PHH CORP
Form 10-Q
August 06, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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

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

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, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. Large accelerated filer þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

As of July 30, 2015, 59,807,113 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 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:

the execution of our strategic priorities, including re-engineering our business, executing our growth strategies, executing our capital structure initiatives and our expectations regarding future operating benefits from the achievement of those priorities;

other potential acquisitions, dispositions, partnerships, joint ventures and changes in product offerings to achieve disciplined growth in our franchise platforms and to optimize our business;

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

future origination volumes and loan margins in the mortgage industry;

our expectations regarding the impacts of the shift in our volume to a greater mix of subserviced loans, including the impacts on our earnings and potential benefits to our capital structure;

our expectations around future losses from representation and warranty claims, and associated reserves and provisions;

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

our assessment of legal and regulatory proceedings and the associated impact 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, “Part I—Item 1A. Risk Factors” in our 2014 Form 10-K and those factors described below:

our ability to successfully re-engineer our mortgage business, re-negotiate our private label agreements, and implement changes to meet our operational and financial objectives;

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

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

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

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 on our business of any further declines in the volume of U.S. home sales and home prices, due to adverse economic changes or otherwise;

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

the 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;

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

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;

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

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

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

the impacts of our current 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 alternative funding sources for our mortgage servicing rights or servicing advances, or to obtain financing (including refinancing and extending existing indebtedness) on acceptable terms, if at all, to finance our operations or growth strategies, to operate within the limitations imposed by our financing arrangements and to maintain the amount of cash required to service our indebtedness 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 STATEMENTS OF OPERATIONS
(Unaudited)
(In millions, except per share data)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
REVENUES				
Origination and other loan fees	$87	$59	$145	$106
Gain on loans held for sale, net	86	80	168	131
Net loan servicing income:				
Loan servicing income	100	110	204	225
Change in fair value of mortgage servicing rights	18	(52)	(8)	(131)
Net derivative (loss) gain related to mortgage servicing rights	(49)	20	4	26
Net loan servicing income	69	78	200	120
Net interest expense:				
Interest income	13	12	22	20
Secured interest expense	(9)	(9)	(18)	(18)
Unsecured interest expense	(16)	(26)	(33)	(55)
Net interest expense	(12)	(23)	(29)	(53)
Other income	7	2	14	3
Net revenues	237	196	498	307
EXPENSES				
Salaries and related expenses	85	91	172	180
Commissions	27	21	46	36
Loan origination expenses	25	23	49	42
Foreclosure and repossession expenses	15	14	30	28
Professional and third-party service fees	45	28	87	56
Technology equipment and software expenses	9	9	19	17
Occupancy and other office expenses	12	12	24	25
Depreciation and amortization	4	6	9	12
Other operating expenses	89	13	105	25
Total expenses	311	217	541	421
Loss from continuing operations before income taxes	(74)	(21)	(43)	(114)
Income tax benefit	(18)	(12)	(10)	(45)
Loss from continuing operations, net of tax	(56)	(9)	(33)	(69)
Loss from discontinued operations, net of tax	—	(46)	—	(30)
Net loss	(56)	(55)	(33)	(99)
Less: net income attributable to noncontrolling interest	6	4	8	2
Net loss attributable to PHH Corporation	$(62)	$(59)	$(41)	$(101)
Basic loss per share:				
From continuing operations	$(1.20)	$(0.23)	$(0.80)	$(1.23)
From discontinued operations	—	(0.79)	—	(0.52)
Total attributable to PHH Corporation	$(1.20)	$(1.02)	$(0.80)	$(1.75)
Diluted loss per share:				

From continuing operations	$(1.20)	$(0.23)	$(0.80)	$(1.23)
From discontinued operations	—	(0.79)	—	(0.52)
Total attributable to PHH Corporation	$(1.20)	$(1.02)	$(0.80)	$(1.75)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net loss	$(56)	$(55)	$(33)	$(99)
Other comprehensive income, net of tax:				
Change in unfunded pension liability, net	—	—	1	—
Currency translation adjustment	—	7	—	—
Total other comprehensive income, net of tax	—	7	1	—
Total comprehensive loss	(56)	(48)	(32)	(99)
Less: comprehensive income attributable to noncontrolling interest	6	4	8	2
Comprehensive loss attributable to PHH Corporation	$(62)	$(52)	$(40)	$(101)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$958	$1,259
Restricted cash	43	56
Mortgage loans held for sale	1,364	915
Accounts receivable, net	103	123
Servicing advances, net	671	694
Mortgage servicing rights	1,020	1,005
Property and equipment, net	41	36
Other assets	294	208
Total assets [(1)]	$4,494	$4,296
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses	$281	$244
Subservicing advance liabilities	361	347
Debt	1,912	1,739
Deferred taxes	250	262
Loan repurchase and indemnification liability	63	63
Other liabilities	100	70
Total liabilities [(1)]	2,967	2,725
Commitments and contingencies (Note 11)	—	—
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; 59,805,817 shares issued and outstanding at June 30, 2015; 51,143,723 shares issued and outstanding at December 31, 2014	1	1
Additional paid-in capital	986	989
Retained earnings	520	566
Accumulated other comprehensive loss[(2)]	(10)	(11)
Total PHH Corporation stockholders’ equity	1,497	1,545
Noncontrolling interest	30	26
Total equity	1,527	1,571
Total liabilities and equity	$4,494	$4,296

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

	June 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$78	$85
Restricted cash	12	23
Mortgage loans held for sale	682	378
Accounts receivable, net	15	8
Servicing advances, net	136	155
Property and equipment, net	1	1
Other assets	9	8
Total assets	$933	$658
LIABILITIES		
Accounts payable and accrued expenses	$22	$16
Debt	714	443
Other liabilities	10	11
Total liabilities	$746	$470

(2) Includes amounts recorded related to the Company’s defined benefit pension plan, net of income tax benefits of $6 million as of both June 30, 2015 and December 31, 2014. During both the three and six months ended June 30, 2015 and 2014, there were no amounts reclassified out of Accumulated other comprehensive loss.

See accompanying Notes to Condensed Consolidated Financial Statements.

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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 Income (Loss)	Noncontrolling Interest	Total Equity
Six Months Ended June 30, 2015							
Balance at December 31, 2014	51,143,723	$1	$ 989	$566	$(11)	$ 26	$1,571
Total comprehensive (loss) income	—	—	—	(41)	1	8	(32)
Distributions to noncontrolling interest	—	—	—	—	—	(4)	(4)
Stock compensation expense	—	—	4	—	—	—	4
Stock issued under share-based payment plans	160,693	—	2	—	—	—	2
Repurchase of Common stock	(1,574,252)	(1)	5	(5)	—	—	(1)
Conversion of Convertible Notes	10,075,653	1	(16)	—	—	—	(15)
Recognition of deferred taxes related to Convertible notes	—	—	2	—	—	—	2
Balance at June 30, 2015	59,805,817	$1	$ 986	$520	$(10)	$ 30	$1,527
Six Months Ended June 30, 2014							
Balance at December 31, 2013	57,265,517	$1	$ 1,142	$507	$16	$ 24	$1,690
Total comprehensive (loss) income	—	—	—	(101)	—	2	(99)
Stock compensation expense	—	—	5	—	—	—	5
Stock issued under share-based payment plans	145,835	—	2	—	—	—	2
Recognition of deferred taxes related to Convertible notes	—	—	2	—	—	—	2
Balance at June 30, 2014	57,411,352	$1	$ 1,151	$406	$16	$ 26	$1,600

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net loss	$(33)	$(99)
Adjustments to reconcile Net loss to net cash (used in) provided by operating activities:		
Capitalization of originated mortgage servicing rights	(48)	(46)
Net loss on mortgage servicing rights and related derivatives	4	105
Vehicle depreciation	—	596
Other depreciation and amortization	9	17
Loss on early extinguishment of debt	30	—
Origination of mortgage loans held for sale	(7,262)	(6,076)
Proceeds on sale of and payments from mortgage loans held for sale	6,938	6,100
Net gain on interest rate lock commitments, mortgage loans held for sale and related derivatives	(151)	(95)
Deferred income tax (benefit) expense	(2)	11
Other adjustments and changes in other assets and liabilities, net	66	13
Net cash (used in) provided by operating activities	(449)	526
Cash flows from investing activities:		
Net cash received on derivatives related to mortgage servicing rights	5	19
Proceeds on sale of mortgage servicing rights	36	10
Purchases of property and equipment	(16)	(8)
Decrease (increase) in restricted cash	13	(87)
Investment in vehicles	—	(850)
Proceeds on sale of investment vehicles	—	201
Other, net	3	6
Net cash provided by (used in) investing activities	41	(709)
Cash flows from financing activities:		
Proceeds from secured borrowings	9,199	9,494
Principal payments on secured borrowings	(8,812)	(9,304)
Principal payments on unsecured borrowings	(243)	—
Cash tender premiums for convertible debt	(30)	—
Issuances of Common stock	2	2
Cash paid for debt issuance costs	(4)	(12)
Distributions to noncontrolling interest	(4)	—
Other, net	(1)	(4)
Net cash provided by financing activities	107	176
Net decrease in Cash and cash equivalents	(301)	(7)
Cash and cash equivalents at beginning of period	1,259	1,245
Less: Cash balance of discontinued operations at end of period	—	(274)
Cash and cash equivalents at end of period	$958	$964

See accompanying Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

PHH Corporation and subsidiaries (collectively, “PHH” or the “Company”) is a leading provider of end to end mortgage solutions. 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 loans originated by PHH Mortgage and mortgage servicing rights purchased from others, 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 Realogy Group LLC’s ownership interest is presented as a noncontrolling interest. 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 2014 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.

Effective on July 1, 2014, the Company sold its Fleet Management Services business and related fleet entities (collectively, the “Fleet business”) to certain wholly-owned subsidiaries of Element Financial Corporation. The results of the Fleet business are presented as discontinued operations in the Condensed Consolidated Statements of Operations, and have been excluded from continuing operations and segment results for all periods presented. The cash flows and comprehensive income related to the Fleet business have not been segregated and are included in the Condensed Consolidated Statements of Cash Flows and Condensed Consolidated Statements of Comprehensive Income, respectively, for all periods presented. Amounts related to the Fleet business are excluded from the Notes to Condensed Consolidated Financial Statements unless otherwise noted. See Note 2, 'Discontinued Operations' for additional information.

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.

Changes in Accounting Pronouncements

Presentation of Financial Statements. In April 2014, the FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." Under the new guidance, only disposals of a component of an entity that represent a major strategic shift on an entity's operations and financial results shall be reported in discontinued operations. The guidance also requires the presentation as discontinued operations for an entity that, on acquisition, meets the criteria to be classified as held for sale. In addition, the update expands disclosures for discontinued operations, requires new disclosures regarding disposals of an individually significant component of an entity that does not qualify for discontinued operations presentation and expands disclosures about an entity's significant continuing involvement with a discontinued operation. Due to the change in

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

requirements for reporting discontinued operations described above, presentation and disclosures of future disposal transactions after adoption may be different than under current standards. The Company adopted this guidance as of January 1, 2015, and there was no impact to the Company's financial statements or disclosures.

Transfers of Financial Assets. In June 2014, the FASB issued limited amendments to ASC 860, "Transfers and Servicing" through the issuance of ASU 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The update requires entities to account for repurchase-to-maturity transactions as secured borrowings, and eliminates the accounting guidance on linked repurchase financing transactions. In addition, the update expands disclosure requirements related to certain transfers of financial assets accounted for as financings and accounted for as sales. The Company adopted this guidance as of January 1, 2015 and there was no impact to the Company's financial statements.

Recently Issued Accounting Pronouncements

Consolidation. In February 2015, the FASB issued ASU 2015-02, "Amendments to the Consolidation Analysis." The update impacts an entity's consolidation analysis of its variable interest entities, particularly those that have fee arrangements and related party relationships. The update eliminates certain conditions for evaluating whether a fee paid to a decision maker or a service provider represents a variable interest, and places more emphasis in the evaluation of variable interests other than fee arrangements. Additionally, the amendments reduce the extent to which related party arrangements cause an entity to be considered a primary beneficiary. The amendments in this update are effective for the first interim and annual periods beginning after December 15, 2015 with early adoption permitted. A reporting entity may apply this update retrospectively or by using a modified retrospective approach. The Company is currently evaluating the impact of adopting this new standard.

Interest. In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" which requires that debt issuance costs related to a recognized debt liability be presented in the Balance Sheets as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts. The amendments in this update are to be applied retrospectively, and are effective for the first interim and annual periods beginning after December 15, 2015, with early adoption permitted. The adoption will impact the Company's balance sheet presentation, but will not impact the Company's results of operations or cash flows. The Company is currently evaluating the impact of adopting this new standard.

Intangibles—Goodwill and Other—Internal-Use Software. In April 2015, the FASB issued ASU 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This update clarifies whether a cloud computing arrangement should be accounted for as a software license or as a service contract by the customer, depending on the terms of the arrangement. In addition, the guidance requires all software licenses within the scope of the internal use software subtopic to be accounted for consistent with other licenses of intangible assets. The amendments in this update are effective for the first interim and annual periods beginning after December 15, 2015, with early adoption permitted. An entity can elect to adopt this update either: (i) prospectively to all arrangements entered into or materially modified after the effective date; or (ii) retrospectively. The Company is currently evaluating the impact of adopting this new standard.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Discontinued Operations

During the second quarter of 2014, the Company entered into a definitive agreement to sell its Fleet business and the sale was completed effective on July 1, 2014.

The results of discontinued operations are summarized below:

	June 30, 2014	
	Three Months Ended	Six Months Ended
	(In millions)	
Net revenues[1]	$415	$820
Total expenses[1]	391	774
Income before income taxes[1]	24	46
Income tax expense	10	16
Loss from sale of discontinued operations, net of tax	(60)	(60)
Loss from discontinued operations, net of tax	$(46)	$(30)

[1] Represents the results of the Fleet business.

The Loss from sale of discontinued operations, net of tax for the three and six months ended June 30, 2014 both include $52 million of income tax expense associated with the earnings of Canadian subsidiaries that were previously considered to be indefinitely invested. Upon the classification of these entities as held for sale during the second quarter of 2014, the accumulated earnings were no longer deemed to be indefinitely invested and the Company recognized expense related to the cumulative earnings of such Canadian subsidiaries.

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

During 2014, the Company entered into two separate Accelerated Share Repurchase agreements to repurchase an aggregate of $200 million of PHH’s Common stock. The final delivery of shares occurred in March 2015 and resulted in a 1,574,252 reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings or loss per share.

In June 2015, the Company completed the offer to exchange its 6.0% Convertible notes due in 2017. The principal amount of the notes was settled in cash and the amount by which the conversion value exceeded the principal of the converted notes was settled in shares, resulting in the issuance of 10,075,653 shares. The shares were settled on June 18, 2015 and increased the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings or loss per share. See Note 8, 'Debt and Borrowing Arrangements' for further discussion.

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 the effect of securities that would be anti-dilutive. Anti-dilutive securities may include:

- outstanding stock-based compensation awards representing shares from restricted stock units and stock options;
- stock assumed to be issued related to convertible notes; and
- sold warrants related to the Company's Convertible notes due 2014.

Shares associated with anti-dilutive securities are outlined in the table below.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions, except share and per share data)			
Loss from continuing operations, net of tax	$(56)	$(9)	$(33)	$(69)
Less: net income attributable to noncontrolling interest	6	4	8	2
Net loss from continuing operations attributable to PHH Corporation	(62)	(13)	(41)	(71)
Loss from discontinued operations, net of tax	—	(46)	—	(30)
Net loss attributable to PHH Corporation	$(62)	$(59)	$(41)	$(101)
Weighted-average common shares outstanding—basic & diluted[1]	51,135,313	57,637,910	51,154,163	57,591,158
Basic loss per share:				
From continuing operations	$(1.20)	$(0.23)	$(0.80)	$(1.23)
From discontinued operations	—	(0.79)	—	(0.52)
Total attributable to PHH Corporation	$(1.20)	$(1.02)	$(0.80)	$(1.75)
Diluted loss per share:				
From continuing operations	$(1.20)	$(0.23)	$(0.80)	$(1.23)
From discontinued operations	—	(0.79)	—	(0.52)
Total attributable to PHH Corporation	$(1.20)	$(1.02)	$(0.80)	$(1.75)

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(1) For the three and six months ended June 30, 2015 and 2014, the Company had a net loss from continuing operations attributable to PHH Corporation and, as a result, there were no potentially dilutive securities included in the denominator for computing dilutive earnings per share.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Outstanding stock-based compensation awards[1]	1,836,791	2,119,350	1,836,791	2,119,350
Assumed conversion of debt securities	8,482,846	9,004,140	8,751,067	9,292,828

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(1) For the three and six months ended June 30, 2015, excludes 283,648 shares that are contingently issuable for which the contingency has not been met.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Transfers and Servicing of Mortgage Loans

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 one or more of the following: mortgage servicing rights and servicing obligations, recourse obligations and/or beneficial interests (such as interest-only strips, principal-only strips, or subordinated interests). During the six months ended June 30, 2015, the Company did not retain any interest from sales or securitizations other than mortgage servicing rights. See Note 10, 'Credit Risk' for a further description of recourse obligations.

The total servicing portfolio consists of loans associated with capitalized mortgage servicing rights, loans held for sale, and the portfolio associated with loans subserviced for others. The total servicing portfolio was $225.2 billion and $227.3 billion, as of June 30, 2015 and December 31, 2014, respectively. Mortgage servicing rights (“MSRs”) recorded in the Condensed Consolidated Balance Sheets are related to the capitalized servicing portfolio and are created either through the direct purchase of servicing from a third party or through the sale of an originated loan.

The Company has agreements to sell a portion of its newly-created mortgage servicing rights to third parties, and will have continuing involvement as subservicer. As of June 30, 2015, the Company had commitments to sell mortgage servicing rights related to $152 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 and $875 million of the unpaid principal balance of loans in the capitalized servicing portfolio. As of June 30, 2015, the fair value of the MSRs subject to sale commitments and associated with the loans in the capitalized portfolio was $12 million.

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

	Six Months Ended June 30,	
	2015	2014
	(In millions)	
Balance, beginning of period	$112,686	$129,145
Additions	4,323	4,428
Payoffs and curtailments	(9,966)	(8,936)
Sales	(2,338)	(678)
Balance, end of period	$104,705	$123,959

The activity in capitalized MSRs consisted of:

	Six Months Ended June 30,	
	2015	2014
	(In millions)	
Balance, beginning of period	$1,005	$1,279
Additions	48	46
Sales	(25)	(7)
Changes in fair value due to:		
Realization of expected cash flows	(89)	(74)
Changes in market inputs or assumptions used in the valuation model	81	(57)

Balance, end of period	$1,020	$1,187

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions)			
Servicing fees from capitalized portfolio	$77	$90	$156	$182
Late fees	3	3	7	8
Other ancillary servicing revenue	8	8	15	16

As of June 30, 2015 and December 31, 2014, the MSRs had a weighted-average life of 6.7 years and 5.7 years, respectively. See Note 12, 'Fair Value Measurements' for additional information regarding the valuation of MSRs.

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

	Six Months Ended June 30,	
	2015	2014
	(In millions)	
Proceeds from new loan sales or securitizations	$4,439	$4,578
Servicing fees from capitalized portfolio[1]	156	182
Purchases of delinquent or foreclosed loans [2]	(6)	(22)
Servicing advances [3]	(1,018)	(1,013)
Repayment of servicing advances [3]	1,041	1,017

[1] Excludes late fees and other ancillary servicing revenue.

[2] 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.

During the three and six months ended June 30, 2015, pre-tax gains of $86 million and $149 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.

During the three and six months ended June 30, 2014, pre-tax gains of $73 million and $145 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

The following table summarizes the gross notional amount of derivatives:

	June 30, 2015	December 31, 2014
	(In millions)	
Interest rate lock commitments	$1,947	$1,185
Forward delivery commitments	5,493	3,893
Option contracts	120	213
MSR-related agreements	2,825	4,013