

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

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission File Number: 1-7797

PHH CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

08054
(Zip Code)

856-917-1744

(Registrant's telephone number, including area code)

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

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

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

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

As of April 29, 2015, 49,656,148 shares of PHH Common stock were outstanding.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

§ the execution of our strategic priorities, including re-engineering our mortgage business, executing our growth strategies, executing our capital structure initiatives and our expectations regarding future operating benefits from the achievement of those priorities;

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

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

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

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

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

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

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§ our assessment of legal proceedings and associated reserves and provisions.

Actual results, performance or achievements may differ materially from those expressed or implied in forward-looking statements due to a variety of factors, including but not limited to the factors listed and discussed in Part I Item 1A. Risk Factors in our 2014 Form 10-K and those factors described below:

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

§ the effects of market volatility or macroeconomic changes on the availability and cost of our financing arrangements and the value of our assets;

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

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

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

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

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

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

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

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

§ the ability to maintain our relationships with our existing clients, including our efforts to amend the terms of certain of our private label client agreements, and to establish relationships with new clients;

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

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

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

§ the ability to obtain alternative funding sources for our mortgage servicing rights, servicing advances or to obtain financing (including refinancing and extending existing indebtedness) on acceptable terms, if at all, to finance our operations or growth strategies, to operate within the limitations imposed by our financing arrangements and to maintain the amount of cash required to service our indebtedness and operate our business;

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

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

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

Table of Contents**Item 1. Financial Statements**

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

(In millions, except per share data)

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

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Total attributable to PHH Corporation	\$	0.34	\$	(0.73)
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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,	
	2015	2014
Net income (loss)	\$ 23	\$ (44)
Other comprehensive income (loss), net of tax:		
Change in unfunded pension liability, net	1	
Currency translation adjustment		(7)
Total other comprehensive income (loss), net of tax	1	(7)
Total comprehensive income (loss)	24	(51)
Less: comprehensive income (loss) attributable to noncontrolling interest	2	(2)
Comprehensive income (loss) attributable to PHH Corporation	\$ 22	\$ (49)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Continued.

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

(1) The Condensed Consolidated Balance Sheets include assets of variable interest entities which can be used only to settle the obligations and liabilities of variable interest entities which creditors or beneficial interest holders do not have recourse to PHH Corporation and subsidiaries as follows:

	March 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$ 82	\$ 85
Restricted cash	12	23
Mortgage loans held for sale	482	378
Accounts receivable, net	14	8
Servicing advances, net	151	155
Property and equipment, net	1	1
Other assets	9	8
Total assets	\$ 751	\$ 658
LIABILITIES		
Accounts payable and accrued expenses	\$ 16	\$ 16
Debt	535	443
Other liabilities	11	11
Total liabilities	\$ 562	\$ 470

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****(Unaudited)****(In millions, except share data)**

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	\$ 23	\$ (44)
Adjustments to reconcile Net income (loss) to net cash (used in) provided by operating activities:		
Capitalization of originated mortgage servicing rights	(20)	(25)
Net (gain) loss on mortgage servicing rights and related derivatives	(27)	73
Vehicle depreciation		300
Other depreciation and amortization	5	8
Origination of mortgage loans held for sale	(3,023)	(2,725)
Proceeds on sale of and payments from mortgage loans held for sale	3,011	3,003
Net gain on interest rate lock commitments, mortgage loans held for sale and related derivatives	(70)	(33)
Deferred income tax benefit	(2)	(26)
Other adjustments and changes in other assets and liabilities, net	(16)	(60)
Net cash (used in) provided by operating activities	(119)	471
Cash flows from investing activities:		
Net cash received on derivatives related to mortgage servicing rights	57	