PHH CORP
Form 10-Q
May 10, 2017
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

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 Number: 1-7797

PHH CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. Large

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of May 3, 2017, 53,612,801 shares of PHH Common stock were outstanding.

---

Table of Contents

TABLE OF CONTENTS


| | | Page |
|---|---|---|
| | Cautionary Note Regarding Forward-Looking Statements | 1 |
| PART I – FINANCIAL INFORMATION | | |
| Item 1. | Financial Statements | 3 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 31 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 52 |
| Item 4. | Controls and Procedures | 53 |
| PART II – OTHER INFORMATION | | |
| Item 1. | Legal Proceedings | 54 |
| Item 1A. | Risk Factors | 54 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 54 |
| Item 3. | Defaults Upon Senior Securities | 54 |
| Item 4. | Mine Safety Disclosures | 54 |
| Item 5. | Other Information | 55 |
| Item 6. | Exhibits | 55 |
| | Signatures | 56 |
| | Exhibit Index | 57 |

Table of Contents

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our expectations related to our actions resulting from our strategic review, including the estimated impacts on our results, the timing of any such actions, our estimates of transaction, operating losses and exit costs, the amount and our expected use of any proceeds, and any other anticipated impacts on our results, client and counterparty relationships, debt arrangements, employee relations or expected value to shareholders;
- our expectations and projected financial results of the remaining business after executing the actions resulting from our strategic review, the market for subservicing and portfolio retention services, our competitive position, and the expected profitability and capital structure of our remaining business;
- the method, amounts and timing of any capital returns to shareholders;
- anticipated future origination volumes and loan margins in the mortgage industry;
- our expectations of the impacts of regulatory changes on our business;
- our assessment of legal and regulatory proceedings and the associated impact on our financial statements;
- our expectations around future losses from representation and warranty claims, and associated reserves and provisions; and
- the impact of the adoption of recently issued accounting pronouncements on our financial statements.

Actual results, performance or achievements may differ materially from those expressed or implied in forward-looking statements due to a variety of factors, including but not limited to the factors listed and discussed in “Part II—Item 1A. Risk Factors” in this Form 10-Q, and “Part I—Item 1A. Risk Factors” in our 2016 Form 10-K and those factors described below:

- the effects of our strategic actions, and any associated transactions, on our business, management resources, customer, counterparty and employee relationships, capital structure and financial position;
- our ability to execute and complete the actions resulting from our strategic review and implement changes to meet our operational and financial objectives, including restructuring our remaining business and shared services platform, achieving our growth objectives and assumptions and resolving our legacy legal and regulatory matters;
- any failure to execute all or any portion of the sales of MSRs under our existing agreements, or realize estimated proceeds from the transactions, which may be driven by the following reasons, among other factors: (i) not receiving required shareholder, regulatory, investor, agency, private loan investor and/or client (originations source) approvals for any portion of the sale portfolio; (ii) changes in the composition of the portfolio and related servicing advances outstanding on each sale date; and (iii) not meeting any other conditions precedent to closing, as defined in the respective agreements;
- any failure to execute the sale of certain assets of PHH Home Loans and its subsidiaries, or realize estimated proceeds from the transactions, which may be driven by the following reasons, among other factors: (i) not receiving required shareholder, regulatory and agency approvals; (ii) the failure to execute a certain portion of the New Residential MSR

sales; and (iii) not meeting any other conditions precedent to closing, as defined in the respective agreements; available excess cash from our strategic actions is dependent upon a variety of factors, including the execution of the sale of all of our MSRs, the monetization of our investment in PHH Home Loans, the successful completion of our PLS exit activities at a certain total expense, the resolution of our outstanding legal and regulatory matters and the successful completion of other restructuring and capital management activities, including any unsecured debt repayments, in accordance with our assumptions;



---

Table of Contents

- our decisions regarding whether to use, and the use of, derivatives and hedge strategies related to our mortgage servicing rights;
- the effects of any termination of our subservicing agreements by any of our largest subservicing clients or on a material portion of our subservicing portfolio;
- the effects of market volatility or macroeconomic changes and financial market regulations on the availability and cost of our financing arrangements, the value of our assets and the housing market;
- the effects of changes in current interest rates on our business, the value of our mortgage servicing rights and our financing costs;
- the impact of changes in the U.S. financial condition and fiscal and monetary policies, or any actions taken or to be taken by the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System on the credit markets and the U.S. economy;
- the effects of any significant adverse changes in the underwriting criteria or the existence or programs of government-sponsored entities, such as Fannie Mae and Freddie Mac, including any changes caused by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other actions of the federal government;
- the ability to maintain our status as a government sponsored entity-approved seller and servicer, including the ability to continue to comply with the respective selling and servicing guides, and our ability to operationalize changes necessary to comply with updates to such guides and programs;
- the effects of changes in, or our failure to comply with, laws and regulations, including mortgage- and real estate-related laws and regulations and those that we are exposed to through our private label relationships;
- the effects of the outcome or resolutions of any inquiries, investigations or appeals related to our mortgage origination or servicing activities, any litigation related to our mortgage origination or servicing activities, or any related fines, penalties and increased costs, and the associated impact on our liquidity;
- the ability to maintain our relationships with our existing clients, including our ability to comply with the terms of our private label and subservicing client agreements and any related service level agreements;
- the inability or unwillingness of any of the counterparties to our significant customer contracts, hedging agreements, or financing arrangements to perform their respective obligations under such contracts, or to renew on terms favorable to us, if at all;
- the impacts of our credit ratings, including the impact on our cost of capital and ability to access the debt markets, as well as on our current or potential customers' assessment of our long-term stability;
- the ability to obtain or renew financing on acceptable terms, if at all, to finance our mortgage loans held for sale and servicing advances;
- the ability to operate within the limitations imposed by our financing arrangements and to maintain or generate the amount of cash required to service our indebtedness and operate our business;
- any failure to comply with covenants or asset eligibility requirements under our financing arrangements; and
- the effects of any failure in or breach of our technology infrastructure, or those of our outsource providers, or any failure to implement changes to our information systems in a manner sufficient to comply with applicable laws, regulations and our contractual obligations.

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

Table of Contents

PART I — FINANCIAL INFORMATION
Item 1. Financial Statements

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| REVENUES | | |
| Origination and other loan fees | $44 | $61 |
| Gain on loans held for sale, net | 42 | 48 |
| Net loan servicing income: | | |
| Loan servicing income | 62 | 91 |
| Change in fair value of mortgage servicing rights | (29) | (121) |
| Net derivative gain related to mortgage servicing rights | — | 85 |
| Net loan servicing income | 33 | 55 |
| Net interest expense: | | |
| Interest income | 9 | 9 |
| Secured interest expense | (6) | (8) |
| Unsecured interest expense | (10) | (10) |
| Net interest expense | (7) | (9) |
| Other income | 2 | 2 |
| Net revenues | 114 | 157 |
| | | |
| EXPENSES | | |
| Salaries and related expenses | 86 | 90 |
| Commissions | 11 | 12 |
| Loan origination expenses | 9 | 16 |
| Foreclosure and repossession expenses | 7 | 7 |
| Professional and third-party service fees | 37 | 39 |
| Technology equipment and software expenses | 9 | 10 |
| Occupancy and other office expenses | 9 | 13 |
| Depreciation and amortization | 4 | 4 |
| Exit and disposal costs | 25 | — |
| Other operating expenses | 22 | 15 |
| Total expenses | 219 | 206 |
| Loss before income taxes | (105) | (49) |
| Income tax benefit | (34) | (19) |
| Net loss | (71) | (30) |
| Less: net loss attributable to noncontrolling interest | (4) | — |
| Net loss attributable to PHH Corporation | $(67) | $(30) |
| | | |
| Basic and Diluted loss per share attributable to PHH Corporation | $(1.26) | $(0.56) |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In millions)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Net loss | $(71) | $(30) |
| | | |
| Total comprehensive loss | $(71) | $(30) |
| Less: comprehensive loss attributable to noncontrolling interest | (4) | — |
| Comprehensive loss attributable to PHH Corporation | $(67) | $(30) |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions, except share data)

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 936 | $ 906 |
| Restricted cash | 64 | 57 |
| Mortgage loans held for sale | 471 | 683 |
| Accounts receivable, net | 61 | 66 |
| Servicing advances, net | 599 | 628 |
| Mortgage servicing rights | 596 | 690 |
| Property and equipment, net | 32 | 36 |
| Other assets | 92 | 109 |
| Total assets [(1)] | $ 2,851 | $ 3,175 |
| LIABILITIES | | |
| Accounts payable and accrued expenses | $ 185 | $ 193 |
| Subservicing advance liabilities | 271 | 290 |
| Debt, net | 1,083 | 1,262 |
| Deferred taxes, net | 69 | 101 |
| Loan repurchase and indemnification liability | 43 | 49 |
| Other liabilities | 149 | 157 |
| Total liabilities [(1)] | 1,800 | 2,052 |
| Commitments and contingencies (Note 10) | | |
| EQUITY | | |
| Preferred stock, $0.01 par value; 1,090,000 shares authorized; none issued or outstanding | — | — |
| Common stock, $0.01 par value; 273,910,000 shares authorized; 53,612,801 shares issued and outstanding at March 31, 2017; 53,599,433 shares issued and outstanding at December 31, 2016 | 1 | 1 |
| Additional paid-in capital | 886 | 887 |
| Retained earnings | 147 | 214 |
| Accumulated other comprehensive loss[(2)] | (10 ) | (10 ) |
| Total PHH Corporation stockholders’ equity | 1,024 | 1,092 |
| Noncontrolling interest | 27 | 31 |
| Total equity | 1,051 | 1,123 |
| Total liabilities and equity | $ 2,851 | $ 3,175 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Continued.

Table of Contents

CONDENSED CONSOLIDATED BALANCE SHEETS-(Continued)
(Unaudited)
(In millions)

(1) The Condensed Consolidated Balance Sheets include assets and liabilities of variable interest entities which can be used only to settle the obligations and liabilities of the variable interest entities which creditors or beneficial interest holders do not have recourse to PHH Corporation and subsidiaries. These assets and liabilities are as follows:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 70 | $ 67 |
| Restricted cash | 28 | 24 |
| Mortgage loans held for sale | 254 | 350 |
| Accounts receivable, net | 7 | 9 |
| Servicing advances, net | 140 | 150 |
| Property and equipment, net | 1 | 1 |
| Other assets | 13 | 12 |
| Total assets | $ 513 | $ 613 |
| | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | $ 13 | $ 11 |
| Debt | 316 | 399 |
| Other liabilities | 5 | 5 |
| Total liabilities | $ 334 | $ 415 |

(2) Includes amounts recorded related to the Company’s defined benefit pension plan, net of income tax benefits of $6 million as of both March 31, 2017 and December 31, 2016. During both the three months ended March 31, 2017 and March 31, 2016, there were no amounts reclassified out of Accumulated other comprehensive loss.

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)
(In millions, except share data)

| | PHH Corporation Stockholders' Equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | | | | | |
| | Shares | Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Noncontrolling Interest | Total Equity |
| Three Months Ended March 31, 2017 | | | | | | | |
| Balance at December 31, 2016 | 53,599,433 | $ 1 | $ 887 | $ 214 | $ (10) | $ 31 | $ 1,123 |
| Total comprehensive loss | — | — | — | (67) | — | (4) | (71) |
| Stock compensation expense | — | — | 3 | — | — | — | 3 |
| Reclassification of stock awards | — | — | (4) | — | — | — | (4) |
| Stock issued under share-based payment plans | 13,368 | — | — | — | — | — | — |
| Balance at March 31, 2017 | 53,612,801 | $ 1 | $ 886 | $ 147 | $ (10) | $ 27 | $ 1,051 |
| Three Months Ended March 31, 2016 | | | | | | | |
| Balance at December 31, 2015 | 55,007,983 | $ 1 | $ 911 | $ 416 | $ (10) | $ 30 | $ 1,348 |
| Total comprehensive loss | — | — | — | (30) | — | — | (30) |
| Stock compensation expense | — | — | 1 | — | — | — | 1 |
| Stock issued under share-based payment plans | 18,580 | — | — | — | — | — | — |
| Repurchase of Common stock | (1,508,772) | — | (23) | — | — | — | (23) |
| Balance at March 31, 2016 | 53,517,791 | $ 1 | $ 889 | $ 386 | $ (10) | $ 30 | $ 1,296 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In millions)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net loss | $(71) | $(30) |
| Adjustments to reconcile Net loss to net cash provided by operating activities: | | |
| Capitalization of originated mortgage servicing rights | (11) | (13) |
| Net loss on mortgage servicing rights and related derivatives | 29 | 36 |
| Origination of mortgage loans held for sale | (1,735) | (2,150) |
| Proceeds on sale of and payments from mortgage loans held for sale | 2,009 | 2,221 |
| Net gain on interest rate lock commitments, mortgage loans held for sale and related derivatives | (53) | (53) |
| Depreciation and amortization | 4 | 4 |
| Deferred income tax benefit | (32) | (38) |
| Other adjustments and changes in other assets and liabilities, net | 52 | 44 |
| Net cash provided by operating activities | 192 | 21 |
| | | |
| Cash flows from investing activities: | | |
| Net cash (paid) received on derivatives related to mortgage servicing rights | (46) | 79 |
| Proceeds on sale of mortgage servicing rights | 71 | 2 |
| Purchases of property and equipment | — | (7) |
| Increase in restricted cash | (7) | (6) |
| Other, net | — | 6 |
| Net cash provided by investing activities | 18 | 74 |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from secured borrowings | 1,907 | 2,570 |
| Principal payments on secured borrowings | (2,087) | (2,609) |
| Repurchase of Common stock | — | (23) |
| Cash paid for debt issuance costs | — | (2) |
| Net cash used in financing activities | (180) | (64) |
| | | |
| Net increase in Cash and cash equivalents | 30 | 31 |
| Cash and cash equivalents at beginning of period | 906 | 906 |
| Cash and cash equivalents at end of period | $936 | $937 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

#### Organization

PHH Corporation and subsidiaries (collectively, “PHH” or the “Company”) operates in two business segments: Mortgage Production, which provides mortgage loan origination services and sells mortgage loans, and Mortgage Servicing, which performs servicing activities for originated and purchased loans, and acts as a subservicer for certain clients that own the underlying mortgage servicing rights.

The Condensed Consolidated Financial Statements include the accounts and transactions of PHH and its subsidiaries, as well as entities in which the Company directly or indirectly has a controlling interest and variable interest entities of which the Company is the primary beneficiary. PHH Home Loans, LLC (“PHH Home Loans”) and its subsidiaries are consolidated within the Condensed Consolidated Financial Statements and the ownership interest of Realogy Services Venture Partner LLC, a subsidiary of Realogy Holdings Corp. ("Realogy") is presented as a noncontrolling interest. In February 2017, the Company announced it has entered into agreements to sell certain assets of PHH Home Loans and its subsidiaries, including its mortgage origination and processing centers and the majority of its employees. Refer to Note 12, 'Variable Interest Entities' for further information. Intercompany balances and transactions have been eliminated from the Condensed Consolidated Financial Statements.

#### Preparation of Financial Statements

The Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In management’s opinion, the unaudited Condensed Consolidated Financial Statements contain all adjustments, which include normal and recurring adjustments, necessary for a fair presentation of the financial position and results of operations for the interim periods presented. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Company’s 2016 Form 10-K.

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

Unless otherwise noted and except for share and per share data, dollar amounts presented within these Notes to Condensed Consolidated Financial Statements are in millions.

#### Accounting Pronouncements Adopted During the Period

In March 2016, the FASB issued ASU 2016-06, “Contingent Put and Call Options in Debt Instruments.” This update clarified that in assessing whether an embedded contingent put or call option is clearly and closely related to the debt host, an entity is required to perform only a specific four-step decision sequence and is no longer required to assess

whether the contingency for exercising the option is indexed to interest rate or credit risk. The Company adopted this update on January 1, 2017 using a modified retrospective approach, and there was no impact to the financial statements or disclosures.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." This update simplified several aspects of the accounting for share-based payment transactions, including accounting for income taxes, the classification of awards as either equity or liabilities and the classification of excess tax benefits and payments for tax withholdings on the statement of cash flows. The Company adopted this update on January 1, 2017 using either a prospective, modified retrospective or retrospective approach, depending on the area of change with the more significant provisions described below:

- Accounting for income taxes. The Company recognized all excess tax benefits and tax deficiencies as income tax expense or benefit in the statement of income and applied this provision prospectively. The tax effects were treated as

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

discrete items to calculate the effective tax rate and resulted in $1 million of income tax expense during the first quarter of 2017.

- Forfeiture rates. The Company elected to account for forfeitures as they occur and applied this provision using a modified retrospective approach. The impact to opening retained earnings was not significant.
- Statement of Cash Flows. The Company classified cash paid by an employer when directly withholding shares for tax withholding purposes as a financing activity and applied this provision using a retrospective approach. In addition, the Company will classify excess tax benefits as an operating activity and apply this provision using a prospective approach. The impact to the statement of cash flows from the adoption of these provisions was not significant.

In October 2016, the FASB issued ASU 2016-17, "Interests Held through Related Parties That Are under Common Control." This update required an entity to include indirect interest held through related parties that are under common control on a proportionate basis when evaluating if a reporting entity is the primary beneficiary of a variable interest entity. The Company adopted this update on January 1, 2017 using a retrospective approach. This adoption did not change any of the Company's consolidation conclusions, and there was no impact to the financial statements or disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted

There have been no developments to recently issued accounting standards, including the expected dates of adoption and estimated effects on the Company’s consolidated financial statements and disclosures, from those included in the Company’s 2016 Form 10-K, except for the following:

Effective for the First Quarter of 2018

- In May 2014, the FASB issued ASU 2014-9, “Revenue from Contracts with Customers.” The core principle requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the company expects to be entitled in exchange for those goods or services. The FASB has issued several amendments to provide additional clarification and implementation instructions relating to (i) principal versus agent considerations, (ii) identifying performance obligations and licensing, (iii) narrow-scope improvements and practical expedients and (iv) technical corrections and improvements. These updates are to be applied retrospectively to all prior periods presented or through a cumulative adjustment in the year of adoption, and are effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted.

The Company has reviewed the scope of the guidance and monitored the determinations of the FASB Transition Resource Group and determined that certain revenue streams are not within the scope of the standard because it does not apply to revenue on contracts accounted for under ASC 860, "Transfers and Servicing of Financial Assets" or ASC 825, "Financial Instruments". However, the Company continues to evaluate certain select revenue streams, including subservicing fees and certain fee-based origination fees, and the impact that this guidance will have on its financial statements and disclosures. While there may be some impact on revenue recognition, the Company currently does not expect the adoption of this guidance to have a significant impact on the consolidated financial statements; however, the Company expects it will result in increased footnote disclosure requirements. The Company will adopt this standard using a modified retrospective approach in the first quarter of 2018 with a cumulative effect adjustment to retained earnings.

- In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". This update changes the income statement presentation of defined benefit plan expense by requiring the service cost component to be presented in the same line item as other compensation costs

and all other components (including interest cost, amortization of prior service cost, settlements, etc.) to be presented separately from the service cost component. This update is effective for the first interim and annual periods beginning after December 15, 2017, with early adoption permitted. At adoption, this update will be applied retrospectively. The Company's defined benefit pension plan and the other post-employment benefits plan are frozen, wherein the plans only accrue additional benefits for a very limited number of employees. As a result, the Company does not expect the adoption to have significant impact on its financial statements.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Exit Costs

PLS Exit. In November 2016, the Company announced its plan to exit the private label solutions ("PLS") business within the Mortgage Production segment. This business channel provides end-to-end origination services to financial institution clients, and represented 79% of the Company's total mortgage production volume (based on dollars) for the year ended December 31, 2016. Due to elevated operating losses, increasing regulatory and client customization costs and a shrinking market for financial institution origination services, the Company determined the exit of the business was necessary. The Company expects that it will be in a position to substantially exit this channel by the first quarter of 2018, subject to transition support requirements.

Reorganization. In February 2017, as an outcome of its strategic review, the Company announced its intention to operate as a smaller business that is focused on subservicing and portfolio retention services. Costs estimated for this Reorganization exit program, which is presented separately from the PLS exit program, include severance, acceleration of existing retention and incentive awards and other costs to execute the reorganization and change the focus of the Company's operations. The Company expects it will incur the remaining exit costs through the end of 2017.

The Company's Exit cost liability is included in Accounts payable and accrued expenses within the Condensed Consolidated Balance Sheets. A summary of the aggregate activity for both the PLS exit program and the Reorganization exit program is as follows:

| | Three Months Ended March 31, 2017 | | | |
|---|---|---|---|---|
| | Severance and Termination Benefits | Facility Exit Costs | Contract Termination & Other Costs | Total |
| | (In millions) | | | |
| Balance, beginning of period | $22 | $ — | $ 3 | $25 |
| Charges | 21 | 4 | — | 25 |
| Paid | — | (4) | — | (4) |
| Adjustments [1] | 4 | — | — | 4 |
| Balance, end of period | $47 | $ — | $ 3 | $50 |

(1) This adjustment represents previously accrued amounts of existing retention and incentive awards for exiting employees that will be paid out upon termination.

PLS Exit

The following is a summary of expenses incurred to date for the PLS exit program within Exit and disposal costs in the Condensed Consolidated Statements of Operations, including our estimate of remaining and total program costs:

| | Three Months Ended March 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Severance and Termination Benefits | Facility Exit Costs | Contract Termination & Other Costs | Asset Impairment | Total |
| | (In millions) | | | | |
| Costs incurred this period | $4 | $ 4 | $ — | $ — | $8 |

| | | | | | |
|---|---|---|---|---|---|
| Cumulative costs recognized in prior periods | 22 | — | 4 | 15 | 41 |
| Estimate of remaining costs [1] | 9 | 21 | 26 | — | 56 |
| Total | $35 | $ 25 | $ 30 | $ 15 | $105 |

(1) In May 2017, the Company incurred $8 million of contract termination costs related to a PLS client termination agreement.

11

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the PLS program costs by segment for the three months ended March 31, 2017:

| | Mortgage Production | Other | Total |
|---|---|---|---|
| | (In millions) | | |
| Costs incurred this period | $7 | $ 1 | $8 |
| Cumulative costs recognized in prior periods | 33 | 8 | 41 |
| Estimate of remaining costs | 48 | 8 | 56 |
| Total | $88 | $ 17 | $105 |

Reorganization

The following is a summary of expenses incurred to date for the Reorganization exit program within Exit and disposal costs in the Condensed Consolidated Statements of Operations, including our estimate of remaining and total program costs:

| | Three Months Ended March 31, 2017 | | | |
|---|---|---|---|---|
| | Severance and Termination Benefits | Facility Exit Costs | Contract Termination & Other Costs | Total(1) |
| | (In millions) | | | |
| Costs incurred this period | $17 | $ — | $ — | $ 17 |
| Cumulative costs recognized in prior periods | — | — | — | — |
| Estimate of remaining costs | 23 | 5 | 5 | 33 |
| Total | $40 | $ 5 | $ 5 | 50 |

(1) Exit Costs related to our Reorganization include amounts attributable to noncontrolling interest, representing $1 million of Costs incurred this period, and $10 million of Total program costs. Refer to Note 12, 'Variable Interest Entities' for further information regarding our agreements to sell certain assets of PHH Home Loans and its subsidiaries and exit the Real Estate channel.

The following is a summary of the Reorganization program costs by segment for the three months ended March 31, 2017:

| | Mortgage Production | Mortgage Servicing | Other | Total |
|---|---|---|---|---|
| | (In millions) | | | |
| Costs incurred this period | $6 | $ 2 | $ 9 | $ 17 |
| Cumulative costs recognized in prior periods | — | — | — | — |
| Estimate of remaining costs | 24 | — | 9 | 33 |
| Total | $30 | $ 2 | $ 18 | $ 50 |

3. Earnings Per Share

Basic earnings or loss per share attributable to PHH Corporation was computed by dividing Net income or loss attributable to PHH Corporation by the weighted-average number of shares outstanding during the period. Diluted earnings or loss per share attributable to PHH Corporation was computed by dividing Net income or loss attributable

to PHH Corporation by the weighted-average number of shares outstanding during the period, assuming all potentially dilutive common shares were issued.

Share repurchases or issuances are included in the outstanding shares as of each settlement date. Weighted-average common shares outstanding for the three months ended March 31, 2016 include the repurchase of 1,508,772 shares during January 2016 under an open market repurchase program.

The weighted-average computation of the dilutive effect of potentially issuable shares of Common stock under the treasury stock method excludes the effect of any contingently issuable securities where the contingency has not been met and excludes the effect

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

of securities that would be anti-dilutive. Anti-dilutive securities may include: (i) outstanding stock-based compensation awards representing shares from restricted stock units and stock options and (ii) stock assumed to be issued related to convertible notes.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions, except share and per share data) | |
| Net loss attributable to PHH Corporation | $ (67) | $ (30) |
| Weighted-average common shares outstanding — basic & diluted | 53,682,514 | 53,703,229 |
| Basic and Diluted loss per share attributable to PHH Corporation | $ (1.26) | $ (0.56) |

The following table summarizes anti-dilutive securities excluded from the computation of diluted shares:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Outstanding stock-based compensation awards[1] | 973,788 | 1,316,861 |

(1) For the three months ended March 31, 2017, excludes 297,523 shares that are contingently issuable for which the contingency has not been met.

## 4. Servicing Activities

### Total Servicing Portfolio

The following table summarizes the total servicing portfolio, which consists of loans associated with capitalized mortgage servicing rights ("MSRs"), loans held for sale, and the portfolio associated with loans subserviced for others:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| Capitalized MSRs | $ 71,808 | $ 84,657 |
| Subserviced | 91,123 | 89,170 |
| Other owned servicing | 695 | 815 |
| Total | $ 163,626 | $ 174,642 |

MSRs recorded in the Condensed Consolidated Balance Sheets are related to the capitalized servicing portfolio and are created primarily through sales of originated loans on a servicing-retained basis or through the direct purchase of servicing from a third party.

### MSR Sale Agreements

While the Company has historically retained MSRs on its Balance sheet from the majority of its loan sales, the Company has announced its intention to sell its existing MSR assets in a series of transactions as part of the conclusions reached from the strategic review process. If the sales of substantially all of the MSRs are completed, the Company does not anticipate retaining a significant amount of capitalized MSRs in the future. The final proceeds the Company may receive from each MSR sale are dependent on the portfolio composition and market conditions at each transfer date and also dependent upon the extent to which consent is received from the GSEs, private loan investors, PLS clients and other origination sources.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the Company's MSRs and its commitments under sale agreements, based on the portfolio as of March 31, 2017:

| | March 31, 2017 | |
|---|---|---|
| | UPB | Fair Value |
| | (In millions) | |
| MSR commitments: | | |
| New Residential Investment Corp. | $66,993 | $ 554 |
| Lakeview Loan Servicing, LLC | 2,707 | 18 |
| Other counterparties | 49 | 1 |
| Non-committed | 2,059 | 23 |
| Total MSRs | $71,808 | $ 596 |

In addition, the Company has commitments to transfer approximately $285 million of Servicing advances to the counterparties of these agreements (based on the March 31, 2017 portfolio).

Lakeview/GNMA Portfolio. In November 2016, the Company entered into an agreement to sell substantially all of its Ginnie Mae ("GNMA") MSRs and related advances to Lakeview Loan Servicing, LLC ("Lakeview"). On February 2, 2017, the initial sale of GNMA MSRs under this agreement was completed, representing $10.2 billion of unpaid principal balance, $74 million of MSR fair value, and $11 million of Servicing advances with total expected proceeds of $85 million from the initial transfer. On May 2, 2017, an additional sale of GNMA MSRs was completed, representing $1 billion of unpaid principal balance, $7 million of MSR fair value, and $1 million of Servicing advances (as of March 31, 2017). The Company expects to receive proceeds of $8 million from this transfer.

New Residential. On December 28, 2016, the Company entered into an agreement to sell substantially all of its portfolio of MSRs and related advances, excluding the GNMA MSRs pending sale to Lakeview, to New Residential Mortgage LLC ("New Residential"), a wholly-owned subsidiary of New Residential Investment Corporation. The consummation of the transactions contemplated by this MSR sale agreement is subject to the approvals of PHH Corporation shareholders, the GSEs and private investors, as well as other customary closing requirements. Further, the sale of 29% of the MSRs underlying this agreement continues to be subject to the approval of clients who were the origination source of the MSRs. The agreement is also contingent upon the execution of a portfolio recapture and retention agreement with New Residential and other customary closing conditions.

In connection with this transfer, the Company entered into a subservicing agreement with New Residential, pursuant to which the Company would subservice the loans sold in this transaction for an initial period of three years, subject to certain transfer and termination provisions.

Other counterparties. The Company has agreements to sell a portion of its newly-created MSRs to third parties through flow-sale agreements, where it will have continuing involvement as a subservicer, as outlined in the preceding table. In addition, as of March 31, 2017, the Company had commitments to sell MSRs through third-party flow sales related to $4 million of the unpaid principal balance of Mortgage loans held for sale and Interest rate lock commitments that are expected to result in closed loans.

Mortgage Servicing Rights

Residential mortgage loans are sold through one of the following methods: (i) sales to or pursuant to programs sponsored by Fannie Mae, Freddie Mac and the Government National Mortgage Association (collectively, the

“Agencies”) or (ii) sales to private investors. The Company may have continuing involvement in mortgage loans sold by retaining MSRs and/or recourse obligations, as discussed further in Note 10, 'Commitments and Contingencies'.



---

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The activity in the loan servicing portfolio associated with capitalized mortgage servicing rights consisted of:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions) | |
| Balance, beginning of period | $84,657 | $98,990 |
| Additions | 926 | 1,353 |
| Payoffs and curtailments | (3,459 ) | (3,955 ) |
| Sales | (10,316 ) | (272 ) |
| Balance, end of period | $71,808 | $96,116 |

The activity in capitalized MSRs consisted of:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions) | |
| Balance, beginning of period | $690 | $880 |
| Additions | 11 | 13 |
| Sales | (76 ) | (2 ) |
| Changes in fair value due to: | | |
| Realization of expected cash flows | (27 ) | (26 ) |
| Changes in market inputs or assumptions used in the valuation model | (2 ) | (95 ) |
| Balance, end of period | $596 | $770 |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions) | |
| Servicing fees from capitalized portfolio | $ 54 | $ 70 |
| Late fees | 4 | 3 |
| Other ancillary servicing revenue [1] | (4 ) | 3 |

---

(1) For the three months ended March 31, 2017, Other ancillary servicing revenue includes transaction costs and other related expenses of the February 2017 Lakeview sale of GNMA MSRs.

As of March 31, 2017 and December 31, 2016, the MSRs had a weighted-average life of 6.3 years. See Note 11, 'Fair Value Measurements' for additional information regarding the valuation of MSRs.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions) | |
| Proceeds from new loan sales or securitizations | $950 | $1,396 |
| Servicing fees from capitalized portfolio [1] | 54 | 70 |
| Purchases of previously sold loans [2] | (8) | (128) |
| Servicing advances [3] | (389) | (452) |
| Repayment of servicing advances [3] | 418 | 478 |

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

(2) Includes purchases of repurchase eligible loans and excludes indemnification payments to investors and insurers of the related mortgage loans.

(3) Outstanding servicing advance receivables are presented in Servicing advances, net in the Condensed Consolidated Balance Sheets, except for advances related to loans in foreclosure or real estate owned, which are included in Other assets. Repayment of servicing advances includes the $11 million received for advances from Lakeview as part of the February 2017 sale of GNMA MSRs.

During the three months ended March 31, 2017 and 2016, pre-tax gains of $49 million and $43 million, respectively, related to the sale or securitization of residential mortgage loans were recognized in Gain on loans held for sale, net in the Condensed Consolidated Statements of Operations.

## 5. Derivatives

Derivative instruments and the risks they manage are as follows:

Forward delivery commitments — Related to interest rate and price risk for mortgage loans held for sale and interest rate lock commitments

Option contracts — Related to interest rate and price risk for mortgage loans held for sale and interest rate lock commitments

MSR-related agreements — Related to interest rate risk for mortgage servicing rights

Derivative instruments are recorded in Other assets and Other liabilities in the Condensed Consolidated Balance Sheets. The Company does not have any derivative instruments designated as hedging instruments.

In the fourth quarter of 2016, the Company significantly reduced its MSR-related derivative hedge coverage as a result of its MSR sale agreements that fix the prices the Company expects to realize at future transfer dates. A majority of the remaining MSR-related derivatives were settled in the first quarter of 2017. For further discussion of those agreements, and discussions of required shareholder approvals and other requirements that must be met to complete such sales, see Note 4, 'Servicing Activities'.

The following table summarizes the gross notional amount of derivatives:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| Interest rate lock commitments | $ 799 | $ 862 |
| Forward delivery commitments | 1,357 | 2,104 |
| Option contracts | 54 | 120 |
| MSR-related agreements | 235 | 260 |

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following tables present the balances of outstanding derivative instruments on a gross basis and the application of counterparty and collateral netting:

| | March 31, 2017 | | | |
|---|---|---|---|---|
| | Gross Assets | Offsetting Payables | Cash Collateral | Net Amount |
| | (In millions) | | | |
| ASSETS | | | | |
| Subject to master netting arrangements: | | | | |
| MSR-related agreements | $1 | $ (1 ) | $ — | $ — |
| Derivative assets subject to netting | 1 | (1 ) | — | — |
| Not subject to master netting arrangements: | | | | |
| Interest rate lock commitments | 17 | — | — | 17 |
| Derivative assets not subject to netting | 17 | — | — | 17 |
| Total derivative assets | $18 | $ (1 ) | $ — | $ 17 |

| | Gross Liabilities | Offsetting Receivables | Cash Collateral | Net Amount |
|---|---|---|---|---|
| LIABILITIES | | | | |
| Subject to master netting arrangements: | | | | |
| Forward delivery commitments | $ 3 | $ (1 ) | $ — | $ 2 |
| Total derivative liabilities | $ 3 | $ (1 ) | $ — | $ 2 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Gross Assets | Offsetting Payables | Cash Collateral Paid | Net Amount |
| | (In millions) | | | |
| ASSETS | | | | |
| Subject to master netting arrangements: | | | | |
| Forward delivery commitments | $13 | $ (43 ) | $ 31 | $ 1 |
| MSR-related agreements | 19 | (22 ) | 4 | 1 |
| Option contracts | 1 | (1 ) | — | — |
| Derivative assets subject to netting | 33 | (66 ) | 35 | 2 |
| Not subject to master netting arrangements: | | | | |
| Interest rate lock commitments | 18 | — | — | 18 |
| Forward delivery commitments | 1 | — | — | 1 |
| Derivative assets not subject to netting | 19 | — | — | 19 |
| Total derivative assets | $52 | $ (66 ) | $ 35 | $ 21 |

| | Gross Liabilities | Offsetting Receivables | Cash Collateral Received | Net Amount |
|---|---|---|---|---|
| LIABILITIES | | | | |
| Subject to master netting arrangements: | | | | |
| Forward delivery commitments | $ 4 | $ (10 ) | $ 11 | $ 5 |
| MSR-related agreements | 65 | (55 ) | 2 | 12 |
| Option Contracts | — | (1 ) | 2 | 1 |
| Derivative assets subject to netting | 69 | (66 ) | 15 | 18 |
| Total derivative liabilities | $ 69 | $ (66 ) | $ 15 | $ 18 |

17

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the gains (losses) recorded in the Condensed Consolidated Statements of Operations for derivative instruments:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions) | |
| Gain on loans held for sale, net: | | |
| Interest rate lock commitments | $ 49 | $ 77 |
| Forward delivery commitments | (2 ) | (21 ) |
| Option contracts | (1 ) | — |
| Net derivative gain related to mortgage servicing rights: | | |
| MSR-related agreements | — | 85 |

6. Other Assets

Other assets consisted of:

| | March 31, | December 31, |
|---|---|---|
| | 2017 | 2016 |
| | (In millions) | |
| Mortgage loans in foreclosure, net [1] | $ 19 | $ 21 |
| Derivatives | 17 | 21 |
| Real estate owned, net [2] | 15 | 16 |
| Income taxes receivable | 15 | 14 |
| Prepaid expenses | 11 | 11 |
| Equity method investments | 9 | 10 |
| Repurchase eligible loans [3] | 4 | 13 |
| Other | 2 | 3 |
| Total | $ 92 | $ 109 |

(1) As of March 31, 2017 and December 31, 2016, Mortgage loans in foreclosure is net of Allowance for probable foreclosure losses of $9 million and $10 million, respectively.

(2) As of March 31, 2017 and December 31, 2016, Real estate owned is net of Adjustment to value for real estate owned of $15 million and $14 million, respectively.

(3) Repurchase eligible loans represent certain mortgage loans sold pursuant to Government National Mortgage Association programs where the Company, as servicer, has the unilateral option to repurchase the loan if certain criteria are met, including if a loan is greater than 90 days delinquent and where it has been determined that there is more than a trivial benefit from exercising the repurchase option. Regardless of whether the repurchase option has been exercised, the Company must recognize eligible loans within Other assets and a corresponding repurchase liability within Accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 7. Other Liabilities

Other liabilities consisted of:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| Legal and regulatory matters (Note 10) | $ 121 | $ 114 |
| Pension and other post-employment benefits | 11 | 11 |
| Income tax contingencies | 8 | 8 |
| Derivatives | 2 | 18 |
| Other | 7 | 6 |
| Total | $ 149 | $ 157 |

## 8. Debt and Borrowing Arrangements

The following table summarizes the components of Debt:

| | March 31, 2017 | | | December 31, 2016 |
|---|---|---|---|---|
| | Balance | Interest Rate[1] | Available Capacity[2] | Balance |
| | (In millions) | | | |
| Committed warehouse facilities | $ 369 | 3.1 % | $ 381 | $ 556 |
| Uncommitted warehouse facilities | 6 | 1.8 % | 2,094 | — |
| Servicing advance facility | 100 | 2.9 % | 55 | 99 |
| | | | | |
| Term notes due in 2019 | 275 | 7.375 % | n/a | 275 |
| Term notes due in 2021 | 340 | 6.375 % | n/a | 340 |
| Unsecured credit facilities | — | — | 3 | — |
| Unsecured debt, face value | 615 | | | 615 |
| Debt issuance costs | (7 ) | | | (8 ) |
| Unsecured debt, net | 608 | | | 607 |
| Total | $ 1,083 | | | $ 1,262 |

______________

(1) Interest rate shown represents the stated interest rate of outstanding borrowings, which may differ from the effective rate due to the amortization of premiums, discounts and issuance costs. Warehouse facilities and the servicing advance facility are variable-rate. Rate shown for warehouse facilities represents the weighted-average rate of current outstanding borrowings.

(2) Capacity is dependent upon maintaining compliance with, or obtaining waivers of, the terms, conditions and covenants of the respective agreements, including asset-eligibility requirements.

Assets held as collateral that are not available to pay the Company’s general obligations as of March 31, 2017 consisted of:

| | Warehouse Facilities | Servicing Advance Facility |
|---|---|---|
| | (In millions) | |

| | | |
|---|---|---|
| Restricted cash | $ 9 | $ 22 |
| Servicing advances | — | 140 |
| Mortgage loans held for sale (unpaid principal balance) | 384 | — |
| Total | $ 393 | $ 162 |

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the contractual debt maturities as of March 31, 2017:

| | Warehouse Facilities | Servicing Advance Facility[1] | Unsecured Debt | Total |
|---|---|---|---|---|
| | (In millions) | | | |
| Within one year | $375 | $ 100 | $ — | $475 |
| Between one and two years | — | — | — | — |
| Between two and three years | — | — | 275 | 275 |
| Between three and four years | — | — | — | — |
| Between four and five years | — | — | 340 | 340 |
| Thereafter | — | — | — | — |
| | $375 | $ 100 | $ 615 | $1,090 |

(1) Maturities of the servicing advance facility represent estimated payments based on the expected cash inflows of the receivables.

See Note 11, 'Fair Value Measurements' for the measurement of the fair value of Debt.

Mortgage Warehouse Facilities

Beginning in 2016, the Company entered into shorter term committed repurchase facilities with certain of its lenders to allow both the Company and the lender to evaluate facility needs and agreement terms following the conclusion of the Company's strategic review process. Upon expiration of these existing agreements, the Company expects to negotiate terms for repurchase facility commitments to meet its forecasted capacity needs and negotiate terms for covenants or conditions precedent to borrowing to support its intended strategic and capital actions.

On March 27, 2017, the committed mortgage repurchase facility of $100 million and the uncommitted mortgage repurchase facility of $100 million with Barclays Bank PLC were extended to July 31, 2017.

On March 31, 2017, the committed mortgage repurchase facilities of $450 million with Wells Fargo Bank were extended to June 30, 2017.

On March 31, 2017, the committed mortgage repurchase facility of $150 million with Fannie Mae expired and was not renewed at the Company's request, and the uncommitted mortgage repurchase facility was increased to $2.0 billion. On April 30, 2017, the uncommitted mortgage repurchase facility was reduced by $1.8 billion to $200 million, at the Company's request.

On March 31, 2017, the committed repurchase facility with Bank of America was reduced by $150 million to $200 million at the Company's request, and the facility was extended to June 30, 2017.

Debt Covenants

In the first quarter of 2017, financial covenants in certain of the Company's mortgage repurchase facility agreements have been modified to reduce the minimum tangible net worth covenants to $600 million from $750 million. There were no other significant amendments to the terms of the debt covenants during the three months ended March 31, 2017.

The Company was in compliance with all financial covenants related to its debt arrangements for the first quarter of 2017.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. Income Taxes

For the three months ended March 31, 2017, interim income tax benefit was recorded by applying a projected full-year effective income tax rate to the quarterly Loss before income taxes for results that are deemed to be reliably estimable. Certain items are considered not to be reliably estimable, and therefore, discrete year-to-date income tax provisions are recorded on those items. The resulting effective tax rate for the three months ended March 31, 2017 was (32.0)%. The difference between the Company’s effective tax rate and the statutory 35% rate was primarily due to:

(i) state and local income taxes determined by the mix of income or loss from the operations by entity and state income tax jurisdiction;
(ii) a net increase in the valuation allowance driven by federal and state tax losses generated and non net operating loss deferred tax assets for which state and federal valuation allowance is warranted; and
(iii) tax benefits related to Net loss attributable to noncontrolling interests for which no taxes are provided.

For the three months ended March 31, 2016, interim income tax benefit was recorded by applying a projected full-year effective income tax rate to the quarterly Loss before income taxes for results that are deemed to be reliably estimable. Certain results dependent on fair value adjustments of the Company are considered not to be reliably estimable, and therefore, discrete year-to-date income tax provisions are recorded on those results. The resulting effective tax rates for the three months ended March 31, 2016 was (38.1)%. The difference between the Company’s effective tax rate and the statutory 35% rate was primarily due to state and local income taxes determined by the mix of income or loss from the operations by entity and state income tax jurisdiction.

10. Commitments and Contingencies

Legal and Regulatory Matters

The Company and its subsidiaries are routinely, and currently, defendants in various legal proceedings that arise in the ordinary course of PHH's business, including class actions and other private and civil litigation. These proceedings are generally based on alleged violations of consumer protection laws (including the Real Estate Settlement Procedures Act ("RESPA")), employment laws and contractual obligations. Similar to other mortgage loan originators and servicers, the Company and its subsidiaries are also routinely, and currently, subject to government and regulatory examinations, investigations and inquiries or other requests for information. The resolution of these various legal and regulatory matters may result in adverse judgments, fines, penalties, injunctions and other relief against the Company as well as monetary payments or other agreements and obligations. In particular, legal proceedings brought under RESPA and other federal or state consumer protection laws that are ongoing, or may arise from time to time, may include the award of treble and other damages substantially in excess of actual losses, attorneys' fees, costs and disbursements, and other consumer and injunctive relief. These proceedings and matters are at varying procedural stages and the Company may engage in settlement discussions on certain matters in order to avoid the additional costs of engaging in litigation.

The outcome of legal and regulatory matters is difficult to predict or estimate and the ultimate time to resolve these matters may be protracted. In addition, the outcome of any legal proceeding or governmental and regulatory matter may affect the outcome of other pending legal proceedings or governmental and regulatory matters.

A liability is established for legal and regulatory contingencies 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, legal

proceedings and other governmental and regulatory matters, it is not always possible to determine a reasonable estimate of the amount of a probable loss, and the Company 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, the Company's estimates may change from time to time and such changes may be material to the consolidated financial results.

As of March 31, 2017, the Company's recorded liability associated with legal and regulatory contingencies was $121 million and is presented in Other liabilities in the Condensed Consolidated Balance Sheets. Given the inherent uncertainties and status of the Company's outstanding legal proceedings, the range of reasonably possible losses cannot be estimated for all matters. For matters where the Company can estimate the range, the Company believes reasonably possible losses in excess of the recorded liability are not significant as of March 31, 2017.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

There can be no assurance that the ultimate resolution of these matters will not result in losses in excess of the Company's recorded liability, or in excess of the estimate of reasonably possible losses. As a result, the ultimate resolution of any particular legal matter, or matters, could be material to the Company's results of operations or cash flows for the period in which such matter is resolved.

The following are descriptions of the Company's significant legal and regulatory matters.

CFPB Enforcement Action. In January 2014, the Bureau of Consumer Financial Protection (the "CFPB") initiated an administrative proceeding alleging that the Company's reinsurance activities, including its mortgage insurance premium ceding practices, have violated certain provisions of RESPA and other laws enforced by the CFPB. Through its reinsurance subsidiaries, the Company assumed risk in exchange for premiums ceded from primary mortgage insurance companies.

In June 2015, the Director of the CFPB issued a final order requiring the Company to pay $109 million, based upon the gross reinsurance premiums the Company received on or after July 21, 2008. Subsequently, the Company filed an appeal to the United States Court of Appeals for the District of Columbia Circuit (the "Court of Appeals").

In October 2016, the Court of Appeals issued its decision, vacating the decision of the Director of the CFPB, and finding in favor of the Company's arguments, among others, around the correct interpretations of Section 8 of RESPA, the applicability of prior HUD interpretations around captive re-insurance and the applicability of statute of limitations to administrative enforcement proceedings at the CFPB. The Court of Appeals remanded the case to the CFPB to determine the Company's compliance with provisions of RESPA specific to whether any mortgage insurers paid more than reasonable market value to the Company for reinsurance. The Company continues to believe that it has complied with RESPA and other laws applicable to its former mortgage reinsurance activities.
In February 2017, the Court of Appeals granted the CFPB's request to rehear the case en banc. Arguments in the appeal are currently scheduled for May 2017.
Given the nature of this matter and the current status, the Company cannot estimate the amount of possible loss, or a range of possible losses, if any, in connection with this matter.

MMC Examination. The Company has undergone a regulatory examination by a multistate coalition of certain mortgage banking regulators (the "MMC"), and such regulators have alleged various violations of federal and state consumer protection and other laws related to the Company's legacy mortgage servicing practices. In July 2015, the Company received a settlement proposal from the MMC, proposing payments to certain borrowers nationwide where foreclosure proceedings were either referred to a foreclosure attorney or completed during 2009 through 2012, as well as other consumer relief and administrative penalties. In addition, the proposal would require that the Company comply with national servicing standards, submit its servicing activities to monitoring for compliance, and other injunctive relief. The Company continues to engage in substantive discussions with the MMC regarding the proposal. The Company believes it has meritorious explanations and defenses to the findings.

In the fourth quarter of 2016, the Company entered into a consent order and paid a civil monetary penalty with the New York Department of Financial Services to close out New York's pending examination report findings, including New York findings stemming from the MMC examination.

As of March 31, 2017, the Company included an estimate of probable losses in connection with the MMC matter in the recorded liability.

HUD Subpoenas. The Company has received document subpoenas from the Office of Inspector General of the U.S. Department of Housing and Urban Development ("HUD") requesting production of certain documents related to, among other things, the Company's origination and underwriting process for loans insured by the Federal Housing Administration ("FHA") during the period between January 1, 2006 and December 31, 2011. As part of the investigation, HUD has also requested documents related to a small sample of loans originated during this period. This investigation could lead to a demand or claim under the False Claims Act, which allows for civil penalties and treble damages substantially in excess of actual losses. Several large mortgage originators that participate in FHA lending programs have been subject to similar investigations, which have resulted in settlement agreements that included the payment of substantial fines and penalties. The Company has been cooperating in this investigation since its receipt of the subpoenas in 2013, and certain current and former employees of the Company have been deposed in connection with this matter.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In March and April 2017, the Company engaged in substantive settlement discussions with the government towards resolving this matter. In May 2017, the Company received proposed settlement documentation from the government, and the Company is engaged in discussions concerning that proposal. As of March 31, 2017, the Company included an estimate of probable losses in connection with this matter in the recorded liability.

Lender-Placed Insurance. The Company is currently subject to pending litigation alleging that its servicing practices around lender-placed insurance were not in compliance with applicable laws. Through its mortgage subsidiary, the Company did have certain outsourcing arrangements for the purchase of lender-placed hazard insurance for borrowers whose coverage had lapsed. The Company believes that it has meritorious defenses to these allegations; however, in January 2017, the Company entered into an agreement to settle outstanding litigation relating to this matter. The settlement is subject to court approval. The Company's recorded estimate of probable losses as of March 31, 2017 for this matter was not materially different than the losses it expects to incur in connection with the resolution.

Other Subpoenas and Investigations. The Company has received document subpoenas from the U.S. Attorney's Offices for the Southern and Eastern Districts of New York. The subpoenas requested production of certain documents related to, among other things: (i) foreclosure expenses that the Company incurred in connection with the foreclosure of loans insured or guaranteed by FHA, Fannie Mae or Freddie Mac and (ii) the origination and underwriting of loans sold pursuant to programs sponsored by Fannie Mae, Freddie Mac or Ginnie Mae. In July 2016, the U.S. Attorney's Office for the Eastern District of New York requested production of additional documents responsive to the subpoenas. There can be no assurance that claims or litigation will not arise from these inquiries, or that fines and penalties, as well as other consumer or injunctive relief, will not be incurred in connection with any of these matters.

In addition, in October 2014, the Company received a document subpoena from the Office of the Inspector General of the Federal Housing Financing Agency (the "FHFA") requesting production of certain documents related to, among other things, its origination, underwriting and quality control processes for loans sold to Fannie Mae and Freddie Mac. While the FHFA, as regulator and conservator for Fannie Mae and Freddie Mac, does not have regulatory authority over the Company or its subsidiaries, there can be no assurance that Fannie Mae and/or Freddie Mac will not assert additional claims as a result of this inquiry.

Repurchase and Foreclosure-Related Reserves

Repurchase and foreclosure-related reserves are maintained for probable losses related to repurchase and indemnification obligations and for on-balance sheet loans in foreclosure and real estate owned. A summary of the activity in repurchase and foreclosure-related reserves is as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions) | |
| Balance, beginning of period | $ 73 | $ 89 |
| Realized losses | (6 ) | (6 ) |
| (Decrease) increase in reserves due to: | | |
| Changes in assumptions | (1 ) | (2 ) |
| New loan sales | 1 | 2 |
| Balance, end of period | $ 67 | $ 83 |

Repurchase and foreclosure-related reserves consist of the following:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| Loan repurchase and indemnification liability | $ 43 | $ 49 |
| Adjustment to value for real estate owned | 15 | 14 |
| Allowance for probable foreclosure losses | 9 | 10 |
| Total | $ 67 | $ 73 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Loan Repurchases and Indemnifications. The liability for loan repurchases and indemnifications represents management's estimate of probable losses based on the best information available and requires the application of a significant level of judgment and the use of a number of assumptions including borrower performance, investor demand patterns, expected relief from the expiration of repurchase obligations, the expected success rate in defending against requests and estimated loss severities (adjusted for home price forecasts).

In December 2016, the Company executed resolution agreements and paid Fannie Mae and Freddie Mac to resolve substantially all representation and warranty exposure related to the sale of mortgage loans that were originated and delivered prior to September 30, 2016 and November 30, 2016, respectively. The Company's remaining exposure to repurchase and indemnification claims consists primarily of estimates for claims from private investors, losses for specific non-performing loans where the Company believes it will be required to indemnify the investor and losses from government mortgage insurance programs. Given the inherent uncertainties involved in estimating losses associated with future repurchase and indemnification requests, there is a reasonable possibility that future losses may be in excess of the recorded liability. As of March 31, 2017, the estimated amount of reasonably possible losses in excess of the recorded liability was $20 million.

The maximum amount of losses cannot be estimated because the Company does not service all of the loans for which it has provided representations or warranties. As of March 31, 2017, $65 million of loans have been identified in which the Company has full risk of loss or has identified a breach of representation and warranty provisions; 21% of which were at least 90 days delinquent (calculated based upon the unpaid principal balance of the loans).

Off-Balance Sheet Arrangements and Guarantees

Lease Arrangements. On February 8, 2017, the Company entered into an assignment with LenderLive Network, LLC ("LenderLive") of its Jacksonville, Florida facility lease. Under the terms of the original facility lease, PHH remains jointly and severally obligated with LenderLive for performance under the lease agreement. As of March 31, 2017, the total amount of potential future lease payments under this guarantee is $15 million; however, the Company does not believe any amount of loss under this guarantee is probable.

## 11. Fair Value Measurements

The Company updates the valuation of each instrument recorded at fair value on a quarterly basis, evaluating all available observable information, which may include current market prices or bids, recent trade activity, changes in the levels of market activity and benchmarking of industry data. The assessment also includes consideration of identifying the valuation approach that would be used currently by market participants. If it is determined that a change in valuation technique or its application is appropriate, or if there are other changes in availability of observable data or market activity, the current methodology will be analyzed to determine if a transfer between levels of the valuation hierarchy is appropriate. Such reclassifications are reported as transfers into or out of a level as of the beginning of the quarter that the change occurs. There has been no change in the valuation methodologies and classification pursuant to the valuation hierarchy during the three months ended March 31, 2017.

The incorporation of counterparty credit risk did not have a significant impact on the valuation of assets and liabilities recorded at fair value as of March 31, 2017 or December 31, 2016.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Recurring Fair Value Measurements

The following summarizes the fair value hierarchy for instruments measured at fair value on a recurring basis:

| | March 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Level One | Level Two | Level Three | Cash Collateral and Netting | Total |
| | (In millions) | | | | |
| ASSETS | | | | | |
| Mortgage loans held for sale | $ — | $ 439 | $ 32 | $ — | $ 471 |
| Mortgage servicing rights | — | — | 596 | — | 596 |
| Other assets—Derivative assets: | | | | | |
| Interest rate lock commitments | — | — | 17 | — | 17 |
| MSR-related agreements | — | 1 | — | (1) | — |
| LIABILITIES | | | | | |
| Other liabilities—Derivative liabilities: | | | | | |
| Forward delivery commitments | $ — | $ 3 | $ — | $ (1) | $ 2 |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Level One | Level Two | Level Three | Cash Collateral and Netting | Total |
| | (In millions) | | | | |
| ASSETS | | | | | |
| Mortgage loans held for sale | $ — | $ 636 | $ 47 | $ — | $ 683 |
| Mortgage servicing rights | — | — | 690 | — | 690 |
| Other assets—Derivative assets: | | | | | |
| Interest rate lock commitments | — | — | 18 | — | 18 |
| Forward delivery commitments | — | 14 | — | (12) | 2 |
| MSR-related agreements | — | 19 | — | (18) | 1 |
| Option contracts | — | 1 | — | (1) | — |
| LIABILITIES | | | | | |
| Other liabilities—Derivative liabilities: | | | | | |
| Forward delivery commitments | $ — | $ 4 | $ — | $ 1 | $ 5 |
| MSR-related agreements | — | 65 | — | (53) | 12 |
| Option contracts | — | — | — | 1 | 1 |

Significant inputs to the measurement of fair value and further information on the assets and liabilities measured at fair value are as follows:

Mortgage Loans Held for Sale ("MLHS"). The Company has elected to record MLHS at fair value which is intended to better reflect the underlying economics and eliminate the operational complexities of risk management activities and hedge accounting requirements. The following table reflects the difference between the carrying amounts of MLHS measured at fair value and the aggregate unpaid principal amount that the Company is contractually entitled to receive at maturity:

| March 31, 2017 | | December 31, 2016 | |
|---|---|---|---|
| Total | Loans 90 days or | Total | Loans 90 days or |

| | | more past due and on non-accrual status | | more past due and on non-accrual status |
|---|---|---|---|---|
| | (In millions) | | | |
| Carrying amount | $471 | $ 7 | $ 683 | $ 7 |
| Aggregate unpaid principal balance | 471 | 10 | 687 | 10 |
| Difference | $— | $ (3 ) | $ (4 ) | $ (3 ) |

25

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the components of MLHS:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| | (In millions) | |
| First mortgages: | | |
| Conforming | $ 383 | $ 531 |
| Non-conforming | 56 | 105 |
| Total first mortgages | 439 | 636 |
| Second lien | 3 | 3 |
| Scratch and Dent | 29 | 44 |
| Total | $ 471 | $ 683 |

Mortgage Servicing Rights. The fair value of MSRs is estimated based upon projections of expected future cash flows considering prepayment estimates, the Company’s historical prepayment rates, portfolio characteristics, interest rates based on interest rate yield curves, implied volatility and other economic factors. On a quarterly basis, assumptions used in estimating fair value are validated against a number of third-party sources, which may include peer surveys, MSR broker surveys, third-party valuations and other market-based sources. The March 31, 2017 determination of fair value includes calibration of our valuation model considering the pricing associated with the MSR agreements executed in the fourth quarter of 2016. See Note 4, 'Servicing Activities' for further discussion of the MSR sale commitments.

The following tables summarize certain information regarding the initial and ending capitalization rate of MSRs:

| | Three Months Ended March 31, 2017 | 2016 |
|---|---|---|
| Initial capitalization rate of additions to MSRs | 1.17% | 0.99% |

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Capitalization servicing rate | 0.83 % | 0.82 % |
| Capitalization servicing multiple | 3.0 | 2.9 |
| Weighted-average servicing fee (in basis points) | 28 | 28 |

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

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Weighted-average prepayment speed (CPR) | 9.0 % | 9.2 % |
| Option adjusted spread, in basis points (OAS) | 1,215 | 1,430 |
| Weighted-average delinquency rate | 4.0 % | 5.1 % |

The following table summarizes the estimated change in the fair value of MSRs from adverse changes in the significant assumptions:

| | March 31, 2017 | | |
|---|---|---|---|
| | Weighted-Average Prepayment | Option Adjusted Spread | Weighted-Average Delinquency |

| | Speed | | Rate |
|---|---|---|---|
| | (In millions) | | |
| Impact on fair value of 10% adverse change | $(19) | $ (28 ) | $ (10 ) |
| Impact on fair value of 20% adverse change | (36 ) | (53 ) | (21 ) |

These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, this analysis does not assume any impact resulting from management's intervention to mitigate these variations.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The effect of a variation in a particular assumption is calculated without changing any other assumption, and the assumptions used in valuing the MSRs are independently aggregated. Although there are certain inter-relationships among the various key assumptions noted above, changes in one of the significant assumptions would not independently drive changes in the others. The modeled prepayment speed assumptions are highly dependent upon interest rates, which drive borrowers' propensity to refinance; however, there are other factors that can influence borrower refinance activity. These factors include housing prices, the levels of home equity, underwriting standards and loan product characteristics. The OAS is a component of the discount rate used to present value the cash flows of the MSR asset and represents the spread over a base interest rate that equates the present value of cash flows of an asset to the market price of that asset. The weighted average delinquency rate is based on the current and projected credit characteristics of the capitalized servicing portfolio and is dependent on economic conditions, home equity and delinquency and default patterns.

Derivative Instruments. Derivative instruments are classified within Level Two and Level Three of the valuation hierarchy. The average pullthrough percentage used in measuring the fair value of interest rate lock commitments (IRLCs) as of March 31, 2017 and December 31, 2016 was 79% and 77%, respectively. The pullthrough percentage is considered a significant unobservable input and is estimated based on changes in pricing and actual borrower behavior using a historical analysis of loan closing and fallout data. Actual loan pullthrough is compared to the modeled estimates in order to evaluate this assumption each period based on current trends. Generally, a change in interest rates is accompanied by a directionally opposite change in the assumption used for the pullthrough percentage, and the impact to fair value of a change in pullthrough would be partially offset by the related change in price.

Level Three Measurements

Activity of assets and liabilities classified within Level Three of the valuation hierarchy consisted of:

| | Three Months Ended March 31, 2017 | | | Three Months Ended March 31, 2016 | | |
|---|---|---|---|---|---|---|
| | MLHS | MSRs | IRLCs, net | MLHS | MSRs | IRLCs, net |
| | (In millions) | | | | | |
| Balance, beginning of period | $47 | $690 | $ 18 | $39 | $880 | $ 21 |
| Purchases, Issuances, Sales and Settlements: | | | | | | |
| Purchases | 2 | — | — | 5 | — | — |
| Issuances | 1 | 11 | — | 1 | 13 | — |
| Sales | (16 ) | (76 ) | — | (8 ) | — | — |
| Settlements | (3 ) | — | (50 ) | (1 ) | (2 ) | (70 ) |
| | (16 ) | (65 ) | (50 ) | (3 ) | 11 | (70 ) |
| Realized and unrealized gains (losses) included in: | | | | | | |
| Gain on loans held for sale, net | — | — | 49 | — | — | 77 |
| Change in fair value of MSRs | — | (29 ) | — | — | (121 ) | — |
| Interest income | 1 | — | — | 1 | — | — |
| | 1 | (29 ) | 49 | 1 | (121 ) | 77 |
| Transfers into Level Three | 5 | — | — | 11 | — | — |
| Transfers out of Level Three | (5 ) | — | — | (7 ) | — | — |
| Balance, end of period | $32 | $596 | $ 17 | $41 | $770 | $ 28 |

Transfers into Level Three generally represent mortgage loans held for sale with performance issues, origination flaws, or other characteristics that impact their salability in active secondary market transactions.  Transfers out of Level Three represent Scratch and Dent loans that were foreclosed upon and loans that have been cured.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (In millions) | |
| Gain on loans held for sale, net | $ 15 | $ 25 |
| Change in fair value of mortgage servicing rights | (2 ) | (95 ) |

Fair Value of Other Financial Instruments

As of March 31, 2017 and December 31, 2016, all financial instruments were either recorded at fair value or the carrying value approximated fair value, with the exception of Debt. For financial instruments that were not recorded at fair value, such as Cash and cash equivalents, Restricted cash, Accounts receivable and Servicing advance receivables, the carrying value approximates fair value due to the short-term nature of such instruments.

Debt. The total fair value of Debt as of March 31, 2017 and December 31, 2016 was $1.1 billion and $1.3 billion, respectively, and is measured using Level Two inputs. As of March 31, 2017, the fair value was estimated using the following valuation techniques: (i) $636 million was measured using a market based approach, considering the current market pricing of recent trades for the Company's debt instruments; and (ii) $475 million was measured using observable spreads and terms for recent pricing of similar instruments.

12. Variable Interest Entities

Assets and liabilities of significant variable interest entities are included in the Condensed Consolidated Balance Sheets as follows:

| | March 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | PHH Home Loans | Servicing Advance Receivables Trust | PHH Home Loans | Servicing Advance Receivables Trust |
| | (In millions) | | | |
| ASSETS | | | | |
| Cash | $ 70 | $ — | $ 67 | $ — |
| Restricted cash | 6 | 22 | 5 | 19 |
| Mortgage loans held for sale | 254 | — | 350 | — |
| Accounts receivable, net | 7 | — | 9 | — |
| Servicing advances, net | — | 140 | — | 150 |
| Property and equipment, net | 1 | — | 1 | — |
| Other assets | 13 | — | 11 | 1 |
| Total assets | $ 351 | $ 162 | $ 443 | $ 170 |
| Assets held as collateral | $ 228 | $ 162 | $ 320 | $ 169 |

| LIABILITIES | | | | |
|---|---|---|---|---|
| Accounts payable and accrued expenses | $13 | $ — | $ 11 | $ — |
| Debt | 216 | 100 | 300 | 99 |
| Other liabilities | 5 | — | 5 | — |
| Total liabilities [1] | $234 | $ 100 | $ 316 | $ 99 |

---

[1] Excludes intercompany payables.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In February 2017, the Company announced it has entered into agreements to sell certain assets of PHH Home Loans and its subsidiaries, including its mortgage origination and processing centers and the majority of its employees. PHH Home Loans is a joint venture between the Company and Realogy Corporation, which provides mortgage origination services for brokers associated with brokerages owned or franchised by Realogy Corporation, and represented substantially all of our Real Estate channel, and 20% of the Company's total mortgage production volume (based on dollars) for the three months ended March 31, 2017.

The execution of these transactions is subject to closing conditions as set forth in the agreements, including PHH shareholder approval, the execution of a portion of the New Residential MSR sales, the receipt of agency approvals and the acceptance by a specified percentage of PHH Home Loans employees (including loan originators) of employment offers from the buyer, among other conditions. After the completion of these transactions, the Company would no longer operate through its Real Estate channel.

Agreements related to these intended transactions include:

Asset sale transactions. On February 15, 2017, the Company entered into an agreement to sell certain assets of our PHH Home Loans joint venture to Guaranteed Rate Affinity, LLC, which is a newly formed joint venture formed by subsidiaries of Realogy Holdings Corp. and Guaranteed Rate, Inc.

JV Interests Purchase. In connection with the asset sale agreements, PHH entered into an agreement to purchase Realogy's 49.9% ownership interests in the PHH Home Loans joint venture, for an amount equal to their interest in the residual equity of PHH Home Loans after the final closing of the Asset sale transactions.

At the completion of the above described transactions, the Company expects to receive or pay amounts to resolve the remaining assets and liabilities of the PHH Home Loans legal entity. If consummated, the Company would expect to close this transaction by the end of 2017 and estimates that it will receive proceeds of $92 million in connection with these transactions.

In connection with this transaction, the Company recognized $2 million of Exit and disposal costs for PHH Home Loans within the Reorganization exit program. Refer to Note 2, 'Exit Costs' for additional information regarding the Reorganization exit program.

## 13. Segment Information

Operations are conducted through the following two reportable segments:

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

Mortgage Servicing — performs servicing activities for loans originated by the Company and mortgage servicing rights purchased from others, and acts as a subservicer for certain clients that own the underlying mortgage servicing rights.

The Company's operations are located in the U.S. The heading Other includes expenses that are not allocated back to the two reportable segments. Management evaluates the operating results of each of the reportable segments based upon Net revenues and Segment profit or loss, which is presented as the Income or loss before income tax expense or benefit and after Net income or loss attributable to noncontrolling interest. The Mortgage Production segment profit or loss excludes Realogy's noncontrolling interest in the profit or loss of PHH Home Loans.

29

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Segment results were as follows:

| | Total Assets | |
|---|---|---|
| | March 31, 2017 | December 31, 2016 |
| | (In millions) | |
| Mortgage Production segment | $ 701 | $ 913 |
| Mortgage Servicing segment | 1,283 | |