

PHH CORP
Form 10-Q
May 05, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____

Commission File Number: 1-7797

PHH CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

As of April 29, 2016, 53,518,486 shares of PHH Common stock were outstanding.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Generally, forward-looking statements are not based on historical facts but instead represent only our current beliefs regarding future events. All forward-looking statements are, by their nature, subject to risks, uncertainties and other factors. Investors are cautioned not to place undue reliance on these forward-looking statements. Such statements may be identified by words such as “expects,” “anticipates,” “intends,” “projects,” “estimates,” “plans,” “may increase,” “may fluctuate” and similar expressions or future or conditional verbs such as “will,” “should,” “would,” “may” 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 strategic options or strategic priorities, including any expected impacts on our results; potential acquisitions, dispositions, partnerships, joint ventures and changes in product offerings;
- future origination volumes and loan margins in the mortgage industry;
- our expectations of the impact of changes to certain private label client relationships on our loan origination volumes and servicing portfolio;
- 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 2015 Form 10-K and those factors described below:

- the effects of our comprehensive review of all strategic options and any transaction that may result, on our business, management resources, customer and employee relationships, and financial position;
- the effects of any declines in origination volumes sourced from our private label client relationships, driven by our clients' actions, business strategies or otherwise;
- our ability to achieve our strategic priorities and implement changes to meet our operational and financial objectives;
- the effects of market volatility or macroeconomic changes and financial market regulations on the availability and cost of our financing arrangements and the value of our assets;
- the effects of changes in current interest rates on our business, the value of our mortgage servicing rights and our financing costs;
- our decisions regarding the use of derivatives and hedge strategies related to our mortgage servicing rights;
- the impact of changes in the U.S. financial condition and fiscal and monetary policies, or any actions taken or to be taken by the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System on the credit markets and the U.S. economy;
- the effects on our business of any declines in the volume of U.S. home sales and home prices, due to adverse economic changes or otherwise;
- the effects of any significant adverse changes in the underwriting criteria or the existence or programs of government-sponsored entities, including Fannie Mae and Freddie Mac, including any changes caused by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other actions of the federal government;

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the ability to maintain our status as a government sponsored entity-approved seller and servicer, including the ability to continue to comply with the respective selling and servicing guides;

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

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 any changes in the terms of certain of our private label client agreements and any related service level agreements, and to establish relationships with new clients;

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

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

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, or to fund our strategies;

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.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

PHH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per share data)

	Three Months Ended March 31,	
	2016	2015
REVENUES		
Origination and other loan fees	\$61	\$58
Gain on loans held for sale, net	48	82
Net loan servicing income:		
Loan servicing income	91	104
Change in fair value of mortgage servicing rights	(121)	(26)
Net derivative gain related to mortgage servicing rights	85	53
Net loan servicing income	55	131
Net interest expense:		
Interest income	9	9
Secured interest expense	(8)	(9)
Unsecured interest expense	(10)	(17)
Net interest expense	(9)	(17)
Other income	2	7
Net revenues	157	261
EXPENSES		
Salaries and related expenses	90	87
Commissions	12	19
Loan origination expenses	16	24
Foreclosure and repossession expenses	7	15
Professional and third-party service fees	39	42
Technology equipment and software expenses	10	10
Occupancy and other office expenses	13	12
Depreciation and amortization	4	5
Other operating expenses	15	16
Total expenses	206	230
(Loss) income before income taxes	(49)	31
Income tax (benefit) expense	(19)	8
Net (loss) income	(30)	23
Less: net income attributable to noncontrolling interest	—	2
Net (loss) income attributable to PHH Corporation	\$(30)	\$21
Basic (loss) earnings per share attributable to PHH Corporation	\$(0.56)	\$0.40
Diluted (loss) earnings per share attributable to PHH Corporation	\$(0.56)	\$0.34

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

	Three Months Ended March 31, 2016	2015
Net (loss) income	\$(30)	\$ 23