PHH CORP
Form 10-K
February 26, 2014
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# Form 10-K

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

**For the fiscal year ended December 31, 2013**

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

**856-917-1744**

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

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

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|

| | |
|---|---|
| Common Stock, par value $0.01 per share | The New York Stock Exchange |

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:** None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes R No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act. Yes o No R

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 R 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 R No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer R 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 R

The aggregate market value of our Common stock held by non-affiliates of the registrant as of June 28, 2013 was $1.0 billion.

As of February 17, 2014, 57,302,075 shares of PHH Common stock were outstanding.

Documents Incorporated by Reference: Portions of the registrant s definitive Proxy Statement for the 2014 Annual Meeting of Stockholders, which will be filed by the registrant on or prior to 120 days following the end of the registrant s fiscal year ended December 31, 2013 are incorporated by reference in Part III of this Report.

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

# CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

n the exploration of a separation or sale of our fleet business, our mortgage business or both such businesses;

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

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

n our expected cost reductions and responses to the changing mortgage production environment;

n our expectations regarding improvements in our systems and processes, including our information technology infrastructure and systems;

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

n our expectations of origination volumes from our retail platform, including from our private label relationships and our relationship with Realogy Corporation;

- our belief that our mortgage servicing rights funding relationship will contribute positively to our cash flows;

- potential acquisitions, dispositions, partnerships, joint ventures and changes in product offerings to achieve disciplined growth in our franchise platforms and to optimize our mortgage and fleet management services businesses;

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

- our belief that Fannie Mae and Freddie Mac are substantially complete with pre-2009 vintage mortgage loan repurchase and indemnification requests, as well as our expectations for future requests and associated reserves and provisions; and

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

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

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

- the effects of any further declines in the volume of U.S. home sales and home prices, due to adverse economic changes or otherwise, on our Mortgage Production and Mortgage Servicing segments;

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

- our decisions regarding the use of derivatives related to mortgage servicing rights, if any, and the resulting potential volatility of the results of operations of our Mortgage Servicing segment;

- the impact of the failure to maintain our credit ratings, including the impact on our cost of capital and ability to incur new indebtedness or refinance our existing indebtedness, as well as our current or potential customers assessment of our counterparty credit risk;

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- the effects of continued elevated volumes or increases in our actual and projected repurchases of, indemnification given in respect of, or related losses associated with, sold mortgage loans for which we have provided representations and warranties or other contractual recourse to purchasers and insurers of such loans, including increases in our loss severity and reserves associated with such loans;

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

- the effects of any inquiries and investigations by attorneys general of certain states and the U.S. Department of Justice, the Bureau of Consumer Financial Protection, U.S. Department of Housing and Urban Development or other state or federal regulatory agencies related to foreclosure procedures or other mortgage origination or servicing activities, any litigation related to our mortgage origination or servicing activities, or any related fines, penalties and increased costs;

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

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

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

- the effects of competition in our existing and potential future lines of business, including the impact of consolidation within the industries in which we operate and competitors with greater financial resources and broader product lines;

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

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

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

- the ability to attract and retain key employees;

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

- any failure to comply with covenants under our financing arrangements; and

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

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

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# PART I

## Item 1. Business

### Overview

We were incorporated in 1953 as a Maryland corporation.  For periods between April 30, 1997 and February 1, 2005, we were a wholly owned subsidiary of Cendant Corporation (now known as Avis Budget Group, Inc.) and its predecessors that provided mortgage banking services, facilitated employee relocations and provided vehicle fleet management and fuel card services.  On February 1, 2005, we began operating as an independent, publicly traded company pursuant to our spin-off from Cendant.

Our corporate website is www.phh.com, and our reports filed or furnished pursuant to Section 13(a) of the Exchange Act are available free on our website under the tabs   Investors   SEC Reports   as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission.  The SEC also maintains a website (www.sec.gov) where our filings can be accessed for free.  Our Corporate Governance Guidelines, Code of Business Ethics & Conduct, Code of Ethics for Chief Executive Officer and Senior Financial Officers, and the charters of the committees of our Board of Directors are also available on our corporate website and printed copies are available upon request. We intend to disclose any amendments or waivers to our Code of Business Ethics and Conduct and our Code of Ethics for Chief Executive Officer and Senior Financial Officers on our website at www.phh.com within four business days of the date of such amendment or waiver in lieu of filing a Form 8-K pursuant to Item 5.05 thereof.  The information contained on our corporate website is not part of this Form 10-K.

### Operating Segments

We are a leading outsource provider of mortgage and fleet management services.  We provide mortgage banking services to a variety of clients, including financial institutions and real estate brokers, throughout the U.S.  Our mortgage banking activities include originating, purchasing, selling and servicing mortgage loans through our wholly owned subsidiary, PHH Mortgage Corporation and its subsidiaries (collectively,   PHH Mortgage  ).  We provide commercial fleet management services to corporate clients and government agencies throughout the U.S. and Canada through our wholly owned subsidiary, PHH Vehicle Management Services Group LLC (  PHH VMS  ). PHH VMS is a fully integrated provider of fleet management services with a broad range of product offerings, including managing and leasing vehicle fleets and providing other fee-based services for our clients   vehicle fleets.

According to *Inside Mortgage Finance*, for the year ended December 31, 2013, PHH Mortgage was the 7th largest overall mortgage loan originator with a 2.7% market share and the 8th largest mortgage loan servicer with a 2.3% market share and for the nine months ended September 30, 2013 was the 6th largest retail mortgage loan originator with a 2.4% market share.  We believe PHH VMS is a leading provider of outsourced commercial fleet management services in the U.S. and Canada.

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

***Mortgage Production***

Our Mortgage Production segment provides mortgage services, including private-label mortgage services, to financial institutions and real estate brokers through PHH Mortgage. The Mortgage Production segment generates revenue through fee-based mortgage loan origination services and the origination and sale of mortgage loans into the secondary market. PHH Mortgage generally sells all saleable mortgage loans that it originates to secondary market investors, which include a variety of institutional investors, and retains the servicing rights on mortgage loans sold.

During 2013, 80% of our mortgage loans were sold to, or were sold pursuant to, programs sponsored by Fannie Mae, Freddie Mac or Ginnie Mae and the remaining 20% were sold to private investors.

We source mortgage loans through our retail and wholesale/correspondent platforms. Within our retail platform, we operate through two principal business channels: (i) private label and (ii) real estate. We differentiate ourselves from our competitors through our private-label relationships and through our access to originations sourced from the real estate markets through our relationship with Realogy. A summary of these platforms and channels follows, with the percentage of our loan closings that each represents for the year ended December 31, 2013:

- **Retail - Private Label (67%):** In the private-label services channel, we offer complete mortgage outsourcing solutions to wealth management firms, regional banks and community banks, including Merrill Lynch Home Loans, a division of Bank of America, National Association and Morgan Stanley Private Bank, N.A. which represented 29% and 12%, respectively, of our mortgage loan originations for the year ended December 31, 2013.

- **Retail Real Estate (23%):** Our real estate channel is primarily supported by our relationship with Realogy, which represented 21% of our mortgage originations in 2013, and is more fully described below.

- **Wholesale/Correspondent (10%):** Within our wholesale/correspondent channel, we purchase closed mortgage loans from community banks, credit unions, mortgage brokers and mortgage bankers, and also acquire mortgage loans from mortgage brokers that receive applications from and qualify the borrowers. Our 2013 closings from the wholesale/correspondent channel declined to 10% of total closings, from 18% in 2012 and 31% in 2011, reflecting our intent to focus on our retail platform and our efforts to manage cash consumption and loan quality. We expect to continue to manage our wholesale/correspondent platform as a less significant portion of our closing mix during 2014.

Our Mortgage Production segment has experienced, and may continue to experience, high degrees of earnings volatility due to significant exposure to interest rates and the real estate markets, which impacts our loan origination volumes.

**Realogy Relationship**

The Mortgage Production segment includes PHH Home Loans, LLC (together with its subsidiaries, PHH Home Loans ), which is a joint venture that we maintain with Realogy Corporation. We own 50.1% of PHH Home Loans through our subsidiaries and Realogy owns the remaining 49.9% through their affiliates. We have the exclusive right to use the Century 21, Coldwell Banker and ERA brand names in marketing our mortgage loan products through PHH Home Loans and other arrangements that we have with Realogy.

The results of our real estate channel are significantly driven by our relationship with Realogy. We work with brokers associated with NRT Incorporated, Realogy s owned real estate brokerage business, brokers associated with Realogy s franchised brokerages ( Realogy Franchisees ) and third-party brokers that are not affiliated with Realogy. NRT Incorporated is the largest owner and operator of residential real estate brokerages in the U.S. and Realogy is a franchisor of some of the most recognizable residential real estate brands. In this channel, we also work with Cartus Corporation, Realogy s relocation business, to provide mortgage loans to employees of Cartus clients. Cartus is an industry leader of outsourced corporate relocation services in the U.S.

The following presents a summary of the relationships with Realogy-owned brokers and its franchisees and third-party brokers within the real estate channel:

**Realogy-owned Brokers.** Realogy has agreed that the real estate brokerage business owned and operated by NRT Incorporated and the title and settlement services business owned and operated by Title Resource Group LLC will exclusively recommend PHH Home Loans as provider of mortgage loans to: (i) the independent sales associates affiliated with Realogy, excluding the independent sales associates of any Realogy Franchisee; and (ii) all customers of Realogy Services Group LLC and Realogy Services Venture Partner Inc., excluding Realogy Franchisees. In general, our capture rate of mortgage loans where we are the exclusive recommended provider is much higher than in other situations.

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**Realogy Franchisees and Third Party Brokers.** Certain Realogy Franchisees have agreed to exclusively recommend PHH Mortgage as provider of mortgage loans to their respective independent sales associates. Additionally, for other Realogy Franchisees and third-party brokers, we seek to enter into separate marketing service agreements or other arrangements whereby we are the exclusive recommended provider of mortgage loans to each franchise or broker. We have entered into exclusive marketing service agreements with 3% of Realogy Franchisees as of December 31, 2013.

Unless terminated earlier, our relationship with Realogy continues until January 31, 2055. Beginning on February 1, 2015, Realogy has the right, at any time, to give us two years notice of their intent to terminate their interest in PHH Home Loans and the strategic relationship.

***Mortgage Servicing***

Our Mortgage Servicing segment services mortgage loans originated by PHH Mortgage, purchases mortgage servicing rights and acts as a subservicer for certain clients that own the underlying servicing rights. We principally generate revenue in our Mortgage Servicing segment through fees earned from our servicing rights or from our subservicing agreements. In circumstances where we own the right to service a mortgage loan, either through purchase or origination, we recognize a mortgage servicing right asset; however, our subservicing agreements are less capital intensive and there are no mortgage servicing rights associated with our subservicing arrangements.

We have experienced a 194% growth in the number of loans subserviced for others between December 31, 2012 and 2013, increasing the size of the unpaid principal balance in our subserviced portfolio to $96.3 billion. This growth reflects our efforts to migrate our business to a less capital intensive, fee-for-service business model. In further support of that effort, we have been exploring and implementing funding alternatives for our mortgage servicing rights, including entering into an agreement in October 2013 with Matrix Financial Services Corporation, a subsidiary of Two Harbors Investment Corp., for their purchase of a portion of our newly-created servicing rights that are eligible for sale, subject to mutually acceptable pricing, while we continue to subservice the underlying loans. We believe this funding relationship will contribute positively to our cash flows and allow us to maintain scale for our servicing operations. We may experience a decline in the replenishment rate of our mortgage servicing rights as a result of this emphasis on subservicing relationships.

Our Mortgage Servicing segment has experienced high degrees of earnings volatility due to significant exposure to interest rates and the real estate markets, which impacts the valuation of our mortgage servicing rights and repurchase and foreclosure-related charges.

***Fleet Management Services***

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

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

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**Regulation**

We are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on our business. By agreement with our private label clients in our mortgage business, we are also required to comply with additional requirements that our clients may be subject to through their regulators. These laws, regulations and judicial and administrative decisions include those pertaining to the following areas:

- real estate settlement procedures;
- consumer credit provisions; fair lending, fair credit reporting and truth in lending;
- the establishment of maximum interest rates, finance charges and other charges;
- secured transactions;
- collections, foreclosure, repossession and claims-handling procedures;
- privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers and guidance on non-traditional mortgage loans issued by the federal financial regulatory agencies;
- taxing and licensing of vehicles and environmental protection; and
- insurance regulations and licensing requirements pertaining to standards of solvency that must be met and maintained; reserves and provisions for unearned premiums, losses and other obligations and deposits of securities for the benefit of policyholders.

There has been a heightened focus of regulators on the practices of the mortgage industry. Consistent with some of our peers, we have experienced inquiries and requests for information from regulators and attorneys general of certain states as well as various governmental agencies. We are working diligently in assessing and understanding the implications of the developments in the regulatory environment, and we are devoting substantial resources towards implementing all of the new rules and towards complying with requests, inquiries, examinations and proceedings while meeting the needs and expectations of our clients.

***Mortgage Origination***

In January 2014, a rule promulgated by the Bureau of Consumer Financial Protection (the CFPB ) and applicable to mortgage lenders implementing sections of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) became effective. This rule, referred to as the ability to repay rule, will require lenders to consider consumers ability to repay home loans before extending them credit, will limit prepayment penalties, and establishes certain protections for liability, including a safe harbor for certain mortgages that are qualified mortgages within the meaning of the rule. Under the rule, a qualified mortgage includes loans with borrower debt-to-income ratios less than or equal to 43% or, alternatively, loans eligible for purchase by Fannie Mae or Freddie Mac while they operate under Federal conservatorship or receivership, as well as loans eligible for insurance or guarantee by FHA and VA. Additionally, a qualified mortgage may not: (i) contain excess upfront points and fees; (ii) have a term greater than 30 years; or (iii) include interest-only or negative amortization payments.

In an effort to minimize our legal liability under the ability to repay rule and to ensure that the mortgages we originate or purchase will be readily saleable to secondary market investors, we intend to originate or purchase mortgages satisfying the requirements of the qualified mortgage safe harbor whenever possible. Compliance with this rule required amendments to certain of our private label client agreements, which were executed in the fourth quarter of 2013.

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***Mortgage Servicing***

In January 2014, the CFPB s rules to address mortgage servicing reforms and create uniform standards for the mortgage servicing industry became effective. These rules increase requirements for communications with borrowers, address requirements around the maintenance of customer account records, govern procedural requirements for responding to written borrower requests and complaints of errors, and provide guidance around servicing of delinquent loans, foreclosure proceedings and loss mitigation efforts, among other measures. We have implemented changes in our servicing operations to address the requirements of these rules.

***Dodd Frank Act***

The Dodd-Frank Act was signed into law on July 21, 2010 for the express purpose of further regulating the financial services industry, including securitizations, mortgage originations and mortgage sales. The Dodd-Frank Act also established the CFPB to enforce laws involving consumer financial products and services, including mortgage finance. The bureau is empowered with examination and enforcement authority over certain entities involved in mortgage origination and servicing, including PHH Mortgage and PHH Home Loans. Further, the CFPB is proposing and enacting new standards and practices for mortgage originators and servicers that were outlined in the Dodd-Frank Act, including those discussed above.

Six federal agencies, including the SEC, have proposed a rule providing sponsors of securitizations with various options for meeting the risk-retention requirements of the Dodd-Frank Act. Among other things, these options include retaining risk of the securitization transactions equal to at least 5% of each class of asset-backed security, 5% of the par value of all asset-backed security interests issued, 5% of a representative pool of assets, or a combination of these options. Under this proposal, asset-backed securities that are collateralized exclusively by qualified residential mortgages would not be subject to these requirements.

The proposed rule would also recognize that the 100% guarantee of principal and interest provided by Fannie Mae and Freddie Mac meets their risk-retention requirements as sponsors of mortgage-backed securities for as long as they are in conservatorship or receivership with capital support from the U.S. government.

Substantially all of our loans originated for sale are sold to, or pursuant to programs sponsored by, Fannie Mae, Freddie Mac, or Ginnie Mae and therefore would be exempt from the risk-retention requirements under the current proposal. For our lease securitizations, we believe we currently retain a subordinate position relative to the issued asset-backed securities in excess of the proposed 5% requirement, and we are continuing to monitor the potential impact under the proposed rules.

While we are continuing to evaluate all aspects of the Dodd-Frank Act, such legislation and regulations promulgated pursuant to such legislation could materially and adversely affect the manner in which we conduct our businesses, result in heightened federal regulation and oversight of our business activities, and result in increased costs and potential litigation associated with our business activities.

***GSE Reforms***

In 2012, the Federal Housing Finance Agency (FHFA) issued a strategic plan for the conservatorship of Fannie Mae and Freddie Mac which includes building a new infrastructure for the secondary mortgage market, gradually contracting their dominance in the market place by simplifying and shrinking their operations and maintaining foreclosure prevention activities and credit availability for new and refinanced mortgages. On November 25, 2013, the FHFA released a progress report on the implementation efforts and outlined (i) the development of a new Contractual and Disclosure Framework that will align the contracts and data disclosures that support the mortgage-backed securities and set uniform contracts and standards for MBS that carry no or only a partial federal guarantee; (ii) the development of a common securitization platform that will perform major elements of the securitization process and eventually act as the agent of an issuer; and (iii) the initiation of a Uniform Mortgage Data Program to implement uniform data standards for single-family mortgages.

We continue to monitor the actions of the FHFA and the potential impacts on the mortgage industry, and such actions and impacts could materially and adversely affect the manner in which we conduct our businesses, and result in negative impacts to our Mortgage businesses.

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***Current Regulatory Matters***

We have received inquiries and requests for information from regulators and attorneys general of certain states as well as from the Committee on Oversight and Government Reform of the U.S. House of Representatives and the U.S. Senate Judiciary Committee requesting information as to our mortgage origination and servicing practices, including our foreclosure processes and procedures.

On December 4, 2013, our subsidiary PHH Mortgage Corporation entered into a Consent Order with the New Jersey Attorney General and the New Jersey Division of Consumer Affairs, Office of Consumer Protection. The New Jersey Attorney General conducted a review of our servicing practices, specifically our compliance with the New Jersey Consumer Fraud Act in connection with customer service and other matters related to loss mitigation activities for certain borrowers. The Consent Order requires us to: (i) make a $6 million cash payment to certain borrowers nationwide and to the State of New Jersey; (ii) implement certain servicing practices; and (iii) provide New Jersey quarterly reports for two years related to, among other things, loan modifications, foreclosure activities and the resolution of borrower calls to our loss mitigation department. We have completed the settlement payment and are complying with the other requirements of this Order.

During 2013, we received document subpoenas from the Office of Inspector General of the U.S. Department of Housing and Urban Development ( HUD ) and the U.S. Attorney s Office for the Southern District of New York. The HUD subpoenas request production of certain documents related to, among other things, our origination and underwriting process for loans insured by the Federal Housing Administration ( FHA ). The U.S. Attorney s Office subpoena requests production of certain documents related to, among other things, foreclosure expenses that we incurred in connection with the foreclosure of loans insured or guaranteed by FHA, Fannie Mae or Freddie Mac. We have also undergone a regulatory examination by a multistate coalition of certain mortgage banking regulators and such regulators have alleged various violations of federal and state laws related to our mortgage servicing practices prior to July 2011. We believe that we have meritorious defenses to these various allegations. However, there can be no assurance that claims or litigation will not arise from these inquiries or similar inquiries by other governmental authorities or that fines or penalties will not be assessed against us in connection with these matters.

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

In January 2012, we were notified that the CFPB had opened an investigation to determine whether our mortgage insurance premium ceding practices to captive reinsurers comply with the Real Estate Settlement Procedures Act and other laws enforced by the CFPB . Through our reinsurance subsidiaries, we assumed risk in exchange for premiums ceded from primary mortgage insurance companies. We did not provide reinsurance on loans originated after 2009. In January 2014, the CFPB initiated an administrative proceeding alleging that our former reinsurance activities violated certain provisions of the Real Estate Settlement Procedures Act. We believe that we have complied with the Real Estate Settlement Procedures Act and other laws applicable to our former mortgage reinsurance activities, and we intend to vigorously defend against the CFPB s allegations. Given the nature of this investigation and the related allegations, we cannot estimate the amount of loss or a range of possible losses, if any, and there can be no assurance that the ultimate resolution of this matter will not result in losses, which could be material to our results of operations, cash flows or financial position.

We expect that the higher level of legislative and regulatory focus on mortgage origination and servicing practices will result in higher legal, compliance and servicing related costs as well as potential regulatory fines and penalties. It is also reasonably possible that we could experience an increase in mortgage origination or servicing related litigation in the future. For more information, see Item 1A. Risk Factors Risks Related to our Company *Our Mortgage businesses are complex and heavily regulated, and the full impact of regulatory developments to our businesses remains uncertain. In addition, we are subject to litigation, regulatory investigations, inquiries and proceedings and we may incur fines, penalties, and increased costs that could negatively impact our future results of operations, liquidity and cash flows or damage our reputation.* in this Form 10-K.

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**Competition**

The industries in which we operate are highly competitive. The principal factors for competition in our business are service, quality, products and price. We focus on customer service while working to enhance the efficiency of our operating platform. Excellent customer service is also a critical component of our competitive strategy to win new clients and maintain existing clients. We, along with our clients, consistently track and monitor customer service levels and look for ways to improve customer service. There are a limited number of industry participants in the mortgage outsourcing business. Some of our largest competitors in the mortgage business include Bank of America, Wells Fargo Home Mortgage, Chase Home Finance, Quicken Loans and CitiMortgage. The fleet industry is concentrated in a limited number of national firms. Our competitors in the fleet management business include GE Commercial Finance Fleet Services, Wheels, Inc., Automotive Resources International, Lease Plan International, and other local and regional competitors, including numerous competitors who focus on one or two products.

Competitive conditions in the mortgage business can be impacted by shifts in consumer preference between variable-rate and fixed-rate mortgage loans, depending on the interest rate environment. Many smaller and mid-sized financial institutions may find it difficult to compete in the mortgage industry due to the consolidation in the industry and the need to invest in technology in order to reduce operating costs while maintaining compliance in an increasingly complex regulatory environment. Additionally, more restrictive underwriting standards and the elimination of certain products has resulted in a more homogenous product offering, which has increased competition for conforming mortgages across the industry.

We are party to a strategic relationship agreement dated as of January 31, 2005 between PHH Mortgage, PHH Home Loans, PHH Broker Partner, Realogy Services Venture Partner Inc. and Cendant Corporation (now known as Avis Budget Group, Inc.), which, among other things, restricts us and our affiliates, subject to limited exceptions, from engaging in certain residential real estate services, including any business conducted by Realogy. The strategic relationship agreement also provides that we will not directly or indirectly sell any mortgage loans or mortgage loan servicing to certain competitors in the residential real estate brokerage franchise businesses in the U.S. (or any company affiliated with them).

Many of our competitors are larger than we are and have access to greater financial resources than we do, which can place us at a competitive disadvantage. In addition, many of our largest competitors are banks or are affiliated with banking institutions, the advantages of which include, but are not limited to, the ability to hold new mortgage loan originations in an investment portfolio and having access to financing with more favorable terms than we do, including lower rate bank deposits as a source of liquidity. See Item 1A. Risk Factors Risks Related to Our Company *The industries in which we operate are highly competitive and many of our competitors have access to greater financial resources, lower funding costs and greater access to liquidity, which may place us at a competitive disadvantage.* in this Form 10-K for more information.

**Trademarks and Intellectual Property**

The trade names and related logos of our private-label clients are material to our Mortgage Production and Mortgage Servicing segments, as these clients license the use of their names to us in connection with our mortgage outsourcing business. These trademark licenses generally run for the duration of our origination services agreements with such financial institution clients and facilitate the origination services that we provide to them. Realogy s brand names and related items, such as logos and domain names, of its owned and franchised residential real estate brokerages are material to our Mortgage Production and Mortgage Servicing segments.

Realogy licenses its real estate brands and related items, such as logos and domain names, to us for use in the mortgage loan origination services that we provide to Realogy s owned real estate brokerage, relocation and settlement services businesses. In connection with our spin-off from Cendant Corporation (now known as Avis Budget Group, Inc.), we entered into trademark license agreements with TM Acquisition Corp., Coldwell Banker Real Estate Corporation and ERA Franchise Systems, Inc. Pursuant to these agreements, PHH Mortgage was granted a license in connection with mortgage loan origination services on behalf of Realogy s franchised real estate brokerage business and PHH Home Loans was granted a license in connection with its mortgage loan origination services on behalf of Realogy s owned real estate brokerage business owned and operated by NRT, the relocation

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business owned and operated by Cartus Corporation and the settlement services business owned and operated by Title Resource Group LLC.

The service mark PHH and related trademarks and logos are meaningful to our Fleet Management Services segment. All of the material marks used by us in our Fleet Management Services segment are registered (or have applications pending for registration) with the U.S. Patent and Trademark Office. All of the material marks used by us in our Fleet Management Services segment are also registered in Canada and the PHH mark and logo are registered (or have applications pending) in those major countries where we have strategic partnerships with local providers of fleet management services. Except for the Arval mark, which we license from a third party so that we can do business as PHH Arval in the U.S. and Canada, we own the material marks used by us in our Fleet Management Services segment.

**Seasonality**

Our Mortgage Production segment is subject to seasonal trends that reflect the pattern in the national housing market. Home sales typically rise during the spring and summer seasons and decline during the fall and winter seasons. Seasonality has less of an effect on mortgage refinancing activity, which is primarily driven by prevailing mortgage rates relative to borrowers current interest rate, home prices and levels of home equity.

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

**Inflation**

An increase in inflation could have a significant impact on our Mortgage Production and Mortgage Servicing segments. Interest rates normally increase during periods of rising inflation. Historically, as interest rates increase, mortgage loan production decreases, particularly production from loan refinancing. An environment of gradual interest rate increases may, however, signify an improving economy or increasing real estate values, which in turn may stimulate increased home buying activity. Generally, in periods of reduced mortgage loan production, the associated profit margins also decline due to increased competition among mortgage loan originators, which further pressures mortgage production profitability. Conversely, in a rising interest rate environment, our mortgage loan servicing revenues generally increase because mortgage prepayment rates tend to decrease, extending the average life of our servicing portfolio and increasing the value of our MSRs. See further discussion within Item 1A. Risk Factors Risks Related to our Company *Certain hedging strategies that we may use to manage risks associated with our assets, including mortgage loans held for sale, interest rate lock commitments, mortgage servicing rights and foreign currency denominated assets, may not be effective in mitigating those risks and could result in substantial losses that could exceed the losses that would have been incurred had we not used such hedging strategies.* , Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management, and Part II Item 7A. Quantitative and Qualitative Disclosures About Market Risk in this Form 10-K.

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

**Employees**

As of December 31, 2013, we employed a total of approximately 6,000 persons. Management considers our employee relations to be satisfactory. None of our employees were covered under collective bargaining agreements during the year ended December 31, 2013.

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## Item 1A. Risk Factors

## Risks Related to Our Company

***We are exploring ways to maximize shareholder value through the sale or separation of our fleet business, our mortgage business, or both such businesses. There are inherent risks and uncertainties associated with pursuing such exploratory activities and/or consummating one or more such transactions. These risks and uncertainties could have a material adverse impact on our businesses generally, including our client, employee, lender, vendor and counterparty relationships, as well as our results of operations, cash flows, liquidity or financial position.***

There can be no assurances that we will execute one or more transactions to sell or separate our fleet business, our mortgage business, or both such businesses. The market price of our outstanding securities, including securities issued by our subsidiaries, may reflect a market assumption that one or more such transactions will occur, and the failure to consummate one or more such transactions could result in a decline in the market price of such securities. Furthermore, the exploration or consummation of any such transaction may require the diversion of a significant amount of management time and attention away from the daily operation of our businesses and the execution of our business plan, and may also have an adverse impact on our businesses generally, including adverse impacts on our client, employee, lender, vendor and counterparty relationships.

The exploration or consummation of any transaction involving the sale or separation of one or both of our fleet or mortgage businesses could also consume significant financial resources and result in significant expenses being incurred that may not have been incurred had such exploratory activities or transactions not been undertaken. There can also be no assurance that securities ratings of our outstanding debt securities, including securities issued by our subsidiaries, will not be downgraded as a result of pursuing these exploratory activities or consummating one or more transactions associated with the sale or separation of one or both of our fleet or mortgage businesses. Furthermore, we may be exposed to an increased risk of litigation arising as a result of any transaction involving the sale or separation of one or both of our fleet or mortgage businesses.

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

Our Mortgage Production and Mortgage Servicing segments are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on our business. These laws, regulations and judicial and administrative decisions to which our Mortgage Production and Mortgage Servicing segments are subject include those pertaining to: real estate settlement procedures; fair lending; fair credit reporting; truth in lending; compliance with net worth and financial statement delivery requirements; compliance with federal and state disclosure and licensing requirements; the establishment of maximum interest rates, finance charges and other charges; secured transactions; collection, foreclosure, repossession and claims-handling procedures; other trade practices and privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers and guidance on non-traditional mortgage loans issued by the federal financial regulatory agencies. By agreement with our private-label clients, we are required to comply with additional requirements that our clients may be subject to through their regulators. Our failure to comply with applicable laws, rules or regulations would expose us to fines, penalties or potential litigation liabilities, including costs, settlements and judgments, or may result in the termination of our private-label agreements, any of which could have a material adverse effect on our business, financial position, results of operations or cash flows.

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We are currently subject to inquiries, requests for information, investigations, and proceedings as a result of our mortgage origination and servicing practices, including inquiries and requests for information from and investigations by regulators and attorneys general of certain states, the U.S. Department of Housing and Urban Development, the U.S. Attorney s Office for the Southern District of New York, the Committee on Oversight and Government Reform of the U.S. House of Representatives, and the U.S. Senate Judiciary Committee. The Bureau of Consumer Financial Protection (the CFPB ) has initiated an administrative proceeding alleging that our former reinsurance activities violated certain provisions of the Real Estate Settlement Procedures Act and other laws. We have received document subpoenas from the Office of Inspector General of the U.S. Department of Housing and Urban Development ( HUD ) and the U.S. Attorney s Office for the Southern District of New York. The HUD subpoenas request production of certain documents related to, among other things, our origination and underwriting process for loans insured by the Federal Housing Administration ( FHA ). The U.S. Attorney s Office subpoena requests production of certain documents related to, among other things, foreclosure expenses that we incurred in connection with the foreclosure of loans insured or guaranteed by FHA, Fannie Mae or Freddie Mac. These matters are at varying procedural stages and the resolution of any of these matters may result in adverse judgments, fines, penalties, injunctions and other relief against us, payments made in settlement arrangements, as well as monetary payments or other agreements and obligations, any of which could have a material adverse effect on our business, financial position, results of operations, liquidity or cash flows.

There has been a heightened focus of regulators on the practices of the mortgage industry, including investigations of lending practices, foreclosure practices, and loss mitigation practices, among other matters. Our mortgage origination and servicing competitors have been subject to actions from, and settlements with, the U.S. Department of Justice under the False Claims Act and other statutes, alleging, among other things, reckless mortgage lending practices and improper or inadequate certification to the government in connection with the Federal Housing Administration s Direct Endorsement Lending Program. We have incurred increased expenses associated with these matters, and there can be no assurance that we will not incur fines, penalties, further settlement payments or increased legal costs in connection with existing inquiries, requests for information and investigations, or that future regulatory investigations may not arise. The heightened focus of regulators on the practices of the mortgage industry have resulted and could continue to result in new legislation and regulations that could materially and adversely affect the manner in which we conduct our mortgage business and have resulted in increased origination and servicing costs and potential litigation associated with our mortgage businesses.

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

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***We are substantially dependent upon our unsecured and secured funding arrangements, a significant portion of which are short-term agreements. If any of our funding arrangements are terminated, not renewed or otherwise become unavailable to us, we may be unable to find replacement financing on economically viable terms, if at all, which would adversely affect our ability to fund our operations.***

We are substantially dependent upon various sources of funding, including unsecured credit facilities and other unsecured debt, as well as secured funding arrangements, including asset-backed securities, mortgage warehouse facilities and other secured credit facilities to fund mortgage loans and vehicle acquisitions, a significant portion of which is short-term in nature. Our access to both the secured and unsecured credit markets is subject to prevailing market conditions. Renewal of our existing series of, or the issuance of new series of, vehicle lease asset-backed notes on terms acceptable to us or our ability to enter into alternative vehicle management asset-backed debt arrangements could be adversely affected in the event of: (i) the deterioration in the quality of the assets underlying the asset-backed debt arrangement; (ii) termination of our role as servicer of the underlying lease assets in the event that we default in the performance of our servicing obligations or we declare bankruptcy or become insolvent; or (iii) our failure to maintain a sufficient level of eligible assets or credit enhancements, including collateral intended to provide for any differential between variable-rate lease revenues and the underlying variable-rate debt costs. In addition, our access to and our ability to renew our existing mortgage asset-backed debt could suffer in the event of: (i) the deterioration in the performance of the mortgage loans underlying the asset-backed debt arrangement; (ii) our failure to maintain sufficient levels of eligible assets or credit enhancements; (iii) our inability to access the secondary market for mortgage loans; or (iv) termination of our role as servicer of the underlying mortgage assets in the event that (a) we default in the performance of our servicing obligations or (b) we declare bankruptcy or become insolvent.

Certain of our debt arrangements require us to comply with specific financial covenants and other affirmative and restrictive covenants, including requirements to post additional collateral or to fund assets that become ineligible under our secured funding arrangements. An uncured default of one or more of these covenants could result in a cross-default between and amongst our various debt arrangements. Consequently, an uncured default under any of our debt arrangements that is not waived by our lenders and that results in an acceleration of amounts payable to our lenders or the termination of credit facilities would materially and adversely impact our liquidity, could force us to sell assets at below market prices to repay our indebtedness, and could force us to seek relief under the U.S. Bankruptcy Code.

If any of our credit facilities are terminated or are not renewed, we may be unable to find replacement financing on commercially favorable terms, if at all, which could adversely impact our operations and prevent us from: (i) executing our business plan and related risk management strategies; (ii) originating new mortgage loans or vehicle leases; or (iii) fulfilling commitments made in the ordinary course of business. These factors could reduce revenues attributable to our business activities or require us to sell assets at below market prices, either of which would have a material adverse effect on our overall business and consolidated financial position, results of operations and cash flows. Most of our mortgage asset backed debt facilities mature within one year and generally, these facilities require us to maintain a specified amount of available liquidity from other facilities. As such, our liquidity profile and compliance with debt covenants depends on our ability to renew multiple facilities within a short time frame and our failure to do so could materially adversely impact our overall business and financial position, results of operations and cash flows.

***We are highly dependent upon programs administered by Fannie Mae, Freddie Mac and Ginnie Mae. Failure to maintain our relationships with each of Fannie Mae, Freddie Mac and Ginnie Mae would materially and adversely affect our business, financial position, results of operations or cash flows.***

Our ability to generate revenues in our Mortgage Production and Servicing Segments is highly dependent on programs administered by Fannie Mae, Freddie Mac, Ginnie Mae and others that facilitate the issuance of mortgage-backed securities in the secondary market. These entities play a powerful role in the residential mortgage industry, and we have significant business relationships with them. Our status as a Fannie Mae, Freddie Mac and Ginnie Mae approved seller/servicer is subject to compliance with each entity s respective selling and servicing guidelines and failure to meet such guidelines could result in the unilateral termination of our status as an approved seller/servicer.

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During 2013, 80% of our mortgage loan sales were sold to, or were sold pursuant to programs sponsored by, Fannie Mae, Freddie Mac or Ginnie Mae. We also derive other material financial benefits from our relationships with Fannie Mae, Freddie Mac and Ginnie Mae, including the assumption of credit risk by these entities on loans included in mortgage-backed securities in exchange for our payment of guarantee fees, the ability to avoid certain loan inventory finance costs through streamlined loan funding and sale procedures and the use of mortgage warehouse facilities with Fannie Mae pursuant to which, as of December 31, 2013, we had total capacity of $3.0 billion, made up of $500 million of committed and $2.5 billion uncommitted capacity.  In addition, we service loans on behalf of Fannie Mae and Freddie Mac, as well as loans that have been securitized pursuant to securitization programs sponsored by Fannie Mae, Freddie Mac and Ginnie Mae in connection with the issuance of agency guaranteed mortgage-backed securities and a majority of our mortgage servicing rights relate to these servicing activities. These entities establish the base service fee to compensate us for servicing loans as well as the assessment of fines and penalties that may be imposed upon us for failing to meet servicing standards.

***Changes in existing U.S. government-sponsored mortgage programs or servicing eligibility standards could materially and adversely affect our business, financial position, results of operations, liquidity or cash flows and could require us to fundamentally change our business model in order to effectively compete in the market.***

Congress has held hearings about and received reports outlining the long-term strategic plan for, and various options for long-term reform of Fannie Mae and Freddie Mac.  These options involve reducing government support for housing finance and gradually reducing the role of Fannie Mae and Freddie Mac in the mortgage market and ultimately winding down both institutions.  In 2012, the U.S. Treasury Department announced further steps to expedite the wind down of Fannie Mae and Freddie Mac, including an accelerated liquidation of Fannie Mae s and Freddie Mac s retained mortgage investment portfolios, and further legislation has been drafted in 2013 towards enacting the wind down of these entities. Other reforms of Fannie Mae and Freddie Mac may include, among other actions: (i) further reductions in conforming loan limits; (ii) increases in guarantee fees; (iii) standardization of servicing protocols; (iv) changes to servicer compensation; and (v) increased MBS disclosures.

The accelerated liquidation of Fannie Mae s and Freddie Mac s retained mortgage investment portfolios and other proposed reforms may impact the pricing of mortgage related assets in the secondary market, result in higher mortgage rates to borrowers, and have a resulting negative impact on mortgage origination volumes and margins across the mortgage industry, any one of which could have a negative impact on our Mortgage production business. Additionally, it is unclear what impact these changes will have on the secondary mortgage markets, mortgage-backed securities pricing, and competition in the industry.

Although we do not presently believe that the accelerated liquidation of Fannie Mae s and Freddie Mac s retained mortgage investment portfolios would have any direct impact on their respective mortgage guaranty programs, Fannie Mae and Freddie Mac have put into effect a series of increases to guarantee fees charged to mortgage originators like us, and such increases may continue in 2014.  Increases in guaranty fees could result in higher mortgage rates charged to borrowers, which could result in reduced demand for mortgages, or reduced pricing margins or both. Accordingly, further increases in guaranty fees could also adversely impact mortgage origination volumes or pricing margins across the mortgage industry, including our mortgage origination volumes and pricing margins, and such impacts could be material.

We historically have relied on selling conforming mortgage loans to the GSEs or securitizing our mortgage loans pursuant to GSE sponsored programs in order to generate liquidity.  The potential changes to the government-sponsored mortgage programs could require us to fundamentally change our business model in order to effectively compete in the market.  Our inability to make the necessary changes to respond to these changing market conditions or loss of our approved seller/servicer status with any of these entities, would have a material adverse effect on our overall business and our consolidated financial position, results of operations, liquidity and cash flows.  Any discontinuation of, significant reduction of or material change in, the operation or underwriting standards of these entities would likely prevent us from originating and selling most, if not all, of our saleable mortgage loan originations.

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***The private label originations of our Mortgage Production segment are substantially dependent upon a small number of client relationships, including those with Merrill Lynch Home Loans, a division of Bank of America, National Association and Morgan Stanley Private Bank, N.A.. The termination or non-renewal of our contractual agreements with certain of these clients would materially and adversely impact our mortgage loan originations and resulting Net revenues and Segment profit of our Mortgage Production segment, as well as our overall business and our consolidated financial position, results of operations and cash flows.***

Our private label business channel is substantially dependent upon a small number of client relationships, and account for 67% and 56% of our total closings for the years ended December 31, 2013 and 2012, respectively.  In particular, Merrill Lynch Home Loans, a division of Bank of America, National Association, represented approximately 29% and 27%, and Morgan Stanley Private Bank, N.A. represented 12% and 7% of our total closings for the years ended December 31, 2013 and 2012, respectively.  Our agreement with Merrill Lynch Home Loans is scheduled to expire on December 31, 2015 and there can be no assurances that the agreement will be renewed on favorable terms, if at all. We are currently in discussions with Merrill Lynch Home Loans about the future structure of this relationship, including our involvement in their mortgage origination services.  The non-renewal of this arrangement would negatively impact our mortgage loan originations volume, and would adversely impact our Net revenues and Segment profit of our Mortgage Production segment, as well as our overall business and our consolidated financial position, results of operations and cash flows.

Further, the loss of certain of our other private label clients, whether due to insolvency, their unwillingness or inability to perform their obligations under their respective contractual relationships with us, their termination of their respective contractual relationships with us due to our failure to fully satisfy our contractual obligations, or if we are not able to renew on commercially reasonable terms any of their respective contractual relationships with us, may materially and adversely impact our mortgage loan originations and resulting Net revenues and Segment profit of our Mortgage Production segment as well as our results of operations and cash flows.

***The profitability of our Mortgage Production segment has been adversely affected by the increased mix of fee-based closings originated under our existing private label client contracts.  We are currently evaluating a number of alternatives to restructure these contracts to improve the economics of the underlying contractual relationships; however, there can be no assurances that we will be successful in these efforts.***

Through our private label agreements, we earn contractually specified origination assistance fees from our financial institution clients for the performance of mortgage loan origination services.  During 2013, we observed a significant increase in our origination mix of fee-based closings, which is driven by our financial-institution clients   decisions to retain mortgage loans.  The increased mix of fee-based closings has adversely affected the profitability of our Mortgage Production segment as the revenue per loan on fee-based closings is generally lower than the revenue per loan on saleable closings.  Despite our efforts to align our cost structure with the expected mortgage production environment, based on the current market conditions and expected volumes, margins and mix, these contracts will likely be unprofitable on a fully allocated basis during 2014.

We are evaluating a number of alternatives to remedy the profitability of these arrangements.  Although we have held discussions with a majority of our private label clients to amend the terms of the underlying agreements prior to their expiration, we have had modest success in executing amendments to improve the economics of the private label channel.  Furthermore, we are currently obligated to perform under these agreements for terms ranging from 1 to 4 years.  We will attempt to negotiate more favorable pricing as these agreements are eligible for renewal, although there can be no assurance that we will be successful in these efforts to renew the contracts on more favorable economic terms, if at all.  Any failures to implement changes could have material adverse effects on our results of operations and cash flows.  The amount of losses and negative cash flows that we may realize under these arrangements cannot be readily estimated as it is dependent on the volume of fee-based business we will experience, which may be impacted by the decisions of our financial institution clients towards fee-based production, as well as general market factors (such as interest rate levels) that drive the volume of loan originations, both of which are outside of our control.

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***Our Mortgage Production segment is substantially dependent upon our relationship with Realogy, and the termination or non-renewal of our contractual agreements with Realogy would have a material adverse effect on our business, financial position, results of operations and cash flows.***

We are party to a Strategic Relationship Agreement dated as of January 31, 2005 between PHH Mortgage, PHH Home Loans, PHH Broker Partner, Realogy Services Venture Partner Inc. and Cendant Corporation (now known as Avis Budget Group, Inc.). Under the Strategic Relationship Agreement we are the exclusive recommended provider of mortgage loans to the independent sales associates affiliated with the real estate brokerage business owned and operated by Realogy s affiliates and certain customers of Realogy. Similarly, PHH Mortgage is party to a marketing agreement with Realogy s real estate brokerage franchises (Coldwell Banker Real Estate Corporation, Century 21 Real Estate LLC, ERA Franchise Systems, Inc., and Sotheby s International Affiliates, Inc.) which provides that we are the exclusive recommended provider of mortgage loans and related products to the independent sales associates of these franchises. PHH Home Loans is a joint venture that was formed for the purpose of originating and selling mortgage loans primarily sourced through Realogy s owned real estate brokerage business. The operations of PHH Home Loans are governed by the PHH Home Loans Operating Agreement.

During the year ended December 31, 2013, 21% of the mortgage loans originated by the Company were derived from Realogy Corporation s affiliates, of which 85% were originated by PHH Home Loans. In addition, during the year ended December 31, 2013, PHH Home Loans originated residential mortgage loans of $9.3 billion and PHH Home Loans brokered or sold $5.0 billion of mortgage loans to PHH Mortgage under the terms of a loan purchase arrangement.

Unless terminated earlier, our relationship with Realogy continues until January 31, 2055. However, under the PHH Home Loans Operating Agreement, beginning on February 1, 2015, Realogy has the right at any time to give us two years notice of their intent to terminate their interest in PHH Home Loans. In addition, the Strategic Relationship Agreement and the PHH Home Loans Operating Agreement outline certain terms and events that would terminate the exclusivity relationship, the PHH Home Loans joint venture, and/or Realogy s other agreements and arrangements with us. These terms and events include, but are not limited to, if:

- we materially breach any representation, warranty, covenant or other agreement contained in the Strategic Relationship Agreement, the Marketing Agreement, Trademark License agreements or certain other related agreements, including, without limitation to, our confidentiality agreements in the PHH Home Loans Operating Agreement and the Strategic Relationship Agreement, and our non-competition agreements in the Strategic Relationship Agreement that is not cured following any applicable notice or cure period;

- we become subject to any regulatory order or governmental proceeding that prevents or materially impairs PHH Home Loans ability to originate mortgage loans for any period of time (which order or proceeding is not generally applicable to companies in the mortgage lending business) in a manner that adversely affects the value of one or more of the quarterly distributions to be paid by PHH Home Loans pursuant to the PHH Home Loans Operating Agreement;

- PHH Home Loans fails to make scheduled distributions pursuant to the PHH Home Loans Operating Agreement; or

- there is a change in control of us, PHH Broker Partner Corporation or any other affiliate of ours involving certain competitors or other specified parties.

Upon a termination of the PHH Home Loans joint venture by Realogy or its affiliates, Realogy will have the right either: (i) to require that we or certain of our affiliates purchase all of Realogy s interest in PHH Home Loans; or (ii) to cause us to sell our interest in PHH Home Loans to an unaffiliated third party designated by certain of Realogy s affiliates. If we were required to purchase Realogy s interest in PHH Home Loans, such purchase could have a material adverse impact on our liquidity. Additionally, any termination of PHH Home Loans will also result in a termination of the Strategic Relationship Agreement and our exclusivity rights under the Strategic Relationship Agreement.

If Realogy were to terminate its exclusivity obligations with respect to us, PHH Home Loans or our other arrangements, any such termination would likely result in our loss of most, if not all, of our mortgage loan originations, Net revenues and Segment profit (loss) of our Mortgage Production segment derived from Realogy s

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affiliates, which would have a material adverse effect on our overall business and our consolidated financial position, results of operations, cash flows and liquidity.

***Certain hedging strategies that we may use to manage risks associated with our assets, including mortgage loans held for sale, interest rate lock commitments, mortgage servicing rights and foreign currency denominated assets, may not be effective in mitigating those risks and could result in substantial losses that could exceed the losses that would have been incurred had we not used such hedging strategie***s.

We may employ various economic hedging strategies in an attempt to mitigate the interest rate and prepayment risk inherent in many of our assets, including our mortgage loans held for sale, interest rate lock commitments and, from time to time, our mortgage servicing rights. Our hedging activities may include entering into derivative instruments. We also seek to manage interest rate risk in our Mortgage Production and Mortgage Servicing segments partially without the use of financial derivatives by monitoring and seeking to maintain an appropriate balance between our loan production volume and the size of our mortgage servicing portfolio, as the value of mortgage servicing rights and the income they provide tend to be counter-cyclical to the changes in production volumes and the gain or loss on loans that result from changes in interest rates. This approach requires our management to make assumptions with regards to future replenishment rates for our mortgage servicing rights, loan margins, the value of additions to our mortgage servicing rights and loan origination costs, and many factors can impact these estimates, including loan pricing margins and our ability to adjust staffing levels to meet changing consumer demand. Our decisions regarding the levels, if any, of our derivatives related to mortgage servicing rights could result in continued volatility in the results of operations for our Mortgage Servicing segment.

We are also exposed to foreign exchange risk associated with our investment in our Canadian operations and with foreign exchange forward contracts that we have entered into, or may in the future enter into, to hedge U.S. dollar denominated borrowings used to fund Canadian dollar denominated leases and operations. Our hedging decisions in the future to manage these foreign exchange risks will be determined in light of the facts and circumstances existing at the time and may differ from our current hedging strategy.

Our hedging strategies, including our decisions whether to use financial derivatives to hedge our Mortgage servicing rights, may not be effective in mitigating the risks related to changes in interest rates or foreign exchange rates and we may not have sufficient liquidity to exercise our strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses, and could result in losses in excess of what our losses would have been had we not used such hedging strategies. There have been periods, and it is likely that there will be periods in the future, during which we incur significant losses as a result of our hedging strategies. As stated earlier, the success of our interest rate risk management strategy and our replenishment strategies for our mortgage servicing rights are largely dependent on our ability to predict the earnings sensitivity of our loan servicing and loan production activities in various interest rate environments, as well as our ability to successfully manage any capacity constraints in our mortgage production business and our ability to maintain sufficient liquidity to exercise these strategies. Our hedging strategies also rely on assumptions and projections regarding our assets and general market factors. If these assumptions and projections prove to be incorrect or our hedges do not adequately mitigate the impact of changes including, but not limited to, interest rates or prepayment speeds or foreign exchange rate fluctuations, we may incur losses that could have a material adverse effect on our business, financial position, results of operations or cash flows.

***Our senior unsecured long-term debt ratings are below investment grade and, as a result, we may be limited in our ability to obtain or renew financing on economically viable terms or at all.***

Our senior unsecured long-term debt ratings are below investment grade and, as a result, our access to the public debt markets may be severely limited in comparison to the ability of investment grade issuers to access such markets. We may be required to rely on alternative financing, such as bank lines and private debt placements, and may also be required to pledge otherwise unencumbered assets. There can be no assurances that we would be able to find such alternative financing on terms acceptable to us, if at all. Furthermore, we may be unable to renew all of our existing bank credit commitments beyond the then-existing maturity dates. As a consequence, our cost of financing could rise significantly, thereby negatively impacting our ability to finance our mortgage loans held for sale, mortgage servicing rights and net investment in fleet leases. Any of the foregoing would have a material adverse effect on our business, financial position, results of operations, liquidity and cash flows.

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Our ratings may be subject to downgrades as a result of: our exploration or the consummation of a separation or sale of our fleet business, our mortgage business, or both such businesses; if our business and financial results deteriorate significantly; our decisions to use financial derivatives to hedge our mortgage servicing rights; if we are unable to put in place sources of liquidity to fund our business satisfactory to the rating agencies; regulatory reviews, investigations, proceedings or other claims and enforcement actions result in material monetary exposures and/or other negative consequences, among other factors. We cannot predict the impact any further negative debt ratings actions may have on our cost of capital, ability to incur new indebtedness or refinance our existing indebtedness or ability to retain or secure customers.

There can be no assurances that our credit rating by the primary ratings agencies reflects all of the risks of an investment in our debt securities. Our credit ratings are an opinion by the rating agency of our ability to pay our obligations. Any of our credit ratings are subject to revision or withdrawal at any time by the applicable rating agency. Actual or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors on the market value of, or trading market for, our debt securities.

***Changes in interest rates could materially and adversely affect our volume of mortgage loan originations or reduce the value of our mortgage servicing rights, either of which could have a material adverse effect on our business, financial position, results of operations, liquidity or cash flows.***

Changes in and the level of interest rates are key drivers of our mortgage loan originations in our Mortgage Production segment and mortgage loan refinancing activity, in particular. The level of interest rates are significantly affected by monetary and related policies of the federal government, its agencies and government sponsored entities, which are particularly affected by the policies of the Federal Reserve Board that regulates the supply of money and credit in the United States. The Federal Reserve Board s policies, including initiatives to stabilize the U.S. housing market and to stimulate overall economic growth, affect the size of the mortgage loan origination market, the pricing of our interest-earning assets and the cost of our interest-bearing liabilities. Changes in any of these policies are beyond our control, difficult to predict, particularly in the current economic environment, and could have a material adverse effect on our business, financial position, results of operations, liquidity or cash flows.

Historically, rising interest rates have generally been associated with a lower volume of loan originations and lower pricing margins in our Mortgage Production segment due to a disincentive for borrowers to refinance at a higher interest rate, while falling interest rates have generally been associated with higher loan originations and higher pricing margins, due to an incentive for borrowers to refinance at a lower interest rate. Our ability to generate Gain on mortgage loans, net in our Mortgage Production segment is significantly dependent on our level of mortgage loan originations. Accordingly, increases in interest rates could materially and adversely affect our mortgage loan origination volume, which could have a material and adverse effect on our Mortgage Production segment, as well as our overall business and our consolidated financial position, results of operations, liquidity or cash flows. In addition, changes in interest rates may require us to post additional collateral under certain of our financing arrangements and derivative agreements which could impact our liquidity.

Changes in interest rates are also a key driver of the performance of our Mortgage Servicing segment as the values of our mortgage servicing rights are highly sensitive to changes in interest rates. Historically, the value of our mortgage servicing rights have increased when interest rates rise and have decreased when interest rates decline due to the effect those changes in interest rates have on prepayment estimates, with changes in fair value of our mortgage servicing rights being included in our consolidated results of operations. Because we do not currently utilize derivatives to hedge a substantial portion of our mortgage servicing rights, our consolidated financial positions, results of operations and cash flows are susceptible to significant volatility due to changes in the fair value of our mortgage servicing rights as interest rates change. As a result, substantial volatility in interest rates materially affects our Mortgage Servicing segment, as well as our consolidated financial position, results of operations and cash flows.

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***The industries in which we operate are highly competitive and many of our competitors have access to greater financial resources, lower funding costs and greater access to liquidity, which may place us at a competitive disadvantage.***

We operate in highly competitive industries that could become even more competitive as a result of economic, legislative, regulatory or technological changes. Competition for mortgage loan originations comes primarily from commercial banks and savings institutions, as well as non-bank mortgage originators. Many of our competitors for mortgage loan originations that are commercial banks or savings institutions typically have access to greater financial resources, have lower funding costs, are less reliant than we are on the sale of mortgage loans into the secondary markets to maintain their liquidity, and may be able to participate in government programs that we are unable to participate in because we are not a state or federally chartered depository institution, all of which places us at a competitive disadvantage. The advantages of our largest competitors include, but are not limited to, their ability to hold new mortgage loan originations in an investment portfolio and their access to lower rate bank deposits as a source of liquidity. Additionally, more restrictive loan underwriting standards and the widespread elimination of certain non-conforming mortgage products throughout the industry have resulted in a more homogenous product offering, which has increased competition across the industry for mortgage originations.

The fleet management industry in which we operate is also highly competitive. We compete against national, local and regional competitors, including numerous competitors who focus on one or two products, and some competitors have greater financial resources, lower funding costs and greater access to liquidity, which places us at a competitive disadvantage. Growth in our Fleet Management Services segment is driven principally by increased market share in fleets greater than 75 units and increased fee-based services. Competitive pressures in the Fleet Management industry resulting in a decrease in our market share or lower prices would adversely affect our revenues and results of operations.

***Losses incurred in connection with actual or projected loan repurchase and indemnification claims may exceed our financial statement reserves and we may be required to increase such reserves in the future. Increases to our reserves and losses incurred in connection with actual loan repurchases and indemnification payments could have a material adverse effect on our business, financial position, results of operation or cash flows.***

In connection with the sale of mortgage loans, we make various representations and warranties that, if breached, require us to repurchase the loans or indemnify the purchaser for actual losses incurred in respect of such loans. These representations and warranties vary based on the nature of the transaction and the purchaser s or insurer s requirements but generally pertain to the ownership of the mortgage loan, the real property securing the loan and compliance with applicable laws and applicable lender and government-sponsored entity underwriting guidelines in connection with the origination of the loan. The aggregate unpaid principal balance of loans sold or serviced by us represents the maximum potential exposure related to loan repurchase and indemnification claims, including claims for breach of representation and warranty provisions.

The estimation of our loan repurchase and indemnification liability requires subjective and complex judgments and considers our estimates for future repurchase demands based upon recent and historical repurchase and indemnification experience, our success rate in appealing repurchase requests and loss severities. There is a reasonable possibility that losses incurred in connection with actual or projected loan repurchase and indemnification claims will be in excess of our financial statement reserves, and we may be required to increase such reserves and may sustain additional losses associated with such loan repurchase and indemnification claims in the future. In addition, an increased level of repurchase requests could result in an increased use of cash, as compared to prior periods, to fund loan repurchases or make-whole payments under loan indemnification agreements. Accordingly, increases to our reserves and losses incurred in connection with actual loan repurchases and indemnification payments in excess of our reserves could have a material adverse effect on our business, financial position, results of operations or cash flows.

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

Pursuant to accounting principles generally accepted in the United States, we utilize certain assumptions and estimates in preparing our financial statements, including but not limited to when determining the fair values of certain assets and liabilities, reserves related to litigation, regulatory investigations and proceedings, and reserves related to mortgage representations and warranty claims. If the assumptions or estimates underlying our financial statements are incorrect, we may experience significant losses as the ultimate realization of value may be materially different than the amounts reflected in our consolidated statement of financial position as of any particular date.

A substantial portion of our assets are recorded at fair value based upon significant estimates and assumptions with changes in fair value included in our consolidated results of operations. As of December 31, 2013, 24% of our total assets were measured at fair value on a recurring basis, including $1.3 billion of assets representing our Mortgage servicing rights which are valued using significant unobservable inputs and management s judgment of the assumptions market participants would use in pricing the asset. The determination of the fair value of our assets involves numerous estimates and assumptions made by our management. Such estimates and assumptions include, without limitation, estimates of future cash flows associated with our mortgage servicing rights based upon assumptions involving interest rates as well as the prepayment rates and delinquencies and foreclosure rates of the underlying serviced mortgage loans. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values, or our fair value estimates may not be realized in an actual sale or settlement, either of which could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

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

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

***Our reliance on outsourcing arrangements for information technology services subjects us to significant business process and control risks due to the complexity of our information systems, any failures in our ability to manage or transition services under the arrangement, or if our outsourcing counterparties do not meet their obligations to us. In addition, we may be unable to fully or successfully realize operational and cost benefits through our outsourcing arrangement for information technology services.***

During 2013, we entered into an arrangement to outsource our information technology ( IT ) services to a third party as part of an effort to reduce costs and obtain operational benefits, including improved governance and reductions in technology-related risk. We face risks related to our ability to successfully transition the performance of these processes and the related internal and operational controls to the third party, and the risk of not meeting our goals related to cost reductions due to the complexity of our IT systems and processes.

Entering into an outsourcing arrangement for IT services subjects us to significant business process and control risks.  If our outsource partner fails to perform their obligations under the terms of the agreement, or if our transition and management of this vendor is not successful, we are subject to operational risk from our IT environment. We are heavily dependent on the strength and capability of our technology systems which we use both to interface with our customers and to manage our internal financial and other systems. Our business model and our reputation as a service provider to our clients, as well as our internal controls over financial reporting, are highly dependent upon

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these systems and processes. In addition, our ability to run our business in compliance with applicable laws and regulations is dependent on our technology infrastructure. Although we have service-level arrangements with our counterparties, we do not ultimately control their performance, which may make our operations vulnerable to their performance failures. Any failures in our technology systems, processes or the related internal and operational controls, or the failure of our outsourcing providers to perform as expected or as contractually required could result in the loss of client relationships, damage to our reputation, failures to comply with regulations, failure to prepare our financial statements in a timely and accurate manner, and increased costs, the result of any of which could have a material and adverse effect on our business, reputation, results of operations, financial position, or cash flows.

***A failure in or breach of our technology infrastructure or information protection programs, or those of our outsource providers, could result in the inadvertent disclosure of the confidential personal information of our customers, as well as the confidential personal information of the employees and customers of our clients. Any such failure or breach could have a material and adverse effect on our business, reputation, results of operations, financial position or cash flows.***

Our business model and our reputation as a service provider to our clients are dependent upon our ability to safeguard the confidential personal information of our customers, as well as the confidential personal information of the employees and customers of our clients. Although we have put in place a comprehensive information security program that we monitor and update as needed, security breaches could occur through intentional or unintentional acts by individuals having authorized or unauthorized access to confidential information of our customers or the employees or customers of our clients which could potentially compromise confidential information processed and stored in or transmitted through our technology infrastructure.

A failure in or breach of the security of our information systems, or those of our outsource providers, could result in significant damage to our reputation or the reputation of our clients, could negatively impact our ability to attract or retain clients and could result in increased costs attributable to related litigation or regulatory actions, claims for indemnification, higher insurance premiums and remediation activities, the result of any of which could have a material and adverse effect on our business, reputation, results of operations, financial position, or cash flows.

## Risks Related to our Common Stock

***Our existing Convertible note series and any future issuances of securities convertible into our Common stock and hedging activities may result in dilution of our stockholders or depress the trading price of our Common stock.***

The voting power and ownership percentage of our stockholders will be diluted and the trading price of our Common stock could be substantially decreased if we issue any shares of our Common stock or securities convertible into our Common stock in the future, including the issuance of shares of Common stock upon conversion of any existing convertible notes or the issuance of shares of Common stock upon exercise or settlement of any outstanding share-based payment awards granted under the PHH Corporation Amended and Restated 2005 Equity and Incentive Plan. In addition, the price of our Common stock could also be negatively affected by possible sales of our Common stock by investors who engage in hedging or arbitrage trading activity that we expect to develop involving our Common stock following the issuance of the convertible notes.

We did not enter into a hedge transaction associated with the issuance of our Convertible notes due 2017. Upon conversion of the Convertible notes due 2017, the principal amount is payable in cash and to the extent the conversion value exceeds the principal amount of the converted notes we are required to pay or deliver (at our election) (i) cash; (ii) shares of our Common stock; or (iii) a combination of cash and shares of Common stock. The increase in, and any further increases in, the trading price of our common stock since the issuance of those notes, will result in a required cash payment upon conversion of the notes or will result in a dilution of the voting power and ownership percentage of the Common stock held by our existing shareholders, either of which may negatively affect the trading price of our Common stock. As of December 31, 2013, the Convertible notes due 2017 are eligible for conversion, and if all such notes were converted as of such date, we would be required to settle the note principal plus a premium of $226 million cash, 9.281 million shares of our Common stock, or a combination thereof (at our election). A 10% increase in our stock price from the closing price of December 31, 2013, results in an increase in the required conversion premium of $48 million, or 0.934 million shares.

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We also may issue shares of our Common stock or securities convertible into our Common stock in the future for a number of reasons, including to finance our operations and business strategy (including in connection with acquisitions, strategic collaborations or other transactions), to increase our capital, to adjust our ratio of debt to equity, to satisfy our obligations upon the exercise of outstanding warrants or options or for other reasons. We cannot predict the size of future issuances of our Common stock or securities convertible into our Common stock or the effect, if any, that such future issuances might have to dilute the voting interests of our stockholders or otherwise on the market price for our Common stock.

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

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

In connection with hedging this transaction, the Option Counterparties and/or their respective affiliates entered into various derivative transactions with respect to our Common stock. The Option Counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to our Common stock or by selling or purchasing our Common stock in secondary market transactions while the Convertible Notes are convertible, which could adversely impact the price of our Common stock. In order to unwind their hedge position with respect to those exercised options, the Option Counterparties and/or their respective affiliates are likely to sell shares of our Common stock in secondary transactions or unwind various derivative transactions with respect to our Common stock during the observation period for the converted 2014 Notes. These activities could negatively affect the value of our Common stock.

***A change in control transaction or a fundamental change in our business may result in a number of significant cash outflows that could reduce the value of our businesses when separated or acquired. Further, certain provisions of our debt arrangements and the provisions of certain other agreements could discourage third parties from seeking to acquire us, could prevent or delay a transaction resulting in a change of control, or could reduce the value of our businesses if separated.***

The value of our businesses if separated, or the net proceeds realized by our shareholders as the result of any change in control transaction or a fundamental change, may be negatively impacted as a result of required payments under our corporate term debt, potential required tax payments and other tax impacts or the potential termination of certain client relationships (if consents or waivers are not obtained), among other consequences.

The terms of certain of our Senior note and Convertible note debt agreements and indentures contain provisions that require us to offer to repurchase, for cash, all or a portion of the outstanding notes upon a change of control or fundamental change, as defined in such indentures. Further, a change of control or fundamental change may constitute an event of default under certain of our other debt agreements, including our Amended Credit Facility. In addition, in the event of a make-whole fundamental change (as defined by the indentures governing our Convertible notes due 2014 and 2017), the conversion rate for the notes may, in some cases, be increased for a holder that elects to convert their notes in connection with such make-whole fundamental change.

A change in control transaction may carry significant tax cost to us and/or to the potential third party acquirers. Depending on the form under which the businesses are separated or acquired, significant cash taxes could become immediately due, further restrictions may also occur on reorganization of future separated businesses, as well as adverse impact on the realization of existing and/or future deferred tax assets, including limitation on federal and state utilization of net operating losses.

We may need to obtain consents or waivers from the GSEs, state licensing agencies and certain clients or counterparties, in connection with certain change in control transactions. Additionally, the value of our Mortgage businesses could be reduced from any lost relationships and/or loss of our approved status as a Fannie Mae, Freddie Mac and Ginnie Mae approved seller/servicer in connection with certain change in control transactions. Our agreements with Fannie Mae and Freddie Mac require us to provide notice or obtain approvals or consents related to

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any change in control transaction. Our agreements with Realogy, including the PHH Home Loans Operating Agreement, state that Realogy may terminate PHH Home Loans if we effect a change in control transaction involving certain competitors or other third parties. In connection with such termination, we may be required to make a cash payment to Realogy in an amount equal to: (i) PHH Home Loans trailing 12 months net income multiplied by the greater of (a) the number of years remaining in the first 12 years of the term of the agreement or (b) two years.

In addition, agreements with some of our financial institution clients governing our private-label relationships provide our clients with the right to terminate their relationship with us if we complete certain change in control transactions with certain third parties. The need to obtain waivers or consents from our clients in connection with a change in control transactions may discourage certain third parties from seeking to acquire us or could reduce the amount of consideration they would be willing to pay to our stockholders in an acquisition transaction, or could otherwise reduce the value of the businesses when separated.

***Provisions in our charter documents, the Maryland General Corporation Law, and New York insurance law may delay or prevent our acquisition by a third party.***

Our charter and by-laws contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our board of directors. These provisions include, among other things, advance notice for raising business or making nominations at meetings and blank check preferred stock. Blank check preferred stock enables our board of directors, without stockholder approval, to designate and issue additional series of preferred stock with such dividend, liquidation, conversion, voting or other rights, including the right to issue convertible securities with no limitations on conversion, as our board of directors may determine, including rights to dividends and proceeds in a liquidation that are senior to the common stock.

We are also subject to certain provisions of the Maryland General Corporation Law which could delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our stockholders receiving a premium over the market price for their common stock or may otherwise be in the best interest of our stockholders. These include, among other provisions:

n the business combinations statute which prohibits transactions between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder becomes an interested stockholder and

n the control share acquisition statute which provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter.

Our by-laws contain a provision exempting any share of our capital stock from the control share acquisition statute to the fullest extent permitted by the Maryland General Corporation Law. However, our Board of Directors has the exclusive right to amend our by-laws and, subject to their fiduciary duties, and could at any time in the future amend the by-laws to remove this exemption provision.

In addition, we are registered as an insurance holding company in the state of New York as a result of our wholly owned subsidiary, Atrium Insurance Corporation. New York insurance law requires regulatory approval of a change in control of an insurer or an insurer s holding company. Accordingly, there can be no effective change in control of us unless the person seeking to acquire control has filed a statement containing specified information with the New York state insurance regulators and has obtained prior approval. The measure for a presumptive change of control pursuant to New York law is the acquisition of 10% or more of the voting stock or other ownership interest of an insurance company or its parent. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change in control of us, including through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable.

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## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

Our principal offices are located at 3000 Leadenhall Road, Mt. Laurel, New Jersey 08054.

Our Mortgage Production and Mortgage Servicing segments have centralized operations in approximately 565,000 square feet of shared leased office space in the Mt. Laurel, New Jersey area. We have a second area of centralized offices that is used primarily by our Mortgage Production segment in Jacksonville, Florida, where approximately 150,000 square feet is occupied. We also have two offices with approximately 150,000 square feet of total office space in the Buffalo, New York area that are used primarily by our Mortgage Servicing segment. In addition, our Mortgage Production and Mortgage Servicing segments lease 40 smaller offices located throughout the U.S.

Our Fleet Management Services segment maintains a headquarters office in a 210,000 square-foot office building in Sparks, Maryland. Our Fleet Management Services segment also leases office space and marketing centers in five locations in Canada and has 10 smaller regional locations throughout the U.S.

## Item 3. Legal Proceedings

We are party to various claims and legal proceedings from time to time related to contract disputes and other commercial, employment and tax matters. For more information regarding legal proceedings, see Note 16, Commitments and Contingencies in the accompanying Notes to Consolidated Financial Statements.

## Item 4. Mine Safety Disclosures

Not applicable.

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# PART II

## Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

### Market Price of Common Stock

Shares of our Common stock are listed on the NYSE under the symbol PHH . The following table sets forth the high and low sales prices for our Common stock for the periods indicated as reported by the NYSE:

| | Stock Price | |
|---|---|---|
| | High | Low |
| January 1, 2012 to March 31, 2012 | $ 16.04 | 9.68 |
| April 1, 2012 to June 30, 2012 | 17.92 | 14.78 |
| July 1, 2012 to September 30, 2012 | 20.94 | 15.29 |
| October 1, 2012 to December 31, 2012 | 23.15 | 18.50 |
| January 1, 2013 to March 31, 2013 | 23.90 | 20.58 |
| April 1, 2013 to June 30, 2013 | 22.13 | 18.82 |
| July 1, 2013 to September 30, 2013 | 25.13 | 20.20 |
| October 1, 2013 to December 31, 2013 | 26.76 | 21.95 |

As of February 18, 2014, there were 6,124 holders of record of our Common stock.

### Dividend Policy and Restrictions

We have not declared or paid cash dividends on our Common stock since we began operating as an independent, publicly traded company in 2005. We have developed a contingent liquidity plan for the use of excess capital above our key cash requirements that is dependent on a number of factors including: (i) the sustained execution of our MSR funding strategy; (ii) generating positive cash flows in our Mortgage segments, which may require amending the majority of our PLS contracts; and (iii) resolving our outstanding repurchase and indemnification exposure with the Agencies for our pre-2009 originations. Once our contingent liquidity needs are reduced, we may consider returns of capital to our shareholders, which may include dividends. The declaration and payment of dividends in the future will be subject to the discretion of our Board of Directors and will depend upon many factors, including economic and market conditions, our financial condition and operating results, cash requirements, capital requirements of our operating subsidiaries, legal requirements, regulatory constraints, investment opportunities at the time any such payment is considered, and other factors deemed relevant.

Many of our subsidiaries (including certain consolidated partnerships, trusts and other non-corporate entities) are subject to restrictions on their ability to pay dividends or otherwise transfer funds to other consolidated subsidiaries and, ultimately, to PHH Corporation (the parent company). These restrictions include, but are not limited to, those pursuant to the Revolving Credit facility, pursuant to certain asset-backed debt agreements, unrestricted cash available for use by our variable interest entities and unrestricted cash held for use in Canada by subsidiaries of our Fleet Management Services segment. The aggregate restricted net assets of these subsidiaries totaled $748 million as of December 31, 2013. However, these restrictions on net assets of certain subsidiaries do not directly limit our ability to pay dividends from consolidated Retained earnings.

Certain debt arrangements require the maintenance of financial ratios and contain restrictive covenants applicable to our consolidated financial statement elements, as well as restricted payment covenants that potentially could limit our ability to pay dividends. As of December 31, 2013, we may not pay dividends without the written consent of the lenders of the Revolving Credit facility or until the Convertible Notes due in 2014 have been repaid, prefunded, extended or refinanced, among other provisions. See Note 17, Stock-Related Matters, in the accompanying Notes to Consolidated Financial Statements for further information.

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## Item 6. Selected Financial Data

The selected financial data set forth below is derived from our audited Consolidated Financial Statements for the periods indicated.  Because of the inherent uncertainties of our business, the historical financial information for such periods may not be indicative of our future results of operations, financial position or cash flows:

| [redacted] | | | | | |
|---|---|---|---|---|---|
| ***Consolidated Statements of Operations*** | | | | | |
| **REVENUES** | | | | | |
| Net fee income | $ 482 | $ 526 | $ 468 | $ 448 | $ 425 |
| Fleet lease income | 1,386 | 1,364 | 1,400 | 1,370 | 1,441 |
| Gain on mortgage loans, net | 575 | 942 | 567 | 635 | 610 |
| Mortgage net finance expense | (115) | (121) | (88) | (73) | (58) |
| Loan servicing income | 436 | 449 | 456 | 415 | 431 |
| Valuation adjustments related to mortgage servicing rights, net | (6) | (502) | (736) | (427) | (280) |
| Other income (1) | 84 | 85 | 147 | 70 | 37 |
| Net revenues (1) | 2,842 | 2,743 | 2,214 | 2,438 | 2,606 |
| Total expenses | 2,601 | 2,656 | 2,416 | 2,323 | 2,326 |
| Net income (loss) attributable to PHH Corporation(1) | 135 | 34 | (127) | 48 | 153 |
| Basic earnings (loss) per share attributable to PHH Corporation | $ 2.36 | $ 0.60 | $ (2.26) | $ 0.87 | $ 2.80 |
| Diluted earnings (loss) per share attributable to PHH Corporation | 2.06 | 0.56 | (2.26) | 0.86 | 2.77 |
| | | | | | |
| ***Consolidated Balance Sheets*** | | | | | |
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ 1,245 | $ 829 | $ 414 | $ 195 | $ 150 |
| Mortgage loans held for sale | 834 | 2,174 | 2,658 | 4,329 | 1,218 |
| Net investment in fleet leases | 3,653 | 3,636 | 3,515 | 3,492 | 3,610 |
| Mortgage servicing rights | 1,279 | 1,022 | 1,209 | 1,442 | 1,413 |
| Total assets | 8,848 | 9,603 | 9,777 | 11,270 | 8,123 |
| **LIABILITIES** | | | | | |
| Unsecured debt | $ 1,249 | $ 1,156 | $ 1,339 | 1,212 | $ 1,272 |
| Asset-backed debt | 4,256 | 5,398 | 5,554 | 6,843 | 3,888 |
| Total liabilities | 7,158 | 8,041 | 8,316 | 9,692 | 6,619 |
| PHH Corporation stockholders   equity | 1,666 | 1,526 | 1,442 | 1,564 | 1,492 |

(1) For the year ended December 31, 2011 includes a $68 million pre-tax gain on the sale of 50.1% of the equity interests in our appraisal services business.

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## Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion should be read in conjunction with Part I Item 1. Business and our Consolidated Financial Statements and the notes thereto included in this Form 10-K. The following discussion should also be read in conjunction with the Cautionary Note Regarding Forward-Looking Statements and the risks and uncertainties described in Part I Item 1A. Risk Factors set forth above.*

Our Management s Discussion and Analysis of F