PHH CORP
Form 10-K
February 28, 2013
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# Form 10-K

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| þ | **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |
| | **For the fiscal year ended December 31, 2012** |
| | **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 No. 1-7797**

# PHH CORPORATION

*(Exact name of registrant as specified in its charter)*

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

**856-917-1744**

*(Registrant s telephone number, including area code)*

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

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| 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 þ No o

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 o No þ

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 þ No o

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 þ No o

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. o

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

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

The aggregate market value of our Common stock held by non-affiliates of the registrant as of June 30, 2012 was $987 million.

As of February 19, 2013, 57,048,692 shares of PHH Common stock were outstanding.

Documents Incorporated by Reference: Portions of the registrant s definitive Proxy Statement for the 2013 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, 2012 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 Maryl 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;

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

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

§ our belief that sources of liquidity will be adequate to fund operations;

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

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

§ 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 this Form 10-K and those factors described below:

§ 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 any further declines 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 continued elevated volumes or 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;

§ 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 effects of any inquiries and investigations by attorneys general of certain states and the U.S. Department of Justice, the Bureau of Consumer Financial Protection or other state or federal regulatory agencies related to foreclosure procedures or other 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 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;

§ 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 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 law and our contractual obligations;

§ the ability to attract and retain key employees;

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

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

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# PART I

## Item 1. Business

### Overview

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.

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 and Ethics (and any amendments to or waivers of the code), Code of Ethics for Chief Executive Officer and Senior Financial Officers (and any amendments to or waivers of the code), 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

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, 2012, PHH Mortgage was the 6th largest retail mortgage loan originator in the U.S. with a 4.1% market share, the 8th largest overall mortgage loan originator with a 2.9% market share and the 7th largest mortgage loan servicer with a 1.9% market share. According to the *Automotive Fleet 2012 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, 2012.

Our business activities are organized and presented in three operating segments: Mortgage Production, Mortgage Servicing, and Fleet Management Services. A description of each operating segment is presented below with further details and discussions of each segment s results of operations presented in Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations . Also refer to Note 23, Segment Information , in the accompanying Notes to Consolidated Financial Statements for financial information about our segments.

***Mortgage Production.*** 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 2012, 85% 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 15% were sold to private investors.

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 and (ii) real estate. We differentiate ourselves from our competitors through our private-label relationships and through our access to originations sourced from the real estate markets through our relationship with Realogy. In the private-label services channel, we offer complete mortgage outsourcing solutions to wealth management firms, regional banks and community banks, including Merrill Lynch Home Loans, a division of Bank of America, National Association, which represented approximately 27%, of our mortgage loan originations for the year ended December 31, 2012. During the year ended December 31, 2012, approximately 25% of our mortgage loan originations were derived from our relationship with Realogy and its affiliates through the real estate channel, as discussed further below. Within our wholesale/correspondent channel, we purchase closed mortgage loans from community banks, credit unions, mortgage brokers and mortgage bankers, and also acquire mortgage loans from mortgage brokers that receive applications from and qualify the borrowers. In 2012, our closings from the wholesale/correspondent channel declined by 38% from 2011, reflecting the emphasis on our retail platform and our efforts to manage cash consumption and loan quality. We expect to manage our wholesale/correspondent platform in 2013 without a significant change in the mix of originations relative to 2012 levels.

Our Mortgage Production segment has 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.

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 results of our real estate channel are significantly driven by our relationship with Realogy. 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. 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 seek 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 4% of Realogy Franchisees as of December 31, 2012.

See further discussion of our relationship with Realogy within Item 1A. Risk Factors Risks Related to our Company *Our Mortgage Production segment is substantially dependent upon our relationships with Realogy 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.*

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***Mortgage Servicing.*** Our Mortgage Servicing segment services mortgage loans originated by PHH Mortgage, purchases mortgage servicing rights and acts as a subservicer for certain clients that own the underlying servicing rights. We principally generate revenue in our Mortgage Servicing segment through fees earned from our servicing rights or from our subservicing agreements. In circumstances where we own the right to service a mortgage loan, either through purchase or origination, we recognize a mortgage servicing right asset; however, our subservicing agreements are less capital intensive and there are no mortgage servicing rights associated with our subservicing arrangements. Our Mortgage Servicing segment has experienced high degrees of earnings volatility due to significant exposure to interest rates and the real estate markets, which impacts the valuation of our mortgage servicing rights and repurchase and foreclosure-related charges.

***Fleet Management Services.*** Our Fleet Management Services segment provides commercial fleet management services to corporate clients and government agencies throughout the United States and Canada. We primarily focus on clients with fleets of greater than 75 vehicles. We provide our clients Fleet leasing services and additional services and products including fleet management, maintenance services, accident management services and fuel card programs. Open-end leases represent 98% of our lease portfolio, under which our clients bear substantially all of the residual value risk of vehicles under lease.

We differentiate ourselves from our competitors in the fleet industry through the breadth of our product offering, customer service, and technology. Our data warehousing, information management and online systems support our clients with their evaluation of overall fleet performance and costs, to allow them to better monitor and manage their corporate fleets.

**Regulation**

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 also 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;

§ 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; and

§ 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.

We are monitoring a number of developments in regulations that are expected to impact our Mortgage segments, and there has been a heightened focus of regulators on the practices of the mortgage industry. Regulatory and financial reform efforts continued throughout 2012 and are expected to remain into 2013, as regulatory agencies have proposed and progressed on finalizing numerous rules. We are working diligently in assessing and understanding the implications of the ongoing regulatory changes, and are devoting substantial resources towards implementing all of the new rules and regulations while meeting the needs and expectations of our clients.

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**Mortgage Origination**

On January 10, 2013, the Bureau of Consumer Financial Protection (the CFPB ) issued a final rule governing mortgage lenders which implements sections of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ). This rule, referred to as the Ability to Repay rule, will require lenders to consider consumers ability to repay home loans before extending them credit, will limit prepayment penalties, and establishes certain protections for liability under this requirement for qualified mortgages Under the rule, a qualified mortgage includes loans with borrower debt-to-income ratios less than or equal to 43% or, alternatively, loans eligible for purchase by Fannie Mae or Freddie Mac while they operate under Federal conservatorship or receivership, as well as loans eligible for insurance or guarantee by FHA, VA, or USDAA. Additionally, a qualified mortgage may not: (i) contain excess upfront points and fees; (ii) have a term greater than 30 years; or (iii) include interest-only or negative amortization payments.

This rule is effective January 10, 2014 and although we are continuing to evaluate the full impact to our mortgage production operations, we do not currently anticipate a significant impact since most of our loans closed to be sold are conforming, prime loans that would be considered qualifying mortgages. This rule could, however, impact our private-label clients and associated fee-based closings retained in their portfolios.

**Mortgage Servicing**

On January 17, 2013, the CFPB issued a series of final rules as part of an ongoing effort to address mortgage servicing reforms and create uniform standards for the mortgage servicing industry. The rules increase requirements for communications with borrowers, address requirements around the maintenance of customer account records, govern procedural requirements for responding to written borrower requests and complaints of errors, and provide guidance around servicing of delinquent loans, foreclosure proceedings and loss mitigation efforts, among other measures. These rules will be effective January 10, 2014 and will likely lead to increased costs to service loans across the mortgage industry. We are continuing to evaluate the full impact of these rules and their impact to our Mortgage Servicing segment.

**Dodd Frank Act**

The Dodd-Frank Act was signed into law on July 21, 2010 for the express purpose of further regulating the financial services industry, including securitizations, mortgage originations and mortgage sales. The Dodd-Frank Act also established the CFPB to enforce laws involving consumer financial products and services, including mortgage finance. The bureau is empowered with examination and enforcement authority over certain entities involved in mortgage origination and servicing, including PHH Mortgage and PHH Home Loans. Further, the CFPB is proposing and enacting new standards and practices for mortgage originators and servicers that were outlined in the Dodd-Frank Act, as discussed above. There is currently uncertainty about the validity of the appointment of the Director of the CFPB with related uncertainty about the applicability of regulations promulgated by the CFPB and the applicability of the statutory provisions of the Dodd-Frank Act. We are evaluating our ability to comply with the statutory provisions of the Dodd-Frank Act, if the regulations promulgated by the CFPB are reversed.

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.

*Risk Retention Requirements.* 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, these 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. Under this proposal, asset-backed securities that are collateralized exclusively by qualified residential mortgages would not be subject to these requirements.

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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.

**GSE Reforms**

On October 4, 2012, the FHFA released a whitepaper for industry comment seeking comments on proposed changes to the infrastructures of Fannie Mae and Freddie Mac. The whitepaper outlines a proposed framework for the future structure of the housing finance system, including a common securitization platform and a model Pooling and Servicing Agreement. The primary goals of the proposed changes are to: (i) replace the outmoded proprietary infrastructures of the Agencies with a common, more efficient model; and (ii) establish a framework that is consistent with multiple states of housing finance reform, including greater participation of private capital in assuming credit risk. We are monitoring the developments in this proposal and the potential impacts on the mortgage industry.

**Current Regulatory Matters**

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 mortgage origination and servicing practices, including our foreclosure processes and procedures. Specifically, the New Jersey Attorney General has conducted an investigation of our servicing practices and has informed us that it believes that we have violated the New Jersey Consumer Fraud Act in connection with customer service and other matters related to loss mitigation activities for certain borrowers in the wake of the financial crisis. We have also undergone a regulatory examination by a multistate coalition of certain mortgage banking regulators and such regulators have alleged various violations of federal and state laws related to our mortgage servicing practices prior to July 2011. We believe that we have meritorious defenses to these various allegations. However, there can be no assurance that claims or litigation will not arise from these inquiries or similar inquiries by other governmental authorities or that fines or penalties will not be assessed against us in connection with these matters.

In addition to the increased regulatory focus on origination and servicing practices described above, Fannie Mae and Freddie Mac have also had a continued focus on foreclosure practices. They have assessed compensatory fees against us for failing to meet certain foreclosure timelines specified in their respective servicing guides. Although such compensatory fees have not been material to date, there can be no assurance that the assessment of any such compensatory fees will not be material to our results of operations in the future.

In January 2012, we were notified that the CFPB 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 has requested certain related documents and information for review and has requested a response to written questions pursuant to a Civil

Investigative Demand (the CID ). In June 2012, we filed a petition to modify or withdraw the CID and in September 2012 the CFPB denied our petition. 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 applicable to the Company s mortgage reinsurance activities. We did not provide reinsurance on loans originated after 2009. The CFPB s investigation is still ongoing and there can be no assurance that this investigation will not result in the imposition of any penalties or fines against us or our subsidiaries.

We expect that the higher level of legislative and regulatory focus on mortgage origination and servicing practices will result in higher legal, compliance and servicing related costs as well as potential regulatory fines and penalties. It is also reasonably possible that we could experience an increase in mortgage origination or servicing related litigation in the future. For more information, see Item 1A. Risk Factors Risks Related to our Company *Our*

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*Mortgage businesses are complex and heavily regulated, and the full impact of regulatory developments to our businesses remains uncertain. In addition, we are subject to litigation, regulatory investigations and inquiries and may incur fines, penalties, and increased costs that could negatively impact our future results of operations or damage our reputation.*

**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. There are a limited number of industry participants in the mortgage outsourcing business; however some of our largest competitors in the mortgage business include Bank of America, Wells Fargo Home Mortgage, Chase Home Finance, Quicken Loans and CitiMortgage. The fleet industry is concentrated in a limited number of national firms. 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. The *Automotive Fleet 2012 Fact Book* shows that the total number of funded and managed vehicles by the top 10 U.S. companies was approximately 3.5 million compared to 3.1 million in 2011, of which the top 5 companies represented 79% and 82%, respectively.

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. Although many large mortgage lenders have slowed or shut down the purchase of loans from third-party correspondents, the correspondent business could provide a platform for alternative servicers to acquire mortgage servicing rights. Since the correspondent business is a more scalable platform, margins and volume are extremely sensitive to changes in interest rates and consumer demand for mortgage loans. 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.

We are party to a strategic relationship agreement dated as of January 31, 2005 between PHH Mortgage, PHH Home Loans, PHH Broker Partner, Realogy 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 Realogy. 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 are 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 Risk Related to Our Company *The industries in which we operate are highly competitive and 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. If we are unable to compete successfully in our industries, our results of operations may be adversely impacted.* for more information.

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**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.

**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.

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

**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 MSRs. See discussion below under Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management, 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 Part II Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

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**Employees**

As of December 31, 2012, we employed a total of approximately 6,700 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, 2012.

## Item 1A. Risk Factors

## Risks Related to Our Company

***Our Mortgage businesses are complex and heavily regulated, and the full impact of regulatory developments to our businesses remains uncertain. In addition, we are subject to litigation, regulatory investigations and inquiries and may incur fines, penalties, and increased costs that could negatively impact our future results of operations or damage our reputation.***

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

We are currently subject to inquiries, requests for information, and investigations as a result of our mortgage origination and servicing practices, including 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, an investigation of our servicing practices by the New Jersey Attorney General, and an investigation by the Bureau of Consumer Financial Protection (the CFPB ) of our compliance with the Real Estate Settlement Procedures Act and other laws. In addition, we are defendants in various legal proceedings, which include private and civil litigation as well as government and regulatory examinations, investigations and inquiries or other requests for information. These matters are at varying procedural stages and the resolution of any of these matters may result in adverse judgments, fines, penalties, injunctions and other relief against us, payments made in settlement arrangements, as well as monetary payments or other agreements and obligations, any of which could have a material adverse effect on our business, financial position, results of operations or cash flows. For more information about these matters, see Note 16 Commitments and Contingencies , in the accompanying Notes to Consolidated Financial Statements.

There has been a heightened focus of regulators on the practices of the mortgage industry, including investigations of lending practices, foreclosure practices, and loss mitigation practices, among other matters. Our mortgage origination and servicing competitors have been subject to actions from and settlements with the U.S. Department of Justice under the False Claims Act and other statutes, alleging, among other things, reckless mortgage lending practices and improper or inadequate certification to the government in connection with the Federal Housing Administration s Direct Endorsement Lending Program. Although we have not been notified that we are the subject of any investigation by the U.S. Department of Justice, there can be no assurance that future investigations may not arise. The heightened focus of regulators on the practices of the mortgage industry have resulted and could continue

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to result in new legislation and regulations that could materially and adversely affect the manner in which we conduct our mortgage business and have resulted in increased origination and servicing costs and potential litigation associated with our mortgage businesses.

We are monitoring a number of recent and pending changes to laws and regulations and other financial reform legislation that are expected to impact our Mortgage segments. These developments include but are not limited to: (i) regulations from the Dodd-Frank Act, including the risk-retention requirements and definition of qualified mortgages ; (ii) proposed changes to the infrastructures of Fannie Mae and Freddie Mac; and (iii) current rules proposed and adopted by the CFPB, including uniform standards for the mortgage servicing industry. Certain provisions of the Dodd-Frank Act and of pending legislation in the U.S. Congress may impact the operation and practices of Fannie Mae and Freddie Mac, and could reduce or eliminate the GSE s ability to issue mortgage-backed securities, which would materially and adversely affect our businesses and could require us to fundamentally change our business model since we sell substantially all of our loans pursuant to GSE-sponsored programs. These developments could also result in heightened federal regulation and oversight of our business activities and increase costs and potential litigation associated with our business activities. The full impact these developments may have on our mortgage origination, servicing and securitization or structured finance transactions remains unclear.

***We are substantially dependent upon our unsecured and secured funding arrangements, a significant portion of which are short-term agreements. 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 adversely affect our ability to fund our operations.***

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) 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 (iii) 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) our inability to access the secondary market for mortgage loans; or (iv) 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.

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.

If any of our credit facilities are terminated 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. Most of our mortgage asset backed debt facilities are 364-day facilities that mature within one year. Generally, these facilities require us to maintain a specified amount of available liquidity from other facilities. As such, our liquidity profile and compliance with debt covenants depends on our ability to renew multiple facilities within a short time frame and our failure to do so could materially adversely impact our overall business and financial position, results of operations and cashflows.

***We are highly dependent upon programs administered by Fannie Mae, Freddie Mac and Ginnie Mae. Failure to maintain our relationships with each of Fannie Mae, Freddie Mac and Ginnie Mae would 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.

During 2012, 85% 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, 2012, we had total capacity of $3.0 billion, made up of $1.0 billion of committed and $2.0 billion uncommitted capacity. 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.

***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 and could require us to fundamentally change our business model in order to effectively compete in the market.***

Congress has held hearings about and received reports outlining the long-term strategic plan for, and various options for long-term reform of Fannie Mae and Freddie Mac. These options involve reducing government support for housing finance and gradually reducing the role of Fannie Mae and Freddie Mac in the mortgage market and ultimately winding down both institutions. In August 2012, the U.S. Treasury Department announced further steps to expedite the wind down of Fannie Mae and Freddie Mac, including an accelerated liquidation of Fannie Mae s and Freddie Mac s retained mortgage investment portfolios. Other reforms of Fannie Mae and Freddie Mac 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.

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The accelerated liquidation of Fannie Mae s and Freddie Mac s retained mortgage investment portfolios and other proposed reforms may impact the pricing of mortgage related assets in the secondary market, result in higher mortgage rates to borrowers, and have a resulting negative impact on mortgage origination volumes and margins across the mortgage industry, any one of 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.

Although we do not presently believe that the accelerated liquidation of Fannie Mae s and Freddie Mac s retained mortgage investment portfolios would have any direct impact on their respective mortgage guaranty programs, in 2012 there have been a series of increases to guarantee fees charged by Fannie Mae and Freddie Mac to mortgage originators like us. These increases, and any future increases in guaranty fees could result in higher mortgage rates charged to borrowers, which could result in reduced demand for mortgages, or reduced pricing margins or both. Accordingly, further increases in guaranty fees could also adversely impact mortgage origination volumes or pricing margins across the mortgage industry, including our mortgage origination volumes and pricing margins, and such impacts could be material.

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.

***Our Mortgage Production segment is substantially dependent upon our relationships with Realogy 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, of our mortgage loan originations for the years ended December 31, 2012 and 2011, Realogy represented approximately 25% and 22%, respectively, and Merrill Lynch Home Loans, a division of Bank of America, National Association, represented approximately 27% and 21%, respectively. Pursuant to the terms of the agreement, our relationship with Merrill Lynch Home Loans is scheduled to expire on December 31, 2015. The terms of our relationship with Realogy are further outlined below.

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, their termination of their respective contractual relationships with us due to our failure to fully satisfy our contractual obligations, 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.

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***The termination of our status as the exclusive recommended provider of mortgage products and services promoted by Realogy 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, Realogy 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 Realogy s affiliates and certain customers of Realogy. 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 Realogy 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 (i) 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; (ii) 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; (iii) in the event of a change in control of us, PHH Broker Partner Corporation or any other affiliate of ours involving certain competitors or other specified parties; (iv) if PHH Home Loans fails to make scheduled distributions pursuant to the PHH Home Loans Operating Agreement; (v) in the event of the bankruptcy or insolvency of us or PHH Mortgage; or (vi) upon any act or omission by us or our subsidiaries that causes or would

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reasonably be expected to cause material harm to Realogy or any of its subsidiaries. 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. If we were required to purchase Realogy s interest in PHH Home Loans, that could have an adverse impact on our liquidity. 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, cash flows and liquidity.

***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 strategie*****s.**

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. 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.

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.

Our hedging strategies, including our decisions whether to use financial derivatives to hedge 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 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 as a result 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.

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***Our senior unsecured long-term debt ratings are below investment grade 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 and, as a result, 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 may also be required to 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.

Our ratings may be subject to downgrades if losses arising from mortgage repurchase claims significantly exceed our operating cash flows and other liquidity sources; our hedging strategies related to mortgage servicing rights are ineffective; if we are unable to put in place sources of liquidity to fund our business satisfactory to the rating agencies; regulatory reviews result in material monetary exposures and/or other negative consequences, among other factors. We cannot assure you what impact any further negative debt ratings actions may have on our cost of capital, ability to incur new indebtedness or refinance our existing indebtedness or ability to retain or secure customers.

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.

***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.

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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.

***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.***

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.

***The industries in which we operate are highly competitive and 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. If we are unable to compete successfully in our industries, our results of operations may be adversely impacted.***

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, local and regional competitors, including numerous competitors who focus on one or two products. 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.  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.

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***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.

***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 that, if breached, require us to repurchase the loans or indemnify the purchaser 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 to a recent increased focus by the Agencies to allocate more resources on clearing the backlog of previously requested loan files primarily related to origination years 2005 through 2008, combined with elevated mortgage 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 our sales or servicing of mortgage loans. The estimation of our loan repurchase and indemnification liability requires subjective and complex judgments and considers our estimates for future repurchase demands based upon recent and historical repurchase and indemnification experience, our success rate in appealing repurchase requests and loss severities. Given these trends, there is a reasonable possibility that losses incurred in connection with actual or projected loan repurchase and indemnification claims will 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. In addition, an increased level of repurchase requests could result in an increased use of cash, as compared to prior periods, to fund loan repurchases or make-whole payments under loan indemnification agreements. Accordingly, increases to our reserves and losses incurred 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.

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***Our financial statements are based in part on assumptions and estimates made by our management, including those used in determining the fair values of a substantial portion of our assets. If the assumptions or estimates are subsequently proven incorrect or inaccurate, there could be a material adverse effect on our business, financial position, results of operations or cash flows.***

Pursuant to accounting principles generally accepted in the United States, we utilize certain assumptions and estimates in preparing our financial statements, including but not limited to when determining the fair values of certain assets and liabilities, reserves related to litigation and regulatory investigations and reserves related to mortgage representations and warranty claims. If the assumptions or estimates underlying our financial statements are incorrect, we may experience significant losses as the ultimate realization of value may be materially different than the amounts 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. As of December 31, 2012, 36% of our total assets were measured at fair value on a recurring basis, including $1.0 billion of assets representing our Mortgage servicing rights which are valued using significant unobservable inputs and management s judgment of the assumptions market participants would use in pricing the asset. The determination of the fair value of our assets 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. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values, or our fair value estimates may not be realized in an actual sale or settlement, either of which could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Reserves are established for pending or threatened litigation, claims or assessments when it is probable that a loss has been incurred and the amount of such loss can be reasonably estimated. In light of the inherent uncertainties involved in litigation and other legal proceedings, it is not always possible to determine a reasonable estimate of the amount of a probable loss, and we may estimate a range of possible loss for consideration in its estimates. The estimates are based upon currently available information and involve significant judgment taking into account the varying stages and inherent uncertainties of such matters. Accordingly, our estimates may change from time to time and such changes may be material to our consolidated results of operations, and the ultimate settlement of such matters may have a material adverse effect on our consolidated financial position, results of operations or cash flows.

For additional information on the key areas for which assumptions and estimates are used in preparing our financial statements, see Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in this Form 10K.

***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. 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.***

The voting power and ownership percentage of our stockholders will be diluted and the trading price of our Common stock could be substantially decreased 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 existing convertible notes or the issuance of shares of Common stock upon exercise or settlement of any outstanding share-based payment awards granted under the PHH Corporation Amended and Restated 2005 Equity and Incentive Plan. 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.

We did not enter into a hedge transaction associated with the issuance of our Convertible notes due 2017. Upon conversion of the Convertible notes due 2017, the principal amount is payable in cash and to the extent the conversion value exceeds the principal amount of the converted notes we are required to pay or deliver (at our election) (i) cash; (ii) shares of our Common stock; or (iii) a combination of cash and shares of Common stock. The increase in, and any further increases in, the trading price of our common stock since the issuance of those notes, will result in a required cash payment upon conversion of the notes or will result in a dilution of the voting power and ownership percentage of the Common stock held by our existing shareholders, either of which may negatively affect the trading price of our Common stock.

***Convertible note hedge and warrant transactions may negatively affect the value of our Common stock.***

In connection with the issuance and sale of the Convertible notes due 2014, we entered into convertible note hedge transactions that cover approximately 8,525,484 shares of our Common stock (subject to anti-dilution adjustments) 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 Convertible notes due 2014 (the Option Counterparties ). The convertible note hedge and warrant transactions are expected to reduce the potential dilution upon conversion of the notes.

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In connection with hedging this transaction, 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 2014 Notes. These activities could negatively affect the value of our Common stock.

***Provisions in our charter documents, the Maryland General Corporation Law, New York insurance law and certain of our debt agreements and indentures 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, and could at any time in the future amend the by-laws to remove this exemption provision.

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.

The terms of certain of our debt agreements and indentures, including the indentures governing our outstanding Senior notes due 2016 and 2019 and Convertible notes due 2014 and 2017, contain provisions that could prevent or deter a third party from acquiring us. Such indentures may require us to repurchase, for cash, all or a portion of the outstanding notes issued pursuant to such indentures upon a change of control or fundamental change. Further, a change of control or fundamental change may constitute an event of default under certain of our other debt agreements, including our Amended Credit Facility. In addition, in the event of a make-whole fundamental change within the meaning of the indentures governing our Convertible notes due 2014 and 2017, the conversion rate for such Convertible notes may, in some cases, be increased for a holder that elects to convert their notes in connection with such make-whole fundamental change.

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***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, 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. 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.

Our Mortgage Production and Mortgage Servicing segments have centralized operations in approximately 565,000 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 Mortgage Servicing segments in Jacksonville, Florida, where approximately 150,000 square feet is occupied. In addition, our Mortgage Production and Mortgage Servicing segments lease 47 smaller offices located throughout the U.S.

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 eleven smaller regional locations throughout the U.S.

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## 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.   For more information regarding legal proceedings, see Note 16,      Commitments and Contingencies      in the accompanying notes to Consolidated Financial Statements.

## Item 4.  Mine Safety Disclosures

Not applicable.

# 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, 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 |
| January 1, 2012 to March 31, 2012 | 16.04 | 9.68 |
| April 1, 2012 to June 30, 2012 | 17.92 | 14.78 |

| | | |
|---|---|---|
| July 1, 2012 to September 30, 2012 | 20.94 | 15.29 |
| October 1, 2012 to December 31, 2012 | 23.15 | 18.50 |

As of February 19, 2013, there were 6,460 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.

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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 are pursuant to the Revolving Credit facility, certain of our asset-backed debt agreements and to regulatory restrictions applicable to the equity of our reinsurance subsidiary. The aggregate restricted net assets of these subsidiaries totaled $884 million as of December 31, 2012. These restrictions on net assets of certain subsidiaries, however, do not directly limit our ability to pay dividends from consolidated Retained earnings.

Certain debt arrangements require the maintenance of financial ratios and contain restrictive covenants applicable to our consolidated financial statement elements, as well as restricted payment covenants that potentially could limit our ability to pay dividends. As of December 31, 2012, we may not pay dividends without the written consent of the lenders of the Revolving Credit facility. See Note 17, 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, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | (In millions, except per share data) | | | | |
| **Consolidated Statements of Operations Data:** | | | | | |
| Net revenues | $ 2,743 | $ 2,214 | $ 2,438 | $ 2,606 | $ 2,056 |
| Net income (loss) attributable to PHH Corporation(1) | 34 | (127) | 48 | 153 | (254) |
| Basic earnings (loss) per share attributable to PHH Corporation | $ 0.60 | $ (2.26) | $ 0.87 | $ 2.80 | $ (4.68) |
| Diluted earnings (loss) per share attributable to PHH Corporation | 0.56 | (2.26) | 0.86 | 2.77 | (4.68) |
| **Consolidated Balance Sheets Data:** | | | | | |
| Total assets | $ 9,603 | $ 9,777 | $ 11,270 | $ 8,123 | $ 8,273 |
| Debt | 6,554 | 6,914 | 8,085 | 5,160 | 5,764 |
| PHH Corporation stockholders equity | 1,526 | 1,442 | 1,564 | 1,492 | 1,266 |

(1) Net income (loss) 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 income (loss) 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).

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## 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 repurchase and foreclosure-related charges.

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

**Executive Summary**

In 2012, we were focused on our four key strategies to increase shareholder value:

§ 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.

In 2012, we accomplished several initiatives to improve our liquidity and deleverage the balance sheet, including completing the early repayment of our Medium-term notes due 2013, repaying our Convertible notes due 2012 and completing offerings of Convertible notes due in 2017 and Senior notes due in 2019. These actions resulted in a

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$158 million net cash decrease.  In addition, we amended our existing Credit Facility extending a portion of the commitments to 2015.

Our unrestricted cash balance was $829 million as of December 31, 2012 compared to $414 million as of December 31, 2011. Excluding the $158 million decrease in cash from deleveraging outlined above, we generated $573 million of positive cash flow which resulted, in part, from our operations and the following efforts in 2012:

§ focused our efforts to ensure that our operations are cash flow positive, including reducing the mix of our wholesale/correspondent originations to 18% in 2012 from 31% in 2011 and aligning our business operations with established cash flow targets;

§ disposed of assets that are not necessary to support our business strategies, including generating $91 million of cash from the termination of a reinsurance agreement, and sales of non-conforming mortgage loans and mortgage-backed residual investments;

§ generated $173 million of cash from the securitization of fleet leases, including the release of overcollateralization from prior securitizations; and

§ generated mortgage servicing rights with minimal use of cash.

Some of the actions we took to reposition the business and generate cash flow in 2012 have had a negative impact on our earnings, including the early repayment of Medium-term notes due 2013 which generated a $13 million pre-tax loss and the termination of one of our inactive reinsurance agreements which generated a $16 million pre-tax loss. See Liquidity and Capital Resources for additional information regarding our outstanding indebtedness and liquidity.

We are monitoring a number of regulatory developments that are expected to impact our Mortgage segments, and there has been a heightened focus of regulators on the practices of the mortgage industry.  Regulatory and financial reform efforts continued throughout 2012 and into 2013, as regulatory agencies proposed and progressed on finalizing numerous rules.  Further, we have experienced and some of our peers have experienced inquiries and requests for information from regulators and attorneys general of certain states as well as various government agencies.  We are working diligently in assessing and understanding the implications of the developments in the regulatory environment and we are devoting substantial resources towards implementing all of the new rules and complying with requests from inquires and examinations while meeting the needs and expectations of our clients.  For more information about these developments, see Part I Item 1. Business Regulation and Part I Item 1A. Risk Factors Risks Related to our Company *Our Mortgage businesses are complex and heavily regulated, and the full impact of regulatory developments to our businesses remains uncertain.  In addition, we are subject to litigation, regulatory investigations and inquiries and may incur fines, penalties, and increased costs that could negatively impact our future results of operations or damage our reputation.* For more information about our significant legal and regulatory matters, see Note 16, Commitments and Contingencies in the accompanying Notes to Consolidated Financial Statements.

In our Mortgage Production segment we continued to experience elevated loan margins and volume. Total loan margins during 2012 were 392 basis points, representing a 121 basis points increase over 2011. Our retail platform generated $45.5 billion of closing volume for 2012, a 28% increase from 2011. We expect our retail platform to continue its positive momentum into 2013 through the addition of volume from our new private label relationships, including the one announced with HSBC which is expected to commence in the second quarter of 2013, and through capitalizing on improvements in the housing market from expected home sale volumes and our relationship with Realogy. Wholesale/correspondent closings declined by 38% to $10.1 billion compared to $16.4 billion in 2011, which reflects our emphasis on growth in our retail platform and our efforts to manage cash consumption and loan quality. We expect to manage our wholesale platform in 2013 without a significant change in the mix of originations relative to 2012 levels.

Our Mortgage Servicing segment continued to be negatively impacted by decreasing mortgage interest rates which resulted in an increase in loan payoffs in our capitalized servicing portfolio and unfavorable changes in market-related fair value adjustments of our MSRs. In addition, our Mortgage Servicing segment incurred $182 million of repurchase and foreclosure-related charges compared to $80 million during 2011 largely driven by the increase in repurchase and indemnification requests described below and a decline in our overall success rate in appealing repurchase requests.

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During 2012, we received approximately 4,600 repurchase and indemnification requests compared to 3,000 in 2011. The increase in repurchase requests is primarily due to an increase in the number of loan file reviews by the Agencies as they focused more resources on clearing the backlog of previously requested loan files primarily related to origination years 2005 through 2008. The focus of loan file reviews by the Agencies is unpredictable and may change after their reviews of origination years 2005 through 2008 are complete. We continue to monitor these trends and the criteria being used by the Agencies to select loan files to review and may need to further increase our loan repurchase and indemnification liability if the elevated levels of repurchase requests continue. Additionally, an increased level of repurchase requests could result in an increased use of cash, as compared to prior periods, to fund loan repurchases or make-whole payments under loan indemnification agreements. We expect repurchase and foreclosure losses to remain elevated through 2013, as investors continue to review both performing and non-performing loans for potential underwriting defects and representation and warranty violations. See Risk Management for additional information regarding our repurchase obligations and potential exposure.

Our Fleet Management Services segment continued growth in our net investment in leases and also added additional service unit counts to maintenance cards, fuel cards and accident management services. For 2012, segment profit for our Fleet Management Services segment was $87 million, a 16% increase from 2011.

For 2013, we expect to continue with our four strategic priorities that we implemented in 2012. We believe these strategies enhance the ability of our business model to adapt to this rapidly-changing environment, and should enable us to focus on creating long-term value for our borrowers, clients, and shareholders. We are also looking for 2013 to bring increased clarity for the mortgage industry as the regulations promulgated by the CFPB and other regulators are reducing the amount of uncertainty in the industry, but will likely change the way in which mortgage originators and servicers operate and increase the cost of loan origination and servicing.

We will continue to invest in our business to reduce mortgage loan origination defects and simplify processes and to anticipate and address fundamental changes in the industry. We are investing in people, systems and processes to create a long-term viable platform that will perform as the mortgage industry continues to evolve. This investment includes operating and capital expenses related to the expansion of our retail presence, enhancements to our compliance structure to meet new regulatory standards, continued modernization of our information systems, and the achievement of requisite quality and customer service objectives.

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## RESULTS OF OPERATIONS

### Consolidated Results

The following table presents our consolidated results of operations:

| | Year Ended December 31, 2012 | 2011 | 2010 |
|---|---|---|---|
| | (In millions, except per share data) | | |
| Net fee income | $ 526 | $ 468 | $ 448 |
| Fleet lease income | 1,364 | 1,400 | 1,370 |
| Gain on mortgage loans, net | 942 | 567 | 635 |
| Mortgage net finance expense | (121) | (88) | (73) |
| Loan servicing income | 449 | 456 | 415 |
| Valuation adjustments relating to mortgage servicing rights, net | (502) | (736) | (427) |
| Other income | 85 | 147 | 70 |
| **Net revenues** | 2,743 | 2,214 | 2,438 |
| Depreciation on operating leases | 1,212 | 1,223 | 1,224 |
| Fleet interest expense | 68 | 79 | 91 |
| Total other expenses | 1,376 | 1,114 | 1,008 |
| **Total expenses** | 2,656 | 2,416 | 2,323 |
| **Income (loss) before income taxes** | 87 | (202) | 115 |
| Income tax (benefit) expense | (6) | (100) | 39 |
| **Net income (loss)** | 93 | (102) | 76 |
| Less: net income attributable to noncontrolling interest | 59 | 25 | 28 |
| **Net income (loss) attributable to PHH Corporation** | $ 34 | $ (127) | $ 48 |
| **Basic earnings (loss) per share attributable to PHH Corporation** | $ 0.60 | $ (2.26) | $ 0.87 |
| **Diluted earnings (loss) per share attributable to PHH Corporation** | $ 0.56 | $ (2.26) | $ 0.86 |

The following summarizes the key highlights that drove our operating performance and segment profit (loss) for our reportable segments for 2012 in comparison to 2011:

| | Year Ended December 31, 2012 | 2011 |
|---|---|---|
| | (In millions) | |
| **Reportable Segments Profit (Loss):**(1) | | |
| Mortgage Production segment | $ 416 | $ 258 |
| Mortgage Servicing segment | (462) | (557) |
| Fleet Management Services segment | 87 | 75 |
| Other(2) | (13) | (3) |

(1) Segment profit (loss) is described in Note 23, Segment Information , in the accompanying Notes to Consolidated Financial Statements.

(2) For the year ended December 31, 2012, Other primarily represents the loss on early retirement of our Medium-term notes due in 2013.

***Mortgage Production Segment***

§ Segment profit was $158 million higher compared to 2011 primarily due to 121 basis points of higher total margins and a 39% increase in fee-based loan closings, partially offset by a 21% decline in interest rate lock commitments expected to close.

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§ Interest rate lock commitments expected to close decreased to $26.6 billion from $33.7 billion in 2011, due to a 53% decline in wholesale/correspondent volume and a shift in mix towards fee-based production. Total closings reflect the significant increase in refinance activity as refinance closings increased by 21% compared to 2011 due to the historically low interest rate environment.

§ The mix of wholesale/correspondent originations declined to 18% in 2012 from 31% in 2011, reflecting our strategy to selectively manage originations in this platform considering cash consumption and loan quality.

***Mortgage Servicing Segment***

§ Segment loss was $95 million favorable to 2011, driven by a $298 million favorable impact from market-related changes in fair value of mortgage servicing rights, that was partially offset by a $102 million increase in repurchase and foreclosure-related charges compared to 2011 driven by a significant increase in loan repurchase and indemnification requests in 2012, as discussed under Executive Summary .

§ Loan servicing income for 2012 includes a loss of $16 million from the termination of one of our inactive reinsurance contracts.

§ Mortgage interest rates declined throughout 2012, resulting in a $223 million reduction in the fair value of our mortgage servicing rights. Additionally, loan payoffs in our capitalized servicing portfolio increased 65% compared to 2011, resulting in $69 million of additional decreases in fair value of our mortgage servicing rights from prepayments and a $16 million increase in curtailment interest expense as compared to 2011.

***Fleet Management Services Segment***

§ Segment profit increased by $12 million to $87 million in 2012, driven by growth in net investment in leases, lower funding costs and higher units and usage of fee-based and asset-based management services.

§ Maintenance service, fuel and accident management average units all increased in 2012 compared to 2011.

§ The average number of leased vehicles declined by 3% compared to 2011; however, our net investment in leases increased by 3% to $3.6 billion compared to December 31, 2011, driven by a change in mix to more expensive truck and service-type vehicles.

**Income tax (benefit) expense**

Income tax (benefit) expense changes were primarily due to the change in Income (loss) before income taxes, plus significant items that impact the effective tax rate, as discussed below. See Note 14, Income Taxes in the accompanying Notes to Consolidated Financial Statements for further information.

***2012:*** Our effective income tax rate was (7.0)% for the year ending December 31, 2012, reflecting a $6 million Income tax benefit on $87 million of Income before income taxes. We recorded an Income tax benefit on our results because our effective tax rate was positively impacted by a $10 million benefit from the impact of applying statutory changes to apportionment weight, apportionment sourcing and corporate income tax rates that were enacted by various states, primarily New Jersey. In addition, $22 million of income tax expense related to Realogy Corporation s portion of income attributable to PHH Home Loans is not considered in our tax provision since we include only our proportionate share of tax on the income of PHH Home Loans.

***2011:*** Our effective income tax rate was (49.7)% for the year ending December 31, 2011 , reflecting a $100 million Income tax benefit on $202 million of Loss before income taxes. The effective tax rate was positively 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. In addition, $10 million of income tax expense related to Realogy Corporation s portion of income attributable to PHH Home Loans is not

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considered in our tax provision since we include only our proportionate share of tax on the income of PHH Home Loans.

***2010:*** Our effective income tax rate was 33.7% for the year ending December 31, 2010, reflecting $39 million of Income tax expense on $115 million of Income before income taxes. The effective tax rate was primarily 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. In addition, $11 million of income tax expense related to Realogy Corporation s portion of income attributable to PHH Home Loans is not considered in our tax provision since we include only our proportionate share of tax on the income of PHH Home Loans.

**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. We retained a 49.9% equity interest in STARS, which is accounted for under the equity method.

For the year ended December 31, 2012, earnings from the equity method investment in STARS of $6 million are recorded as a component of Other income in the Mortgage Production segment. During the year ended December 31, 2011, a $68 million gain on the sale of STARS was recorded within Other income of the Mortgage Production segment, 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.

## 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 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 2012, 85% 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 15% were sold to private investors. We source mortgage loans through our retail and wholesale/correspondent platforms.

**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:*** The private label services channel includes providing outsourced mortgage origination services for wealth management firms, regional banks and community banks throughout the U.S, including Merrill Lynch Home Loans, a division of Bank of America, National Association, Morgan Stanley Private Bank and UBS Bank USA. We are a leading provider of private-label mortgage loan originations and 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.

- ***Real Estate Channel:*** The real estate channel includes providing mortgage origination services for brokers associated with brokerages owned or franchised by Realogy Corporation and other third-party brokers. Through our affiliations with real estate brokers, we have access to home buyers at the time of purchase. Substantially all of the originations through the real estate channel during the years ended December 31, 2012, 2011 and 2010, were originated from Realogy and Realogy Franchisees. For the year ended December 31, 2012, we originated mortgage loans for approximately 16% 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. See Part I Item 1. Business Operating Segments for a further discussion of our relationship with Realogy.

**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.

The mortgage industry has continued to be impacted by variety of factors including a low interest rate environment which has increased consumer demand for mortgage loans, more stringent underwriting guidelines, increases in guarantee fees on mortgage backed securities issued by Fannie Mae and Freddie Mac and an increasingly complex regulatory compliance environment.  We have continued to experience elevated levels of pricing margins compared to historical periods as mortgage interest rates remained low and consumer demand persisted.  However, future conforming loan origination volumes and pricing margins may be negatively impacted by the increases in guarantee fees (which will have the impact of increasing mortgage interest rates charged to borrowers) and by more restrictive underwriting standards.

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In addition, the increased consumer demand for mortgage loans, coupled with more stringent underwriting guidelines and the increasingly complex regulatory compliance environment have led to longer processing cycle times across the mortgage industry. Consistent with these industry trends, we have experienced loan processing delays and other service issues that have negatively impacted customer service delivery in our Mortgage Production segment. As a result, we have failed to satisfy certain service level agreements and other performance provisions under some of our mortgage origination assistance agreements. During the year ended December 31, 2012, we incurred $8 million of customer service related expenses resulting from our failure to fully satisfy the terms of service-level and other performance provisions of these contracts which could result in material penalties or the loss of client relationships. We have implemented measures to improve our loan processing and customer service delivery in an effort to more fully satisfy the terms of our mortgage origination assistance agreements.

As of January 2013, Fannie Mae s *Economics and Mortgage Market Analysis* is forecasting a decrease in industry loan originations to $1.6 trillion during 2013 compared to $1.9 trillion during 2012, consisting of a 32% decrease in refinance originations which is offset by a 24% increase in purchase originations. Refinance originations are sensitive to interest rates and despite Fannie Mae projections that interest rates will remain close to current levels throughout 2013, refinancing demand is expected to decline. The increase in projected purchase originations in 2013 is reflective of Fannie Mae s forecast of a 12% increase in total home sales compared to 2012.

For more information, see Part I Item 1A. Risk Factors *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 and could require us to fundamentally change our business model in order to effectively compete in the market.* in this Form 10-K.

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, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | ($ In millions) | | |
| Loans closed to be sold | $ 36,022 | $ 37,889 | $ 37,747 |
| Fee-based closings | 19,562 | 14,056 | 11,247 |
| Total closings | $ 55,584 | $ 51,945 | $ 48,994 |
| Purchase closings | $ 17,549 | $ 20,404 | $ 20,270 |
| Refinance closings | 38,035 | 31,541 | 28,724 |
| Total closings | $ 55,584 | $ 51,945 | $ 48,994 |
| Retail closings - PLS | $ 31,239 | $ 24,162 | $ 20,316 |
| Retail closings - Real Estate | 14,280 | 11,430 | 13,113 |
| Total retail closings | 45,519 | 35,592 | 33,429 |
| Wholesale/correspondent closings | 10,065 | 16,353 | 15,565 |
| Total closings | $ 55,584 | $ 51,945 | $ 48,994 |
| Retail - PLS (in units) | 89,980 | 76,023 | 69,357 |
| Retail - Real Estate (in units) | 57,033 | 47,037 | 53,385 |
| Total retail | 147,013 | 123,060 | 122,742 |
| Wholesale/correspondent (in units) | 47,462 | 77,992 | 82,955 |
| Total closings (in units) | 194,475 | 201,052 | 205,697 |
| Loans sold | $ 36,582 | $ 40,035 | $ 34,535 |
| Applications | $ 72,390 | $ 67,586 | $ 74,628 |
| IRLCs expected to close | $ 26,599 | $ 33,717 | $ 38,330 |
| Total loan margin (in bps) | 392 | 271 | 290 |

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| | Year Ended December 31, 2012 | 2011 (In millions) | 2010 |
|---|---|---|---|
| Mortgage fees | $ 346 | $ 295 | $ 291 |
| Gain on mortgage loans, net | 942 | 567 | 635 |
| Mortgage interest income | 84 | 101 | 97 |
| Mortgage interest expense | (150) | (125) | (113) |
| Mortgage net finance expense | (66) | (24) | (16) |
| Other income | 12 | 76 | 1 |
| Net revenues | 1,234 | 914 | 911 |
| Salaries and related expenses | 419 | 341 | 369 |
| Occupancy and other office expenses | 31 | 30 | 34 |
| Other depreciation and amortization | 7 | 9 | 10 |
| Other operating expenses | 302 | 251 | 202 |
| Total expenses | 759 | 631 | 615 |
| Income before income taxes | 475 | 283 | 296 |
| Less: net income attributable to noncontrolling interest | 59 | 25 | 28 |
| Segment profit | $ 416 | $ 258 | $ 268 |

*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, the amount of homebuyers needing a mortgage 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.

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. IRLCs 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.

***2012 Compared With 2011:*** As of January 2013, Fannie Mae s *Economics and Mortgage Market Analysis* shows an increase in mortgage industry origination volumes of approximately 28% during 2012 compared to 2011 which primarily consisted of higher refinance closings that continued to be positively impacted by a sustained low interest rate environment despite the many borrowers who took advantage of refinance incentives during prior periods of low interest rates. During the second half of 2012, among other actions, the Federal Reserve announced plans to purchase an additional $40 billion of agency mortgage-backed securities per month to reinforce the low interest rate environment and support the mortgage markets. Based on the January industry origination volumes reported by Fannie Mae, refinance closings represented 73% of total origination volumes during 2012 compared to 66% during 2011.

Our total closings increased by $3.6 billion (7%) compared to 2011 and were comprised of a $6.5 billion increase in refinance closings offset by a $2.9 billion decrease in purchase closings. Refinance closings were 68% of our total closing volumes during 2012 compared to 61% in 2011. While we have seen a positive trend in closings from our real estate channel driven by an improvement in home sales, our purchase closings decreased compared to 2011 due to our planned reduction in wholesale/correspondent volume.

Wholesale/correspondent closings declined by 38% to $10.1 billion compared to $16.4 billion in 2011. This decrease reflects our strategy to focus growth in our retail platform and our efforts to manage cash consumption and the underlying quality of the loans originated in the wholesale/correspondent platform. As of December 31,

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2012, 23% of our outstanding IRLCs expected to close were wholesale/correspondent compared to 44% at the end of 2011.

Total applications increased by 7% compared to 2011 resulting from a growth in our retail platform where a low interest rate environment and higher consumer demand contributed to a 36% increase in retail applications which was offset by a decline in wholesale/correspondent volume. Our IRLCs expected to close declined by 21% primarily due to the change in mix to a greater composition of fee-based production where we do not enter into an interest rate lock commitment and lower wholesale/correspondent volume.

We have continued to experience elevated levels of pricing margins compared to historical periods as mortgage interest rates remained low and consumer demand persisted which resulted in a 121 basis points (45%) increase in average total loan margins from 2011. Although we expect pricing margins to eventually decline from the levels experienced during 2012, we believe that margins could remain elevated in 2013 when compared to levels prior to the credit crisis, reflecting a longer term industry view of the returns required to manage the underlying risk of a mortgage production and servicing business.

***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. 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.

*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. Appraisal and other income generated by our appraisal services business is included through the quarter ended March 31, 2011. 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.

***2012 Compared With 2011:*** Mortgage fees increased by $51 million compared to 2011 which included a $41 million increase in origination assistance fees from private label clients and a $16 million increase in appraisal and application revenue, that was offset by a $7 million decrease in correspondent underwriting fees. Origination assistance fees were positively impacted by an 18% increase in private label closing units compared to 2011. The increase in appraisal and application revenues were driven by a 19% increase in the total number of retail closing units compared to 2011 due to growth in our retail platform. The decrease in correspondent underwriting fees were the result of our planned reduction in wholesale/correspondent volume as discussed above.

***2011 Compared With 2010:*** Mortgage fees increased by $4 million 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.

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*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 IRLCs 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:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (In millions) | |
| Gain on loans | $ 804 | $ 482 | $ 624 |
| Change in fair value of Scratch and Dent and certain non-conforming mortgage loans | (41) | (11) | (19) |
| Economic hedge results | 179 | 96 | 30 |
| Total change in fair value of mortgage loans and related derivatives | 138 | 85 | 11 |
| Total | $ 942 | $ 567 | $ 635 |

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.

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. We use derivative instruments to economically hedge changes in value of mortgage loans and interest rate lock commitments from the date of interest rate lock commitment through the date the loan is sold into the secondary market. These derivatives are intended to mitigate the changes in value attributable to changes in interest rates. Economic hedge results also include changes in value of mortgage loans held for sale due to changes in expected execution upon sale which may not be interest rate related and would not be offset by changes in value of derivative instruments.

***2012 Compared With 2011:*** Gain on loans increased by $322 million compared to 2011 primarily due to a higher mix of retail IRLCs and higher total loan margins that were partially offset by a 21% decrease in IRLCs expected to close. Although total IRLCs declined, there was a greater mix of retail IRLCs during 2012 which had a positive impact to gain on loans. Average total loan margins increased by 121 basis points which was driven by a reduction in mortgage interest rates and higher consumer demand.

The $30 million unfavorable change in fair value of Scratch and Dent and certain non-conforming loans compared to 2011 was primarily attributable to a larger population of additions to Scratch and Dent loans resulting from higher repurchase activity.

The $83 million increase in economic hedge results compared to 2011 was largely driven by favorable execution gains on mortgage loans sold and lower interest rate volatility that were partially offset by a lower impact from changes in actual pullthrough of mortgage loans as compared to initial assumptions.

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***2011 Compared With 2010:*** Gain on loans decreased by $142 million 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.

*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 driven by the average balance of loans held for sale, the average volume of outstanding borrowings, the average number of days loans are held prior to sale to investors, 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.

***2012 Compared With 2011:*** Mortgage net finance expense increased by $42 million compared to 2011 and was comprised of a $25 million increase in Mortgage interest expense and a $17 million decrease in Mortgage interest income. The increase in Mortgage interest expense was driven by higher allocated financing costs of corporate unsecured borrowings resulting primarily from the higher effective interest rate of the convertible note issuance, which was partially offset by a lower average balance of loans held for sale. The decrease in Mortgage interest income was primarily due to a lower average balance and note rate of loans held for sale.

***2011 Compared With 2010:*** Mortgage net finance expense increased $8 million compared to 2010 and was comprised of a $12 million increase in Mortgage interest expense partially offset by a $4 million 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.

*Other Income*

***2012 Compared With 2011:*** Other income decreased by $64 million compared to 2011 primarily due to a $68 million gain realized during 2011 related to the 50.1% sale of the equity interests in STARS, which was offset by income from a termination fee resulting from the loss of a private label client relationship during 2012.

***2011 Compared With 2010:*** Other income increased $75 million compared to 2010 which was primarily attributable to a $68 million gain related to the 50.1% sale of the equity interests in STARS and $3 million in earnings from our continued equity interest STARS 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.

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The components of Salaries and related expenses were as follows:

| | | | | | | |
|---|---|---|---|---|---|---|
| Salaries, benefits and incentives | $ | 260 | $ | 207 | $ | 215 |
| Commissions | | 124 | | 98 | | 109 |
| Contract labor and overtime | | 35 | | 36 | | 45 |
| Total | $ | 419 | $ | 341 | $ | 369 |

Salaries, benefits and incentives are primarily driven by the average number of permanent employees. 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.

***2012 Compared With 2011:*** Salaries, benefits and incentives increased by $53 million compared to 2011 primarily due to a higher number of average permanent employees and an increase in management incentive compensation. The higher number of average permanent employees is related to a 19% increase in the total number of retail closing units, increased staffing levels associated with expected future mortgage origination activity and the continued development of our mortgage compliance programs, loan quality and customer service initiatives.

The $26 million increase in commissions was primarily attributable to a 25% increase in closings from our real estate channel which has higher commission rates than our private label services channel.

***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.

*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:

| | | | | | | |
|---|---|---|---|---|---|---|
| Production-related direct expenses | $ | 125 | $ | 103 | $ | 105 |
| Corporate overhead allocation | | 81 | | 71 | | 14 |
| Other expenses | | 96 | | 77 | | 83 |
| Total | $ | 302 | $ | 251 | $ | 202 |

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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 the volume of applications. Corporate overhead allocations relate to segment allocations of shared general and administrative costs and costs associated with operating and managing corporate functions. 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.

***2012 Compared With 2011:*** The $22 million increase in production-related direct expenses compared to 2011 was largely driven by a 36% increase in the total number of retail applications.

Corporate overhead allocations increased by $10 million compared to 2011 primarily due to information technology-related expenses associated with private label client implementations which are allocated fully to the Mortgage Production segment. See Results of Operations Other for a description and drivers of the expenses included in our centralized corporate platform.

The $19 million increase in Other expenses compared to 2011 was primarily attributable to an $11 million increase in consulting and outsourcing services driven by compliance, customer service and operational initiatives and a $5 million increase in customer service-related expenses. The remaining $3 million increase in Other expenses was due to costs associated with managing our origination platforms, including costs for regulatory compliance.

***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.

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## Mortgage Servicing Segment

We principally generate revenue in our Mortgage Servicing segment through fees earned from our mortgage 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.

Our servicing operations continue to be negatively impacted by conditions in the housing market and general economic factors, including higher unemployment rates, which have led to elevated levels of delinquencies, significant increases in repurchase requests and high loss severities on defaulted loans. These factors, plus the increased regulatory focus on servicing activities, have increased and will likely continue to increase servicing costs across the industry. See Risk Management for additional information regarding loan repurchase trends and our related reserves.

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:

| | December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | ($ In millions) | | |
| Total loan servicing portfolio | $ 183,730 | $ 182,387 | $ 166,075 |
| Number of loans serviced | 1,015,286 | 1,063,884 | 1,005,950 |
| Capitalized loan servicing portfolio | $ 140,381 | $ 147,088 | $ 134,753 |
| Capitalized servicing rate | 0.73 % | 0.82 % | 1.07 % |
| Capitalized servicing multiple | 2.4 | 2.7 | 3.5 |
| Weighted-average servicing fee (in basis points) | 30 | 31 | 30 |

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | (In millions) | | |
| Average total loan servicing portfolio | $ 185,859 | $ 174,332 | $ 156,825 |
| Average capitalized loan servicing portfolio | 146,379 | 142,128 | 130,462 |
| Payoffs and principal curtailments of capitalized portfolio | 38,314 | 25,168 | 25,887 |

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| | Year Ended December 31, 2012 | | 2011 (In millions) | | 2010 | |
|---|---|---|---|---|---|---|
| Mortgage interest income | $ | 9 | $ | 15 | $ | 15 |
| Mortgage interest expense | | (62) | | (76) | | (69) |
| Mortgage net finance expense | | (53) | | (61) | | (54) |
| Loan servicing income | | 449 | | 456 | | 415 |
| Change in fair value of mortgage servicing rights | | (497) | | (733) | | (427) |
| Net derivative loss related to mortgage servicing rights | | (5) | | (3) | | |
| Valuation adjustments related to mortgage servicing rights, net | | (502) | | (736) | | (427) |
| Net loan servicing loss | | (53) | | (280) | | (12) |
| Other (expense) income | | | | (2) | | 3 |
| Net revenues | | (106) | | (343) | | (63) |
| Salaries and related expenses | | 37 | | 33 | | 37 |
| Occupancy and other office expenses | | 10 | | 10 | | 9 |
| Other depreciation and amortization | | | | 1 | | 1 |
| Other operating expenses | | 309 | | 170 | | 131 |
| Total expenses | | 356 | | 214 | | 178 |
| Segment loss | $ | (462) | $ | (557) | $ | (241) |

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

***2012 Compared With 2011:*** Mortgage net finance expense decreased by $8 million compared to 2011 and was comprised of a $14 million decrease in Mortgage interest expense that was offset by a $6 million decrease in Mortgage interest income. The decrease in Mortgage interest expense was primarily attributable to a decrease in the interest expense allocated to fund our MSRs resulting from a lower average MSR balance. In addition, Mortgage interest expense and Mortgage interest income both decreased by $5 million compared to 2011 due to the first quarter 2012 deconsolidation of a mortgage securitization trust where we sold the residual interest.

***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 MSRs 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.

*Loan Servicing Income*

The components of Loan servicing income were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (In millions) | |
| Servicing fees from capitalized portfolio | $ 437 | $ 426 | $ 387 |
| Subservicing fees | 14 | 14 | 14 |
| Late fees and other ancillary servicing revenue | 62 | 61 | 66 |
| Curtailment interest paid to investors | (45) | (29) | (33) |
| Net reinsurance loss | (19) | (16) | (19) |
| Total | $ 449 | $ 456 | $ 415 |

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The primary drivers for Loan servicing income are the average capitalized loan servicing portfolio and average servicing fee. 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. For loans that are subserviced for others, we receive a nominal stated amount per loan which is less than our average servicing fee related to the capitalized portfolio. Curtailment 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.

***2012 Compared With 2011:*** The $11 million increase in servicing fees from the capitalized portfolio was primarily related to a 3% increase in the average capitalized loan servicing portfolio compared to 2011. Subservicing fees remained at $14 million, the same level as 2011. While the unpaid principal balance of our subserviced loan servicing portfolio increased by 27% since the end of 2011, we earn fees on a per loan basis and the number of loans in our subserviced portfolio decreased by 4% in the same period, which was offset by an increase in the average subservicing fee earned per loan compared to 2011. Going into 2013, we expect to more than double our subservicing portfolio from 2012 with the addition of approximately $50 billion in subservicing from our new relationship with HSBC.

Curtailment interest paid to investors increased by $16 million due to a 70% increase in loan payoffs in our total loan servicing portfolio compared to 2011.

The $3 million increase in net reinsurance loss compared to 2011 included a $16 million loss related to the termination of an inactive reinsurance contract and a $9 million decrease in premiums earned primarily due to the termination of a contract and portfolio runoff, that were offset by a $22 million decrease in the provision for reinsurance reserves resulting from maximum loss rates being reached for certain origination years during 2011. We paid $44 million and $65 million in reinsurance claims during 2012 and 2011, respectively as additional foreclosures were completed and insurance claims were processed. We expect that the cash and securities we currently hold in trust to pay future claims is significantly higher than our projected reinsurance losses and obligations.

***2011 Compared With 2010:*** The $39 million increase in servicing fees from the capitalized portfolio 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. Curtailment 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.

*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 MSRs 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, servicing costs and other economic factors. Generally, the value of our MSRs 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 MSRs may also affect the valuation.

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

| | | | |
|---|---|---|---|
| Actual prepayments of the underlying mortgage loans | $ (233) | $ (164) | $ (184) |
| Actual receipts of recurring cash flows | (41) | (48) | (41) |
| Market-related fair value adjustments | (223) | (521) | (202) |
| Total | $ (497) | $ (733) | $ (427) |

The change in fair value of MSRs 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. Market-related fair value adjustments represent the change in fair value of MSRs due to changes in market inputs and assumptions used in the valuation model. Refer to Critical Accounting Policies and Estimates for a description of the updates made to the model used in the valuation of our mortgage servicing rights.

***2012 Compared With 2011:*** The $69 million increase in actual prepayments of the underlying mortgage loans compared to 2011 was primarily due to a 65% increase in loan payoffs in the capitalized loan servicing portfolio which was partially offset by an 11 basis points decrease in the average MSR value of prepayments.

Market-related fair value adjustments decreased the value of our MSRs by $223 million during 2012 which was primarily attributable to a decrease in mortgage interest rates, including a 66 basis points decrease in the primary mortgage rate used to value our MSR. The $521 million market-related fair value decrease during 2011 was driven by a decrease in mortgage interest rates and includes a $40 million unfavorable impact resulting from our assessment of projected costs associated with servicing delinquent and foreclosed loans and a $20 million unfavorable change related to an increase in projected future prepayments linked to expected borrower participation in the Home Affordability Refinance Program.

***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.

Market-related fair value adjustments decreased the value of our MSRs by $521 million during 2011 compared to $202 million during 2010. The $521 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 related to 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 $202 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.

*Net Derivative Loss Related to Mortgage Servicing Rights:* We may choose to use a combination of derivative instruments to protect against potential adverse changes in the fair value of our MSRs resulting from a decline in interest rates. If the derivative instruments are effective, 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 MSRs, and generally increase in value as interest rates decline and decrease in value as interest rates rise.

The size and composition of derivatives instruments used depends on a variety of factors, including the potential decline in value of our MSRs based on our evaluation of the current market environment and the interest rate risk inherent in our capitalized servicing portfolio which requires assumptions with regards to future replenishment rates, loan margins, the value of additions to MSRs and loan origination costs. Many factors can impact these estimates, including loan pricing margins, the availability of liquidity to fund additions to our capitalized MSRs and the ability to adjust staffing levels to meet changing consumer demand. As a result, 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.

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The value of derivatives related to our MSRs decreased by $5 million and $3 million during 2012 and 2011, respectively.  There were no open derivatives related to MSRs during 2010.

*Other Income*

Other 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.

***2012 Compared With 2011:*** Other income during 2012 was not significant however, it included a $2 million loss on sale of our residual interests in the mortgage securitization trust which was partially offset by $1 million of realized gains from the sale of available-for-sale securities associated with restricted investments held in our reinsurance trust accounts.

***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.

*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.

***2012 Compared With 2011:*** Salaries and related expenses increased by $4 million compared to 2011 due to an increase in the average number of permanent employees as we continue to balance resources in order to implement new industry servicing and compliance practices.

***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, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (In millions) | |
| Repurchase and foreclosure-related charges | $ 182 | $ 80 | $ 72 |
| Corporate overhead allocation | 18 | 15 | 3 |
| Other expenses | 109 | 75 | 56 |
| Total | $ 309 | $ 170 | $ 131 |

Repurchase and foreclosure-related charges are primarily driven by the actual and projected volumes of repurchase and indemnification requests, our success rate in appealing repurchase requests and expected loss severities. Repurchase requests from all investors and insurers have been volatile and the persistency of these recent trends remains extremely uncertain. Expected loss severities are impacted by various economic factors including delinquency rates and home price values while our success rate in appealing repurchase requests can fluctuate based on the validity and composition of repurchase demands and the underlying quality of the loan files.

Corporate overhead allocations relate to segment allocations of shared general and administrative costs and costs associated with operating and managing corporate functions.

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.

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***2012 Compared With 2011:*** Repurchase and foreclosure-related charges increased by $102 million compared to 2011 and were driven by a significant increase in the actual and projected number of future repurchase and indemnification requests and a decline in our success rate in appealing repurchase requests that were partially offset by a decrease in our estimated future loss severities. Repurchase requests increased by 52% during 2012 which was primarily driven by the Agencies focus on clearing the backlog of previously requested loan files related to the origination years 2005 through 2008. See Risk Management for a discussion of our Repurchase and foreclosure-related liabilities and related trends.

Corporate overhead allocations increased by $3 million compared to 2011. See Results of Operations Other for a description and drivers of the expenses included in our centralized corporate platform.

Other expenses increased by $34 million compared to 2011 which was largely attributable to an increase in unreimbursed servicing and interest costs associated with servicing delinquent and foreclosed loans and real estate owned. We also recognized an increase in consulting fees, outsourcing services and other costs related to managing our servicing platform to comply with new industry servicing and compliance practices that were partially offset by a decrease in the provision for compensatory fees and litigation costs related to foreclosure proceedings.

***2011 Compared With 2010:*** The continuing high levels of repurchase requests, primarily from the Agencies, and loss severities contributed to $80 million in repurchase and 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 repurchase and 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.

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## Fleet Management Services Segment

We principally generate revenue in our Fleet Management Services segment through the amounts earned on operating leasing agreements and fee income earned on additional services and products provided to our fleet management customers. 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 fleet management industry has continued to be influenced by the current condition of the U.S. economy and the levels of corporate spending and capital investment. According to the *Automotive Fleet 2012 Fact Book,* the total number of fleet vehicles in service during 2011 grew by approximately 5% from the levels reported in 2010 which was driven by the replacement of high-mileage vehicles, among other factors, that were delayed in connection with the poor economic environment beginning in 2008. Consistent with this trend, we experienced an increase in the number of vehicles we purchased which has risen to approximately 60,000 during each of 2012 and 2011 from 54,000 during 2010. The fleet management industry has also been positively impacted by a favorable used car remarketing environment and, according to the *Automotive Fleet 2012 Fact Book*, the total fleet vehicles remarketed by the leading fleet management companies during 2011 was approximately 379,000 compared to 344,000 in 2010. While the total number of fleet vehicles in service grew, the industry continues to face challenges associated with corporate cost-reduction initiatives, increasing fleet operating costs, including increasing vehicle acquisition costs, maintenance costs and fuel prices, and implementing new initiatives to improve driver safety.

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:

| | Average for the Year Ended December 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2010** |
| | **(In thousands of units)** | | |
| Leased vehicles | 265 | 274 | 290 |
| Maintenance service cards | 338 | 324 | 287 |
| Fuel cards | 304 | 295 | 276 |
| Accident management vehicles | 307 | 298 | 290 |

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2010** |
| | **(In millions)** | | |
| Fleet management fees | $ 180 | $ 173 | $ 157 |
| Fleet lease income | 1,364 | 1,400 | 1,370 |
| Other income | 73 | 73 | 66 |
| Net revenues | 1,617 | 1,646 | 1,593 |
| Salaries and related expenses | 62 | 62 | 75 |
| Occupancy and other office expenses | 14 | 15 | 17 |
| Depreciation on operating leases | 1,212 | 1,223 | 1,224 |
| Fleet interest expense | 70 | 82 | 94 |
| Other depreciation and amortization | 10 | 11 | 11 |
| Other operating expenses | 162 | 178 | 109 |
| Total expenses | 1,530 | 1,571 | 1,530 |
| Segment profit | $ 87 | $ 75 | $ 63 |

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*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 and services for leased vehicles, including:

§ **Management Services.** We provide management services to our clients that include 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 receive revenue for management services as a component of the total lease payments, and the management fee revenue is recognized over the lease term.

§ **Maintenance Services.** We offer clients vehicle maintenance service cards that are used to facilitate payment for repairs and maintenance, provide access to our supplier network and service discounts and offer support services including managerial oversight and reporting of their maintenance programs, fleet performance and related costs. 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.

§ **Fuel Card Services.** We provide our clients with fuel card programs that facilitate the payment, monitoring and control of fuel purchases, including access to a variety of fuel brands and consolidated reporting on purchases and transaction monitoring to assist clients with evaluation of their fleet performance and costs. We receive both monthly fees from our fuel card clients and additional fees from fuel partners and providers.

§ **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. 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.

§ **Driver Safety Training Services.**