

PHH CORP  
Form 10-Q  
August 03, 2018  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
o 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	08054
MT. LAUREL, NEW JERSEY	(Zip Code)
(Address of principal executive offices)	

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  No

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  No

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

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

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.

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

As of August 1, 2018, 32,581,228 shares of PHH Common stock were outstanding.

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Except as expressly indicated or unless the context otherwise requires, the “Company,” “PHH,” “we,” “our” or “us” means PHH 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 strategic actions, their outcomes or the timing of any such actions, including our proposed Merger with Ocwen Financial Corporation (“Ocwen”), our estimates of transaction proceeds, operating losses and exit costs, the amount, timing 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 projected financial results and expected capital structure for the remaining business after executing our strategic actions based on our assessment of the market for subservicing and portfolio retention services, our business strategy, our competitive position and our ability to execute;

the method, amounts and timing of any capital returns to shareholders;

the potential results of our subservicing business development efforts and actions to improve portfolio retention results;

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, other contingencies and reserves, and the associated impact on our financial statements and liquidity position; 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 I—Item 1A. Risk Factors” in our 2017 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 our remaining strategic actions and implement changes to meet our operational and financial objectives, including (i) restructuring our shared services platform; (ii) achieving our growth objectives and assumptions and (iii) meeting all of the closing conditions and completing our proposed Merger with Ocwen;

any failure to execute any portion of the sales of private MSR 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 private loan investor, trustees and/or client (originations source) approvals; (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;

available excess cash from our strategic actions is dependent upon a variety of factors, including the execution of the sale of our private MSR, 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;  
the effects of any significant reduction in subservicing units, whether by termination of our subservicing agreements or by transfers of units out of our portfolio, by any of our largest subservicing clients on a material portion of our subservicing portfolio;

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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 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 U.S. financial conditions 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, our ability to operationalize changes necessary to comply with updates to such guides and programs and our ability to maintain the required minimum capital;

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 until the complete exit from this business channel;

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 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.

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

PHH CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions, except share data)

	June 30, December 31,	
	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$453	\$ 509
Restricted cash	41	33
Mortgage loans held for sale	55	103
Accounts receivable, net	58	73
Servicing advances, net	302	356
Mortgage servicing rights	483	476
Property and equipment, net	18	22
Other assets	28	25
Assets related to discontinued operations (Note 8)	4	214
Total assets <sup>(1)</sup>	\$1,442	\$ 1,811
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$67	\$ 98
Subservicing advance liabilities	194	232
Mortgage servicing rights secured liability	437	419
Mortgage warehouse and advance facilities	59	117
Unsecured debt, net	118	118
Loan repurchase and indemnification liability	27	29
Other liabilities	42	46
Liabilities related to discontinued operations (Note 8)	9	199
Total liabilities <sup>(1)</sup>	953	1,258
Commitments and contingencies (Note 11)		
<b>EQUITY</b>		
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; 32,577,256 shares issued and outstanding at June 30, 2018; 32,547,258 shares issued and outstanding at December 31, 2017	—	—
Additional paid-in capital	566	565
Retained deficit	(68	) (3
Accumulated other comprehensive loss <sup>(2)</sup>	(9	) (9
Total PHH Corporation stockholders' equity	489	553
Total liabilities and equity	\$1,442	\$ 1,811

See accompanying Notes to Condensed Consolidated Financial Statements.

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## CONDENSED CONSOLIDATED BALANCE SHEETS-(Continued)

(Unaudited)

(In millions)

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 (1)holders do not have recourse to PHH Corporation and subsidiaries. Refer to Note 12, 'Variable Interest Entities' for information about PHH Home Loans, LLC, whose assets and liabilities are part of the Company's discontinued operations, and as of June 30, 2018 is no longer a variable interest entity. The following assets and liabilities relate solely to risks associated with the Company's ongoing involvement in Servicing Advance Receivables Trust:

	June 30, December 31,	
	2018	2017
<b>ASSETS</b>		
Restricted cash	\$ 10	\$ 10
Servicing advances, net	46	56

The selling stockholders and any underwriters, broker-dealers or agents that participate in the sale of the common stock or interests therein may be “underwriters” within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Selling stockholders who are “underwriters” within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act.

To the extent required, the shares of our common stock to be sold, the names of the selling stockholders, the respective purchase prices and public offering prices, the names of any agents, dealer or underwriter, any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

In order to comply with the securities laws of some states, if applicable, the common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the common stock may not be sold unless it has been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

We have advised the selling stockholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliates. In addition, to the extent applicable we will make copies of this prospectus (as it may be supplemented or amended from time to time) available to the selling stockholders for the purpose of satisfying the prospectus delivery requirements of the Securities Act. The selling stockholders may indemnify any broker-dealer that participates in transactions involving the sale of the shares against certain liabilities, including liabilities arising under the Securities Act.

We have agreed to indemnify the selling stockholders against liabilities, including liabilities under the Securities Act and state securities laws, relating to the registration of the shares offered by this prospectus.

We have agreed with the selling stockholders to keep the registration statement of which this prospectus constitutes a part effective until the earlier of (1) such time as all of the shares covered by this prospectus have been disposed of pursuant to and in accordance with the registration statement or pursuant to Rule 144 of the Securities Act or (2) the date on which all of the shares may be sold without restriction pursuant to Rule 144 of the Securities Act.

#### LEGAL MATTERS

Cooley LLP will pass upon the validity of the securities offered by this prospectus.

#### EXPERTS

The financial statements incorporated in this prospectus by reference from our Annual Report on Form 10-K have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference. Such financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

#### WHERE YOU CAN FIND ADDITIONAL INFORMATION

This prospectus is part of the registration statement on Form S-3 we filed with the SEC under the Securities Act and does not contain all the information set forth in the registration statement. Whenever a reference is made in this prospectus to any of our contracts, agreements or other documents, the reference may not be complete and you should refer to the exhibits that are a part of the registration statement or the exhibits to the reports or other documents incorporated by reference into this prospectus for a copy of such contract, agreement or other document. Because we are subject to the information and reporting requirements of the Exchange Act, we file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>.

## INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to incorporate by reference information from other documents that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus. Information in this prospectus supersedes information incorporated by reference that we filed with the SEC prior to the date of this prospectus, while information that we file later with the SEC will automatically update and supersede the information in this prospectus. We incorporate by reference into this prospectus and the registration statement of which this prospectus is a part the information or documents listed below that we have filed with the SEC (Commission File No. 001-38419):

- our Annual Report on Form 10-K, for the year ended December 31, 2018, filed with the SEC on March 14, 2019;
- our Current Reports on Form 8-K filed with the SEC on January 8, 2019, January 24, 2019, February 19, 2019, and March 8, 2019; and
- the description of our common stock contained in our registration statement on Form 8-A filed with the SEC on March 19, 2014, including any amendments or reports filed for the purposes of updating this description.

All filings filed by us pursuant to the Exchange Act after the date of the initial filing of the registration statement of which this prospectus is a part and prior to effectiveness of the registration statement shall be deemed to be incorporated by reference into this prospectus.

We also incorporate by reference any future filings (other than current reports furnished under Item 2.02 or Item 7.01 of Form 8-K and exhibits filed on such form that are related to such items unless such Form 8-K expressly provides to the contrary) made with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, until we file a post-effective amendment that indicates the termination of the offering of the securities made by this prospectus and will become a part of this prospectus from the date that such documents are filed with the SEC. Information in such future filings updates and supplements the information provided in this prospectus. Any statements in any such future filings will automatically be deemed to modify and supersede any information in any document we previously filed with the SEC that is incorporated or deemed to be incorporated herein by reference to the extent that statements in the later filed document modify or replace such earlier statements.

You can request a copy of these filings, at no cost, by writing or telephoning us at the following address or telephone number:

SCYNEXIS, Inc.

1 Evertrust Plaza, 13<sup>th</sup> Floor

Jersey City, NJ 07302-6548

(201) 884-5485

Attn: Secretary

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