PHH CORP
Form 10-Q
August 03, 2010

Table of Contents

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 June 30, 2010

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 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 þ

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes o No þ

As of July 19, 2010, 55,492,224 shares of PHH Common stock were outstanding.

TABLE OF CONTENTS

Table of Contents

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 June 30, 2010 (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 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 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; (iv) our belief that the Homeowner Affordability and Stability Plan (HASP) programs had a favorable impact on mortgage industry originations which may continue during the remainder of 2010; (v) our expectations regarding origination volumes, including purchase originations, and loan margins in the mortgage industry; (vi) our belief that HASP s loan modification program provides additional opportunities for our Mortgage Servicing segment and could reduce our exposure to future foreclosure-related losses; (vii) our belief that the increase in demand for new vehicle production for the remainder of 2010 projected by the United States (U.S.) automobile industry analysts may include an increase in the demand for commercial fleet vehicles; (viii) our belief that our sources of liquidity are adequate to fund operations for the next 12 months; (ix) our expected capital expenditures for 2010; (x) 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; and (xi) our expectation that we will continue to modify the types of mortgage loans that we originate in accordance with secondary market liquidity.

The factors and assumptions discussed below and the risks factors described in Item 1A. Risk Factors in this Form 10-Q and Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009 could cause actual results to differ materially from those expressed in 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 (GSEs), including the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, including any changes caused by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act);

§ the ability to maintain our status as a GSE-approved servicer, including the ability to continue to comply with the GSEs respective selling and servicing guides, including any changes caused by the Dodd-Frank Act;

§ changes in laws and regulations, including changes in mortgage- and real estate-related laws and regulations (including changes caused by the Dodd-Frank Act) and state, federal and foreign tax laws and accounting standards;

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

§ the ability to develop and implement operational, technological and financial systems to manage our operations and to achieve enhanced earnings or effect cost savings, including the ability to timely implement and successfully execute our transformation initiatives;

§ 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 willingness or ability of automobile manufacturers to make new vehicles available to us on commercially favorable terms;

§ 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;

§ the ability to obtain financing (including refinancing existing indebtedness) on acceptable terms, if at all, to finance our operations or growth strategy, to operate within the limitations imposed by our financing arrangements and to maintain the amount of cash required to service our indebtedness;

§ the ability to maintain our relationships with our existing clients and to establish relationships with new clients;

§ 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 covenants under our financing arrangements;

Table of Contents

§ the effects of the consolidation of financial institutions and the related impact on the availability of credit; and

§ the impact of actions taken or to be taken by the Treasury and the Board of Governors of the Federal Reserve System on the credit markets and the U.S. economy.

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.

Table of Contents

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 June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues				
Mortgage fees	$ 66	$ 86	$ 118	$ 147
Fleet management fees	40	38	78	75
Net fee income	106	124	196	222
Fleet lease income	349	360	688	724
Gain on mortgage loans, net	139	147	244	335
Mortgage interest income	22	25	40	50
Mortgage interest expense	(41)	(37)	(79)	(73)
Mortgage net finance expense	(19)	(12)	(39)	(23)
Loan servicing income	97	100	198	200
Change in fair value of mortgage servicing rights	(320)	55	(372)	(108)
Net loan servicing (loss) income	(223)	155	(174)	92
Other income (expense)	19	(6)	33	5
Net revenues	371	768	948	1,355
Expenses				
Salaries and related expenses	119	128	233	243
Occupancy and other office expenses	14	12	29	27
Depreciation on operating leases	306	322	614	647
Fleet interest expense	25	21	48	51
Other depreciation and amortization	5	7	11	13
Other operating expenses	117	92	209	183
Total expenses	586	582	1,144	1,164
(Loss) income before income taxes	(215)	186	(196)	191
(Benefit from) provision for income taxes	(89)	75	(78)	75
Net (loss) income	(126)	111	(118)	116
Less: net income attributable to noncontrolling interest	7	5	7	8

Net (loss) income attributable to PHH Corporation	$ (133)	$ 106	$ (125)	$ 108
Basic (loss) earnings per share attributable to PHH Corporation	$ (2.40)	$ 1.93	$ (2.26)	$ 1.98
Diluted (loss) earnings per share attributable to PHH Corporation	$ (2.40)	$ 1.91	$ (2.26)	$ 1.96

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	June 30, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 184	$ 150
Restricted cash, cash equivalents and investments (including $241 of available-for-sale securities at fair value as of June 30, 2010)	559	596
Mortgage loans held for sale	2,090	1,218
Accounts receivable, net	507	469
Net investment in fleet leases	3,574	3,610
Mortgage servicing rights	1,236	1,413
Property, plant and equipment, net	45	49
Goodwill	25	25
Other assets	658	593
Total assets (1)	$ 8,878	$ 8,123
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses	$ 515	$ 495
Debt	5,999	5,160
Deferred income taxes	618	702
Other liabilities	358	262
Total liabilities (2)	7,490	6,619
Commitments and contingencies (Note 11)		
EQUITY		
Preferred stock, $0.01 par value; 1,090,000 shares authorized at June 30, 2010 and December 31, 2009; none issued or outstanding at June 30, 2010 or December 31, 2009		
Common stock, $0.01 par value; 273,910,000 shares authorized at June 30, 2010 and December 31, 2009; 55,492,224 shares issued and outstanding at June 30, 2010; 54,774,639 shares issued and outstanding at December 31, 2009	1	1
Additional paid-in capital	1,064	1,056
Retained earnings	291	416
Accumulated other comprehensive income	18	19
Total PHH Corporation stockholders equity	1,374	1,492
Noncontrolling interest	14	12
Total equity	1,388	1,504

Total liabilities and equity	$ 8,878	$ 8,123

(1) Our Condensed Consolidated Balance Sheet at June 30, 2010 includes the following assets of variable interest entities (VIEs) which can be used only to settle the obligations of the VIEs: Cash and cash equivalents, $26 million; Restricted cash, cash equivalents and investments, $259 million; Mortgage loans held for sale, $253 million; Accounts receivable, $39 million; Net investment in fleet leases, $3,358 million; Property, plant, and equipment, net, $1 million; Other assets, $83 million; and Total assets, $4,019 million.

(2) Our Condensed Consolidated Balance Sheet at June 30, 2010 includes the following liabilities of VIEs which creditors or

beneficial interest holders do not have recourse to PHH Corporation and Subsidiaries: Accounts payable and accrued expenses, $19 million; Debt, $3,118 million; Other liabilities, $10 million; and Total liabilities, $3,147 million.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

PHH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Six Months Ended June 30, 2010
(Unaudited)
(In millions, except share data)

	PHH Corporation Stockholders						
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive Income	Noncontrolling	Total
	Shares	Amount	Capital	Earnings	(Loss)	Interest	Equity
Balance at December 31, 2009	54,774,639	$ 1	$ 1,056	$ 416	$ 19	$ 12	$ 1,504
Net (loss) income				(125)		7	(118)
Other comprehensive loss, net of income taxes of $1					(1)		(1)
Stock compensation expense			5				5
Stock options exercised, including excess tax benefit of $0	453,562		6				6
Restricted stock award vesting, net of excess tax benefit of $0	264,023		(3)				(3)
Distributions to noncontrolling interest						(5)	(5)
Balance at June 30, 2010	55,492,224	$ 1	$ 1,064	$ 291	$ 18	$ 14	$ 1,388

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cash flows from operating activities:		
Net (loss) income	$ (118)	$ 116
Adjustments to reconcile Net (loss) income to net cash (used in) provided by operating activities:		
Capitalization of originated mortgage servicing rights	(195)	(267)
Net unrealized loss on mortgage servicing rights	372	108
Vehicle depreciation	614	647
Other depreciation and amortization	11	13
Origination of mortgage loans held for sale	(13,649)	(15,920)
Proceeds on sale of and payments from mortgage loans held for sale	13,001	15,415
Net gain on interest rate lock commitments, mortgage loans held for sale and related derivatives	(203)	(219)
Deferred income tax (benefit) provision	(85)	71
Other adjustments and changes in other assets and liabilities, net	55	118
Net cash (used in) provided by operating activities	(197)	82
Cash flows from investing activities:		
Investment in vehicles	(797)	(524)
Proceeds on sale of investment vehicles	192	220
Purchase of mortgage servicing rights		(1)
Proceeds on sale of mortgage servicing rights	5	1
Purchases of property, plant and equipment	(6)	(5)
Purchases of restricted investments	(288)	
Proceeds from restricted investments	48	
Decrease (increase) in Restricted cash and cash equivalents	278	(120)
Other, net	6	6
Net cash used in investing activities	(562)	(423)
Cash flows from financing activities:		
Proceeds from borrowings	22,125	24,172
Principal payments on borrowings	(21,301)	(23,737)
Issuances of Company Common stock	6	
Cash paid for debt issuance costs	(29)	(42)
Other, net	(8)	(4)
Net cash provided by financing activities	793	389
Effect of changes in exchange rates on Cash and cash equivalents		(11)

Net increase in Cash and cash equivalents		34		37
Cash and cash equivalents at beginning of period		150		109
Cash and cash equivalents at end of period	$	184	$	146

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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 (Realogy s) ownership interest is presented as a noncontrolling interest in the 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. 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, 2009.

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

Transfers of Financial Assets. In June 2009, the Financial Accounting Standards Board (the FASB) updated Accounting Standards Codification (ASC) 860, Transfers and Servicing (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 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

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

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. 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 adopted the updates to ASC 860 effective January 1, 2010. Except for the elimination of QSPEs addressed in the updates to ASC 810, Consolidation (ASC 810) below, the adoption of the updates to ASC 860 did not impact the Company s Condensed Consolidated Financial Statements.

Consolidation of Variable Interest Entities. In June 2009, the FASB updated ASC 810 to modify certain characteristics that identify a 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 Company adopted the updates to ASC 810 effective January 1, 2010. As a result of the adoption of updates to ASC 810, assets of consolidated VIEs that can be used only to settle the obligations of the VIE and liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of the Company are presented separately on the face of the Company s Condensed Consolidated Balance Sheets. As a result of the updates to ASC 860 eliminating the concept of QSPEs, the Company was required to consolidate a mortgage loan securitization trust that previously met the QSPE scope exception under ASC 860. Upon consolidation, the Company elected the fair value option of measuring the assets and liabilities of the mortgage loan securitization trust at fair value under ASC 825, Financial Instruments. See Note 13, Fair Value Measurements for the transition adjustment related to the adoption of the updates to ASC 810 and ASC 860, which had no impact on Retained earnings, and Note 14, Variable Interest Entities for further discussion.

Fair Value Measurements. In January 2010, the FASB updated ASC 820, Fair Value Measurements and Disclosures (ASC 820) to add disclosures for transfers in and out of level one and level two of the valuation hierarchy and to present separately information about purchases, sales, issuances and settlements in the reconciliation for assets and liabilities classified within level three of the valuation hierarchy. The updates to ASC 820 also clarify existing disclosure requirements about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The Company adopted the disclosure provisions of the updates to ASC 820 for transfers in and out of level one and level two, level of disaggregation and inputs and valuation techniques used to measure fair value effective January 1, 2010. The additional disclosures resulting from the adoption of the updates to ASC 820 are included in Note 13, Fair Value Measurements in the Company s Notes to Condensed Consolidated Financial Statements. Certain other disclosures about the activity in the reconciliation of level three activity are effective for fiscal years and interim periods beginning after December 15, 2010, which will enhance the disclosure requirements and will not impact the Company s financial position, results of operations or cash flows.

Recently Issued Accounting Pronouncements

Revenue Recognition. In October 2009, the FASB issued Accounting Standards Update (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 for 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,

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

2010. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU No. 2009-13 on its Condensed Consolidated Financial Statements.

Loan Modifications. In April 2010, the FASB issued ASU No. 2010-18, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset (ASU No. 2010-18), an update to ASC 310, Receivables (ASC 310). ASU No. 2010-18 amends ASC 310 for modifications of loans that are accounted for within a pool, such that these modifications do not result in the removal of loans from the pool even if the modifications would be considered a troubled debt restructuring. ASU 2010-18 is effective for modifications of loans within pools under ASC 310 occurring in the first interim or annual period ending on or after July 15, 2010. The adoption of ASU 2010-18 is not expected to impact the Company s Condensed Consolidated Financial Statements.

Financing Receivables. In July 2010, the FASB issued ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU No. 2010-20), an update to ASC 310. ASU No. 2010-20 enhances the disclosure requirements of ASC 310 regarding the credit quality of financing receivables and the allowance for credit losses and requires entities to provide a greater level of disaggregated information about the credit quality of financing receivables and the allowance for credit losses. In addition, ASU No. 2010-20 requires disclosure of credit quality indicators, past due information, and modifications of its financing receivables. For public entities, the end of period disclosure requirements of ASU No. 2010-20 are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. ASU No. 2010-20 will enhance the disclosure requirements for financing receivables and credit losses, but will not impact the Company s financial position, results of operations or cash flows.

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 potentially issuable shares of Common stock under the treasury stock method for the three and six months ended June 30, 2010 excludes approximately 2.7 million outstanding stock-based compensation awards, as well as the assumed conversion of the Company s 2012 Convertible Notes and related purchased options and sold warrants as their inclusion would be anti-dilutive. Additionally, the sold warrants related to the Company s 2014 Convertible Notes were excluded from the computation of the dilutive effect of potentially issuable shares of Common stock under the treasury stock method for the three and six months ended June 30, 2010, as their inclusion would be anti-dilutive. The 2014 Convertible Notes and related purchased options are also 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 six months ended June 30, 2010 as they are currently to be settled only in cash. The Company s Convertible Notes are defined and further discussed in Note 9, Debt and Borrowing Arrangements.

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 six months ended June 30, 2009 excludes approximately 2.8 million outstanding stock-based compensation awards, as well as the assumed conversion of the Company s 2012 Convertible Notes and related purchased options and sold warrants as their inclusion would be anti-dilutive.

Table of Contents

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

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(In millions, except share and per share data)			
Net (loss) income attributable to PHH Corporation	$ (133)	$ 106	$ (125)	$ 108
Weighted-average common shares outstanding basic	55,547,650	54,502,265	55,293,111	54,441,028
Effect of potentially dilutive securities:				
Stock options		20,857		10,605
Restricted stock units		550,772		356,522
Weighted-average common shares outstanding diluted	55,547,650	55,073,894	55,293,111	54,808,155
Basic (loss) earnings per share attributable to PHH Corporation	$ (2.40)	$ 1.93	$ (2.26)	$ 1.98
Diluted (loss) earnings per share attributable to PHH Corporation	$ (2.40)	$ 1.91	$ (2.26)	$ 1.96

3. Restricted Cash, Cash Equivalents and Investments

The Company s Restricted cash, cash equivalents and investments primarily relate to (i) amounts specifically designated to purchase assets, to repay debt and/or to provide over-collateralization within the Company s asset-backed debt arrangements, (ii) funds collected and held for pending mortgage closings and (iii) accounts held in trust for the capital fund requirements of and potential claims related to the Company s wholly owned mortgage reinsurance subsidiary, Atrium Reinsurance Corporation (Atrium).

During the three months ended June 30, 2010, the Company invested in certain high credit quality debt securities using the restricted cash within Atrium. These investments remain in trust for the capital fund requirements of, and potential claims related to, Atrium. Restricted cash and cash equivalents includes marketable securities with original maturities of three months or less.

The following tables summarize certain information regarding the Company s Restricted cash, cash equivalents and investment balances:

	June 30, 2010	December 31, 2009
	(In millions)	
Restricted cash and cash equivalents	$ 318	$ 596
Restricted investments (at fair value)	241	
Restricted cash, cash equivalents and investments	$ 559	$ 596

12

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

	June 30, 2010				
	Amortized Cost	Fair Value	Unrealized Gains (In millions)	Unrealized Losses	Weighted-average remaining maturity
Restricted investments classified as available-for-sale:					
Corporate securities	$ 46	$ 46	$	$	31 mos.
Agency securities [1]	157	158	1		20 mos.
Government securities	37	37			24 mos.
Total available-for-sale securities	$ 240	$ 241	$ 1	$	23 mos.

[1] Represents bonds and notes issued by various agencies including, but not limited to, Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal Home Loan Banks.

The Company s restricted investments are recorded at fair value and classified as available-for-sale. During both the three and six months ended June 30, 2010, the amount of realized gains from the sale of available-for-sale securities was not significant. There were no available-for-sale securities outstanding during the six months ended June 30, 2009.

4. Mortgage Servicing Rights

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

	Six Months Ended June 30,	
	2010	2009
	(In millions)	
Unpaid principal balance of capitalized loan servicing portfolio:		
Balance, beginning of period	$ 127,700	$ 129,078

Additions	12,381	14,050
Payoffs, sales and curtailments	(9,984)	(17,141)
Balance, end of period	$ 130,097	$ 125,987

The activity in the Company s capitalized MSRs consisted of:

	Six Months Ended June 30,	
	2010	2009
	(In millions)	
Mortgage Servicing Rights:		
Balance, beginning of period	$ 1,413	$ 1,282
Additions	195	268
Changes in fair value due to:		
Realization of expected cash flows	(110)	(212)
Changes in market inputs or assumptions used in the valuation model	(262)	104
Sales		(6)
Balance, end of period	$ 1,236	$ 1,436

Table of Contents

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

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

	June 30, 2010	June 30, 2009
Weighted-average prepayment speed (CPR)	15%	16%
Option adjusted spread, in basis points (bps)	719	554
Volatility	29%	31%

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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In millions)			
Net service fee revenue	$99	$105	$196	$212
Late fees	5	4	10	9
Other ancillary servicing revenue	8	11	18	16

As of June 30, 2010, the Company s MSRs had a weighted-average life of approximately 4.7 years. Approximately 69% of the MSRs associated with the loan servicing portfolio as of June 30, 2010 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:

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Initial capitalization rate of additions to MSRs	1.58%	1.91%
Weighted-average servicing fee of additions to MSRs (in bps)	30	37

	June 30, 2010	June 30, 2009
Capitalized servicing rate	0.95%	1.14%
Capitalized servicing multiple	3.1	3.5
Weighted-average servicing fee (in bps)	30	33

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

5. 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

	Six Months Ended June 30, 2010	2009
	(In millions)	
Unpaid principal balance of loan servicing portfolio:		
Balance, beginning of period	$ 151,481	$ 149,750
Additions	16,119	17,606
Payoffs, sales and curtailments	(11,633)	(18,173)
Balance, end of period	$ 155,967	$ 149,183

Portfolio Composition

	June 30, 2010	2009
	(In millions)	
Owned servicing portfolio	$ 132,774	$ 128,670
Subserviced portfolio	23,193	20,513
Total servicing portfolio	$ 155,967	$ 149,183
Fixed rate	$ 107,113	$ 97,846
Adjustable rate	48,854	51,337
Total servicing portfolio	$ 155,967	$ 149,183
Conventional loans	$ 130,969	$ 130,378
Government loans	18,204	11,936
Home equity lines of credit	6,794	6,869
Total servicing portfolio	$ 155,967	$ 149,183
Weighted-average interest rate	5.2%	5.5%

Portfolio Delinquency[(1)]

	June 30, 2010		2009	
	Number	Unpaid Balance	Number	Unpaid Balance

	of Loans		of Loans	
30 days	2.38%	2.09%	2.50%	2.22%
60 days	0.57%	0.54%	0.72%	0.68%
90 or more days	1.75%	1.86%	0.89%	0.93%
Total delinquency	4.70%	4.49%	4.11%	3.83%
Foreclosure/real estate owned/bankruptcies	2.66%	2.73%	2.62%	2.72%

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

Table of Contents

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

As of June 30, 2010 and December 31, 2009, the Company had outstanding servicing advance receivables of $152 million and $141 million, respectively, which were included in Accounts receivable, net in the Condensed Consolidated Balance Sheets.

6. Mortgage Loan Sales

The Company sells its residential mortgage loans through one of the following methods: (i) sales to Fannie Mae and Freddie Mac 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 six months ended June 30, 2010, 97% of the Company s mortgage loan sales were to the GSEs and the remaining 3% were sold to private investors. The Company did not execute any sales or securitizations through PHHMC during the six months ended June 30, 2010. During the six months ended June 30, 2010, the Company retained MSRs on approximately 98% of mortgage loans sold. The Company did not retain any interests from sales or securitizations other than MSRs during the six months ended June 30, 2010.

Key economic assumptions used in measuring the fair value of the Company s MSRs at June 30, 2010 and the effect on fair value from adverse changes in those assumptions were as follows:

	MSRs (In millions)
Fair value of retained interests	$ 1,236
Weighted-average life (in years)	4.7
Weighted-average servicing fee (in bps)	30
Weighted-average prepayment speed (annual rate)	15%
Impact on fair value of 10% adverse change	$ (79)
Impact on fair value of 20% adverse change	(151)
Option adjusted spread (in bps)	719
Impact on fair value of 10% adverse change	$ (46)
Impact on fair value of 20% adverse change	(90)
Volatility (annual rate)	29%
Impact on fair value of 10% adverse change	$ (12)
Impact on fair value of 20% adverse change	(24)

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 mitigate these variations.

Table of Contents

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

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

	Six Months Ended June 30,	
	2010	**2009**
	(In millions)	
Proceeds from new loan sales or securitizations	$12,599	$14,139
Servicing fees received [1]	196	212
Other cash flows received on retained interests [2]	1	4
Purchases of delinquent or foreclosed loans	(50)	(52)
Servicing advances	(846)	(483)
Repayment of servicing advances	829	489

(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 six months ended June 30, 2010, the Company recognized pre-tax gains of $84 million and $198 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 Statement of Operations.

During the three and six months ended June 30, 2009, the Company recognized pre-tax gains of $235 million and $353 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.

Table of Contents

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

7. Derivatives and Risk Management Activities

The Company did not have any derivative instruments designated as hedging instruments as of and during the six months ended June 30, 2010 or 2009. The following tables summarize the amounts recorded in the Company s Condensed Consolidated Balance Sheets for derivative instruments not designated as hedging instruments:

	June 30, 2010					
	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	$ 148	$ 5,336	Other liabilities	$ 6	$ 76
Option contracts related to interest rate and price risk for MLHS and IRLCs	Other assets	3	1,670	N/A		
Forward delivery commitments not subject to master netting arrangements:						
Related to interest rate and price risk for MLHS and IRLCs	Other assets	15	1,226	Other liabilities	38	2,616
Forward delivery commitments subject to master netting arrangements(1):						
Related to interest rate and price risk for MLHS and IRLCs	Other assets	15	1,405	Other assets	34	1,814
Related to interest rate and price risk for MLHS and IRLCs	Other liabilities	18	1,355	Other liabilities	61	3,125
Contracts related to interest rate risk for variable-rate debt arrangements and fixed-rate leases	Other assets	3	666	N/A		
Derivative instruments related to the issuance of the 2014 Convertible Notes(2)	Other assets	44		Other liabilities	44	
Foreign exchange contracts	Other assets	4	99	Other liabilities		42
Total derivative instruments		250			183	
Impact of master netting arrangements(1)		(52)			(52)	
Cash collateral		23			(10)	
Net fair value of derivative instruments		$ 221			$ 121	

Table of Contents

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

	December 31, 2009					
	Asset Derivatives			Liability Derivatives		
	Balance Sheet Presentation	Fair Value	Notional Amount	Balance Sheet Presentation	Fair Value	Notional Amount
	(In millions)					
IRLCs	Other assets	$ 31	$ 3,507	Other liabilities	$ 5	$ 934
Forward delivery commitments not subject to master netting arrangements:						
Related to interest rate and price risk for MLHS and IRLCs	Other assets	44	3,121	Other liabilities	9	855
Forward delivery commitments subject to master netting arrangements[1]:						
Related to interest rate and price risk for MLHS and IRLCs	Other assets	34	2,415	Other assets	4	483
Contracts related to interest rate risk for variable-rate debt arrangements and fixed-rate leases	Other assets	8	911	N/A		
Derivative instruments related to the issuance of the 2014 Convertible Notes[2]	Other assets	37		Other liabilities	37	
Foreign exchange contracts	N/A			Other liabilities	2	285
Total derivative instruments		154			57	
Impact of master netting arrangements[1]		(4)			(4)	
Cash collateral		(6)			(1)	
Net fair value of derivative instruments		$ 144			$ 52	

(1) Represents derivative instruments that are executed with the same counterparties and subject to master netting arrangements between the Company and its counterparties.

(2)

The notional amount of the derivative instruments related to the issuance of the 2014 Convertible Notes represents 9.6881 million shares of the Company s Common stock as of both June 30, 2010 and December 31, 2009.

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

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

	Statement of Operations Presentation	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
		(In millions)			
IRLCs	Gain on mortgage loans, net	$ 379	$ 108	$ 581	$ 277
Option contracts related to interest rate and price risk for MLHS and IRLCs	Gain on mortgage loans, net	(12)		(12)	
Forward delivery commitments related to interest rate and price risk for MLHS and IRLCs	Gain on mortgage loans, net	(189)	9	(246)	(37)
Contracts related to interest rate risk for variable-rate debt arrangements and fixed-rate leases	Fleet interest expense	(3)		(6)	(1)
Foreign exchange contracts	Fleet interest expense	6	(19)	5	(15)
Total derivative instruments		$ 181	$ 98	$ 322	$ 224

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 Rate (LIBOR) due to the impact on variable-rate borrowings, other interest rate sensitive liabilities and net investment in fixed-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.

Foreign Exchange. On January 27, 2010, Fleet Leasing Receivables Trust (FLRT), the Company s Canadian special purpose trust, issued approximately $81 million of senior Class A term asset-backed notes, which were denominated in U.S. dollars, to finance a fixed pool of eligible lease assets in Canada. The notes are amortizing and the lease cash flows related to the underlying collateralized leases, which are denominated in Canadian dollars, are used to repay the principal outstanding under the notes. As such, the Company is subject to foreign exchange risk associated with Canadian dollar denominated lease assets collateralizing U.S. dollar denominated borrowings, and the Company has entered into a currency swap agreement to manage such risk.

Table of Contents

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

8. Vehicle Leasing Activities

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

	June 30, 2010	December 31, 2009
	(In millions)	
Operating Leases:		
Vehicles under open-end operating leases	$ 7,445	$ 7,446
Vehicles under closed-end operating leases	235	263
Vehicles under operating leases	7,680	7,709
Less: Accumulated depreciation	(4,471)	(4,382)
Net investment in operating leases	3,209	3,327
Direct Financing Leases:		
Lease payments receivable	117	121
Less: Unearned income	(3)	(4)
Net investment in direct financing leases	114	117
Off-Lease Vehicles:		
Vehicles not yet subject to a lease	249	164
Vehicles held for sale	8	9
Less: Accumulated depreciation	(6)	(7)
Net investment in off-lease vehicles	251	166
Net investment in fleet leases	$ 3,574	$ 3,610

	June 30, 2010	December 31, 2009
Vehicles under open-end leases	96%	95%
Vehicles under closed-end leases	4%	5%
Vehicles under variable-rate leases	77%	76%
Vehicles under fixed-rate leases	23%	24%

Table of Contents

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

9. Debt and Borrowing Arrangements

The following tables summarize the components of the Company s indebtedness as of June 30, 2010 and December 31, 2009:

June 30, 2010

					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
	(Dollars in millions)							
Chesapeake Series 2009-1 Term Notes	$ 1,000	$ 1,000		5/20/2010				
Chesapeake Series 2009-2 Term Notes	903	903		2/17/2011				
Chesapeake Series 2009-3 Term Notes	50	50		10/20/2011				
Chesapeake Series 2009-4 Term Notes	222	222		2/18/2010				
Chesapeake Series 2010-1 Variable Funding Notes	500	1,000		5/31/2011				
FLRT Series 2010-1 Notes	284	284		2/2011 11/2013				
Other	42	42		11/2010 6/2016				
Total Vehicle Management Asset-Backed Debt	3,001	3,501	2.1%[4]		$ 34	$ 259	$	$ 3,332
RBS Repurchase Facility	502	800	3.0%	6/24/2011			523	
CSFB Mortgage Repurchase Facility	334	350	2.9%	5/25/2011			351	
CSFB Mortgage Venture	68	150	2.9%	5/25/2011			72	

Repurchase Facility								
Ally Bank Mortgage Venture Repurchase Facility	52	150	4.2%	3/30/2011			64	
Fannie Mae Repurchase Facilities	722	722	1.0%	N/A			722	
Other	58	84	2.9% 4.2%	9/2010 10/2010	63		5	
Total Mortgage Warehouse and Other Asset-Backed Debt	1,736	2,256			63		1,737	
Term Notes	433	433	7.2%-7.9%[5]	3/2013-4/2018				
Credit Facilities	379	810	1.0%-4.2%[6]	1//2011-2/2013				
Convertible Notes due 2012	229	229	4.0%[7]	4/15/2012				
Convertible Notes due 2014	186	186	4.0%[8]	9/1/2014				
Total Unsecured Debt	1,227	1,658						
Mortgage Loan Securitization Debt Certificates, at Fair Value[9]	35	35	7.0%[10]	12/2027				
Total Debt	$ 5,999	$ 7,450			$ 97	$ 259	$ 1,737	$ 3,332

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

December 31, 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
				(Dollars in millions)				
Chesapeake Series 2006-2 Variable Funding Notes	$ 657	$ 657		2/26/2009				
Chesapeake Series 2009-1 Term Notes	1,000	1,000		5/20/2010				
Chesapeake Series 2009-2 Term Notes	902	902		2/17/2011				
Chesapeake Series 2009-3 Term Notes	50	50		10/20/2011				
Chesapeake Series 2009-4 Term Notes	250	250		2/18/2010				
Other	33	33		3/2010 6/2016				
Total Vehicle Management Asset-Backed Debt	2,892	2,892	2.0%[4]		$ 21	$ 297	$	$ 3,082
RBS Repurchase Facility	622	1,500	3.0%	6/24/2010		1	667	
Fannie Mae Repurchase Facilities	325	325	1.0%	N/A			333	
Other	49	60	2.7%- 3.1%	9/2010- 10/2010	52		5	
Total Mortgage Warehouse and Other Asset-Backed Debt	996	1,885			52	1	1,005	

Term Notes	439	439	6.5%- 7.9%(5)	4/2010- 4/2018				
Credit Facilities	432	1,305	1.0%(6)	1/6/2011				
Convertible Notes due 2012	221	221	4.0%(7)	4/15/2012				
Convertible Notes due 2014	180	180	4.0%(8)	9/1/2014				
Total Unsecured Debt	1,272	2,145						
Total Debt	$ 5,160	$ 6,922			$ 73	$ 298	$ 1,005	$ 3,082

(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 availability of asset eligibility requirements under the respective agreements. The Series 2009-1, Series 2009-2, Series 2009-3 and Series 2009-4 notes (the Chesapeake Term Notes) (as defined below) 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 2012 Convertible Notes, the 2014 Convertible Notes and the Mortgage Loan Securitization Debt Certificates.

(4) Represents the weighted-average interest rate of the Company s vehicle management asset-backed debt arrangements as of June 30, 2010 and December 31, 2009,

respectively.

(5) Represents the range of stated interest rates of the MTNs outstanding as of June 30, 2010 and December 31, 2009, respectively. The effective rate of interest of the outstanding MTNs was 7.2% as of both June 30, 2010 and December 31, 2009.

(6) Represents the range of stated interest rates on the Amended Credit Facility as of June 30, 2010 and December 31, 2009, respectively, excluding per annum utilization and facility fees. The effective interest rate of the Credit Facilities was 2.9% and 1.0% as of June 30, 2010 and December 31, 2009, respectively.

(7) The effective rate of interest of the 2012 Convertible Notes was 12.4% as of both June 30, 2010 and December 31, 2009, which represents the

4.0% semiannual
cash payment and
the non-cash
accretion of
discount and
issuance costs.

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

(8) The effective rate of interest of the 2014 Convertible Notes was 13.0% as of both June 30, 2010 and December 31, 2009, which represents the 4.0% semiannual cash payment and the non-cash accretion of discount and issuance costs.

(9) The Mortgage Loan Securitization Debt Certificates were consolidated by the Company as a result of the adoption of updates to ASC 810 with $47 million of Securitized Mortgage Loans, included in Other Assets. (See Note 1, Summary of Significant Accounting Policies for additional information). The cashflows of the

Securitized Mortgage Loans support payment of the debt certificates and creditors of the securitization trust do not have recourse to the Company.

(10) The Mortgage Loan Securitization Debt Certificates are fixed rate.

The fair value of the Company s debt was $6.0 billion and $5.1 billion as of June 30, 2010 and December 31, 2009, 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 Funding LLC (Chesapeake), to support the acquisition of vehicles used by the Fleet Management Services segment s U.S. leasing operations and debt issued by FLRT used to finance leases originated by the Company s Canadian fleet operation. The obligations of both Chesapeake and FLRT are non-recourse to the Company and are provided for by payments made by lessees under lease contracts.

As of June 30, 2010, 83% of the carrying value of the Company s fleet leases collateralized 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 June 30, 2010 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 June 30, 2010, the Chesapeake Lease Portfolio consisted of 21% and 79% fixed-rate and variable-rate leases, respectively. As of June 30, 2010, the top 25 client lessees represented approximately 52% of the Chesapeake Lease Portfolio, with no client exceeding 5%.

The maturity date for the Chesapeake Notes represents the end of the respective notes revolving period. During the revolving period, the 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. Subsequent to the revolving period, the notes prorata share of lease cashflows will be used to pay principal amounts due in accordance with the terms of the notes.

The Chesapeake Series 2009-1 Term Notes and Chesapeake Series 2009-4 Term Notes began to amortize in accordance with their terms at the end of the respective revolving periods (commencement of the Amortization Period). During the Amortization Period, the Company will be unable to use the pro-rata share of lease cash flows to fund the acquisition of vehicles to be leased under the Chesapeake Term Notes, and monthly repayments will be made on the notes through the earlier of 125 months following the commencement of the Amortization Period, 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 relating to the collateralized vehicle leases and related assets. 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.

Table of Contents

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

On June 1, 2010, Chesapeake entered into the Series 2010-1 Indenture Supplement pursuant to which $1.0 billion in aggregate principal amount of senior Class A variable funding notes may be issued under commitments provided by a syndicate of lenders. On that date, $500 million of Class A notes were issued. This issuance was used to repay the remaining outstanding balance of the Series 2006-2 variable funding notes, increase borrowings relative to the pool of eligible lease assets and fund certain other fees and costs in connection with the issuance of the Series 2010-1 variable funding notes. As of June 30, 2010, commitments under the Series 2010-1 Indenture Supplement are scheduled to expire on May 31, 2011 (the Scheduled Expiry Date), but are renewable on or before the Scheduled Expiry Date, subject to agreement by the parties. If the agreements are not renewed, the notes amortization period will begin and the prorata share of lease cashflows will be used to pay principal amounts due in accordance with the terms of the notes beginning in the month following the Scheduled Expiry Date and ending up to 125 months after the Scheduled Expiry Date.

On January 27, 2010, FLRT issued approximately $119 million of senior Class A-1 term asset-backed notes which was comprised of two subclasses of senior term asset-backed notes (the FLRT Series 2010-1 Class A-1 Notes) and approximately $224 million of senior Class A-2 term asset-backed notes which was comprised of two subclasses of senior term asset-backed notes (together with the FLRT Series 2010-1 Class A-1 Notes, collectively the FLRT Series 2010-1 Notes) to finance a fixed pool of eligible lease assets in Canada. Three of the four subclasses of FLRT Series 2010-1 Notes were denominated in Canadian dollars with the remaining subclass of FLRT Series 2010-1 Notes denominated in U.S. dollars. The FLRT Series 2010-1 Class A-1 notes and Class A-2 notes were issued as amortizing notes and have maturity dates of February 15, 2011 and November 15, 2013, respectively.

Mortgage Warehouse and Other Asset-Backed Debt.

The Company maintains a variable-rate committed mortgage repurchase facility (the RBS Repurchase Facility) with The Royal Bank of Scotland plc (RBS). The RBS Repurchase Facility was amended, effective June 25, 2010, to reduce the committed capacity from $1.5 billion to $800 million, and was extended to June 24, 2011, among other provisions.

On May 26, 2010, the Company entered into two committed 364-day variable-rate mortgage repurchase facilities with Credit Suisse First Boston Mortgage Capital LLC (CSFB) pursuant to master repurchase agreements. The facilities consist of a $350 million facility (CSFB Mortgage Repurchase Facility) and a $150 million facility entered into by the Mortgage Venture (CSFB Mortgage Venture Repurchase Facility).

On April 8, 2010, the Mortgage Venture entered into a $150 million 356-day variable-rate committed mortgage repurchase facility with Ally Bank pursuant to a master repurchase agreement and certain related agreements (Ally Bank Mortgage Venture Repurchase Facility).

The Company s variable-rate uncommitted mortgage repurchase facilities with Fannie Mae (the Fannie Mae Repurchase Facilities) have total uncommitted capacity of approximately $3.0 billion as of both June 30, 2010 and December 31, 2009.

Other asset-backed facilities as of June 30, 2010 and December 31, 2009 includes $54 million and $44 million, respectively, outstanding under a servicing advance facility and $4 million and $5 million, respectively, outstanding under an uncommitted variable-rate mortgage warehouse facility.

Table of Contents

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

Unsecured Debt

Term Notes

The medium-term notes (the MTNs) were publicly issued under an 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. In April 2010, $5 million of MTNs were repaid upon maturity.

Credit Facilities

Credit facilities primarily represents an 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.

On June 25, 2010, the Amended Credit Facility was further amended pursuant to which certain lenders consented to the amendments (the Extending Lenders) which extended the termination date of their respective revolving commitments from January 6, 2011 to February 29, 2012. Provided certain conditions are met, the Company may extend the revolving commitments of the Extending Lenders for an additional year at its request (the Extension Option). Effective June 25, 2010, the capacity of the Amended Credit Facility was reduced from $1.3 billion to $805 million and will be further reduced to $525 million on January 6, 2011 upon the termination of the commitments related to certain lenders that did not consent to the amendments (the Non-Extending Lenders).

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. As of June 30, 2010 borrowings under the Amended Credit Facility related to commitments from the Extending Lenders bore interest at a margin of 350 bps over a benchmark index of either LIBOR or the federal funds rate (the Benchmark Rate). As of June 30, 2010 borrowings under the Amended Credit Facility related to commitments from the Non-Extending Lenders bore interest at a margin of 70 bps over the Benchmark Rate. As of December 31, 2009, borrowings under the Amended Credit Facility bore interest at a margin of 70 bps over the Benchmark Rate. The Amended Credit Facility also requires the Company to pay utilization fees related to the Non-Extending Lenders commitments if its usage exceeds 50% of the aggregate commitments under the Amended Credit Facility. There is no utilization fee associated with the borrowings related to the Extending Lenders commitments. The per annum utilization fee applied to both the borrowings related to the Non-Extending Lenders commitments as of June 30, 2010 and all borrowings under the Amended Credit Facility as of December 31, 2009 was 12.5 bps. The per annum facility fee for the Extending Lenders commitments as of June 30, 2010 was 75 bps and a per annum facility fee of 17.5 bps was paid both on the Non-Extending Lenders commitments as of June 30, 2010 and the Amended Credit Facility in its entirety as of December 31, 2009. In the event that the Extension Option is elected by the Company, the Extending Lenders will receive an immediate increase in pricing related to their commitments of an additional 25 bps per annum.

Convertible Notes

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 June 30, 2010 and December 31, 2009 is net of an unamortized discount of $21 million and $29 million, respectively. There were no conversions of the 2012 Convertible Notes during the six months ended June 30, 2010.

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

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 June 30, 2010 and December 31, 2009 is net of an unamortized discount of $64 million and $70 million, respectively. There were no conversions of the 2014 Convertible Notes during the six months ended June 30, 2010.

Debt Maturities

The following table provides the contractual maturities of the Company s indebtedness at June 30, 2010. 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	$ 2,571	$ 137	$ 2,708
Between one and two years	1,036	512	1,548
Between two and three years	629	426	1,055
Between three and four years	392	2	394
Between four and five years	112	252	364
Thereafter	5	18	23
	$ 4,745	$ 1,347	$ 6,092

As of June 30, 2010, 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)	$ 3,501	$ 3,001	$ 500
Mortgage warehouse and other(3)	2,256	1,833	423
Unsecured Committed Credit Facilities(4)	810	395	415

(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) The Chesapeake 2009-1 Term Notes and the 2009-4 Term Notes have entered their respective Amortization Periods. See Asset-Backed Debt Vehicle Management Asset-Backed Debt above for additional information on the revolving and amortization periods of these facilities.

(3) Capacity does not reflect $2.3 billion undrawn under the $3.0 billion Fannie Mae Repurchase Facilities, as these facilities are uncommitted. Utilized capacity reflects $97 million of mortgage loans

sold to RBS under the terms of the RBS Repurchase Facility. The mortgage loans and related debt are not included in the Company s Condensed Consolidated Balance Sheet as of June 30, 2010.

(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.

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

Debt Covenants

Certain of the Company s debt arrangements require the maintenance of certain financial ratios and contain affirmative and negative covenants, including, but not limited to, material adverse change, liquidity maintenance, restrictions on indebtedness of the Company and its material subsidiaries, mergers, liens, liquidations and sale and leaseback transactions. Among other covenants, 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 and (ii) at any time, a ratio of indebtedness to tangible net worth no greater than 6.5:1. Among other covenants, the CSFB Mortgage Repurchase Facility requires that the Company maintain (i) on the last day of each fiscal quarter, net worth of $1.0 billion plus 25% of consolidated net income for the quarter, if positive 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, among other covenants. The Amended Credit Facility requires the Company to maintain a minimum of $1.0 billion in committed mortgage repurchase or warehouse facilities, with no more than $500 million of gestation facilities, excluding the uncommitted facilities provided by Fannie Mae. In addition, the RBS Repurchase Facility and the CSFB Mortgage Repurchase Facility require PHH Mortgage Corporation to maintain a minimum of $2.5 billion and $2.0 billion in mortgage repurchase or warehouse facilities, respectively, comprised of any uncommitted facilities provided by Fannie Mae and any committed mortgage repurchase or warehouse facility, including the respective facility. At June 30, 2010, 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.

10. 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, Income Taxes. 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 June 30, 2010, the Benefit from income taxes was $89 million and was impacted by a $3 million net increase in valuation allowances for deferred tax assets (primarily due to loss carryforwards generated during the three months ended June 30, 2010 for which the Company believes it is more likely than not that the loss carryforwards will not be realized).

During the three months ended June 30, 2009, the Provision for income taxes was $75 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 three months ended June 30, 2009 for which the Company believes it is more likely than not that the loss carryforwards will not be realized).

During the six months ended June 30, 2010, the Benefit from income taxes was $78 million and was impacted by a $5 million net increase in valuation allowances for deferred tax assets (primarily due to loss carryforwards

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

generated during the six months ended June 30, 2010 for which the Company believes it is more likely than not that the loss carryforwards will not be realized).

During the six months ended June 30, 2009, the Provision for income taxes was $75 million, and was impacted by a $1 million net decrease in valuation allowances for deferred tax assets (primarily due to the reduction of loss carryforwards as a result of taxable income generated during the six months ended June 30, 2009).

11. Commitments and Contingencies

Legal Contingencies

The Company is party to various claims and legal proceedings from time to time related to contract disputes and other commercial, employment and tax matters. The Company is not aware of any pending legal proceedings that it believes could have, individually or in the aggregate, a material adverse effect on its business, financial position, results of operations or cash flows.

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 related to representation 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 outstanding balance of 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 $215 million as of June 30, 2010, 14.46% of which were at least 90 days delinquent (calculated based upon the unpaid principal balance of the loans).

As of June 30, 2010, the Company had a liability of $68 million, included in Other liabilities in the Condensed Consolidated Balance Sheet, for probable losses related to the Company s recourse exposure.

Mortgage Reinsurance

The Company s two contracts with primary mortgage insurance companies, through Atrium, are inactive and in runoff. Through these reinsurance contracts, the Company is exposed to losses on mortgage loans pooled by year of origination. As of March 31, 2010, 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 $284 million and were included in Restricted cash, cash equivalents and investments in the Condensed Consolidated Balance Sheet as of June 30, 2010. The Company s unpaid contractual reinsurance payments outstanding as of June 30, 2010 were $4 million. As of June 30, 2010, a liability of $128 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.

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

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
	(In millions)	
Reinsurance-related reserves, April 1,	$ 117	$ 97
Realized reinsurance losses	(4)	(1)
Increase in reinsurance reserves	15	12
Reinsurance-related reserves, June 30,	$ 128	$ 108

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(In millions)	
Reinsurance-related reserves, January 1,	$ 108	$ 83
Realized reinsurance losses	(6)	(1)
Increase in reinsurance reserves	26	26
Reinsurance-related reserves, June 30,	$ 128	$ 108

12. Accumulated Other Comprehensive Income

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(In millions)			
Net (loss) income attributable to PHH Corporation	$ (133)	$ 106	$ (125)	$ 108
Other comprehensive (loss) income:				
Currency translation adjustments	(8)	10	(2)	6
Unrealized gains on available-for-sale securities	1		1	
Total other comprehensive (loss) income	(7)	10	(1)	6
Total comprehensive (loss) income	$ (140)	$ 116	$ (126)	$ 114

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

	Currency Translation	Unrealized Gains on Available-for-Sale	Pension	Accumulated Other Comprehensive

	Adjustment	Securities	Adjustment	Income
		(In millions)		
Balance at December 31, 2009	$ 27	$	$ (8)	$ 19
Change during 2010	(2)	1		(1)
Balance at June 30, 2010	$ 25	$ 1	$ (8)	$ 18

The components of Accumulated other comprehensive income presented above are net of income taxes except for the currency translation adjustment which excludes income taxes on undistributed earnings of foreign subsidiaries that are considered to be indefinitely invested.

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

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. These inputs are based upon the Company s judgments and assumptions, which are the Company s assessment of the assumptions market participants would use in pricing the asset or liability, which may include assumptions about risk, counterparty credit quality, the Company s creditworthiness and liquidity and are developed based on the best information available. 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 June 30, 2010.

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

Restricted Investments. The Company s restricted investments are classified within Level Two of the valuation hierarchy.

Restricted investments represent certain high credit quality debt securities, classified as available-for-sale, held in trust for the capital fund requirements of and potential claims related to Atrium. (See Note 3, Restricted Cash, Cash Equivalents and Investments for additional information). The Company estimates the fair value of its restricted investments using current broker prices from multiple pricing sources.

Mortgage Loans Held for Sale. The Company s mortgage loans are classified within Level Two and Level Three of the valuation hierarchy.

The fair value of MLHS classified in Level Two of the valuation hierarchy is estimated using a market approach by utilizing either: (i) the fair value of securities backed by similar mortgage loans, adjusted for certain factors to approximate the fair value of a whole mortgage loan, including the value attributable to mortgage servicing and credit risk, (ii) current commitments to purchase loans or (iii) recent observable market trades for

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

similar loans, adjusted for credit risk and other individual loan characteristics. The Agency MBS market is a highly liquid and active secondary market for conforming conventional loans whereby quoted prices exist for securities at the pass-through level, which are published on a regular basis. The Company has the ability to access this market and it is the market into which the Company would typically sell conforming mortgage loans.

The Company s Level Three MLHS primarily represent Scratch and Dent (as defined below), second-lien, certain non-conforming and construction loans which lack observable pricing data as the market for these loans is considered illiquid or distressed. The fair value of MLHS classified in Level Three of the valuation hierarchy is estimated utilizing either a discounted cash flow model or underlying collateral values. The prepayment speed, discount rates, yields and annualized credit loss assumptions used to measure the fair value of MLHS using a discounted cash flow valuation methodology as of June 30, 2010 were 14%, 7-10%, 3-8% and 5-33%, respectively. For MLHS that were valued using underlying collateral values as of June 30, 2010 and December 31, 2009, the Company adjusted the underlying collateral values for a pricing discount based on the most recent observable price in an active market.

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 June 30, 2010:

	Carrying Amount	Aggregate Unpaid Principal Balance	Aggregate Unpaid Principal Balance (Under) Over Carrying Amount
		(In millions)	
Mortgage loans held for sale:			
Total	$2,090	$2,049	$(41)
Loans 90 or more days past due and on non-accrual status	13	23	10

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

	June 30, 2010 (In millions)
First mortgages:	
Conforming[(1)]	$ 1,984
Non-conforming	38
Alt-A[(2)]	1
Construction loans	13
Total first mortgages	2,036
Second lien	12
Scratch and Dent[(3)]	40
Other	2
Total	$ 2,090

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

(2) Represents mortgage loans that are made to borrowers with prime credit histories, but do not meet the documentation requirements of a conforming loan.

(3) Represents mortgage loans with origination flaws or performance issues.

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

Securitized Mortgage Loans. The Company s securitized mortgage loans are classified within Level Three of the valuation hierarchy.

Securitized mortgage loans represent loans securitized through the Company s wholly owned subsidiary, PHHMC, using a trust that is consolidated as a VIE. See Note 14, Variable Interest Entities for additional information. The loans held in the securitization trust are fixed-rate second lien residential mortgage loans that were originated primarily in 2007, have a weighted-average coupon rate of 9% and a weighted-average maturity of 13 years.

As of June 30, 2010, the Company estimates the fair value of its securitized mortgage loans using a discounted cash flow model which projects remaining cash flows with expected prepayment speeds, loss rates and loss severities as the key drivers. The prepayment assumption of 12% (annual rate) is based on market prepayment curves from current industry data. The loss rate of 12% (cumulative rate) is based on the default curve adjusted for the actual performance of the underlying collateral. The weighted-average discount rate of 14% (annual rate) is based on an expectation of the market-risk premium for these types of securities.

Derivative Instruments. The Company s derivative instruments are classified within Level Two and Level Three of the valuation hierarchy.

Forward Delivery Commitments

The Company s forward delivery commitments are classified within Level Two of the valuation hierarchy. Forward delivery commitments fix the forward sales price that will be realized upon the sale of mortgage loans into the secondary market. The fair value of the Company s forward delivery commitments is primarily based upon the current to be announced pricing of the Agency MBS market, which for conforming loans is specific to the forward loan program, delivery coupon and delivery date of the trade. The Company also enters into best efforts sales commitments (BESCs) for certain loans at the time the borrower commitment is made. These BESCs are valued using the committed price to the counterparty against the current market price of the IRLCs or mortgage loan held for sale.

Interest Rate Lock Commitments

The Company s IRLCs are classified within Level Three of the valuation hierarchy. 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 fair value of the Company s IRLCs is based upon the estimated fair value of the underlying mortgage loan adjusted for: (i) estimated costs to complete and originate the loan and (ii) an adjustment to reflect the estimated percentage of IRLCs that will result in a closed mortgage loan (pullthrough). See Note 7, Derivatives and Risk Management Activities for additional information regarding risk management policies and related market risk around IRLCs. The Company estimates pullthrough based on changes in pricing and actual borrower behavior. The average pullthrough percentage used in measuring the fair value of IRLCs was 71% as of June 30, 2010.

Option Contracts

The Company s Option contracts are classified within Level Two of the valuation hierarchy. The Option contracts represent the rights to buy or sell MBS at specified prices in the future. The fair value of the Company s Option contracts is based upon the underlying current to be announced pricing of the Agency MBS market, and a market-based volatility.

Table of Contents

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

Interest Rate Contracts

The Company s interest rate contracts are classified within Level Two of the valuation hierarchy. The Company s interest rate contracts represent interest rate cap and swap agreements which are used to mitigate the impact of increases in short-term interest rates on variable-rate debt used to fund fixed-rate leases. The fair value of the Company s interest rate contracts is based upon projected short term interest rates and a market-based volatility.

Foreign Exchange Contracts

The Company s foreign exchange contracts are classified within Level Two of the valuation hierarchy. The Company has entered into foreign exchange contracts to mitigate the exchange risk associated with Canadian dollar denominated lease assets collateralizing U.S. dollar denominated borrowings. The fair value of the Company s foreign exchange contracts is determined using current exchange rates.

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. See Note 6, Mortgage Loan Sales and Note 7, Derivatives and Risk Management Activities for additional information regarding the significant inputs and valuation techniques of MSRs.

Mortgage Loan Securitization Debt Certificates. The Company s mortgage loan securitization debt certificates are classified within Level Three of the valuation hierarchy. Mortgage loan securitization debt certificates represent senior securitization certificates payable through the securitization trust, which is consolidated as a VIE, to third-party holders of the certificates.

As of June 30, 2010, the Company estimates the fair value of its mortgage loan securitization debt certificates using a discounted cash flow model which projects remaining cash flows with expected prepayment speeds. The prepayment assumption of 12% (annual rate) is based on market prepayment curves from current industry data. The discount rate of 10% (annual rate) is based on an expectation of the market-risk premium for these types of securities.

Table of Contents

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

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

	June 30, 2010				
	Level One	Level Two	Level Three	Cash Collateral and Netting[1]	Total
			(In millions)		
Assets:					
Restricted investments	$	$ 241	$	$	$ 241
Mortgage loans held for sale		1,987	103		2,090
Mortgage servicing rights			1,236		1,236
Other assets:					
Derivative assets:					
IRLCs			148		148
Option contracts related to interest rate and price risk for MLHS and IRLCs		3			3
Forward delivery commitments related to interest rate and price risk for MLHS and IRLCs		48		(29)	19
Contracts related to interest rate risk for variable-rate debt arrangements and fixed-rate leases		3			3
Foreign exchange contracts		4			4
Derivative instruments related to the issuance of the 2014 Convertible Notes			44		44
Securitized mortgage loans			47		47
Liabilities:					
Other liabilities:					
Derivative liabilities:					
IRLCs			6		6
Forward delivery commitments related to interest rate and price risk for MLHS and IRLCs		133		(62)	71
Derivative instruments related to the issuance of the 2014 Convertible Notes			44		44
Debt:					
Mortgage loan securitization debt certificates			35		35

Table of Contents

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

	December 31, 2009				
	Level One	Level Two	Level Three	Cash Collateral and Netting[1]	Total
	(In millions)				
Assets:					
Mortgage loans held for sale	$	$1,107	$ 111	$	$1,218
Mortgage servicing rights			1,413		1,413
Investment securities			12		12
Other assets:					
Derivative assets		86	68	(10)	144
Liabilities:					
Other liabilities:					
Derivative liabilities		15	42	(5)	52

(1) Adjustments to arrive at the carrying amounts of assets and liabilities presented in the Condensed Consolidated Balance Sheets which represent the effect of netting the payable or receivable and cash collateral held or placed with the same counterparties under master netting arrangements between the Company and its counterparties.

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

	Three Months Ended June 30, 2010					
	Balance, Beginning of Period	**Realized and Unrealized (Losses) Gains**	**Purchases, Issuances and Settlements, net**	**Transfers Into Level Three(1)**	**Transfers Out of Level Three(2)**	**Balance, End of Period**
			(In millions)			
Assets:						
Mortgage loans held for sale	$ 92	$ (3)	$ 13	$ 8	$ (7)	$ 103
Mortgage servicing rights	1,458	(320) (4)	98			1,236
Other assets:						
Investment securities	1		(1)			
IRLCs, net	51	379	(288)			142
Securitized mortgage loans	49	2	(4)			47

	Balance, Beginning of Period	**Realized and Unrealized Losses**	**Settlements**	**Transfers Into Level Three**	**Transfers Out of Level Three**	**Balance, End of Period**
Liabilities:						
Debt:						
Mortgage loan securitization debt certificates	$ 37	$ 1	$ (3)	$	$	$ 35

Table of Contents

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

	Six Months Ended June 30, 2010						
	Balance, Beginning of Period	Realized and Unrealized (Losses) Gains	Purchases, Issuances and Settlements, net	Transfers Into Level Three(1)	Transfers Out of Level Three(2)	Transition Adjustment(3)	Balance, End of Period
	(In millions)						
Assets:							
Mortgage loans held for sale	$ 111	$ (4)	$ (9)	$ 26	$ (21)	$	$ 103
Mortgage servicing rights	1,413	(372) (4)	195				1,236
Other assets:							
Investment securities	12		(1)			(11)	
IRLCs, net	26	581	(465)				142
Securitized mortgage loans		4	(8)			51	47

	Balance, Beginning of Period	Realized and Unrealized Losses	Settlements	Transfers Into Level Three	Transfers Out of Level Three	Transition Adjustment(3)	Balance, End of Period
Liabilities:							
Debt:							
Mortgage loan securitization debt certificates	$	$ 2	$ (7)	$	$	$ 40	$ 35

	Three Months Ended June 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	$ 125	$ (5)	$ (4)	$ (6)(5)	$ 110
Mortgage servicing rights	1,223	55(4)	158		1,436
Investment securities	32	(19)	(1)		12
Derivatives, net	121	108	(162)		67

37

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

	Six Months Ended June 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)	$(12)(5)	$ 110
Mortgage servicing rights	1,282	(108)(4)	262		1,436
Investment securities	37	(21)	(4)		12
Derivatives, net	70	277	(280)		67

(1) Represents transfers to Scratch and Dent loans from conforming loans during the three and six months ended June 30, 2010.

(2) Represents Scratch and Dent and construction loans that were foreclosed upon, construction loans that converted to first mortgages and Scratch and Dent loans that were corrected during the three and six months ended June 30, 2010. The Company s mortgage loans in foreclosure are measured at fair value on a non-recurring

basis, as discussed in further detail below.

(3) Represents the transition adjustment related to the adoption of updates to ASC 810 and ASC 860 resulting in the consolidation of a mortgage loan securitization trust (See Note 1, Summary of Significant Accounting Policies and Note 14, Variable Interest Entities for additional information).

(4) 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.

(5) 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 six months ended June 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.

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 June 30, 2010				
	Mortgage Loans Held for Sale	**Mortgage Servicing Rights**	**IRLCs**	**Securitized Mortgage Loans**	**Mortgage Loan Securitization Debt Certificates**
			(In millions)		
Gain on mortgage loans, net	$ (5)	$	$ 379	$	$
Change in fair value of mortgage servicing rights		(320)			
Mortgage interest income	2			2	
Mortgage interest expense					(2)
Other income					1

Table of Contents

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

	Six Months Ended June 30, 2010				
	Mortgage Loans Held for Sale	Mortgage Servicing Rights	IRLCs	Securitized Mortgage Loans	Mortgage Loan Securitization Debt Certificates
	(In millions)				
Gain on mortgage loans, net	$(9)	$	$581	$	$
Change in fair value of mortgage servicing rights		(372)			
Mortgage interest income	5			3	
Mortgage interest expense					(3)
Other income				1	1

	Three Months Ended June 30, 2009			
	Mortgage Loans Held for Sale	Mortgage Servicing Rights	Investment Securities	Derivatives, net
	(In millions)			
Gain on mortgage loans, net	$(6)	$	$	$ 108
Change in fair value of mortgage servicing rights		55		
Mortgage interest income	1			
Other expense			(19)	

	Six Months Ended June 30, 2009			
	Mortgage Loans Held for Sale	Mortgage Servicing Rights	Investment Securities	Derivatives, net
	(In millions)			
Gain on mortgage loans, net	$(25)	$	$	$ 277
Change in fair value of mortgage servicing rights		(108)		
Mortgage interest income	3			
Other expense			(21)	

Table of Contents

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

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

	Three Months Ended June 30, 2010			
	Gain on Mortgage Loans, net	Change in Fair Value of Mortgage Servicing Rights	Mortgage Interest Income	Other Income
	(In millions)			
Unrealized gain (loss)	$133	$ (273)	$	$

	Six Months Ended June 30, 2010			
	Gain on Mortgage Loans, net	Change in Fair Value of Mortgage Servicing Rights	Mortgage Interest Income	Other Income
	(In millions)			
Unrealized gain (loss)	$130	$ (262)	$	$1

	Three Months Ended June 30, 2009			
	Gain on Mortgage Loans, net	Change in Fair Value of Mortgage Servicing Rights	Mortgage Interest Income	Other Expense
	(In millions)			
Unrealized gain (loss)	$59	$ 175	$ 1	$(19)

	Six Months Ended June 30, 2009			
	Gain on Mortgage Loans, net	Change in Fair Value of Mortgage Servicing Rights	Mortgage Interest Income	Other Expense
	(In millions)			

Unrealized gain (loss)	$61	$ 104	$ 1	$(21)

When a determination is made to classify an asset or liability within Level Three of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement of the asset or liability. The fair value of assets and liabilities classified within Level Three of the valuation hierarchy also typically includes observable factors. In the event that certain inputs to the valuation of assets and liabilities are actively quoted and can be validated to external sources, the realized and unrealized gains and losses included in the tables above include changes in fair value determined by observable factors.

Changes in the availability of observable inputs may result in the reclassification of certain assets or liabilities. Such reclassifications are reported as transfers in or out of Level Three as of the beginning of the period that the change occurs.

Table of Contents

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

The Company s mortgage loans in foreclosure and real estate owned (REO), which are included in Other assets in the Condensed Consolidated Balance Sheets, are evaluated for impairment using fair value measurements on a non-recurring basis. The evaluation of impairment reflects an estimate of losses currently incurred at the balance sheet date, which will likely not be recoverable from guarantors, insurers or investors. The impairment of mortgage loans in foreclosure, which represents the unpaid principal balance of mortgage loans for which foreclosure proceedings have been initiated, plus recoverable advances made by the Company on those loans, is based on the fair value of the underlying collateral, determined on a loan level basis, less costs to sell. The Company estimates the fair value of the collateral by considering appraisals and broker price opinions, which are updated on a periodic basis to reflect current housing market conditions. The Company records REO, which are acquired from mortgagors in default, at the lower of adjusted carrying amount at the time the property is acquired or fair value of the property, less estimated costs to sell. The Company estimates the fair value of REO using appraisals and broker price opinions, which are updated on a periodic basis to reflect current housing market conditions.

The carrying value of the Company s mortgage loans in foreclosure and REO were as follows:

	June 30, 2010	December 31, 2009
	(In millions)	
Mortgage loans in foreclosure	$ 116	$ 113
Allowance for probable losses	(21)	(20)
Mortgage loans in foreclosure, net	$ 95	$ 93
REO	$ 44	$ 51
Adjustment to estimated net realizable value	(15)	(15)
REO, net	$ 29	$ 36

The allowance for probable losses associated with the Company s mortgage loans in foreclosure and the adjustment to record REO at their estimated net realizable value were based upon fair value measurements from Level Two of the valuation hierarchy. During the three and six months ended June 30, 2010, the Company recorded total foreclosure-related charges of $20 million and $43 million, respectively, in Other operating expenses in the Condensed Consolidated Statements of Operations, which included the provision for probable losses related to the Company s off-balance sheet recourse exposure in addition to the provision for valuation adjustments for mortgage loans in foreclosure and REO. During the three and six months ended June 30, 2009, the Company recorded total foreclosure-related charges of $13 million and $34 million, respectively, in Other operating expenses in the Condensed Consolidated Statements of Operations, which included the provision for probable losses related to the Company s off-balance sheet recourse exposure in addition to the provision for valuation adjustments for mortgage loans in foreclosure and REO. See Note 11, Commitments and Contingencies for further discussion regarding the Company s off-balance sheet recourse exposure.

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

14. Variable Interest Entities

The Company determines whether an entity is a VIE and whether it is the primary beneficiary at the date of initial involvement with the entity. Reconsideration of an entity s status as a VIE is based on the occurrence of certain events. With the updates to ASC 810, the Company reassesses whether it is the primary beneficiary of a VIE on an ongoing basis based on changes in facts and circumstances whereas prior to the updates to ASC 810 this assessment was made only upon the occurrence of certain events affecting the VIE s equity investment at risk and upon certain changes in the VIE s activities. In determining whether it is the primary beneficiary, the Company considers the purpose and activities of the VIE, including the variability and related risks the VIE incurs and transfers to other entities and their related parties. With the updates to ASC 810, these factors are considered in determining which entity has the power to direct activities of the VIE that most significantly impact the VIE s economic performance and whether that entity also has the obligation to absorb losses of or receive benefits from the VIE that could be potentially significant to the VIE. Prior to the updates to ASC 810, the Company considered these factors to make a qualitative assessment and, if inconclusive, a quantitative assessment of whether it would absorb a majority of the VIE s expected losses or receive a majority of the VIE s expected residual returns. If the Company determines that it is the primary beneficiary of the VIE, the VIE is consolidated within the Company s Condensed Consolidated Financial Statements.

Mortgage Venture

For the six months ended June 30, 2010, approximately 32% of the mortgage loans originated by the Company were derived from Realogy s affiliates, of which approximately 77% were originated by the Mortgage Venture. During the three and six months ended June 30, 2010, the Mortgage Venture brokered or sold \$2.7 billion and \$4.5 billion, respectively, of mortgage loans to the Company under the terms of a loan purchase agreement with the Mortgage Venture, whereby the Mortgage Venture has committed to sell or broker, and the Company has agreed to purchase or fund, certain loans originated by the Mortgage Venture. As of June 30, 2010, the Company had outstanding commitments to purchase or fund \$1.2 billion of MLHS and IRLCs that may result in closed mortgage loan from the Mortgage Venture.

During both the three and six months ended June 30, 2010, the Company received \$5 million of distributions from the Mortgage Venture. The Company did not make any capital contributions to support the Mortgage Venture during the six months ended June 30, 2010. The Company has been the primary beneficiary of the Mortgage Venture since its inception, and current period events did not change the decision regarding whether or not to consolidate the Mortgage Venture.

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

The assets and liabilities of the Mortgage Venture, consolidated with its subsidiaries, included in the Company s Condensed Consolidated Balance Sheets are as follows:

	June 30, 2010	December 31, 2009
	(In millions)	
ASSETS		
Cash	$ 21	$ 40
Mortgage loans held for sale	248	60
Accounts receivable, net	5	2
Property, plant and equipment, net	1	1
Other assets	15	6
Total assets[(1)]	$ 290	$ 109
LIABILITIES		
Accounts payable and accrued expenses	$ 15	$ 14
Debt[(2)]	120	
Other liabilities	9	2
Total liabilities[(3)]	$ 144	$ 16

(1) See Note 9, Debt and Borrowing Arrangements for assets held as collateral related to the Mortgage Venture s borrowing arrangements, which are not available to pay the Company s general obligations.

(2) See Note 9, Debt and Borrowing Arrangements

for additional information regarding the Mortgage Venture s borrowing arrangements.

(3) Total liabilities exclude $61 million and $15 million of intercompany payables as of June 30, 2010 and December 31, 2009, respectively.

As of June 30, 2010 and December 31, 2009, the Company s investment in the Mortgage Venture was $72 million and $77 million, respectively. In addition to this investment, the Company had $61 million and $15 million in receivables, from the Mortgage Venture as of June 30, 2010 and December 31, 2009, respectively.

During the three and six months ended June 30, 2010, the Mortgage Venture originated $2.6 billion and $4.4 billion, respectively, of residential mortgage loans. During the three and six months ended June 30, 2009, the Mortgage Venture originated $3.4 billion and $5.7 billion, respectively, of residential mortgage loans.

Mortgage Loan Securitization Trust

As a result of the adoption of updates to ASC 810 and ASC 860 as of January 1, 2010, the Company was required to consolidate a mortgage loan securitization trust that previously met the QSPE scope exception. The mortgage loan securitization trust included in the Company s Condensed Consolidated Balance Sheet at June 30, 2010 had $47 million in Total assets and $35 million in Total liabilities. Additionally, $12 million of the trust s subordinate debt certificates are held by the Company. The Company s investment in the subordinated debt and residual interests, in connection with its function as servicer for the trust, provides the Company with a controlling financial interest in the trust.

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

Chesapeake and D.L. Peterson Trust

The consolidated assets and liabilities of Chesapeake, Chesapeake Finance Holdings LLC and D.L. Peterson Trust included in the Company s Condensed Consolidated Balance Sheets are as follows:

	June 30, 2010	December 31, 2009
	(In millions)	
ASSETS		
Cash and cash equivalents	$ 3	$ 3
Restricted cash[1]	233	297
Accounts receivable	34	21
Net investment in fleet leases	2,980	3,046
Other assets	17	22
Total assets[2]	$ 3,267	$ 3,389
LIABILITIES		
Accounts payable and accrued expenses	$ 3	$ 3
Debt[3]	2,675	2,859
Total liabilities	$ 2,678	$ 2,862

(1) Restricted cash primarily relates to amounts specifically designated to purchase assets, to repay debt and/or to provide over-collateralization related to the Company s vehicle management asset-backed debt arrangements.

(2) See Note 9, Debt and Borrowing Arrangements for assets held as collateral related to the Company s vehicle management

asset-backed debt arrangements, which are not available to pay the Company s general obligations.

(3) See Note 9, Debt and Borrowing Arrangements for additional information regarding the variable funding and term notes issued by Chesapeake.

Fleet Leasing Receivables Trust

FLRT is a Canadian special purpose trust and its primary business activities include the acquisition, disposition and administration of purchased or acquired lease assets from our other Canadian subsidiaries and the borrowing of funds or the issuance of securities to finance such acquisitions.

The Company determined that FLRT and PHH Fleet Lease Receivables LP are VIEs. The Company considered the nature and purpose of each of the entities and how the risk transferred to interest holders through their variable interests. The Company determined on a qualitative basis that it is the primary beneficiary of each of these entities.

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

The consolidated assets and liabilities of FLRT and PHH Fleet Lease Receivables LP included in the Company s Condensed Consolidated Balance Sheets are as follows:

		June 30, 2010 (In millions)
ASSETS		
Restricted cash[1]	$	26
Net investment in fleet leases		377
Other assets		4
Total assets[2]	$	407
LIABILITIES		
Debt[3]	$	284
Total liabilities	$	284

(1) Restricted cash primarily relates to amounts specifically designated to repay debt and/or to provide over-collateralization related to the Company s vehicle management asset-backed debt arrangements.

(2) See Note 9, Debt and Borrowing Arrangements for assets held as collateral related to the Company s vehicle management asset-backed debt arrangements, which are not available to pay the Company s general obligations.

(3) See Note 9, Debt and Borrowing Arrangements for additional information regarding the term notes issued by FLRT.

15. Segment Information

The Company conducts its operations through three business segments: Mortgage Production, Mortgage Servicing and Fleet Management Services. Certain income and expenses not allocated to the three reportable segments and intersegment eliminations are reported under the heading Other.

The Company s management evaluates the operating results of each of its reportable segments based upon Net revenues and segment profit or loss, which is presented as the income or loss before income tax provision or benefit and after net income or loss attributable to noncontrolling interest. The Mortgage Production segment profit or loss excludes Realogy s noncontrolling interest in the profits and losses of the Mortgage Venture.

Table of Contents

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

The Company s segment results were as follows:

	Net Revenues Three Months Ended June 30,			Segment Profit (Loss) [1] Three Months Ended June 30,		
	2010	2009	Change	2010	2009	Change
			(In millions)			
Mortgage Production segment	$ 202	$ 232	$ (30)	$ 49	$ 82	$ (33)
Mortgage Servicing segment	(238)	124	(362)	(284)	86	(370)
Combined Mortgage Services segments	(36)	356	(392)	(235)	168	(403)
Fleet Management Services segment	407	413	(6)	13	18	(5)
Total reportable segments	371	769	(398)	(222)	186	(408)
Other [2]		(1)	1		(5)	5
Total Company	$ 371	$ 768	$ (397)	$ (222)	$ 181	$ (403)

	Net Revenues Six Months Ended June 30,			Segment Profit (Loss) [1] Six Months Ended June 30,		
	2010	2009	Change	2010	2009	Change
			(In millions)			
Mortgage Production segment	$ 354	$ 480	$ (126)	$ 74	$ 195	$ (121)
Mortgage Servicing segment	(202)	50	(252)	(297)	(32)	(265)
Combined Mortgage Services segments	152	530	(378)	(223)	163	(386)
Fleet Management Services segment	797	827	(30)	21	25	(4)
Total reportable segments	949	1,357	(408)	(202)	188	(390)
Other [2]	(1)	(2)	1	(1)	(5)	4
Total Company	$ 948	$ 1,355	$ (407)	$ (203)	$ 183	$ (386)

(1) The following is a reconciliation of (Loss) income before income taxes to segment

(loss) profit:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(In millions)			
(Loss) income before income taxes	$ (215)	$ 186	$ (196)	$ 191
Less: net income attributable to noncontrolling interest	7	5	7	8
Segment (loss) profit	$ (222)	$ 181	$ (203)	$ 183

(2) Amounts included under the heading Other represent intersegment eliminations and amounts not allocated to the Company s reportable segments. Segment loss of $1 million included under the heading Other for six months ended June 30, 2010 represents severance costs for the Company s former chief executive officer. Segment loss of $5 million reported under the heading Other for the three and six months ended June 30, 2009 represents expenses not allocated to the Company s reportable segments,

approximately $3 million of which represents accrued severance for the Company s former chief executive officer.

Table of Contents

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

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. This Item 2 should be read in conjunction with the Cautionary Note Regarding Forward-Looking Statements, Item 1A. Risk Factors and our Condensed Consolidated Financial Statements and notes thereto included in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (the Form 10-Q) and Item 1. Business, Item 1A. Risk Factors, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009 (our 2009 Form 10-K).

Overview

We are a leading outsource provider of mortgage and fleet management services. We conduct our business through three operating segments: a Mortgage Production segment, a Mortgage Servicing segment and a Fleet Management Services segment. Our Mortgage Production segment originates, purchases and sells mortgage loans through PHH Mortgage Corporation and its subsidiaries (collectively, PHH Mortgage) which includes PHH Home Loans, LLC and its subsidiaries (collectively, PHH Home Loans or the Mortgage Venture). PHH Home Loans is a mortgage venture that we maintain with Realogy Corporation (Realogy) that began operations in October 2005. Our Mortgage Servicing segment services mortgage loans that either PHH Mortgage or PHH Home Loans originated. Our Mortgage Servicing segment also purchases mortgage servicing rights (MSRs) and acts as a subservicer for certain clients that own the underlying MSRs. Our Fleet Management Services segment provides commercial fleet management services to corporate clients and government agencies throughout the United States (U.S.) and Canada through PHH Vehicle Management Services Group LLC.

Executive Summary

During the second quarters of 2010 and 2009, our consolidated results were as follows:

	Three Months Ended June 30,	
	2010	2009
	(In millions)	
Net (loss) income attributable to PHH Corporation	$ (133)	$ 106
Basic (loss) earnings per share attributable to PHH Corporation	(2.40)	1.93
Diluted (loss) earnings per share attributable to PHH Corporation	(2.40)	1.91

During the second quarter of 2010 in comparison to the second quarter of 2009, segment (loss) profit was primarily driven by:

- § ***Combined Mortgage Services Segments of $(235) Million vs. $168 Million:*** an unfavorable change in the fair value of MSRs primarily resulting from a decline in mortgage interest rates during the second quarter of 2010 compared to an increase in mortgage interests rates during the second quarter of 2009 coupled with lower margins on mortgage loans and a decrease in mortgage loans closed that were partially offset by an increase in the volume of interest rate lock commitments (IRLCs) expected to close.
  - § ***Mortgage Production Segment of $49 Million vs. $82 Million:*** lower margins on mortgage loans and lower volumes of more profitable first mortgage retail originations partially offset by an increase in IRLCs expected to close.

Table of Contents

- § ***Mortgage Servicing Segment of $(284) Million vs. $86 Million:*** an unfavorable change in the fair value of MSRs primarily resulting from a decline in mortgage interest rates during the second quarter of 2010 compared to an increase in mortgage interests rates during the second quarter of 2009 partially offset by lower reductions in the value of MSRs due to prepayments and credit-related adjustments.

§ ***Fleet Management Services Segment of $13 Million vs. $18 Million:*** a $4 million unfavorable impact of the segment recapitalization and acceleration of costs associated with the execution of the transformation plan.

During the six months ended June 30, 2010 and 2009, our consolidated results were as follows:

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(In millions)	
Net (loss) income attributable to PHH Corporation	$ (125)	$ 108
Basic (loss) earnings per share attributable to PHH Corporation	(2.26)	1.98
Diluted (loss) earnings per share attributable to PHH Corporation	(2.26)	1.96

During the six months ended June 30, 2010 compared to the six months ended June 30, 2009 segment (loss) profit was primarily driven by:

§ ***Combined Mortgage Services Segments of $(223) Million vs. $163 Million:*** an unfavorable change in the fair value of MSRs primarily resulting from a decline in mortgage interest rates during the six months ended June 30, 2010 compared to an increase in mortgage interests rates during the six months ended June 30, 2009 coupled with lower margins on mortgage loans and a decrease in mortgage loans closed that were partially offset by an increase in the volume of IRLCs expected to close.

- § ***Mortgage Production Segment of $74 Million vs. $195 Million:*** lower margins on mortgage loans and lower volumes of more profitable first mortgage retail originations partially offset by an increase in IRLCs expected to close.

- § ***Mortgage Servicing Segment of $(297) Million vs. $(32) Million:*** an unfavorable change in the fair value of MSRs primarily resulting from a decline in mortgage interest rates during the six months ended June 30, 2010 compared to an increase in mortgage interests rates during the six months ended June 30, 2009 partially offset by lower reductions in the value of MSRs due to prepayments and credit-related adjustments.

§ ***Fleet Management Services Segment of $21 Million vs. $25 Million:*** a $7 million unfavorable impact of the segment recapitalization and acceleration of costs associated with the execution of the transformation plan.

After assessing our cost structure and processes, we initiated a transformation program in 2009 directed towards creating greater operational efficiencies, improving scalability of our operating platforms and reducing our operating expenses. This program involves evaluating and improving operational and administrative processes, eliminating inefficiencies and targeting areas of the market where we can leverage our competitive strengths. We continue to expect our transformation initiatives to produce an annualized expense benefit of $100 million to $120 million beginning in 2011. We believe that had we not commenced our efforts in 2009, total projected expenses for the full year 2010 would be approximately $34 million higher. Although this benefit is below our initial expectation of $40 million, we have increased the scope of our initiatives to target additional revenue and cost opportunities beyond the original $577 million of expenses previously targeted and have incurred additional costs in 2010 as a result of these efforts.

We estimate that our transformation initiatives resulted in annualized run-rate expense benefits of approximately $61 million of the $100 million to $120 million 2011 goal. We believe that had we not begun our transformation program in 2009 total expenses during the six months ended June 30, 2010 would have been approximately $16 million higher. To deliver these benefits, we incurred approximately $21 million in expenses during the six months ending June 30, 2010. These expenses were greater than our initial plan as we moved aggressively to accelerate expense reductions, increase the scope of our transformation efforts and provide the foundation for sustained operational improvements into 2011.

Our expectation of transformation benefits represent our best estimate to date. Since the execution of certain initiatives is still in process, the amount and nature of actual benefits realized could vary from expectations.

See Results of Operations Second Quarter 2010 vs. Second Quarter 2009 and Results of Operations Six Months Ended June 30, 2010 vs. Six Months Ended June 30, 2009 for additional information regarding our consolidated results and the results of each of our reportable segments for the respective period.

Regulatory Trends

The recent economic conditions in the U.S. have resulted, and could continue to result, in increased delinquencies, home price depreciation and lower home sales. In response to these trends, the U.S. government has taken several actions that are intended to stabilize the housing market and the banking system, maintain lower interest rates, and increase liquidity for lending institutions. Certain of these actions are also intended to make it easier for borrowers to obtain mortgage financing or to avoid foreclosure on their current homes. Some of these key actions that have impacted, and may continue to impact, the U.S. mortgage industry include the enactment of the Housing and Economic Recovery Act of 2008, the conservatorship of Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), the enactment of the Emergency Economic Stabilization Act of 2008, the Troubled Asset Relief Program, (TARP), the implementation of a streamlined loan modification program for Fannie Mae loans for qualified borrowers and enhanced economic incentive compensation for mortgage loan servicers to modify qualified loans with additional incentives for loans that continue to perform for a period of time following modification (HAMP), the Home Affordable Refinance Program as part of the Homeowner Affordability and Stability Plan (HASP), the purchase by the Federal Reserve of direct obligations of the GSEs, the enactment of the American Recovery and Reinvestment Act of 2009 and the implementation of the Public-Private Investment Program.

These specific actions by the federal government are intended, among other things, to stabilize domestic residential real estate markets by increasing the availability of credit for homebuyers and existing homeowners and reduce the foreclosure rates through mortgage loan modification programs. Although the federal government s HASP programs are intended to improve the current trends in home foreclosures, some local and state governmental authorities have taken, and others are contemplating taking, regulatory action to require increased loss mitigation outreach for borrowers, including the imposition of waiting periods prior to the filing of notices of default and the completion of foreclosure sales and, in some cases, moratoriums on foreclosures altogether. Such regulatory changes in the foreclosure process could increase servicing costs and reduce the ultimate proceeds received on these properties if real estate values continue to decline. These changes could also have a negative impact on liquidity as we may be required to repurchase loans without the ability to sell the underlying property on a timely basis.

While it is too early to determine the impact of the foregoing governmental initiatives, there can be no assurance that any of these programs will improve the effects of the recent economic conditions on our business.

Table of Contents

We also may be at a competitive disadvantage in the event that our competitors are able to participate in these federal programs and it is determined that we are not eligible to participate in these programs.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law, certain provisions of which became effective on July 22, 2010. The Dodd-Frank Act establishes a new consumer financial protection agency with broad regulatory powers and increases federal regulatory oversight of many aspects of the financial services industry including the areas of mortgage originations and sales and asset-backed securitizations.

With respect to asset-securitizations, the Dodd-Frank Act requires sponsors and issuers of securitizations to retain a portion of the economic interest in the credit risk associated with the assets securitized by them. Federal regulators have been authorized to provide exceptions to the risk retention requirements for certain qualified mortgages and mortgages meeting certain underwriting standards prescribed in such regulations. We rely upon our ability to sell mortgage loans into securities sponsored by Fannie Mae, Freddie Mac and Government National Mortgage Association (Ginnie Mae) (collectively, Government-Sponsored entities or GSEs). If the mortgage loans we typically sell into GSE-sponsored mortgage backed securities (MBS) do not meet the definition of a qualified mortgage , then the GSEs may be required to retain a portion of the risk of assets they securitize, which may in turn substantially reduce or eliminate the GSEs ability to issue MBS. As of the date of this Form 10-Q, it is unclear whether future regulations related to the definition of qualified mortgages will include the types of conforming mortgage loans we typically sell into GSE-sponsored MBS. It is also unclear at this time what, if any, effect future regulations may have on the ability of the GSEs to issue MBS or what changes, if any, Congress may make to the structure of the GSEs. Further, there can be no assurances that the mortgage loans we typically sell to the GSEs will qualify under future regulations related to the definition of a qualified mortgage.

Our Vehicle Management Services segment utilizes asset-backed debt issued by Chesapeake to support the acquisition of vehicles used in our U.S. leasing operations. Historically, we have maintained subordinated rights to, and a first loss position in, excess of five percent of the assets supporting the securities and other indebtedness issued by Chesapeake. While we expect to retain our economic interest in the credit risk associated with the assets securitized by Chesapeake consistent with historic levels, there can be no assurances that level of our retained economic interest in Chesapeake will comply with the final risk retention regulations to be issued by federal regulators under the Dodd-Frank Act.

We are continuing to evaluate all aspects of the Dodd-Frank Act. This legislation and related regulations could lead to heightened federal regulation and oversight of our business activities, higher regulatory compliance costs and could potentially materially adversely impact our businesses.

Mortgage Production and Mortgage Servicing Segments

Mortgage Industry Trends

Overall Trends

The aggregate demand for mortgage loans in the U.S. is a primary driver of the Mortgage Production and Mortgage Servicing segments operating results. The demand for mortgage loans is affected by external factors including prevailing mortgage rates, the strength of the U.S. housing market and investor underwriting standards for borrower credit and loan-to-value ratios (LTVs). Current economic conditions have impacted mortgage interest rates during the six months ended June 30, 2010. Mortgage rates have declined during the second quarter of 2010 and have remained at historically low levels into the third quarter of 2010, which has generated an increase in refinance activity. Although the level of interest rates is a key driver of refinancing activity, there are other factors which influence the level of refinance originations including home prices, underwriting standards and product characteristics.

The mortgage industry has continued to utilize more restrictive underwriting standards that made it more difficult for borrowers with less than prime credit records, limited funds for down payments or a high LTV to qualify for a mortgage. While there is uncertainty regarding their long-term impact, the HASP programs, discussed above under Regulatory Trends, expands the population of eligible borrowers by expanding the maximum LTV to 125% for existing Fannie Mae loans which we believe had a favorable impact on mortgage industry origination volumes and may continue during the remainder of 2010.

As of July 2010, Fannie Mae s *Economics and Mortgage Market Analysis* forecasted a decrease in industry loan originations of approximately 27% in 2010 from 2009 levels, which was comprised of a 41% decrease in forecasted refinance activity partially offset by a 2% increase in forecasted purchase originations.

See Liquidity and Capital Resources General for a discussion of trends relating to the credit markets and the impact of these trends on our liquidity.

Mortgage Production Trends

Although Fannie Mae s *Economics and Mortgage Market Analysis* forecast projects a decline in refinance originations during the remainder of 2010, overall refinance originations for the mortgage industry and our Mortgage Production segment may be positively impacted by the recent decline in mortgage interest rates to historically low levels. Refinancing activity during the remainder of 2010 may also be impacted by many borrowers who have existing adjustable-rate mortgage loans that will have their rates reset as lower fixed interest rates may provide an incentive for those borrowers to seek to refinance loans subject to interest rate changes.

Loan margins across the industry were lower on average during the six months ended June 30, 2010 from the highs of 2009 given the decline in the industry origination volume. However, they have remained and we expect them to continue to remain higher than years prior to 2008, which we believe is reflective of a longer term view of the returns required to manage the underlying risk of a mortgage production business.

Although we continue to experience a challenging environment for purchase originations, our Mortgage Production segment s origination volumes were positively impacted by a higher level of home affordability driven by both declines in home prices and historically low mortgage interest rates, as well as the availability of tax incentives for first time homebuyers and qualified repeat buyers, which were expanded to home purchases with a binding sales contract signed by April 30, 2010. Although we expect the environment for purchase originations to continue to be challenging during the remainder of 2010, we anticipate that to the extent that this greater level of housing affordability continues, it could improve purchase originations for the mortgage industry during the remainder of 2010.

In response to the trends impacting the decline in overall industry originations and margins, we are actively working to grow our market share and improve our profitability. See Results of Operations Second Quarter 2010 vs. Second Quarter 2009 Segment Results Mortgage Production Segment and Results of Operations Six Months Ended June 30, 2010 vs. Six Months Ended June 30, 2009 Segment Results Mortgage Production Segment for a further discussion of these initiatives and their anticipated impact on our mortgage business.

The majority of industry loan originations during the second quarter and six months ended June 30, 2010 were fixed-rate conforming loans and substantially all of our loans closed to be sold were conforming. We continued to observe a lack of liquidity and lower valuations in the secondary mortgage market for non-conforming loans during the six months ended June 30, 2010. Although we expect this trend to continue during the remainder of 2010, we have observed that the market for prime loan production with loan amounts exceeding the GSE guidelines have begun to reemerge.

Mortgage Servicing Trends

The declining housing market and general economic conditions, including elevated unemployment rates, have continued to negatively impact our Mortgage Servicing segment. Industry-wide mortgage loan delinquency rates have increased and may continue to increase over 2009 levels in correlation with unemployment rates. We expect foreclosure costs to remain elevated during the remainder of 2010 due to an increase in loss severity, repurchase requests and declining home prices. We experienced increases in actual and projected repurchases, indemnifications and related loss severity associated with the representations and warranties that we provide to purchasers and insurers of our sold loans, which we expect to continue to remain at elevated levels during the remainder of 2010, primarily due to increased delinquency rates and a decline in housing prices. These trends are considered in the determination of our foreclosure-related reserves; however, changes in these trends and other economic factors as well as the level and composition of our mortgage production volumes will impact the balance of our foreclosure-related reserves.

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
	(In millions)	
Foreclosure-related reserves, April 1,	$ 96	$ 88
Realized foreclosure losses[(1)]	(16)	(24)
Increase in foreclosure reserves	24	16
Foreclosure-related reserves, June 30,	$ 104	$ 80

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(In millions)	
Foreclosure-related reserves, January 1,	$ 86	$ 81
Realized foreclosure losses[(1)]	(32)	(39)
Increase in foreclosure reserves	50	38
Foreclosure-related reserves, June 30,	$ 104	$ 80

(1) Realized foreclosure losses for both the three and six months ended June 30, 2009 include an $11 million settlement with an individual investor for all future potential repurchase liabilities.

During the second quarter of 2010, servicer incentives received from the Treasury, under HAMP, were not significant and during the six months ended June 30, 2010, we earned $1 million in servicer incentives from the Treasury. Servicer incentives did not significantly impact our results of operations.

As of June 30, 2010, Atrium Reinsurance Corporation (Atrium) had outstanding reinsurance agreements that were inactive and in runoff with two primary mortgage insurers. While in runoff, Atrium will continue to collect premiums and have risk of loss on the current population of loans reinsured, but may not add to that population of loans. Although HAMP could reduce our exposure to reinsurance losses through the loan modification and refinance programs, increases in mortgage loan delinquency rates and lower home prices could continue to have a further negative impact on our reinsurance business.

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

	Three Months Ended June 30,	
	2010	**2009**
	(In millions)	
Reinsurance-related reserves, April 1,	$ 117	$ 97
Realized reinsurance losses	(4)	(1)
Increase in reinsurance reserves	15	12
Reinsurance-related reserves, June 30,	$ 128	$ 108

Table of Contents

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(In millions)	
Reinsurance-related reserves, January 1,	$ 108	$ 83
Realized reinsurance losses	(6)	(1)
Increase in reinsurance reserves	26	26
Reinsurance-related reserves, June 30,	$ 128	$ 108

As a result of the continued weakness in the housing market and increasing delinquency and foreclosure experience, our provision for reinsurance losses may increase during the remainder of 2010 in comparison to 2009 as anticipated losses become incurred. Additionally, we expect to continue to pay claims for certain book years during the remainder of 2010. We hold securities in trust related to our potential obligation to pay such claims, which were $284 million and were included in Restricted cash, cash equivalents and investments in the accompanying Condensed Consolidated Balance Sheet as of June 30, 2010. We continue to believe that this amount is significantly higher than the expected claims.

See Item 3. Quantitative and Qualitative Disclosures About Market Risk in this Form 10-Q for additional information regarding mortgage reinsurance and loan repurchases.

Fleet Management Services Segment

Fleet Industry Trends

Growth in our Fleet Management Services segment is driven principally by increased market share in fleets greater than 75 units and increased fee-based services. The U.S. commercial fleet management services market has continued to experience minimal growth over the last several years as reported by *Automotive Fleet*. The North American automobile manufacturers are projecting an increase in the demand for new vehicle production during the remainder of 2010, which we believe may include an increase in the demand for commercial fleet vehicles. Despite the fact that there appears to be signs of recovery within the industry, we experienced a decline in our leased units in the first half of 2010 and we expect that this trend will also continue during the remainder of 2010 as the increase in replacement vehicles is not likely to completely offset the impact of the U.S. economic recession.

Market and Credit Risk

We are exposed to market and credit risks. See Item 3. Quantitative and Qualitative Disclosures About Market Risk in this Form 10-Q and Part I Item 1A. Risk Factors Risks Related to our Business Certain hedging strategies that we may use to manage interest rate risk associated with our MSRs and other mortgage-related assets and commitments may not be effective in mitigating those risks. in our 2009 Form 10-K for more information.

Table of Contents

Results of Operations Second Quarter 2010 vs. Second Quarter 2009

Consolidated Results

Our consolidated results of operations for the second quarters of 2010 and 2009 were comprised of the following:

	Three Months Ended June 30,		
	2010	2009	Change
	(In millions)		
Net fee income	$ 106	$ 124	$ (18)
Fleet lease income	349	360	(11)
Gain on mortgage loans, net	139	147	(8)
Mortgage net finance expense	(19)	(12)	(7)
Loan servicing income	97	100	(3)
Change in fair value of mortgage servicing rights	(320)	55	(375)
Other income (expense)	19	(6)	25
Net revenues	371	768	(397)
Depreciation on operating leases	306	322	(16)
Fleet interest expense	25	21	4
Total other expenses	255	239	16
Total expenses	586	582	4
(Loss) income before income taxes	(215)	186	(401)
(Benefit from) provision for income taxes	(89)	75	164
Net (loss) income	(126)	111	(237)
Less: net income attributable to noncontrolling interest	7	5	2
Net (loss) income attributable to PHH Corporation	$ (133)	$ 106	$ (239)

During the second quarter of 2010, our Net revenues decreased by $397 million (52%) compared to the second quarter of 2009, due to decreases of $362 million in our Mortgage Servicing segment, $30 million in our Mortgage Production segment and $6 million in our Fleet Management Services segment partially offset by a $1 million decrease in other expenses not allocated to our reportable segments. Our (Loss) income before income taxes changed unfavorably by $401 million during the second quarter of 2010 compared to the second quarter of 2009 due to unfavorable changes of $370 million in our Mortgage Servicing segment, $31 million in our Mortgage Production segment and $5 million in our Fleet Management Services segment, that were partially offset by a $5 million decrease in other expenses not allocated to our reportable segments.

We record our interim income tax provisions or benefits by applying a projected full-year effective income tax rate to our quarterly pre-tax income or loss for results that we deem to be reliably estimable in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) 740, Income Taxes. Certain results dependent on fair value adjustments of our Mortgage Production and Mortgage Servicing segments are considered not to be reliably estimable and therefore we record discrete year-to-date income tax provisions on those results.

During the second quarter of 2010, the Benefit from income taxes was $89 million and was impacted by a $3 million net increase in valuation allowances for deferred tax assets (primarily due to loss carryforwards generated during the second quarter of 2010 for which we believe it is more likely than not that the loss carryforwards will not be realized).

During the second quarter of 2009, the Provision for income taxes was $75 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 second quarter of 2009 for which we believe it is more likely than not that the loss carryforwards will not be realized).

Table of Contents

Segment Results

Discussed below are the results of operations for each of our reportable segments. Certain income and expenses not allocated to our reportable segments and intersegment eliminations are reported under the heading Other. Our management evaluates the operating results of each of our reportable segments based upon Net revenues and segment profit or loss, which is presented as the income or loss before income tax provision or benefit and after net income or loss attributable to noncontrolling interest. The Mortgage Production segment profit or loss excludes Realogy s noncontrolling interest in the profits and losses of the Mortgage Venture.

During the first quarter of 2010, our Mortgage and Fleet businesses paid dividends to PHH Corporation in order to effect a reallocation of capital between our businesses (recapitalization). Management evaluated several data sources, including rating agency leverage benchmarks, industry comparables and asset-backed securities (ABS) market subordination levels to establish the revised equity levels in our businesses. The dividend payments impacted the balances under our intercompany funding arrangements, which are used to determine the allocation of our financing costs to our segments. Had the dividends been paid at the beginning of 2009, segment (loss) profit for our combined Mortgage Services segments and our Mortgage Production segment would have each changed favorably by $4 million and segment profit for our Fleet Management Services segment would have decreased by $4 million for the second quarter of 2009.

Mortgage Services

(Loss) profit for our combined Mortgage Services segments changed unfavorably by $403 million during the second quarter of 2010 compared to the second quarter of 2009 primarily due to a $392 million decrease in Net revenues and a $9 million increase in Total expenses.

Net revenues for our combined Mortgage Services segments decreased by $392 million during the second quarter of 2010 compared to the second quarter of 2009 due to a decrease of $362 million in our Mortgage Servicing segment primarily due to a $375 million decline in the Change in fair value of mortgage servicing rights coupled with a decrease of $30 million in our Mortgage Production segment primarily attributable to lower volumes and margins on mortgage loans partially offset by an increase in IRLCs expected to close.

The following table presents the components of Total expenses:

	Three Months Ended June 30,			
	2010	2009	Change	% Change
	(In millions)			
Production-related expenses[1]	$ 112	$ 122	$ (10)	(8)%
Servicing-related expenses	20	18	2	11%
Foreclosure costs	20	13	7	54%
Other expenses	40	30	10	33%
Total expenses	$ 192	$ 183	$ 9	5%

(1) Approximately 80% of production-related expenses for the second quarter of 2010 are scalable with origination volumes.

Production-related expenses represent direct costs associated with the origination of mortgage loans, including commissions, appraisal expenses, automated underwriting and other closing costs, as well as production support costs, including underwriting, processing and secondary marketing. Due to the marginal costs associated with the origination of second-lien loan originations, production-related expenses are primarily driven by first mortgage closings. Production-related expenses decreased by 8% primarily due to a 9% decrease in the total number of first mortgage closings (units). Servicing-related expenses represent the operating costs of our Mortgage Servicing segment for performing the related servicing activities associated with our loan servicing portfolio. The increase in servicing-related expenses is primarily due to the higher costs associated with the increase in delinquencies and defaults in our loan servicing portfolio. Foreclosure costs increased by 54% primarily due to increases in actual and projected repurchases and indemnifications associated with the representations and warranties that we provide to purchasers and insurers of our sold loans. Other expenses consist of support functions, including information

Table of Contents

technology, finance, human resources, legal and corporate allocations. The increase in Other expenses is primarily attributable to outside consulting costs associated with executing our transformation plan.

The following table presents a summary of our financial results for our combined Mortgage Services segments and is followed by a discussion of each of the key components of Net revenues and Total expenses for the two reportable segments individually:

	Three Months Ended June 30,			
	2010	2009	Change	% Change
	(In millions)			
Mortgage fees	$ 66	$ 86	$ (20)	(23)%
Gain on mortgage loans, net	139	147	(8)	(5)%
Mortgage interest income	22	26	(4)	(15)%
Mortgage interest expense	(41)	(40)	(1)	(3)%
Mortgage net finance expense	(19)	(14)	(5)	(36)%
Loan servicing income	97	100	(3)	(3)%
Change in fair value of mortgage servicing rights	(320)	55	(375)	n/m(1)
Net loan servicing (loss) income	(223)	155	(378)	n/m(1)
Other income (expense)	1	(18)	19	n/m(1)
Net revenues	(36)	356	(392)	n/m(1)
Salaries and related expenses	95	101	(6)	(6)%
Occupancy and other office expenses	10	7	3	43%
Other depreciation and amortization	3	4	(1)	(25)%
Other operating expenses	84	71	13	18%
Total expenses	192	183	9	5%
(Loss) income before income taxes	(228)	173	(401)	n/m(1)
Less: net income attributable to noncontrolling interest	7	5	2	40%
Combined Mortgage Services segments (loss) profit	$ (235)	$ 168	$ (403)	n/m(1)

(1) n/m Not meaningful.

Table of Contents

Mortgage Production Segment

The following tables present a summary of our financial results and related key drivers for the Mortgage Production segment, and are followed by a discussion of each of the key components of Net revenues and Total expenses:

	Three Months Ended June 30,			
	2010	2009	Change	% Change
	(Dollars in millions, except average loan amount)			
Loans closed to be sold	$ 7,660	$ 8,980	$ (1,320)	(15)%
Fee-based closings	2,397	1,983	414	21%
Total closings	$ 10,057	$ 10,963	$ (906)	(8)%
Purchase closings	$ 6,175	$ 3,870	$ 2,305	60%
Refinance closings	3,882	7,093	(3,211)	(45)%
Total closings	$ 10,057	$ 10,963	$ (906)	(8)%
Fixed rate	$ 7,957	$ 9,324	$ (1,367)	(15)%
Adjustable rate	2,100	1,639	461	28%
Total closings	$ 10,057	$ 10,963	$ (906)	(8)%
First mortgage closings (units)	41,681	45,626	(3,945)	(9)%
Second-lien closings (units)	2,262	2,594	(332)	(13)%
Number of loans closed (units)	43,943	48,220	(4,277)	(9)%
Retail closings (units)	29,357	40,042	(10,685)	(27)%
Wholesale/correspondent closings (units)	14,586	8,178	6,408	78%
Number of loans closed (units)	43,943	48,220	(4,277)	(9)%
Average loan amount	$ 228,865	$ 227,363	$ 1,502	1%
Loans sold	$ 6,897	$ 9,205	$ (2,308)	(25)%
Applications	$ 15,958	$ 14,819	$ 1,139	8%
IRLCs expected to close	$ 8,425	$ 6,930	$ 1,495	22%

Three Months

	Ended June 30,			
	2010	2009	Change	% Change
		(In millions)		
Mortgage fees	$ 66	$ 86	$ (20)	(23)%
Gain on mortgage loans, net	139	147	(8)	(5)%
Mortgage interest income	18	22	(4)	(18)%
Mortgage interest expense	(22)	(24)	2	8%
Mortgage net finance expense	(4)	(2)	(2)	(100)%
Other income	1	1		
Net revenues	202	232	(30)	(13)%
Salaries and related expenses	85	92	(7)	(8)%
Occupancy and other office expenses	8	6	2	33%
Other depreciation and amortization	3	4	(1)	(25)%
Other operating expenses	50	43	7	16%
Total expenses	146	145	1	1%
Income before income taxes	56	87	(31)	(36)%
Less: net income attributable to noncontrolling interest	7	5	2	40%
Segment profit	$ 49	$ 82	$ (33)	(40)%

Mortgage Production Statistics

The mix of total closings shifted from a higher percentage of refinance closings in the second quarter of 2009 towards more purchase closings in the second quarter of 2010. The higher percentage of refinance closings in the second quarter of 2009 was due primary to historically low interest rates during that time. The higher purchase closings in the second quarter of 2010 was driven by improvement in home sales as compared to the same period in 2009 and the acceleration of purchase closings due to the potential expiration of the home purchase tax credit which was scheduled to expire in the second quarter of 2010. Mortgage rates have declined further during the second quarter of 2010 which has resulted in an increase in IRLCs expected to close.

The decline in retail closing units was partially offset by higher wholesale/correspondent closing units. Due to the significantly higher volumes in the second quarter of 2009, there was a reduced capacity for wholesale/correspondent production. The increase in originations from our wholesale/correspondent channel during 2010 is due to our efforts to grow production in this channel and has partially offset declines in retail originations. Generally, retail closings are more profitable than wholesale/correspondent and have higher loan margins and higher expenses.

Mortgage Fees

Loans closed to be sold and fee-based closings are the key drivers of Mortgage fees. Mortgage fees consist of fee income earned on all loan originations, including loans closed to be sold and fee-based closings. Fee income consists of amounts earned related to application and underwriting fees, fees on cancelled loans and appraisal and other income generated by our appraisal services business. Fee income also consists of amounts earned from financial institutions related to brokered loan fees and origination assistance fees resulting from our private-label mortgage outsourcing activities. Fees associated with the origination and acquisition of MLHS are recognized as earned.

Mortgage fees decreased by $20 million (23%) primarily due to the 27% decrease in the number retail closings (units) that was partially offset by the increase in fee-based originations during the second quarter of 2010 compared to the second quarter of 2009.

Gain on Mortgage Loans, Net

IRLCs expected to close are the primary driver of Gain on mortgage loans, net. Gain on mortgage loans, net includes realized and unrealized gains and losses on our MLHS, as well as the changes in fair value of our IRLCs and loan-related derivatives. The fair value of our IRLCs is based upon the estimated fair value of the underlying mortgage loan, adjusted for: (i) estimated costs to complete and originate the loan and (ii) the estimated percentage of IRLCs that will result in a closed mortgage loan. The valuation of our IRLCs and MLHS approximates a whole-loan price, which includes the value of the related MSRs. MSRs are recognized and capitalized at the date the loans are sold and subsequent changes in the fair value of MSRs are recorded in Change in fair value of mortgage servicing rights in the Mortgage Servicing segment.

The components of Gain on mortgage loans, net were as follows:

	Three Months Ended June 30,			
	2010	**2009**	**Change**	**% Change**
		(In millions)		
Gain on loans	$ 140	$ 148	$ (8)	(5)%
Change in fair value of Scratch and Dent and certain non-conforming mortgage loans	(3)	(4)	1	25%
Economic hedge results	2	3	(1)	(33)%
Total change in fair value of MLHS and related derivatives	(1)	(1)		
	87.1	95.1		
Workforce Solutions	49.9	39.8	165.9	119.0
Personal Solutions	18.1	20.8	54.8	58.3

General Corporate Expense	(46.7)	(44.5)	(173.6)	(111.8)
Total operating income	$174.3	$153.7	$ 517.0	$ 473.0

(In millions)	September 30, 2015	December 31, 2014
Total assets:		
U.S. Information Solutions	$1,946.4	$1,983.9
International	875.7	983.7
Workforce Solutions	1,270.3	1,271.3
Personal Solutions	120.3	123.8
General Corporate	328.7	311.5
Total assets	$4,541.4	$4,674.2

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As used herein, the terms Equifax, the Company, we, our and us refer to Equifax Inc., a Georgia corporation, and its consolidated subsidiaries as a combined entity, except where it is clear that the terms mean only Equifax Inc.

All references to earnings per share data in Management's Discussion and Analysis, or MD&A, are to diluted earnings per share, or EPS, unless otherwise noted. Diluted EPS is calculated to reflect the potential dilution that would occur if stock options or other contracts to issue common stock were exercised and resulted in additional common shares outstanding.

BUSINESS OVERVIEW

We are a leading global provider of information solutions, employment and income verifications and human resources business process outsourcing services. We leverage some of the largest sources of consumer and commercial data, along with advanced analytics and proprietary technology, to create customized insights which enable our business customers to grow faster, more efficiently and more profitably, and to inform and empower consumers.

Businesses rely on us for consumer and business credit intelligence, credit portfolio management, fraud detection, decisioning technology, marketing tools, and human resources-related services. We also offer a portfolio of products that enable individual consumers to manage their financial affairs and protect their identity. Our revenue stream is diversified among businesses across a wide range of industries, international geographies and individual consumers.

Segment and Geographic Information

Segments. The USIS segment, the largest of our four segments, consists of three product and service lines: Online Information Solutions; Mortgage Solutions; and Financial Marketing Services. Online Information Solutions and Mortgage Solutions revenue is principally transaction-based and is derived from our sales of products such as consumer and commercial credit reporting and scoring, identity management, fraud detection and modeling services. USIS also markets certain decisioning software services, which facilitate and automate a variety of consumer and commercial credit-oriented decisions. Financial Marketing Services revenue is principally project and subscription based and is derived from our sales of batch credit and consumer wealth information such as those that assist clients in acquiring new customers, cross selling to existing customers and managing portfolio risk.

The International segment consists of Canada, Europe and Latin America. Canada's products and services are similar to our USIS offerings, while Europe and Latin America are made up of varying mixes of product lines that are in our USIS reportable segment. In Europe and Latin America, we also provide information and technology services to support lenders and other creditors in the collections and recovery management process.

In January 2015, the personal solutions business in the United Kingdom was consolidated into the North America Personal Solutions segment. The change was driven by an enterprise wide strategy to maximize the penetration of our products and services in our targeted markets. We determined that market focus and operating efficiency could be further improved by reorganizing and consolidating the United States, Canada and the United Kingdom Personal Solutions operating activities into one segment called Personal Solutions.

The Workforce Solutions segment consists of the Verification Services and Employer Services business lines. Verification Services revenue is transaction-based and is derived primarily from employment and income verification. Employer Services revenues are derived from our provision of certain human resources business process outsourcing services that include both transaction and subscription based product offerings. These services include unemployment claims management, employment-based tax credit services and other complementary employment-based transaction services.

Personal Solutions revenue is both transaction and subscription based and is derived from the sale of credit monitoring and identity theft protection products, which we deliver electronically to consumers primarily via the internet in the U.S., Canada, and the U.K. We reach consumers directly and indirectly through partners.

Geographic Information. We currently have significant operations in the following countries: Argentina, Canada, Chile, Costa Rica, Ecuador, El Salvador, Honduras, Mexico, Paraguay, Peru, Portugal, the Republic of Ireland, Spain, the U.K., Uruguay and the U.S. Our operations in the Republic of Ireland focus on data handling and customer support activities. We also offer consumer credit services in India and Russia through joint ventures and have an investment in a consumer and commercial credit information company in Brazil.

Key Performance Indicators. Management focuses on a variety of key indicators to monitor operating and financial performance. These performance indicators include operating revenue, change in operating revenue, operating income, operating margin, net income attributable to Equifax, diluted earnings per share, cash provided by operating activities and capital expenditures. The key performance indicators for the three and nine months ended September 30, 2015 and 2014 were as follows:

	Key Performance Indicators			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In millions, except per share data)		(In millions, except per share data)	
Operating revenue	$667.4	$613.4	$1,997.3	$1,811.8
Operating revenue change	9 %	7 %	10 %	5 %
Operating income	$174.3	$153.7	$517.0	$473.0
Operating margin	26.1 %	25.1 %	25.9 %	26.1 %
Net income attributable to Equifax	$117.9	$92.7	$317.2	$269.4
Diluted earnings per share from continuing operations	$0.98	$0.75	$2.62	$2.17
Cash provided by operating activities	$247.2	$188.8	$536.8	$413.4
Capital expenditures	$(38.4)	$(26.2)	$(93.6)	$(63.9)

Operational and Financial Highlights

- We repurchased 2.1 million shares of our common stock on the open market for $196.3 million during the first nine months of 2015. At September 30, 2015, $667.2 million was available for future purchases of common stock under our share repurchase authorization.

- We paid out $103.4 million or $0.87 per share in dividends to our shareholders during the first nine months of 2015.

Business Environment and Company Outlook

Demand for our services tends to be correlated to general levels of economic activity and to consumer credit activity, both enhanced by our own initiatives to expand our products and markets served, and to small commercial credit and marketing activity. In 2015, in the United States, we expect modest growth in overall economic activity and consumer credit for the remainder of the year. Mortgage market origination activity was down in the third quarter and we expect mortgage market originations to be down further in the fourth quarter. Internationally, the environment continues to be challenging as various countries address their particular political, fiscal and economic issues. In addition, weaker foreign exchange rates, compared to the prior year, will negatively impact growth in revenue and profit when reported in U.S. dollars.

Over the long term, we expect that our ongoing investments in new product innovation, business execution, enterprise growth initiatives, technology infrastructure, and continuous process improvement will enable us to deliver long-term average organic revenue growth ranging between 6% and 8% with additional growth of 1% to 2% derived from strategic acquisitions consistent with our long term business strategy. We also expect to grow earnings per share at a somewhat faster rate than revenue over time as a result of both operating and financial leverage.

23

RESULTS OF OPERATIONS—THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

Consolidated Financial Results

Operating Revenue

Consolidated Operating Revenue	Three Months Ended September 30, 2015	2014	Change $	%	Nine Months Ended September 30, 2015	2014	Change $	%
	(In millions)				(In millions)			
U.S. Information Solutions	$312.3	$278.6	$33.7	12 %	$926.7	$820.9	$105.8	13 %
International	148.8	148.1	0.7	— %	436.0	438.9	(2.9)	(1)%
Workforce Solutions	139.0	122.5	16.5	13 %	434.0	361.6	72.4	20 %
Personal Solutions	67.3	64.2	3.1	5 %	200.6	190.4	10.2	5 %
Consolidated operating revenue	$667.4	$613.4	$54.0	9 %	$1,997.3	$1,811.8	$185.5	10 %

Revenue increased by $54.0 million or 9% and $185.5 million or 10% in the third quarter and first nine months of 2015, respectively, compared to the same periods in 2014. This broad-based growth was driven by revenue increases in direct to consumer reseller, mortgage, financial services, auto, government and pre-employment verticals. Total revenue was negatively impacted by foreign exchange rates, which reduced revenue, on a constant currency basis, by $21.5 million or 3% and $57.5 million or 3% when compared to the third quarter and the first nine months of 2014, respectively.

Operating Expenses

Consolidated Operating Expenses	Three Months Ended September 30, 2015	2014	Change $	%	Nine Months Ended September 30, 2015	2014	Change $	%
	(In millions)				(In millions)			
Consolidated cost of services	$226.5	$211.0	$15.5	7 %	$662.4	$630.1	$32.3	5 %
Consolidated selling, general and administrative expenses	217.2	197.8	19.4	10 %	668.8	556.7	112.1	20 %
Consolidated depreciation and amortization expense	49.4	50.9	(1.5)	(3)%	149.1	152.0	(2.9)	(2)%
Consolidated operating expenses	$493.1	$459.7	$33.4	7 %	$1,480.3	$1,338.8	$141.5	11 %

The increase in cost of services, when compared to the third quarter and first nine months of 2014, was due to the increase in production costs driven by higher revenues, as well as increases in people costs and professional services. The effect of changes in foreign exchange rates reduced cost of services, on a constant currency basis, by $7.3 million and $19.9 million in the three and nine months ended September 30, 2015, respectively.

Selling, general and administrative expense increased $19.4 million and $112.1 million in the three and nine months ended September 30, 2015, as compared to the same periods in 2014. The increase for three months ended September 30, 2015, was due to increases in people costs, marketing expenses, professional fees, as well as litigation and regulatory compliance expenses. The increase for the nine months ended September 30, 2015, was due to the items listed above, as well as the realignment of internal resources of $20.7 million recorded in the first quarter of 2015. The impact of changes in foreign currency exchange rates reduced our selling, general and administrative expenses, on a constant currency basis,by $6.8 million and $18.8 million in the three and nine months ended September 30, 2015, respectively.

Depreciation and amortization expense for the third quarter and first nine months of 2015 were slightly lower compared to the same periods in 2014, due to foreign currency fluctuations.

Operating Income and Operating Margin

Consolidated Operating Income	Three Months Ended September 30, 2015	2014	Change $	%	Nine Months Ended September 30, 2015	2014	Change $	%
	(In millions)				(In millions)			
Consolidated operating revenue	$667.4	$613.4	$54.0	9 %	$1,997.3	$1,811.8	$185.5	10 %
Consolidated operating expenses	493.1	459.7	33.4	7 %	1,480.3	1,338.8	141.5	11 %
Consolidated operating income	$174.3	$153.7	$20.6	13 %	$517.0	$473.0	$44.0	9 %
Consolidated operating margin	26.1 %	25.1 %		1.0 % pts	25.9 %	26.1 %		(0.2) % pts

Total company margin increased in the third quarter of 2015 due to improved margins in our USIS and Workforce Solutions businesses, offset by declines in the International and PSOL margin. The total company margin decreased slightly for the first nine months of 2015 due to the costs for the realignment of internal resources of $20.7 million and other increases in people costs. The decrease was offset by the margin improvements of 320 basis points and 530 basis points in our USIS and Workforce Solutions segments, respectively.

Interest Expense and Other Expense, net

Consolidated Interest Expense and Other Income, net	Three Months Ended September 30, 2015	2014	Change $	%	Nine Months Ended September 30, 2015	2014	Change $	%
	(In millions)				(In millions)			
Consolidated interest expense	$(15.8)	$(17.1)	$(1.3)	(8)%	$(48.1)	$(51.8)	$(3.7)	(7)%
Consolidated other income, net	14.4	3.2	11.2	350 %	—	1.6	(1.6)	(100)%
Average cost of debt	4.5 %	4.5 %			4.4 %	4.4 %		
Total consolidated debt, net, at quarter end	$1,332.7	$1,554.6	$(221.9)	(14)%	$1,332.7	$1,554.6	$(221.9)	(14)%

Interest expense decreased for the third quarter and first nine months of 2015 when compared to the same periods in 2014, due to an overall decrease in our consolidated debt outstanding as of September 30, 2015. Our average cost of debt remained consistent for the third quarter 2015 and the first nine months of 2015, compared to the prior year period.

The increase in other income, net, for the three months ended September 30, 2015, as compared to the prior year, is due to the settlement of escrow amounts related to an acquisition from January 2014. The decrease in other income, net, for the nine months ended September 30, 2015, was due to impairment of our cost method investment in Brazil in the second quarter of 2015, fully offset by the settlement of escrow, discussed above.

Income Taxes

Consolidated Provision for Income Taxes	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2015	2014	$	%	2015	2014	$	%
	(In millions)				(In millions)			
Consolidated provision for income taxes	$(53.2)	$(45.4)	$(7.8)	17%	$(147.1)	$(147.6)	$0.5	—%
Effective income tax rate	30.8%	32.5%			31.4%	34.9%		

Our effective income tax rate was 30.8% for the third quarter of 2015, down from 32.5% for the third quarter of 2014. The effective income tax rate was 31.4% for the nine months ended September 30, 2015, as compared to 34.9% for the same period in 2014. In 2015, the income tax rates were lower due to state income tax benefits generated from a tax law change enacted during the second quarter of 2015, a more favorable foreign rate differential compared to 2014 and beneficial rate impacts associated with other permanent items including the settlement of escrow related to a past acquisition.

Net Income

Consolidated Net Income	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2015	2014	$	%	2015	2014	$	%
	(In millions, except per share amounts)				(In millions, except per share amounts)			
Consolidated operating income	$174.3	$153.7	$20.6	13 %	$517.0	$473.0	$44.0	9 %
Consolidated other expense, net	(1.4)	(13.9)	12.5	(90)%	(48.1)	(50.2)	2.1	(4)%
Consolidated provision for income taxes	(53.2)	(45.4)	(7.8)	17 %	(147.1)	(147.6)	0.5	— %
Consolidated net income	119.7	94.4	25.3	27 %	321.8	275.2	46.6	17 %
Net income attributable to noncontrolling interests	(1.8)	(1.7)	(0.1)	6 %	(4.6)	(5.8)	1.2	(21)%
Net income attributable to Equifax	$117.9	$92.7	$25.2	27 %	$317.2	$269.4	$47.8	18 %
Diluted earnings per common share:								
Net income attributable to Equifax	$0.98	$0.75	$0.23	31 %	$2.62	$2.17	$0.45	21 %
Weighted-average shares used in computing diluted earnings per share	120.6	123.5			121.0	124.1		

Consolidated net income increased by $25.3 million or 27% and $46.6 million or 17%, in the three and nine months ended September 30, 2015, respectively, due to increased operating income in our USIS and Workforce Solutions businesses. This increase was partially offset by declines due to foreign exchange rates that impacted the International business unit, as well as increased corporate expenses due significantly to the realignment of our internal resources, and increases in people costs.

Segment Financial Results

USIS

U.S. Information Solutions	Three Months Ended September 30, 2015	2014	Change $	%	Nine Months Ended September 30, 2015	2014	Change $	%
	(In millions)				(In millions)			
Operating revenue:								
Online Information Solutions	$233.3	$205.5	$27.8	13 %	$688.1	$603.6	$84.5	14 %
Mortgage Solutions	31.7	28.3	3.4	12 %	96.1	80.3	15.8	20 %
Financial Marketing Services	47.3	44.8	2.5	6 %	142.5	137.0	5.5	4 %
Total operating revenue	$312.3	$278.6	$33.7	12 %	$926.7	$820.9	$105.8	13 %
% of consolidated revenue	47 %	45 %			46 %	45 %		
Total operating income	$123.4	$104.3	$19.1	18 %	$382.8	$312.4	$70.4	22 %
Operating margin	39.5 %	37.4 %		2.1 % pts	41.3 %	38.1 %		3.2 % pts

USIS revenue increased 12% and 13% in the third quarter and first nine months of 2015, respectively, as compared to the prior year periods. USIS realized solid growth from our direct to consumer reseller business and mortgage business, as well as continued revenue growth in the financial services, and automotive verticals.

Online Information Solutions

Revenue for both the third quarter and first nine months of 2015 increased 13% and 14%, respectively, when compared to the prior year periods. Core credit report transaction volume increased 48% in the third quarter of 2015 and 47% in first nine months of 2015, compared to the prior year, due to increased volumes to direct to consumer resellers, complemented by revenue growth in mortgage resellers, financial services, and auto verticals. Revenue also benefited from growth in identity and fraud solutions. These increases were partially offset by lower average revenue per unit due to a change in customer mix.

Mortgage Solutions

Revenue increased by 12% and 20% for the third quarter and first nine months of 2015, respectively, when compared to prior year, driven by a strong market for refinancing and purchase activity, as well as growth from other mortgage product offerings.

Financial Marketing Services

Revenue increased 6% and 4% for the third quarter and first nine months of 2015, respectively, as compared to prior year. The increases were driven primarily by growth in our credit marketing services due to increased demand from financial services customers.

USIS Operating Margin

USIS operating margin increased significantly in the third quarter and first nine months of 2015 as compared to prior year. Margin expansion resulted from strong revenue growth and product mix over the third quarter and first nine months of 2014, partially offset by an increase in litigation costs.

International

International	Three Months Ended September 30, 2015	2014	Change $	%	Nine Months Ended September 30, 2015	2014	Change $	%
	(In millions)				(In millions)			
Operating revenue:								
Europe	$63.6	$60.7	$2.9	5 %	$184.0	$181.6	$2.4	1 %
Latin America	51.8	49.1	2.7	5 %	150.2	143.7	6.5	5 %
Canada	33.4	38.3	(4.9)	(13)%	101.8	113.6	(11.8)	(10)%
Total operating revenue	$148.8	$148.1	$0.7	— %	$436.0	$438.9	$(2.9)	(1)%
% of consolidated revenue	22 %	24 %			22 %	24 %		
Total operating income	$29.6	$33.3	$(3.7)	(11)%	$87.1	$95.1	$(8.0)	(8)%
Operating margin	19.9 %	22.5 %		(2.6) % pts	20.0 %	21.7 %		(1.7) % pts

International revenue remained flat and decreased slightly in the third quarter and first nine months of 2015, respectively, as compared to prior year. Local currency revenue grew 14% and 12% for the three and nine month period, respectively, as a result of growth across the geographies, primarily Argentina and the U.K., compared to prior year. Local currency fluctuations against the U.S. dollar negatively impacted revenue by $20.7 million and $54.8 million in the third quarter and first nine months of 2015, respectively.

Europe

On a local currency basis, revenue increased 16% and 13% in the third quarter and first nine months of 2015, respectively, primarily due to growth in the U.K. across most product segments. Local currency fluctuations against the U.S. dollar negatively impacted revenue by $6.9 million, or 11%, and $21.6 million, or 12%, for the third quarter and first nine months of 2015, respectively. Reported revenue increased 5% in the third quarter and 1% in the first nine months of 2015.

Latin America

On a local currency basis, revenue increased 20% and 17% in the third quarter and first nine months of 2015, respectively, driven by core organic growth primarily in Argentina. Local currency fluctuations against the U.S. dollar negatively impacted revenue by $7.0 million, or 15%, and $17.8 million, or 12%, in the third quarter and first nine months of 2015, respectively, most notably due to depreciation in the foreign exchange rate of the Argentine peso and the Chilean peso. Reported revenue increased by 5% in both the third quarter and first nine months of 2015, respectively.

Canada

On a local currency basis, revenue increased 5% and 3% in the third quarter and first nine months of 2015, respectively, compared to prior year, primarily due to growth within information and marketing services, partially offset by decrease in analytical services. Local currency fluctuations against the U.S. dollar negatively impacted revenue by $6.8 million, or 18%, and $15.4 million, or 14%, in the third quarter and first nine months of 2015, respectively. Reported revenue decreased by 13% and 10% in the third quarter and first nine months of 2015, respectively.

International Operating Margin

Operating margin decreased in the third quarter and first nine months of 2015, as compared to prior year. The decline resulted from geographic and product mix.

Workforce Solutions

Workforce Solutions	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2015	2014	$	%	2015	2014	$	%
	(In millions)				(In millions)			
Operating revenue:								
Verification Services	$92.9	$75.9	$17.0	22 %	$272.7	$212.1	$60.6	29 %
Employer Services	46.1	46.6	(0.5)	(1)%	161.3	149.5	11.8	8 %
Total operating revenue	$139.0	$122.5	$16.5	13 %	$434.0	$361.6	$72.4	20 %
% of consolidated revenue	21 %	20 %			22 %	20 %		
Total operating income	$49.9	$39.8	$10.1	26 %	$165.9	$119.0	$46.9	39 %
Operating margin	35.9 %	32.5 %		3.4 % pts	38.2 %	32.9 %		5.3 %pts

Verification Services

Revenue increased 22% and 29% in the third quarter and first nine months of 2015, respectively, compared to prior year, due to strong growth in mortgage, auto, pre-employment screening and government verticals, and continued addition of new records to The Work Number database.

Employer Services

Revenue decreased 1% and increased 8% in the third quarter of 2015 and first nine months of 2015, respectively, compared to prior year period. The increase in the first nine months of 2015 was due to continued higher employment based tax credit activity due to the delayed approval of the Federal Work Opportunity Tax Credit program for 2014, as well as growth in our employer-based compliance solutions and workforce analytics business. Our Workforce Analytics solution for ACA compliance is a subscription based service where revenues are amortized over the term of the subscription. As a result, growth from this product in the quarter is primarily recognized in the increase in deferred revenue.

Workforce Solutions Operating Margin

Operating margin increased significantly for the third quarter and first nine months of 2015, respectively, compared to prior year. Margin expansion was driven by product mix, as well as strong revenue growth over the third quarter and first nine months of 2014.

Personal Solutions

Personal Solutions	Three Months Ended September 30, 2015	2014	Change $	%	Nine Months Ended September 30, 2015	2014	Change $	%
	(In millions)				(In millions)			
Total operating revenue	$67.3	$64.2	$3.1	5 %	$200.6	$190.4	$10.2	5 %
% of consolidated revenue	10 %	10 %			10 %	11 %		
Total operating income	$18.1	$20.8	$(2.7)	(13)%	$54.8	$58.3	$(3.5)	(6)%
Operating margin	26.9 %	32.4 %		(5.5) %pts	27.3 %	30.6 %		(3.3) %pts

Revenue increased 5% for both the third quarter and first nine months of 2015, respectively, as compared to the prior year. Local currency revenue grew 6% and 7% in the third quarter and first nine months of 2015, respectively, principally due to the growth in breach revenue in the U.S. in the third quarter and first nine months of 2015, as well as subscription revenue in Canada and the U.K. in the first nine months of 2015. Direct to consumer, Equifax-branded U.S.-based subscription service revenue increased slightly in the third quarter and first nine months of 2015, respectively, as a result of higher average revenue per subscriber offset by lower subscription volumes. Local currency fluctuations against the U.S. dollar negatively impacted revenue by $0.8 million, or 1%, and $2.7 million, or 1%, for the third quarter and first nine months of 2015, respectively. Operating margin decreased in the third quarter and first nine months of 2015, respectively, as compared to prior year, due to higher technology and marketing expenses.

General Corporate Expense

General Corporate Expense	Three Months Ended September 30, 2015	2014	Change $	%	Nine Months Ended September 30, 2015	2014	Change $	%
	(In millions)				(In millions)			
General corporate expense	$46.7	$44.5	$2.2	5 %	$173.6	$111.8	$61.8	55 %

Our general corporate expenses are unallocated costs that are incurred at the corporate level and include those expenses impacted by corporate direction, including shared services, administrative, legal, restructuring, and the portion of management incentive compensation determined by total company-wide performance. General corporate expense increased $2.2 million in the third quarter of 2015, due to professional fees, technology and taxes and insurance, partially offset by lower people costs. General corporate expense increased $61.8 million in the first nine months of 2015, of which $20.7 million relates to the realignment of internal resources in the first quarter of 2015, and increases in people costs, professional fees, as well as litigation and regulatory compliance expenses.

LIQUIDITY AND FINANCIAL CONDITION

Management assesses liquidity in terms of our ability to generate cash to fund operating, investing and financing activities. We continue to generate substantial cash from operating activities and remain in a strong financial position, with resources available for reinvestment in existing businesses, strategic acquisitions and managing our capital structure to meet short- and long-term objectives.

Sources and Uses of Cash

Funds generated by operating activities and our credit facilities continue to be our most significant sources of liquidity. We expect that funds generated from results of operations will be sufficient to finance our anticipated working capital and other cash requirements (such as capital expenditures, interest payments, potential pension funding contributions and dividend payments) for the foreseeable future. If borrowings were needed, we would expect to borrow in the commercial paper or corporate bond markets; or in the event that credit market conditions were to deteriorate, we would rely more heavily on borrowings from the Senior Credit Facility as described below. At September 30, 2015, $563.5 million was available to borrow under our Senior Credit Facility. Our Senior Credit Facility does not include a provision under which lenders could refuse to allow us to borrow under this facility in the event of a material adverse change in our financial condition, as long as we are in compliance with the covenants contained in the credit agreement.

The following table summarizes our cash flows for the nine months ended September 30, 2015 and 2014:

Net cash provided by (used in):	Nine Months Ended September 30, 2015	2014	Change 2015 vs. 2014
	(In millions)		
Operating activities	$536.8	$413.4	$123.4
Investing activities	$(95.2)	$(399.5)	$304.3
Financing activities	$(451.0)	$(126.7)	$(324.3)

Operating Activities

Cash provided by operating activities in the nine months ended September 30, 2015 increased by $123.4 million over the prior year, due to $61.4 million growth in Net Income, adjusted for the Brazil impairment, and improvements in working capital.

Fund Transfer Limitations. The ability of certain of our subsidiaries and associated companies to transfer funds to U.S. is limited, in some cases, by certain restrictions imposed by foreign governments. These restrictions do not, individually or in the aggregate, materially limit our ability to service our indebtedness, meet our current obligations or pay dividends. As of September 30, 2015, we held $100.8 million of cash in our foreign subsidiaries.

Investing Activities

Capital Expenditures

Net cash (used in):	Nine Months Ended September 30, 2015	2014	Change 2015 vs. 2014
	(In millions)		
Capital expenditures	$(93.6)	$(63.9)	$(29.7)

Our capital expenditures are used for developing, enhancing and deploying new and existing software in support of our expanding product set, replacing or adding facilities and equipment, updating systems for regulatory compliance, the licensing of software applications and investing in system reliability, security and disaster recovery enhancements. Capital expenditures in the first nine months of 2015 increased by $29.7 million from the same period in 2014 as we are continuing to invest in new products and technology infrastructure.

Acquisitions, Divestitures and Investments

Net cash provided by (used in):	Nine Months Ended September 30, 2015	2014	Change 2015 vs. 2014
	(In millions)		
Acquisitions, net of cash acquired	$(4.4)	$(333.7)	$329.3
Cash received from divestitures	$2.9	$0.6	$2.3
Investment in unconsolidated affiliates, net	$(0.1)	$(2.5)	$2.4

During the first quarter of 2015, we acquired a 75% equity interest investment in a debt collections and recovery management venture in the U.K.

During the first quarter of 2014, we acquired TDX, included as part of our International operating segment, and Forseva, included as part of our USIS operating segment.

During the third quarter of 2015 and 2014, we received $2.9 million and $0.6 million proceeds from the escrow related to a past disposition.

We did not make significant investments in unconsolidated affiliates during the first nine months of 2015. During the first nine months of 2014, we invested $2.5 million in our joint venture in India.

Financing Activities

Borrowings and Credit Facility Availability

	Nine Months Ended September 30,		Change
Net cash (used in) provided by:	2015	2014	2015 vs. 2014
	(In millions)		
Net short-term (repayments) borrowings	$(193.4)	$132.3	$(325.7)
Payments on long-term debt	$—	$(15.0)	$15.0

Credit Facility Availability

Our principal unsecured revolving credit facility with a group of banks, which we refer to as the Senior Credit Facility, permits us to borrow up to $750.0 million through December 2017. The Senior Credit Facility may be used for general corporate purposes. Availability of the Senior Credit Facility for borrowings is reduced by the outstanding face amount of any letters of credit issued under the facility and, pursuant to our existing Board of Directors authorization, by the outstanding principal amount of our commercial paper notes, or CP.

Our $750.0 million CP program has been established to allow for borrowing through the private placement of CP with maturities ranging from overnight to 397 days. We may use the proceeds of CP for general corporate purposes. The CP program is supported by our Senior Credit Facility and, pursuant to our existing Board of Directors authorization, the total amount of CP which may be issued is reduced by the amount of any outstanding borrowings under our Senior Credit Facility.

At September 30, 2015, $185.0 million was outstanding under our CP program. At September 30, 2015, a total of $563.5 million was available under our Senior Credit Facility.

At September 30, 2015, 86% of our debt was fixed-rate debt and 14% was effectively variable-rate debt. Our variable-rate debt consists of our commercial paper, which is generally issued for terms of 1 to 90 days. At September 30, 2015, the interest rates on our variable-rate debt ranged from 0.45% to 0.53%.

Borrowing and Repayment Activity

Net short-term (repayments) borrowings primarily represent activity under our CP program. We primarily borrow under our CP program, as needed and availability allows.

The decrease in net short-term (repayments) borrowings primarily reflects the net activity of CP notes in the first nine months of 2015. The net borrowings in the first nine months of 2014 represents the borrowings of the CP notes to fund the acquisition of TDX.

Payments on long-term debt reflect $15 million payment made in the second quarter of 2014 on our 7.34% Notes, that were paid off in May 2014.

Debt Covenants. A downgrade in our credit ratings would increase the cost of borrowings under our CP program and credit facilities, and could limit or, in the case of a significant downgrade, preclude our ability to issue CP. Our outstanding indentures and comparable instruments also contain customary covenants including, for example, limits on the incurrence of secured debt and sale/leaseback transactions. In addition, our Senior Credit Facility requires us to maintain a maximum leverage ratio of not more than 3.5. Our leverage ratio was 1.43 at September 30, 2015. None of these covenants are considered restrictive to our operations and, as of September 30, 2015, we were in compliance with all of our debt covenants.

We do not have any credit rating triggers that would accelerate the maturity of a material amount of our outstanding debt; however, our 6.3% Senior Notes due 2017, 3.3% Senior Notes due 2022 and 7.0% Senior Notes due 2037 (together, the “Senior Notes”) contain change of control provisions. If we experience a change of control or publicly announce our intention to effect a change of control and the rating on the Senior Notes is lowered by each of Standard & Poor’s, or S&P, and Moody’s Investors Service, or Moody’s, below an investment grade rating within 60 days of such change of control or notice thereof, we will be required to offer to repurchase the Senior Notes at a price equal to 101% of the aggregate principal amount of the Senior Notes plus accrued and unpaid interest.

For additional information about our debt, including the terms of our financing arrangements, basis for variable interest rates and debt covenants, see Note 6 of the Notes to Consolidated Financial Statements in our 2014 Form 10-K.

Equity Transactions

	Nine Months Ended September 30,		Change
Net cash provided by (used in):	2015	2014	2015 vs. 2014
	(In millions)		
Treasury stock repurchases	$(196.3)	$(186.6)	$(9.7)
Dividends paid to Equifax shareholders	$(103.4)	$(91.3)	$(12.1)
Dividends paid to noncontrolling interests	$(6.0)	$(7.7)	$1.7
Proceeds from exercise of stock options	$26.0	$29.7	$(3.7)
Excess tax benefits from stock-based compensation plans	$22.1	$11.9	$10.2

Sources and uses of cash related to equity during the nine months ended September 30, 2015 and 2014 were as follows:

- During the first nine months of 2015, we repurchased approximately 2.1 million of our common shares on the open market for $196.3 million, at an average price of $94.97 per share.

- We increased our quarterly dividend from $0.25 per share to $0.29 per share as announced in the first quarter of 2015. We paid cash dividends to Equifax shareholders of $103.4 million or $0.87 per share and $91.3 million or $0.75 per share, during the nine months ended September 30, 2015 and 2014, respectively.

- We received cash of $26.0 million and $29.7 million during the first nine months of 2015 and 2014, respectively, from the exercise of stock options.

At September 30, 2015, the Company had $667.2 million remaining for stock repurchases under the existing Board authorization.

Contractual Obligations, Commercial Commitments and Other Contingencies

Our contractual obligations have not changed materially from those reported in our 2014 Form 10-K. For additional information about certain obligations and contingencies, see Note 5 of the Notes to Consolidated Financial Statements in this Form 10-Q.

Off-Balance Sheet Arrangements

There have been no material changes with respect to our off-balance sheet arrangements from those presented in our 2014 Form 10-K.

Benefit Plans

At December 31, 2014, our U.S. Retirement Income Plan, or USRIP, met or exceeded ERISA's minimum funding requirements. In the future, we expect to make minimum funding contributions as required and may make discretionary contributions, depending on certain circumstances, including market conditions and our liquidity needs. We believe additional funding contributions, if any, would not prevent us from continuing to meet our liquidity needs, which are primarily funded from cash flows generated by operating activities, available cash and cash equivalents, and our committed credit facilities.

For our non-U.S., tax-qualified retirement plans, we fund an amount sufficient to meet minimum funding requirements but no more than allowed as a tax deduction pursuant to applicable tax regulations. For our non-qualified supplementary retirement plans, we fund the benefits as they are paid to retired participants, but accrue the associated expense and liabilities in accordance with GAAP.

For additional information about our benefit plans, see Note 11 of the Notes to Consolidated Financial Statements in our 2014 Form 10-K.

Seasonality

We experience seasonality in certain of our revenue streams. Revenue generated by the online consumer information services component of our USIS operating segment are typically the lowest during the first quarter, when consumer lending activity is at a seasonal low. Revenue generated from the Employer Services business unit within the Workforce Solutions operating segment is generally higher in the first quarter due primarily to the provision of Form W-2 preparation services which occur in the first quarter each year. Revenue generated from our financial wealth asset products and data management services in our Financial Marketing Services business are generally higher in the fourth quarter each year due to the significant portion of our annual renewals which occur in the fourth quarter of each year.

RECENT ACCOUNTING PRONOUNCEMENTS

For information about new accounting pronouncements and the potential impact on our Consolidated Financial Statements, see Note 1 of the Notes to Consolidated Financial Statements in this Form 10-Q and Note 1 of the Notes to Consolidated Financial Statements in our 2014 Form 10-K.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities in our Consolidated Financial Statements and the Notes to Consolidated Financial Statements. We believe the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates and assumptions about the effects of matters that are inherently uncertain. The "Application of Critical Accounting Policies and Estimates" section in the MD&A, and Note 1 of the Notes to Consolidated Financial Statements, in our 2014 Form 10-K describe the significant accounting estimates and policies used in the preparation of our Consolidated Financial Statements. Although we believe that our estimates, assumptions and judgments are reasonable, they are based upon information available at the time. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions.

34

Goodwill

We review goodwill and indefinite lived intangible assets for impairment annually (as of September 30) and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. These events or circumstances could include a significant change in the business climate, legal factors, operating performance or trends, competition, or sale or disposition of a significant portion of a reporting unit. We have eight reporting units comprised of USIS (which includes part of Online Information Solutions, Mortgage Solutions and Financial Marketing Services), Identity Management (part of Online Information Solutions), Europe, Latin America, Canada, Personal Solutions, Verification Services and Employer Services.

The goodwill balance at September 30, 2015, for our eight reporting units was as follows:

	September 30, 2015 (In millions)
U.S. Information Solutions	$1,059.5
ID Management	61.1
Europe	202.1
Latin America	224.9
Canada	35.9
Personal Solutions	89.9
Verification Services	738.6
Employer Services	169.0
Total goodwill	$2,581.0

We performed a qualitative assessment to determine whether further impairment testing was necessary for our eight reporting units. In this qualitative assessment, we considered the following items for each of the reporting units: macroeconomic conditions, industry and market conditions, overall financial performance and other entity specific events. In addition, for each of these reporting units, the most recent fair value determination resulted in an amount that exceeded the carrying amount of the reporting units. Based on these assessments, we determined the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is not more likely than not. As a result of our conclusions, no further testing was required for all of our reporting units.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding our exposure to certain market risks, see “Quantitative and Qualitative Disclosures about Market Risk,” in Part II, Item 7A of our 2014 Form 10-K. There were no material changes to our market risk exposure during the nine months ended September 30, 2015.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was carried out by the Company’s management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

35

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in the following legal actions:

California Bankruptcy Litigation. In consolidated actions filed in the U.S. District Court for the Central District of California, captioned Terri N. White, et al. v. Equifax Information Services LLC, Jose Hernandez v. Equifax Information Services LLC, Kathryn L. Pike v. Equifax Information Services LLC, and Jose L. Acosta, Jr., et al. v. Trans Union LLC, et al. , plaintiffs asserted that Equifax violated federal and state law (the FCRA, the California Credit Reporting Act and the California Unfair Competition Law) by failing to follow reasonable procedures to determine whether credit accounts are discharged in bankruptcy, including the method for updating the status of an account following a bankruptcy discharge. On August 20, 2008, the District Court approved a Settlement Agreement and Release providing for certain changes in the procedures used by defendants to record discharges in bankruptcy on consumer credit files. That settlement resolved claims for injunctive relief, but not plaintiffs' claims for damages. On May 7, 2009, the District Court issued an order preliminarily approving an agreement to settle remaining class claims. The District Court subsequently deferred final approval of the settlement and required the settling parties to send a supplemental notice to those class members who filed a claim and objected to the settlement or opted out, with the cost for the re-notice to be deducted from the plaintiffs' counsel fee award. Mailing of the supplemental notice was completed on February 15, 2011. The deadline for this group of settling plaintiffs to provide additional documentation to support their damage claims or to opt-out of the settlement was March 31, 2011. On July 15, 2011, following another approval hearing, the District Court approved the settlement. Several objecting plaintiffs subsequently filed notices of appeal to the U.S. Court of Appeals for the Ninth Circuit, which, on April 22, 2013, issued an order remanding the case to the District Court for further proceedings. On January 21, 2014, the District Court denied the objecting plaintiffs' motion to disqualify counsel for the settling plaintiff and granted the motion of counsel for the settling plaintiffs' to be appointed as interim lead class counsel. On May 1, 2014, the District Court granted the objecting plaintiffs motion for leave to file an interlocutory appeal from the January 21, 2014 Order and the objectors filed a petition for permission to appeal to the U.S. Court of Appeals for the Ninth Circuit. On July 9, 2014, the U.S. Court of Appeals for the Ninth Circuit granted the petition for permission to appeal. Briefing is complete and the oral argument is scheduled for November 2, 2015.

State Attorneys General Investigation. The Attorneys General of the State of Ohio and multiple other states commenced an investigation in late 2012 into certain business practices of the nationwide consumer reporting agencies (Equifax, Experian and TransUnion). In addition, the Attorneys General for the States of New York and Mississippi commenced separate investigations into the same or similar matters as those being reviewed by the multi-state attorney general investigation. On March 9, 2015, Equifax, Experian and TransUnion entered into a settlement agreement with the New York Attorney General, and on May 20, 2015, Equifax, Experian and TransUnion entered into a settlement agreement related to the multistate investigation, which included 31 states. The agreements are substantially similar and provide for the implementation over a period of 6 to 39 months of a National Consumer Assistance Plan to enhance consumer interaction with the national credit reporting agencies and improve data accuracy and quality. We are cooperating with the Attorney General of Mississippi in the remaining investigation. At this time, we are unable to predict the outcome of the Mississippi investigation, including whether it will result in any actions or proceedings being brought against us.

CFPB Investigation. In February 2014, we received a Civil Investigative Demand (a "CID") from the Consumer Financial Protection Bureau (the "CFPB") as part of its investigation to determine whether nationwide consumer reporting agencies have been or are engaging in unlawful acts or practices relating to the advertising, marketing, sale or provision of consumer reports, credit scores or credit monitoring products in violation of the Dodd Frank Act or the Fair Credit Reporting Act. The CID requests the production of documents and answers to written questions. We are cooperating with the CFPB in its investigation. At this time, we are unable to predict the outcome of this CFPB investigation, including whether the investigation will result in any action or proceeding against us.

Other. Equifax has been named as a defendant in various other legal actions, including administrative claims, regulatory matters, government investigations, class actions and other litigation arising in connection with our business. Some of the legal actions include claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. We believe we have strong defenses to and, where appropriate, will vigorously contest, many of these matters. Given the number of these matters, some are likely to result in adverse judgments, penalties, injunctions, fines or other relief. We may explore potential settlements before a case is taken through trial because of the uncertainty and risks inherent in the litigation process.

For information regarding our accounting for legal contingencies, see Note 5 of the Notes to Consolidated Financial Statements in this Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no material changes with respect to the risk factors disclosed in our 2014 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table contains information with respect to purchases made by or on behalf of Equifax or any "affiliated purchaser" (as defined in Rule 10b-18(a) (3) under the Securities Exchange Act of 1934), of our common stock during our third quarter ended September 30, 2015:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly-Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (3)
July 1 - July 31, 2015	4,396	$—	—	$681,367,537
August 1 - August 31, 2015	501	$95.34	148,608	$667,199,250
September 1 - September 30, 2015	1,946	$—	—	$667,199,250
Total	6,843	$95.34	148,608	$667,199,250

(1) The total number of shares purchased for the quarter includes shares surrendered, or deemed surrendered, in satisfaction of the exercise price and/or to satisfy tax withholding obligations in connection with the exercise of employee stock options, totaling 4,396 shares for the month of July 2015, 501 shares for the month of August 2015, and 1,946 shares for the month of September 2015.

(2) Average price paid per share for shares purchased as part of our share repurchase program (includes brokerage commissions).

(3) At September 30, 2015, the amount authorized for future share repurchases under the share repurchase program was $667.2 million. The program does not have a stated expiration date.

Dividend and Share Repurchase Restrictions

Our Senior Credit Facility restricts our ability to pay cash dividends on our capital stock or repurchase capital stock if a default or event of default exists or would result, according to the terms of the credit agreement.

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

			Equifax Inc. (Registrant)
Date:	October 22, 2015	By:	/s/ Richard F. Smith Richard F. Smith Chairman and Chief Executive Officer (Principal Executive Officer)
Date:	October 22, 2015		/s/ John W. Gamble, Jr. John W. Gamble, Jr. Corporate Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	October 22, 2015		/s/ Nuala M. King Nuala M. King Senior Vice President and Corporate Controller (Principal Accounting Officer)

INDEX TO EXHIBITS

Exhibit No.	Description
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase