PHH CORP
Form 10-Q
November 05, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended September 30, 2009
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	**52-0551284**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
3000 LEADENHALL ROAD MT. LAUREL, NEW JERSEY	**08054**
(Address of principal executive offices)	*(Zip Code)*

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

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

As of November 3, 2009, 54,743,820 shares of PHH Common stock were outstanding.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (this Form 10-Q) that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors and were derived utilizing numerous important assumptions that may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Investors are cautioned not to place undue reliance on forward-looking statements.

Statements preceded by, followed by or that otherwise include the words believes, expects, anticipates, intends, projects, estimates, plans, may increase, may fluctuate and similar expressions or future or conditional verbs suc will, should, would, may and could are generally forward-looking in nature and are not historical facts. Forward-looking statements in this Form 10-Q include, but are not limited to, statements concerning the following: (i) our expectations regarding the future impact of the adoption of recently issued accounting pronouncements on our financial statements; (ii) our belief that we would have various periods to cure an event of default if one or more notices of default were to be given by our lenders or trustees under certain of our financing agreements; (iii) our expectations regarding origination volumes, including refinance originations, and loan margins in the mortgage industry; (iv) our belief that the higher margins experienced in the mortgage industry are reflective of a longer-term view of the returns required to manage the underlying risk of a mortgage production business; (v) our expectations regarding recent government initiatives, including, but not limited to, the American Recovery and Reinvestment Act of 2009, the Homeowner Affordability Stability Plan (HASP) and the Public-Private Investment Program and the impact that these initiatives may have on our Mortgage Production and Mortgage Servicing segments; (vi) our intention to continue to evaluate our cost structure in relation to projected origination volumes, in an effort to properly align our resources and expenses with expected mortgage origination volumes; (vii) our belief that HASP s loan modification programs provide additional opportunities for our Mortgage Servicing segment and could reduce our exposure to future foreclosure-related losses; (viii) our continued belief that the amount of securities held in trust related to our potential obligation from our reinsurance agreements will be significantly higher than claims expected to be paid; (ix) our expectations regarding access to and spreads on future securities that may be issued by our wholly owned subsidiary, Chesapeake Funding LLC; (x) our belief that our assets may be considered eligible collateral under the Canadian Secured Credit Facility (CSCF) and that the CSCF may stimulate the private and public demand for asset-backed commercial paper in Canada; (xi) our expectation that the United States (U.S.) and Canadian asset-backed securities markets will continue to improve during the remainder of 2009 and into 2010 and that we will be able to take advantage of this improvement; (xii) our expectation that the reorganized General Motors and Chrysler may be more financially viable suppliers in the future and our belief that any disruption in vehicle production by the North American automobile manufacturers would have little impact on our ability to provide our clients with vehicle leases as we would have the alternative to rely on foreign suppliers; (xiii) our belief that trends in the North American automobile industry have been reflected in our Fleet Management Services segment; (xiv) our expectation that as the fleets of our Fleet Management Services segment s clients age, they may require greater levels of maintenance services and other fee-based products; (xv) our intention to pursue alternative sources of potential funding, including the possible issuance of additional securities eligible under the Term Asset-Backed Securities Loan Facility to private investors through March 2010; (xvi) our belief that the modifications in our lease pricing are reflective of revised pricing throughout the industry; (xvii) our expected savings during the remainder of 2009 from cost-reduction initiatives; (xviii) our belief that our sources of liquidity are adequate to fund operations for the next 12 months; (xix) our expected capital expenditures for 2009; (xx) our expectation that the London Interbank Offered Rate and commercial paper, long-term U.S. Department of the Treasury (Treasury) and mortgage interest rates will remain our primary benchmark for market risk for the foreseeable future; (xxi) our expectation that increased reliance on the natural business hedge could result in greater volatility in the results of our Mortgage Servicing segment and (xxii) our expectation that we will continue to modify the types of mortgage loans that we originate in accordance with

secondary market liquidity.

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The factors and assumptions discussed below and the risks factors in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, as amended by the risk factors in Part II Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 and Part II Item 1A. Risk Factors in this Form 10-Q could cause actual results to differ materially from those expressed in any such forward-looking statements:

- the effects of environmental, economic or political conditions on the international, national or regional economy, the outbreak or escalation of hostilities or terrorist attacks and the impact thereof on our businesses;
- the effects of continued market volatility or continued economic decline on the availability and cost of our financing arrangements, the value of our assets and the price of our Common stock;
- the effects of a continued decline in the volume or value 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 effects of 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 of government-sponsored entities, including the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation;
- 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 such contracts;
- the ability to develop and implement operational, technological and financial systems to manage our operations and to achieve enhanced earnings or effect cost savings;
- 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 effects of the decline in the results of operations or financial condition of automobile manufacturers and/or their willingness or ability to make new vehicles available to us on commercially favorable terms, if at all;
- the ability to quickly reduce overhead and infrastructure costs in response to a reduction in revenue;
- the ability to implement fully integrated disaster recovery technology solutions in the event of a disaster;

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- the ability to obtain financing 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;
- a deterioration in the performance of assets held as collateral for secured borrowings;
- the impact of the failure to maintain our credit ratings;
- any failure to comply with certain financial covenants under our financing arrangements;
- the effects of the declining health of the U.S. and global banking systems, the consolidation of financial institutions and the related impact on the availability of credit;
- the impact of the Emergency Economic Stabilization Act of 2008 enacted by the U.S. government on the securities markets and valuations of mortgage-backed securities;
- the impact of actions taken or to be taken by the Treasury and the Federal Reserve Bank on the credit markets and the U.S. economy;
- the impact of the adverse conditions in the North American automotive industry; and
- changes in laws and regulations, including changes in accounting standards, mortgage- and real estate-related regulations and state, federal and foreign tax laws.

Other factors and assumptions not identified above were also involved in the derivation of these forward-looking statements, and the failure of such other assumptions to be realized as well as other factors may also cause actual results to differ materially from those projected. Most of these factors are difficult to predict accurately and are generally beyond our control. In addition, we operate in a rapidly changing and competitive environment. New risk factors may emerge from time to time, and it is not possible to predict all such risk factors.

The factors and assumptions discussed 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, to report events or to report the occurrence of unanticipated events unless required by law. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

PHH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues				
Mortgage fees	$ 69	$ 50	$ 216	$ 172
Fleet management fees	37	40	112	123
Net fee income	106	90	328	295
Fleet lease income	363	401	1,087	1,191
Gain on mortgage loans, net	115	49	450	177
Mortgage interest income	20	38	70	138
Mortgage interest expense	(36)	(44)	(109)	(128)
Mortgage net finance (expense) income	(16)	(6)	(39)	10
Loan servicing income	109	111	309	330
Change in fair value of mortgage servicing rights	(186)	(77)	(294)	(109)
Net derivative loss related to mortgage servicing rights		(62)		(179)
Valuation adjustments related to mortgage servicing rights	(186)	(139)	(294)	(288)
Net loan servicing (loss) income	(77)	(28)	15	42
Other income	16	27	21	123
Net revenues	507	533	1,862	1,838
Expenses				
Salaries and related expenses	114	108	357	341
Occupancy and other office expenses	16	19	43	55
Depreciation on operating leases	315	325	962	971
Fleet interest expense	21	37	72	119
Other depreciation and amortization	7	7	20	19
Other operating expenses	114	117	297	337
Goodwill impairment		61		61

Total expenses	587	674	1,751	1,903
(Loss) income before income taxes	(80)	(141)	111	(65)
(Benefit from) provision for income taxes	(32)	(28)	43	(1)
Net (loss) income	(48)	(113)	68	(64)
Less: net income (loss) attributable to noncontrolling interest	4	(29)	12	(26)
Net (loss) income attributable to PHH Corporation	$ (52)	$ (84)	$ 56	$ (38)
Basic (loss) earnings per share attributable to PHH Corporation	$ (0.94)	$ (1.56)	$ 1.03	$ (0.70)
Diluted (loss) earnings per share attributable to PHH Corporation	$ (0.94)	$ (1.56)	$ 1.02	$ (0.70)

See Notes to Condensed Consolidated Financial Statements.

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PHH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions, except share data)

	September 30, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	$ 140	$ 109
Restricted cash	641	614
Mortgage loans held for sale	1,256	1,006
Accounts receivable, net	496	468
Net investment in fleet leases	3,698	4,204
Mortgage servicing rights	1,367	1,282
Investment securities	12	37
Property, plant and equipment, net	51	63
Goodwill	25	25
Other assets	601	465
Total assets	$ 8,287	$ 8,273
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses	$ 508	$ 451
Debt	5,455	5,764
Deferred income taxes	620	579
Other liabilities	311	212
Total liabilities	6,894	7,006
Commitments and contingencies (Note 10)		
EQUITY		
Preferred stock, $0.01 par value; 1,090,000 shares authorized at September 30, 2009 and December 31, 2008; none issued or outstanding at September 30, 2009 or December 31, 2008		
Common stock, $0.01 par value; 273,910,000 and 108,910,000 shares authorized at September 30, 2009 and December 31, 2008, respectively; 54,743,740 shares issued and outstanding at September 30, 2009; 54,256,294 shares issued and outstanding at December 31, 2008	1	1
Additional paid-in capital	1,053	1,005
Retained earnings	319	263
Accumulated other comprehensive income (loss)	15	(3)
Total PHH Corporation stockholders equity	1,388	1,266
Noncontrolling interest	5	1
Total equity	1,393	1,267

Total liabilities and equity	$	8,287	$	8,273

See Notes to Condensed Consolidated Financial Statements.

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PHH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Nine Months Ended September 30, 2009
(Unaudited)
(In millions, except share data)

	PHH Corporation Stockholders						
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive (Loss)	Noncontrolling	Total
	Shares	Amount	Capital	Earnings	Income	Interest	Equity
Balance at December 31, 2008	54,256,294	$ 1	$ 1,005	$ 263	$ (3)	$ 1	$ 1,267
Net income				56		12	68
Distributions to noncontrolling interest						(8)	(8)
Other comprehensive income, net of income taxes of $0					18		18
Proceeds on the sale of Sold Warrants (Note 8)			35				35
Stock compensation expense			9				9
Stock options exercised, including excess tax benefit of $0	302,760		5				5
Restricted stock award vesting, net of excess tax benefit of $0	184,686		(1)				(1)
Balance at September 30, 2009	54,743,740	$ 1	$ 1,053	$ 319	$ 15	$ 5	$ 1,393

See Notes to Condensed Consolidated Financial Statements.

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PHH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In millions)

	Nine Months Ended September 30,	
	2009	**2008**
Cash flows from operating activities:		
Net income (loss)	$ 68	$ (64)
Adjustments to reconcile Net income (loss) to net cash provided by operating activities:		
Goodwill impairment charge		61
Capitalization of originated mortgage servicing rights	(384)	(272)
Net unrealized loss on mortgage servicing rights and related derivatives	294	288
Vehicle depreciation	962	971
Other depreciation and amortization	20	19
Origination of mortgage loans held for sale	(23,056)	(17,235)
Proceeds on sale of and payments from mortgage loans held for sale	23,208	17,706
Net gain on interest rate lock commitments, mortgage loans held for sale and related derivatives	(443)	(142)
Deferred income tax provision	37	11
Other adjustments and changes in other assets and liabilities, net	172	5
Net cash provided by operating activities	878	1,348
Cash flows from investing activities:		
Investment in vehicles	(741)	(1,463)
Proceeds on sale of investment vehicles	309	414
Purchase of mortgage servicing rights	(1)	(6)
Proceeds on sale of mortgage servicing rights	1	175
Cash paid on derivatives related to mortgage servicing rights		(129)
Net settlement proceeds from derivatives related to mortgage servicing rights		26
Purchases of property, plant and equipment	(8)	(16)
Increase in Restricted cash	(27)	(79)
Other, net	6	10
Net cash used in investing activities	(461)	(1,068)
Cash flows from financing activities:		
Net decrease in short-term borrowings		(73)
Proceeds from borrowings	35,116	24,601
Principal payments on borrowings	(35,378)	(24,777)
Issuances of Company Common stock		1
Proceeds from the sale of Sold Warrants	35	24
Cash paid for Purchased Options	(66)	(51)
Cash paid for debt issuance costs	(51)	(52)
Other, net	(9)	(5)

Net cash used in financing activities		(353)		(332)
Effect of changes in exchange rates on Cash and cash equivalents		(33)		8
Net increase (decrease) in Cash and cash equivalents		31		(44)
Cash and cash equivalents at beginning of period		109		149
Cash and cash equivalents at end of period	$	140	$	105

See Notes to Condensed Consolidated Financial Statements.

PHH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

PHH Corporation and subsidiaries (collectively, PHH or the Company) is a leading outsource provider of mortgage and fleet management services operating in the following business segments:

Mortgage Production provides mortgage loan origination services and sells mortgage loans.

Mortgage Servicing performs servicing activities for originated and purchased loans.

Fleet Management Services provides commercial fleet management services.

The Condensed Consolidated Financial Statements include the accounts and transactions of PHH and its subsidiaries, as well as entities in which the Company directly or indirectly has a controlling interest and variable interest entities of which the Company is the primary beneficiary. PHH Home Loans, LLC and its subsidiaries (collectively, PHH Home Loans or the Mortgage Venture) are consolidated within PHH s Condensed Consolidated Financial Statements, and Realogy Corporation s ownership interest is presented as a noncontrolling interest in our Condensed Consolidated Financial Statements.

The Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In management s opinion, the unaudited Condensed Consolidated Financial Statements contain all adjustments, which include normal and recurring adjustments necessary for a fair presentation of the financial position and results of operations for the interim periods presented. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions include, but are not limited to, those related to the valuation of mortgage servicing rights (MSRs), mortgage loans held for sale (MLHS), other financial instruments and goodwill and the determination of certain income tax assets and liabilities and associated valuation allowances. Actual results could differ from those estimates.

Changes in Accounting Policies

Fair Value Measurements. In February 2008, the Financial Accounting Standards Board (the FASB) updated Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures (ASC 820) to delay the effective date for one year for nonfinancial assets and nonfinancial liabilities, except for those that are recognized or disclosed at fair value on a recurring basis. The Company elected the deferral for nonfinancial assets and nonfinancial liabilities and adopted the provisions of ASC 820 for its assessment of impairment of its Goodwill, other intangible assets, net investment in operating leases, net investment in off-lease

PHH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

vehicles, real estate owned (REO) and Property, plant and equipment, net effective January 1, 2009. The Company s measurement of fair value for these nonfinancial assets, when applicable, will incorporate the assumptions market participants would use in pricing the asset, where available, which may differ from the Company s own intended use of such assets and related assumptions and therefore may result in a different fair value than the fair value measured on a basis prior to the application of ASC 820. There were no events or circumstances resulting in the measurement of fair value for any significant nonfinancial assets other than REO during the three or nine months ended September 30, 2009. See Note 13, Fair Value Measurements for additional information.

Business Combinations. In December 2007, the FASB updated ASC 805, Business Combinations (ASC 805) which applies the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses and establishes principles and requirements for how the acquirer recognizes and measures identifiable assets acquired and liabilities assumed, including assets and liabilities arising from contingencies, any noncontrolling interest in the acquiree and goodwill acquired or gain realized from a bargain purchase. In April 2009, the FASB further updated ASC 805 for the initial recognition and measurement of assets and liabilities arising from contingencies in a business combination. Subsequent measurement of assets and liabilities arising from contingencies is determined on a systematic and rational basis depending on their nature. Contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination are required to be initially recognized at fair value and subsequently measured for contingent consideration arrangements. The Company adopted the December 2007 and April 2009 updates to ASC 805 effective January 1, 2009. The adoption of the updates to ASC 805 will impact the Company s Consolidated Financial Statements prospectively in the event of any business combinations entered into by the Company after December 31, 2008 in which the Company is the acquirer.

Noncontrolling Interests. In December 2007, the FASB updated ASC 810, Consolidation (ASC 810), which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, ASC 810 requires a noncontrolling interest in a subsidiary to be reported as equity, separate from the parent s equity, in the consolidated statement of financial position and the amount of net income or loss and comprehensive income or loss attributable to the parent and noncontrolling interest to be presented separately on the face of the consolidated financial statements. Changes in a parent s ownership interest in its subsidiary in which a controlling financial interest is retained are accounted for as equity transactions. If a controlling financial interest in the subsidiary is not retained, the subsidiary is deconsolidated and any retained noncontrolling equity interest is initially measured at fair value. The Company adopted the updates to ASC 810 effective January 1, 2009, including retrospective application for the presentation of periods prior to January 1, 2009. The adoption of the updates to ASC 810 did not have a significant impact on the Company s Consolidated Financial Statements.

Transfers of Financial Assets and Repurchase Financing Transactions. In February 2008, the FASB updated ASC 860, Transfers and Servicing (ASC 860). The objective of the updates to ASC 860 is to provide guidance on accounting for the transfer of a financial asset and repurchase financing. An initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement unless certain criteria are met at the inception of the transaction. If the criteria are met, the initial transfer of the financial asset and repurchase financing transaction shall be evaluated separately. The Company adopted the updates to ASC 860 effective January 1, 2009. The adoption of the updates to ASC 860 did not impact the Company s Consolidated Financial Statements.

Disclosures about Derivative Instruments and Hedging Activities. In March 2008, the FASB updated ASC 815, Derivatives and Hedging (ASC 815) to enhance disclosure requirements for derivative instruments and hedging activities regarding how and why derivative instruments are used, how derivative instruments and related hedged items are accounted for under ASC 815 and its related interpretations and how they affect financial position, financial performance and cash flows. The updates to ASC 815 require qualitative disclosures about

PHH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. The Company adopted the enhanced disclosure provisions of ASC 815 effective January 1, 2009. The additional disclosures resulting from the adoption of the updates to ASC 815 are included in Note 6, Derivatives and Risk Management Activities in the Company s Notes to Condensed Consolidated Financial Statements.

Financial Guarantee Insurance Contracts. In May 2008, the FASB updated ASC 944, Financial Services Insurance (ASC 944). The updates clarify how ASC 944 applies to financial guarantee insurance and reinsurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. The updates to ASC 944 require insurance enterprises to recognize a liability for the unearned premium revenue at inception of the financial guarantee insurance contract and recognize revenue over the period of the contract in proportion to the amount of insurance protection provided. The updates to ASC 944 also require an insurance enterprise to recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. Additional disclosures about financial guarantee contracts are also required. The Company adopted the updates to ASC 944 effective January 1, 2009. The adoption of the updates to ASC 944 did not impact the Company s Consolidated Financial Statements.

Intangible Assets. In April 2008, the FASB updated ASC 350, Intangibles Goodwill and Other (ASC 350) which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset in order to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The Company adopted the updates to ASC 350 effective January 1, 2009 for application to intangible assets acquired after the effective date. The Company s accounting policy is to expense the costs to renew or extend recognized intangible assets as the costs are incurred.

Convertible Debt Instruments. In May 2008, the FASB updated ASC 470, Debt (ASC 470) which requires the issuer of certain convertible debt instruments that may be settled in cash or other assets upon conversion to separately account for the liability and equity components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. The Company adopted the updates to ASC 470 effective January 1, 2009. The adoption of the updates to ASC 470 did not impact the Company s Consolidated Financial Statements as its application of other GAAP for its 4.0% Convertible Senior Notes due 2012 (the 2012 Convertible Notes) results in separate accounting for the liability and equity components of the 2012 Convertible Notes and continued amortization of the original issue discount.

Participating Securities. In June 2008, the FASB updated ASC 260, Earnings Per Share (ASC 260) to address whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two class method. The Company adopted the updates to ASC 260 effective January 1, 2009. The adoption of the updates to ASC 260 did not impact the Company s Consolidated Financial Statements.

Instruments Indexed to Stock. In June 2008, the FASB ratified the consensus reached by the Emerging Issues Task Force on three issues discussed at its June 12, 2008 meeting and updated ASC 815. The issues include how an entity should evaluate whether an instrument, or embedded feature, is indexed to its own stock, how the currency in which the strike price of an equity-linked financial instrument, or embedded equity-linked feature, is denominated affects the determination of whether the instrument is indexed to an entity s own stock and how the issuer should account for market-based employee stock option valuation instruments. The Company adopted the updates to ASC 815 effective January 1, 2009. The adoption of the updates to ASC 815 did not impact the Company s Consolidated Financial Statements.

PHH CORPORATION AND SUBSIDIARIES
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Fair Value Measurements. In April 2009, the FASB updated ASC 820 to provide additional guidance for determining fair value when the volume and level of activity for an asset or liability has significantly decreased and on identifying circumstances that indicate a transaction is not orderly. The Company adopted the provisions of the updates to ASC 820 effective June 30, 2009. The adoption of the updates to ASC 820 did not impact the Company s Consolidated Financial Statements.

Disclosures about Fair Value of Financial Instruments. In April 2009, the FASB updated ASC 825, Financial Instruments (ASC 825) to require the disclosure of fair value for interim and annual reporting periods for all financial instruments for which it is practicable to estimate the value, whether recognized or not recognized in the statement of financial position. The Company adopted the updates to ASC 825 effective June 30, 2009. The adoption of the updates to ASC 825 did not impact the Company s financial position, results of operations or cash flows. Disclosures of the fair value of the Company s financial instruments are included in Note 8, Debt and Borrowing Arrangements and Note 13, Fair Value Measurements in the Company s Notes to Condensed Consolidated Financial Statements.

Subsequent Events. In May 2009, the FASB updated ASC 855, Subsequent Events (ASC 855) to establish the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. The Company adopted the updates to ASC 855 effective June 30, 2009. The updates to ASC 855 did not impact the Company s financial position, results of operations or cash flows. The Company evaluated subsequent events with respect to the Condensed Consolidated Financial Statements as of and for the three and nine months ended September 30, 2009 through November 5, 2009, the date of issuance of its financial statements.

Accounting Standards Codification. In June 2009, the FASB updated ASC 105, Generally Accepted Accounting Principles (ASC 105) to establish the FASB Accounting Standards Codification (the Codification) as the single source of authoritative non-governmental GAAP. The Codification reorganizes GAAP pronouncements into accounting topics and displays all topics using a consistent structure. It also includes relevant SEC guidance that follows the same topical structure in separate sections in the Codification. The Company adopted the updates to ASC 105 effective September 30, 2009. The Codification impacted the reference to accounting pronouncements within the Company s Notes to Consolidated Financial Statements, but had no impact on its financial position, results of operations or cash flows.

Income Taxes. In September 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-06, Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities (ASU No. 2009-06), an update to ASC 740, Income Taxes (ASC 740). ASU No. 2009-06 (i) amends the scope of ASC 740 to include tax exempt, not-for-profit entities, pass-through entities and entities taxed in a manner similar to pass-through entities, (ii) amends the definition of tax position to include an entity s status, including its status as a pass-through entity or tax-exempt entity and (iii) eliminates certain disclosure requirements for nonpublic entities. The Company adopted ASU No. 2009-06 effective September 30, 2009. The adoption of ASU No. 2009-06 did not impact the Company s Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

Transfers of Financial Assets. In June 2009, the FASB updated ASC 860 to eliminate the concept of a qualifying special-purpose entity (QSPE), modify the criteria for applying sale accounting to transfers of financial assets or portions of financial assets, differentiate between the initial measurement of an interest held in connection with the transfer of an entire financial asset recognized as a sale and participating interests recognized

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as a sale and remove the provision allowing classification of interests received in a guaranteed mortgage securitization transaction that does not qualify as a sale as available-for-sale or trading securities. The updates to ASC 860 clarify (i) that an entity must consider all arrangements or agreements made contemporaneously or in contemplation of a transfer, (ii) the isolation analysis related to the transferor and its consolidated subsidiaries and (iii) the principle of effective control over the transferred financial asset. The updates to ASC 860 also enhance financial statement disclosures. The updates to ASC 860 are effective for fiscal years beginning after November 15, 2009 with earlier application prohibited. Revised recognition and measurement provisions are to be applied to transfers occurring on or after the effective date and the disclosure provisions are to be applied to transfers that occurred both before and after the effective date. The Company is currently evaluating the impact of adopting the updates to ASC 860 on its Consolidated Financial Statements.

Consolidation of Variable Interest Entities. In June 2009, the FASB updated ASC 810 to modify certain characteristics that identify a variable interest entity (VIE), revise the criteria for determining the primary beneficiary of a VIE, add an additional reconsideration event to determining whether an entity is a VIE, eliminating troubled debt restructurings as an excluded reconsideration event and enhance disclosures regarding involvement with a VIE. Additionally, with the elimination of the concept of QSPEs in the updates to ASC 860, entities previously considered QSPEs are now within the scope of ASC 810. Entities required to consolidate or deconsolidate a VIE will recognize a cumulative effect in retained earnings for any difference in the carrying amount of the interest recognized. The updates to ASC 810 are effective for fiscal years beginning after November 15, 2009 with earlier application prohibited. The Company is currently evaluating the impact of adopting the updates to ASC 810 on its Consolidated Financial Statements.

Fair Value Measurements and Disclosures. In August 2009, the FASB issued ASU No. 2009-05, Measuring Liabilities at Fair Value (ASU No. 2009-05), an update to ASC 820. ASU No. 2009-05 clarifies that in circumstances in which a quoted price in an active market for the identical liability is not available, fair value measurement of the liability is to be estimated with one or more valuation techniques that use (i) the quoted price of the identical liability when traded as an asset, (ii) quoted prices for similar liabilities or similar liabilities when traded as assets or (iii) another valuation technique consistent with the principles of ASC 820, such as an income or market approach. ASU No. 2009-05 is effective for the first reporting period, including interim periods, beginning after the issuance with early adoption permitted. A change, if any, in valuation techniques and related inputs resulting from the application of the principles of ASU No. 2009-05 and quantification of the total effect, if practicable, shall be disclosed in the period of adoption. The Company is currently evaluating the impact of adopting ASU No. 2009-05 on its Consolidated Financial Statements. However, the Company does not expect the adoption of ASU No. 2009-05 to have a significant impact on its Consolidated Financial Statements.

Revenue Recognition. In October 2009, the FASB issued ASU No. 2009-13, Multiple Deliverable Arrangements (ASU No. 2009-13), an update to ASC 605, Revenue Recognition (ASC 605). ASU No. 2009-13 amends ASC 605 fo how to determine whether an arrangement involving multiple deliverables (i) contains more than one unit of accounting and (ii) how the arrangement consideration should be (a) measured and (b) allocated to the separate units of accounting. ASU No. 2009-13 is effective prospectively for arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU No. 2009-13 on its Consolidated Financial Statements.

2. (Loss) Earnings Per Share

Basic (loss) earnings per share attributable to PHH Corporation was computed by dividing Net (loss) income attributable to PHH Corporation during the period by the weighted-average number of shares outstanding during the period. Diluted (loss) earnings per share attributable to PHH Corporation was computed by dividing Net (loss) income attributable to PHH Corporation by the weighted-average number of shares outstanding, assuming all potentially dilutive common shares were issued. The weighted-average computation of the dilutive effect of

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potentially issuable shares of Common stock under the treasury stock method for the three and nine months ended September 30, 2009 excludes approximately 4.1 million and 1.3 million, respectively, outstanding stock-based compensation awards, as well as the assumed conversion of the Company s 2012 Convertible Notes, (as defined and further discussed in Note 8, Debt and Borrowing Arrangements) and the related purchased options and sold warrants and the sold warrants related to the 2014 Convertible Notes (as defined and further discussed in Note 8, Debt and Borrowing Arrangements), as their inclusion would be anti-dilutive. Additionally, the 2014 Convertible Notes and related purchased options are excluded from the weighted-average computation of the dilutive effect of potentially issuable shares of Common stock under the treasury stock method for the three and nine months ended September 30, 2009 as they are currently to be settled only in cash. See Note 8, Debt and Borrowing Arrangements for a description of the 2014 Convertible Notes and related purchased options and sold warrants transactions. The weighted-average computation of the dilutive effect of potentially issuable shares of Common stock under the treasury stock method for both the three and nine months ended September 30, 2008 excludes approximately 4.3 million outstanding stock-based compensation awards, as well as the assumed conversion of the Company s outstanding 2012 Convertible Notes and the related purchased options and sold warrants, as their inclusion would be anti-dilutive.

The following table summarizes the basic and diluted (loss) earnings per share attributable to PHH Corporation calculations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In millions, except share and per share data)			
Net (loss) income attributable to PHH Corporation	$ (52)	$ (84)	$ 56	$ (38)
Weighted-average common shares outstanding basic	54,744,366	54,331,664	54,542,681	54,265,271
Effect of potentially dilutive securities:				
Stock options			59,500	
Restricted stock units			491,151	
Weighted-average common shares outstanding diluted	54,744,366	54,331,664	55,093,332	54,265,271
Basic (loss) earnings per share attributable to PHH Corporation	$ (0.94)	$ (1.56)	$ 1.03	$ (0.70)
Diluted (loss) earnings per share attributable to PHH Corporation	$ (0.94)	$ (1.56)	$ 1.02	$ (0.70)

3. Mortgage Servicing Rights

The activity in the Company s loan servicing portfolio associated with its capitalized MSRs consisted of:

	Nine Months Ended September 30,	
	2009	2008
	(In millions)	

Balance, beginning of period	$ 129,078	$ 126,540
Additions	21,379	17,044
Payoffs, sales and curtailments	(23,417)	(14,318)
Balance, end of period	$ 127,040	$ 129,266

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The activity in the Company s capitalized MSRs consisted of:

	Nine Months Ended September 30,	
	2009	2008
	(In millions)	
Mortgage Servicing Rights:		
Balance, beginning of period	$ 1,282	$ 1,502
Additions	385	278
Changes in fair value due to:		
Realization of expected cash flows	(309)	(212)
Changes in market inputs or assumptions used in the valuation model	15	103
Sales	(6)	
Balance, end of period	$ 1,367	$ 1,671

The significant assumptions used in estimating the fair value of MSRs were as follows (in annual rates):

	September 30,	
	2009	2008
Prepayment speed (CPR)	17%	17%
Option adjusted spread (in basis points)	596	493
Volatility	32%	22%

The value of the Company s MSRs is driven by the net positive cash flows associated with the Company s servicing activities. These cash flows include contractually specified servicing fees, late fees and other ancillary servicing revenue. The Company recorded contractually specified servicing fees, late fees and other ancillary servicing revenue within Loan servicing income in the Condensed Consolidated Statements of Operations as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In millions)			
Net service fee revenue	$104	$109	$316	$324
Late fees	5	5	14	16
Other ancillary servicing revenue	12	5	28	18

As of September 30, 2009, the Company s MSRs had a weighted-average life of approximately 4.7 years. Approximately 70% of the MSRs associated with the loan servicing portfolio as of September 30, 2009 were restricted from sale without prior approval from the Company s private-label clients or investors.

The following summarizes certain information regarding the initial and ending capitalization rates of the Company s MSRs:

	Nine Months Ended September 30,	
	2009	2008
Initial capitalization rate of additions to MSRs	1.80%	1.63%
Weighted-average servicing fee of additions to MSRs (in basis points)	34	34

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	September 30,	
	2009	2008
Capitalized servicing rate	1.08%	1.29%
Capitalized servicing multiple	3.3	4.0
Weighted-average servicing fee (in basis points)	33	32

4. Loan Servicing Portfolio

The following tables summarize certain information regarding the Company s mortgage loan servicing portfolio for the periods indicated. Unless otherwise noted, the information presented includes both loans held for sale and loans subserviced for others.

Portfolio Activity

	Nine Months Ended September 30,	
	2009	2008
	(In millions)	
Balance, beginning of period	$ 149,750	$ 159,183
Additions	25,799	24,428
Payoffs, sales and curtailments[1]	(25,815)	(34,897)
Balance, end of period	$ 149,734	$ 148,714

Portfolio Composition

	September 30,	
	2009	2008
	(In millions)	
Owned servicing portfolio	$ 128,846	$ 133,135
Subserviced portfolio	20,888	15,579
Total servicing portfolio	$ 149,734	$ 148,714
Fixed rate	$ 99,672	$ 93,075
Adjustable rate	50,062	55,639
Total servicing portfolio	$ 149,734	$ 148,714
Conventional loans	$ 129,915	$ 132,963
Government loans	13,125	10,127
Home equity lines of credit	6,694	5,624
Total servicing portfolio	$ 149,734	$ 148,714
Weighted-average interest rate	5.4%	5.8%

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Portfolio Delinquency [2]

	September 30,			
	2009		2008	
	Number of Loans	Unpaid Balance	Number of Loans	Unpaid Balance
30 days	2.57%	2.28%	2.33%	2.03%
60 days	0.82%	0.79%	0.60%	0.55%
90 or more days	1.39%	1.47%	0.58%	0.53%
Total delinquency	4.78%	4.54%	3.51%	3.11%
Foreclosure/real estate owned/bankruptcies	2.65%	2.72%	1.72%	1.63%

(1) Payoffs, sales and curtailments for the nine months ended September 30, 2008 includes $18.3 billion of the unpaid principal balance of the underlying mortgage loans for which the associated MSRs were sold during the year ended December 31, 2007, but the Company subserviced these loans until the MSRs were transferred from the Company s systems to the purchasers systems during the three months ended June 30,

2008.

(2) Represents the loan servicing portfolio delinquencies as a percentage of the total number of loans and the total unpaid balance of the portfolio.

As of September 30, 2009 and December 31, 2008, the Company had outstanding servicing advance receivables of $118 million and $117 million, respectively, which were included in Accounts receivable, net in the Condensed Consolidated Balance Sheets.

5. Mortgage Loan Sales

The Company sells its residential mortgage loans through one of the following methods: (i) sales to the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation and loan sales to other investors guaranteed by the Government National Mortgage Association (collectively, Government-Sponsored Entities or GSEs), or (ii) sales to private investors, or sponsored securitizations through the Company s wholly owned subsidiary, PHH Mortgage Capital, LLC (PHHMC), which maintains securities issuing capacity through a public registration statement. During the nine months ended September 30, 2009, 94% of the Company s mortgage loan sales were to the GSEs and the remaining 6% were sold to private investors. The Company did not execute any sales or securitizations through PHHMC during the nine months ended September 30, 2009. During the nine months ended September 30, 2009, the Company retained MSRs on approximately 95% of mortgage loans sold. The Company did not retain any interests from sales or securitizations other than MSRs during the nine months ended September 30, 2009.

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Key economic assumptions used in measuring the fair value of the Company s retained interests in sold or securitized mortgage loans at September 30, 2009 and the effect on the fair value of those interests from adverse changes in those assumptions were as follows:

	Investment Securities	MSRs
	(Dollars in millions)	
Fair value of retained interests	$ 12	$ 1,367
Weighted-average life (in years)	8.1	4.7
Weighted-average servicing fee (in basis points)	N/A	33
Prepayment speed (annual rate)	9-26%	17%
Impact on fair value of 10% adverse change	$	$ (84)
Impact on fair value of 20% adverse change	(1)	(160)
Discount rate/Option adjusted spread (annual rate and basis points, respectively)	4-30%	596
Impact on fair value of 10% adverse change	$ (1)	$ (50)
Impact on fair value of 20% adverse change	(2)	(97)
Volatility (annual rate)	N/A	32%
Impact on fair value of 10% adverse change	N/A	$ (28)
Impact on fair value of 20% adverse change	N/A	(55)
Credit losses (cumulative rate)	8-11%	N/A
Impact on fair value of 10% adverse change	$ (1)	N/A
Impact on fair value of 20% adverse change	(2)	N/A

These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption is calculated without changing any other assumption; in reality, changes in one assumption may result in changes in another, which may magnify or counteract the sensitivities. Further, this analysis does not assume any impact resulting from management s intervention to attempt to mitigate these variations.

The following table presents information about delinquencies and components of sold or securitized residential mortgage loans for which the Company has retained interests (except for MSRs) as of and for the nine months ended September 30, 2009:

	Total Principal Amount	Principal Amount 60 Days or More Past Due[1]	Net Credit Losses
		(In millions)	
Residential mortgage loans [2]	$923	$ 228	$ 23

[1] Amounts are based on total sold or securitized assets at September 30,

2009 for which the Company has a retained interest as of September 30, 2009.

(2) Excludes sold or securitized mortgage loans that the Company continues to service but to which it has no other continuing involvement.

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The following table sets forth information regarding cash flows relating to the Company s loan sales in which it has continuing involvement.

	Nine Months Ended September 30, 2009 (In millions)
Proceeds from new loan sales or securitizations	$ 21,515
Servicing fees received [1]	316
Other cash flows received on retained interests [2]	4
Purchases of delinquent or foreclosed loans	(81)
Servicing advances	(767)
Repayment of servicing advances	757

(1) Excludes late fees and other ancillary servicing revenue.

(2) Represents cash flows received on retained interests other than servicing fees.

During the three and nine months ended September 30, 2009, the Company recognized pre-tax gains of $82 million and $435 million, respectively, related to the sale or securitization of residential mortgage loans which are recorded in Gain on mortgage loans, net in the Condensed Consolidated Statements of Operations.

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6. Derivatives and Risk Management Activities

The Company did not have any derivative instruments designated as hedging instruments as of or during the nine months ended September 30, 2009. The following table summarizes the amounts recorded in the Company s Condensed Consolidated Balance Sheet for derivative instruments not designated as hedging instruments as of September 30, 2009:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Presentation	Fair Value	Notional Amount	Balance Sheet Presentation	Fair Value	Notional Amount
			(In millions)			
Interest rate lock commitments (IRLCs)	Other assets	$ 77	$ 4,349	Other liabilities	$ 1	$ 43
Forward delivery commitments not subject to master netting arrangements:						
Related to interest rate and price risk for MLHS and IRLCs	Other assets	6	657	Other liabilities	17	1,970
Forward delivery commitments subject to master netting arrangements[1]:						
Related to interest rate and price risk for MLHS and IRLCs	Other liabilities	3	414	Other liabilities	16	1,737
Contracts related to interest rate risk for debt arrangements and variable-rate leases	Other assets	7	884	N/A		
Derivative instruments related to the issuance of the 2014 Convertible Notes	Other assets	67	10	Other liabilities	67	10
Foreign exchange contracts	N/A			Other liabilities	3	266
Total derivative instruments		160	$ 6,314		104	$ 4,026
Impact of master netting arrangements[1]		(3)			(3)	
Cash collateral					(1)	
Net fair value of derivative instruments		$ 157			$ 100	

[1] Represents derivative instruments that are executed with the same counterparties and subject to master netting arrangements

between the
Company and
its
counterparties.

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The following table summarizes the amounts recorded in the Company s Condensed Consolidated Statements of Operations for derivative instruments not designated as hedging instruments:

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
	Statement of Operations Presentation	Gain (Loss)	Statement of Operations Presentation	Gain (Loss)
		(In millions)		
Interest rate lock commitments	Gain on mortgage loans, net	$ 209	Gain on mortgage loans, net	$ 486
Forward delivery commitments related to interest rate and price risk for MLHS and IRLCs	Gain on mortgage loans, net	(13)	Gain on mortgage loans, net	(50)
Contracts related to interest rate risk for debt arrangements and variable-rate leases	Fleet interest expense	(2)	Fleet interest expense	(3)
Foreign exchange contracts	Fleet interest expense	24	Fleet interest expense	39
Total derivative instruments		$ 218		$ 472

The Company s principal market exposure is to interest rate risk, specifically long-term United States (U.S.) Department of the Treasury and mortgage interest rates due to their impact on mortgage-related assets and commitments. The Company also has exposure to the London Interbank Offered Rates (LIBOR) due to their impact on variable-rate borrowings, other interest rate sensitive liabilities and net investment in variable-rate lease assets. From time to time, the Company uses various financial instruments, including swap contracts, forward delivery commitments on mortgage-backed securities (MBS) or whole loans, futures and options contracts to manage and reduce this risk.

The following is a description of the Company s risk management policies related to IRLCs, MLHS, MSRs and debt:

Interest Rate Lock Commitments. IRLCs represent an agreement to extend credit to a mortgage loan applicant whereby the interest rate on the loan is set prior to funding. The loan commitment binds the Company (subject to the loan approval process) to lend funds to a potential borrower at the specified rate, regardless of whether interest rates have changed between the commitment date and the loan funding date. As such, the Company s outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of the IRLC through the loan funding date or expiration date. The Company s loan commitments generally range between 30 and 90 days; however, the borrower is not obligated to obtain the loan. The Company is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. The Company uses forward delivery commitments on MBS or whole loans to attempt to manage the interest rate and price risk. The Company considers historical commitment-to-closing ratios to estimate the quantity of mortgage loans that will fund within the terms of the IRLCs. (See Note 13, Fair Value Measurements for additional information regarding IRLCs.)

Mortgage Loans Held for Sale. The Company is subject to interest rate and price risk on its MLHS from the loan funding date until the date the loan is sold into the secondary market. The Company primarily uses mortgage forward delivery commitments on MBS or whole loans to fix the forward sales price that will be realized upon the sale of mortgage loans into the secondary market. Forward delivery commitments on MBS or whole loans may not be available for all products that the Company originates; therefore, the Company may use a combination of

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derivative instruments, including forward delivery commitments for similar products or treasury futures, to minimize the interest rate and price risk. (See Note 13, Fair Value Measurements for additional information regarding MLHS and related forward delivery commitments.)

Mortgage Servicing Rights. The Company s MSRs are subject to substantial interest rate risk as the mortgage notes underlying the MSRs permit the borrowers to prepay the loans. Therefore, the value of the MSRs generally tends to diminish in periods of declining interest rates (as prepayments increase) and increase in periods of rising interest rates (as prepayments decrease). Although the level of interest rates is a key driver of prepayment activity, there are other factors that influence prepayments, including home prices, underwriting standards and product characteristics. The amount and composition of derivatives, if any, that the Company may use will depend on the exposure to loss of value on the Company s MSRs, the expected cost of the derivatives, the Company s expected liquidity needs and the expected increased earnings generated by the origination of new loans resulting from the decline in interest rates. This serves as an economic hedge of the Company s MSRs, which provides a benefit when increased borrower refinancing activity results in higher production volumes which would partially offset declines in the value of the Company s MSRs thereby reducing the need to use derivatives. The benefit of this economic hedge depends on the decline in interest rates required to create an incentive for borrowers to refinance their mortgage loans and lower their interest rates; however, this benefit may not be realized under certain circumstances regardless of the change in interest rates.

During the year ended December 31, 2008, the Company assessed the composition of its capitalized mortgage loan servicing portfolio and its relative sensitivity to refinance if interest rates decline, the cost of hedging and the anticipated effectiveness of the hedge given the economic environment. Based on that assessment, the Company made the decision to close out substantially all of its derivatives related to MSRs during the three months ended September 30, 2008. As of September 30, 2009, the Company does not have any outstanding derivatives used to offset potential adverse changes in the fair value of MSRs that could affect reported earnings.

During the three and nine months ended September 30, 2008, the Company used a combination of derivative instruments to offset potential adverse changes in the fair value of its MSRs. The change in fair value of derivatives is intended to react in the opposite direction of the change in the fair value of MSRs. The MSRs derivatives generally increase in value as interest rates decline and decrease in value as interest rates rise. The effectiveness of derivatives related to MSRs is dependent upon the level at which the change in fair value of the derivatives, which is primarily driven by changes in interest rates, correlates to the change in fair value of the MSRs, which is influenced by changes in interest rates as well as other factors, including home prices, underwriting standards and product characteristics. These derivatives included interest rate swap contracts, interest rate futures contracts, interest rate forward contracts, mortgage forward contracts, options on forward contracts, options on futures contracts, options on swap contracts and principal-only swaps. During the three and nine months ended September 30, 2008, all of the derivatives associated with the MSRs were freestanding derivatives and were not designated in a hedge relationship. These derivatives were classified as Other assets or Other liabilities in the Condensed Consolidated Balance Sheet with changes in their fair values recorded in Net derivative loss related to mortgage servicing rights in the Condensed Consolidated Statements of Operations.

Debt. The Company uses various hedging strategies and derivative financial instruments to create a desired mix of fixed- and variable-rate assets and liabilities. Derivative instruments used in these hedging strategies include swaps, interest rate caps and instruments with purchased option features. To more closely match the characteristics of the related assets, including the Company s net investment in variable-rate lease assets, the Company either issues variable-rate debt or fixed-rate debt, which may be swapped to variable LIBOR-based rates. From time to time, the Company uses derivatives that convert variable cash flows to fixed cash flows to manage the risk associated with its variable-rate debt and net investment in variable-rate lease assets. Such derivatives may include freestanding derivatives and derivatives designated as cash flow hedges.

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In conjunction with the issuance of the 2014 Convertible Notes (as defined and further discussed in Note 8, Debt and Borrowing Arrangements), the Company recognized the Conversion Option (derivative liability) and Purchased Options (derivative asset) (both of which are defined and further discussed in Note 8, Debt and Borrowing Arrangements), each of which are indexed to the Company s common stock, in Other liabilities and Other assets, respectively, with the offsetting changes in their fair value recognized in Mortgage interest expense in the Condensed Consolidated Financial Statements. The Conversion Option allowed the Company to reduce the coupon rate of the 2014 Convertible Notes and the associated semiannual interest payments. The Purchased Options and Sold Warrants (as defined and further discussed in Note 8, Debt and Borrowing Arrangements) are intended to reduce the potential dilution to the Company s Common stock upon conversion of the 2014 Convertible Notes and generally have the effect of increasing the conversion price from $25.805 to $34.74 per share. See Note 8, Debt and Borrowing Arrangements for further discussion regarding the 2014 Convertible Notes and the related Conversion Option, Purchased Options and Sold Warrants.

Foreign Exchange. Due to disruptions in the credit markets, the Company has been unable to utilize certain direct financing lease funding structures, which include the receipt of substantial lease prepayments, for new lease originations by its Canadian fleet management operations. Alternatively, approximately $266 million of additional leases are being funded by the Company s unsecured borrowings as of September 30, 2009 in comparison to before the disruptions in the credit markets. As such, the Company is subject to foreign exchange risk associated with the use of domestic borrowings to fund Canadian leases, and has entered into foreign exchange forward contracts to manage such risk. During the three and nine months ended September 30, 2009, the Company recorded net foreign exchange transaction losses of $24 million and $39 million, respectively, and net gains of $24 million and $39 million, respectively, related to the foreign exchange forward contracts, both of which were included in Fleet interest expense in the Condensed Consolidated Statements of Operations, and as such the net foreign exchange impact related to the use of domestic borrowings to fund additional Canadian leases was not significant.

7. Vehicle Leasing Activities

The components of Net investment in fleet leases were as follows:

	September 30, 2009	December 31, 2008
	(In millions)	
Operating Leases:		
Vehicles under open-end operating leases	$ 7,549	$ 7,542
Vehicles under closed-end operating leases	264	266
Vehicles under operating leases	7,813	7,808
Less: Accumulated depreciation	(4,326)	(3,999)
Net investment in operating leases	3,487	3,809
Direct Financing Leases:		
Lease payments receivable	107	141
Less: Unearned income	(5)	(7)
Net investment in direct financing leases	102	134
Off-Lease Vehicles:		

Vehicles not yet subject to a lease	108	254
Vehicles held for sale	3	18
Less: Accumulated depreciation	(2)	(11)
Net investment in off-lease vehicles	109	261
Net investment in fleet leases	$ 3,698	$ 4,204

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	September 30, 2009	December 31, 2008
Vehicles under open-end leases	95%	94%
Vehicles under closed-end leases	5%	6%
Vehicles under variable-rate leases	75%	73%
Vehicles under fixed-rate leases	25%	27%

8. Debt and Borrowing Arrangements

The following tables summarize the components of the Company s indebtedness as of September 30, 2009 and December 31, 2008:

September 30, 2009

					Assets Held as Collateral[1]			
	Balance	Capacity[2]	Interest Rate[3]	Maturity/ Expiry Date	Accounts Receivable	Restricted Cash	Mortgage Loans Held for Sale	Net Investment in Fleet Leases[4]
				(Dollars in millions)				
Chesapeake Series 2006-1 Variable Funding Notes	$ 154	$ 154		3/27/2009(5)				
Chesapeake Series 2006-2 Variable Funding Notes	768	768		2/26/2009(5)				
Chesapeake Series 2009-1 Term Notes	1,000	1,000		5/20/2010				
Chesapeake Series 2009-2 Class A Term Notes	850	850		2/17/2011				
Chesapeake Series 2009-2 Class B Term Notes[6]	27	27		2/17/2011				
Chesapeake Series 2009-2 Class C Term Notes[6]	24	24		2/17/2011				
Other	34	34		3/2010 6/2016				
Total Vehicle Management Asset-Backed Debt	2,857	2,857	2.2%[7]		$ 30	$ 361	$	$ 3,130

RBS Repurchase Facility[8]	552	1,500	3.0%	6/24/2010			599	
Fannie Mae Repurchase Facilities[9]	418	418	1.0%	N/A			423	
Other	4	4	3.1%	10/29/2009			4	
Total Mortgage Warehouse Asset-Backed Debt	974	1,922					1,026	
Term Notes[10]	440	440	6.5% 7.9%[11]	4/2010 4/2018				
Credit Facilities[12]	789	1,305	1.0%[13]	1/6/2011				
Convertible Notes due 2012[14]	218	218	4.0%	4/15/2012				
Convertible Notes due 2014[15]	177	177	4.0%	9/1/2014				
Total Unsecured Debt	1,624	2,140						
Total Debt	$ 5,455	$ 6,919			$ 30	$ 361	$ 1,026	$ 3,130

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	December 31, 2008							
					Assets Held as Collateral[1]			
	Balance	Capacity[2]	Interest Rate[3]	Maturity/ Expiry Date	Accounts Receivable	Restricted Cash	Mortgage Loans Held for Sale	Net Investment in Fleet Leases[4]
	(Dollars in millions)							
Chesapeake Series 2006-1 Variable Funding Notes	$ 2,371	$ 2,500		2/26/2009				
Chesapeake Series 2006-2 Variable Funding Notes	1,000	1,000		2/26/2009				
Other	5	5		3/2010 5/2014				
Total Vehicle Management Asset-Backed Debt	3,376	3,505	3.6%[7]		$ 22	$ 320	$	$ 3,692
RBS Repurchase Facility[8]	411	1,500	4.0%	6/24/2010			456	
Citigroup Repurchase Facility[16]	10	500	1.7%	2/26/2009			12	
Fannie Mae Repurchase Facilities[9]	149	149	1.0%	N/A			149	
Mortgage Venture Repurchase Facility[17]	115	225	1.7%	5/28/2009		25	128	
Other	7	7	5.3%	10/29/2009			7	
Total Mortgage Warehouse Asset-Backed Debt	692	2,381				25	752	

Term Notes[10]	441	441	6.5%	7.9%[11]	4/2010	4/2018				
Credit Facilities[12]	1,035	1,303		1.3%[13]		1/6/2011				
Convertible Notes due 2012[14]	208	208		4.0%		4/15/2012				
Other	12	12								
Total Unsecured Debt	1,696	1,964								
Total Debt	$ 5,764	$ 7,850					$ 22	$ 345	$ 752	$ 3,692

(1) Assets held as collateral are not available to pay the Company s general obligations.

(2) Capacity is dependent upon maintaining compliance with, or obtaining waivers of, the terms, conditions and covenants of the respective agreements. With respect to asset-backed funding arrangements, capacity may be further limited by the asset eligibility requirements under the respective agreements. The Series 2009-1 and Series 2009-2 notes have revolving periods during which time the pro-rata share of lease cash flows pledged to Chesapeake will

create availability to fund the acquisition of vehicles to be leased to customers of the Company s Fleet Management Services segment. See Asset-Backed Debt Vehicle Management Asset-Backed Debt below for additional information.

(3) Represents the variable interest rate as of the respective date, with the exception of total vehicle management asset-backed debt, term notes, the 2014 Convertible Notes and the 2012 Convertible Notes.

(4) The titles to all the vehicles collateralizing the debt issued by Chesapeake Funding LLC (Chesapeake) are held in a bankruptcy remote trust and the Company acts as a servicer of all such leases. The bankruptcy remote trust also acts as a lessor under both operating and direct financing lease agreements.

(5) The Company elected to allow the Series 2006-2 notes and Series 2006-1 notes to amortize in accordance with their terms on their Scheduled Expiry Dates (as defined below). During the Amortization Periods (as defined below), the Company is unable to borrow additional amounts under these notes. See Asset-Backed Debt Vehicle Management Asset-Backed Debt below for additional information.

(6) The carrying amount of the Chesapeake Series 2009-2 Series B and Series C term notes as of September 30, 2009 is net of an unamortized discount of $4 million and $5 million, respectively. See Asset-Backed Debt Vehicle Management Asset-Backed Debt below for additional information.

(7) Represents the weighted-average interest rate of the Company s vehicle management asset-backed debt arrangements as of September 30, 2009 and December 31, 2008, respectively.

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(8) The Company maintains a variable-rate committed mortgage repurchase facility (the RBS Repurchase Facility) with The Royal Bank of Scotland plc (RBS). At the Company s election, subject to compliance with the terms of the Amended Repurchase Agreement and payment of renewal fees, the RBS Repurchase Facility was renewed for an additional 364-day term on June 25, 2009.

(9) The balance and capacity represents amounts outstanding under the Company s variable-rate uncommitted mortgage repurchase facilities (the Fannie Mae Repurchase Facilities) with Fannie Mae. Total uncommitted

capacity was approximately $2.8 billion and $1.5 billion as of September 30, 2009 and December 31, 2008, respectively.

(10) Represents medium-term notes (the MTNs) publicly issued under the indenture, dated as of November 6, 2000 (as amended and supplemented, the MTN Indenture) by and between PHH and The Bank of New York, as successor trustee for Bank One Trust Company, N.A.

(11) Represents the range of stated interest rates of the MTNs outstanding as of September 30, 2009 and December 31, 2008, respectively. The effective rate of interest of the Company s outstanding MTNs was 7.2% as of both September 30, 2009 and December 31,

2008.

(12) Credit facilities primarily represents a $1.3 billion Amended and Restated Competitive Advance and Revolving Credit Agreement (the Amended Credit Facility), dated as of January 6, 2006, among PHH, a group of lenders and JPMorgan Chase Bank, N.A., as administrative agent.

(13) Represents the interest rate on the Amended Credit Facility as of September 30, 2009 and December 31, 2008, respectively, excluding per annum utilization and facility fees. The outstanding balance as of September 30, 2009 and December 31, 2008 also includes $73 million and $78 million, respectively, outstanding under another variable-rate credit facility that bore interest

at 1.4% and 2.8%, respectively. See Unsecured Debt Credit Facilities below for additional information.

(14) On April 2, 2008, the Company completed a private offering of the 4.0% Convertible Notes due 2012 (the 2012 Convertible Notes) with an aggregate principal amount of $250 million and a maturity date of April 15, 2012 to certain qualified institutional buyers. The carrying amount as of September 30, 2009 and December 31, 2008 is net of an unamortized discount of $32 million and $42 million, respectively. The effective rate of interest of the 2012 Convertible Notes was 12.4% as of September 30, 2009 and December 31, 2008, which represents the 4.0% semiannual

cash payment and the non-cash accretion of discount and issuance costs. There were no conversions of the 2012 Convertible Notes during the nine months ended September 30, 2009.

(15) On September 29, 2009, the Company completed a private offering of the 4.0% Convertible Senior Notes due 2014 (the 2014 Convertible Notes) with an aggregate principal balance of $250 million and a maturity date of September 1, 2014 to certain qualified institutional buyers. The carrying amount as of September 30, 2009 is net of an unamortized discount of $73 million. The effective rate of interest of the 2014 Convertible Notes was 13.0% as of September 30, 2009, which

represents the 4.0% semiannual cash payment and the non-cash accretion of discount and issuance costs. There were no conversions of the 2014 Convertible Notes during the nine months ended September 30, 2009.

(16) The Company maintained a 364-day $500 million variable-rate committed mortgage repurchase facility with Citigroup Global Markets Realty Corp. (the Citigroup Repurchase Facility). The Company repaid all outstanding obligations under the Citigroup Repurchase Facility as of February 26, 2009.

(17) The Mortgage Venture maintained a variable-rate committed repurchase facility (the Mortgage Venture Repurchase

Facility) with Bank of Montreal and Barclays Bank PLC as Bank Principals and Fairway Finance Company, LLC and Sheffield Receivables Corporation as Conduit Principals. The balance as of December 31, 2008 represents variable-funding notes outstanding under the facility. See Asset-Backed Debt Mortgage Warehouse Asset-Backed Debt below for additional information.

The fair value of the Company s debt was $5.3 billion and $4.8 billion as of September 30, 2009 and December 31, 2008, respectively.

Asset-Backed Debt

Vehicle Management Asset-Backed Debt

Vehicle management asset-backed debt primarily represents variable-rate debt issued by the Company s wholly owned subsidiary, Chesapeake, to support the acquisition of vehicles used by the Fleet Management Services segment s U.S. leasing operations. On February 27, 2009, the Company amended the agreement governing the Series 2006-1 notes to extend the scheduled expiry date to March 27, 2009 in order to provide additional time for the Company and the lenders of the Chesapeake notes to evaluate the long-term funding arrangements for its Fleet Management Services segment. The amendment also included a reduction in the total capacity of the Series 2006-1 notes from $2.5 billion to $2.3 billion and the payment of certain extension fees. Additionally, on February 26, 2009 and March 27, 2009 (the Scheduled Expiry Dates) the Company elected to

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allow the Series 2006-2 and Series 2006-1 notes, respectively, to amortize in accordance with their terms, as further discussed below.

On June 9, 2009, Chesapeake issued $1.0 billion of Term Asset-Backed Loan Facility (TALF) eligible term notes under Series 2009-1 to repay a portion of the Series 2006-1 notes and provide additional committed funding for the Company s Fleet Management Services operations. The Series 2009-1 notes have a revolving period, after which, the Series 2009-1 notes shall amortize in accordance with their terms beginning on May 20, 2010, as further discussed below. During the revolving period, the Series 2009-1 notes pro-rata share of lease cash flows pledged to Chesapeake will create availability to fund the acquisition of vehicles to be leased to customers of the Company s Fleet Management Services segment.

On September 11, 2009, Chesapeake issued $850 million of Class A TALF-eligible term notes under Series 2009-2 to repay a portion of the Series 2006-1 variable funding notes and provide additional committed funding for the Company s Fleet Management Services operations. On September 11, 2009, Chesapeake also issued $31 million and $29 million of Class B and Class C, respectively, term notes under Series 2009-2, which were purchased by another wholly owned subsidiary of PHH Corporation, to repay a portion of the Series 2006-1 variable funding notes and provide additional committed funding for the Fleet Management Services segment. Subsequently, on September 29, 2009, the Series 2009-2 Class B and Series 2009-2 Class C notes were resold to certain qualified institutional buyers. The Series 2009-2 notes have a revolving period, after which, the Series 2009-2 notes shall amortize in accordance with their terms beginning on February 17, 2011, as further discussed below. During the revolving period, the Series 2009-2 notes pro-rata share of lease cash flows pledged to Chesapeake will create availability to fund the acquisition of vehicles to be leased to customers of the Company s Fleet Management Services segment.

During the amortization periods, the Company will be unable to borrow additional amounts under the variable funding notes or use the pro-rata share of lease cash flows to fund the acquisition of vehicles to be leased under the term notes, and monthly repayments will be made on the notes through the earlier of 125 months following the Scheduled Expiry Dates, or when the respective series of notes are paid in full based on an allocable share of the collection of cash receipts of lease payments from its clients relating to the collateralized vehicle leases and related assets (the Amortization Period). The allocable share is based upon the outstanding balance of those notes relative to all other outstanding series notes issued by Chesapeake as of the commencement of the Amortization Period. After the payment of interest, servicing fees, administrator fees and servicer advance reimbursements, any monthly lease collections during the Amortization Period of a particular series would be applied to reduce the principal balance of the series notes.

As of September 30, 2009, 84% of the Company s fleet leases collateralize the debt issued by Chesapeake. These leases include certain eligible assets representing the borrowing base of the variable funding and term notes (the Chesapeake Lease Portfolio). Approximately 99% of the Chesapeake Lease Portfolio as of September 30, 2009 consisted of open-end leases, in which substantially all of the residual risk on the value of the vehicles at the end of the lease term remains with the lessee. As of September 30, 2009, the Chesapeake Lease Portfolio consisted of 23% and 77% fixed-rate and variable-rate leases, respectively. As of September 30, 2009, the top 25 client lessees represented approximately 50% of the Chesapeake Lease Portfolio, with no client exceeding 5%.

Mortgage Warehouse Asset-Backed Debt

On December 15, 2008, the parties agreed to amend the Mortgage Venture Repurchase Facility to, among other things, reduce the total committed capacity to $125 million by March 31, 2009 through a series of commitment reductions. Additionally, the parties elected not to renew the Mortgage Venture Repurchase Facility beyond its maturity date and the Company repaid all outstanding obligations under the Mortgage Venture Repurchase Facility on May 28, 2009. Prior to May 28, 2009, the Mortgage Venture undertook a variety of actions in order to shift its mortgage loan production primarily to mortgage loans that are brokered through third

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party investors, including PHH Mortgage Corporation (PHH Mortgage), in order to decrease its reliance on committed mortgage warehouse asset-backed debt unless and until an alternative source of funding is obtained.

Unsecured Debt

Credit Facilities

Pricing under the Amended Credit Facility is based upon the Company s senior unsecured long-term debt ratings. If the ratings on the Company s senior unsecured long-term debt assigned by Moody s Investors Service, Standard & Poor s and Fitch Ratings are not equivalent to each other, the second highest credit rating assigned by them determines pricing under the Amended Credit Facility. On February 11, 2009, Standard & Poor s downgraded its rating of the Company s senior unsecured long-term debt from BBB- to BB+, and Fitch Ratings rating of the Company s senior unsecured long-term debt was lowered to BB+ on February 26, 2009. In addition, on March 2, 2009, Moody s Investors Service downgraded its rating of the Company s senior unsecured long-term debt from Ba1 to Ba2. As of September 30, 2009 and December 31, 2008, borrowings under the Amended Credit Facility bore interest at a margin of 70.0 basis points (bps) and 47.5 bps, respectively, over a benchmark index of either LIBOR or the federal funds rate. The Amended Credit Facility also requires the Company to pay utilization fees if its usage exceeds 50% of the aggregate commitments under the Amended Credit Facility and per annum facility fees. As of both September 30, 2009 and December 31, 2008, the per annum utilization fees were 12.5 bps. Facility fees were 17.5 bps and 12.5 bps as of September 30, 2009 and December 31, 2008, respectively.

Convertible Notes

The 2014 Convertible Notes are senior unsecured obligations of the Company, which rank equally with all of its existing and future senior debt. The 2014 Convertible Notes are governed by an indenture (the 2014 Convertible Notes Indenture), dated September 29, 2009, between the Company and The Bank of New York Mellon, as trustee.

Under the 2014 Convertible Notes Indenture, holders may convert (the Conversion Option) all or any portion of the 2014 Convertible Notes at any time from, and including, March 1, 2014 through the third business day immediately preceding their maturity on September 1, 2014 or prior to March 1, 2014 in the event of the occurrence of certain triggering events related to the price of the 2014 Convertible Notes, the price of the Company s Common stock or certain corporate events. Upon conversion, the Company will deliver the principal portion in cash and, if the conversion price calculated for each business day over a period of 60 consecutive business days exceeds the principal amount (the Conversion Premium), shares of its Common stock or cash for the Conversion Premium, but currently only in cash as further discussed below. Subject to certain exceptions, the holders of the 2014 Convertible Notes may require the Company to repurchase all or a portion of their 2014 Convertible Notes upon a fundamental change, as defined under the 2014 Convertible Notes Indenture. The Company will generally be required to increase the conversion rate for holders that elect to convert their 2014 Convertible Notes in connection with a make-whole fundamental change. In addition, the conversion rate may be adjusted upon the occurrence of certain events. The Company may not redeem the 2014 Convertible Notes prior to their maturity on September 1, 2014.

In connection with the issuance of the 2014 Convertible Notes, the Company entered into convertible note hedging transactions with respect to the Conversion Premium (the Purchased Options) and warrant transactions whereby the Company sold warrants to acquire, subject to certain anti-dilution adjustments, shares of its Common stock (the Sold Warrants). The Purchased Options and Sold Warrants are intended to reduce the potential dilution of the Company s Common stock upon potential future conversion of the 2014 Convertible Notes and generally have the effect of increasing the conversion price of the 2014 Convertible Notes from $25.805 (based on the initial conversion rate of 38.7522 shares of the Company s Common stock per $1,000 principal amount of the 2014 Convertible Notes) to $34.74 per share.

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The 2014 Convertible Notes bear interest at 4.0% per year, payable semiannually in arrears in cash on March 1st and September 1st. In connection with the issuance of the 2014 Convertible Notes, the Company recognized an original issue discount and issuance costs of $74 million, which are being accreted to Mortgage interest expense in the Condensed Consolidated Statements of Operations through March 1, 2014 or the earliest conversion date of the 2014 Convertible Notes.

The New York Stock Exchange regulations require stockholder approval prior to the issuance of shares of common stock or securities convertible into common stock that will, or will upon issuance, equal or exceed 20% of outstanding common stock. Unless and until stockholder approval to exceed this limitation is obtained, the Company will settle conversion of the 2014 Convertible Notes entirely in cash. Based on these settlement terms, the Company determined that at the time of issuance of the 2014 Convertible Notes, the Conversion Option and Purchased Options did not meet all the criteria for equity classification and, therefore, recognized the Conversion Option and Purchased Options as a derivative liability and derivative assets, respectively, with the offsetting changes in their fair values recognized in Mortgage interest expense in the Condensed Consolidated Financial Statements. (See Note 6, Derivatives and Risk Management Activities in these Notes to Condensed Consolidated Financial Statements for additional information regarding the Conversion Option and Purchased Options.) The Company determined that the Sold Warrants were indexed to its own stock and met all the criteria for equity classification. The Sold Warrants were recorded in Additional paid-in capital in the Condensed Consolidated Financial Statements and have no impact on the Company s Condensed Consolidated Statements of Operations.

Debt Maturities

The following table provides the contractual maturities of the Company s indebtedness at September 30, 2009. The maturities of the Company s vehicle management asset-backed notes, a portion of which are amortizing in accordance with their terms, represent estimated payments based on the expected cash inflows related to the securitized vehicle leases and related assets:

	Asset-Backed	Unsecured	Total
		(In millions)	
Within one year	$ 1,572	$ 6	$ 1,578
Between one and two years	873	788	1,661
Between two and three years	705	250	955
Between three and four years	429	421	850
Between four and five years	252	250	502
Thereafter	9	9	18
	$ 3,840	$ 1,724	$ 5,564

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As of September 30, 2009, available funding under the Company s asset-backed debt arrangements and unsecured committed credit facilities consisted of:

	Capacity[1]	Utilized Capacity	Available Capacity
		(In millions)	
Asset-Backed Funding Arrangements			
Vehicle management[2]	$ 2,857	$ 2,857	$
Mortgage warehouse[3]	1,922	974	948
Unsecured Committed Credit Facilities[4]	1,305	804	501

(1) Capacity is dependent upon maintaining compliance with, or obtaining waivers of, the terms, conditions and covenants of the respective agreements. With respect to asset-backed funding arrangements, capacity may be further limited by the asset eligibility requirements under the respective agreements.

(2) On February 27, 2009 and March 30, 2009, the Amortization Period of the Series 2006-2 and Series 2006-1

notes, respectively, began, during which time the Company is unable to borrow additional amounts under these notes. Amounts outstanding under the Series 2006-2 and Series 2006-1 notes were $768 million and $154 million, respectively, as of September 30, 2009. The Series 2009-1 and Series 2009-2 notes have revolving periods during which time the pro-rata share of lease cash flows pledged to Chesapeake will create availability to fund the acquisition of vehicles to be leased by customers of the Company s Fleet Management Services segment. See Asset-Backed Debt Vehicle Management Asset-Backed Debt above for additional

information.

(3) Capacity does not reflect $2.4 billion undrawn under the $2.8 billion Fannie Mae Repurchase Facilities, as these facilities are uncommitted.

(4) Utilized capacity reflects $16 million of letters of credit issued under the Amended Credit Facility, which are not included in Debt in the Company s Condensed Consolidated Balance Sheet.

Debt Covenants

Certain of the Company s debt arrangements require the maintenance of certain financial ratios and contain restrictive covenants, including, but not limited to, material adverse change, liquidity maintenance, restrictions on indebtedness of material subsidiaries, mergers, liens, liquidations and sale and leaseback transactions. The Amended Credit Facility and the RBS Repurchase Facility require that the Company maintain: (i) on the last day of each fiscal quarter, net worth of $1.0 billion plus 25% of net income, if positive, for each fiscal quarter ended after December 31, 2004 and (ii) at any time, a ratio of indebtedness to tangible net worth no greater than 10:1. The MTN Indenture requires that the Company maintain a debt to tangible equity ratio of not more than 10:1. The MTN Indenture also restricts the Company from paying dividends if, after giving effect to the dividend payment, the debt to equity ratio exceeds 6.5:1. In addition, the RBS Repurchase Facility requires PHH Mortgage to maintain a minimum of $3.0 billion in mortgage repurchase or warehouse facilities, comprised of any uncommitted facilities provided by Fannie Mae and any committed mortgage repurchase or warehouse facility, including the RBS Repurchase Facility. At September 30, 2009, the Company was in compliance with all of its financial covenants related to its debt arrangements.

Under certain of the Company s financing, servicing, hedging and related agreements and instruments (collectively, the Financing Agreements), the lenders or trustees have the right to notify the Company if they believe it has breached a covenant under the operative documents and may declare an event of default. If one or more notices of default were to be given, the Company believes it would have various periods in which to cure certain of such events of default. If it does not cure the events of default or obtain necessary waivers within the required time periods, the maturity of some of its debt could be accelerated and its ability to incur additional indebtedness could be restricted. In addition, events of default or acceleration under certain of the Company s Financing Agreements would trigger cross-default provisions under certain of its other Financing Agreements.

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9. Income Taxes

The Company records its interim income tax provisions or benefits by applying a projected full-year effective income tax rate to its quarterly (Loss) income before income taxes for results that it deems to be reliably estimable in accordance with ASC 740. Certain results dependent on fair value adjustments of the Company s Mortgage Production and Mortgage Servicing segments are considered not to be reliably estimable and therefore the Company records discrete year-to-date income tax provisions on those results.

During the three months ended September 30, 2009, the Benefit from income taxes was $32 million and was impacted by a $2 million net increase in valuation allowances for deferred tax assets (primarily due to loss carryforwards generated during the three months ended September 30, 2009 for which the Company believes it is more likely than not that the loss carryforwards will not be realized). Due to the Company s mix of income and loss from its operations by entity and state income tax jurisdiction, there was a significant difference between the state effective income tax rates during the three months ended September 30, 2009 and 2008.

During the three months ended September 30, 2008, the Benefit from income taxes was $28 million and was significantly impacted by a $9 million net increase in valuation allowances for deferred tax assets (primarily due to loss carryforwards of $9 million generated during the three months ended September 30, 2008 for which the Company believed it was more likely than not that the loss carryforwards would not be realized). Additionally, a portion of the PHH Home Loans Goodwill impairment was not deductible for federal and state income tax purposes, which impacted the computed effective tax rate for the interim period by $7 million.

During the nine months ended September 30, 2009, the Provision for income taxes was $43 million and was impacted by a $1 million net increase in valuation allowances for deferred tax assets (primarily due to loss carryforwards generated during the nine months ended September 30, 2009 for which the Company believes it is more likely than not that the loss carryforwards will not be realized). Due to the Company s mix of income and loss from its operations by entity and state income tax jurisdiction, there was a significant difference between the state effective income tax rates during the nine months ended September 30, 2009 and 2008.

During the nine months ended September 30, 2008, the Benefit from income taxes was $1 million and was significantly impacted by an $8 million net increase in valuation allowances for deferred tax assets (primarily due to loss carryforwards of $17 million generated during the nine months ended September 30, 2008 for which the Company believed it was more likely than not that the loss carryforwards would not be realized that were partially offset by a $9 million reduction in certain loss carryforwards as a result of the receipt of approval from the Internal Revenue Service (IRS) regarding an accounting method change). Additionally, a portion of PHH Home Loans Goodwill impairment was not deductible for federal and state income tax purposes, which impacted the computed effective tax rate for the interim period by $7 million.

10. Commitments and Contingencies

Tax Contingencies

On February 1, 2005, the Company began operating as an independent, publicly traded company pursuant to its spin-off from Cendant Corporation (the Spin-Off). In connection with the Spin-Off, the Company and Cendant Corporation (now known as Avis Budget Group, Inc., but referred to as Cendant within these Notes to Condensed Consolidated Financial Statements) entered into a tax sharing agreement dated January 31, 2005, which was amended on December 21, 2005 (the Amended Tax Sharing Agreement). The Amended Tax Sharing Agreement governs the allocation of liabilities for taxes between Cendant and the Company, indemnification for certain tax liabilities and responsibility for preparing and filing tax returns and defending tax contests, as well as other tax-related matters. The Amended Tax Sharing Agreement contains certain provisions relating to the

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treatment of the ultimate settlement of Cendant tax contingencies that relate to audit adjustments due to taxing authorities review of income tax returns. The Company s tax basis in certain assets may be adjusted in the future, and the Company may be required to remit tax benefits ultimately realized by the Company to Cendant in certain circumstances. Certain of the effects of future adjustments relating to years the Company was included in Cendant s income tax returns that change the tax basis of assets, liabilities and net operating loss and tax credit carryforward amounts may be recorded in equity rather than as an adjustment to the tax provision.

Also, pursuant to the Amended Tax Sharing Agreement, the Company and Cendant have agreed to indemnify each other for certain liabilities and obligations. The Company s indemnification obligations could be significant in certain circumstances. For example, the Company is required to indemnify Cendant for any taxes incurred by it and its affiliates as a result of any action, misrepresentation or omission by the Company or its affiliates that causes the distribution of the Company s Common stock by Cendant or the internal reorganization transactions relating thereto to fail to qualify as tax-free. In the event that the Spin-Off or the internal reorganization transactions relating thereto do not qualify as tax-free for any reason other than the actions, misrepresentations or omissions of Cendant or the Company or its respective subsidiaries, then the Company would be responsible for 13.7% of any taxes resulting from such a determination. This percentage was based on the relative pro forma net book values of Cendant and the Company as of September 30, 2004, without giving effect to any adjustments to the book values of certain long-lived assets that may be required as a result of the Spin-Off and the related transactions. The Company cannot determine whether it will have to indemnify Cendant or its affiliates for any substantial obligations in the future. The Company also has no assurance that if Cendant or any of its affiliates is required to indemnify the Company for any substantial obligations, they will be able to satisfy those obligations.

Cendant disclosed in its Annual Report on Form 10-K for the year ended December 31, 2008 (the Cendant 2008 Form 10-K) (filed on February 26, 2009 under Avis Budget Group, Inc.) that it and its subsidiaries are the subject of an IRS audit for the tax years ended December 31, 2003 through 2006. The Company, since it was a subsidiary of Cendant through January 31, 2005, is included in this IRS audit of Cendant. Under certain provisions of the IRS regulations, the Company and its subsidiaries are subject to several liability to the IRS (together with Cendant and certain of its affiliates (the Cendant Group) prior to the Spin-Off) for any consolidated federal income tax liability of the Cendant Group arising in a taxable year during any part of which they were members of the Cendant Group. Cendant also disclosed in the Cendant 2008 Form 10-K that it settled the IRS audit for the taxable years 1998 through 2002 that included the Company. As provided in the Amended Tax Sharing Agreement, Cendant is responsible for and required to pay to the IRS all taxes required to be reported on the consolidated federal returns for taxable periods ended on or before January 31, 2005. Pursuant to the Amended Tax Sharing Agreement, Cendant is solely responsible for separate state taxes on a significant number of the Company s income tax returns for years 2003 and prior. In addition, Cendant is solely responsible for paying tax deficiencies arising from adjustments to the Company s federal income tax returns and for the Company s state and local income tax returns filed on a consolidated, combined or unitary basis with Cendant for taxable periods ended on or before the Spin-Off, except for those taxes which might be attributable to the Spin-Off or internal reorganization transactions relating thereto, as more fully discussed above. The Company will be solely responsible for any tax deficiencies arising from adjustments to separate state and local income tax returns for taxable periods ending after 2003 and for adjustments to federal and all state and local income tax returns for periods after the Spin-Off.

Loan Recourse

The Company sells a majority of its loans on a non-recourse basis. The Company also provides representations and warranties to purchasers and insurers of the loans sold. In the event of a breach of these representations and warranties, the Company may be required to repurchase a mortgage loan or indemnify the purchaser, and any subsequent loss on the mortgage loan may be borne by the Company. If there is no breach of a representation and warranty provision, the Company has no obligation to repurchase the loan or indemnify the investor against loss. The unpaid principal balance of the loans sold by the Company represents the maximum potential exposure

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related to representations and warranty provisions; however, the Company cannot estimate its maximum exposure because it does not service all of the loans for which it has provided a representation or warranty.

The Company had a program that provided credit enhancement for a limited period of time to the purchasers of mortgage loans by retaining a portion of the credit risk. The Company is no longer selling loans into this program. The retained credit risk related to this program, which represents the unpaid principal balance of the loans, was $12 million as of September 30, 2009, 36.10% of which were at least 90 days delinquent (calculated based upon the unpaid principal balance of the loans). In addition, the outstanding balance of other loans sold with specific recourse by the Company and those for which a breach of representation or warranty provision was identified subsequent to sale was $236 million as of September 30, 2009, 14.13% of which were at least 90 days delinquent (calculated based upon the unpaid principal balance of the loans).

As of September 30, 2009, the Company had a liability of $48 million, included in Other liabilities in the Condensed Consolidated Balance Sheet, for probable losses related to the Company s recourse exposure.

Mortgage Reinsurance

Through the Company s wholly owned mortgage reinsurance subsidiary, Atrium Insurance Corporation (Atrium), the Company has entered into contracts with two primary mortgage insurance companies to provide mortgage reinsurance on certain mortgage loans, one of which is active and the other is inactive and in runoff. Through these contracts, the Company is exposed to losses on mortgage loans pooled by year of origination. As of June 30, 2009, the contractual reinsurance period for each pool was 10 years and the weighted-average reinsurance period was 5.5 years. Loss rates on these pools are determined based on the unpaid principal balance of the underlying loans. The Company indemnifies the primary mortgage insurers for losses that fall between a stated minimum and maximum loss rate on each annual pool. In return for absorbing this loss exposure, the Company is contractually entitled to a portion of the insurance premium from the primary mortgage insurers. The Company is required to hold securities in trust related to this potential obligation, which were $278 million and were included in Restricted cash in the Condensed Consolidated Balance Sheet as of September 30, 2009. During the three months ended September 30, 2009, the Company commuted its reinsurance agreements with two primary mortgage insurers. Atrium has remitted the associated balance of securities held in trust in its entirety to one of the primary mortgage insurers, and the balance for the other primary mortgage insurer will be remitted in the fourth quarter of 2009. The Company s contractual reinsurance payments outstanding as of September 30, 2009 were not significant. As of September 30, 2009, a liability of $113 million was included in Other liabilities in the Condensed Consolidated Balance Sheet for incurred and incurred but not reported losses associated with the Company s mortgage reinsurance activities, which was determined on an undiscounted basis.

A summary of the activity in reinsurance-related reserves is as follows:

	Three Months Ended September 30,	
	2009	2008
	(In millions)	
Reinsurance-related reserves, July 1,	$ 108	$ 50
Realized reinsurance losses[1]	(5)	
Increase in reinsurance reserves	10	11
Reinsurance-related reserves, September 30,	$ 113	$ 61

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	Nine Months Ended September 30,			
	2009		2008	
	(In millions)			
Reinsurance-related reserves, January 1,	$	83	$	32
Realized reinsurance losses[1]		(6)		
Increase in reinsurance reserves		36		29
Reinsurance-related reserves, September 30,	$	113	$	61

[1] Realized reinsurance losses for the three and nine months ended September 30, 2009 include a $4 million payment associated with the termination of a reinsurance agreement.

11. Stock-Related Matters

On June 12, 2009, following approval by the Company s stockholders, the Company s Charter was amended to increase the number of authorized shares of capital stock from 110,000,000 shares to 275,000,000 shares and authorized shares of Common stock from 108,910,000 shares to 273,910,000 shares.

12. Accumulated Other Comprehensive Income (Loss)

The components of total comprehensive (loss) income are summarized as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009		2008		2009		2008	
	(In millions)							
Net (loss) income attributable to PHH Corporation	$	(52)	$	(84)	$	56	$	(38)
Other comprehensive income (loss):								
Currency translation adjustments		12		(6)		18		(9)
Total other comprehensive income (loss)		12		(6)		18		(9)
Total comprehensive (loss) income	$	(40)	$	(90)	$	74	$	(47)

The after-tax components of Accumulated other comprehensive income (loss) were as follows:

	Currency Translation Adjustment	Pension Adjustment (In millions)	Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2008	$ 6	$ (9)	$ (3)
Change during 2009	18		18
Balance at September 30, 2009	$ 24	$ (9)	$ 15

The pension adjustment presented above is net of income taxes; however, the currency translation adjustment presented above excludes income taxes on undistributed earnings of foreign subsidiaries, which are considered to be indefinitely invested.

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13. Fair Value Measurements

ASC 820 prioritizes the inputs to the valuation techniques used to measure fair value into a three-level valuation hierarchy. The valuation hierarchy is based upon the relative reliability and availability of the inputs to market participants for the valuation of an asset or liability as of the measurement date. Pursuant to ASC 820, when the fair value of an asset or liability contains inputs from different levels of the hierarchy, the level within which the fair value measurement in its entirety is categorized is based upon the lowest level input that is significant to the fair value measurement in its entirety. The three levels of this valuation hierarchy consist of the following:

Level One. Level One inputs are unadjusted, quoted prices in active markets for identical assets or liabilities which the Company has the ability to access at the measurement date.

Level Two. Level Two inputs are observable for that asset or liability, either directly or indirectly, and include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, observable inputs for the asset or liability other than quoted prices and inputs derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified contractual term, the inputs must be observable for substantially the full term of the asset or liability.

Level Three. Level Three inputs are unobservable inputs for the asset or liability that reflect the Company s assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, and are developed based on the best information available.

The Company determines fair value based on quoted market prices, where available. If quoted prices are not available, fair value is estimated based upon other observable inputs. The Company uses unobservable inputs when observable inputs are not available. Adjustments may be made to reflect the assumptions that market participants would use in pricing the asset or liability. These adjustments may include amounts to reflect counterparty credit quality, the Company s creditworthiness and liquidity. The incorporation of counterparty credit risk did not have a significant impact on the valuation of the Company s assets and liabilities recorded at fair value on a recurring basis as of September 30, 2009.

The Company has classified assets and liabilities measured at fair value on a recurring basis pursuant to the valuation hierarchy as follows:

Mortgage Loans Held for Sale. The Company s mortgage loans are generally classified within Level Two of the valuation hierarchy; however, as of September 30, 2009, the Company s Scratch and Dent (as defined below), second-lien, certain non-conforming and construction loans are classified within Level Three due to the lack of observable pricing data.

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The following table reflects the difference between the carrying amount of MLHS, measured at fair value, and the aggregate unpaid principal amount that the Company is contractually entitled to receive at maturity as of September 30, 2009:

	Carrying Amount	Aggregate Unpaid Principal Balance (In millions)	Aggregate Unpaid Principal Balance Over Carrying Amount
Mortgage loans held for sale:			
Total	$ 1,256	$ 1,267	$ 11
Loans 90 or more days past due and on non-accrual status	14	25	11

The components of the Company s MLHS, recorded at fair value, were as follows:

	September 30, 2009 (In millions)
First mortgages:	
Conforming[(1)]	$ 1,145
Non-conforming	23
Alt-A[(2)]	2
Construction loans	20
Total first mortgages	1,190
Second lien	24
Scratch and Dent[(3)]	39
Other	3
Total	$ 1,256

(1) Represents mortgages that conform to the standards of the GSEs.

(2) Represents mortgages that are made to borrowers with

prime credit histories, but do not meet the documentation requirements of a conforming loan.

(3) Represents mortgages with origination flaws or performance issues.

Investment Securities. Due to the inactive, illiquid market for these securities and the significant unobservable inputs used in their valuation, the Company s Investment securities are classified within Level Three of the valuation hierarchy.

Derivative Instruments. Generally, the fair values of the Company s derivative instruments that are measured at fair value on a recurring basis are classified within Level Two of the valuation hierarchy. Due to the unobservable inputs used by the Company and the inactive, illiquid market for IRLCs and the Conversion Option and Purchased Options associated with the 2014 Convertible Notes, these derivative instruments are classified within Level Three of the valuation hierarchy.

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Mortgage Servicing Rights. The Company s MSRs are classified within Level Three of the valuation hierarchy due to the use of significant unobservable inputs and the inactive market for such assets.

The Company s assets and liabilities that were measured at fair value on a recurring basis were as follows:

	September 30, 2009				
	Level One	Level Two	Level Three	Cash Collateral and Netting[(1)]	Total
			(In millions)		
Assets:					
Mortgage loans held for sale	$	$ 1,147	$ 109	$	$ 1,256
Mortgage servicing rights			1,367		1,367
Investment securities			12		12
Other assets:					
Derivative assets		16	144	(3)	157
Other assets	1				1
Liabilities:					
Other liabilities:					
Derivative liabilities		36	68	(4)	100

	December 31, 2008				
	Level One	Level Two	Level Three	Netting[(1)]	Total
			(In millions)		
Assets:					
Mortgage loans held for sale	$	$ 829	$ 177	$	$ 1,006
Mortgage servicing rights			1,282		1,282
Investment securities			37		37
Other assets:					
Derivative assets		18	71	(2)	87
Other assets	1				1
Liabilities:					
Other liabilities:					
Derivative liabilities		36	1	(2)	35

(1) Adjustments to arrive at the carrying amounts of assets and liabilities presented in the Condensed

Consolidated Balance Sheet, which represent the effect of netting the payable or receivable with the same counterparties under master netting arrangements between the Company and its counterparties.

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The activity in the Company s assets and liabilities that were classified within Level Three of the valuation hierarchy consisted of:

	Three Months Ended September 30, 2009				
	Balance, Beginning of Period	Realized and Unrealized (Losses) Gains	Purchases, Issuances and Settlements, net	Transfers Out of Level Three, net	Balance, End of Period
			(In millions)		
Mortgage loans held for sale	$ 110	$	$	$ (1)[1]	$ 109
Mortgage servicing rights	1,436	(186)[2]	117		1,367
Investment securities	12				12
Derivatives, net	67	209	(200)		76

	Nine Months Ended September 30, 2009				
	Balance, Beginning of Period	Realized and Unrealized (Losses) Gains	Purchases, Issuances and Settlements, net	Transfers Out of Level Three, net	Balance, End of Period
			(In millions)		
Mortgage loans held for sale	$ 177	$ (22)	$ (33)	$ (13)[1]	$ 109
Mortgage servicing rights	1,282	(294)[2]	379		1,367
Investment securities	37	(21)	(4)		12
Derivatives, net	70	486	(480)		76

	Three Months Ended September 30, 2008				
	Balance, Beginning of Period	Realized and Unrealized Gains (Losses)	Purchases, Issuances and Settlements, net	Transfers Into Level Three, net	Balance, End of Period
			(In millions)		
Mortgage loans held for sale	$ 81	$ 1	$ 2	$ 98[3]	$ 182
Mortgage servicing rights	1,673	(77)[2]	75		1,671
Investment securities	37	5	(5)		37
Derivatives, net	20	30	(34)		16

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	Nine Months Ended September 30, 2008				
	Balance, Beginning of Period	Realized and Unrealized Gains (Losses)	Purchases, Issuances and Settlements, net	Transfers Into Level Three, net	Balance, End of Period
			(In millions)		
Mortgage loans held for sale	$ 59	$ 2	$ 11	$ 110[3]	$ 182
Mortgage servicing rights	1,502	(109)[2]	278		1,671
Investment securities	34	12	(9)		37
Derivatives, net	(9)	132	(107)		16

[1] Represents Scratch and Dent loans that were foreclosed upon and construction loans that converted to first mortgages, net of transfers into the Scratch and Dent population from the conforming or foreclosure populations during the three and nine months ended September 30, 2009. The Company s mortgage loans in foreclosure are measured at fair value on a non-recurring basis, as discussed in further detail below.

(2) Represents the change in the fair value of MSRs due to the realization of expected cash flows and changes in market inputs and assumptions used in the MSR valuation model.

(3) Represents Scratch and Dent, second-lien and other non-conforming mortgage loans that were reclassified from Level Two to Level Three due to the lack of observable market data net of construction loans that converted to first mortgages during the three and nine months ended September 30, 2008.

The Company s realized and unrealized gains and losses related to assets and liabilities classified within Level Three of the valuation hierarchy were included in the Condensed Consolidated Statements of Operations as follows:

	Three Months Ended September 30, 2009		
	Mortgage Loans Held for Sale	Mortgage Servicing Rights (In millions)	Derivatives, net
Gain on mortgage loans, net	$ (2)	$	$ 209
Change in fair value of mortgage servicing rights		(186)	
Mortgage interest income	2		

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	Nine Months Ended September 30, 2009			
	Mortgage Loans Held for Sale	Mortgage Servicing Rights	Investment Securities	Derivatives, net
	(In millions)			
Gain on mortgage loans, net	$(27)	$	$	$ 486
Change in fair value of mortgage servicing rights		(294)		
Mortgage interest income	5			
Other income			(21)	

	Three Months Ended September 30, 2008			
	Mortgage Loans Held for Sale	Mortgage Servicing Rights	Investment Securities	Derivatives, net
	(In millions)			
Gain on mortgage loans, net	$	$	$	$ 30
Change in fair value of mortgage servicing rights		(77)		
Mortgage interest income	1			
Other income			5	

Nine Months Ended September 30, 2008
Mortgage