

PHH CORP
Form 10-Q
August 06, 2015
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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 June 30, 2015

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 July 30, 2015, 59,807,113 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:

the execution of our strategic priorities, including re-engineering our 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 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

our assessment of legal and regulatory proceedings and the associated impact 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, “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;

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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 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, 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;

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 impacts of our current 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 or 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.

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		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
REVENUES				
Origination and other loan fees	\$87	\$59	\$145	\$106
Gain on loans held for sale, net	86	80	168	131
Net loan servicing income:				
Loan servicing income	100	110	204	225
Change in fair value of mortgage servicing rights	18	(52)	(8)	(131)
Net derivative (loss) gain related to mortgage servicing rights	(49)	20	4	26
Net loan servicing income	69	78	200	120
Net interest expense:				
Interest income	13	12	22	20
Secured interest expense	(9)	(9)	(18)	(18)
Unsecured interest expense	(16)	(26)	(33)	(55)
Net interest expense	(12)	(23)	(29)	(53)
Other income	7	2	14	3
Net revenues	237	196	498	307
EXPENSES				
Salaries and related expenses	85	91	172	180
Commissions	27	21	46	36
Loan origination expenses	25	23	49	42
Foreclosure and repossession expenses	15	14	30	28
Professional and third-party service fees	45	28	87	56
Technology equipment and software expenses	9	9	19	17
Occupancy and other office expenses	12	12	24	25
Depreciation and amortization	4	6	9	12
Other operating expenses	89	13	105	25
Total expenses	311	217	541	421
Loss from continuing operations before income taxes	(74)	(21)	(43)	(114)
Income tax benefit	(18)	(12)	(10)	(45)
Loss from continuing operations, net of tax	(56)	(9)	(33)	(69)
Loss from discontinued operations, net of tax	—	(46)	—	(30)
Net loss	(56)	(55)	(33)	(99)
Less: net income attributable to noncontrolling interest	6	4	8	2
Net loss attributable to PHH Corporation	\$(62)	\$(59)	\$(41)	\$(101)
Basic loss per share:				
From continuing operations	\$(1.20)	\$(0.23)	\$(0.80)	\$(1.23)
From discontinued operations	—	(0.79)	—	(0.52)
Total attributable to PHH Corporation	\$(1.20)	\$(1.02)	\$(0.80)	\$(1.75)
Diluted loss per share:				

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From continuing operations	\$ (1.20)	\$ (0.23)	\$ (0.80)	\$ (1.23)
From discontinued operations	—		(0.79)	—		(0.52)
Total attributable to PHH Corporation	\$ (1.20	)	\$ (1.02	)	\$ (0.80	)	\$ (1.75)

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2015	2014	2015	2014	
Net loss	\$(56	) \$(55	) \$(33	) \$(99)
Other comprehensive income, net of tax:					
Change in unfunded pension liability, net	—	—	1	—	
Currency translation adjustment	—	7	—	—	
Total other comprehensive income, net of tax	—	7	1	—	
Total comprehensive loss	(56	) (48	) (32	) (99)
Less: comprehensive income attributable to noncontrolling interest	6	4	8	2	
Comprehensive loss attributable to PHH Corporation	\$(62	) \$(52	) \$(40	) \$(101)

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions, except share data)

	June 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$958	\$1,259
Restricted cash	43	56
Mortgage loans held for sale	1,364	915
Accounts receivable, net	103	123
Servicing advances, net	671	694
Mortgage servicing rights	1,020	1,005
Property and equipment, net	41	36
Other assets	294	208
Total assets ⁽¹⁾	\$4,494	\$4,296
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses	\$281	\$244
Subservicing advance liabilities	361	347
Debt	1,912	1,739
Deferred taxes	250	262
Loan repurchase and indemnification liability	63	63
Other liabilities	100	70
Total liabilities ⁽¹⁾	2,967	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; 59,805,817 shares issued and outstanding at June 30, 2015; 51,143,723 shares issued and outstanding at December 31, 2014	1	1
Additional paid-in capital	986	989
Retained earnings	520	566
Accumulated other comprehensive loss ⁽²⁾	(10	) (11
Total PHH Corporation stockholders' equity	1,497	1,545
Noncontrolling interest	30	26
Total equity	1,527	1,571
Total liabilities and equity	\$4,494	\$4,296

See accompanying Notes to Condensed Consolidated Financial Statements.

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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:

	June 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$78	\$85
Restricted cash	12	23
Mortgage loans held for sale	682	378
Accounts receivable, net	15	8
Servicing advances, net	136	155
Property and equipment, net	1	1
Other assets	9	8
Total assets	\$933	\$658
LIABILITIES		
Accounts payable and accrued expenses	\$22	\$16
Debt	714	443
Other liabilities	10	11
Total liabilities	\$746	\$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 June 30, 2015 and December 31, 2014. During both the three and six months ended June 30, 2015 and 2014, there were no amounts reclassified out of Accumulated other comprehensive loss.

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

(In millions, except share data)

	PHH Corporation Stockholders' Equity				Accumulated		Noncontrolling Interest	Total Equity		
	Common Stock		Additional	Retained	Other	Comprehensive				
	Shares	Amount	Paid-In Capital	Earnings	Income	(Loss)				
Six Months Ended June 30, 2015										
Balance at December 31, 2014	51,143,723	\$1	\$ 989	\$566	\$(11	)	\$ 26	\$1,571	
Total comprehensive (loss) income	—	—	—	(41	)	1	8	(32)	
Distributions to noncontrolling interest	—	—	—	—	—	—	(4)	(4)
Stock compensation expense	—	—	4	—	—	—	—	4		
Stock issued under share-based payment plans	160,693	—	2	—	—	—	—	2		
Repurchase of Common stock	(1,574,252)	(1	)	5	(5	)	—	(1)	
Conversion of Convertible Notes	10,075,653	1	(16	)	—	—	—	(15)	
Recognition of deferred taxes related to Convertible notes	—	—	2	—	—	—	—	2		
Balance at June 30, 2015	59,805,817	\$1	\$ 986	\$520	\$(10	)	\$ 30	\$1,527	
Six Months Ended June 30, 2014										
Balance at December 31, 2013	57,265,517	\$1	\$ 1,142	\$507	\$ 16		\$ 24	\$1,690		
Total comprehensive (loss) income	—	—	—	(101	)	—	2	(99)	
Stock compensation expense	—	—	5	—	—	—	—	—		