

PHH CORP
Form 10-K
February 28, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from _____ to _____

Commission File No. 1-7797

PHH CORPORATION

(Exact name of registrant as specified in its charter)

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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SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<u>TITLE OF EACH CLASS</u>	<u>NAME OF EACH EXCHANGE ON WHICH REGISTERED</u>
Common Stock, par value \$0.01 per share	The New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): 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

The aggregate market value of our Common stock held by non-affiliates of the registrant as of June 30, 2011 was \$1.154 billion.

As of February 17, 2012, 56,474,468 shares of PHH Common stock were outstanding.

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Documents Incorporated by Reference: Portions of the registrant's definitive Proxy Statement for the 2012 Annual Meeting of Stockholders, which will be filed by the registrant on or prior to 120 days following the end of the registrant's fiscal year ended December 31, 2011 are incorporated by reference in Part III of this Report.

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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 Annual Report on Form 10-K 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-K include, but are not limited to, statements concerning the following:

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

§ the impact of the risk retention requirements and other provisions of the Dodd-Frank Act;

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

§ our belief that sources of liquidity will be adequate to fund operations and repayment of upcoming debt maturities;

§ our expectations regarding our ability to achieve our liquidity plans;

§ our expectation of future income from new client signings;

§ our expectation of reinsurance losses and associated reserves and actuarial estimates of total reinsurance losses and expected future reinsurance premiums; and

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§ mortgage repurchase and indemnification requests and associated reserves and provisions.

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

§ the effects of continued market volatility or continued economic decline on the availability and cost of our financing arrangements and the value of our assets;

§ the effects of a continued decline in the volume of U.S. home sales and home prices, due to adverse economic changes or otherwise, on our Mortgage Production and Mortgage Servicing segments;

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

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

§ the impact of the failure to maintain our credit ratings, including the impact on our cost of capital and ability to incur new indebtedness or refinance our existing indebtedness, as well as our current or potential customers' assessment of our counterparty credit risk;

§ the effects of increases in our actual and projected repurchases of, indemnification given in respect of, or related losses associated with, sold mortgage loans for which we have provided representations and warranties or other contractual recourse to purchasers and insurers of such loans, including increases in our loss severity and reserves associated with such loans;

§ the effects of reinsurance claims in excess of projected levels and in excess of reinsurance premiums we are entitled to receive or amounts currently held in trust to pay such claims;

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§ the effects of any significant adverse changes in the underwriting criteria or existence or programs of government-sponsored entities, including Fannie Mae and Freddie Mac, including any changes caused by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other actions of the federal government;

§ the effects of any inquiries and investigations of foreclosure procedures or other servicing activities by attorneys general of certain states and the U.S. Department of Justice, any litigation related to our mortgage servicing activities, or any related fines, penalties and increased costs;

§ the ability to maintain our status as a government sponsored entity-approved seller and servicer, including the ability to continue to comply with the respective selling and servicing guides, including any changes caused by the Dodd-Frank Act;

§ the effects of any changes to the servicing compensation structure for mortgage servicers pursuant to the programs of government sponsored-entities;

§ changes in laws and regulations, including changes in mortgage- and real estate-related laws and regulations (including changes caused by the Dodd-Frank Act), status of government sponsored-entities and state, federal and foreign tax laws and accounting standards;

§ the effects of the insolvency of any of the counterparties to our significant customer contracts or financing arrangements or the inability or unwillingness of such counterparties to perform their respective obligations under, or to renew on terms favorable to us, such contracts, or our ability to continue to comply with the terms of our significant customer contracts, including service level agreements;

§ the effects of competition in our existing and potential future lines of business, including the impact of consolidation within the industries in which we operate and competitors with greater financial resources and broader product lines;

§ the ability to obtain financing (including refinancing and extending existing indebtedness) on acceptable terms, if at all, to finance our operations or growth strategy, to operate within the limitations imposed by our financing arrangements and to maintain the amount of cash required to service our indebtedness;

§ the ability to maintain our relationships with our existing clients and to establish relationships with new clients;

§ the ability to attract and retain key employees;

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

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§ any failure to comply with covenants under our financing arrangements;

§ the effects of the consolidation of financial institutions and the related impact on the availability of credit; and

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

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

PART I

Item 1. Business

HISTORY

We were incorporated in 1953 as a Maryland corporation. For periods between April 30, 1997 and February 1, 2005, we were a wholly owned subsidiary of Cendant Corporation (now known as Avis Budget Group, Inc.) and its predecessors that provided mortgage banking services, facilitated employee relocations and provided vehicle fleet management and fuel card services. On February 1, 2005, we began operating as an independent, publicly traded company pursuant to our spin-off from Cendant.

OVERVIEW

We are a leading outsource provider of mortgage and fleet management services. We provide mortgage banking services to a variety of clients, including financial institutions and real estate brokers, throughout the U.S. Our mortgage banking activities include originating, purchasing, selling and servicing mortgage loans through our wholly owned subsidiary, PHH Mortgage Corporation and its subsidiaries (collectively, PHH Mortgage). We provide commercial fleet management services to corporate clients and government agencies throughout the U.S. and Canada through our wholly owned subsidiary, PHH Vehicle Management Services Group LLC (PHH VMS). PHH VMS is a fully integrated provider of fleet management services with a broad range of product offerings, including managing and leasing vehicle fleets and providing other fee-based services for our clients' vehicle fleets.

According to *Inside Mortgage Finance*, as of December 31, 2011, PHH Mortgage was the 4th largest retail mortgage loan originator in the U.S. with a 4.6% market share, the 6th largest overall mortgage loan originator with a 3.8% market share and the 7th largest mortgage loan servicer with a 1.8% market share. According to the *Automotive Fleet 2011 Fact Book*, PHH VMS is the 3rd largest provider of outsourced commercial fleet management services in the U.S. and Canada combined and had over 500,000 in vehicle units under management as of December 31, 2011.

Our corporate website is www.phh.com, and our reports filed or furnished pursuant to Section 13(a) of the Exchange Act are available free on our website under the tabs "Investor Relations" "SEC Reports" as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. The SEC also maintains a website (www.sec.gov) where our filings can be accessed for free. Our Corporate Governance Guidelines, Code of Business Conduct for Employees, Code of Business Conduct and Ethics for Directors and the charters of the committees of our Board of Directors are also available on our corporate website and printed copies are available upon request. The information contained on our corporate website is not part of this Form 10-K.

OPERATING SEGMENTS

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Our business activities are organized and presented in three operating segments: (i) Mortgage Production; (ii) Mortgage Servicing; and (iii) Fleet Management Services. A description of each operating segment is presented below and the results of operations for each of our reportable segments is presented in Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

Mortgage Production Segment

Our Mortgage Production segment provides mortgage services, including private-label mortgage services, to financial institutions and real estate brokers through PHH Mortgage. The Mortgage Production segment generates revenue through fee-based mortgage loan origination services and the origination and sale of mortgage loans into the secondary market. PHH Mortgage generally sells all mortgage loans that it originates to secondary market investors, which include a variety of institutional investors, and typically retains the servicing rights on mortgage loans sold. During 2011, 92% of our mortgage loans were sold to, or were sold pursuant to, programs sponsored by Fannie Mae, Freddie Mac or Ginnie Mae and the remaining 8% were sold to private investors.

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The Mortgage Production segment includes PHH Home Loans, LLC (together with its subsidiaries, PHH Home Loans), which is a joint venture that we maintain with Realogy Corporation. We own 50.1% of PHH Home Loans through our subsidiaries and Realogy owns the remaining 49.9% through their affiliates. We have the exclusive right to use the Century 21, Coldwell Banker and ERA brand names in marketing our mortgage loan products through PHH Home Loans and other arrangements that we have with Realogy.

The Mortgage Production segment also includes our interest in Speedy Title & Appraisal Review Services LLC (STARS), which provides appraisal services utilizing a network of professional licensed firms offering local coverage throughout the U.S. and also provides credit research, flood certification and tax services. On March 31, 2011, we sold 50.1% of the equity interests in STARS to CoreLogic, Inc. For additional information regarding the sale, see Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Consolidated Results in this Form 10-K.

We source mortgage loans through our retail and wholesale/correspondent platforms. Within our retail platform, we operate through two principal business channels: (i) private label services (outsourced mortgage services for financial institutions); and (ii) real estate (mortgage services for brokers associated with brokerages owned or franchised by Realogy and third-party brokers).

Retail Platform

Through our retail platform, we maintain direct contact with borrowers who are purchasing a home or refinancing a mortgage loan. We operate either through our teleservices operation or our network of field sales professionals. Within our teleservices operation, we provide centralized application and loan processing capabilities for our customers. Our network of field sales professionals are generally located in real estate brokerage offices or are affiliated with financial institution clients around the U.S. and are equipped to provide product information and take mortgage applications. We also maintain multiple internet sites that provide online mortgage application capabilities for our customers.

Our retail platform consists of our private label services and real estate channels:

§ **Private Label Services Channel:** We are a leading provider of private-label mortgage loan originations for financial institutions and other entities throughout the U.S. In this channel, we offer a complete outsourcing solution, from processing applications through funding, for clients that wish to offer mortgage services to their customers but are not equipped to handle all aspects of the process cost-effectively. We also purchase closed mortgage loans from financial institutions. During 2011, we were unable to reach an agreement to renew our relationship with Charles Schwab Bank. See Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Executive Summary for more information.

§ **Real Estate Channel:** We work with real estate brokers to provide their customers with mortgage loans. Through our affiliations with real estate brokers, we have access to home buyers at the time of purchase. We work with brokers associated with NRT Incorporated, Realogy's owned real estate brokerage business, brokers associated with Realogy's franchised brokerages (Realogy Franchisees) and third-party brokers that are not affiliated with Realogy. NRT Incorporated is the largest owner and operator of residential real estate brokerages in the U.S. and Realogy is a franchisor of some of the most recognizable residential real estate brands. During the year ended December 31, 2011, approximately 22% of our mortgage loan originations were derived from our relationship with Realogy and its affiliates. In this channel, we also work with Cartus Corporation, Realogy's relocation business, to provide mortgage loans to employees of Cartus' clients. Cartus is an industry leader of outsourced corporate relocation services in the U.S.

The following presents a summary of the relationships with Realogy-owned brokers and its franchisees and third-party brokers within the Real Estate Channel:

Realogy-owned Brokers

Realogy has agreed that the real estate brokerage business owned and operated by NRT Incorporated and the title and settlement services business owned and operated by Title Resource Group LLC will exclusively recommend PHH Home Loans as provider of mortgage loans to: (i) the independent sales associates affiliated with Realogy, excluding the independent sales associates of any Realogy Franchisee; and (ii) all customers of Realogy Services Group LLC and Realogy Services Venture Partner, Inc., excluding Realogy Franchisees. In general, our capture rate of mortgage loans where we are the exclusive recommended provider is much higher than in other situations.

Realogy Franchisees and Third Party Brokers

Certain Realogy Franchisees have agreed to exclusively recommend PHH Mortgage as provider of mortgage loans to their respective independent sales associates. Additionally, for other Realogy Franchisees and third-party brokers, we endeavor to enter into separate marketing service agreements or other arrangements whereby we are the exclusive recommended provider of mortgage loans to each franchise or broker. We have entered into exclusive marketing service agreements with 5% of Realogy Franchisees as of December 31, 2011.

Substantially all of the originations through the real estate channel during the years ended December 31, 2011, 2010 and 2009, were originated from Realogy and Realogy Franchisees. For the year ended December 31, 2011, we originated mortgage loans for approximately 17% of the transactions in which real estate brokerages owned by Realogy represented the home buyer and approximately 8% of the transactions in which real estate brokerages franchised by Realogy where we have exclusive marketing service agreements, represented the home buyer.

Wholesale/Correspondent Platform

Through our wholesale/correspondent platform, we purchase closed mortgage loans from community banks, credit unions, mortgage brokers and mortgage bankers. We also acquire mortgage loans from mortgage brokers that receive applications from and qualify the borrowers. Wholesale/correspondent originations are highly dependent upon pricing margins and overall industry capacity.

For 2012, we are taking certain actions to reposition our business, which may include reductions in our correspondent mortgage originations. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Executive Summary for a further discussion.

The following table sets forth the composition of our mortgage loan originations by platform and channel:

	Year Ended December 31,		
	2011	2010	2009
<i>Retail Platform:</i>			
Private label services	47 %	41 %	48 %

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Real estate	22 %	27 %	37 %
Total retail	69 %	68 %	85 %
<i>Wholesale/Correspondent Platform:</i>			
Total wholesale/correspondent	31 %	32 %	15 %

Mortgage Servicing Segment

We principally generate revenue in our Mortgage Servicing segment through fees earned from our servicing rights or from our subservicing agreements. Mortgage servicing rights are the rights to receive a portion of the interest coupon and fees collected from the mortgagors for performing specified mortgage servicing activities, which consist of collecting loan payments, remitting principal and interest payments to investors, managing escrow funds for the payment of mortgage-related expenses such as taxes and insurance, performing loss mitigation activities on behalf of investors, and otherwise administering our mortgage loan servicing portfolio. Mortgage servicing rights for sold loans are initially recorded at fair value in our Mortgage Production Segment's results of operations. Changes in fair value subsequent to the initial capitalization are recorded in our Mortgage Servicing Segment's results of operations. Our Mortgage Servicing segment also includes the results of our reinsurance activities from our wholly owned subsidiary, Atrium Reinsurance Corporation.

We provide mortgage reinsurance to certain third-party insurance companies that provide primary mortgage insurance on loans originated in our Mortgage Production segment. While we do not underwrite primary mortgage insurance directly, we provide reinsurance that covers losses in excess of a specified percentage of the principal balance of a given pool of mortgage loans, subject to a contractual limit. In exchange for assuming a portion of the risk of loss related to the reinsured loans, Atrium receives a portion of borrowers' premiums from the third-party insurance companies. Our two contracts with primary insurance companies are inactive and in runoff. We did not provide reinsurance on loans originated after 2009. While in runoff, Atrium will continue to collect premiums and have risk of loss on the remaining population of loans reinsured, but may not add to that population of loans. For additional information regarding mortgage reinsurance, see Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management in this Form 10-K.

See Operating Segments Mortgage Production Segment and Item 1A. Risk Factors Risks Related to our Company The industries in which we operate are highly competitive and, if we fail to meet the competitive challenges in our industries, it would have a material adverse effect on our business, financial position, results of operations or cash flows. Many of our competitors have access to greater financial resources, lower funding costs and greater access to liquidity, which places us at a competitive disadvantage that we may not be able to overcome. For more information.

Fleet Management Services Segment

We provide fleet management services to corporate clients and government agencies throughout the U.S. and Canada. The following table sets forth the Net revenues attributable to our domestic and foreign operations:

	Year Ended December 31,		
	2011	2010	2009
	(In millions)		
<i>Net revenues:</i>			
Domestic	\$ 1,352	\$ 1,378	\$ 1,489
Foreign	294	215	160

We are a fully integrated provider of these services with a broad range of product offerings. We primarily focus on clients with fleets of greater than 75 vehicles. As of December 31, 2011, we had approximately 270,000 vehicles leased, primarily consisting of cars and light-duty trucks and, to a lesser extent, medium and heavy-duty trucks, trailers and equipment, and approximately 300,000 additional vehicles serviced under fuel cards, maintenance cards, accident management services arrangements and/or similar arrangements. During the year ended December 31, 2011, we purchased approximately 61,000 vehicles.

We differentiate ourselves from our competitors primarily on three factors: the breadth of our product offering, customer service and technology. We are able to offer customized solutions to clients based on their needs. We believe we have developed an industry-leading technology infrastructure. Our data warehousing, information management and online systems enable clients to download customized reports to better monitor and manage their corporate fleets. We place an emphasis on customer service and focus on a consultative approach with our clients. Our employees support each client in achieving the full benefits of an outsourced fleet management program, including lower costs and increased productivity. We offer 24-hour customer service for the end-users of our products and services.

We provide corporate clients and government agencies the following services and products:

§ ***Fleet Leasing and Fleet Management Services.*** These services include vehicle leasing, fleet policy analysis and recommendations, benchmarking, vehicle recommendations, ordering and purchasing vehicles, arranging for vehicle delivery and administration of the title and registration process, as well as tax and insurance requirements, pursuing warranty claims and remarketing used vehicles. We lease vehicles to our clients under both open-end and closed-end leases.

Open-End Leases

Open-end leases represent 97% of our lease portfolio and are a form of lease in which the client bears substantially all of the vehicle's residual value risk. These leases typically have a minimum term of 12 months and can be continued after that at the lessee's election for successive monthly renewals. Upon return of the vehicle by the lessee, we typically sell the vehicle into the secondary market and the client receives a credit or pays the difference between the sale proceeds and the vehicle's book value.

Open-end leases may be classified as operating or direct financing depending upon the nature of the residual guarantee. Revenues for operating leases contain a depreciation component, an interest component and a management fee component, and are recognized over the lease term. For direct financing leases, revenues contain an interest component and a management fee component, and are recognized over the lease term.

Closed-End Leases

Closed-end leases represent 3% of our lease portfolio, and are a form of lease in which we retain the residual risk of the value of the vehicle at the end of the lease term. Closed-end leases may be classified as operating or direct financing based on the terms of the individual contracts.

§ ***Maintenance Services.*** We offer clients vehicle maintenance service cards that are used to facilitate payment for repairs and maintenance. We maintain an extensive network of third-party service providers in the U.S. and Canada to ensure ease of use by the clients' drivers. The vehicle maintenance service cards provide clients with the following benefits: (i) negotiated discounts off of full retail prices through our convenient supplier network; (ii) access to our in-house team of certified maintenance experts that monitor transactions for policy compliance, reasonability and cost-effectiveness; and (iii) inclusion of vehicle maintenance transactions in a consolidated information and billing database, which assists clients with the evaluation of overall fleet performance and costs. During the year ended December 31, 2011, we averaged 324,000 maintenance service cards outstanding in the U.S. and Canada. We receive a fixed monthly fee for these services from our clients as well as additional fees from service providers in our third-party network for individual maintenance services.

§ **Accident Management Services.** We provide our clients with comprehensive accident management services such as immediate assistance upon receiving the initial accident report from the driver (e.g., facilitating emergency towing services and car rental assistance), an organized vehicle appraisal and repair process through a network of third-party preferred repair and body shops and coordination and negotiation of potential accident claims. Our accident management services provide our clients with the following benefits: (i) convenient, coordinated 24-hour assistance from our call center; (ii) access to our relationships with the repair and body shops included in our preferred supplier network, which typically provide clients with favorable terms; and (iii) expertise of our damage specialists, who ensure that vehicle appraisals and repairs are appropriate, cost-efficient and in accordance with each client's specific repair policy. During the year ended December 31, 2011, we averaged 298,000 vehicles that were participating in accident management programs with us in the U.S. and Canada. We receive fees from our clients for these services as well as additional fees from service providers in our third-party network for individual incident services.

§ **Fuel Card Services.** We provide our clients with fuel card programs that facilitate the payment, monitoring and control of fuel purchases. Fuel is typically the single largest fleet-related operating expense. Our fuel cards provide our clients with the following benefits: (i) access to more fuel brands and outlets than other private-label corporate fuel cards; (ii) point-of-sale processing technology for fuel card transactions that enhances clients' ability to monitor purchases and consolidated billing; and (iii) access to other information on fuel card transactions, which assists clients with the evaluation of overall fleet performance and costs. Our fuel cards are offered through relationships with third parties in the U.S. and a proprietary card in Canada, which offer expanded fuel management capabilities on one service card. During the year ended December 31, 2011, we averaged 295,000 fuel cards outstanding in the U.S. and Canada. We receive both monthly fees from our fuel card clients and additional fees from fuel partners and providers.

Trademarks and Intellectual Property

The trade names and related logos of our private-label clients are material to our Mortgage Production and Mortgage Servicing segments, as these clients license the use of their names to us in connection with our mortgage outsourcing business. These trademark licenses generally run for the duration of our origination services agreements with such financial institution clients and facilitate the origination services that we provide to them. Realogy's brand names and related items, such as logos and domain names, of its owned and franchised residential real estate brokerages are material to our Mortgage Production and Mortgage Servicing segments.

Realogy licenses its real estate brands and related items, such as logos and domain names, to us for use in the mortgage loan origination services that we provide to Realogy's owned real estate brokerage, relocation and settlement services businesses. In connection with our spin-off from Cendant Corporation (now known as Avis Budget Group, Inc.), we entered into trademark license agreements with TM Acquisition Corp., Coldwell Banker Real Estate Corporation and ERA Franchise Systems, Inc. Pursuant to these agreements, PHH Mortgage was granted a license in connection with mortgage loan origination services on behalf of Realogy's franchised real estate brokerage business and PHH Home Loans was granted a license in connection with its mortgage loan origination services on behalf of Realogy's owned real estate brokerage business owned and operated by NRT, the relocation business owned and operated by Cartus Corporation and the settlement services business owned and operated by Title Resource Group LLC.

The service mark PHH and related trademarks and logos are meaningful to our Fleet Management Services segment. All of the material marks used by us in our Fleet Management Services segment are registered (or have applications pending for registration) with the U.S. Patent and Trademark Office. All of the material marks used by us in our Fleet Management Services segment are also registered in Canada and the PHH mark and logo are registered (or have applications pending) in those major countries where we have strategic partnerships with local providers of fleet management services. Except for the Arval mark, which we license from a third party so that we can do business as PHH Arval in the U.S. and Canada, we own the material marks used by us in our Fleet Management Services segment.

Competition

The industries in which we operate are highly competitive. The principal factors for competition in our business are service, quality, products and price. We focus on customer service while working to enhance the efficiency of our operating platform. Excellent customer service is also a critical component of our competitive strategy to win new clients and maintain existing clients. We, along with our clients, consistently track and monitor customer service levels and look for ways to improve customer service. Some of our largest competitors in the mortgage business include Bank of America, Wells Fargo Home Mortgage, Chase Home Finance and CitiMortgage. Our competitors in the fleet management business include GE Commercial Finance Fleet Services, Wheels, Inc., Automotive Resources International, Lease Plan International, and other local and regional competitors, including numerous competitors who focus on one or two products.

Competitive conditions in the mortgage business can be impacted by shifts in consumer preference between variable-rate and fixed-rate mortgage loans, depending on the interest rate environment. Many smaller and mid-sized financial institutions may find it difficult to compete in the mortgage industry due to the consolidation in the industry and the need to invest in technology in order to reduce operating costs while maintaining compliance in an increasingly complex regulatory environment. Additionally, more restrictive underwriting standards and the elimination of Alt-A and subprime products has resulted in a more homogenous product offering, which has increased competition for conforming mortgages across the industry. Recently, many large mortgage lenders have slowed or shut down the purchase of loans from third-party correspondents. While we believe this may result in better pricing margins in our wholesale/correspondent business, we cannot determine whether these margins will continue at higher levels in the future. Furthermore, our level of correspondent originations may be impacted by the execution of our liquidity and capital plan as further described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Executive Summary.

We are party to a strategic relationship agreement dated as of January 31, 2005 between PHH Mortgage, PHH Home Loans, PHH Broker Partner, Realty Services Venture Partner, Inc. and Cendant Corporation (now known as Avis Budget Group, Inc.), which, among other things, restricts us and our affiliates, subject to limited exceptions, from engaging in certain residential real estate services, including any business conducted by Realty. The strategic relationship agreement also provides that we will not directly or indirectly sell any mortgage loans or mortgage loan servicing to certain competitors in the residential real estate brokerage franchise businesses in the U.S. (or any company affiliated with them).

Many of our competitors are larger than we are and have access to greater financial resources than we do, which can place us at a competitive disadvantage. In addition, many of our largest competitors are banks or affiliated with banking institutions, the advantages of which include, but are not limited to, the ability to hold new mortgage loan originations in an investment portfolio and having access to financing with more favorable terms than we do, including lower rate bank deposits as a source of liquidity. See Item 1A. Risk Factors Risks Related to our Company The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our business, financial position, results of operations or cash flows.

Seasonality

Our Mortgage Production segment is subject to seasonal trends that reflect the pattern in the national housing market. Home sales typically rise during the spring and summer seasons and decline during the fall and winter seasons. Seasonality has less of an effect on mortgage refinancing activity, which is primarily driven by prevailing mortgage rates relative to borrowers' current interest rate, home prices and levels of home equity.

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Our Mortgage Servicing and Fleet Management segments are generally not subject to seasonal trends.

Employees

As of December 31, 2011, we employed a total of approximately 5,740 persons. Management considers our employee relations to be satisfactory. None of our employees were covered under collective bargaining agreements during the year ended December 31, 2011.

Item 1A. Risk Factors

Risks Related to Our Company

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

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

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

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

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

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cash flows since we sell substantially all of our loans pursuant to GSE sponsored programs. It is also unclear what effect future laws or regulations may have on the

ability of the GSEs to issue mortgage-backed securities and it is not currently possible to determine what changes, if any, Congress may make to the structure of the GSEs.

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

In January 2012, we were notified that the Consumer Financial Protection Bureau had opened an investigation to determine whether our mortgage insurance premium ceding practices to captive reinsurers comply with the Real Estate Settlement Procedures Act and other laws enforced by the CFPB. The CFPB requested certain related documents and information for review. We have provided reinsurance services in exchange for premiums ceded and believe that we have complied with the Real Estate Settlement Procedures Act and other laws. We have not provided reinsurance on loans originated after 2009. There can be no assurance whether or not this investigation will result in the imposition of any penalties and fines against us or our subsidiaries.

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

The industries in which we operate are highly competitive and, if we fail to meet the competitive challenges in our industries, it would have a material adverse effect on our business, financial position, results of operations or cash flows. Many of our competitors have access to greater financial resources, lower funding costs and greater access to liquidity, which places us at a competitive disadvantage that we may not be able to overcome.

We operate in highly competitive industries that could become even more competitive as a result of economic, legislative, regulatory or technological changes. Competition for mortgage loan originations comes primarily from commercial banks and savings institutions. Many of our competitors for mortgage loan originations that are commercial banks or savings institutions typically have access to greater financial resources, have lower funding costs, are less reliant than we are on the sale of mortgage loans into the secondary markets to maintain their liquidity, and may be able to participate in government programs that we are unable to participate in because we are not a state or federally chartered depository institution, all of which places us at a competitive disadvantage. The advantages of our largest competitors include, but are not limited to, their ability to hold new mortgage loan originations in an investment portfolio and their access to lower rate bank deposits as a source of liquidity. Additionally, more restrictive loan underwriting standards and the widespread elimination of Alt-A and subprime mortgage products throughout the industry have resulted in a more homogenous product offering, which has increased competition across the industry for mortgage originations.

The fleet management industry in which we operate is also highly competitive. We compete against national competitors, such as GE Commercial Finance Fleet Services, Wheels Inc., Automotive Resources International, Lease Plan International and other local and regional competitors, including numerous competitors who focus on one or two products. Growth in our Fleet Management Services segment is driven

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principally by increased market share in fleets greater than 75 units and increased fee-based services. Competitive pressures in the Fleet Management industry resulting in a decrease in our market share or lower prices would adversely affect our revenues and results of operations.

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

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

Certain of our debt arrangements require us to comply with certain financial covenants and other affirmative and restrictive covenants, including requirements to post additional collateral or to fund assets that become ineligible under our secured funding arrangements. An uncured default of one or more of these covenants would result in a cross-default between and amongst our various debt arrangements. Consequently, an uncured default under any of our debt arrangements that is not waived by our lenders and that results in an acceleration of amounts payable to our lenders or the termination of credit facilities would materially and adversely impact our liquidity, could force us to sell assets at below market prices to repay our indebtedness, and could force us to seek relief under the U.S. Bankruptcy Code, all of which would have a material adverse effect on our business, financial position, results of operations and cash flows. See Note 10, Debt and Borrowing Arrangements in the accompanying Notes to Consolidated Financial Statements for additional information regarding our debt arrangements and related financial covenants and other affirmative and restrictive covenants.

If any of our credit facilities are terminated, including as a result of our breach or a lowering of our credit ratings, or are not renewed or if conditions in the credit markets worsen dramatically and it is not possible or economical for us to complete the sale or securitization of our originated mortgage loans or vehicle leases, we may be unable to find replacement financing on commercially favorable terms, if at all, which could adversely impact our operations and prevent us from: (i) executing our business plan and related risk management strategies; (ii) originating new mortgage loans or vehicle leases; or (iii) fulfilling commitments made in the ordinary course of business. These factors could reduce revenues attributable to our business activities or require us to sell assets at below market prices, either of which would have a material adverse effect on our overall business and consolidated financial position, results of operations and cash flows. Due to the downgrade of our credit rating by S&P on December 21, 2011, Fannie Mae has the right to terminate its \$1.0 billion committed early funding letter agreement. We are currently in discussions concerning proposed amendments to our various agreements with Fannie Mae, including the committed early funding facility agreement. There can be no assurance that we will reach agreement with Fannie Mae concerning such proposed amendments or that Fannie Mae will not exercise its rights to terminate the committed early funding letter agreement.

Adverse developments in the secondary mortgage market have had, and in the future could have, a material adverse effect on our business, financial position, results of operations and cash flows.

We historically have relied on selling or securitizing our mortgage loans into the secondary market in order to generate liquidity to fund maturities of our indebtedness, the origination and warehousing of mortgage loans, the retention of mortgage servicing rights and for general working capital purposes. We bear the risk of being unable to sell or securitize our mortgage loans at advantageous times and prices or in a timely manner. Demand in the secondary market and our ability to complete the sale or securitization of our mortgage loans depends on a number of factors, many of which are beyond our control, including general economic conditions, general conditions in the banking system, the willingness of lenders to provide funding for mortgage loans, the willingness of investors to purchase mortgage loans and mortgage-backed securities and changes in regulatory requirements. If it is not possible or economical for us to complete the sale or securitization of certain of our mortgage loans held for sale, we may lack liquidity under our mortgage financing facilities to continue to fund such mortgage loans and our revenues and margins on new loan originations would be materially and negatively impacted, which would materially and negatively impact our Net revenues and Segment profit (loss) of our Mortgage Production segment and also have a material adverse effect on our overall business and our consolidated financial position, results of operations and cash flows. The severity of the impact would be most significant to the extent we were unable to sell conforming mortgage loans to the GSEs or securitize such loans pursuant to GSE sponsored programs.

Our senior unsecured long-term debt ratings are below investment grade (and were subject to a downgrade in December 2011) and, as a result, we may be limited in our ability to obtain or renew financing on economically viable terms or at all.

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

On December 21, 2011, S&P lowered our senior unsecured debt rating two notches to BB- with a negative outlook. S&P may lower our rating by another notch or more if we are unable to refinance the \$421 million aggregate principal amount of our debt maturing in 2013 or are unable to put in place sources of liquidity to fund our business satisfactory to S&P. The December 21, 2011 S&P downgrade and any possible negative future action by S&P or any of the other ratings agencies will exacerbate the risks described above.

On January 10, 2012, Moody's affirmed our senior unsecured debt rating and corporate family rating at Ba2 and our commercial paper rating at NP. Additionally, Moody's changed its outlook for our senior unsecured debt and corporate family ratings to negative from stable. In addition, on January 10, 2012, Fitch announced that it has maintained our long-term issuer default rating and senior unsecured debt rating at BB+ and placed our long-term issuer default rating and senior unsecured debt rating on Rating Watch Negative.

Due to the December 21, 2011 S&P downgrade Fannie Mae, among other termination rights, has the right to terminate the \$1.0 billion committed early funding letter agreement. We are currently in discussions concerning proposed amendments to our various agreements with Fannie Mae, including the committed early funding facility agreement. There can be no assurance that we will reach agreement with Fannie Mae concerning such proposed amendments or that Fannie Mae will not exercise its rights to terminate the committed early funding letter agreement. In addition, Fannie Mae has required, and other counterparties may require, an increased level of credit enhancements including but not limited to additional collateral posting requirements for derivative and debt agreements and a reduction in advance rates on mortgage

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warehouse asset-backed debt. Further, we cannot assure you what, if any, impact the December 21, 2011 S&P downgrade or future ratings actions will have on our current

or potential customers' perception of our counterparty credit risk, and whether such action will result in any customer attrition or requests for changes in the terms of any existing or potential agreements.

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

We are currently pursuing various alternatives to improve our liquidity in order to fulfill upcoming debt maturities. We cannot assure you that our efforts will be successful or that future ratings actions will not occur.

We are currently pursuing various alternatives to improve our liquidity. Such alternatives may involve one or more of the following: (i) focusing our efforts to ensure that our operations are cash flow positive, which may include reductions in our correspondent mortgage originations and capital expenditures, (ii) disposition of assets that are not necessary to support our business strategies, which may include the assets of our reinsurance business; and (iii) generating mortgage servicing rights with minimal use of cash. While we believe that these alternatives will ensure that we have sufficient liquidity to meet our debt service obligations and operate our business, there can be no assurance that we will be successful in implementing any such alternatives, or if we are successful, that such alternatives will be sufficient to meet our liquidity needs. Additionally, if we are successful in executing upon such alternatives, it could negatively impact our future results of operations, including revenue and net income. In addition, we may seek to undertake one or more deleveraging transactions, which may include purchases of our outstanding indebtedness through open market or privately negotiated transactions with third parties or pursuant to one or more tender or exchange offers or otherwise, upon such terms and at such prices as well as with such consideration as we may determine.

We do not know if or when we would consummate any such transactions, or alternative transactions, or the final terms of any such transactions. If we are forced to liquidate assets, the resulting proceeds may be below the fair value or our carrying value of the related assets. While we believe we will be able to successfully execute certain of these alternatives and meet our debt maturities in 2012 and 2013, our failure to execute on such alternatives or generate positive cash flow from our business could, among other things, negatively impact our various business relationships and, as a result, our results of operations, cash flows and liquidity.

We are highly dependent upon programs administered by Fannie Mae, Freddie Mac and Ginnie Mae. Changes in existing U.S. government-sponsored mortgage programs or servicing eligibility standards could materially and adversely affect our business, financial position, results of operations or cash flows.

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

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During 2011, 92% of our mortgage loan sales were sold to, or were sold pursuant to programs sponsored by, Fannie Mae, Freddie Mac or Ginnie Mae. We also derive other material financial benefits from our relationships with Fannie Mae, Freddie Mac and Ginnie Mae, including the assumption of credit risk by these entities on loans included in mortgage-backed securities in exchange for our payment of guarantee fees, the ability to avoid certain loan inventory finance costs through streamlined loan funding and sale procedures and the use of mortgage warehouse facilities with Fannie Mae pursuant to which, as of December 31, 2011, we had total capacity of \$3.0 billion, made up of \$1.0 billion of committed and \$2.0 billion uncommitted capacity. Fannie Mae has the right to terminate \$1.0 billion of our committed mortgage warehouse capacity since our credit rating by S&P has fallen below BB. We are currently in discussions concerning proposed amendments to our various agreements with Fannie Mae, including the committed early funding facility agreement. There can be no assurance that we will reach

agreement with Fannie Mae concerning such proposed amendments or that Fannie Mae will not exercise its rights to terminate the committed early funding letter agreement. Any such amendments could result in changes to our agreements with Fannie Mae, including, without limitation, (i) a reduction or elimination of the use of certain Fannie Mae products or programs, (ii) the modification of certain legal agreements, and (iii) the exercise of certain contractual rights by Fannie Mae intended to reduce Fannie Mae's counterparty risk exposure, including requiring us to post collateral in respect of unresolved loan repurchase demands and reducing the advance rate on the servicing advance facility.

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

In January 2011, the Federal Housing Finance Agency directed Fannie Mae and Freddie Mac to develop a joint initiative to consider alternatives for future mortgage servicing structures and compensation. Under this proposal, the GSEs are considering potential structures in which the minimum service fee would be reduced or eliminated altogether. This would provide mortgage bankers with the ability to either sell all or a portion of the retained servicing fee for cash up front, or retain an excess servicing fee. While the proposal provides additional flexibility in managing liquidity and capital requirements, it is unclear how the various options might impact mortgage-backed security pricing and the related pricing of excess servicing fees. The GSEs are also considering different pricing options for non-performing loans to better align servicer incentives with MBS investors and provide the loan guarantor the ability to transfer non-performing servicing. The Federal Housing Finance Agency has indicated that any change in the servicing compensation structure would be prospective and the changes, if implemented, could have a significant impact on the entire mortgage industry and on the results of operations and cash flows of our mortgage business.

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

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

Continued or worsening conditions in the real estate market have adversely impacted, and in the future could continue to adversely impact, our business, financial position, results of operations or cash flows.

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Adverse economic conditions in the United States have resulted, and could continue to result, in increased mortgage loan payment delinquencies, home price depreciation and a lower volume of home sales. These trends have negatively impacted and may continue to negatively impact our Mortgage Production and Mortgage Servicing segments through increased loss severities in connection with loan repurchase and indemnification claims due to

declining home prices, increased mortgage reinsurance losses due to increased delinquencies and loss severities, and lower home purchase mortgage originations.

However, we have experienced a relatively smaller impact from these trends than many of our current and former competitors because we generally sell substantially all of the mortgage loans we originate shortly after origination, we do not generally maintain credit risk on the loans we originate or maintain a loan investment portfolio, substantially all of our mortgage loan originations are prime mortgages rather than Alt-A or subprime mortgages, and our mortgage loan servicing portfolio has experienced a lower rate of payment delinquencies than that of many of our competitors. Nevertheless, these trends have resulted in an increase in the incidence of loan repurchase and indemnification claims, as well as an increase in incurred mortgage reinsurance losses, resulting in an increase in our recorded reserves for expected and realized losses for loan repurchases and indemnifications and mortgage reinsurance. Continuation of these trends could have a material adverse effect on our business, financial position, results of operations and cash flows.

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

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

In the third quarter of 2011, we were unable to reach an agreement to renew our existing relationship with Charles Schwab, which represented 9% of our mortgage loan originations for the year ended December 31, 2011, as well as approximately \$8.9 billion of subserviced loans as of December 31, 2011. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Executive Summary.

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

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

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

§ we materially breach any representation, warranty, covenant or other agreement contained in the Strategic Relationship Agreement, the Marketing Agreement, trademark license agreements or certain other related agreements, including, without limitation, our confidentiality agreements in the PHH Home Loans Operating Agreement and the Strategic Relationship Agreement, and our non-competition agreements in the Strategic Relationship Agreement;

§ we become subject to any regulatory order or governmental proceeding and such order or proceeding prevents or materially impairs PHH Home Loans' ability to originate mortgage loans for any period of time (which order or proceeding is not generally applicable to companies in the mortgage lending business) in a manner that adversely affects the value of one or more of the quarterly distributions to be paid by PHH Home Loans pursuant to the PHH Home Loans Operating Agreement;

§ PHH Home Loans otherwise is not permitted by law, regulation, rule, order or other legal restriction to perform its origination function in any jurisdiction, but in such case exclusivity may be terminated only with respect to such jurisdiction; or

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

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

Moreover, certain of the events that give Realogy the right to terminate its exclusivity obligations with respect to us under the Strategic Relationship Agreement would also give Realogy the right to terminate its other agreements and arrangements with us. For example, the PHH Home Loans Operating Agreement also permits Realogy to terminate the mortgage venture with us upon our material breach of any representation, warranty, covenant or other agreement contained in the Strategic Relationship Agreement, the Marketing Agreement, the Trademark License Agreements or certain other related agreements that is not cured following any applicable notice or cure period or if we become subject to any regulatory order or governmental proceeding that prevents or materially impairs PHH Home Loans' ability to originate mortgage loans for any period of time (which order or proceeding is not generally applicable to companies in the mortgage lending business) in a manner that adversely affects the value of one or more of the quarterly distributions to be paid by PHH Home Loans pursuant to the PHH Home Loans Operating Agreement. Upon a termination of the PHH Home Loans joint venture by Realogy or its affiliates, Realogy will have the right either (i) to require that we or certain of our affiliates purchase all of Realogy's interest in PHH Home Loans; or (ii) to cause us to sell our interest in PHH Home Loans to an unaffiliated third party designated by certain of Realogy's affiliates. Additionally, any termination of PHH Home Loans will also result in a termination of the Strategic Relationship Agreement and our exclusivity rights under the Strategic Relationship Agreement. Pursuant to the terms of the PHH Home Loans Operating Agreement, beginning on February 1, 2015, Realogy will have the right at any time upon two years' notice to us to terminate its interest in PHH Home Loans. If Realogy were to terminate PHH Home Loans or our other arrangements with Realogy, including its exclusivity obligations with respect to us, any such termination would likely result in our loss of most, if not all, of our mortgage loan originations, Net revenues and Segment profit (loss) of our Mortgage Production segment derived from Realogy's affiliates, which loss would have a material adverse effect on our overall business and our consolidated financial position, results of operations and cash flows.

Certain hedging strategies that we may use to manage risks associated with our assets, including mortgage loans held for sale, interest rate lock commitments, mortgage servicing rights and foreign currency denominated assets, may not be effective in mitigating those risks and could result in substantial losses that could exceed the losses that would have been incurred had we not used such hedging strategies.

We may employ various economic hedging strategies in an attempt to mitigate the interest rate and prepayment risk inherent in many of our assets, including our mortgage loans held for sale, interest rate lock commitments and, from time to time, our mortgage servicing rights. Our hedging activities may include entering into derivative instruments. We also seek to manage interest rate risk in our Mortgage Production and Mortgage Servicing segments partially without the use of financial derivatives by monitoring and seeking to maintain an appropriate balance between our loan production volume and the size of our mortgage servicing portfolio, as the value of mortgage servicing rights and the income they provide tend to be counter-cyclical to the changes in production volumes and the gain or loss on loans that result from changes in interest rates. This approach requires our management to make assumptions with regards to future replenishment rates for our mortgage servicing rights, loan margins, the value of additions to our mortgage servicing rights and loan origination costs, and many factors can impact these estimates, including loan pricing margins and our ability to adjust staffing levels to meet changing consumer demand.

We are also exposed to foreign exchange risk associated with our investment in our Canadian operations and with foreign exchange forward contracts that we have entered into, or may in the future enter into, to hedge U.S. dollar denominated borrowings used to fund Canadian dollar denominated leases and operations. Our hedging decisions in the future to manage these foreign exchange risks will be determined in light of the facts and circumstances existing at the time and may differ from our current hedging strategy.

During the third quarter of 2008, we assessed the composition of our capitalized mortgage servicing portfolio and its relative sensitivity to refinance if interest rates decline, the costs of hedging and the anticipated effectiveness of the hedge given the current economic environment. Based on that assessment, we made the decision to close out substantially all of our derivatives related to mortgage servicing rights during the third quarter of 2008. During the year ended December 31, 2011, we executed certain derivative transactions to serve as an economic hedge of a portion of the interest rate risk associated with our mortgage servicing rights. We entered into these derivative transactions to ensure that there would be sufficient capacity under our debt facilities to fund higher origination volumes given the declining mortgage rates, while maintaining compliance with the leverage covenants in our debt agreements. The increase in mortgage asset-backed debt, coupled with the decline in value of mortgage servicing rights resulting from lower mortgage rates, could have the effect of increasing our indebtedness to tangible net worth ratio in the short term. Our decisions regarding the levels, if any, of our derivatives related to mortgage servicing rights could result in continued volatility in the results of operations for our Mortgage Servicing segment.

Our hedging strategies, including our decision not to use financial derivatives to hedge a substantial portion of our Mortgage servicing rights, may not be effective in mitigating the risks related to changes in interest rates or foreign exchange rates and we may have insufficient liquidity to exercise our strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses, and could result in losses in excess of what our losses would have been from had we not used such hedging strategies. There have been periods, and it is likely that there will be periods in the future, during which we incur significant losses after consideration of the results of our hedging strategies. As stated earlier, the success of our interest rate risk management strategy and our replenishment strategies for our mortgage servicing rights are largely dependent on our ability to predict the earnings sensitivity of our loan servicing and loan production activities in various interest rate environments, as well as our ability to successfully manage any capacity constraints in our mortgage production business and our ability to maintain sufficient liquidity to exercise these strategies. Our hedging strategies also rely on assumptions and projections regarding our assets and general market factors. If these assumptions and projections prove to be incorrect or our hedges do not adequately mitigate the impact of changes including, but not limited to, interest rates or prepayment speeds or foreign exchange rate fluctuations, we may incur losses that could have a material adverse effect on our business, financial position, results of operations or cash flows.

Changes in interest rates could materially and adversely affect our volume of mortgage loan originations or reduce the value of our mortgage servicing rights, either of which could have a material adverse effect on our business, financial position, results of operations or cash flows.

Changes in and the level of interest rates are key drivers of our mortgage loan originations in our Mortgage Production segment and mortgage loan refinancing activity, in particular. The level of interest rates are significantly affected by monetary and related policies of the federal government, its agencies and government sponsored entities, which are particularly affected by the policies of the Federal Reserve Board that regulates the supply of money and credit in the United States. The Federal Reserve Board's policies, including initiatives to stabilize the U.S. housing market and to stimulate overall economic growth, affect the size of the mortgage loan origination market, the pricing of our interest-earning assets and the cost of our interest-bearing liabilities. Changes in any of these policies are beyond our control, difficult to predict, particularly in the current economic environment, and could have a material adverse effect on our business, financial position, results of operations or cash flows.

Historically, rising interest rates have generally been associated with a lower volume of loan originations and lower pricing margins in our Mortgage Production segment due to a disincentive for borrowers to refinance at a higher interest rate, while falling interest rates have generally been associated with higher loan originations and higher pricing margins, due to an incentive for borrowers to refinance at a lower interest rate. Our ability to generate Gain on mortgage loans, net in our Mortgage Production segment is significantly dependent on our level of mortgage loan originations. Accordingly, increases in interest rates could materially and adversely affect our mortgage loan origination volume, which could have a material and adverse effect on our Mortgage Production segment, as well as our overall business and our consolidated financial position, results of operations or cash flows. In addition, changes in interest rates may require us to post additional collateral under certain of our financing arrangements and derivative agreements which could impact our liquidity.

Changes in interest rates are also a key driver of the performance of our Mortgage Servicing segment as the values of our mortgage servicing rights are highly sensitive to changes in interest rates. Historically, the value of our mortgage servicing rights have increased when interest rates rise and have decreased when interest rates decline due to the effect those changes in interest rates have on prepayment estimates, with changes in fair value of our mortgage servicing rights being included in our consolidated results of operations. Because we do not currently utilize derivatives to hedge a substantial portion of our mortgage servicing rights, our consolidated financial positions, results of operations and cash flows are susceptible to significant volatility due to changes in the fair value of our mortgage servicing rights as interest rates change. As a result, substantial volatility in interest rates materially affects our Mortgage Servicing segment, as well as our consolidated financial position, results of operations and cash flows.

Losses incurred in connection with actual or projected loan repurchase and indemnification claims may exceed our financial statement reserves and we may be required to increase such reserves in the future. Increases to our reserves and losses incurred in connection with actual loan repurchases and indemnification payments could have a material adverse effect on our business, financial position, results of operation or cash flows.

In connection with the sale of mortgage loans, we make various representations and warranties concerning such loans that, if breached, require us to repurchase such loans or indemnify the purchaser of such loans for actual losses incurred in respect of such loans. These representations and warranties vary based on the nature of the transaction and the purchaser's or insurer's requirements but generally pertain to the ownership of the mortgage loan, the real property securing the loan and compliance with applicable laws and applicable lender and government-sponsored entity underwriting guidelines in connection with the origination of the loan. The aggregate unpaid principal balance of loans sold or serviced by us represents the maximum potential exposure related to loan repurchase and indemnification claims, including claims for breach of representation and warranty provisions. Due, in part, to elevated mortgage payment delinquency rates and declining housing prices, we have experienced, and may in the future continue to experience, an increase in loan repurchase and indemnification claims due to actual or alleged breaches of representations and warranties in connection with the sale or servicing of mortgage loans. The estimation of our loan repurchase and indemnification liability is subjective and based upon our projections of the incidence of loan repurchase and indemnification claims, as well as

loss severities. Given these trends, losses incurred in connection with such actual or projected loan repurchase and indemnification claims may be in excess of our financial statement reserves, and we may be required to increase such reserves and may sustain additional losses

associated with such loan repurchase and indemnification claims in the future. Accordingly, increases to our reserves and losses incurred by us in connection with actual loan repurchases and indemnification payments in excess of our reserves could have a material adverse effect on our business, financial position, results of operations or cash flows.

Additionally, some of our counterparties from whom we have purchased mortgage loans or mortgage servicing rights and from whom we may seek indemnification or against whom we may assert a loan repurchase demand in connection with a breach of a representation or warranty are highly leveraged and have been adversely affected by the recent economic decline in the United States, including the pronounced downturn in the debt and equity capital markets and the U.S. housing market, and unprecedented levels of credit market volatility. As a result, we are exposed to counterparty risk in the event of non-performance by counterparties to our various contracts, including, without limitation, as a result of the rejection of an agreement or transaction in bankruptcy proceedings, which could result in substantial losses for which we may not have insurance coverage.

The fair values of a substantial portion of our assets are determined based upon significant estimates and assumptions made by our management. As a result, there could be material uncertainty about the fair value of such assets that, if subsequently proven incorrect or inaccurate, could have a material adverse effect on our business, financial position, results of operations or cash flows. The ultimate realization of the value of our assets that are measured at fair value on a recurring basis may be materially different than the fair values of such assets as reflected in our consolidated statement of financial position as of any particular date.

A substantial portion of our assets are recorded at fair value based upon significant estimates and assumptions with changes in fair value included in our consolidated results of operations. The determination of the fair value of such assets, including our mortgage loans held for sale, interest rate lock commitments and mortgage servicing rights, involves numerous estimates and assumptions made by our management. Such estimates and assumptions include, without limitation, estimates of future cash flows associated with our mortgage servicing rights based upon assumptions involving interest rates as well as the prepayment rates and delinquencies and foreclosure rates of the underlying serviced mortgage loans.

As of December 31, 2011, 44% of our total assets were measured at fair value on a recurring basis, and 1% of our total liabilities were measured at fair value on a recurring basis. As of December 31, 2011, approximately 69% of our assets and liabilities measured at fair value were valued using primarily observable inputs and were categorized within Level Two of the valuation hierarchy. Our assets and liabilities categorized within Level Two of the valuation hierarchy are comprised of the majority of our mortgage loans held for sale and derivative assets and liabilities. As of December 31, 2011, approximately 33% of our assets and liabilities measured at fair value were valued using significant unobservable inputs and were categorized within Level Three of the valuation hierarchy. Approximately 82% of our assets and liabilities categorized within Level Three of the valuation hierarchy are comprised of our mortgage servicing rights.

The ultimate realization of the value of our assets that are measured at fair value on a recurring basis may be materially different than the fair values of such assets as reflected in our consolidated statement of financial position as of any particular date. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values for such assets, which could have a material adverse effect on our consolidated financial position, results of operations or cash flows. Accordingly, there may be material uncertainty about the fair value of a substantial portion of our assets.

A failure in or breach of our technology infrastructure or information protection programs, or those of our outsource providers, could result in the inadvertent disclosure of the confidential personal information of our customers, as well as the confidential personal information of the employees and customers of our clients. Any such failure or breach could have a material and adverse effect on our business, reputation, results of operations, financial position or cash flows.

Our business model and our reputation as a service provider to our clients are dependent upon our ability to safeguard the confidential personal information of our customers, as well as the confidential personal information of the employees and customers of our clients. Although we have put in place a comprehensive information security program that we monitor and update as needed, security breaches could occur through intentional or unintentional

acts by individuals having authorized or unauthorized access to confidential information of our customers or the employees or customers of our clients which could potentially compromise confidential information processed and stored in or transmitted through our technology infrastructure.

A failure in or breach of the security of our information systems, or those of our outsource providers, could result in significant damage to our reputation or the reputation of our clients, could negatively impact our ability to attract or retain clients and could result in increased costs attributable to related litigation or regulatory actions, claims for indemnification, higher insurance premiums and remediation activities, the result of any of which could have a material and adverse effect on our business, reputation, results of operations, financial position, or cash flows.

Risks Related to our Common Stock

There may be a limited public market for our common stock and our stock price may experience volatility.

Our common stock is listed on the New York Stock Exchange, or the NYSE, under the symbol PHH. However, there can be no assurance that an active trading market for our common stock will be sustained in the future. In addition, the stock market has from time-to-time experienced extreme price and volume fluctuations that often have been unrelated to the operating performance of particular companies. Changes in earnings estimates by analysts, our results in relation to such estimates, and economic and other external factors may have a significant impact on the market price of our common stock. Further, the downgrade of our credit rating by S&P on December 21, 2011 has caused recent volatility in the price of our common stock. Fluctuations or decreases in the trading price of our common stock may adversely affect the liquidity of the trading market for our common stock and our ability to raise capital through future equity financing.

Future issuances of our Common stock or securities convertible into our Common stock and hedging activities may result in dilution of our stockholders or depress the trading price of our Common stock.

If we issue any shares of our Common stock or securities convertible into our Common stock in the future, including the issuance of shares of Common stock upon conversion of any convertible notes or the issuance of shares of Common stock upon exercise or settlement of any outstanding stock options, restricted stock units or performance stock units granted under the PHH Corporation Amended and Restated 2005 Equity and Incentive Plan, such issuances will dilute the voting power and ownership percentage of our stockholders and could substantially decrease the trading price of our Common stock. In addition, the price of our Common stock could also be negatively affected by possible sales of our Common stock by investors who engage in hedging or arbitrage trading activity that we expect to develop involving our Common stock following the issuance of the Convertible Notes.

We also may issue shares of our Common stock or securities convertible into our Common stock in the future for a number of reasons, including to finance our operations and business strategy (including in connection with acquisitions, strategic collaborations or other transactions), to increase our capital, to adjust our ratio of debt to equity, to satisfy our obligations upon the exercise of outstanding warrants or options or for other reasons. We cannot predict the size of future issuances of our Common stock or securities convertible into our Common stock or the effect, if any, that such future issuances might have to dilute the voting interests of our stockholders or otherwise on the market price for our Common stock.

The convertible note hedge and warrant transactions may negatively affect the value of our Common stock.

In connection with our offering of the 2012 Convertible Notes, we entered into convertible note hedge transactions that cover, subject to anti-dilution adjustments, approximately 12,195,125 shares of our Common stock and sold warrants to purchase, subject to anti-dilution adjustments, up to approximately 12,195,125 shares of our Common stock with affiliates of the initial purchasers of the 2012 Convertible Notes. In connection with the issuance and sale of the 2014 Convertible Notes, we also entered into convertible note hedge transactions that cover, subject to anti-dilution adjustments, approximately 8,525,484 shares of our Common stock and sold warrants to purchase, subject to anti-dilution adjustments, up to approximately 8,525,484 shares of our Common stock with affiliates of the initial

purchasers of the 2014 Convertible Notes (together with the affiliates of the initial purchasers of the 2012 Convertible Notes that are parties to the convertible note hedge and warrant transactions associated with the 2012 Convertible Notes, the Option Counterparties). The convertible note hedge and warrant transactions are expected to reduce the potential dilution upon conversion of the 2012 Convertible Notes and 2014 Convertible Notes, respectively.

In connection with hedging these transactions, the Option Counterparties and/or their respective affiliates entered into various derivative transactions with respect to our Common stock. The Option Counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to our Common stock or by selling or purchasing our Common stock in secondary market transactions while the Convertible Notes are convertible, which could adversely impact the price of our Common stock. In order to unwind their hedge position with respect to those exercised options, the Option Counterparties and/or their respective affiliates are likely to sell shares of our Common stock in secondary transactions or unwind various derivative transactions with respect to our Common stock during the observation period for the converted 2012 Convertible Notes and 2014 Convertible Notes. These activities could negatively affect the value of our Common stock.

Provisions in our charter documents, the Maryland General Corporation Law, and New York insurance law may delay or prevent our acquisition by a third party.

Our charter and by-laws contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our board of directors. These provisions include, among other things, a classified board of directors, advance notice for raising business or making nominations at meetings and blank check preferred stock. Blank check preferred stock enables our board of directors, without stockholder approval, to designate and issue additional series of preferred stock with such dividend, liquidation, conversion, voting or other rights, including the right to issue convertible securities with no limitations on conversion, as our board of directors may determine, including rights to dividends and proceeds in a liquidation that are senior to the common stock.

We are also subject to certain provisions of the Maryland General Corporation Law which could delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our stockholders receiving a premium over the market price for their common stock or may otherwise be in the best interest of our stockholders. These include, among other provisions:

§ the business combinations statute which prohibits transactions between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder becomes an interested stockholder and

§ the control share acquisition statute which provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter.

Our by-laws contain a provision exempting any share of our capital stock from the control share acquisition statute to the fullest extent permitted by the Maryland General Corporation Law. However, our Board of Directors has the exclusive right to amend our by-laws and, subject to their fiduciary duties, could at any time in the future amend the by-laws to remove this exemption provision.

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In addition, we are registered as an insurance holding company in the state of New York as a result of our wholly owned subsidiary, Atrium Insurance Corporation. New York insurance law requires regulatory approval of a change in control of an insurer or an insurer's holding company. Accordingly, there can be no effective change in control of us unless the person seeking to acquire control has filed a statement containing specified information with the New York state insurance regulators and has obtained prior approval for the proposed change from such regulators. The measure for a presumptive change of control pursuant to New York law is the acquisition of 10% or more of the voting stock or other ownership interest of an insurance company or its parent. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change in control of us, including through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable.

Certain provisions of the PHH Home Loans Operating Agreement and the Strategic Relationship Agreement that we have with Realogy and certain provisions in our other mortgage loan origination agreements could discourage third parties from seeking to acquire us or could reduce the amount of consideration they would be willing to pay our stockholders in an acquisition transaction.

Pursuant to the terms of the PHH Home Loans Operating Agreement, Realogy has the right to terminate PHH Home Loans, at its election, at any time on or after February 1, 2015 by providing two years' notice to us. In addition, under the PHH Home Loans Operating Agreement, Realogy may terminate PHH Home Loans if we effect a change in control transaction involving certain competitors or other third parties. In connection with such termination, we would be required to make a liquidated damages payment in cash to Realogy of an amount equal to the sum of (i) two times PHH Home Loans' trailing 12 months net income (except that, in the case of a termination by Realogy following a change in control of us, we may be required to make a cash payment to Realogy in an amount equal to PHH Home Loans' trailing 12 months net income multiplied by (a) if the PHH Home Loans Operating Agreement is terminated prior to its twelfth anniversary, the number of years remaining in the first 12 years of the term of the PHH Home Loans Operating Agreement, or (b) if the PHH Home Loans Operating Agreement is terminated on or after its tenth anniversary, two years), and (ii) all costs reasonably incurred by Cendant (now known as Avis Budget Group, Inc.) and its subsidiaries in unwinding its relationship with us pursuant to the PHH Home Loans Operating Agreement and the related agreements, including the Strategic Relationship Agreement, the Marketing Agreement and the Trademark License Agreements. Pursuant to the terms of the Strategic Relationship Agreement, we are subject to a non-competition provision, the breach of which could result in Realogy having the right to terminate the Strategic Relationship Agreement, seek an injunction prohibiting us from engaging in activities in breach of the non-competition provision or result in our liability for damages to Realogy.

In addition, our agreements with some of our financial institution clients provide the applicable financial institution client with the right to terminate its relationship with us prior to the expiration of the contract term if we complete certain change in control transactions with certain third parties. Because we may be unable to obtain consents or waivers from such clients in connection with certain change in control transactions, the existence of these provisions could discourage certain third parties from seeking to acquire us or could reduce the amount of consideration they would be willing to pay to our stockholders in an acquisition transaction.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal offices are located at 3000 Leadenhall Road, Mt. Laurel, New Jersey 08054.

Mortgage Production and Mortgage Servicing Segments

Our Mortgage Production and Mortgage Servicing segments have centralized operations in approximately 555,000 square feet of shared leased office space in the Mt. Laurel, New Jersey area. We have a second area of centralized offices that are shared by our Mortgage Production and

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Mortgage Servicing segments in Jacksonville, Florida, where approximately 150,000 square feet is occupied. In addition, our Mortgage Production segment leases 49 smaller offices located throughout the U.S. and our Mortgage Servicing segment leases one additional office located in New York.

Fleet Management Services Segment

Our Fleet Management Services segment maintains a headquarters office in a 210,000 square-foot office building in Sparks, Maryland. Our Fleet Management Services segment also leases office space and marketing centers in five locations in Canada and has seven smaller regional locations throughout the U.S.

Item 3. Legal Proceedings

We are party to various claims and legal proceedings from time to time related to contract disputes and other commercial, employment and tax matters. We are not aware of any pending legal proceedings that we believe could have, individually or in the aggregate, a material effect on our business, financial position, results of operations or cash flows.

Item 4. (Removed and Reserved)

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Price of Common Stock**

Shares of our Common stock are listed on the NYSE under the symbol PHH . The following table sets forth the high and low sales prices for our Common stock for the periods indicated as reported by the NYSE:

	Stock Price	
	High	Low
January 1, 2010 to March 31, 2010	\$ 23.81	\$ 15.84
April 1, 2010 to June 30, 2010	25.86	19.04
July 1, 2010 to September 30, 2010	22.39	17.83
October 1, 2010 to December 31, 2010	23.36	18.68
January 1, 2011 to March 31, 2011	25.55	20.48
April 1, 2011 to June 30, 2011	22.50	19.41
July 1, 2011 to September 30, 2011	20.92	14.36
October 1, 2011 to December 31, 2011	19.27	8.75

As of February 17, 2012, there were 6,728 holders of record of our Common stock.

Dividend Policy

Since our spin-off from Cendant Corporation (now known as Avis Budget Group, Inc.) in 2005, we have not paid any cash dividends on our Common stock nor do we foresee paying any cash dividends on our Common stock in the foreseeable future.

The declaration and payment of dividends in the future will be subject to the discretion of our Board of Directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our operating subsidiaries, legal requirements, regulatory constraints and other factors deemed relevant.

Many of our subsidiaries (including certain consolidated partnerships, trusts and other non-corporate entities) are subject to restrictions on their ability to pay dividends or otherwise transfer funds to other consolidated subsidiaries and, ultimately, to PHH Corporation (the parent company). These restrictions relate to loan agreements applicable to certain of our asset-backed debt arrangements and to regulatory restrictions applicable to the equity of our reinsurance subsidiary. The aggregate restricted net assets of these subsidiaries totaled \$1.2 billion as of December 31, 2011. The restrictions on net assets of certain subsidiaries do not directly limit our ability to pay dividends from consolidated Retained earnings.

Certain debt arrangements require the maintenance of ratios and contain restrictive covenants applicable to our consolidated financial statement elements that potentially could limit our ability to pay dividends. As of December 31, 2011, we may not pay dividends without the written consent of the lenders of the Amended Credit facility. See Note 15, Stock-Related Matters, in the accompanying Notes to Consolidated Financial Statements for further information.

Item 6. Selected Financial Data

The selected financial data set forth below is derived from our audited Consolidated Financial Statements for the periods indicated. Because of the inherent uncertainties of our business, the historical financial information for such periods may not be indicative of our future results of operations, financial position or cash flows:

	Year Ended and As of December 31,					
	2011	2010	2009	2008	2007	
	(In millions, except per share data)					
Consolidated Statements of Operations Data:						
Net revenues	\$ 2,214	\$ 2,438	\$ 2,606	\$ 2,056	\$ 2,240	
Net (loss) income attributable to PHH Corporation(1)	(127)	48	153	(254)	(12)	
Basic (loss) earnings per share attributable to PHH Corporation	\$ (2.26)	\$ 0.87	\$ 2.80	\$ (4.68)	\$ (0.23)	
Diluted (loss) earnings per share attributable to PHH Corporation	(2.26)	0.86	2.77	(4.68)	(0.23)	
Consolidated Balance Sheets Data:						
Total assets	\$ 9,777	\$ 11,270	\$ 8,123	\$ 8,273	\$ 9,357	
Debt	6,914	8,085	5,160	5,764	6,279	
PHH Corporation stockholders equity	1,442	1,564	1,492	1,266	1,529	

- (1) Net (loss) income attributable to PHH Corporation for the year ended December 31, 2011 includes a \$68 million pre-tax gain on the sale of 50.1% of the equity interests in our appraisal services business. Net (loss) income attributable to PHH Corporation for the year ended December 31, 2008 included \$42 million of pre-tax income related to a terminated merger agreement with General Electric Capital Corporation and a \$61 million non-cash charge for Goodwill impairment (\$26 million net impact after the income tax benefit and the portion attributable to noncontrolling interest).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with Part I Item 1. Business and our Consolidated Financial Statements and the notes thereto included in this Form 10-K. The following discussion should also be read in conjunction with the Cautionary Note Regarding Forward-Looking Statements and the risks and uncertainties described in Part I Item 1A. Risk Factors set forth above.

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
- § Contractual Obligations
- § Off-Balance Sheet Arrangements and Guarantees
- § Critical Accounting Policies and Estimates
- § Recently Issued Accounting Pronouncements

OVERVIEW

We are a leading outsource provider of mortgage and fleet management services. We conduct our business through three operating segments: a Mortgage Production segment, a Mortgage Servicing segment and a Fleet Management Services segment. Our Mortgage Production segment originates, purchases and sells mortgage loans through PHH Mortgage. Our Mortgage Servicing segment services mortgage loans originated by PHH Mortgage, and also purchases mortgage servicing rights and acts as a subservicer for certain clients that own the underlying servicing rights. Our Fleet Management Services segment provides commercial fleet management services to corporate clients and government agencies throughout the United States and Canada.

Although our Fleet Management Services segment has historically generated a larger portion of our Net revenues, our Mortgage Production and Mortgage Servicing segments have historically contributed a significantly larger portion of our Net income (loss). Our Mortgage Production and Mortgage Servicing segments have experienced, and may continue to experience, high degrees of earnings volatility due to significant exposure to interest rates and the real estate markets, which impacts our loan origination volumes, valuation of our mortgage servicing rights and foreclosure-related charges.

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

Executive Summary

Our goals for 2011 included the following:

- § profitably growing market share of loan originations in our Mortgage Production segment;
- § increasing the unpaid principal balance of our mortgage servicing rights in our Mortgage Servicing Segment; and
- § continuing to grow earnings in our Fleet Management Services segment while focusing on increasing fee based products.

In our Mortgage Production segment, we were successful in signing agreements with five new private label clients to provide mortgage outsourcing services. We were unable to reach an agreement to renew our existing relationship with Charles Schwab Bank, which represented 9% and 11% of our mortgage loan originations for the years ended December 31, 2011 and 2010, respectively, as well as approximately \$8.9 billion of subserviced loans as of December 31, 2011. We will continue to service the mortgage loans resulting from our relationship with Charles Schwab Bank in our owned servicing portfolio. We expect the addition of these new private label clients to more

than offset the estimated income, including subservicing income, which we would have expected to have earned in 2012 through our relationship with Charles Schwab Bank.

On March 31, 2011, we sold 50.1% of the equity interests in our appraisal services business (Speedy Title and Appraisal Review Services, or STARS) to CoreLogic, Inc. and retained the remaining 49.9% of the interests. STARS provides appraisal services, credit research, flood certification, and tax services. We believe this new relationship will enable us to leverage the technology and product expertise of CoreLogic to enhance the customer experience and, ultimately, drive earnings growth. We received a \$20 million cash payment in March 2011, with three \$5 million installment payments to be received on March 31, 2012, 2014 and 2016. The sale resulted in a total gain of \$68 million for the year ended December 31, 2011, which was inclusive of a \$34 million non-cash gain from the initial valuation of our equity method investment upon deconsolidation of STARS.

We successfully grew the unpaid principal balance of our capitalized loan servicing portfolio by \$12.3 billion and ended the year with \$147.1 billion of loans in our capitalized loan servicing portfolio. Additions to the capitalized servicing portfolio were 149% of the reductions in the portfolio due to loan payments and payoffs. The value of capitalized servicing, however, declined significantly during the year due to a significant decrease in mortgage interest rates. During 2011, foreclosure activities remained elevated and we observed an increase in loan repurchase requests by investors, particularly the GSEs. We expect foreclosure losses to remain elevated throughout 2012 as investors continue to review both performing and non-performing loans for potential underwriting defects and representation and warranty violations.

Our Fleet Management Services segment continued to grow earnings in 2011 driven by increases in maintenance service, fuel, and accident management average units. Remarketing activities and strong used-car prices further contributed to the positive segment results compared to 2010.

The overall economic climate was characterized by low interest rates as the U.S. Federal Reserve continued its accommodative monetary policy, which helped fuel mortgage refinance activity in the second half of 2011. Continued high unemployment and concerns over sovereign debt issues in Europe created significant uncertainty and volatility in the economy and in the capital markets.

In December 2011, we announced that we did not proceed with a previously announced public offering of \$250 million of Senior notes due to market conditions and instead issued an additional \$100 million of Senior notes due in 2016 under an existing indenture. Concerns regarding our ability to repay medium term notes due in March 2013 resulting from potentially limited access to the capital markets prompted S&P to downgrade our debt rating from BB+ to BB- and place us on negative outlook. In January 2012, we raised \$250 million through a convertible bond issuance. Concurrent with this bond issuance, both Moody's and Fitch placed us on negative watch, but did not take any further ratings actions.

Given the uncertainty surrounding the economy at large and the uncertainty in the capital markets, including our cost of capital, the Company has shifted focus in 2012 from growing origination market share and mortgage servicing rights to focusing on liquidity and cash generation.

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

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§ pursue disciplined growth in our three franchise platforms which are mortgage private label services, our mortgage relationship with Realogy and our fleet management business;

§ drive industry-leading operational excellence;

§ continue our unwavering commitment to customer service; and

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

We are prioritizing liquidity and cash flow generation, which may involve one or more of the following:

§ focusing our efforts to ensure that our operations are cash flow positive, which may include reductions in our correspondent mortgage originations and capital expenditures;

§ disposition of assets that are not necessary to support our business strategies, which may include the assets of our reinsurance business; and

§ generating mortgage servicing rights with minimal use of cash.

Some of the actions we are taking to reposition the business, combined with lower mortgage industry volumes, may have a negative impact on our 2012 earnings. However, we expect that our narrowed focus, deliberate growth strategy, focus on operational excellence, continued focus on customer satisfaction, along with our near-term focus on liquidity, will result in less volatile earnings, and a more profitable and better capitalized company beyond 2012.

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

Industry Trends

Regulatory Trends

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

§ Real estate settlement procedures;

§ Consumer credit provisions; fair lending, fair credit reporting and truth in lending;

§ The establishment of maximum interest rates, finance charges and other charges;

§ Secured transactions; collections, foreclosure, repossession and claims-handling procedures;

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§ Privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers and guidance on non-traditional mortgage loans issued by the federal financial regulatory agencies;

§ Taxing and licensing of vehicles and environmental protection;

§ Insurance regulations and licensing requirements pertaining to standards of solvency that must be met and maintained; reserves and provisions for unearned premiums, losses and other obligations and deposits of securities for the benefit of policyholders.

Financial Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act, among other provisions, established the Bureau of Consumer Financial Protection (CFPB), which began operations on July 21, 2011. The CFPB will implement and enforce the consumer protection provisions of the Dodd-Frank Act and will have the authority to examine all non-bank mortgage lenders, brokers and servicers, among other entities. During January 2012, Richard Cordray was named as the first Director of the CFPB through a presidential appointment, which provided the authority for the CFPB to carry out its regulatory agenda. We will be subject to the regulatory authority of the CFPB through our mortgage subsidiaries.

Six federal agencies, including the SEC, have proposed a rule providing sponsors of securitizations with various options for meeting the risk-retention requirements of the Dodd-Frank Act. Among other things, the options include retaining risk of the securitization transactions equal to at least 5% of each class of asset-backed security, 5% of par value of all asset-backed security interests issued, 5% of a representative pool of assets, or a combination of these options.

As required by the Dodd-Frank Act, the proposal includes descriptions of loans that would not be subject to these requirements, including asset-backed securities that are collateralized exclusively by residential mortgages that qualify as qualified residential mortgages (or QRMs). Proposed criteria to qualify for an exemption from the risk retention requirements include, but are not limited to: (i) maximum loan-to-value ratios for purchases and refinances of 80% and 75%, respectively; (ii) mortgage payment to gross income and debt payments to gross income ratios of 28% and 36%, respectively; (iii) borrower credit requirements including no current delinquencies, 60-day plus delinquencies in the past 2 years, or bankruptcies/ foreclosures in the past 3 years; and (iv) loan-type requirements including no interest only, negative amortization, balloon payments or prepayment penalties.

The proposed rule would also recognize that the 100% guarantee of principal and interest provided by Fannie Mae and Freddie Mac meets their risk-retention requirements as sponsors of mortgage-backed securities for as long as they are in conservatorship or receivership with capital support from the U.S. government.

Substantially all of our loans are sold to, or pursuant to programs sponsored by, Fannie Mae, Freddie Mac, or Ginnie Mae and therefore would be exempt from the risk-retention requirements under the current proposal. For our lease securitizations, we believe we currently retain a subordinate position relative to the issued asset-backed securities in excess of the proposed 5% requirement, and we are continuing to monitor the potential impact under the proposed rules.

In February 2011 the Obama administration issued a report to Congress, and in February 2012 the Federal Housing Finance Agency issued a report to Congress outlining the long-term strategic plan for, and various options for long-term reform of Fannie Mae and Freddie Mac. These options involve gradually reducing the role of Fannie Mae and Freddie Mac in the mortgage market and ultimately winding down both institutions such that the private sector provides the majority of mortgage credit. Such reforms may include, among other actions: (i) further reductions in conforming loan limits; (ii) increases in guarantee fees; (iii) standardization of servicing protocols; (iv) changes to servicer compensation; and (v) increased MBS disclosures. These potential changes could materially and adversely affect our business, financial position, results of operations or cash flows. In addition, it is possible that some of these reforms could be accelerated depending on the outcome of the 2012 U.S. Presidential and Congressional elections, among other things.

See Item 1A. Risk Factors Risks Related to our Company We are highly dependent upon programs administered by Fannie Mae, Freddie Mac and Ginnie Mae. Changes in existing U.S. government-sponsored mortgage programs or servicing eligibility standards could materially and adversely affect our business, financial position, results of operations or cash flows. for further information.

Focus on Foreclosure Practices

During the first quarter of 2011, various federal regulators completed a review of 14 entities involved in the mortgage servicing process and noted weaknesses in foreclosure governance processes, foreclosure document preparation processes, and oversight and monitoring of third-party vendors, including foreclosure attorneys. These regulators took formal actions against each of the 14 entities subject to this review to address those weaknesses and risks. These actions require each entity, among other things, to conduct a more complete review of certain aspects of foreclosure actions that occurred between January 1, 2009 and December 31, 2010.

While we were not included in these reviews, we have received inquiries and requests for information from regulators and attorneys general of certain states as well as from the Committee on Oversight and Government Reform of the U.S. House of Representatives and the U.S. Senate Judiciary Committee, requesting information as to our foreclosure processes and procedures, among other things. While we have not been assessed any material penalties from regulatory agencies resulting from our foreclosure practices to date, we have been notified of potential

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compensatory fees for failing to meet foreclosure timelines outlined in the Agency servicing guides. We expect the higher level of focus on foreclosure practices will result in higher legal and servicing related costs as well as potential regulatory fines and penalties.

Home Affordability Program

On October 24, 2011, the Federal Housing Finance Agency (FHFA) announced changes to the existing Home Affordability Refinance Program (HARP) for certain loans sold to Fannie Mae and Freddie Mac. The changes to HARP are designed to allow more mortgage loans to be eligible for refinancing under the program. Specifically, these changes eliminate the maximum loan-to-value ratio and appraisal requirements and reduce risk-based pricing and other fees to borrowers. The FHFA further announced that it is waiving certain lender representations and warranties for loans refinanced under the program. To be eligible for refinance under these changes to HARP, the loan must have been sold to Fannie Mae or Freddie Mac prior to May 31, 2009, and the loan must be current at the time of refinance with no late payments in the past six months. In addition to these changes, the FHFA announced that HARP will continue through December 31, 2013. We expect these changes will increase mortgage loan prepayment speeds, which has unfavorably impacted the valuation of our mortgage servicing rights by approximately \$20 million as of December 31, 2011 and we expect these changes will increase loan origination volumes which could favorably impact mortgage production segment profit

Consumer Financial Protection Bureau Investigation

In January 2012, we were notified that the Consumer Financial Protection Bureau had opened an investigation to determine whether our mortgage insurance premium ceding practices to captive reinsurers comply with the Real Estate Settlement Procedures Act and other laws enforced by the CFPB. The CFPB requested certain related documents and information for review. We have provided reinsurance services in exchange for premiums ceded and believe that we have complied with the Real Estate Settlement Procedures Act and other laws. We have not provided reinsurance on loans originated after 2009. There can be no assurance whether or not this investigation will result in the imposition of any penalties and fines against us or our subsidiaries.

See Item 1A. Risk Factors Risks Related to our Company The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our business, financial position, results of operations or cash flows.

Mortgage Production Trends

The mortgage industry has continued to utilize more restrictive underwriting standards that make it more difficult for borrowers with less than prime credit records, limited funds for down payments or a high loan-to-value ratio to qualify for a mortgage. As of January 2012, Fannie Mae's *Economics and Mortgage Market Analysis* forecasts a decline in industry loan originations to \$1.0 trillion during 2012 compared to \$1.4 trillion during 2011. Although mortgage interest rates remained at relatively low levels during 2011 which we expect to continue into 2012, many borrowers took advantage of the low interest rate environment in 2010 by refinancing after interest rates declined. As a result, the forecasted decline in industry originations includes a 40% decrease in projected refinance originations offset by a 2% increase in projected purchase originations.

Initial loan pricing margins declined slightly from 2010 levels reflecting a more competitive environment given declining volumes. Although loan pricing margins for 2011 have declined from the prior year, we did see improvement during the second half of 2011, which has further improved into the first quarter of 2012, as mortgage rates declined and demand increased. Although we expect margins to eventually decline from current levels, we believe that pricing margins could remain elevated throughout 2012, reflecting a longer term industry view of the returns required to manage the underlying risk of a mortgage production and servicing business. In January 2012 the Federal Housing Finance Agency increased the guarantee fee on mortgage backed securities issued by Fannie Mae and Freddie Mac effective April 1, 2012 in response to the

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payroll tax cut funding mechanism passed by Congress. We expect this increase in guarantee fees, and potential future guarantee fee increases, will have the impact of increasing mortgage interest rates charged to borrowers and could negatively impact conforming loan origination volumes.

The majority of industry loan originations during the year ended December 31, 2011 were fixed-rate loans that conform to the standards of the GSEs and substantially all of our loans closed to be sold were conforming. There was an improvement in the market for prime loan production with loan amounts exceeding the GSE guidelines during 2011 which is reflected in an increase in our fee-based closings compared to 2010.

Mortgage Servicing Trends

The declining housing market and general economic conditions, including higher unemployment rates, have continued to negatively impact our Mortgage Servicing segment through elevated levels of delinquencies and high loss severity rates on defaulted loans. The increased regulatory focus on servicing activities, including foreclosure practices, has increased and will likely continue to increase servicing costs across the industry.

Despite some stabilization in the level of overall portfolio delinquencies, we have seen a significant increase in repurchase requests, primarily from the agencies, resulting in a corresponding increase in foreclosure-related costs especially related to loans originated during 2005 through 2008. We believe repurchase requests will continue to be high during 2012 due to continued focus on repurchase and indemnification requests from investors and insurers, including an increase in reviews of more current loan production, as well as challenging conditions in the housing market.

In addition to the increased focus on loan repurchases and indemnifications, we have experienced higher reinsurance losses as a result of the continued weakness in the housing market coupled with an elevated level of delinquency and foreclosure experience. We paid \$65 million in reinsurance claims during the year ended December 31, 2011, and expect our paid claims for certain book years to remain high into 2012 as foreclosures are completed and insurance claims are processed and finalized. We hold cash and securities in trust related to our potential obligation to pay such claims, which were \$226 million and were included in Restricted cash, cash equivalents and investments in the accompanying Consolidated Balance Sheets as of December 31, 2011. We expect that the amount currently held in trust will be significantly higher than future claims for reinsurance losses.

In January 2011, the Federal Housing Finance Agency directed Fannie Mae and Freddie Mac to develop a joint initiative to consider alternatives for future mortgage servicing structures and compensation. Under this proposal, the GSEs are considering potential structures in which the minimum service fee would be reduced or eliminated altogether. This would provide mortgage bankers with the ability to either sell all or a portion of the retained servicing fee for cash up front, or retain an excess servicing fee. While the proposal provides additional flexibility in managing liquidity and capital requirements, it is unclear how the various options might impact mortgage-backed security pricing and the related pricing of excess servicing fees. The GSEs are also considering different pricing options for non-performing loans to better align servicer incentives with MBS investors and provide the loan guarantor the ability to transfer non-performing servicing. The Federal Housing Finance Agency has indicated that any change in the servicing compensation structure would be prospective and the changes, if implemented, could have a significant impact on the entire mortgage industry and on the results of operations and cash flows of our mortgage business. We believe that changes to the servicing fee structures, if any, would not be implemented until 2013 or later.

See [Regulatory Trends](#) above for further discussion of mortgage servicing trends.

See [Risk Management](#) for additional information regarding mortgage reinsurance and loan repurchases.

Fleet Management Services Trends

The fleet management industry continues to be impacted by the overall strength of the U.S. economy and the levels of corporate spending and capital investment. As the U.S. economy improves, we expect to see continued improvement in the industry. Growth in our Fleet Management Services segment is driven principally by increased market share in fleets greater than 75 units and increased fee-based services. The U.S. commercial fleet management services market has continued to experience minimal growth over the last several years as reported by *Automotive Fleet*. Further, according to the *Automotive Fleet 2011 Fact Book*, only 49% of the approximately 5.4 million, commercial cars and trucks operating in the U. S. during 2010, were included in managed fleets of 15 or more vehicles. The industry is concentrated in a limited number of national firms and the top five fleet management services providers accounted for 82% of the total number of vehicles funded and managed by the top 10 U.S. companies. The *Automotive Fleet 2011 Fact Book* also shows the total number of funded vehicles for the top 10 fleet management companies declined approximately 2.4% compared to 2010. Consistent with this trend, we experienced a decline in our leased units during 2011, although our net investment in leases has increased as our mix has changed to include more expensive light trucks and vans. Although we have experienced a decline in our leased units in recent years, we have seen positive trends in our service-only units during 2011 and we expect our leased units to be steady through 2012.

Inflation

An increase in inflation could have a significant impact on our Mortgage Production and Mortgage Servicing segments. Interest rates normally increase during periods of rising inflation. Historically, as interest rates increase, mortgage loan production decreases, particularly production from loan refinancing. An environment of gradual interest rate increases may, however, signify an improving economy or increasing real estate values, which in turn may stimulate increased home buying activity. Generally, in periods of reduced mortgage loan production, the associated profit margins also decline due to increased competition among mortgage loan originators, which further pressures mortgage production profitability. Conversely, in a rising interest rate environment, our mortgage loan servicing revenues generally increase because mortgage prepayment rates tend to decrease, extending the average life of our servicing portfolio and increasing the value of our MSR's. See discussion below under Risk Management Part I Item 1A. Risk Factors Risks Related to our Company Certain hedging strategies that we may use to manage risks associated with our assets, including mortgage loans held for sale, interest rate lock commitments, mortgage servicing rights and foreign currency denominated assets, may not be effective in mitigating those risks and could result in substantial losses that could exceed the losses that would have been incurred had we not used such hedging strategies. and Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Inflation does not have a significant impact on our Fleet Management Services segment.

RESULTS OF OPERATIONS**Consolidated Results**

The following table presents our consolidated results of operations:

	Year Ended December 31,		
	2011	2010	2009
(In millions, except per share data)			
Net fee income	\$ 468	\$ 448	\$ 425
Fleet lease income	1,400	1,370	1,441
Gain on mortgage loans, net	567	635	610
Mortgage net finance expense	(88)	(73)	(58)
Loan servicing income	456	415	431
Valuation adjustments relating to mortgage servicing rights, net	(736)	(427)	(280)
Other income	147	70	37
Net revenues	2,214	2,438	2,606
Depreciation on operating leases	1,223	1,224	1,267
Fleet interest expense	79	91	89
Total other expenses	1,114	1,008	970
Total expenses	2,416	2,323	2,326
(Loss) income before income taxes	(202)	115	280
Income tax (benefit) expense	(100)	39	107
Net (loss) income	(102)	76	173
Less: net income attributable to noncontrolling interest	25	28	20
Net (loss) income attributable to PHH Corporation	\$ (127)	\$ 48	\$ 153
Basic (loss) earnings per share attributable to PHH Corporation	\$ (2.26)	\$ 0.87	\$ 2.80
Diluted (loss) earnings per share attributable to PHH Corporation	\$ (2.26)	\$ 0.86	\$ 2.77

The following summarizes the key highlights that drove our operating performance and segment profit (loss) for our reportable segments during 2011 in comparison to the same period in 2010:

	Year Ended December 31,	
	2011	2010
(In millions)		
Reportable Segments Profit (Loss):(1)		
Mortgage Production segment	\$ 258	\$ 268
Mortgage Servicing segment	(557)	(241)
Fleet Management Services segment	75	63

(1) Segment Profit (Loss) is described in Note 21, Segment Information, in the accompanying Notes to Consolidated Financial Statements.

Mortgage Production Segment

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§ Segment profit was \$10 million lower compared to 2010 primarily due to a 12% decline in the volume of interest rate lock commitments expected to close and lower total margins which were partially offset by a \$68 million gain on the sale of 50.1% of the equity interests in STARS.

§ Interest rate lock commitments expected to close declined to \$33.7 billion in 2011 from \$38.3 billion in 2010 due to lower refinance activity. Total loan margins declined in 2011 from 2010, reflecting the significant increase in industry originations and the sustained refinance activity that we experienced during 2010.

§ Total mortgage closing volumes for 2011 were \$51.9 billion of which approximately 69% were retail and 31% were wholesale/correspondent.

Mortgage Servicing Segment

§ Segment loss was unfavorably impacted in 2011 by a \$521 million decrease in the market and credit-related fair value of our mortgage servicing rights driven primarily by lower long-term interest rates, as compared to a \$202 million decrease during 2010.

§ Loan servicing income increased by \$41 million primarily reflecting the continued growth in our loan servicing portfolio. Our average capitalized loan servicing portfolio increased by 9% from \$130.5 billion in 2010 to \$142.1 billion in 2011.

§ Foreclosure-related charges remain elevated at \$80 million during 2011, compared to \$72 million in 2010, reflecting a continued higher level of repurchase requests and loss severities.

Fleet Management Services Segment

§ Segment profit increased by \$12 million to \$75 million in 2011, driven by higher units and usage of fee-based and asset-based management services coupled with lower operating costs.

§ Maintenance service, fuel, and accident management average units all increased in 2011 compared to 2010 despite a 6% decline in the average number of leased vehicles.

See Segment Results below for additional information regarding the results of each of our reportable segments.

Income tax (benefit) expense

Income tax (benefit) expense changes were primarily due to the change in (Loss) income before income taxes, plus significant items that impact the effective tax rate, as discussed below. See Note 12, Income Taxes in the accompanying Notes to Consolidated Financial Statements for further information.

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2011: Our effective income tax rate was (49.7)% for the year ending December 31, 2011. The Income tax benefit for 2011 was \$100 million and was impacted by a \$12 million benefit from state and local income taxes due to the mix and amount of pre-tax income and loss from the operations by entity and state tax jurisdiction coupled with a \$7 million decrease in the liabilities for income tax contingencies, primarily due to the resolution and settlement with various taxing authorities, including the conclusion of the IRS examination and review of our taxable years 2006 through 2009.

The determination of the effective income tax rates for 2011 excludes \$10 million of income tax expense attributable to noncontrolling interest.

2010: Our effective income tax rate was 33.7% for the year ending December 31, 2010. The Income tax expense for 2010 was \$39 million and was impacted by a \$6 million expense from state and local income taxes due to the mix and amount of pre-tax income and loss from the operations by entity and state tax jurisdiction.

The determination of the effective income tax rates for 2010 excludes \$11 million of income tax expense attributable to noncontrolling interest.

2009: Our effective income tax rate was 38.3% for the year ending December 31, 2009. The Income tax expense for 2009 was \$107 million and was impacted by a \$15 million expense from state and local income taxes due to the mix and amount of pre-tax income and loss from the operations by entity and state tax jurisdiction.

The determination of the effective income tax rates for 2009 excludes \$9 million of income tax expense attributable to noncontrolling interest.

Appraisal Services Business Joint Venture

On March 31, 2011, we sold 50.1% of the equity interests in our appraisal services business, Speedy Title and Appraisal Review Services, (STARS) to CoreLogic, Inc. for a total purchase price of \$35 million, consisting of an initial \$20 million cash payment received on March 31, 2011, and three future \$5 million installment payments to be received on March 31, 2012, 2014 and 2016. Upon the occurrence of certain events prior to September 30, 2017, we may have the right or obligation to purchase CoreLogic's interests. We retained a 49.9% equity interest in STARS, which is accounted for under the equity method and was recorded within Other assets with an initial fair value of \$34 million as of March 31, 2011.

During 2011, a \$68 million gain on the sale of the 50.1% equity interest was recorded within Other income, which consisted of the net present value of the purchase price from CoreLogic plus the \$34 million from the initial valuation of our equity method investment in STARS. For 2011, earnings from the equity method investment in STARS of \$3 million are recorded as a component of Other income and represent 49.9% of the pre-tax income of the STARS joint venture over the period.

Segment Results

Discussed below are the results of operations for each of our reportable segments. Segment profit or loss is presented as the income or loss before income tax expense or benefit and after net income or loss attributable to noncontrolling interest. The Mortgage Production segment profit or loss excludes Realogy's noncontrolling interest in the profits and losses of PHH Home Loans. The Other segment includes costs related to general and administrative functions that are allocated back to our reportable segments, certain income and expenses not allocated and intersegment eliminations.

During the first quarter of 2010, our Mortgage and Fleet businesses paid dividends to PHH Corporation in order to effect a reallocation of capital between our businesses (recapitalization). Management evaluated several data sources, including rating agency leverage benchmarks, industry comparables and asset-backed securities market subordination levels to establish the revised equity levels in our businesses. The dividend payments impacted the balances under our intercompany funding arrangements, which are used to determine the allocation of our financing costs to our segments. Had the dividends been paid at the beginning of 2009, segment profit for our Mortgage Production segment would have changed favorably by \$14 million and segment profit for our Fleet Management Services segment would have decreased by \$14 million for 2009.

Other Segment

The following table presents the results of our Other segment:

	2011	Year Ended December 31, 2010		2009
		(In millions)		
Net revenues	\$ (3)	\$ (3)	\$ (5)	
Salaries and related expenses	71	16	21	
Occupancy and other office expenses	4			
Fleet interest expense	(3)	(3)	(6)	
Other depreciation and amortization	4			
Other operating expenses	54	14	22	
Corporate overhead allocation	(130)	(27)	(27)	
Total expenses				10
Segment loss	\$ (3)	\$ (3)	\$ (15)	

As a result of our transformation initiatives, as of January 1, 2011 certain general and administrative functions that had previously been part of our Mortgage Production, Mortgage Servicing and Fleet Management Services segments were consolidated into our Other segment, including information technology, human resources, finance and marketing. The majority of general and administrative expenses are allocated back to the segments through a corporate overhead allocation.

Certain costs previously reported by our Mortgage Production, Mortgage Servicing and Fleet Management Services segments as Salaries and related expenses during 2010 and 2009 are now included in the corporate overhead allocation and reported as a component of Other operating expenses. The table below provides a summary of our corporate overhead allocation by segment:

	2011	Year Ended December 31, 2010		2009
		(In millions)		
Mortgage Production segment	\$ 71	\$ 14	\$ 14	
Mortgage Servicing segment	15	3	3	
Fleet Management Services segment	44	10	10	
Other	(130)	(27)	(27)	
Total	\$	\$	\$	

Other operating expenses for 2011 compared to 2010 in our Mortgage Production, Mortgage Servicing and Fleet Management Services segments increased by \$57 million, \$12 million and \$34 million, respectively resulting from our internal reorganization and further investments in our information technology infrastructure and enterprise risk management process as well as increased costs associated with the further development of our corporate infrastructure related to marketing, communications and human resources. These increases were partially offset by corresponding decreases in Salaries and related expenses and Other operating expenses exclusive of corporate allocations. See individual segment results discussions below for further detail.

Mortgage Production Segment

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

	Year Ended December 31,		
	2011	2010	2009
	(\$ in millions, except average loan amount)		
Loans closed to be sold	\$ 37,889	\$ 37,747	\$ 29,370
Fee-based closings	14,056	11,247	8,194
Total closings	\$ 51,945	\$ 48,994	\$ 37,564
Purchase closings	\$ 20,404	\$ 20,270	\$ 15,401
Refinance closings	31,541	28,724	22,163
Total closings	\$ 51,945	\$ 48,994	\$ 37,564
Fixed rate	\$ 37,692	\$ 38,657	\$ 30,512
Adjustable rate	14,253	10,337	7,052
Total closings	\$ 51,945	\$ 48,994	\$ 37,564
Retail closings	\$ 35,592	\$ 33,429	\$ 31,834
Wholesale/correspondent closings	16,353	15,565	5,730
Total closings	\$ 51,945	\$ 48,994	\$ 37,564
Average loan amount	\$ 258,365	\$ 238,187	\$ 228,510
Loans sold	\$ 40,035	\$ 34,535	\$ 29,002
Applications	\$ 67,586	\$ 74,628	\$ 54,283
IRLCs expected to close	\$ 33,717	\$ 38,330	\$ 26,210

	Year Ended December 31,		
	2011	2010	2009
	(In millions)		
Mortgage fees	\$ 295	\$ 291	\$ 275
Gain on mortgage loans, net	567	635	610
Mortgage interest income	101	97	79
Mortgage interest expense	(125)	(113)	(90)
Mortgage net finance expense	(24)	(16)	(11)
Other income	76	1	6
Net revenues	914	911	880
Salaries and related expenses	341	369	336
Occupancy and other office expenses	30	34	32
Other depreciation and amortization	9	10	14
Other operating expenses	251	202	172
Total expenses	631	615	554
Income before income taxes	283	296	326
Less: net income attributable to noncontrolling interest	25	28	20
Segment profit	\$ 258	\$ 268	\$ 306

Mortgage Production Statistics

Mortgage loan originations are driven by the demand to fund home purchases and the demand to refinance existing loans. Purchase closings are influenced by the number of home sales and the overall condition of the housing market whereas refinance closings are sensitive to interest rate changes relative to borrowers' current interest rates. Refinance closings typically increase when interest rates fall and decrease when interest rates rise. Although the level of interest rates is a key driver of refinancing activity, there are other factors which influence the level of refinance closings including home prices, levels of home equity, underwriting standards and product characteristics. The demand for wholesale/correspondent closings is influenced by a variety of factors, including overall industry capacity and the competitive landscape, and represented 31%, 32% and 15% of our total closings during 2011, 2010 and 2009, respectively. Retail loans are generally more profitable than wholesale/correspondent and have higher loan margins and higher expenses. As discussed in *Overview Executive Summary* above, we have shifted our focus in 2012 from growing origination market share and mortgage servicing rights to focusing on liquidity and cash generation and we have developed a liquidity and capital plan that could reduce our correspondent mortgage originations in future periods compared to 2011 and 2010.

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

As of January 2012, Fannie Mae's *Economics and Mortgage Market Analysis* shows a decrease in mortgage industry volumes of approximately 20% during 2011 compared to 2010. Although mortgage interest rates remained at relatively low levels through 2011, many borrowers took advantage of the low interest rate environment in 2010 by refinancing after interest rates declined. As a result, IRLCs expected to close declined by 12% during 2011 compared to 2010, despite similar interest rate environments.

2011 Compared With 2010: Total closings increased \$3.0 billion (6%) compared to 2010 primarily due to a \$2.8 billion increase in refinance closings coupled with a slight increase in purchase closings. The significant increase in refinance closings was a result of the decline in mortgage interest rates during the latter half of 2010 which resulted in an increase in refinance activity and IRLCs during that period, which ultimately closed in 2011. The increase in purchase closings was driven by an improvement in home sales compared to 2010.

The mix of total closings between retail and wholesale/correspondent closings was generally consistent in 2011 compared to 2010 which reflected the execution of our strategy to grow our market share through this channel in those periods despite declining industry volumes. As described above, the mix of total closings may shift to a higher percentage of retail closings in 2012 as we focus on liquidity and cash generation. During 2011, the composition of total closings shifted to a higher percentage of fee-based closings which was primarily related to an improvement in the market for non-agency jumbo loan originations.

2010 Compared With 2009: IRLCs increased by 46% during 2010 compared to 2009 due to the significant refinance activity in 2010 as well as the increase in wholesale/correspondent volume as further described below. Total closings increased 30% during 2010 compared to 2009 which were comprised of a 32% increase in purchase closings and a 30% increase in refinance closings. The higher purchase closings in 2010 were primarily driven by an improvement in home sales as compared to 2009 and the acceleration of purchase closings due to the expiration of the home purchase tax credit. The higher refinance closings in 2010 were the result of the significant decline in mortgage rates throughout most of 2010, which generated an increase in refinance activity.

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The mix of total closings shifted from a higher percentage of retail closings in 2009 towards more wholesale/correspondent closings in 2010, which was due to our efforts to expand production in this channel. The increase in wholesale/correspondent originations has allowed us to grow our overall originations and market share.

Mortgage Fees

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

2011 Compared With 2010: Mortgage fees increased by \$4 million (1%) compared to 2010 primarily due to a 6% increase in retail closings, which was partially offset by a decrease in fee income generated by our appraisal services business.

2010 Compared With 2009: Mortgage fees increased by \$16 million (6%) primarily due to the 5% increase in retail closings during 2010 compared to 2009.

Gain on Mortgage Loans, Net

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

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

	2011	Year Ended December 31,		2009
		2010		
		(In millions)		
Gain on loans	\$ 482	\$ 624	\$ 552	
Change in fair value of Scratch and Dent and certain non-conforming mortgage loans	(11)	(19)	(20)	
Economic hedge results	96	30	78	
Total change in fair value of mortgage loans and related derivatives	85	11	58	
Total	\$ 567	\$ 635	\$ 610	

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

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

Economic hedge results represent the change in value of mortgage loans, interest rate lock commitments and related derivatives, including the impact of changes in actual pullthrough as compared to our initial assumptions.

2011 Compared With 2010: Gain on loans decreased by \$142 million (23%) compared to 2010 primarily due to a 12% decrease in IRLCs expected to close and lower total margins. The decrease in total margins was primarily attributable to the lower value of initial capitalized mortgage servicing rates, which resulted from reductions in mortgage interest rates, coupled with slightly lower initial pricing margins compared to 2010.

The \$8 million favorable change in fair value of Scratch and Dent and certain non-conforming loans compared to 2010 was primarily due to the sale of Scratch and Dent loans at a gain during 2011, coupled with an increase in the estimated fair value of the remaining population of Scratch and Dent loans.

The \$66 million increase in economic hedge results compared to 2010 was primarily driven by lower volatility in mortgage interest rates partially offset by a lower impact from actual pullthrough of mortgage loans, as compared to assumptions. Interest rates were relatively stable during 2011 compared to 2010 as the significant volatility in interest rates during 2010 led to higher hedge costs and less favorable economic hedge results.

2010 Compared With 2009: The \$72 million increase in gain on loans during 2010 compared to 2009 was primarily due to a 46% increase in interest rate lock commitments expected to close that was partially offset by lower total margins and the higher mix of wholesale/correspondent volume. Although loan pricing margins were slightly higher in 2010 than in 2009, the decrease in total margins during 2010 was primarily attributable to the lower value of initial capitalized mortgage servicing rights resulting from continuing reductions in interest rates and relatively lower servicing values in 2010 compared to 2009.

The \$48 million unfavorable variance from the change in economic hedge results was primarily attributable to increased interest rate volatility and higher costs of hedging the larger volume of outstanding IRLCs in 2010 compared to 2009.

Mortgage Net Finance Expense

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

2011 Compared With 2010: Mortgage net finance expense increased \$8 million (50%) compared to 2010 and was comprised of a \$12 million (11%) increase in Mortgage interest expense partially offset by a \$4 million (4%) increase in Mortgage interest income. The increase in Mortgage interest expense was primarily attributable to a higher average volume of loans held for sale that was partially offset by lower average interest rates compared to 2010. Mortgage interest expense was also negatively impacted by higher allocated financing costs related to an increase in the cost of funds rate of outstanding unsecured borrowings. The increase in mortgage interest income was primarily due to a higher average volume of loans held for sale that was partially offset by lower average note rates on loans resulting from lower mortgage interest rates for conforming first mortgage loans compared to 2010.

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2010 Compared With 2009: Mortgage net finance expense increased \$5 million (45%) during 2010 compared to 2009 due to a \$23 million (26%) increase in Mortgage interest expense partially offset by an \$18 million (23%) increase in Mortgage interest income. The increase in Mortgage interest expense was primarily attributable to the higher average volume of loans closed to be sold. The increase in Mortgage interest income was primarily due to the higher average volume of loans held for sale due to the increase in loans closed to be sold partially offset by a lower average note rate on loans held for sale resulting from a decline in mortgage interest rates for conforming first mortgage loans. Additionally, Mortgage net finance expense was favorably impacted by \$14 million in 2010 compared to 2009 as a result of the reallocation of capital between businesses.

Other Income

2011 Compared With 2010: Other income increased \$75 million compared to 2010 which was primarily attributable to a \$68 million gain on the 50.1% sale of the equity interests in our appraisal services business (STARS) discussed above under Results of Operations Consolidated Results and \$3 million in earnings from our continued equity interest in the appraisal services business subsequent to the sale.

Salaries and Related Expenses

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

The components of Salaries and related expenses were as follows:

	2011	Year Ended December 31, 2010 (In millions)	2009
Salaries, benefits and incentives	\$ 207	\$ 215	\$ 210
Commissions	98	109	106
Contract labor and overtime	36	45	20
Total	\$ 341	\$ 369	\$ 336

Salaries, benefits and incentives are primarily driven by the average number of permanent employees. In 2011, we combined general and administrative functions, as discussed under Results of Operations Segment Results above, which favorably impacted salaries, benefits and incentives compared to 2010. Commissions are primarily driven by the volume of retail closings. Contract labor and overtime are primarily driven by origination volumes and consists of overtime paid to permanent employees and amounts paid to temporary and contract personnel. We continue to balance the number of full-time employees and the use of temporary and contract personnel with anticipated loan origination volumes.

2011 Compared With 2010: Salaries, benefits and incentives decreased by \$8 million compared to 2010 primarily from the combination of general and administrative functions which is allocated to Other expenses in 2011 partially offset by an increase related to a higher average number of permanent employees in the mortgage production operations. The \$11 million decrease in commissions was primarily due to a decline in closings from our real estate channel which have higher commission rates than private label closings. Despite a 6% increase in total closing volumes, contract labor and overtime decreased by \$9 million and was driven by lower application volumes related to lower overall industry volumes and our efforts to improve operational efficiencies in our mortgage production operations. In response to a decline in mortgage interest rates during the latter half of 2010, our costs associated with contract labor and overtime increased during 2010 to accommodate higher application volumes as many borrowers took advantage of the low interest rate environment which resulted in an increase in refinance activity and IRLCs during that period, which ultimately closed in 2011.

2010 Compared With 2009: Salaries and related expenses increased by \$33 million (10%) during 2010 compared to 2009, due to a \$5 million increase in salaries, benefits and incentives, a \$25 million increase in contract labor and overtime and a \$3 million increase in commissions

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expense due to higher retail closings. The increase in salaries, benefits and incentives was primarily due to an increase in salaries and other benefit costs resulting from an increase in permanent employees during 2010 compared to 2009. The increase in contract labor and overtime was primarily attributable to higher loan origination volumes compared to 2009.

Other Operating Expenses

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

The components of Other operating expenses were as follows:

	Year Ended December 31,		
	2011	2010	2009
	(In millions)		
Production-related direct expenses	\$ 103	\$ 105	\$ 93
Corporate overhead allocation	71	14	14
Other expenses	77	83	65
Total	\$ 251	\$ 202	\$ 172

Production-related direct expenses represent variable costs directly related to the volume of loan originations and consist of appraisal, underwriting and other direct loan origination expenses. These expenses are incurred during the loan origination process and are primarily driven by applications. Corporate overhead allocation consists of segment allocations of general and administrative costs. In 2011, certain additional general and administrative functions were combined as discussed under *Results of Operations Segment Results* above. Other expenses consist of other production-related expenses that include, but are not limited to professional fees, information technology costs, outsourcing fees and customer service expenses.

2011 Compared With 2010: Production-related direct expenses decreased slightly compared to 2010 despite a 6% increase retail closings. Corporate overhead allocation was unfavorably impacted by \$57 million from the combination of general and administrative functions coupled with further investments in our information technology platform and enterprise risk management process. The \$6 million decrease in other expenses primarily resulted from \$10 million of direct expenses incurred during 2010 associated with executing our transformation plan and a \$7 million reduction in information technology expenses resulting from the combination of general and administrative functions discussed above that were partially offset by an increase in expenses associated with legal and regulatory compliance activities, customer service and other expenses resulting from the high level of refinance activity and IRLCs experienced during the latter half of 2010, which ultimately closed in 2011.

2010 Compared With 2009: Other operating expenses increased by \$30 million (17%) during 2010 compared to 2009 primarily due to an increase in production-related direct expenses from an increase in total closings and retail originations coupled with an increase in other expenses primarily related to a \$12 million increase in costs associated with executing our transformation plan.

Mortgage Servicing Segment

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

	2011	Year Ended December 31, 2010 (\$ In millions)		2009
Ending total loan servicing portfolio	\$ 182,387	\$	166,075	\$ 151,481
Number of loans serviced	1,063,884		1,005,950	954,063
Ending capitalized loan servicing portfolio	\$ 147,088	\$	134,753	\$ 127,700
Capitalized servicing rate	0.82 %		1.07 %	1.11 %
Capitalized servicing multiple	2.7		3.5	3.6
Weighted-average servicing fee (in basis points)	31		30	31

	2011	Year Ended December 31, 2010 (In millions)		2009
Average total loan servicing portfolio	\$ 174,332	\$	156,825	\$ 149,628
Average capitalized loan servicing portfolio	142,128		130,462	127,108
Payoffs and principal curtailments of capitalized portfolio	25,168		25,887	29,117

	2011	Year Ended December 31, 2010 (In millions)		2009
Mortgage interest income	\$ 15	\$	15	\$ 12
Mortgage interest expense	(76)		(69)	(61)
Mortgage net finance expense	(61)		(54)	(49)
Loan servicing income	456		415	431
Change in fair value of mortgage servicing rights	(733)		(427)	(280)
Net derivative loss related to mortgage servicing rights	(3)			
Valuation adjustments related to mortgage servicing rights, net	(736)		(427)	(280)
Net loan servicing (loss) income	(280)		(12)	151
Other (expense) income	(2)		3	(20)
Net revenues	(343)		(63)	82
Salaries and related expenses	33		37	39
Occupancy and other office expenses	10		9	9
Other depreciation and amortization	1		1	1
Other operating expenses	170		131	118
Total expenses	214		178	167
Segment loss	\$ (557)	\$	(241)	\$ (85)

Mortgage Net Finance Expense

Mortgage net finance expense allocable to the Mortgage Servicing segment consists of interest income from escrow balances, income from investment balances (including investments held in reinsurance trusts) and interest expense allocated on debt used to fund our Mortgage

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servicing rights (MSRs), which is driven by the average volume of outstanding borrowings and the cost of funds rate of our outstanding borrowings.

2011 Compared With 2010: Mortgage net finance expense increased by \$7 million (13%) compared to 2010 primarily due to an increase in the interest expense allocated to fund our MSR's resulting from a higher average MSR balance. The low interest rate environment has continued to significantly reduce the earnings opportunity related to our escrow balances as the ending one-month LIBOR rate at December 31, 2011 was 30 basis points.

2010 Compared With 2009: Mortgage net finance expense increased by \$5 million (10%) during 2010 compared to 2009 due to an \$8 million (13%) increase in Mortgage interest expense partially offset by a \$3 million (25%) increase in Mortgage interest income. During 2010, Mortgage interest expense and Mortgage interest income both increased by \$6 million compared to 2009 due to the consolidation of a mortgage loan securitization trust resulting from the adoption of accounting standards updates to ASC 810, Consolidation, whereby we consolidated securitized mortgage loans and the related debt certificates. Mortgage interest income has continued to be reduced by lower short-term interest rates as escrow balances earn income based on one-month LIBOR. The ending one-month LIBOR rate at December 31, 2010 was 26 basis points, which has continued to significantly reduce the earnings opportunity related to our escrow balances.

Loan Servicing Income

The components of Loan servicing income were as follows:

	2011	Year Ended December 31, 2010 (In millions)	2009
Net service fee revenue	\$ 440	\$ 401	\$ 422
Late fees and other ancillary servicing revenue	61	66	58
Curtailed interest paid to investors	(29)	(33)	(44)
Net reinsurance loss	(16)	(19)	(5)
Total	\$ 456	\$ 415	\$ 431

The primary drivers for Loan servicing income are the average capitalized loan servicing portfolio and average servicing fee. Net service fee revenue is driven by recurring servicing fees that are recognized upon receipt of the coupon payment from the borrower and recorded net of guaranty fees. Net service fee revenue also includes subservicing fees where we receive a nominal stated amount per loan which is less than our average servicing fee related to the capitalized portfolio. Curtailed interest paid to investors represents uncollected interest from the borrower that is required to be passed onto investors and is primarily driven by the number of loan payoffs.

Net reinsurance loss represents premiums earned on reinsurance contracts, net of ceding commission and provisions for reinsurance reserves.

2011 Compared With 2010: The \$39 million increase in net service fee revenue was primarily due to a 9% increase in the average capitalized loan servicing portfolio compared to 2010 coupled with a slight increase in the weighted average servicing fee. The \$5 million decrease in late fees and other ancillary servicing revenue was due to a decrease in other ancillary revenue generated by our appraisal services business, the sale of which is discussed above under Results of Operations Consolidated Results. Curtailed interest paid to investors decreased by \$4 million compared to 2010 due to a 3% decrease in loan payoffs in our total loan servicing portfolio during 2011 compared to 2010. The \$3 million decrease in net reinsurance loss was primarily attributable to a \$7 million decrease in the provision for reinsurance reserves resulting from lower delinquencies associated with reinsured loans which was partially offset by a \$4 million decrease in premiums earned related to outstanding reinsurance agreements which have continued in runoff status.

2010 Compared With 2009: The \$21 million decrease in net service fee revenue was primarily due to the sale of excess servicing associated with a portion of our MSR's executed during the fourth quarter of 2009 and a slight decrease in the weighted average servicing fee that were partially offset by a 5% increase in the average loan servicing portfolio. The increase in late fees and other ancillary servicing revenue was due to \$5 million in servicer incentives earned under federal government modification programs, a \$4 million increase in tax service fees attributable to a 30% increase in total closings and a \$2 million increase in late fees related to timing of payments on delinquent mortgage loans. The \$11 million decrease in curtailment interest paid to investors was

primarily due to a 9% decrease in loans included in our loan servicing portfolio that paid off during 2010 compared to 2009. The \$14 million increase in net reinsurance loss was primarily attributable to an \$8 million increase in the provision for reinsurance-related reserves due to higher delinquencies associated with reinsured loans coupled with a \$6 million decrease in premiums earned related to outstanding reinsurance agreements which were placed into runoff during 2009.

Valuation Adjustments Related to Mortgage Servicing Rights

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

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

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

	2011	Year Ended December 31, 2010 (In millions)	2009
Actual prepayments of the underlying mortgage loans	\$ (164)	\$ (184)	\$ (244)
Actual receipts of recurring cash flows	(48)	(41)	(56)
Credit-related fair value adjustments	(11)	(36)	(91)
Market-related fair value adjustments	(510)	(166)	111
Total	\$ (733)	\$ (427)	\$ (280)

The change in fair value of MSR's due to actual prepayments is driven by two factors: (i) the number of loans that prepaid during the period and (ii) the current value of the mortgage servicing right asset at the time of prepayment. Credit-related adjustments represent the change in fair value of MSR's primarily due to changes in projected portfolio delinquencies and foreclosures. Market-related adjustments represent the change in fair value of MSR's due to changes in market inputs and assumptions used in the valuation model.

2011 Compared With 2010: The \$20 million decrease in actual prepayments of the underlying mortgage loans compared to 2010 was primarily due to a 7% decrease in loan payoffs in the capitalized loan servicing portfolio and a 4 basis point decrease in the average MSR value of prepayments.

Credit-related fair value adjustments decreased the value of our MSR's by \$11 million during 2011 compared to \$36 million during 2010. The favorable credit-related fair value adjustments compared to 2010 were primarily due to an improvement in total delinquencies, foreclosures and real estate owned coupled with a decrease in projected delinquencies and foreclosures. The \$36 million unfavorable credit-related adjustment

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during 2010 was primarily due to elevated projected delinquencies and foreclosures in the capitalized portfolio.

Market-related fair value adjustments decreased the value of our MSRs by \$510 million during 2011 compared to \$166 million during 2010. The \$510 million decrease during 2011 was primarily attributable to a decrease in mortgage interest rates, coupled with a \$40 million unfavorable change resulting from an increase in projected costs associated with servicing delinquent and foreclosed loans as well as a \$20 million unfavorable change resulting from an increase in projected prepayments associated with the implementation of the revised Home Affordability Refinance Program. During 2011, the primary mortgage rate used to value our MSR declined by 93 bps, which resulted in an increase in expected prepayments from increased refinance activity. The \$166 million decrease during 2010 was primarily due to a decrease in mortgage interest rates which led to higher expected prepayments. During 2010, the primary mortgage rate used to value our MSR declined by 41 bps.

2010 Compared With 2009: The \$60 million decrease in actual prepayments of the underlying loans compared to 2009 was attributable to a 12% decrease in loan payoffs. Additionally, the average MSR value of prepayments was 14 basis points lower for 2010 compared to 2009.

Credit-related fair value adjustments reduced the value of our MSR's by \$36 million during 2010 as portfolio delinquencies and foreclosures have begun to stabilize, but remained elevated. The \$91 million decline during 2009 was primarily due to the continued deteriorating economic conditions in the broader U.S. economy which resulted in an increase in total delinquencies attributable to the capitalized servicing portfolio.

The \$166 million unfavorable change during 2010 due to market-related fair value adjustments was primarily due to a decrease in mortgage interest rates which led to higher expected prepayments. The \$111 million favorable change during 2009 was primarily due to an increase in mortgage interest rates leading to lower expected prepayments.

Net Derivative Loss Related to Mortgage Servicing Rights: From time-to-time, we may use a combination of derivative instruments to protect against potential adverse changes in the fair value of our MSR's resulting from a decline in interest rates. The change in fair value of derivatives is intended to react in the opposite direction of the market-related change in the fair value of MSR's, and generally increase in value as interest rates decline and decrease in value as interest rates rise. The amount and composition of derivatives used depends on the exposure to loss of value on our MSR's, the expected cost of the derivatives, our expected liquidity needs and the increased earnings generated by origination of new loans resulting from the decline in interest rates. During the third quarter of 2011, we made the decision to hedge a small portion of our risk related to MSR's.

The value of derivatives related to our MSR's decreased by \$3 million during 2011. There were no open derivatives related to MSR's for 2010 and 2009.

Refer to Item 7A. Quantitative and Qualitative Disclosures About Market Risk for an analysis of the impact of 25 bps, 50 bps and 100 bps changes in interest rates on the valuation of our MSR's and related derivatives as of December 31, 2011.

Other (Expense) Income

Other (expense) income allocable to the Mortgage Servicing segment primarily consists of the change in the net fair value of a mortgage securitization trust where we hold a residual interest. These residual interests were sold during the first quarter of 2012. For further information see Note 23, Subsequent Events in the accompanying Notes to Consolidated Financial Statements.

2011 Compared With 2010: The \$5 million unfavorable change compared to 2010 was primarily due to an increase in projected credit losses of the underlying securitized mortgage loans.

2010 Compared With 2009: Other (expense) income changed favorably by \$23 million compared to 2009 due to changes in the fair value of Investment securities during 2009, which were primarily attributable to significant increases in the delinquency of the underlying mortgage loans

and an acceleration of our assumption of projected losses, which caused a decline in the expected cash flows from the underlying securities.

Salaries and Related Expenses

Salaries and related expenses allocable to the Mortgage Servicing segment consist of salaries, payroll taxes, benefits and incentives paid to employees in our servicing operations. In 2011, we combined general administrative functions, as discussed under Results of Operations Segment Results above, which favorably impacted Salaries and related expenses compared to 2010.

2011 Compared With 2010: The \$4 million (11%) decrease in salaries and related expenses compared to 2010 was primarily attributable to the combination of general and administrative functions, which is allocated to Other operating expenses in 2011.

Other Operating Expenses

The following table presents a summary of Other operating expenses:

	Year Ended December 31,		
	2011	2010	2009
	(In millions)		
Foreclosure-related charges	\$ 80	\$ 72	\$ 70
Corporate overhead allocation	15	3	3
Other expenses	75	56	45
Total	\$ 170	\$ 131	\$ 118

Foreclosure-related charges are driven by the volume of repurchase and indemnification requests as well as expected loss severities which are impacted by various economic factors including delinquency rates and home price values. Corporate overhead allocation relates to segment allocations of general and administrative costs. In 2011, certain additional general and administrative functions were combined as discussed under Results of Operations Segment Results above. Other expenses include operating expenses of the Mortgage Servicing segment, including costs directly associated with servicing loans in foreclosure and real estate owned, professional fees and outsourcing fees.

2011 Compared With 2010: The continuing high levels of repurchase requests, primarily from the agencies, and loss severities contributed to \$80 million in foreclosure-related charges during 2011. The pipeline of unresolved repurchase requests was 35% larger at the end of 2011 compared to 2010. The \$72 million in foreclosure-related charges during 2010 was primarily due to the timing of repurchases, indemnifications and make-whole payments on defaulted loans. Corporate overhead allocation was unfavorably impacted by \$12 million from the combination of general and administrative functions and further investments in our information technology platform and enterprise risk management process. The \$19 million increase in other expenses was primarily attributable to a \$12 million increase in expenses associated with servicing delinquent and foreclosed loans and real estate owned, including provisions for compensatory fees and litigation costs related to foreclosure processing.

2010 Compared With 2009: Foreclosure-related charges changed unfavorably by \$2 million primarily due to the persistence of loan repurchases and indemnifications and the related impact on loss provisions. Other expenses increased by \$11 million (24%) during 2010 compared to 2009 primarily related to a \$5 million increase in direct expenses associated with a sustained elevation of delinquencies and foreclosures in our mortgage servicing portfolio and a \$4 million increase in costs associated with executing our transformation plan.

Fleet Management Services Segment

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

	2011	Average for the Year Ended December 31, 2010 (In thousands of units)	2009
Leased vehicles	274	290	314
Maintenance service cards	324	287	275
Fuel cards	295	276	282
Accident management vehicles	298	290	305

	2011	Year Ended December 31, 2010 (In millions)	2009
Fleet management fees	\$ 173	\$ 157	\$ 150
Fleet lease income	1,400	1,370	1,441
Other income	73	66	58
Net revenues	1,646	1,593	1,649
Salaries and related expenses	62	75	86
Occupancy and other office expenses	15	17	18
Depreciation on operating leases	1,223	1,224	1,267
Fleet interest expense	82	94	95
Other depreciation and amortization	11	11	11
Other operating expenses	178	109	118
Total expenses	1,571	1,530	1,595
Segment profit	\$ 75	\$ 63	\$ 54

Fleet Management Fees

The drivers of Fleet management fees are leased vehicles and service unit counts as well as the usage of fee-based services. Fleet management fees consist primarily of the revenues of our principal fee-based products: fuel cards, maintenance services, accident management services and monthly management fees for leased vehicles. During the second half of 2010, we added transportation safety training services through the acquisition of the assets of a former supplier which has positively impacted Fleet management fees during 2011 and 2010.

2011 Compared With 2010: Fleet management fees increased by \$16 million (10%) compared to 2010 primarily due to a full-year realization of operating results from the additional driver safety training service fees coupled with higher usage of fee-based and asset-based fleet management services, and an increase in service unit volume.

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2010 Compared With 2009: Fleet management fees increased by \$7 million (5%) during 2010 compared to 2009 primarily due to the higher usage of fee-based fleet management services, partially offset by lower average leased vehicles and service unit counts. Fleet management fees were also positively impacted in 2010 by the addition of driver safety training service fees.

Fleet Lease Income

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

	2011	Year Ended December 31, 2010 (In millions)	2009
Leasing revenue	\$ 1,344	\$	