ (10)</b>  | <b>\$ 28</b>               | <b>\$ 1,599</b> |
| <b>Three Months Ended</b>                                  |                                      |                        |                                  |                      |   |                            |                 |
| <b>March 31, 2014</b>                                      |                                      |                        |                                  |                      |   |                            |                 |
| <b>Balance at December 31, 2013</b>                        | <b>57,265,517</b>                    | <b>\$ 1</b>            | <b>\$ 1,142</b>                  | <b>\$ 507</b>        | <b>\$ 16</b>  | <b>\$ 24</b>               | <b>\$ 1,690</b> |
| Total comprehensive loss                                   |                                      |                        |                                  | (42)                 | (7)   | (2)                        | (51)            |
| Stock compensation expense                                 |                                      |                        | 3                                |                      |   |                            | 3               |
| Stock issued under share-based payment plans               | 113,595                              |                        | 1                                |                      |   |                            | 1               |
| Recognition of deferred taxes related to Convertible notes |                                      |                        | 1                                |                      |   |                            | 1               |
| <b>Balance at March 31, 2014</b>                           | <b>57,379,112</b>                    | <b>\$ 1</b>            | <b>\$ 1,147</b>                  | <b>\$ 465</b>        | <b>\$ 9</b>   | <b>\$ 22</b>               | <b>\$ 1,644</b> |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In millions)**

|  | <b>Three Months Ended<br/>March 31,</b> |                 |
|--|---|-----------------|
|  | <b>2015</b>                             | <b>2014</b>     |
| <b>Cash flows from operating activities:</b>   |   |                 |
| Net income (loss)  | \$ 23                                   | \$ (44)         |
| Adjustments to reconcile Net income (loss) to net cash (used in) provided by operating activities: |   |                 |
| Capitalization of originated mortgage servicing rights   | (20)                                    | (25)            |
| Net (gain) loss on mortgage servicing rights and related derivatives                               | (27)                                    | 73              |
| Vehicle depreciation   |   | 300             |
| Other depreciation and amortization  | 5                                       | 8               |
| Origination of mortgage loans held for sale  | (3,023)                                 | (2,725)         |
| Proceeds on sale of and payments from mortgage loans held for sale                                 | 3,011                                   | 3,003           |
| Net gain on interest rate lock commitments, mortgage loans held for sale and related derivatives   | (70)                                    | (33)            |
| Deferred income tax benefit  | (2)                                     | (26)            |
| Other adjustments and changes in other assets and liabilities, net                                 | (16)                                    | (60)            |
| <b>Net cash (used in) provided by operating activities</b>   | <b>(119)</b>                            | <b>471</b>      |
| <b>Cash flows from investing activities:</b>   |   |                 |
| Net cash received on derivatives related to mortgage servicing rights                              | 57                                      | 8               |
| Proceeds on sale of mortgage servicing rights  | 23                                      | 4               |
| Purchases of property and equipment  | (5)                                     | (3)             |
| Decrease (increase) in restricted cash   | 10                                      | (104)           |
| Investment in vehicles   |   | (409)           |
| Proceeds on sale of investment vehicles  |   | 103             |
| Other, net   | 2                                       | 6               |
| <b>Net cash provided by (used in) investing activities</b>   | <b>87</b>                               | <b>(395)</b>    |
| <b>Cash flows from financing activities:</b>   |   |                 |
| Proceeds from secured borrowings   | 3,706                                   | 4,873           |
| Principal payments on secured borrowings   | (3,664)                                 | (5,027)         |
| Issuances of Common stock  | 2                                       | 2               |
| Cash paid for debt issuance costs  | (2)                                     | (9)             |
| Other, net   |   | (1)             |
| <b>Net cash provided by (used in) financing activities</b>   | <b>42</b>                               | <b>(162)</b>    |
| <b>Effect of changes in exchange rates on Cash and cash equivalents</b>                            |   | <b>(4)</b>      |
| Net increase (decrease) in Cash and cash equivalents   | 10                                      | (90)            |
| Cash and cash equivalents at beginning of period   | 1,259                                   | 1,245           |
| Less: Cash balance of discontinued operations at end of period                                     |   | (123)           |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 1,269</b>                         | <b>\$ 1,032</b> |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

*Organization*

PHH Corporation and subsidiaries (collectively, PHH or the Company) is a leading provider of end to end mortgage solutions. The Company operates in two business segments, Mortgage Production, which provides mortgage loan origination services and sells mortgage loans, and Mortgage Servicing, which performs servicing activities for loans originated by PHH Mortgage and mortgage servicing rights purchased from others, and acts as a subservicer for certain clients that own the underlying mortgage servicing rights.

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 (PHH Home Loans) and its subsidiaries are consolidated within the Condensed Consolidated Financial Statements and Realogy Group LLC's ownership interest is presented as a noncontrolling interest. Intercompany balances and transactions have been eliminated from the Condensed Consolidated Financial Statements.

*Preparation of Financial Statements*

The Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States (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 2014 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 commitments and contingencies, mortgage loan repurchases and indemnifications and the determination of certain income tax assets and liabilities and associated valuation allowances. Actual results could differ from those estimates.



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Effective on July 1, 2014, the Company sold its Fleet Management Services business and related fleet entities (collectively the Fleet business ) to certain wholly owned subsidiaries of Element Financial Corporation. The results of the Fleet business are presented as discontinued operations in the Condensed Consolidated Statements of Operations, and have been excluded from continuing operations and segment results for all periods presented. The cash flows and comprehensive income related to the Fleet business have not been segregated and are included in the Condensed Consolidated Statements of Cash Flows and Condensed Consolidated Statements of Comprehensive Income, respectively, for all periods presented. Amounts related to the Fleet business are excluded from the Notes to Condensed Consolidated Financial Statements unless otherwise noted. See Note 2, Discontinued Operations for additional information.

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.

### *Changes in Accounting Pronouncements*

**Presentation of Financial Statements.** In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Under the new guidance, only disposals of a component of an entity that represent a major strategic shift on an entity's operations and financial results shall be reported in discontinued operations. The guidance also requires the presentation as discontinued operations for an

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

entity that, on acquisition, meets the criteria to be classified as held for sale. In addition, the update expands disclosures for discontinued operations, requires new disclosures regarding disposals of an individually significant component of an entity that does not qualify for discontinued operations presentation and expands disclosures about an entity's significant continuing involvement with a discontinued operation. Due to the change in requirements for reporting discontinued operations described above, presentation and disclosures of future disposal transactions after adoption may be different than under current standards. The Company adopted this guidance as of January 1, 2015, and there was no impact to the Company's financial statements or disclosures.

**Transfers of Financial Assets.** In June 2014, the FASB issued limited amendments to ASC 860, *Transfers and Servicing* through the issuance of ASU 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. The update requires entities to account for repurchase-to-maturity transactions as secured borrowings, and eliminates the accounting guidance on linked repurchase financing transactions. In addition, the update expands disclosure requirements related to certain transfers of financial assets accounted for as financings and accounted for as sales. The Company adopted this guidance as of January 1, 2015 and there was no impact to the Company's financial statements.

***Recently Issued Accounting Pronouncements***

**Consolidation.** In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*. The update impacts an entity's consolidation analysis of its variable interest entities, particularly those that have fee arrangements and related party relationships. The update eliminates certain conditions for evaluating whether a fee paid to a decision maker or a service provider represents a variable interest, and places more emphasis in the evaluation of variable interests other than fee arrangements. Additionally, the amendments reduce the extent to which related party arrangements cause an entity to be considered a primary beneficiary. The amendments in this update are effective for the first interim and annual periods beginning after December 15, 2015 with early adoption permitted. A reporting entity may apply this update retrospectively or by using a modified retrospective approach. The Company is currently evaluating the impact of adopting this new standard.

**Interest.** In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* which requires that debt issuance costs related to a recognized debt liability be presented in the Balance Sheets as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts. The amendments in this update are to be applied retrospectively, and are effective for the first interim and annual periods beginning after December 15, 2015, with early adoption permitted. The Company is currently evaluating the impact of adopting this new standard.

**Intangibles Goodwill and Other Internal-Use Software.** In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. This update clarifies whether a cloud computing arrangement should be accounted for as a software license or as a service contract by the customer, depending on the terms of the arrangement. In addition, the guidance requires all software licenses within the scope of the internal use software subtopic to be accounted for consistent with other licenses of intangible assets. The amendments in this update are effective for the first interim and annual periods beginning after December 15, 2015, with early adoption permitted. An entity can elect to adopt this update either: (i) prospectively to all arrangements entered into or materially modified after the effective date; or (ii) retrospectively. The Company is currently evaluating the impact of adopting this new standard.



Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****2. Discontinued Operations**

During the second quarter of 2014, the Company entered into a definitive agreement to sell its Fleet business to Element Financial Corporation and the sale was completed effective on July 1, 2014.

The results of discontinued operations for the three months ended March 31, 2014 are summarized below:

|   | <b>(In millions)</b> |
|---|----------------------|
| Net revenues                                    | \$ 405               |
| Total expenses                                  | 383                  |
| Income before income taxes                      | 22                   |
| Income tax expense                              | 6                    |
| Income from discontinued operations, net of tax | \$ 16                |

**3. Earnings Per Share**

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

During 2014, the Company entered into two separate Accelerated Share Repurchase agreements to repurchase an aggregate of \$200 million of PHH's Common stock. The final delivery of shares occurred in March 2015 and resulted in a 1,574,252 reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings or loss per share.

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;

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

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

Shares associated with anti-dilutive securities are outlined in the table below.

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

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

|  | <b>Three Months Ended<br/>March 31,</b>                   |             |
|--|---|-------------|
|  | <b>2015</b>   | <b>2014</b> |
|  | <b>(In millions, except share and<br/>per share data)</b> |             |
| Income (loss) from continuing operations, net of tax                         | \$ 23   | \$ (60)     |
| Less: net income (loss) attributable to noncontrolling interest              | 2   | (2)         |
| Net income (loss) from continuing operations attributable to PHH Corporation | 21  | (58)        |
| Income from discontinued operations, net of tax                              |   | 16          |
| Net income (loss) attributable to PHH Corporation                            | \$ 21   | \$ (42)     |
| <br>   |   |             |
| Weighted-average common shares outstanding basic                             | 51,173,223  | 57,543,886  |
| Effect of potentially dilutive securities:                                   |   |             |
| Share-based payment arrangements(1)  | 360,088   |             |
| Conversion of debt securities  | 9,022,268   |             |
| Weighted-average common shares outstanding diluted(2)                        | 60,555,579  | 57,543,886  |
| <br>   |   |             |
| <b>Basic earnings (loss) per share:</b>                                      |   |             |
| From continuing operations   | \$ 0.40   | \$ (1.01)   |
| From discontinued operations   |   | 0.28        |
| Total attributable to PHH Corporation  | \$ 0.40   | \$ (0.73)   |
| <br>   |   |             |
| <b>Diluted earnings (loss) per share:</b>                                    |   |             |
| From continuing operations   | \$ 0.34   | \$ (1.01)   |
| From discontinued operations   |   | 0.28        |
| Total attributable to PHH Corporation  | \$ 0.34   | \$ (0.73)   |

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

(2) For the three months ended March 31, 2014, the Company had a net loss from continuing operations attributable to PHH Corporation and, as a result, there were no potentially dilutive securities included in the denominator for computing dilutive earnings per share.

The following table summarizes anti-dilutive securities excluded from the computation of dilutive shares:

**Three Months Ended  
March 31,**

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|  | 2015   | 2014      |
|--|--------|-----------|
| Outstanding stock-based compensation awards(1) | 33,973 | 2,367,992 |
| Assumed conversion of debt securities          |        | 9,584,725 |

(1) For the three months ended March 31, 2015, excludes 711,704 shares that are contingently issuable for which the contingency has not been met.

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

Residential mortgage loans are sold through one of the following methods: (i) sales to or pursuant to programs sponsored by Fannie Mae, Freddie Mac and the Government National Mortgage Association (collectively the Agencies ) or (ii) sales to private investors. The Company may have continuing involvement in mortgage loans sold by retaining one or more of the following: mortgage servicing rights and servicing obligations, recourse obligations and/or beneficial interests (such as interest-only strips, principal-only strips, or subordinated interests). During the three months ended March 31, 2015, the Company did not retain any interest from sales or securitizations other than mortgage servicing rights. See Note 10, 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 portfolio associated with loans subserviced for others. The total servicing portfolio was \$224.2 billion and \$227.3 billion, as of March 31, 2015 and December 31, 2014, 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 Company has agreements to sell a portion of its newly-created mortgage servicing rights to third parties, and will have continuing involvement as servicer. As of March 31, 2015, the Company had commitments to sell mortgage servicing rights related to \$843 million of the unpaid principal balance of mortgage loans held for sale and interest rate lock commitments that are expected to result in closed loans and \$1.2 billion of the unpaid principal balance of loans in the capitalized servicing portfolio. As of March 31, 2015, the fair value of the MSRs subject to sale commitments and associated with the loans in the capitalized portfolio was \$14 million.

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

|                              | <b>Three Months Ended</b> |             |
|------------------------------|---------------------------|-------------|
|                              | <b>March 31,</b>          |             |
|                              | <b>2015</b>               | <b>2014</b> |
|                              | <b>(In millions)</b>      |             |
| Balance, beginning of period | \$ 112,686                | \$ 129,145  |
| Additions                    | 1,913                     | 2,266       |
| Payoffs and curtailments     | (4,579)                   | (4,129)     |
| Sales                        | (1,228)                   | (124)       |
| Balance, end of period       | \$ 108,792                | \$ 127,158  |

The activity in capitalized MSRs consisted of:



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|   | Three Months Ended |                |
|---|--------------------|----------------|
|   | 2015               | March 31, 2014 |
|   | (In millions)      |                |
| Balance, beginning of period  | \$ 1,005           | \$ 1,279       |
| Additions   | 20                 | 25             |
| Sales   | (13)               | (1)            |
| Changes in fair value due to:                                       |                    |                |
| Realization of expected cash flows                                  | (38)               | (34)           |
| Changes in market inputs or assumptions used in the valuation model | 12                 | (45)           |
| Balance, end of period  | \$ 986             | \$ 1,224       |

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

The value of MSR 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<br>March 31, |       |
|---|---------------------------------|-------|
|   | 2015                            | 2014  |
|   | (In millions)                   |       |
| Servicing fees from capitalized portfolio | \$ 79                           | \$ 92 |
| Late fees                                 | 4                               | 5     |
| Other ancillary servicing revenue         | 7                               | 8     |

As of March 31, 2015 and December 31, 2014, the MSRs had a weighted-average life of 6.2 years and 5.7 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<br>March 31, |          |
|---|---------------------------------|----------|
|   | 2015                            | 2014     |
|   | (In millions)                   |          |
| Proceeds from new loan sales or securitizations | \$ 1,975                        | \$ 2,336 |
| Servicing fees from capitalized portfolio(1)    | 79                              | 92       |
| Purchases of delinquent or foreclosed loans (2) | (3)                             | (17)     |
| Servicing advances (3)                          | (574)                           | (522)    |
| Repayment of servicing advances (3)             | 587                             | 523      |

Excludes late fees and other ancillary servicing revenue.

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

(2) Outstanding servicing advance receivables are presented in Servicing advances, net in the Condensed Consolidated Balance Sheets, except for advances related to loans in foreclosure or real estate owned, which are included in Other assets.

During the three months ended March 31, 2015 and 2014, pre-tax gains of \$63 million and \$72 million, respectively, related to the sale or securitization of residential mortgage loans were recognized in Gain on loans held for sale, 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

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 summarizes the gross notional amount of derivatives:

|                                | March 31,<br>2015 | (In millions) | December 31,<br>2014 |
|--------------------------------|-------------------|---------------|----------------------|
| Interest rate lock commitments | \$ 2,106          |               | \$ 1,185             |
| Forward delivery commitments   | 5,062             |               | 3,893                |
| Option contracts               | 240               |               | 213                  |
| MSR-related agreements         | 2,846             |               | 4,013                |

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

March 31, 2015

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|  | Gross Assets  | Offsetting Payables | Cash Collateral Received | Net Amount |
|--|---------------|---------------------|--------------------------|------------|
|  | (In millions) |                     |                          |            |
| <b>ASSETS</b>                                      |               |                     |                          |            |
| <i>Subject to master netting arrangements:</i>     |               |                     |                          |            |
| Forward delivery commitments                       | \$ 5          | \$ (5)              | \$                       | \$         |
| MSR-related agreements                             | 76            | (4)                 | (70)                     | 2          |
| Derivative assets subject to netting               | 81            | (9)                 | (70)                     | 2          |
| <i>Not subject to master netting arrangements:</i> |               |                     |                          |            |
| Interest rate lock commitments                     | 38            |                     |                          | 38         |
| Forward delivery commitments                       | 2             |                     |                          | 2          |
| Derivative assets not subject to netting           | 40            |                     |                          | 40         |
| Total derivative assets                            | \$ 121        | \$ (9)              | \$ (70)                  | \$ 42      |

|  | Gross Liabilities | Offsetting Receivables | Cash Collateral Paid | Net Amount |
|--|-------------------|------------------------|----------------------|------------|
|  | (In millions)     |                        |                      |            |
| <b>LIABILITIES</b>                                 |                   |                        |                      |            |
| <i>Subject to master netting arrangements:</i>     |                   |                        |                      |            |
| Forward delivery commitments                       | \$ 13             | \$ (9)                 | \$ (1)               | \$ 3       |
| <i>Not subject to master netting arrangements:</i> |                   |                        |                      |            |
| Forward delivery commitments                       | 5                 |                        |                      | 5          |
| Total derivative liabilities                       | \$ 18             | \$ (9)                 | \$ (1)               | \$ 8       |

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

| December 31, 2014                                  |                   |                           |                             |            |
|--|-------------------|---------------------------|-----------------------------|------------|
|  | Gross Assets      | Offsetting<br>Payables    | Cash Collateral<br>Received | Net Amount |
|  | (In millions)     |                           |                             |            |
| <b>ASSETS</b>                                      |                   |                           |                             |            |
| <i>Subject to master netting arrangements:</i>     |                   |                           |                             |            |
| Forward delivery commitments                       | \$ 2              | \$ (2)                    | \$                          | \$         |
| MSR-related agreements                             | 66                | (2)                       | (56)                        | 8          |
| Derivative assets subject to netting               | 68                | (4)                       | (56)                        | 8          |
| <i>Not subject to master netting arrangements:</i> |                   |                           |                             |            |
| Interest rate lock commitments                     | 22                |                           |                             | 22         |
| Forward delivery commitments                       | 3                 |                           |                             | 3          |
| Derivative assets not subject to netting           | 25                |                           |                             | 25         |
| Total derivative assets                            | \$ 93             | \$ (4)                    | \$ (56)                     | \$ 33      |
|  | Gross Liabilities | Offsetting<br>Receivables | Cash Collateral<br>Paid     | Net Amount |
|  | (In millions)     |                           |                             |            |
| <b>LIABILITIES</b>                                 |                   |                           |                             |            |
| <i>Subject to master netting arrangements:</i>     |                   |                           |                             |            |
| Forward delivery commitments                       | \$ 9              | \$ (4)                    | \$ (3)                      | \$ 2       |
| <i>Not subject to master netting arrangements:</i> |                   |                           |                             |            |
| Forward delivery commitments                       | 5                 |                           |                             | 5          |
| Total derivative liabilities                       | \$ 14             | \$ (4)                    | \$ (3)                      | \$ 7       |

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

|  | Three Months Ended<br>March 31, |       |
|--|---------------------------------|-------|
|  | 2015                            | 2014  |
|  | (In millions)                   |       |
| <i>Gain on loans held for sale, net:</i>                         |                                 |       |
| Interest rate lock commitments                                   | \$ 81                           | \$ 74 |
| Forward delivery commitments                                     | (17)                            | (20)  |
| Option contracts   |                                 | (1)   |
| <i>Net derivative gain related to mortgage servicing rights:</i> |                                 |       |
| MSR-related agreements   | 53                              | 6     |

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****6. Other Assets**

Other assets consisted of:

|                                    | March 31,<br>2015 | December 31,<br>2014 |
|------------------------------------|-------------------|----------------------|
|                                    | (In millions)     |                      |
| Repurchase eligible loans(1)       | \$ 49             | \$ 53                |
| Derivatives                        | 42                | 33                   |
| Equity method investments          | 33                | 34                   |
| Mortgage loans in foreclosure, net | 32                | 32                   |
| Real estate owned, net             | 20                | 21                   |
| Deferred financing costs           | 18                | 19                   |
| Income taxes receivable            | 15                | 2                    |
| Other                              | 16                | 14                   |
| <b>Total</b>                       | <b>\$ 225</b>     | <b>\$ 208</b>        |

(1) Repurchase eligible loans represent certain mortgage loans sold pursuant to Government National Mortgage Association programs where the Company as servicer has the unilateral option to repurchase the loan if certain criteria are met, including if a loan is greater than 90 days delinquent. Regardless of whether the repurchase option has been exercised, the Company must recognize eligible loans within Other assets and a corresponding repurchase liability within Accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets.

**7. Other Liabilities**

Other liabilities consisted of:

|  | March 31,<br>2015 | December 31,<br>2014 |
|--|-------------------|----------------------|
|  | (In millions)     |                      |
| Litigation and regulatory reserves (Note 11)         | \$ 28             | \$ 29                |
| Pension and other post employment benefits liability | 11                | 11                   |
| Liability for income tax contingencies               | 8                 | 9                    |
| Derivatives  | 8                 | 7                    |
| Other  | 13                | 14                   |
| <b>Total</b>   | <b>\$ 68</b>      | <b>\$ 70</b>         |





Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****8. Debt and Borrowing Arrangements**

The following table summarizes the components of Debt:

|                                  | Balance         | March 31, 2015<br>Interest<br>Rate(1) | Available<br>Capacity(2) | December 31,<br>2014<br>Balance |
|----------------------------------|-----------------|---------------------------------------|--------------------------|---------------------------------|
|                                  |                 | (In millions)                         |                          |                                 |
| Committed warehouse facilities   | \$ 853          | 2.2%                                  | \$ 1,222                 | \$ 800                          |
| Uncommitted warehouse facilities |                 |                                       | 2,500                    |                                 |
| Servicing advance facility       | 97              | 2.7%                                  | 58                       | 108                             |
| Convertible notes due in 2017(3) | 219             | 6.0%                                  | n/a                      | 216                             |
| Term notes due in 2019           | 275             | 7.375%                                | n/a                      | 275                             |
| Term notes due in 2021           | 340             | 6.375%                                | n/a                      | 340                             |
| Unsecured debt                   | 834             |                                       |                          | 831                             |
| <b>Total</b>                     | <b>\$ 1,784</b> |                                       |                          | <b>\$ 1,739</b>                 |

(1) Interest rate shown represents the stated interest rate of outstanding borrowings, which may differ from the effective rate due to the amortization of premiums, discounts and issuance costs. Warehouse facilities and the servicing advance facility are variable-rate. Rate shown for warehouse facilities represents the weighted-average rate of current outstanding borrowings.

(2) Capacity is dependent upon maintaining compliance with, or obtaining waivers of, the terms, conditions and covenants of the respective agreements, including asset-eligibility requirements.

(3) Balance is net of unamortized discount of \$26 million and \$29 million as of March 31, 2015 and December 31, 2014, respectively. The effective interest rate of the Convertible notes due 2017 is 13%, which includes the accretion of the discount and issuance costs.

Assets held as collateral that are not available to pay the Company's general obligations as of March 31, 2015 consisted of:

| Warehouse<br>Facilities | Servicing<br>Advance<br>Facility |
|-------------------------|----------------------------------|
| (In millions)           |                                  |

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|   |    |     |    |     |
|---|----|-----|----|-----|
| Restricted cash   | \$ | 6   | \$ | 9   |
| Servicing advances                                      |    |     |    | 151 |
| Mortgage loans held for sale (unpaid principal balance) |    | 900 |    |     |
| Total   | \$ | 906 | \$ | 160 |

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

The following table provides the contractual debt maturities as of March 31, 2015:

|                              | Warehouse<br>Facilities | Servicing<br>Advance<br>Facility(1) | Unsecured<br>Debt(2) | Total    |
|------------------------------|-------------------------|-------------------------------------|----------------------|----------|
|                              | (In millions)           |                                     |                      |          |
| Within one year              | \$ 853                  | \$ 76                               | \$                   | \$ 929   |
| Between one and two years    |                         | 21                                  |                      | 21       |
| Between two and three years  |                         |                                     | 245                  | 245      |
| Between three and four years |                         |                                     |                      |          |
| Between four and five years  |                         |                                     | 275                  | 275      |
| Thereafter                   |                         |                                     | 340                  | 340      |
|                              | \$ 853                  | \$ 97                               | \$ 860               | \$ 1,810 |

(1) Maturities of the servicing advance facility represent estimated payments based on the expected cash inflows of the receivables.

(2) Maturity of convertible notes is presented based on the contractual maturity date. Those notes are currently eligible for conversion, and if presented for conversion, the principal portion of the notes would be due in cash and the conversion premium may be settled at the Company's election in cash, shares or a combination of cash and shares.

See Note 12, Fair Value Measurements, for the measurement of the fair value of Debt.

|                                      |
|--------------------------------------|
| <b>Mortgage Warehouse Facilities</b> |
|--------------------------------------|

In the first quarter of 2015, the committed mortgage repurchase facility with Wells Fargo Bank was extended to April 1, 2016, and the committed capacity was increased by \$100 million to \$450 million.

|                                   |
|-----------------------------------|
| <b>Servicing Advance Facility</b> |
|-----------------------------------|

In February 2015, the Company received an extension of the revolving period of the servicing advance facility, through May 29, 2015, with a final maturity date of June 15, 2017. Upon expiration of the revolving period, the notes enter a repayment period, whereby the noteholders commitment to fund new advances (through the purchase of additional notes) expires and the outstanding balance is required to be repaid by the Company through advance collections or additional payments, on or before final maturity.

**Unsecured Debt**

**Convertible Notes due in 2017.** As of March 31, 2015, the if-converted value exceeded the principal amount of the notes by \$218 million, and the notes met the requirements for conversion. Upon conversion, the principal amount of the converted notes is payable in cash and, to settle amounts due if the conversion value exceeds the principal of the converted notes, 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.

As discussed further in Note 15, Subsequent Events, in May 2015 the Company commenced an exchange offer for the 2017 Convertible Notes.

**Debt Covenants**

There were no significant amendments to the terms of debt covenants during the three months ended March 31, 2015. As of March 31, 2015, the Company was in compliance with all financial covenants related to its debt arrangements.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****9. Income Taxes**

For the three months ended March 31, 2015, interim income tax expense was recorded by applying a projected full-year effective income tax rate to the quarterly Income from continuing operations before income taxes for results that are deemed to be reliably estimable. Certain results dependent on fair value adjustments of the Company are considered not to be reliably estimable, and therefore, discrete year-to-date income tax provisions are recorded on those results.

For the three months ended March 31, 2014, interim income tax benefit was recorded using the discrete effective tax rate method. Management believed the use of the discrete method for this period was more appropriate than applying the full-year effective tax rate method since the full-year effective tax rate method would not be considered reliable due to the sensitivity to small changes to forecasted annual pre-tax results. Under the discrete method, the Company determines the tax provision based upon actual results as if the interim period were a full-year period.

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

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2015</b>                             | <b>2014</b> |
|   | <b>(In millions)</b>                    |             |
| State and local income taxes, net of federal tax benefits | \$ 1                                    | \$ (3)      |
| Noncontrolling interest                                   | (1)                                     | 1           |

**State and local income taxes, net of federal tax benefits.** Represents the impact to the effective tax rate from the pre-tax income or loss as well as the mix of income or loss from the operations by entity and state income tax jurisdiction. The effective state tax rate for the three months ended March 31, 2015 was lower compared to the three months ended March 31, 2014.

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

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****10. 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

§ **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 and government servicing contracts.

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,<br>2015 | December 31,<br>2014 |
|---|-------------------|----------------------|
|   | (In millions)     |                      |
| <i>Loan Servicing Portfolio Composition</i> |                   |                      |
| Owned                                       | \$ 111,260        | \$ 113,849           |
| Subserviced                                 | 112,934           | 113,423              |
| Total                                       | \$ 224,194        | \$ 227,272           |
| Conventional loans                          | \$ 195,870        | \$ 195,184           |
| Government loans                            | 24,030            | 27,720               |
| Home equity lines of credit                 | 4,294             | 4,368                |
| Total                                       | \$ 224,194        | \$ 227,272           |
| Weighted-average interest rate              | 3.9%              | 3.9%                 |

| March 31, 2015     |                   | December 31, 2014  |                   |
|--------------------|-------------------|--------------------|-------------------|
| Number of<br>Loans | Unpaid<br>Balance | Number of<br>Loans | Unpaid<br>Balance |

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| <i>Portfolio Delinquency</i> (1) |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|
| 30 days                          | 1.89% | 1.40% | 2.43% | 1.75% |
| 60 days                          | 0.40  | 0.29  | 0.58  | 0.41  |
| 90 or more days                  | 0.92  | 0.68  | 1.13  | 0.85  |
| Total                            | 3.21% | 2.37% | 4.14% | 3.01% |
| Foreclosure/real estate owned(2) | 2.13% | 1.94% | 2.22% | 2.04% |

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

(2) As of March 31, 2015 and December 31, 2014, the total servicing portfolio included 20,059 and 21,456 of loans in foreclosure with an unpaid principal balance of \$3.9 billion and \$4.1 billion, respectively.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Repurchase and Foreclosure-Related Reserves**

Representations and warranties are provided to investors and insurers on a significant portion of loans sold, and are also assumed on purchased mortgage servicing rights for loans that are owned by the Agencies or included in Agency-guaranteed securities. In limited circumstances, the full risk of loss on loans sold is retained to the extent the liquidation of the underlying collateral is insufficient. In some instances where the Company has purchased loans from third parties, it may have the ability to recover the loss from the third party originator. Repurchase and foreclosure-related reserves are maintained for probable losses related to repurchase and indemnification obligations and for on-balance sheet loans in foreclosure and real estate owned.

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

|                              | Three Months Ended<br>March 31, |        |
|------------------------------|---------------------------------|--------|
|                              | 2015                            | 2014   |
|                              | (In millions)                   |        |
| Balance, beginning of period | \$ 93                           | \$ 142 |
| Realized losses              | (5)                             | (24)   |
| Increase in reserves due to: |                                 |        |
| Changes in assumptions       | 2                               |        |
| New loan sales               | 2                               | 2      |
| Balance, end of period       | \$ 92                           | \$ 120 |

Repurchase and foreclosure-related reserves consist of the following:

**Loan Repurchases and Indemnifications**

The maximum amount of losses cannot be estimated because the Company does not service all of the loans for which it has provided representations or warranties. As of March 31, 2015, \$177 million of loans have been identified in which the Company has full risk of loss or has identified a breach of representation and warranty provisions; 12% of which were at least 90 days delinquent (calculated based upon the unpaid principal balance of the loans).



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As of March 31, 2015 and December 31, 2014, liabilities for probable losses related to repurchase and indemnification obligations of \$62 million and \$63 million, respectively, are presented in the Condensed Consolidated Balance Sheets.

Given the inherent uncertainties involved in estimating losses associated with future repurchase and indemnification requests, there is a reasonable possibility that future losses may be in excess of the recorded liability. As of March 31, 2015, the estimated amount of reasonably possible losses in excess of the recorded liability was \$20 million which relates to the Company's estimate of repurchase and foreclosure-related charges that may not be reimbursed pursuant to government mortgage insurance programs in the event we do not file insurance claims. The estimate is based on an expectation of future defaults and the historical defect rate for government insured loans and is based upon significant judgments and assumptions which can be influenced by many factors, including: (i) home prices and the levels of home equity; (ii) the quality of underwriting procedures; (iii) borrower delinquency and default patterns; and (iv) general economic conditions. The Company's estimate of reasonably possible losses does not represent probable losses and does not include an estimate for any losses related to loans from origination years where the Agencies have substantially completed or resolved their file reviews or related to loans with defects that were excluded from the resolution agreement entered into with Fannie Mae during the fourth quarter of 2014. Excluded defects include, but are not limited to, loans with certain title defects or with violations of law.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Mortgage Loans in Foreclosure and Real Estate Owned**

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

|  | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|---------------------------|------------------------------|
|  | <b>(In millions)</b>      |                              |
| Mortgage loans in foreclosure and related advances | \$ 46                     | \$ 46                        |
| Allowance for probable foreclosure losses          | (14)                      | (14)                         |
| Mortgage loans in foreclosure, net                 | \$ 32                     | \$ 32                        |
| Real estate owned and related advances             | \$ 36                     | \$ 37                        |
| Adjustment to value for real estate owned          | (16)                      | (16)                         |
| Real estate owned, net                             | \$ 20                     | \$ 21                        |

**11. Commitments and Contingencies**

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

Reserves are established for pending or threatened litigation, claims or assessments when it is probable that a loss has been incurred and the amount of such loss can be reasonably estimated. In light of the inherent uncertainties involved in litigation and other legal proceedings, it is not always possible to determine a reasonable estimate of the amount of a probable loss, and the Company may estimate a range of possible loss for consideration in its estimates. The estimates are based upon currently available information and involve significant judgment taking into account the varying stages and inherent uncertainties of such matters. Accordingly, the Company's estimates may change from time to time and such changes may be material to the consolidated financial results. Given the inherent uncertainties and status of the Company's outstanding legal proceedings, the range of reasonably possible losses cannot be estimated for all matters. For matters where the Company can estimate the range, the aggregate estimated amount of reasonably possible losses in excess of the recorded liability was \$20 million as of March 31, 2015.

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As of March 31, 2015, the Company's recorded reserves associated with legal and regulatory contingencies were \$28 million and are presented in Other liabilities in the Condensed Consolidated Balance Sheets. There can be no assurance that the ultimate resolution of the Company's pending or threatened litigation, claims or assessments will not result in losses in excess of the Company's recorded reserves. As a result, the ultimate resolution of any particular legal matter, or matters, could be material to the Company's results of operations or cash flows for the period in which such matter is resolved.

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

**MMC Examination.** The Company has undergone a regulatory examination by a multistate coalition of certain mortgage banking regulators (the MMC) and such regulators have alleged various violations of federal and state laws related to the Company's mortgage servicing practices prior to July 2011. In October 2014, the Company met with the MMC, along with representatives of certain state Attorneys General and the Bureau of Consumer Financial Protection (the CFPB), to formally review the MMC's examination findings and the Company's response. In order to resolve the findings and in exchange for a release of certain enforcement actions, the MMC has proposed that the Company enter into a Settlement Agreement and Consent Order that includes adoption of national servicing standards, payments to certain borrowers nationwide whose loans went into foreclosure during a stated period of time, other consumer relief and administrative penalties. While the Company continues to believe it has meritorious

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

defenses to the findings, the Company has indicated its willingness to adopt the servicing standards set out in the MMC's proposal with certain caveats and continues discussions on other aspects of the proposal.

The Company has not yet been informed of the amount of payments sought for relief or penalties under the proposed agreement with the MMC and there can be no assurance that a settlement will be reached. The Company has recorded an estimate for the probable losses in connection with the matter as of March 31, 2015. There can be no assurance that the ultimate resolution of this matter will not result in losses in excess of the Company's recorded reserves, and any such losses could be material to the Company's results of operations, cash flows or financial position.

In the first quarter of 2015, we were notified by the New York Department of Financial Services that it intends to propose that the Company enter into a settlement agreement and/or consent order to close out pending examination report findings, including New York findings stemming from the MMC examination. While the Company believes it has meritorious explanations and defenses to the findings and has provided or is in the process of providing responses to these findings, the proposed settlement agreement and/or consent order may include fines and penalties, and there can be no assurance that the ultimate resolution of this matter will not result in losses which could be material to the Company's results of operations, cash flows or financial position.

**CFPB Enforcement Action.** In January 2014, the CFPB initiated an administrative proceeding alleging that the Company's reinsurance activities, including its mortgage insurance premium ceding practices, have violated certain provisions of the Real Estate Settlement Procedures Act ( RESPA ) and other laws enforced by the CFPB. Through its reinsurance subsidiaries, the Company assumed risk in exchange for premiums ceded from primary mortgage insurance companies. The Company did not provide reinsurance on loans originated after 2009. The Company believes that it has complied with RESPA and other laws applicable to its former mortgage reinsurance activities, and is continuing to vigorously defend against the CFPB's allegations.

In November 2014, the Company received a recommended decision from the administrative law judge for the payment of \$6.4 million to the CFPB. The Company and the CFPB's enforcement counsel have both appealed the recommended decision to the director of the CFPB. As of March 31, 2015, the Company has recorded an estimate for the probable losses in connection with the matter. There can be no assurance that the ultimate resolution of this matter will not result in losses in excess of the Company's recorded reserves.

**Lender-Placed Insurance.** The Company is currently subject to pending litigation alleging that its servicing practices around lender-placed insurance were not in compliance with applicable laws. Through its mortgage subsidiary, the Company did have certain outsourcing arrangements for the purchase of lender-placed hazard insurance for borrowers whose coverage had lapsed. The Company believes that it has meritorious defenses to these allegations; however, the resolution of such matter may result in adverse judgments, other relief against the Company, as well as monetary payments or other agreements and obligations. Given the nature of this matter and the related allegations, the Company cannot estimate the amount of loss or a range of possible losses, if any, associated with this matter and there can be no assurance that the ultimate resolution of this matter will not result in losses which could be material to the Company's results of operations, cash flows or financial position.

**Subpoenas and Investigations.** The Company has received document subpoenas from the Office of Inspector General of the U.S. Department of Housing and Urban Development ( HUD ) and the U.S. Attorney s Offices for the Southern and Eastern Districts of New York. The HUD subpoenas request production of certain documents related to, among other things, the Company s origination and underwriting process for loans insured by the Federal Housing Administration ( FHA ). The U.S. Attorney s Offices subpoenas requested production of certain documents related to, among other things, foreclosure expenses that we incurred in connection with the foreclosure of loans insured or guaranteed by FHA, Fannie Mae or Freddie Mac and loans sold pursuant to programs sponsored by Fannie Mae, Freddie Mac or Ginnie Mae. There can be no assurance that claims or litigation will not arise from this inquiry, or that fines, penalties or increased legal costs will not be incurred in connection with this matter.

In addition, in October 2014 the Company received a document subpoena from the Office of the Inspector General of the Federal Housing Financing Agency (the FHFA ) requesting production of certain documents related to, among other things, our origination, underwriting and quality control processes for loans sold to Fannie Mae and Freddie Mac. While the FHFA, as regulatory and conservator for Fannie Mae and Freddie Mac, does not have regulatory authority over the Company or its subsidiaries, there can be no assurance that Fannie Mae and/or Freddie Mac will not assert additional claims as a result of this inquiry.

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

**12. Fair Value Measurements**

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

The incorporation of counterparty credit risk did not have a significant impact on the valuation of assets and liabilities recorded at fair value as of March 31, 2015 or December 31, 2014.

***Recurring Fair Value Measurements***

The following summarizes the fair value hierarchy for instruments measured at fair value on a recurring basis:

|                                | March 31, 2015 |              |                                 |                                   |        |
|--------------------------------|----------------|--------------|---------------------------------|-----------------------------------|--------|
|                                | Level<br>One   | Level<br>Two | Level<br>Three<br>(In millions) | Cash<br>Collateral<br>and Netting | Total  |
| <b>ASSETS</b>                  |                |              |                                 |                                   |        |
| Mortgage loans held for sale   | \$             | \$ 930       | \$ 41                           | \$                                | \$ 971 |
| Mortgage servicing rights      |                |              | 986                             |                                   | 986    |
| Other assets                   |                |              |                                 |                                   |        |
| Derivative assets:             |                |              |                                 |                                   |        |
| Interest rate lock commitments |                |              | 38                              |                                   | 38     |
| Forward delivery commitments   |                | 7            |                                 | (5)                               | 2      |
| MSR-related agreements         |                | 76           |                                 | (74)                              | 2      |
| <b>LIABILITIES</b>             |                |              |                                 |                                   |        |

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|                              |                         |    |    |    |    |    |           |
|------------------------------|-------------------------|----|----|----|----|----|-----------|
| Other liabilities            | Derivative liabilities: |    |    |    |    |    |           |
| Forward delivery commitments |                         | \$ | \$ | 18 | \$ | \$ | (10) \$ 8 |

|                                | December 31, 2014 |           |             |                             |       |          |
|--------------------------------|-------------------|-----------|-------------|-----------------------------|-------|----------|
|                                | Level One         | Level Two | Level Three | Cash Collateral and Netting | Total |          |
|                                | (In millions)     |           |             |                             |       |          |
| <b>ASSETS</b>                  |                   |           |             |                             |       |          |
| Mortgage loans held for sale   | \$                | \$        | 873         | \$                          | \$    | 915      |
| Mortgage servicing rights      |                   |           |             |                             |       | 1,005    |
| Other assets                   |                   |           |             |                             |       |          |
| Derivative assets:             |                   |           |             |                             |       |          |
| Interest rate lock commitments |                   |           |             |                             |       | 22       |
| Forward delivery commitments   |                   |           | 5           |                             |       | (2) 3    |
| MSR-related agreements         |                   |           | 66          |                             |       | (58) 8   |
| <b>LIABILITIES</b>             |                   |           |             |                             |       |          |
| Other liabilities              |                   |           |             |                             |       |          |
| Derivative liabilities:        |                   |           |             |                             |       |          |
| Forward delivery commitments   | \$                | \$        | 14          | \$                          | \$    | (7) \$ 7 |

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Significant inputs to the measurement of fair value and further information on the assets and liabilities measured at fair value are as follows:

**Mortgage Loans Held for Sale ( MLHS ).** The following table reflects the difference between the carrying amounts of MLHS measured at fair value, and the aggregate unpaid principal amount that the Company is contractually entitled to receive at maturity:

|                                    | March 31, 2015 |  | December 31, 2014 |  |
|------------------------------------|----------------|--|-------------------|--|
|                                    | Total          | Loans 90 days or more past due and on non-accrual status | Total             | Loans 90 days or more past due and on non-accrual status |
|                                    | (In millions)  |  |                   |  |
| Carrying amount                    | \$ 971         | \$ 10  | \$ 915            | \$ 13  |
| Aggregate unpaid principal balance | 957            | 13   | 903               | 17   |
| Difference                         | \$ 14          | \$ (3)   | \$ 12             | \$ (4)   |

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

|                       | March 31, 2015 | December 31, 2014 |
|-----------------------|----------------|-------------------|
|                       | (In millions)  |                   |
| First mortgages:      |                |                   |
| Conforming            | \$ 825         | \$ 761            |
| Non-conforming        | 104            | 111               |
| Total first mortgages | 929            | 872               |
| Second lien           | 4              | 5                 |
| Scratch and Dent      | 37             | 37                |
| Other                 | 1              | 1                 |
| Total                 | \$ 971         | \$ 915            |

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

|  | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 31, 2015     | March 31, 2014 |
| Initial capitalization rate of additions to MSRs | 1.06%              | 1.08%          |

  

|  | March 31, | December 31, |
|--|-----------|--------------|
|  |           |              |



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|  | <b>2015</b> | <b>2014</b> |
|--|-------------|-------------|
| Capitalization servicing rate                    | 0.91%       | 0.89%       |
| Capitalization servicing multiple                | 3.2         | 3.1         |
| Weighted-average servicing fee (in basis points) | 29          | 29          |

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

|   | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---|---------------------------|------------------------------|
| Weighted-average prepayment speed (CPR)       | 9.8%                      | 11.5%                        |
| Option adjusted spread, in basis points (OAS) | 979                       | 865                          |
| Weighted-average delinquency rate             | 4.2%                      | 5.0%                         |

In the first quarter of 2015, the Company integrated an updated prepayment model used in the valuation of MSR which is more closely aligned with the slower actual prepayment speeds of the capitalized servicing portfolio and made further updates to the cash flow model based on a market data calibration. During the three months ended March 31, 2015, these updates to the valuation model resulted in a \$46 million positive change in fair value of MSR.

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

|  | March 31, 2015                          |   |   |
|--|---|---|---|
|  | Weighted-Average<br>Prepayment<br>Speed | Option<br>Adjusted<br>Spread<br>(In millions) | Weighted-Average<br>Delinquency<br>Rate |
| Impact on fair value of 10% adverse change | \$ (40)                                 | \$ (46)                                       | \$ (20)                                 |
| Impact on fair value of 20% adverse change | (77)                                    | (89)  | (40)                                    |

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

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

**Derivative Instruments.** Derivative instruments are classified within Level Two and Level Three of the valuation hierarchy. The average pullthrough percentage used in measuring the fair value of interest rate lock commitments as of March 31, 2015 and December 31, 2014 was 73% and 74%, respectively. The pullthrough percentage is considered a significant unobservable input and is estimated based on changes in pricing and actual borrower behavior using a historical analysis of loan closing and fallout data. Actual loan pullthrough is compared to the modeled estimates in order to evaluate this assumption each period based on current trends. Generally, a change in interest rates is accompanied by a directionally opposite change in the assumption used for the pullthrough percentage, and the impact to fair value of a change in pullthrough would be partially offset by the related change in price.

***Level Three Measurements***

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

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|   | Three Months Ended<br>March 31, 2015 |          |               | Three Months Ended<br>March 31, 2014 |          |               |
|---|--------------------------------------|----------|---------------|--------------------------------------|----------|---------------|
|   | MLHS                                 | MSRs     | IRLCs,<br>net | MLHS                                 | MSRs     | IRLCs,<br>net |
|   | (In millions)                        |          |               |                                      |          |               |
| Balance, beginning of period              | \$ 42                                | \$ 1,005 | \$ 22         | \$ 49                                | \$ 1,279 | \$ 22         |
| Realized and unrealized gains<br>(losses) | 2                                    | (26)     | 81            | (3)                                  | (79)     | 74            |
| Purchases                                 | 7                                    |          |               | 16                                   |          |               |
| Issuances                                 |                                      | 20       |               | 1                                    | 25       |               |
| Settlements                               | (6)                                  | (13)     | (65)          | (13)                                 | (1)      | (76)          |
| Transfers into Level Three                | 7                                    |          |               | 6                                    |          |               |
| Transfers out of Level Three              | (11)                                 |          |               | (7)                                  |          |               |
| Balance, end of period                    | \$ 41                                | \$ 986   | \$ 38         | \$ 49                                | \$ 1,224 | \$ 20         |

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Transfers into Level Three generally represent mortgage loans held for sale with performance issues, origination flaws, or other characteristics that impact their salability in active secondary market transactions. Transfers out of Level Three represent Scratch and Dent loans that were foreclosed upon and loans that have been cured.

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

|   | 2015 | Three Months Ended<br>March 31,<br>(In millions) | 2014   |
|---|------|--|--------|
| <i>Gain on loans held for sale, net:</i>                  |      |  |        |
| Mortgage loans held for sale                              | \$   | 1  | \$ (4) |
| Interest rate lock commitments                            |      | 81   | 74     |
| <i>Change in fair value of mortgage servicing rights:</i> |      |  |        |
| Mortgage servicing rights                                 |      | (26)   | (79)   |
| <i>Interest income:</i>                                   |      |  |        |
| Mortgage loans held for sale                              |      | 1  | 1      |

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

|   | 2015 | Three Months Ended<br>March 31,<br>(In millions) | 2014  |
|---|------|--|-------|
| Gain on loans held for sale, net                  | \$   | 36   | \$ 16 |
| Change in fair value of mortgage servicing rights |      | 12   | (45)  |

***Fair Value of Other Financial Instruments***

As of March 31, 2015 and December 31, 2014, all financial instruments were either recorded at fair value or the carrying value approximated fair value, with the exception of Debt and derivative instruments included in Total PHH Corporation stockholders' equity. For financial instruments that were not recorded at fair value, such as Cash and cash equivalents, Restricted cash and Servicing advance receivables, the carrying value approximates fair value due to the short-term nature of such instruments.

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**Debt.** As of March 31, 2015 and December 31, 2014, the total fair value of Debt was \$2.1 billion and \$2.0 billion, respectively, and is measured using Level Two inputs. As of March 31, 2015, the fair value of Level Two Debt was estimated using the following valuation techniques: (i) \$1.1 billion was measured using a market based approach, considering the current market pricing of recent trades for similar instruments or the current expected ask price for the Company's debt instruments; and (ii) \$1.0 billion was measured using observable spreads and terms for recent pricing of similar instruments.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****13. Variable Interest Entities**

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

|                                       | March 31, 2015    |  | December 31, 2014 |  |
|---------------------------------------|-------------------|--|-------------------|--|
|                                       | PHH Home<br>Loans | Servicing<br>Advance<br>Receivables<br>Trust | PHH Home<br>Loans | Servicing<br>Advance<br>Receivables<br>Trust |
|                                       | (In millions)     |  |                   |  |
| <b>ASSETS</b>                         |                   |  |                   |  |
| Cash                                  | \$ 79             | \$   | \$ 82             | \$   |
| Restricted cash                       | 3                 | 9  | 3                 | 20   |
| Mortgage loans held for sale          | 482               |  | 378               |  |
| Accounts receivable, net              | 14                |  | 8                 |  |
| Servicing advances, net               |                   | 151  |                   | 155  |
| Property and equipment, net           | 1                 |  | 1                 |  |
| Other assets                          | 9                 |  | 8                 |  |
| <b>Total assets</b>                   | <b>\$ 588</b>     | <b>\$ 160</b>                                | <b>\$ 480</b>     | <b>\$ 175</b>                                |
| Assets held as collateral             | \$ 459            | \$ 160                                       | \$ 353            | \$ 175                                       |
| <b>LIABILITIES</b>                    |                   |  |                   |  |
| Accounts payable and accrued expenses | \$ 16             | \$   | \$ 16             | \$   |
| Debt                                  | 438               | 97   | 335               | 108  |
| Other liabilities                     | 10                |  | 10                |  |
| <b>Total liabilities</b> (1)          | <b>\$ 464</b>     | <b>\$ 97</b>                                 | <b>\$ 361</b>     | <b>\$ 108</b>                                |

(1) Excludes intercompany payables.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****14. Segment Information**

Operations are conducted through the following two reportable segments:

- ◆ **Mortgage Production** provides mortgage loan origination services and sells mortgage loans.
- ◆ **Mortgage Servicing** performs servicing activities for loans originated by PHH Mortgage and mortgage servicing rights purchased from others, and acts as a subservicer for certain clients that own the underlying mortgage servicing rights.

The Company's continuing operations are located in the U.S. The results of the Fleet business have been excluded from continuing operations and segment results for all periods presented. See Note 2, "Discontinued Operations" for additional information.

The heading Other includes expenses that are not allocated back to the two reportable segments and, for 2014, also includes certain general corporate overhead expenses that were previously allocated to the Fleet business. Management evaluates the operating results of each of the reportable segments based upon Net revenues and Segment profit or loss, which is presented as the Income or loss from continuing operations before income tax expense or benefit and after Net income or loss attributable to noncontrolling interest. The Mortgage Production segment profit or loss excludes Realty Group LLC's noncontrolling interest in the profit or loss of PHH Home Loans.

Segment results were as follows:

|                             | Net Revenues<br>Three Months Ended<br>March 31, |        | Segment Profit (Loss) (1)<br>Three Months Ended<br>March 31, |         |
|-----------------------------|---|--------|--|---------|
|                             | 2015  | 2014   | 2015   | 2014    |
|                             | (In millions)                                   |        |  |         |
| Mortgage Production segment | \$ 137  | \$ 82  | \$ (19)  | \$ (60) |
| Mortgage Servicing segment  | 121   | 29     | 57   | (29)    |
| Other                       | 3   |        | (9)  | (2)     |
| Total                       | \$ 261  | \$ 111 | \$ 29  | \$ (91) |

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(1) The following is a reconciliation of Income or loss from continuing operations before income taxes to Segment profit or loss:

|   |      | Three Months Ended<br>March 31, |         |
|---|------|---------------------------------|---------|
|   | 2015 | (In millions)                   | 2014    |
| Income (loss) from continuing operations before income taxes    | \$   | 31                              | \$ (93) |
| Less: net income (loss) attributable to noncontrolling interest |      | 2                               | (2)     |
| Segment profit (loss)   | \$   | 29                              | \$ (91) |

### 15. Subsequent Events

On May 6, 2015, the Company commenced an offer to exchange the \$245 million outstanding aggregate principal amount of its 6.0% Convertible notes due 2017 plus accrued and unpaid interest for cash and a number of shares of the Company's Common stock for the conversion value in excess of principal.

The number of shares of Common stock to be issued in connection with the exchange will be determined based on the Company's volume adjusted weighted-average stock price (VWAP) over the exchange period. The exchange offer will expire on June 15, 2015, unless it is extended or earlier terminated by the Company.



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

*The following discussion should be read in conjunction with the Cautionary Note Regarding Forward-Looking Statements and our Condensed Consolidated Financial Statements included in this Form 10-Q and Part I Item 1. Business, Part I Item 1A. Risk Factors, Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements included in our 2014 Form 10-K.*

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

- § Overview
- § Results of Operations
- § Risk Management
- § Liquidity and Capital Resources
- § Critical Accounting Policies and Estimates
- § Recently Issued Accounting Pronouncements

**OVERVIEW**

We are a leading outsource provider of mortgage services. We conduct our business through two reportable segments: Mortgage Production and Mortgage Servicing. Our Mortgage Production segment originates, purchases and sells mortgage loans through our wholly-owned subsidiary PHH Mortgage Corporation. Our Mortgage Servicing segment services mortgage loans originated by PHH Mortgage and mortgage servicing rights purchased from others, and acts as a servicer for certain clients that own the underlying mortgage servicing rights.

As a result of the sale of our Fleet business, which closed effective on July 1, 2014, Fleet Management Services is no longer a reportable segment, and the results and operations of the Fleet business and transaction-related amounts are included within Income from discontinued operations, net of tax for all periods presented. See further discussion in Results of Operations Discontinued Operations .

## Executive Summary

We are continuing to execute our operating and capital strategies, including utilizing our excess cash by re-engineering the company as a stand-alone mortgage business and growing the business, and we expect to return additional capital to shareholders, as discussed below.

## Capital Structure Actions

In March 2015, at the completion of the \$200 million accelerated share repurchase programs we retired an additional 1.574 million of our common shares, bringing the total number of shares retired in these programs to 8.537 million. In addition to these share repurchase programs, our Board of Directors has authorized up to \$250 million in open market purchases of our Common stock through March 31, 2016.

In May 2015, we announced the commencement of an exchange offer for any and all of our Convertible notes due 2017. We have elected to initiate this exchange offer prior to commencing any open market share repurchases; however, we intend to commence the open market purchase program as soon as legally permitted following the completion of the exchange offer, subject to market and business conditions, the trading price of our Common stock and the nature of other investment opportunities. Although a successful exchange offer may result in unsecured debt levels below our targets, we believe the transaction is accretive to shareholders and provides a reasonable return on invested cash given our current and projected liquidity needs.

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**Re-Engineering**

We remain focused on our efforts to re-engineer our operations and support infrastructure for a stand-alone mortgage business in a lower volume, home purchase driven mortgage market. If we achieve our private label contract negotiation objectives and expense reduction efforts, we would expect to generate a total of \$225 million in annualized operating benefits. In total, we expect to spend \$200 million in one-time costs associated with re-engineering, including \$10 million of expenses that were spent in the first quarter of 2015.

**Expense Reduction.** We expect to generate up to \$175 million in annualized operating benefits from expense reduction actions focused on our organizational structure redesign, facilities management, implementing process improvements in both origination and servicing operations and consolidating our vendor relationships. During the first quarter of 2015, we have realized \$11 million in operating benefits as a result of these initiatives as compared to our results in the first quarter of 2014. We expect to continue to realize the operating benefits from our organizational re-design in the second quarter of 2015 while the benefits from our other re-engineering actions are expected to occur in late 2015 through 2016.

**Private Label Contracts.** We continue to make progress on our private label contract negotiations with our largest clients. Our objectives of these negotiations include addressing pricing economics, appropriate risk sharing, and more balanced terms and conditions, and may encompass a number of additional elements that may change our private label operating model.

Through the date of this filing, we have signed agreements that achieve our target objectives with clients representing approximately 50% of our total 2014 private label closing volume. During the first quarter of 2015 we have realized \$1 million in operating benefits from these amendments compared to the results in the first quarter of 2014. For clients representing approximately 30% of our total 2014 private label closing volume, we believe that we are in the late stages of the renegotiation process, and we should complete those negotiations to achieve our target economic objectives by June 30, 2015. We remain highly engaged with the clients that comprise the remaining 20% of our total 2014 private label closing volume, and we continue to work diligently with them to conclude these negotiations as soon as possible. We expect to continue to see the operating benefits from the signed agreements representing 50% of our 2014 private label closing volume in the second quarter of 2015, while the operating benefits from the late stage renegotiations for clients representing 30% of our 2014 private label closing volume are expected to be realized in the fourth quarter of 2015, assuming the negotiations are completed by June 30, 2015.

We remain cautiously optimistic that these contracts can be structured or renewed on mutually beneficial terms; however, we can make no assurances that our private label clients will ultimately agree to amend their contracts prior to their expiration or renewal. For more information, see Part I Item 1A. Risk Factors Risks Related to Our Company *The profitability of our Mortgage Production segment has been adversely affected by the increased mix of fee-based closings originated under our existing private label client contracts. We are currently evaluating a number of alternatives to restructure these contracts to improve the economics of the underlying contractual relationships; however, there can be no assurances that we will be successful in these efforts.* in our 2014 Form 10-K.

**Growth Initiatives**

We intend to invest up to \$150 million in select growth opportunities throughout the balance of 2015 and 2016 to enhance scale and profitability and diversify our revenue streams. We believe these opportunities could generate up to \$175 million in annualized operating benefits.

In our production business, we will be focused on expanding our target market within the existing private label client base, but the timing of this effort may be impacted by the results of our ongoing contract negotiations. In addition, we will focus on growing our origination volume through outsourcing opportunities with regional and community banks. We believe that we can grow our share in the home purchase market through improved capture rates and additional investments in the real estate channel. We will evaluate selective inorganic growth investments to leverage our fixed-cost support infrastructure to expand our retail mortgage market presence in a home purchase market.

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In our servicing business, we are focusing on improving profitability and scale by pursuing growth in both owned servicing and subservicing, and by managing controllable foreclosure and delinquent servicing costs in our owned portfolio. While we continue to pursue a long term strategy of being a more capital light, fee-based business, in the near term we may take actions to proactively manage our owned portfolio composition to reduce delinquent servicing expenses and invest our cash in income producing assets. Such actions may include evaluating the need to sell, retain or acquire servicing rights with specific characteristics.

For more information, see Part I Item 1A. Risk Factors Risks Related to Our Company *We may not be able to fully or successfully execute or implement our business strategies or achieve our objectives, including our initiatives to re-engineer and grow our mortgage business.* and Risks Related to Our Common Stock *Our share repurchase programs may affect the market for our Common stock, including affecting our share price or increasing share price volatility.* in our 2014 Form 10-K.

***Legal and Regulatory Environment***

Consistent with other companies in the mortgage industry, we have experienced inquiries, examinations and requests for information from regulators and attorneys general of certain states as well as various government agencies.

In the first quarter of 2015, we were notified by the New York Department of Financial Services that it intends to propose that we enter into a settlement agreement and/or consent order to close out pending examination report findings, including New York findings stemming from the MMC examination. While we believe we have meritorious explanations and defenses to the findings and has provided or is in the process of providing responses to these findings, the proposed settlement agreement and/or consent order may include fines and penalties, and there can be no assurance that the ultimate resolution of this matter will not result in losses which could be material to our results of operations, cash flows or financial position.

In addition, we are monitoring a number of developments in regulations that are expected to impact our business, and there has been a heightened focus of regulators on mortgage industry activities and practices. We are devoting substantial resources towards assessing and reacting to developments, implementing new rules and responding to inquiries, examinations, and proceedings, while meeting the needs and expectations of our clients and customers.

We expect the higher legislative and regulatory focus on mortgage origination and servicing practices to continue to result in higher legal, compliance and servicing related costs, heightened risk for potential regulatory fines and penalties, and we could experience an increase in mortgage origination or servicing related litigation in the future. The ultimate resolution of any particular matter could be material to our results of operations or cash flows for the period in which such matter is resolved.

For more information, see Part I Item 1A. Risk Factors Risks Related to Our Company *Our business is complex and heavily regulated, and the full impact of regulatory developments to our business remains uncertain. In addition, we are subject to litigation, regulatory investigations, inquiries and proceedings and we may incur fines, penalties, and increased costs that could negatively impact our future results of operations, liquidity and cash flows or damage our reputation.* in our 2014 Form 10-K and Note 11, Commitments and Contingencies in the accompanying Notes to Condensed Consolidated Financial Statements.



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The following table presents our consolidated results of operations from continuing operations and segment profit or loss for our reportable segments:

|  | <b>Three Months Ended<br/>March 31,</b>         |             |
|--|---|-------------|
|  | <b>2015</b>                                     | <b>2014</b> |
|  | <b>(In millions, except per<br/>share data)</b> |             |
| Origination and other loan fees  | \$ 58   | \$ 47       |
| Gain on loans held for sale, net   | 82  | 51          |
| Net loan servicing income  | 131   | 42          |
| Net interest expense   | (17)  | (30)        |
| Other income   | 7   | 1           |
| Net revenues   | 261   | 111         |
| Total expenses   | 230   | 204         |
| Income (loss) from continuing operations before income taxes                 | 31  | (93)        |
| Income tax expense (benefit)   | 8   | (33)        |
| Income (loss) from continuing operations, net of tax                         | 23  | (60)        |
| Less: net income (loss) attributable to noncontrolling interest              | 2   | (2)         |
| Net income (loss) from continuing operations attributable to PHH Corporation | \$ 21   | \$ (58)     |
| Earnings (loss) per share from continuing operations:                        |   |             |
| Basic  | \$ 0.40   | \$ (1.01)   |
| Diluted  | \$ 0.34   | \$ (1.01)   |
| <b>Segment (Loss) Profit:(1)</b>   |   |             |
| Mortgage Production segment  | \$ (19)   | \$ (60)     |
| Mortgage Servicing segment   | 57  | (29)        |
| Other(2)   | (9)   | (2)         |

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

(2) Includes expenses that are not allocated back to our reportable segments and, for the first quarter of 2014, also includes certain general corporate overhead expenses that were previously allocated to the Fleet business.

Our business has experienced, and may continue to experience, high degrees of earnings volatility due to significant exposure to changes in interest rates and the real estate markets, which affects our loan origination volumes, valuation of our mortgage servicing rights and repurchase and foreclosure-related charges. See Risk Management in this Form 10-Q for additional information regarding our interest rate and market risks.

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Our financial results from continuing operations for the first quarter of 2015 reflect a decline in interest rates, an increase in industry refinance volume and certain operating benefits of our re-engineering efforts. For the remainder of 2015, we will continue to execute on our strategy to re-engineer our operations and support infrastructure for a stand-alone mortgage business and evaluate select growth opportunities as discussed further under **Mortgage Re-Engineering** and **Growth Initiatives** in the Overview section.

**Production.** Net revenues improved by \$55 million, or 67%, compared to the prior year quarter reflecting a 27% increase in total closings, a 22% increase in IRLCs and a 24 basis point, or 8%, increase in average total loan margins. The increase in total closings was primarily driven by a 46% increase in refinance closings related to the decline in interest rates during the first quarter of 2015.

While application volume and loan margins improved during the first quarter of 2015 as a result of the short-term drop in mortgage rates, we still expect a highly challenging mortgage industry environment to continue throughout



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2015 and our Mortgage Production segment will likely continue to be unprofitable and cash consumptive for the second quarter of 2015.

**Servicing.** Net revenues improved by \$92 million compared to the prior year quarter reflecting changes in the valuation of our mortgage servicing rights and related derivatives. During the first quarter of 2015, we recorded favorable changes in value of \$27 million, which included \$53 million of net gains on MSR derivatives, compared to total unfavorable changes in value of \$73 million during the first quarter of 2014. The \$12 million positive Market-related fair value adjustments during the first quarter of 2015 included \$46 million of favorable adjustments associated with updates to our prepayment model and market data calibration that were partially offset by the impact from a decline in the modeled mortgage rate and a flattening of the yield curve.

**Other.** Total expenses increased by \$22 million, or 67%, compared to the prior year quarter reflecting a \$15 million increase in Professional and third-party service fees primarily related to continuing actions to separate our information technology systems from the Fleet business, the modernization and security of our information technology systems, implementing new compliance requirements in our origination business and providing services under the transition services agreement.

**Income Tax Provision or Benefit.** The results of operations for reportable segments are reported on a pre-tax basis and are discussed in more detail in the following sections. For the three months ended March 31, 2015, we recorded our interim tax provision from continuing operations by applying a projected full-year effective income tax rate to our quarterly pre-tax income or loss for results that we deem to be reliably estimable. Certain results dependent on fair value adjustments are considered to not be reliably estimable, and therefore we record discrete year-to-date income tax provisions on those results.

For the three months ended March 31, 2014, interim income tax benefit was recorded using the discrete effective tax rate method. Management believes the use of the discrete method for this period was more appropriate than applying the full-year effective tax rate method since the full-year effective tax rate method would not be considered reliable due to the sensitivity to small changes to forecasted annual pre-tax results. Under the discrete method, the Company determines the tax provision based upon actual results as if the interim period were a full-year period.

Our effective income tax rate for the three months ended March 31, 2015 and 2014 was 26.2% and (35.6)%, respectively. The effective income tax rate for the three months ended March 31, 2015 included tax benefits related to the impacts from changes in income tax contingencies, state tax rate changes and income attributable to noncontrolling interest for which no taxes are provided. See Note 9, *Income Taxes* in the accompanying Notes to Condensed Consolidated Financial Statements for further information.

Table of Contents**Discontinued Operations**

During 2014, we entered into a Stock Purchase Agreement to sell all of the issued and outstanding equity interests of our Fleet business, and the transaction was completed effective on July 1, 2014. As a result of the sale of the Fleet business, Fleet Management Services is no longer a reportable segment, and the results of the Fleet business and transaction-related amounts are included within Income from discontinued operations, net of tax in the Condensed Consolidated Statements of Operations and have been excluded from continuing operations and segment results for all periods presented.

The results of discontinued operations for the three months ended March 31, 2014 are summarized below:

|   | <b>(In millions,<br/>except per<br/>share data)</b> |
|---|---|
| Net revenues  | \$ 405  |
| Total expenses  | 383   |
| Income before income taxes                              | 22  |
| Income tax expense                                      | 6   |
| Income from discontinued operations, net of tax         | \$ 16   |
| <b>Earnings per share from discontinued operations:</b> |   |
| Basic   | \$ 0.28   |
| Diluted   | \$ 0.28   |

**Mortgage Production Segment**

Throughout 2014, the origination environment reflected a lower volume, home purchase driven mortgage market; however, during the first quarter of 2015, the industry experienced a short-term decrease in interest rates that led to a brief increase in refinance application volume and loan margins. According to Fannie Mae's April 2015 *Economic and Housing Outlook*, refinance closings represented 59% of total industry originations during the first quarter of 2015, a sharp increase from 43% in the fourth quarter of 2014. Consistent with the industry trend, our refinance closings during the first quarter of 2015 increased to 59% of our total closings, compared to 49% during the fourth quarter of 2014. While interest rates declined to a level that generated refinance incentive to borrowers, Fannie Mae's April 2015 *Economic and Housing Outlook*, is projecting that industry refinance closings will slow to 41% of industry closings for the remainder of 2015.

A variety of factors could impact the industry, including but not limited to, an increasingly complex regulatory compliance environment, changes to mortgage-backed security programs and the continued curtailment of mortgage-backed securities purchased by the Federal Reserve. Mortgage lenders are also preparing for significant changes to origination and settlement forms required for compliance with the Integrated Mortgage Disclosure Rule under the Real Estate Settlement Procedures Act and Truth in Lending Act which becomes effective on August 1, 2015. The implementation of changes to these forms will require significant modifications and enhancements to mortgage production processes and systems by the effective date. We have dedicated significant resources towards ensuring compliance with this rule and are currently working towards implementing the required changes to our technology and origination processes.

See also Part I Item 1A. Risk Factors Risks Related to Our Company *Our business is complex and heavily regulated, and the full impact of regulatory developments to our business remains uncertain. In addition, we are subject to litigation, regulatory investigations, inquiries and proceedings and we may incur fines, penalties, and increased costs that could negatively impact our future results of operations, liquidity and cash flows or damage our reputation.* in our 2014 Form 10-K for more information.

The profitability of our private label contracts has continued to negatively impact the results of our Mortgage Production segment. See Overview Executive Summary for a discussion of the current status of our private label contracts.

Table of Contents**Segment Metrics:**

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2015                            | 2014      |
|  | (\$ In millions)                |           |
| <i>Closings:</i>                             |                                 |           |
| Saleable to investors                        | \$ 3,102                        | \$ 2,609  |
| Fee-based                                    | 6,250                           | 4,775     |
| Total  | \$ 9,352                        | \$ 7,384  |
| Purchase                                     | \$ 3,816                        | \$ 3,590  |
| Refinance                                    | 5,536                           | 3,794     |
| Total  | \$ 9,352                        | \$ 7,384  |
| Retail - PLS                                 | \$ 7,047                        | \$ 5,420  |
| Retail - Real Estate                         | 2,019                           | 1,556     |
| Total retail                                 | 9,066                           | 6,976     |
| Wholesale/correspondent                      | 286                             | 408       |
| Total  | \$ 9,352                        | \$ 7,384  |
| Retail - PLS (units)                         | 13,625                          | 12,022    |
| Retail - Real Estate (units)                 | 7,608                           | 6,752     |
| Total retail (units)                         | 21,233                          | 18,774    |
| Wholesale/correspondent (units)              | 1,307                           | 1,663     |
| Total (units)                                | 22,540                          | 20,437    |
| <i>Applications:</i>                         |                                 |           |
| Saleable to investors                        | \$ 5,368                        | \$ 3,906  |
| Fee-based                                    | 9,808                           | 6,463     |
| Total  | \$ 15,176                       | \$ 10,369 |
| Retail - PLS                                 | \$ 11,430                       | \$ 7,464  |
| Retail - Real Estate                         | 3,142                           | 2,370     |
| Total retail                                 | 14,572                          | 9,834     |
| Wholesale/correspondent                      | 604                             | 535       |
| Total  | \$ 15,176                       | \$ 10,369 |
| Retail - PLS (units)                         | 21,926                          | 16,134    |
| Retail - Real Estate (units)                 | 11,706                          | 9,858     |
| Total retail (units)                         | 33,632                          | 25,992    |
| Wholesale/correspondent (units)              | 2,582                           | 2,274     |
| Total (units)                                | 36,214                          | 28,266    |
| <i>Other:</i>                                |                                 |           |
| IRLCs expected to close                      | \$ 2,135                        | \$ 1,750  |
| Total loan margin on IRLCs (in basis points) | 315                             | 291       |
| Loans sold                                   | \$ 2,964                        | \$ 2,923  |

Table of Contents**Segment Results:**

|   | Three Months Ended<br>March 31, |         |
|---|---------------------------------|---------|
|   | 2015                            | 2014    |
|   | (In millions)                   |         |
| Origination and other loan fees                                 | \$ 58                           | \$ 47   |
| Gain on loans held for sale, net                                | 82                              | 51      |
| <i>Net interest expense:</i>                                    |                                 |         |
| Interest income   | 9                               | 7       |
| Secured interest expense  | (6)                             | (7)     |
| Unsecured interest expense                                      | (8)                             | (17)    |
| Net interest expense  | (5)                             | (17)    |
| Other income  | 2                               | 1       |
| Net revenues  | 137                             | 82      |
| Salaries and related expenses                                   | 55                              | 62      |
| Commissions   | 19                              | 15      |
| Loan origination expenses                                       | 24                              | 19      |
| Professional and third-party service fees                       | 7                               | 8       |
| Technology equipment and software expenses                      | 1                               | 1       |
| Occupancy and other office expenses                             | 7                               | 8       |
| Depreciation and amortization                                   | 3                               | 3       |
| Other operating expenses  | 38                              | 28      |
| Total expenses  | 154                             | 144     |
| Loss before income taxes  | (17)                            | (62)    |
| Less: net income (loss) attributable to noncontrolling interest | 2                               | (2)     |
| Segment loss  | \$ (19)                         | \$ (60) |

**First Quarter 2015 Compared With First Quarter 2014:** Mortgage Production segment loss was \$19 million during the first quarter of 2015 compared to \$60 million during the prior year quarter. Net revenues increased to \$137 million, up \$55 million, or 67%, compared to the prior year quarter driven by higher volumes of refinance activity, increases in IRLCs expected to close and total loan margins and lower allocated unsecured interest expense. Total expenses increased to \$154 million, up \$10 million, or 7%, compared with the first quarter of 2014 primarily driven by an increase in Corporate overhead allocation and increases in Commissions and Loan origination expenses resulting from higher closing volume.

**Net revenues.** Origination and other loan fees increased to \$58 million, up \$11 million, or 23%, compared to the prior year quarter. PLS closing units were up 13% compared with the first quarter of 2014 which resulted in a \$7 million increase in origination assistance fees. Total retail closing units were also up 13% compared to the prior year quarter which contributed to a \$5 million increase in appraisal income, application fees and other underwriting fees.

Gain on loans held for sale, net increased by \$31 million, or 61% compared to the prior year quarter. Interest rates declined during the first quarter of 2015 which led to an increase in application volume and refinance closings. The \$23 million increase in gain on loans compared to the prior year quarter was primarily driven by a 22% increase in IRLCs expected to close and a 24 basis points increase in average total loan margins. In addition, the change in fair value of Scratch and Dent and certain non-conforming mortgage loans was not significant during the first quarter of 2015, compared to a \$7 million unfavorable impact in the prior year quarter that was primarily driven by repurchase activity.

Allocated unsecured interest expense decreased to \$8 million, down \$9 million, or 53%, compared to the prior year quarter driven by the impact of our actions related to our capital strategy to reduce our corporate unsecured debt levels.



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**Total expenses.** Salaries, benefits and incentives decreased to \$52 million, down \$9 million, or 15%, compared to the prior year quarter. There was a \$7 million decrease in Salaries, benefits and incentives compared to the prior year quarter associated with the impact from a decline in headcount and the related operating benefits of the actions we took during the first quarter of 2014 to align our cost structure with expected mortgage industry demand. In addition, during the first quarter of 2015, we transferred certain employees from our mortgage business into our corporate shared service platform which resulted in a \$2 million decrease in Salaries, benefits and incentives. The transfer of employees was in response to our ongoing efforts to re-engineer our support infrastructure for a stand-alone mortgage business.

Commissions were up \$4 million, or 27%, compared to the prior year quarter primarily due to a 30% increase in closings from our real estate channel.

Loan origination expenses increased by \$5 million, or 26%, compared with the first quarter of 2014 due to a 29% increase in the total number of retail application units.

See **Other** for a discussion of the costs that are allocated through the Corporate overhead allocation. During the first quarter of 2015, Corporate overhead allocation includes costs associated with the modernization and security of our information technology systems and implementing new compliance requirements in our origination business.

**Selected Income Statement Data:**

|  | Three Months Ended<br>March 31, |       |
|--|---------------------------------|-------|
|  | 2015                            | 2014  |
|  | (In millions)                   |       |
| <i>Gain on loans held for sale, net:</i>   |                                 |       |
| Gain on loans  | \$ 71                           | \$ 48 |
| Change in fair value of Scratch and Dent and certain non-conforming mortgage loans |                                 | (7)   |
| Economic hedge results   | 11                              | 10    |
| Total change in fair value of mortgage loans and related derivatives               | 11                              | 3     |
| Total  | \$ 82                           | \$ 51 |
| <i>Salaries and related expenses:</i>  |                                 |       |
| Salaries, benefits and incentives  | \$ 52                           | \$ 61 |
| Contract labor and overtime  | 3                               | 1     |
| Total  | \$ 55                           | \$ 62 |
| <i>Other operating expenses:</i>   |                                 |       |
| Corporate overhead allocation  | \$ 32                           | \$ 23 |
| Other expenses   | 6                               | 5     |
| Total  | \$ 38                           | \$ 28 |





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In recent years, we have seen the landscape of the mortgage servicing industry change from the heightened scrutiny of federal, state and local regulators which has resulted in, and will likely continue to result in, higher legal, compliance and servicing related costs across the industry. Large banks have reduced their share of servicing in response to new regulations, to meet new capital requirements and to focus on their core client base, while non-bank servicers have increased their market share of outstanding mortgages serviced. According to *Inside Mortgage Finance*, 35% of outstanding mortgages at December 31, 2014 were serviced by the top 3 mortgage loan servicers consisting of Wells Fargo, JPMorgan Chase and Bank of America, compared to 37% and 44% at the end of 2013 and 2012, respectively. We believe that this shift provides us with an opportunity to continue to pursue growth in fee-based revenue streams by adding new subservicing loans to our portfolio.

Our Mortgage Servicing segment has experienced, and may continue to experience high degrees of earnings volatility due to significant exposure to changes in interest rates and other market risks which can be impacted by, among other factors, conditions in the housing market, general economic factors, including higher unemployment rates, and policies of the Federal Reserve. Fannie Mae's April 2015 *Economic and Housing Outlook*, is projecting that the 30-year fixed mortgage rate will increase from 3.8% in 2015 to 4.1% in 2016 which would typically result in an increase in the value of our mortgage servicing right asset as prepayments generally decline. The earnings of our Mortgage Servicing segment may also be impacted by the extent to which we are able to successfully execute on our growth initiatives described in Overview Executive Summary.

For more information, see Part I Item 1A. Risk Factors Risks Related to Our Company *Our business is complex and heavily regulated, and the full impact of regulatory developments to our business remains uncertain. In addition, we are subject to litigation, regulatory investigations, inquiries and proceedings and we may incur fines, penalties, and increased costs that could negatively impact our future results of operations, liquidity and cash flows or damage our reputation.* in our 2014 Form 10-K.

**Segment Metrics:**

|  | 2015 | March 31,<br>(\$ In millions) | 2014       |
|--|------|-------------------------------|------------|
| Total loan servicing portfolio                   | \$   | 224,194                       | \$ 225,744 |
| Number of loans in owned portfolio (units)       |      | 697,090                       | 794,648    |
| Number of subserviced loans (units)              |      | 426,538                       | 406,287    |
| Total number of loans serviced (units)           |      | 1,123,628                     | 1,200,935  |
| Capitalized loan servicing portfolio             | \$   | 108,792                       | \$ 127,158 |
| Capitalized servicing rate                       |      | 0.91%                         | 0.96%      |
| Capitalized servicing multiple                   |      | 3.2                           | 3.3        |
| Weighted-average servicing fee (in basis points) |      | 29                            | 29         |

|  | 2015 | Three Months Ended<br>March 31,<br>(In millions) | 2014 |
|--|------|--|------|
|--|------|--|------|

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|   |    |         |    |         |
|---|----|---------|----|---------|
| Average total loan servicing portfolio                      | \$ | 225,591 | \$ | 226,272 |
| Average capitalized loan servicing portfolio                |    | 110,823 |    | 128,241 |
| Payoffs and principal curtailments of capitalized portfolio |    | 4,579   |    | 4,129   |
| Sales of capitalized portfolio                              |    | 1,228   |    | 124     |

Table of Contents**Segment Results:**

|  | Three Months Ended |         |
|--|--------------------|---------|
|  | 2015               | 2014    |
|  | March 31,          |         |
|  | (In millions)      |         |
| <i>Net loan servicing income:</i>                        |                    |         |
| Loan servicing income                                    | \$ 104             | \$ 115  |
| Change in fair value of mortgage servicing rights        | (26)               | (79)    |
| Net derivative gain related to mortgage servicing rights | 53                 | 6       |
| Net loan servicing income                                | 131                | 42      |
| <i>Net interest expense:</i>                             |                    |         |
| Interest income  |                    | 1       |
| Secured interest expense                                 | (3)                | (2)     |
| Unsecured interest expense                               | (9)                | (12)    |
| Net interest expense                                     | (12)               | (13)    |
| Other income   | 2                  |         |
| Net revenues   | 121                | 29      |
| Salaries and related expenses                            | 16                 | 15      |
| Foreclosure and repossession expenses                    | 15                 | 14      |
| Professional and third-party service fees                | 7                  | 7       |
| Technology equipment and software expenses               | 4                  | 4       |
| Occupancy and other office expenses                      | 4                  | 4       |
| Depreciation and amortization                            |                    | 1       |
| Other operating expenses                                 | 18                 | 13      |
| Total expenses   | 64                 | 58      |
| Segment profit (loss)                                    | \$ 57              | \$ (29) |

**First Quarter 2015 Compared With First Quarter 2014:** Mortgage Servicing segment profit was \$57 million during the first quarter of 2015 compared to a segment loss of \$29 million during the prior year quarter. Net revenues increased to \$121 million, up \$92 million compared to the prior year quarter primarily driven by positive MSR market-related fair value adjustments and higher net gains on MSR derivatives that were partially offset by a decline in loan servicing income. Total expenses increased to \$64 million, up \$6 million, or 10%, compared with the first quarter of 2014 primarily driven by increases in Corporate overhead allocations and Repurchase and foreclosure-related charges.

**Net revenues.** We continued to experience a decline in our capitalized loan servicing portfolio and an increase in our subservicing portfolio driven by the execution of our MSR flow sale arrangements and our fee-based closing volume. As a result, Servicing fees from our capitalized portfolio decreased to \$79 million, down \$13 million, or 14%, compared to the prior year quarter driven by a 14% decrease in our average capitalized loan servicing portfolio. Subservicing fees increased by \$5 million, or 38%, compared to the prior year quarter primarily driven by fees charged to certain clients to implement compliance with the CFPB's servicing rules and an increase in the average number of loans in our subserviced portfolio.

The decline in interest rates during the first quarter of 2015 led to an increase in refinancing closings which resulted in a 22% increase in payoffs in our capitalized loan servicing portfolio compared to the prior year quarter. The higher payoff activity compared with the first quarter of 2014 drove a \$6 million, or 27%, increase in MSR valuation changes from actual prepayments of the underlying mortgage loans and a 33% increase in curtailment interest paid to investors.

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Allocated unsecured interest expense decreased to \$9 million, down \$3 million, or 25%, compared to the prior year quarter which reflects a decline in allocated costs driven by a lower average balance of MSRs and the impact of our actions related to our capital strategy to reduce our corporate unsecured debt levels.

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While the mortgage rate used to value our MSR asset declined by 12 basis points during the first quarter of 2015, Market-related fair value adjustments increased the value of our MSRs by \$12 million and we recorded net gains on MSR derivatives of \$53 million primarily related to the decline in interest rates. The \$12 million positive Market-related fair value adjustments included \$46 million of favorable adjustments associated with updates to our prepayment model to align modeled and actual prepayments and changes from market data calibration. These increases in value of our MSR were partially offset by a \$34 million decrease in value primarily related to a decline in the modeled mortgage rate and a flattening of the yield curve.

During the first quarter of 2014, Market-related fair value adjustments decreased the value of our MSRs by \$45 million which was driven largely by a 13 basis points decrease in the primary mortgage rate used to value our MSR. The decline in interest rates also drove net gains on MSR derivatives of \$6 million during the prior year quarter.

**Total expenses.** Repurchase and foreclosure-related charges increased by \$2 million compared to the prior year quarter primarily driven by expenses not reimbursed pursuant to government mortgage insurance programs and expenses for repurchase and indemnification claims related to certain private investors.

See [Other](#) for a discussion of the costs that are allocated through the Corporate overhead allocation.

***Selected Income Statement Data:***

|  | <b>Three Months Ended</b> |                |
|--|---------------------------|----------------|
|  | <b>2015</b>               | <b>2014</b>    |
|  | <b>March 31,</b>          |                |
|  | <b>(In millions)</b>      |                |
| <i>Loan servicing income:</i>                              |                           |                |
| Servicing fees from capitalized portfolio                  | \$ 79                     | \$ 92          |
| Subservicing fees  | 18                        | 13             |
| Late fees and other ancillary servicing revenue            | 11                        | 13             |
| Curtailment interest paid to investors                     | (4)                       | (3)            |
| <b>Total</b>   | <b>\$ 104</b>             | <b>\$ 115</b>  |
| <i>Changes in fair value of mortgage servicing rights:</i> |                           |                |
| Actual prepayments of the underlying mortgage loans        | \$ (28)                   | \$ (22)        |
| Actual receipts of recurring cash flows                    | (10)                      | (12)           |
| Market-related fair value adjustments                      | 12                        | (45)           |
| <b>Total</b>   | <b>\$ (26)</b>            | <b>\$ (79)</b> |
| <i>Other operating expenses:</i>                           |                           |                |
| Corporate overhead allocation                              | \$ 11                     | \$ 8           |
| Repurchase and foreclosure-related charges                 | 2                         | 5              |
| Other expenses   | 5                         | 5              |
| <b>Total</b>   | <b>\$ 18</b>              | <b>\$ 13</b>   |



Table of Contents**Other**

We leverage a centralized corporate platform to provide shared services for general and administrative functions to our reportable segments. These shared services include support associated with, among other functions, information technology, enterprise risk management, internal audit, human resources, accounting and finance and communications. The costs associated with these shared general and administrative functions, in addition to the cost of managing the overall corporate function, are recorded within Other and allocated to our reportable segments through a corporate overhead allocation. The Corporate overhead allocation to each segment is determined based upon the actual and estimated usage by function or expense category.

**Results:**

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>2015</b>               | <b>2014</b> |
|  | <b>March 31,</b>          |             |
|  | <b>(In millions)</b>      |             |
| <b>Net revenues</b>                        | \$ 3                      | \$          |
| Salaries and related expenses              | 16                        | 12          |
| Professional and third-party service fees  | 28                        | 13          |
| Technology equipment and software expenses | 5                         | 3           |
| Occupancy and other office expenses        | 1                         | 1           |
| Depreciation and amortization              | 2                         | 2           |
| Other operating expenses                   | 3                         | 2           |
| <b>Total expenses before allocation</b>    | 55                        | 33          |
| <i>Corporate overhead allocation:</i>      |                           |             |
| Mortgage Production segment                | (32)                      | (23)        |
| Mortgage Servicing segment                 | (11)                      | (8)         |
| <b>Total expenses</b>                      | 12                        | 2           |
| <b>Net loss before income taxes</b>        | \$ (9)                    | \$ (2)      |

**First Quarter 2015 Compared With First Quarter 2014:** Net loss before income taxes was \$9 million during the first quarter of 2015, compared to a loss of \$2 million during the prior year quarter. Net revenues were \$3 million during the first quarter of 2015 which was primarily driven by income from a transition services agreement related to the sale of the Fleet business. Total expenses before allocations increased to \$55 million, up \$22 million, or 67%, compared to the prior year quarter primarily driven by increases in Professional and third-party service fees and Salaries and related expenses.

**Total expenses.** Salaries and related expenses increased to \$16 million, up \$4 million, or 33%, compared to the prior year quarter. During the first quarter of 2015, we transferred certain employees from our mortgage business into our corporate shared service platform which resulted in a \$2 million increase in Salaries, benefits and incentives. The transfer of employees was in response to our ongoing efforts to re-engineer our support infrastructure for a stand-alone mortgage business. The remaining increase in Salaries and related expenses was attributable to higher incentive compensation costs, primarily resulting from higher payments associated with 2014 incentive compensation plans.

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Professional and third-party service fees increased to \$28 million, up \$15 million, or 115%, compared to the prior year quarter which included \$7 million of costs that were not allocated to our reportable segments related to continuing actions to separate our information technology systems from the Fleet business and costs associated with evaluating strategic growth opportunities. The remaining \$8 million increase in Professional and third-party service fees compared to the first quarter of 2014 primarily relates to costs associated with the modernization and security of our information technology systems, implementing new compliance requirements in our origination business and providing services under the transition services agreement.



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## **RISK MANAGEMENT**

We are exposed to various business risks which may significantly impact our financial results including, but not limited to: (i) interest rate risk; (ii) consumer credit risk; (iii) counterparty and concentration risk; (iv) liquidity risk; and (v) operational risk.

During the three months ended March 31, 2015, there have been no significant changes to our counterparty and concentration risk, liquidity risk or operational risk. In addition, as of March 31, 2015, there were no significant concentrations of credit risk with any individual counterparty or group of counterparties with respect to our derivative transactions.

### **Interest Rate Risk**

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

Refer to Item 3. Quantitative and Qualitative Disclosures About Market Risk for an analysis of the impact of changes in interest rates on the valuation of assets and liabilities that are sensitive to interest rates.

### **Consumer Credit Risk**

We are not subject to the majority of the credit-related risks inherent in maintaining a mortgage loan portfolio because loans are not held for investment purposes. Our exposure to consumer credit risk primarily relates to loan repurchase and indemnification obligations from breaches of representation and warranty provisions of our loan sales or servicing agreements, which result in indemnification payments or exposure to loan defaults and foreclosures.

We have established a loan repurchase and indemnification liability for our estimate of exposure to losses related to our obligation to repurchase or indemnify investors for loans sold. Actual losses incurred in connection with loan repurchases and indemnifications could vary significantly from and exceed the recorded liability and we may be required to increase our loan repurchase and indemnification liability in the future. Accordingly, there can be no assurance that actual losses or estimates of reasonably possible losses associated with loan repurchases and indemnifications will not be in excess of the recorded liability or that we will not be required to increase the recorded liability in the future. See Note 10, Credit Risk, in the accompanying Notes to Condensed Consolidated Financial Statements for additional information regarding our repurchase and foreclosure-related reserves.

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Given the inherent uncertainties involved in estimating losses associated with future repurchase and indemnification requests, there is a reasonable possibility that future losses may be in excess of the recorded liability. As of March 31, 2015, the estimated amount of reasonably possible losses in excess of the recorded liability was approximately \$20 million which relates to our estimate of repurchase and foreclosure-related charges that may not be reimbursed pursuant to government mortgage insurance programs in the event we do not file insurance claims. The estimate is based on our expectation of future defaults and the historical defect rate for government insured loans and is based upon significant judgments and assumptions which can be influenced by many factors, including: (i) home prices and the levels of home equity; (ii) the quality of our underwriting procedures; (iii) borrower delinquency and default patterns; and (iv) general economic conditions. Our estimate of reasonably possible losses does not represent probable losses and does not include an estimate for any losses related to loans from origination years where the Agencies have substantially completed or resolved their file reviews or related to loans with defects that were excluded from the resolution agreement entered into with Fannie Mae during the fourth quarter of 2014. Excluded defects include, but are not limited to, loans with certain title defects or with violations of law.

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Repurchase and foreclosure-related reserves consist of the following:

|   | March 31,<br>2015 | December 31,<br>2014 |
|---|-------------------|----------------------|
|   | (In millions)     |                      |
| Loan repurchase and indemnification liability | \$ 62             | \$ 63                |
| Adjustment to value for real estate owned     | 16                | 16                   |
| Allowance for probable foreclosure losses     | 14                | 14                   |
| Total   | \$ 92             | \$ 93                |

The table below presents the trend over the most recent quarters of our repurchase and foreclosure-related reserves activity and the number of repurchase and indemnification requests received:

|  | March 31,<br>2015 | December 31,<br>2014 | Three Months Ended<br>September 30,<br>2014<br>(\$ In millions) | June 30,<br>2014 | March 31,<br>2014 |
|--|-------------------|----------------------|---|------------------|-------------------|
| Balance, beginning of period                                       | \$ 93             | \$ 103               | \$ 110  | \$ 120           | \$ 142            |
| Realized losses(1)   | (5)               | (19)                 | (12)  | (10)             | (24)              |
| Increase (decrease) in reserves due to:                            |                   |                      |   |                  |                   |
| Change in assumptions(2)   | 2                 | 4                    | 3   | (1)              |                   |
| New loan sales   | 2                 | 5                    | 2   | 1                | 2                 |
| Balance, end of period   | \$ 92             | \$ 93                | \$ 103  | \$ 110           | \$ 120            |
| Repurchase and indemnification requests received (number of loans) | 144               | 168                  | 192   | 194              | 382               |

(1) For the three months ended December 31, 2014, includes \$12 million that was paid to Fannie Mae related to a resolution agreement.

(2) For the three months ended December 31, 2014, includes an \$8 million provision for estimated losses related to the sale of mortgage servicing rights for certain highly delinquent government insured loans.

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

|                          | March 31, 2015       |                     |              | December 31, 2014    |                     |              |
|--------------------------|----------------------|---------------------|--------------|----------------------|---------------------|--------------|
|                          | Investor<br>Requests | Insurer<br>Requests | Total (4)    | Investor<br>Requests | Insurer<br>Requests | Total (4)    |
|                          | (In millions)        |                     |              |                      |                     |              |
| <b>Agency Invested:</b>  |                      |                     |              |                      |                     |              |
| Claim pending (1)        | \$ 11                | \$ 1                | \$ 12        | \$ 12                | \$ 1                | \$ 13        |
| Appealed (2)             | 13                   | 6                   | 19           | 10                   | 6                   | 16           |
| Open to review (3)       | 12                   | 1                   | 13           | 12                   | 1                   | 13           |
| Agency requests          | 36                   | 8                   | 44           | 34                   | 8                   | 42           |
| <b>Private Invested:</b> |                      |                     |              |                      |                     |              |
| Claim pending (1)        | 5                    |                     | 5            | 3                    |                     | 3            |
| Appealed (2)             | 7                    | 1                   | 8            | 7                    |                     | 7            |
| Open to review (3)       | 14                   | 1                   | 15           | 8                    | 1                   | 9            |
| Private requests         | 26                   | 2                   | 28           | 18                   | 1                   | 19           |
| <b>Total</b>             | <b>\$ 62</b>         | <b>\$ 10</b>        | <b>\$ 72</b> | <b>\$ 52</b>         | <b>\$ 9</b>         | <b>\$ 61</b> |

(1) Claim pending status represents loans that have completed the review process where we have agreed with the representation and warranty breach and are pending final execution.

(2) Appealed status represents loans that have completed the review process where we have disagreed with the representation and warranty breach and are pending response from the claimant. Based on claims received and appealed during the twelve months ended March 31, 2015 that have been resolved, we were successful in refuting approximately 95% of claims appealed.

(3) Open to review status represents loans where we have not completed our review process. We appealed approximately 65% of claims received and reviewed during the twelve months ended March 31, 2015.

(4) Investors may make repurchase demands based on unresolved mortgage insurance rescission notices. In these cases, the total unresolved requests balance includes certain loans that are currently subject to both an outstanding repurchase demand and an unresolved mortgage insurance rescission notice.

## LIQUIDITY AND CAPITAL RESOURCES

Our sources of liquidity during the first quarter of 2015 included: unrestricted Cash and cash equivalents; proceeds from the sale or securitization of mortgage loans; proceeds from the sale of newly-created mortgage servicing rights; secured borrowings, including mortgage warehouse and servicing advance facilities; and cash flows from operations.

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Our primary operating funding uses for our continuing operations arose from the origination and financing of mortgage loans and the retention of mortgage servicing rights. Our liquidity needs can also be significantly influenced by changes in interest rates due to collateral posting requirements from derivative agreements as well as the levels of repurchase and indemnification requests.

During the first quarter of 2015, we received 1.574 million additional common shares at the completion of the \$200 million accelerated share repurchase programs that we entered into in 2014. The average share price for the 8.537 million total shares repurchased was \$23.43, approximately 1% below the average market price of our stock during the repurchase period. In May 2015, we commenced an offer to exchange the \$245 million outstanding aggregate principal amount of our Convertible notes due 2017 plus accrued and unpaid interest for cash and a number of shares of our Common stock for the conversion value in excess of principal. We have elected to initiate this exchange offer prior to commencing any open market share repurchases; however, we intend to commence up to \$250 million in open market purchases as soon as legally permitted following the completion of the exchange offer, subject to market and business conditions, the trading price of our Common stock and the nature of other investment opportunities. Although a successful exchange offer may result in unsecured debt levels below our targets, we believe the transaction is accretive to shareholders and provides a reasonable return on invested cash given our current and projected liquidity needs.

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Given our expectation for business volumes we believe that our sources of liquidity are adequate to fund our operations for at least the next 12 months.

Further information related to our liquidity and capital resources can be found in our 2014 Form 10-K.

**Cash Flows**

Our total unrestricted cash position as of March 31, 2015 is \$1.3 billion, which includes \$82 million of cash in variable interest entities. We will continue to maintain an excess unrestricted cash position to fund certain known or expected payments, to fund our working capital needs and to maintain cash reserves for contingencies. The following is a summary of certain key items that we considered in our analysis of cash requirements as of March 31, 2015:

§ \$100 million to \$150 million for identified contingencies, including amounts related to mortgage loan repurchases and legal and regulatory matters;

§ \$50 million to \$75 million cash reserves for mortgage-related interest rate risk management activities; and

§ \$100 million to \$125 million for working capital needs.

After consideration of these total requirements of \$250 million to \$350 million, we have approximately \$835 million to \$935 million of excess cash available for operations, excluding cash in variable interest entities. See [Overview Executive Summary](#) for additional discussion of our plans to use excess cash to execute our strategic priorities.

The following table summarizes the changes in Cash and cash equivalents and, for the three months ended March 31, 2014, also includes the activities of our discontinued operations:

|                              | Three Months Ended |                                    | Change   |
|------------------------------|--------------------|------------------------------------|----------|
|                              | 2015               | March 31,<br>2014<br>(In millions) |          |
| Cash (used in) provided by : |                    |                                    |          |
| Operating activities         | \$ (119)           | \$ 471                             | \$ (590) |
| Investing activities         | 87                 | (395)                              | 482      |

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|  |    |    |    |       |    |     |
|--|----|----|----|-------|----|-----|
| Financing activities   |    | 42 |    | (162) |    | 204 |
| Effect of changes in exchange rates on Cash and cash equivalents |    |    |    | (4)   |    | 4   |
| Net increase (decrease) in Cash and cash equivalents             | \$ | 10 | \$ | (90)  | \$ | 100 |

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***Operating Activities***

Our cash flows from operating activities reflect the net cash generated or used in our business operations and can be significantly impacted by the timing of mortgage loan originations and sales. The operating results of our businesses are impacted by significant non-cash activities which include: (i) the capitalization of mortgage servicing rights in our Mortgage Production segment and (ii) the change in fair value of mortgage servicing rights in our Mortgage Servicing segment. The Fleet business, which was sold during 2014 and is presented as a discontinued operation, was impacted by depreciation on operating leases.

During the three months ended March 31, 2015, cash used in our operating activities was \$119 million which reflects losses from operations related to the current pricing levels and mix of closings of our private label agreements as well as cash investments related to our growth and re-engineering efforts.

During the three months ended March 31, 2014, cash provided by operating activities was \$471 million. This is primarily reflective of \$278 million of net cash provided by the volume of mortgage loan sales in our Mortgage Production segment as loans sold exceeded loans closed to be sold. Cash provided by operating activities was further driven by positive cash flows from our Mortgage Servicing and from our discontinued operations.

***Investing Activities***

Cash flows from investing activities include changes in the funding requirements of restricted cash, investments for our mortgage business, proceeds on the sale of mortgage servicing rights and the investing activities of our discontinued operations.

During the three months ended March 31, 2015, cash provided by our investing activities was \$87 million, which was driven by \$57 million of net cash received from MSR derivatives related to the settlement of certain MSR-related agreements and changes in cash collateral amounts. In addition, cash provided by investing activities included \$23 million of proceeds from the sale of mortgage servicing rights related to sales under our MSR flow sale arrangements and a population of highly delinquent government insured loans that was completed during the fourth quarter of 2014.

During the three months ended March 31, 2014, cash used in our investing activities was \$395 million, which primarily consisted of \$306 million in net cash outflows from the purchase and sale of vehicles from our discontinued operations and a \$104 million net increase in Restricted cash primarily due to a \$58 million increase related to a new servicing advance facility and a \$40 million increase due to the overcollateralization for securitizations of our discontinued operations.

***Financing Activities***



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Our cash flows from financing activities include proceeds from and payments on borrowings under our mortgage warehouse facilities and our servicing advance facility. The fluctuations in the amount of borrowings within each period are due to working capital needs and the funding requirements for assets, including mortgage loans held for sale and mortgage servicing rights. The outstanding balances under our warehouse and servicing advance debt facilities vary daily based on our current funding needs for eligible collateral and our decisions regarding the use of excess available cash to fund assets. As of the end of each quarter, our financing activities and Condensed Consolidated Balance Sheets reflect our efforts to maximize secured borrowings against the available asset base, increasing the ending cash balance. Within each quarter, excess available cash is utilized to fund assets rather than using our borrowing arrangements, given the relative borrowing costs and returns on invested cash.

During the first half of 2014, our cash flows from financing activities also include proceeds from and payments on borrowings under our vehicle management asset-backed debt, which was used to fund our discontinued operations. We transferred the subsidiaries that issued vehicle management asset-backed debt to Element Financial Corporation in connection with the completion of the sale of the Fleet business.

During the three months ended March 31, 2015, cash provided by our financing activities was \$42 million which primarily related to net proceeds from secured borrowings that resulted from increased funding requirements for mortgage loans held for sale.

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During the three months ended March 31, 2014, cash used in our financing activities was \$162 million which related to \$154 million of net payments on secured borrowings resulting primarily from the decreased funding requirements for mortgage loans held for sale.

**Debt**

The following table summarizes our Debt as of March 31, 2015:

|                            | <b>Balance</b> | <b>(In millions)</b> | <b>Collateral(1)</b> |
|----------------------------|----------------|----------------------|----------------------|
| Warehouse facilities       | \$             | 853                  | \$ 906               |
| Servicing advance facility |                | 97                   | 160                  |
| Unsecured debt             |                | 834                  |                      |
| Total                      | \$             | 1,784                | \$ 1,066             |

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

See Note 8, Debt and Borrowing Arrangements in the accompanying Notes to Condensed Consolidated Financial Statements for additional information regarding the components of our debt.

**Warehouse Facilities**

Mortgage warehouse facilities consisted of the following as of March 31, 2015:

|   | <b>Balance</b> | <b>Total Capacity<br/>(In millions)</b> | <b>Available Capacity(1)</b> | <b>Maturity Date</b> |
|---|----------------|---|------------------------------|----------------------|
| <b>Debt:</b>                                    |                |   |                              |                      |
| <i>Committed facilities:</i>                    |                |   |                              |                      |
| Credit Suisse First Boston Mortgage Capital LLC | \$ 339         | \$ 575                                  | \$ 236                       | 03/30/16(2)          |
| Fannie Mae                                      |                | 500                                     | 500                          | 12/13/15             |
| Bank of America, N.A.                           | 260            | 400                                     | 140                          | 12/18/15(3)          |
| Wells Fargo Bank, N.A.                          | 240            | 450                                     | 210                          | 04/01/16             |
| Royal Bank of Scotland plc(4)                   | 14             | 150                                     | 136                          | 06/19/15             |
| Committed warehouse facilities                  | 853            | 2,075                                   | 1,222                        |                      |
| <i>Uncommitted facilities:</i>                  |                |   |                              |                      |
| Fannie Mae                                      |                | 2,500                                   | 2,500                        | n/a                  |
| Total   | \$ 853         | \$ 4,575                                | \$ 3,722                     |                      |

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### Off-Balance Sheet Gestation Facilities:

#### *Uncommitted facilities:*

|                            |    |    |     |    |     |     |
|----------------------------|----|----|-----|----|-----|-----|
| JP Morgan Chase Bank, N.A. | \$ | \$ | 250 | \$ | 250 | n/a |
|----------------------------|----|----|-----|----|-----|-----|

- (1) Capacity is dependent upon maintaining compliance with the terms, conditions, and covenants of the respective agreements and may be further limited by asset eligibility requirements.
- (2) The maturity date of this facility may be extended at CSFB's option on a rolling 364-day term, until the stated expiration date of June 17, 2016.
- (3) The maturity date of this facility may be extended at our election until December 16, 2016, if certain extension conditions are satisfied.
- (4) On April 7, 2015, we and RBS mutually agreed to terminate the RBS warehouse facility.

Table of Contents***Servicing Advance Funding Arrangements***

As of March 31, 2015, there are \$680 million of Servicing advance receivables, net on our Condensed Consolidated Balance Sheet, including \$357 million funded by subservicing clients, \$97 million funded by our servicing advance facility and \$226 million funded from our capital.

Funding arrangements related to servicing advances consisted of the following as of March 31, 2015:

|  | Balance       | Total<br>Capacity<br>(In millions) | Available<br>Capacity(1) | Maturity<br>Date |
|--|---------------|------------------------------------|--------------------------|------------------|
| <b>Debt:</b>                             |               |                                    |                          |                  |
| PSART Servicing Advance facility         | \$ 97         | \$ 155                             | \$ 58                    | 06/15/17 (2)     |
| <b>Subservicing advance liabilities:</b> |               |                                    |                          |                  |
| Client-funded amounts                    | 357           | n/a                                | n/a                      | n/a              |
| <b>Total</b>                             | <b>\$ 454</b> |                                    |                          |                  |

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

(2) The facility has a revolving period through May 29, 2015, after which the facility goes into amortization. The maturity date of June 15, 2017 presented above represents the final repayment date of the amortizing notes.

We have received notice from the committed purchaser under the servicing advance facility of their intention to exit the mortgage financing business, and therefore the counterparty's current intention is to not renew the revolving period upon the current scheduled expiration on May 29, 2015. We are exploring alternatives for funding advances upon expiration of the revolving period of the facility.

***Unsecured Debt***

Unsecured borrowing arrangements consisted of the following as of March 31, 2015:

|                                  | Balance       | Balance<br>at Maturity | Maturity<br>Date |
|----------------------------------|---------------|------------------------|------------------|
|                                  | (In millions) |                        |                  |
| 6% Convertible notes due in 2017 | \$ 219        | \$ 245                 | 06/15/17         |
| 7.375% Term notes due in 2019    | 275           | 275                    | 09/01/19         |

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|                               |    |     |    |     |          |
|-------------------------------|----|-----|----|-----|----------|
| 6.375% Term notes due in 2021 |    | 340 |    | 340 | 08/15/21 |
| Total                         | \$ | 834 | \$ | 860 |          |

The Convertible notes due 2017 met the requirements for conversion as of March 31, 2015, and holders of the notes may convert all or any portion of the notes, at their option. As of March 31, 2015, the if-converted value exceeded the principal amount of the notes by \$218 million. Upon conversion, the principal amount of the converted notes would be payable in cash, and we would pay or deliver the conversion premium (at our election) in: (i) cash; (ii) shares of Common stock; or (iii) a combination of cash and shares of Common stock.

As of April 29, 2015, our credit ratings on our senior unsecured debt were as follows:

|                           | Senior Debt | Short-Term Debt |
|---------------------------|-------------|-----------------|
| Moody's Investors Service | Ba3         | NP              |
| Standard & Poors          | B+          | B               |

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Our senior unsecured long-term debt credit ratings are below investment grade, and as a result, our access to the public debt markets may be severely limited in comparison to the ability of investment grade issuers to access such markets. A security rating is not a recommendation to buy, sell or hold securities, may not reflect all of the risks associated with an investment in our debt securities and is subject to revision or withdrawal by the assigning rating organization. Each rating should be evaluated independently of any other rating.

In January 2015, we elected to terminate the ratings service provided by Fitch Ratings for commercial reasons.

See further discussion at Part I Item 1A. Risk Factors Risks Related to Our Company *We may be limited in our ability to obtain or renew financing on economically viable terms or at all, due to our senior unsecured long-term debt ratings being below investment grade and due to a lack of history of operating as a stand-alone mortgage business.* in our 2014 Form 10-K.

**Debt Covenants**

There were no significant amendments to the terms of debt covenants during the three months ended March 31, 2015. As of March 31, 2015, we were in compliance with all financial covenants related to our debt arrangements.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

There have not been any significant changes to the critical accounting policies and estimates described under Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in our 2014 Form 10-K.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

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

**Interest Rate Risk**

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

We used March 31, 2015 market rates to perform a sensitivity analysis that measures the potential impact on fair values based on hypothetical changes (increases and decreases) in interest rates. The estimates assume instantaneous, parallel shifts in interest rate yield curves. These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in fair value may not be linear.

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The following table summarizes the estimated change in the fair value of our Mortgage pipeline, Mortgage servicing rights and related derivatives and unsecured debt that are sensitive to interest rates as of March 31, 2015 given hypothetical instantaneous parallel shifts in the yield curve:

|                                     | Change in Fair Value |                |                |              |              |               |
|-------------------------------------|----------------------|----------------|----------------|--------------|--------------|---------------|
|                                     | Down<br>100 bps      | Down<br>50 bps | Down<br>25 bps | Up<br>25 bps | Up<br>50 bps | Up<br>100 bps |
|                                     | (In millions)        |                |                |              |              |               |
| <b>Mortgage pipeline</b>            |                      |                |                |              |              |               |
| Mortgage loans held for sale        | \$ 15                | \$ 13          | \$ 8           | \$ (9)       | \$ (18)      | \$ (38)       |
| Interest rate lock commitments(1)   | 17                   | 16             | 10             | (13)         | (28)         | (63)          |
| Forward loan sale commitments(1)    | (34)                 | (30)           | (18)           | 22           | 46           | 98            |
| Option contracts(1)                 |                      |                |                |              | 1            | 2             |
| Total Mortgage pipeline             | (2)                  | (1)            |                |              | 1            | (1)           |
| <b>MSRs and related derivatives</b> |                      |                |                |              |              |               |
| Mortgage servicing rights           | (258)                | (125)          | (61)           | 56           | 108          | 198           |
| Derivatives related to MSRs(1)      | 166                  | 82             | 39             | (34)         | (63)         | (103)         |
| Total MSRs and related derivatives  | (92)                 | (43)           | (22)           | 22           | 45           | 95            |
| <b>Unsecured term debt</b>          |                      |                |                |              |              |               |
| Total, net                          | \$ (128)             | \$ (61)        | \$ (30)        | \$ 30        | \$ 62        | \$ 126        |

(1) Included in Other assets or Other liabilities in the Condensed Consolidated Balance Sheets.

**Equity Price Risk**

We have exposure to equity price risk associated with our 6.0% 2017 Convertible notes. As of March 31, 2015, the notes have an outstanding principal balance of \$245 million with a maturity date of June 15, 2017. The Convertible notes due in 2017 contain a conversion feature which allows holders to convert all or any portion of the notes at any time on or after December 15, 2016 or prior to December 15, 2016 upon the occurrence of certain triggering events at a conversion price of \$12.79 per share. Upon conversion, we will pay the principal portion in cash and the conversion option in cash or shares or a combination of cash or shares, at our election. As of March 31, 2015, the notes met the requirements for conversion, and the if-converted value exceeded the principal amount of the notes by \$218 million or 9.023 million shares of our Common stock. A 10% increase in our stock price from the closing price as of March 31, 2015 results in an increase in the required premium of \$46 million, or 0.922 million shares.

See Note 15, *Subsequent Events* in the accompanying Notes to Condensed Consolidated Financial Statements for a discussion of an exchange offer for the 2017 Convertible notes announced in May 2015.



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**Item 4. Controls and Procedures**

**DISCLOSURE CONTROLS AND PROCEDURES**

As of the end of the period covered by this Report on Form 10-Q, management performed, with the participation of our Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on that evaluation, management concluded that our disclosure controls and procedures were effective as of March 31, 2015.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

For information regarding legal proceedings, see Note 11, Commitments and Contingencies in the accompanying Notes to Condensed Consolidated Financial Statements.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in Part I Item 1A. Risk Factors in our 2014 Form 10-K.



Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table presents our share repurchase activity for the quarter ended March 31, 2015:

| Period                                | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs(1)(2) | Approximate dollar value of shares that may yet be purchased under the plan or program(1)(2) |
|---------------------------------------|----------------------------------|------------------------------|--|--|
| January 1, 2015 to January 31, 2015   |                                  | \$                           |  | \$ 250,000,000   |
| February 1, 2015 to February 28, 2015 |                                  |                              |  | 250,000,000  |
| March 1, 2015 to March 31, 2015       | 1,574,252                        | 23.43 (2)                    | 1,574,252  | 250,000,000  |
| Total                                 | 1,574,252                        | \$ 23.43                     | 1,574,252  | \$ 250,000,000   |

(1) On June 26, 2014, our Board of Directors authorized up to \$450 million in share repurchases, including \$200 million of accelerated stock repurchases (ASR) which commenced in August 2014, and up to \$250 million in open market purchases over the twelve months following the completion of the ASR expiring no later than March 31, 2016.

(2) On August 7, 2014, we entered into two separate ASR agreements to repurchase an aggregate of \$200 million of PHH's Common stock. The initial shares delivered were 6.963 million. At the completion of the program on March 31, 2014, we received an additional 1.574 million shares. The average price paid per share presented above reflects the average for the 8.537 million total shares repurchased in the ASR programs.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

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

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized, on this 7th day of May, 2015.

### PHH CORPORATION

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

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

By: /s/ Michael R. Bogansky  
Michael R. Bogansky  
Senior Vice President, Controller  
(Principal Accounting Officer)

Table of Contents**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>  | <b>Incorporation by Reference</b> |
|--------------------|---|-----------------------------------|
| 10.1               | Form of 2015 Restricted Stock Unit Award Notice and Agreement.                                      | Filed herewith.                   |
| 10.2               | Form of 2015 Performance Restricted Stock Unit Award Notice and Agreement.                          | Filed herewith.                   |
| 31.1               | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith.                   |
| 31.2               | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith.                   |
| 32.1               | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Furnished herewith.               |
| 32.2               | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Furnished herewith.               |
| 101.INS            | XBRL Instance Document.   | Filed herewith.                   |
| 101.SCH            | XBRL Taxonomy Extension Schema Document.  | Filed herewith.                   |
| 101.CAL            | XBRL Taxonomy Extension Calculation Linkbase Document.  | Filed herewith.                   |
| 101.LAB            | XBRL Taxonomy Extension Labels Linkbase Document.   | Filed herewith.                   |
| 101.PRE            | XBRL Taxonomy Extension Presentation Linkbase Document.   | Filed herewith.                   |
| 101.DEF            | XBRL Taxonomy Extension Definition Linkbase Document.   | Filed herewith.                   |

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