

PHH CORP  
Form 10-Q  
May 10, 2017  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-7797

PHH CORPORATION

(Exact name of registrant as specified in its charter)

MARYLAND	52-0551284
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3000 LEADENHALL ROAD	08054
MT. LAUREL, NEW JERSEY	(Zip Code)
(Address of principal executive offices)	

856-917-1744  
(Registrant's telephone number, including area code)

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

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

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

Edgar Filing: PHH CORP - Form 10-Q

accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 3, 2017, 53,612,801 shares of PHH Common stock were outstanding.

---

Table of Contents

TABLE OF CONTENTS

	Page
<u>Cautionary Note Regarding Forward-Looking Statements</u>	<u>1</u>
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
<u>Item 4. Controls and Procedures</u>	<u>53</u>
<u>PART II – OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>54</u>
<u>Item 1A. Risk Factors</u>	<u>54</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>54</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>54</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>54</u>
<u>Item 5. Other Information</u>	<u>55</u>
<u>Item 6. Exhibits</u>	<u>55</u>
<u>Signatures</u>	<u>56</u>
<u>Exhibit Index</u>	<u>57</u>

---

Table of Contents

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

our expectations related to our actions resulting from our strategic review, including the estimated impacts on our results, the timing of any such actions, our estimates of transaction, operating losses and exit costs, the amount and our expected use of any proceeds, and any other anticipated impacts on our results, client and counterparty relationships, debt arrangements, employee relations or expected value to shareholders;

our expectations and projected financial results of the remaining business after executing the actions resulting from our strategic review, the market for subservicing and portfolio retention services, our competitive position, and the expected profitability and capital structure of our remaining business;

the method, amounts and timing of any capital returns to shareholders;

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

our expectations of the impacts of regulatory changes on our business;

our assessment of legal and regulatory proceedings and the associated impact on our financial statements;

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

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

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 II—Item 1A. Risk Factors” in this Form 10-Q, and “Part I—Item 1A. Risk Factors” in our 2016 Form 10-K and those factors described below:

the effects of our strategic actions, and any associated transactions, on our business, management resources, customer, counterparty and employee relationships, capital structure and financial position;

our ability to execute and complete the actions resulting from our strategic review and implement changes to meet our operational and financial objectives, including restructuring our remaining business and shared services platform, achieving our growth objectives and assumptions and resolving our legacy legal and regulatory matters;

any failure to execute all or any portion of the sales of MSR's under our existing agreements, or realize estimated proceeds from the transactions, which may be driven by the following reasons, among other factors: (i) not receiving required shareholder, regulatory, investor, agency, private loan investor and/or client (originations source) approvals for any portion of the sale portfolio; (ii) changes in the composition of the portfolio and related servicing advances outstanding on each sale date; and (iii) not meeting any other conditions precedent to closing, as defined in the respective agreements;

any failure to execute the sale of certain assets of PHH Home Loans and its subsidiaries, or realize estimated proceeds from the transactions, which may be driven by the following reasons, among other factors: (i) not receiving required shareholder, regulatory and agency approvals; (ii) the failure to execute a certain portion of the New Residential MSR

sales; and (iii) not meeting any other conditions precedent to closing, as defined in the respective agreements; available excess cash from our strategic actions is dependent upon a variety of factors, including the execution of the sale of all of our MSRs, the monetization of our investment in PHH Home Loans, the successful completion of our PLS exit activities at a certain total expense, the resolution of our outstanding legal and regulatory matters and the successful completion of other restructuring and capital management activities, including any unsecured debt repayments, in accordance with our assumptions;

1

---

Table of Contents

our decisions regarding whether to use, and the use of, derivatives and hedge strategies related to our mortgage servicing rights;

the effects of any termination of our subservicing agreements by any of our largest subservicing clients or on a material portion of our subservicing portfolio;

the effects of market volatility or macroeconomic changes and financial market regulations on the availability and cost of our financing arrangements, the value of our assets and the housing market;

the effects of changes in current interest rates on our business, the value of our mortgage servicing rights and our financing costs;

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

the effects of any significant adverse changes in the underwriting criteria or the existence or programs of government-sponsored entities, such as 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 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, and our ability to operationalize changes necessary to comply with updates to such guides and programs;

the effects of changes in, or our failure to comply with, laws and regulations, including mortgage- and real estate-related laws and regulations and those that we are exposed to through our private label relationships;

the effects of the outcome or resolutions of any inquiries, investigations or appeals related to our mortgage origination or servicing activities, any litigation related to our mortgage origination or servicing activities, or any related fines, penalties and increased costs, and the associated impact on our liquidity;

the ability to maintain our relationships with our existing clients, including our ability to comply with the terms of our private label and subservicing client agreements and any related service level agreements;

the inability or unwillingness of any of the counterparties to our significant customer contracts, hedging agreements, or financing arrangements to perform their respective obligations under such contracts, or to renew on terms favorable to us, if at all;

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

the ability to obtain or renew financing on acceptable terms, if at all, to finance our mortgage loans held for sale and servicing advances;

the ability to operate within the limitations imposed by our financing arrangements and to maintain or generate the amount of cash required to service our indebtedness and operate our business;

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

the effects of any failure in or breach of our technology infrastructure, or those of our outsource providers, or any failure to implement changes to our information systems in a manner sufficient to comply with applicable laws, regulations and our contractual obligations.

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

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## PHH CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per share data)

	Three Months Ended March 31,	
	2017	2016
<b>REVENUES</b>		
Origination and other loan fees	\$44	\$61
Gain on loans held for sale, net	42	48
Net loan servicing income:		
Loan servicing income	62	91
Change in fair value of mortgage servicing rights	(29 )	(121 )
Net derivative gain related to mortgage servicing rights	—	85
Net loan servicing income	33	55
Net interest expense:		
Interest income	9	9
Secured interest expense	(6 )	(8 )
Unsecured interest expense	(10 )	(10 )
Net interest expense	(7 )	(9 )
Other income	2	2
Net revenues	114	157
<b>EXPENSES</b>		
Salaries and related expenses	86	90
Commissions	11	12
Loan origination expenses	9	16
Foreclosure and repossession expenses	7	7
Professional and third-party service fees	37	39
Technology equipment and software expenses	9	10
Occupancy and other office expenses	9	13
Depreciation and amortization	4	4
Exit and disposal costs	25	—
Other operating expenses	22	15
Total expenses	219	206
Loss before income taxes	(105 )	(49 )
Income tax benefit	(34 )	(19 )
Net loss	(71 )	(30 )
Less: net loss attributable to noncontrolling interest	(4 )	—
Net loss attributable to PHH Corporation	\$(67 )	\$(30 )
Basic and Diluted loss per share attributable to PHH Corporation	\$(1.26)	\$(0.56)

See accompanying Notes to Condensed Consolidated Financial Statements.

3

---



Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

Three  
Months  
Ended  
March  
31,