PHH CORP
Form 10-K
February 28, 2011

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

Form 10-K

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2010**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from_____ to _____**

Commission File No. 1-7797

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

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

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

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer þ Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)
Smaller reporting company o

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

The aggregate market value of our Common stock held by non-affiliates of the registrant as of June 30, 2010 was $1.054 billion.

As of February 22, 2011, 55,986,486 shares of PHH Common stock were outstanding.

Documents Incorporated by Reference: Portions of the registrant s definitive Proxy Statement for the 2011 Annual Meeting of Stockholders, which will be filed by the registrant on or prior to 120 days following the end of the registrant s fiscal year ended December 31, 2010 are incorporated by reference in Part III of this Report.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

§ actuarial estimate of total reinsurance losses and expected future reinsurance premiums;

§ mortgage repurchase and indemnification claims and associated reserves and provisions; and

§ savings to be realized from the execution of our transformation plan.

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

§ the effects of continued market volatility or continued economic decline on the availability and cost of our financing arrangements and the value of our assets;

§ the effects of a continued decline in the volume of U.S. home sales and home prices, due to adverse economic changes or otherwise, on our Mortgage Production and Mortgage Servicing segments;

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

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

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

§ the effects of reinsurance claims in excess of projected levels and in excess of reinsurance premiums we are entitled to receive or amounts currently held in trust to pay such claims;

§ the effects of any significant adverse changes in the underwriting criteria 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;

§ the effects of any inquiries and investigations of foreclosure procedures by attorney generals of certain states and the U.S. Department of Justice;

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

§ the effects of any changes to the servicing compensation structure for mortgage servicers pursuant to the programs of government sponsored-entities;

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

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

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

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

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

§ the ability to attract and retain key employees;

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

§ the impact of the failure to maintain our credit ratings;

§ any failure to comply with covenants under our financing arrangements;

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

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

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

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PART I

Item 1. Business

History

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

Overview

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

According to *Inside Mortgage Finance*, as of December 31, 2010, PHH Mortgage was the 4th largest retail mortgage loan originator in the U.S. with a 4.2% market share, the 7th largest overall mortgage loan originator with a 3.1% market share and the 7th largest mortgage loan servicer with a 1.6% market share. According to the *Automotive Fleet 2010 Fact Book*, PHH Arval is the 3rd largest provider of outsourced commercial fleet management services in the U.S. and Canada combined and had over 500,000 in vehicle units under management as of December 31, 2010.

Our corporate website is www.phh.com, and our reports filed or furnished pursuant to Section 13(a) of the Exchange Act are available free on our website under the tabs Investor Relations SEC Reports as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. The SEC also maintains a website (www.sec.gov) where our filings can be accessed for free. Our Corporate Governance Guidelines, our Code of Business Conduct for Employees, our Code of Business Conduct and Ethics for Directors and the charters of the committees of our Board of Directors are also available on our corporate website and printed copies are available upon request. The information contained on our corporate website is not part of this Form 10-K.

Operating Segments

Our business activities are organized and presented in three operating segments: (i) Mortgage Production (ii) Mortgage Servicing and (iii) Fleet Management Services. A description of each operating segment is presented below and the results of operations for each of our reportable segments is presented in Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

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Mortgage Production Segment

Our Mortgage Production segment provides mortgage services, including private-label mortgage services, to financial institutions and real estate brokers through PHH Mortgage. The Mortgage Production segment generates revenue through fee-based mortgage loan origination services and the origination and sale of mortgage loans into the secondary market. PHH Mortgage generally sells all mortgage loans that it originates to secondary market investors, which include a variety of institutional investors, and typically retains the servicing rights on mortgage loans sold. During 2010, 95% of our mortgage loans were sold to, or were sold pursuant to programs sponsored by Fannie Mae, Freddie Mac or Ginnie Mae and the remaining 5% were to private investors.

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

The Mortgage Production segment also includes our appraisal services business, Speedy Title & Appraisal Review Services LLC, which provides appraisal services utilizing a network of approximately 2,200 third-party professional licensed firms offering local coverage throughout the U.S. and also provides credit research, flood certification and tax services. The appraisal services business is closely linked to the processes by which our mortgage operations originate mortgage loans and derives substantially all of its business from our various channels.

We originate mortgage loans through three principal business channels: (i) private label services (outsourced mortgage services for financial institutions); (ii) real estate (mortgage services for brokers associated with brokerages owned or franchised by Realogy and third-party brokers); and (iii) relocation (mortgage services for clients of Cartus Corporation).

§ ***Private Label Services Channel:*** We are a leading provider of private-label mortgage loan originations for financial institutions and other entities throughout the U.S. In this channel, we offer a complete outsourcing solution, from processing applications through funding, for clients that wish to offer mortgage services to their customers but are not equipped to handle all aspects of the process cost-effectively. We also purchase closed mortgage loans from financial institutions. Representative clients include Merrill Lynch Credit Corporation, USAA Federal Savings Bank and Charles Schwab Bank, which represented approximately 15%, 14% and 11% of our mortgage loan originations for the year ended December 31, 2010, respectively.

§ ***Real Estate Channel:*** We work with real estate brokers to provide their customers with mortgage loans. Through our affiliations with real estate brokers, we have access to home buyers at the time of purchase. We work with brokers associated with NRT Incorporated, Realogy s owned real estate brokerage business, brokers associated with Realogy s franchised brokerages (Realogy Franchisees) and third-party brokers that are not affiliated with Realogy. NRT Incorporated is the largest owner and operator of residential real estate brokerages in the U.S. and Realogy is a franchisor of some of the most recognizable residential real estate brands. During the year ended December 31, 2010, approximately 27% of our mortgage loan originations were derived from our relationship with Realogy and its affiliates. The following presents a summary of the relationships with Realogy-owned brokers and its franchisees and third-party brokers within the Real Estate Channel:

Realogy-owned Brokers

Realogy has agreed that the real estate brokerage business owned and operated by NRT Incorporated and the title and settlement services business owned and operated by Title Resource Group LLC will exclusively recommend PHH Home Loans as provider of mortgage loans to: (i) the independent sales associates affiliated with Realogy, excluding

the independent sales associates of any Realogy Franchisee; and (ii) all customers of Realogy Services Group LLC and Realogy Services Venture Partner, Inc., excluding Realogy Franchisees. In general, our capture rate of mortgage loans where we are the exclusive recommended provider is much higher than in other situations.

Realogy Franchisees and Third Party Brokers

Certain Realogy Franchisees have agreed to exclusively recommend PHH Mortgage as provider of mortgage loans to their respective independent sales associates. Additionally, for other Realogy Franchisees and third-party brokers, we endeavor to enter into separate marketing service agreements or other arrangements whereby we are the exclusive recommended provider of mortgage loans to each franchise or broker. We have entered into exclusive marketing service agreements with 5% of Realogy Franchisees as of December 31, 2010.

Substantially all of the originations through the real estate channel during the years ended December 31, 2010, 2009 and 2008, were originated from Realogy and Realogy Franchisees. For the year ended December 31, 2010, we originated mortgage loans for approximately 18% of the transactions in which real estate brokerages owned by Realogy represented the home buyer and approximately 9% of the transactions in which real estate brokerages franchised by Realogy where we have exclusive marketing service agreements, represented the home buyer.

- ***Relocation Channel:*** In this channel, we work with Cartus Corporation, Realogy s relocation business, to provide mortgage loans to employees of Cartus clients. Cartus is the industry leader of outsourced corporate relocation services in the U.S. Substantially all of the originations through this channel during the years ended December 31, 2010, 2009 and 2008 were from Cartus.

Our mortgage loan origination channels are supported by our retail and wholesale/correspondent platforms as further described below:

- ***Retail Platform:*** Through our retail platform, we maintain direct contact with borrowers who are purchasing a home or refinancing a mortgage loan. This contact is made through our teleservices operation or through our network of field sales professionals.

Teleservices

We operate a teleservices operation (also known as our Phone In, Move In program) that provides centralized processing in an effort to ensure consistent customer service. We utilize Phone In, Move In for all three origination channels described above. We also maintain multiple internet sites that provide online mortgage application capabilities for our customers.

Field Sales Professionals

Members of our field sales force are generally located in real estate brokerage offices or are affiliated with financial institution clients around the U.S., and are equipped to provide product information, quote interest rates and help customers prepare mortgage applications. Through our MyChoice program, certain of our mortgage advisors are assigned a dedicated territory for marketing efforts and customers are provided with the option of applying for mortgage loans over the telephone, in person or online through the internet.

- ***Wholesale/Correspondent Platform:*** Through our wholesale/correspondent platform, we purchase closed mortgage loans from community banks, credit unions, mortgage brokers and mortgage bankers. We also acquire mortgage loans from mortgage brokers that receive applications from and qualify the borrowers.

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The following table sets forth the composition of our mortgage loan originations by channel and platform for each of the years ended December 31, 2010, 2009 and 2008:

	Year Ended December 31,		
	2010	2009	2008
Total Mortgage Originations by Channel:			
Private label services	73%	63%	63%
Real estate	25%	35%	33%
Relocation	2%	2%	4%
Total Mortgage Originations by Platform:			
Retail	68%	85%	85%
Wholesale/Correspondent	32%	15%	15%

Mortgage Servicing Segment

We principally generate revenue in our Mortgage Servicing segment through fees earned from our servicing rights or from our subservicing agreements. Mortgage servicing rights are the rights to receive a portion of the interest coupon and fees collected from the mortgagors for performing specified mortgage servicing activities, which consist of collecting loan payments, remitting principal and interest payments to investors, managing escrow funds for the payment of mortgage-related expenses such as taxes and insurance, performing loss mitigation activities on behalf of investors, and otherwise administering our mortgage loan servicing portfolio. Mortgage servicing rights for sold loans are initially recorded at fair value in our Mortgage Production Segment s results of operations. Changes in fair value subsequent to the initial capitalization are recorded in our Mortgage Servicing Segment s results of operations. Our Mortgage Servicing segment also includes the results of our reinsurance activities from our wholly owned subsidiary, Atrium Reinsurance Corporation.

We provide mortgage reinsurance to certain third-party insurance companies that provide primary mortgage insurance on loans originated in our Mortgage Production segment. While we do not underwrite primary mortgage insurance directly, we provide reinsurance that covers losses in excess of a specified percentage of the principal balance of a given pool of mortgage loans, subject to a contractual limit. In exchange for assuming a portion of the risk of loss related to the reinsured loans, Atrium receives a portion of borrowers premiums from the third-party insurance companies. Our two contracts with primary insurance companies are inactive and in runoff. While in runoff, Atrium will continue to collect premiums and have risk of loss on the existing population of loans reinsured, but may not add to that population of loans. For additional information regarding mortgage reinsurance, see Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management in this Form 10-K.

See Our Business Mortgage Production and Mortgage Servicing Segments Mortgage Production Segment and Item 1A Risk Factors Risks Related to our Company The industries in which we operate are highly competitive and, if we fail to meet the competitive challenges in our industries, it would have a material adverse effect on our business, financial position, results of operations or cash flows. for more information.

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Fleet Management Services Segment

We provide fleet management services to corporate clients and government agencies throughout the U.S. and Canada. The following table sets forth the Net revenues attributable to our domestic and foreign operations for our Fleet Management Services segment:

	Year Ended December 31,		
	2010	2009	2008
	(In millions)		
Net revenues:			
Domestic	$ 1,378	$ 1,489	$ 1,702
Foreign	215	160	125

We are a fully integrated provider of these services with a broad range of product offerings. We primarily focus on clients with fleets of greater than 75 vehicles. As of December 31, 2010, we had more than 280,000 vehicles leased, primarily consisting of cars and light-duty trucks and, to a lesser extent, medium and heavy-duty trucks, trailers and equipment, and approximately 285,000 additional vehicles serviced under fuel cards, maintenance cards, accident management services arrangements and/or similar arrangements. During the year ended December 31, 2010, we purchased approximately 54,000 vehicles.

We differentiate ourselves from our competitors primarily on three factors: the breadth of our product offering, customer service and technology. We are able to offer customized solutions to clients based on their needs. We believe we have developed an industry-leading technology infrastructure. Our data warehousing, information management and online systems enable clients to download customized reports to better monitor and manage their corporate fleets. We place an emphasis on customer service and focus on a consultative approach with our clients. Our employees support each client in achieving the full benefits of an outsourced fleet management program, including lower costs and increased productivity. We offer 24-hour customer service for the end-users of our products and services.

We provide corporate clients and government agencies the following services and products:

§ ***Fleet Leasing and Fleet Management Services.*** These services include vehicle leasing, fleet policy analysis and recommendations, benchmarking, vehicle recommendations, ordering and purchasing vehicles, arranging for vehicle delivery and administration of the title and registration process, as well as tax and insurance requirements, pursuing warranty claims and remarketing used vehicles. We lease vehicles to our clients under both open-end and closed-end leases:

Open-End Leases

Open-end leases represent 97% of our lease portfolio and are a form of lease in which the client bears substantially all of the vehicle s residual value risk. These leases typically have a minimum term of 12 months and can be continued after that at the lessee s election for successive monthly renewals. Upon return of the vehicle by the lessee, we typically sell the vehicle into the secondary market and the client receives a credit or pays the difference between the sale proceeds and the vehicle s book value.

Open-end leases may be classified as operating or direct financing depending upon the nature of the residual guarantee. Revenues for operating leases contain a depreciation component, an interest component and a management fee component, and are recognized over the lease term. For direct financing leases, revenues contain an interest

component and a management fee component, and are recognized over the lease term.

Closed-End Leases

Closed-end leases represent 3% of our lease portfolio, and are a form of lease in which we retain the residual risk of the value of the vehicle at the end of the lease term.

§ ***Maintenance Services.*** We offer clients vehicle maintenance service cards that are used to facilitate payment for repairs and maintenance. We maintain an extensive network of third-party service providers in the U.S. and Canada to ensure ease of use by the clients drivers. The vehicle maintenance service cards provide clients with the following benefits: (i) negotiated discounts off of full retail prices through our convenient supplier network; (ii) access to our in-house team of certified maintenance experts that monitor transactions for policy compliance, reasonability and cost-effectiveness; and (iii) inclusion of vehicle maintenance transactions in a consolidated information and billing database, which assists clients with the evaluation of overall fleet performance and costs. For the year ended December 31, 2010, we averaged 287,000 maintenance service cards outstanding in the U.S. and Canada. We receive a fixed monthly fee for these services from our clients as well as additional fees from service providers in our third-party network for individual maintenance services.

§ ***Accident Management Services.*** We provide our clients with comprehensive accident management services such as immediate assistance upon receiving the initial accident report from the driver (e.g., facilitating emergency towing services and car rental assistance), an organized vehicle appraisal and repair process through a network of third-party preferred repair and body shops and coordination and negotiation of potential accident claims. Our accident management services provide our clients with the following benefits: (i) convenient, coordinated 24-hour assistance from our call center; (ii) access to our relationships with the repair and body shops included in our preferred supplier network, which typically provide clients with favorable terms; and (iii) expertise of our damage specialists, who ensure that vehicle appraisals and repairs are appropriate, cost-efficient and in accordance with each client s specific repair policy. For the year ended December 31, 2010, we averaged 290,000 vehicles that were participating in accident management programs with us in the U.S. and Canada. We receive fees from our clients for these services as well as additional fees from service providers in our third-party network for individual incident services.

§ ***Fuel Card Services.*** We provide our clients with fuel card programs that facilitate the payment, monitoring and control of fuel purchases. Fuel is typically the single largest fleet-related operating expense. Our fuel cards provide our clients with the following benefits: (i) access to more fuel brands and outlets than other private-label corporate fuel cards; (ii) point-of-sale processing technology for fuel card transactions that enhances clients ability to monitor purchases and consolidated billing; and (iii) access to other information on fuel card transactions, which assists clients with the evaluation of overall fleet performance and costs. Our fuel cards are offered through relationships with Wright Express LLC and another third party in the U.S. and a proprietary card in Canada, which offer expanded fuel management capabilities on one service card. For the year ended December 31, 2010, we averaged 276,000 fuel cards outstanding in the U.S. and Canada. We receive both monthly fees from our fuel card clients and additional fees from fuel partners and providers.

Trademarks and Intellectual Property

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

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

connection with mortgage loan origination services on behalf of Realogy s franchised real estate brokerage business and PHH Home Loans was granted a license in connection with its mortgage loan origination services on behalf of Realogy s owned real estate brokerage business owned and operated by NRT, the relocation business owned and operated by Cartus Corporation and the settlement services business owned and operated by Title Resource Group LLC.

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

Competition

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

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

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

Many of our competitors are larger than we are and have access to greater financial resources than we do, which can place us at a competitive disadvantage. In addition, many of our largest competitors are banks or affiliated with banking institutions, the advantages of which include, but are not limited to, the ability to hold new mortgage loan originations in an investment portfolio and having access to financing with more favorable terms than we do, including lower rate bank deposits as a source of liquidity. See Item 1A. Risk Factors Risks Related to our Company The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our business, financial position, results of operations or cash flows. for more information.

Seasonality

Our Mortgage Production segment is generally subject to seasonal trends. These seasonal trends reflect the pattern in the national housing market. Home sales typically rise during the spring and summer seasons and decline during the fall and winter seasons. Seasonality has less of an effect on mortgage refinancing activity, which is primarily driven by prevailing mortgage rates.

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

Employees

As of December 31, 2010, we employed a total of approximately 5,610 persons. Management considers our employee relations to be satisfactory. As of December 31, 2010, none of our employees were covered under collective bargaining agreements.

Item 1A. Risk Factors

Risks Related to our Company

The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our business, financial position, results of operations or cash flows.

Our Mortgage Production and Mortgage Servicing segments are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on our business. These laws, regulations and judicial and administrative decisions to which our Mortgage Production and Mortgage Servicing segments are subject include those pertaining to: real estate settlement procedures; fair lending; fair credit reporting; truth in lending; compliance with net worth and financial statement delivery requirements; compliance with federal and state disclosure and licensing requirements; the establishment of maximum interest rates, finance charges and other charges; secured transactions; collection, foreclosure, repossession and claims-handling procedures; other trade practices and privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers and guidance on non-traditional mortgage loans issued by the federal financial regulatory agencies. By agreement with our private-label clients, we are required to comply with additional requirements that our clients may be subject to through their regulators.

During the third quarter of 2010, several of our mortgage servicing competitors announced the suspension of foreclosure proceedings in various judicial foreclosure states due to concerns associated with the preparation and execution of affidavits used in connection with foreclosure proceedings in such states. Due in part to these announcements, we have received inquiries from regulators and attorneys general of certain states requesting information as to our foreclosure processes and procedures. Additionally, various inquiries and investigations of, and legal proceedings against, certain of our competitors have been initiated by attorneys general of certain states and the U.S. Department of Justice, and certain title insurance companies have announced that they will suspend issuing title insurance policies on properties that have been foreclosed upon by such firms. Further, some local and state governmental authorities have taken, and others are contemplating taking, regulatory action to require increased loss mitigation outreach for borrowers, including the imposition of waiting periods prior to the filing of notices of default and the completion of foreclosure sales and, in some cases, moratoriums on foreclosures altogether.

While we are continuing to monitor these developments, these developments could result in new legislation and regulations that could materially and adversely affect the manner in which we conduct our mortgage servicing business, heightened federal or state regulation and oversight of our mortgage servicing activities, increased costs and potential litigation associated with our mortgage servicing business and foreclosure related activities, and a temporary decline in home purchase loan originations in our mortgage production business due to the heightened number of distressed property sales that have recently characterized existing home sales. Such regulatory changes in the foreclosure process or delays in completing foreclosures could increase mortgage servicing costs and could reduce the ultimate proceeds received on the resale of foreclosed properties if real estate values continue to decline. In such event, these changes would also have a negative impact on our liquidity as we may be required to repurchase loans without the ability to sell the underlying property on a timely basis.

Additionally, on July 21, 2010 the Dodd-Frank Act was signed into law for the express purpose of further regulating the financial services industry, including mortgage origination, sales, and securitization. Certain provisions of the Dodd-Frank Act may impact the operation and practices of Fannie Mae and Freddie Mac and require sponsors of securitizations to retain a portion of the economic interest in the credit risk associated with the assets securitized by them. Federal regulators have been authorized to provide exceptions to the risk retention requirements for certain qualified mortgages and mortgages meeting certain underwriting standards prescribed in such regulations. It is unclear whether future regulations related to the definition of qualified mortgages will include the types of conforming mortgage loans we typically sell into government-sponsored entity (GSE)-sponsored mortgage-backed securities. If the mortgage loans we typically sell into GSE-sponsored mortgage-backed securities do not meet the definition of a qualified mortgage, then the GSEs may be required to retain a portion of the risk of assets they securitize, which may in turn substantially reduce or eliminate the GSEs ability to issue mortgage-backed securities. Substantial reduction in, or the elimination of, GSE demand for the mortgage loans we originate would have a material adverse effect on our business, financial condition, results of operations and cash flows since we sell substantially all of our loans pursuant to GSE sponsored programs. It is also unclear what effect future laws or regulations may have on the ability of the GSEs to issue mortgage-backed securities and it is not currently possible to determine what changes, if any, Congress may make to the structure of the GSEs.

The Dodd-Frank Act also establishes an independent federal bureau of consumer financial protection to enforce laws involving consumer financial products and services, including mortgage finance. The bureau is empowered with examination and enforcement authority. The Dodd-Frank Act also establishes new standards and practices for mortgage originators, including determining a prospective borrower s ability to repay their mortgage, removing incentives for higher cost mortgages, prohibiting prepayment penalties for non-qualified mortgages, prohibiting mandatory arbitration clauses, requiring additional disclosures to potential borrowers and restricting the fees that mortgage originators may collect. In addition, our ability to enter into future asset-backed securities transactions may be impacted by the Dodd-Frank Act and other proposed reforms related thereto, the effect of which on the asset-backed securities market is currently uncertain. While we are continuing to evaluate all aspects of the Dodd-Frank Act, such legislation and regulations promulgated pursuant to such legislation could materially and adversely affect the manner in which we conduct our businesses, result in heightened federal regulation and oversight of our business activities, and result in increased costs and potential litigation associated with our business activities.

Our failure to comply with the laws, rules or regulations to which we are subject, whether actual or alleged, would expose us to fines, penalties or potential litigation liabilities, including costs, settlements and judgments, any of which could have a material adverse effect on our business, financial position, results of operations or cash flows.

The industries in which we operate are highly competitive and, if we fail to meet the competitive challenges in our industries, it would have a material adverse effect on our business, financial position, results of operations or cash flows.

We operate in highly competitive industries that could become even more competitive as a result of economic, legislative, regulatory or technological changes. Competition for mortgage loan originations comes primarily from commercial banks and savings institutions. Many of our competitors for mortgage loan originations that are commercial banks or savings institutions typically have access to greater financial resources, have lower funding

costs, are less reliant than we are on the sale of mortgage loans into the secondary markets to maintain their liquidity, and may be able to participate in government programs that we are unable to participate in because we are not a state or federally chartered depository institution, all of which places us at a competitive disadvantage.

The advantages of our largest competitors include, but are not limited to, their ability to hold new mortgage loan originations in an investment portfolio and their access to lower rate bank deposits as a source of liquidity. Additionally, more restrictive loan underwriting standards and the widespread elimination of Alt-A and subprime mortgage products throughout the industry have resulted in a more homogenous product offering, which has increased competition across the industry for mortgage originations.

The fleet management industry in which we operate is also highly competitive. We compete against national competitors, such as GE Commercial Finance Fleet Services, Wheels, Inc., Automotive Resources International, Lease Plan International and other local and regional competitors, including numerous competitors who focus on one or two products. Growth in our Fleet Management Services segment is driven principally by increased market share in fleets greater than 75 units and increased fee-based services. Competitive pressures in the Fleet Management industry resulting in a decrease in our market share or lower prices would adversely affect our revenues and results of operations.

We are substantially dependent upon our secured and unsecured funding arrangements. If any of our funding arrangements are terminated, not renewed or otherwise become unavailable to us, we may be unable to find replacement financing on economically viable terms, if at all, which would have a material adverse effect on our business, financial position, results of operations and cash flows.

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

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

Code, all of which would have a material adverse effect on our business, financial position, results of operations and cash flows. See Note 11, Debt and Borrowing Arrangements in the accompanying Notes to Consolidated Financial Statements for additional information regarding our debt arrangements and related financial covenants and other affirmative and restrictive covenants.

If any of our credit facilities are terminated, including as a result of our breach, or are not renewed or if conditions in the credit markets worsen dramatically and it is not possible or economical for us to complete the sale or securitization of our originated mortgage loans or vehicle leases, we may be unable to find replacement financing on commercially favorable terms, if at all, which could prevent us from originating new mortgage loans or vehicle leases, reduce our revenues attributable to such activities, or require us to sell assets at below market prices, all of which would have a material adverse effect on our overall business and consolidated financial position, results of operations and cash flows.

Adverse developments in the secondary mortgage market have had, and in the future could have, a material adverse effect on our business, financial position, results of operations and cash flows.

We historically have relied on selling or securitizing our mortgage loans into the secondary market in order to generate liquidity to fund maturities of our indebtedness, the origination and warehousing of mortgage loans, the retention of mortgage servicing rights and for general working capital purposes. We bear the risk of being unable to sell or securitize our mortgage loans at advantageous times and prices or in a timely manner. Demand in the secondary market and our ability to complete the sale or securitization of our mortgage loans depends on a number of factors, many of which are beyond our control, including general economic conditions, general conditions in the banking system, the willingness of lenders to provide funding for mortgage loans, the willingness of investors to purchase mortgage loans and mortgage-backed securities and changes in regulatory requirements. If it is not possible or economical for us to complete the sale or securitization of certain of our mortgage loans held for sale, we may lack liquidity under our mortgage financing facilities to continue to fund such mortgage loans and our revenues and margins on new loan originations would be materially and negatively impacted, which would materially and negatively impact our Net revenues and Segment profit (loss) of our Mortgage Production segment and also have a material adverse effect on our overall business and our consolidated financial position, results of operations and cash flows. The severity of the impact would be most significant to the extent we were unable to sell conforming mortgage loans to the government-sponsored entities or securitize such loans pursuant to GSE sponsored programs.

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

Our senior unsecured long-term debt ratings are below investment grade due, in part, to substantial losses incurred in 2008 and high volatility in our earnings, our reliance on short-term secured funding arrangements to finance a substantial portion of our assets, our limited ability to access the credit markets during the height of the recent global credit crisis, and broader economic trends. As a result of our senior unsecured long-term debt credit ratings being below investment grade, our access to the public debt markets may be severely limited in comparison to the ability of investment grade issuers to access such markets. We may be required to rely on alternative financing, such as bank lines and private debt placements and pledge otherwise unencumbered assets. There can be no assurances that we would be able to find such alternative financing on terms acceptable to us, if at all. Furthermore, we may be unable to renew all of our existing bank credit commitments beyond the then-existing maturity dates. As a consequence, our cost of financing could rise significantly, thereby negatively impacting our ability to finance our mortgage loans held for sale, mortgage servicing rights and net investment in fleet leases. Any of the foregoing would have a material adverse effect on our business, financial position, results of operations and cash flows.

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

We are highly dependent upon programs administered by Fannie Mae, Freddie Mac and Ginnie Mae. Changes in existing U.S. government-sponsored mortgage programs or servicing eligibility standards could materially and adversely affect our business, financial position, results of operations or cash flows.

Our ability to generate revenues through mortgage loan sales to institutional investors in the form of mortgage-backed securities depends to a significant degree on programs administered by Fannie Mae, Freddie Mac, Ginnie Mae and others that facilitate the issuance of mortgage-backed securities in the secondary market. These entities play a powerful role in the residential mortgage industry, and we have significant business relationships with them. Our status as a Fannie Mae, Freddie Mac and Ginnie Mae approved seller/servicer is subject to compliance with each entity s respective selling and servicing guides.

During 2010, 95% of our mortgage loan sales were sold to, or were sold pursuant to programs sponsored by, Fannie Mae, Freddie Mac or Ginnie Mae. We also derive other material financial benefits from our relationships with Fannie Mae, Freddie Mac and Ginnie Mae, including the assumption of credit risk by these entities on loans included in mortgage-backed securities in exchange for our payment of guarantee fees, the ability to avoid certain loan inventory finance costs through streamlined loan funding and sale procedures and the use of mortgage warehouse facilities with Fannie Mae pursuant to which, as of December 31, 2010, we had total capacity of $3.0 billion, made up of $1 billion of committed and $2 billion uncommitted capacity. Any discontinuation of, or significant reduction or material change in, the operation of these entities or any significant adverse change in the level of activity in the secondary mortgage market or the underwriting criteria of these entities would likely prevent us from originating and selling most, if not all, of our mortgage loan originations, and the discontinuation or material decrease in the availability of, or our capacity under, our uncommitted mortgage warehouse facilities with Fannie Mae, could materially and adversely affect our ability to originate mortgage loans.

In addition, we service loans on behalf of Fannie Mae and Freddie Mac, as well as loans that have been securitized pursuant to securitization programs sponsored by Fannie Mae, Freddie Mac and Ginnie Mae in connection with the issuance of agency guaranteed mortgage-backed securities and a majority of our mortgage servicing rights relate to these servicing activities. These entities establish the base service fee in which to compensate us for servicing loans. In January 2011, the Federal Housing Finance Agency directed Fannie Mae and Freddie Mac to develop a joint initiative to consider alternatives for future mortgage servicing structures and compensation. Under this proposal, the GSEs are considering potential structures in which the minimum service fee would be reduced or eliminated altogether. The GSEs are also considering different pricing options for non-performing loans to better align servicer incentives with MBS investors and provide the loan guarantor the ability to transfer non-performing servicing. These proposals, if adopted, could cause significant changes that impact the entire mortgage industry. The lower capital requirements could increase competition by lowering barriers to entry on mortgage originations and could increase the concentration of performing loans with larger servicers that have a cost-advantage through economies of scale that would no longer be limited by capital constraints.

In February 2011, the Obama administration issued a report to Congress, outlining various options for long-term reform of Fannie Mae and Freddie Mac. These options involve reducing the role of Fannie Mae and Freddie Mac in the mortgage market and to ultimately wind down both institutions such that the private sector provides the majority of mortgage credit. The report states that any potential reform efforts will make credit less easily available and that any such changes should occur at a measured pace that supports the nation s economic recovery. Any of these options are likely to result in higher mortgage rates in the future, which could have a negative impact on our Mortgage production business. Additionally, it is unclear what impact these changes will have on the secondary mortgage markets, mortgage-backed securities pricing, and competition in the industry.

The potential changes to the government-sponsored mortgage programs, and related servicing compensation structures, could require us to fundamentally change our business model in order to effectively compete in the market.

Our inability to make the necessary changes to respond to these changing market conditions or loss of our approved seller/servicer status with any of these entities, would have a material adverse effect on our overall business and our consolidated financial position, results of operations and cash flows.

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Continued or worsening conditions in the real estate market have adversely impacted, and in the future could continue to adversely impact, our business, financial position, results of operations or cash flows.

Adverse economic conditions in the U.S. have resulted, and could continue to result, in increased mortgage loan payment delinquencies, home price depreciation and a lower volume of home sales. These trends have negatively impacted and may continue to negatively impact our Mortgage Production and Mortgage Servicing segments through increased loss severities in connection with loan repurchase and indemnification claims due to declining home prices, increased mortgage reinsurance losses due to increased delinquencies and loss severities, and lower home purchase mortgage originations. However, we have experienced a relatively smaller impact from these trends than many of our current and former competitors because we generally sell substantially all of the mortgage loans we originate shortly after origination, we do not generally maintain credit risk on the loans we originate or maintain a loan investment portfolio, substantially all of our mortgage loan originations are prime mortgages rather than Alt-A or subprime mortgages, and our mortgage loan servicing portfolio has experienced a lower rate of payment delinquencies than that of many of our competitors. Nevertheless, these trends have resulted in an increase in the incidence of loan repurchase and indemnification claims and associated losses, as well as an increase in mortgage reinsurance losses, resulting in an increase in our reserves for loan repurchase and indemnification losses and mortgage reinsurance losses. Continuation of these trends could have a material adverse effect on our business, financial position, results of operations and cash flows.

Our Mortgage Production segment is substantially dependent upon our relationships with Realogy, Merrill Lynch and Charles Schwab, and the termination or non-renewal of our contractual agreements with these clients would materially and adversely impact our mortgage loan originations and resulting Net revenues and Segment profit (loss) of our Mortgage Production segment and this would have a material adverse effect on our overall business and our consolidated financial position, results of operations and cash flows.

We have relationships with several clients that represent a significant portion of our revenues and mortgage loan originations for our Mortgage Production segment. In particular, Realogy, Merrill Lynch and Charles Schwab represented approximately 27%, 15% and 11%, respectively, of our mortgage loan originations for the year ended December 31, 2010. The loss of any one of these clients, whether due to insolvency, their unwillingness or inability to perform their obligations under their respective contractual relationships with us, or if we are not able to renew on commercially reasonable terms any of their respective contractual relationships with us, would materially and adversely impact our mortgage loan originations and resulting Net revenues and Segment profit (loss) of our Mortgage Production segment and this would also have a material adverse effect on our overall business and our consolidated financial position, results of operations and cash flows.

The termination of our status as the exclusive recommended provider of mortgage products and services promoted by Realogy s affiliates, would have a material adverse effect on our business, financial position, results of operations or cash flows.

We are party to a strategic relationship agreement dated as of January 31, 2005 between PHH Mortgage, PHH Home Loans, PHH Broker Partner, Realogy Services Venture Partner, Inc. and Cendant Corporation (now known as Avis Budget Group, Inc.). Under the Strategic Relationship Agreement we are the exclusive recommended provider of mortgage loans to the independent sales associates affiliated with the real estate brokerage business owned and operated by Realogy s affiliates and certain customers of Realogy. The marketing agreement entered into between Coldwell Banker Real Estate Corporation, Century 21 Real Estate LLC, ERA Franchise Systems, Inc., Sotheby s International Affiliates, Inc. and PHH Mortgage Corporation similarly provides that we are the exclusive recommended provider of mortgage loans and related products to the independent sales associates of Realogy s real estate brokerage franchisees, which include Coldwell Banker Real Estate Corporation, Century 21 Real Estate LLC, ERA Franchise Systems, Inc. and Sotheby s International Affiliates, Inc.

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In addition, the Strategic Relationship Agreement provides that Realogy has the right to terminate the covenant requiring it to exclusively recommend us as the provider of mortgage loans to the independent sales associates affiliated with the real estate brokerage business owned and operated by Realogy s affiliates and certain customers of Realogy, following notice and a cure period, if:

§ we materially breach any representation, warranty, covenant or other agreement contained in the Strategic Relationship Agreement, the Marketing Agreement, trademark license agreements or certain other related agreements, including, without limitation, our confidentiality agreements in the PHH Home Loans Operating Agreement and the Strategic Relationship Agreement, and our non-competition agreements in the Strategic Relationship Agreement;

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

§ PHH Home Loans otherwise is not permitted by law, regulation, rule, order or other legal restriction to perform its origination function in any jurisdiction, but in such case exclusivity may be terminated only with respect to such jurisdiction; or

§ PHH Home Loans does not comply with its obligations to complete an acquisition of a mortgage loan origination company under the terms of the Strategic Relationship Agreement.

If Realogy were to terminate its exclusivity obligations with respect to us, one of our competitors could replace us as the recommended provider of mortgage loans to Realogy and its affiliates and franchisees, which would result in our loss of most, if not all, of our mortgage loan originations, Net revenues and Segment profit (loss) of our Mortgage Production segment derived from Realogy s affiliates, which loss would have a material adverse effect on our overall business and our consolidated financial position, results of operations and cash flows.

Moreover, certain of the events that give Realogy the right to terminate its exclusivity obligations with respect to us under the Strategic Relationship Agreement would also give Realogy the right to terminate its other agreements and arrangements with us. For example, the PHH Home Loans Operating Agreement also permits Realogy to terminate the mortgage venture with us upon our material breach of any representation, warranty, covenant or other agreement contained in the Strategic Relationship Agreement, the Marketing Agreement, the Trademark License Agreements or certain other related agreements that is not cured following any applicable notice or cure period or if we become subject to any regulatory order or governmental proceeding that prevents or materially impairs PHH Home Loans ability to originate mortgage loans for any period of time (which order or proceeding is not generally applicable to companies in the mortgage lending business) in a manner that adversely affects the value of one or more of the quarterly distributions to be paid by PHH Home Loans pursuant to the PHH Home Loans Operating Agreement. Upon a termination of the PHH Home Loans joint venture by Realogy or its affiliates, Realogy will have the right either (i) to require that we or certain of our affiliates purchase all of Realogy s interest in PHH Home Loans; or (ii) to cause us to sell our interest in PHH Home Loans to an unaffiliated third party designated by certain of Realogy s affiliates. Additionally, any termination of PHH Home Loans will also result in a termination of the Strategic Relationship Agreement and our exclusivity rights under the Strategic Relationship Agreement. Pursuant to the terms of the PHH Home Loans Operating Agreement, beginning on February 1, 2015, Realogy will have the right at any time upon two years notice to us to terminate its interest in PHH Home Loans. If Realogy were to terminate PHH Home Loans or our other arrangements with Realogy, including its exclusivity obligations with respect to us, any such termination would likely result in our loss of most, if not all, of our mortgage loan originations, Net revenues and Segment profit (loss) of

our Mortgage Production segment derived from Realogy s affiliates, which loss would have a material adverse effect on our overall business and our consolidated financial position, results of operations and cash flows.

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

We may employ various economic hedging strategies in an attempt to mitigate the interest rate and prepayment risk inherent in many of our assets, including our mortgage loans held for sale, interest rate lock commitments and, from time to time, our mortgage servicing rights. Our hedging activities may include entering into derivative instruments. We also seek to manage interest rate risk in our Mortgage Production and Mortgage Servicing segments partially by monitoring and seeking to maintain an appropriate balance between our loan production volume and the size of our mortgage servicing portfolio, as the value of mortgage servicing rights and the income they provide tend to be counter-cyclical to the changes in production volumes and the gain or loss on loans that result from changes in interest rates. This approach requires our management to make assumptions with regards to future replenishment rates for our mortgage servicing rights, loan margins, the value of additions to our mortgage servicing rights and loan origination costs, and many factors can impact these estimates, including loan pricing margins and our ability to adjust staffing levels to meet changing consumer demand.

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

During the third quarter of 2008, we assessed the composition of our capitalized mortgage servicing portfolio and its relative sensitivity to refinance if interest rates decline, the costs of hedging and the anticipated effectiveness of the hedge given the current economic environment. Based on that assessment, we made the decision to close out substantially all of our derivatives related to mortgage servicing rights during the third quarter of 2008. As of December 31, 2010, there were no open derivatives related to mortgage servicing rights, which has resulted in increased volatility in the results of operations for our Mortgage Servicing segment. Our decisions regarding the levels, if any, of our derivatives related to mortgage servicing rights could result in continued volatility in the results of operations for our Mortgage Servicing segment.

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

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

Changes in and the level of interest rates are key drivers of our mortgage loan originations in our Mortgage Production segment and mortgage loan refinancing activity, in particular. The level of interest rates are significantly affected by monetary and related policies of the federal government, its agencies and government sponsored entities, which are particularly affected by the policies of the Federal Reserve Board that regulates the supply of money and credit in the United States. The Federal Reserve Board s policies, including initiatives to

stabilize the U.S. housing market and to stimulate overall economic growth, affect the size of the mortgage loan origination market, the pricing of our interest-earning assets and the cost of our interest-bearing liabilities. Changes in any of these policies are beyond our control, difficult to predict, particularly in the current economic environment, and could have a material adverse effect on our business, financial position, results of operations or cash flows.

Historically, rising interest rates have generally been associated with a lower volume of loan originations in our Mortgage Production segment due to a disincentive for borrowers to refinance at a higher interest rate, while falling interest rates have generally been associated with higher loan originations due to an incentive for borrowers to refinance at a lower interest rate. Our ability to generate Gain on mortgage loans, net in our Mortgage Production segment is significantly dependent on our level of mortgage loan originations. Accordingly, increases in interest rates could materially and adversely affect our mortgage loan origination volume, which could have a material and adverse effect on our Mortgage Production segment, as well as our overall business and our consolidated financial position, results of operations or cash flows.

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

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

In connection with the sale of mortgage loans, we make various representations and warranties concerning such loans that, if breached, require us to repurchase such loans or indemnify the purchaser of such loans for actual losses incurred in respect of such loans. These representations and warranties vary based on the nature of the transaction and the purchaser s or insurer s requirements but generally pertain to the ownership of the mortgage loan, the real property securing the loan and compliance with applicable laws and applicable lender and government-sponsored entity underwriting guidelines in connection with the origination of the loan. The aggregate unpaid principal balance of loans sold or serviced by us represents the maximum potential exposure related to loan repurchase and indemnification claims, including claims for breach of representation and warranty provisions. Due, in part, to recent increased mortgage payment delinquency rates and declining housing prices, we have experienced, and may in the future continue to experience, an increase in loan repurchase and indemnification claims due to actual or alleged breaches of representations and warranties in connection with the sale or servicing of mortgage loans. The estimation of our loan repurchase and indemnification liability is subjective and based upon our projections of the incidence of loan repurchase and indemnification claims, as well as loss severities. Given these trends, losses incurred in connection with such actual or projected loan repurchase and indemnification claims may be in excess of our financial statement reserves, and we may be required to increase such reserves and may sustain additional losses associated with such loan repurchase and indemnification claims in the future. Accordingly, increases to our reserves and losses incurred by us in connection with actual loan repurchases and indemnification payments in excess of our reserves could have a material adverse effect on our business, financial position, results of operations or cash flows.

Additionally, some of our counterparties from whom we have purchased mortgage loans or mortgage servicing rights and from whom we may seek indemnification or against whom we may assert a loan repurchase demand in connection with a breach of a representation or warranty are highly leveraged and have been adversely affected by

the recent economic decline in the United States, including the pronounced downturn in the debt and equity capital markets and the U.S. housing market, and unprecedented levels of credit market volatility. As a result, we are exposed to counterparty risk in the event of non-performance by counterparties to our various contracts, including, without limitation, as a result of the rejection of an agreement or transaction in bankruptcy proceedings, which could result in substantial losses for which we may not have insurance coverage.

The fair values of a substantial portion of our assets are determined based upon significant estimates and assumptions made by our management. As a result, there could be material uncertainty about the fair value of such assets that, if subsequently proven incorrect or inaccurate, could have a material adverse effect on our business, financial position, results of operations or cash flows.

A substantial portion of our assets are recorded at fair value based upon significant estimates and assumptions with changes in fair value included in our consolidated results of operations. The determination of the fair value of such assets, including our mortgage loans held for sale, interest rate lock commitments and mortgage servicing rights, involves numerous estimates and assumptions made by our management. Such estimates and assumptions include, without limitation, estimates of future cash flows associated with our mortgage servicing rights based upon assumptions involving interest rates as well as the prepayment rates and delinquencies and foreclosure rates of the underlying serviced mortgage loans.

As of December 31, 2010, 55% of our total assets were measured at fair value on a recurring basis, and 2% of our total liabilities were measured at fair value on a recurring basis. As of December 31, 2010, approximately 72% of our assets and liabilities measured at fair value were valued using primarily observable inputs and were categorized within Level Two of the valuation hierarchy. Our assets and liabilities categorized within Level Two of the valuation hierarchy are comprised of the majority of our mortgage loans held for sale and derivative assets and liabilities. As of December 31, 2010, approximately 28% of our assets and liabilities measured at fair value were valued using significant unobservable inputs and were categorized within Level Three of the valuation hierarchy. Approximately 80% of our assets and liabilities categorized within Level Three of the valuation hierarchy are comprised of our mortgage servicing rights.

The ultimate realization of the value of our assets that are measured at fair value on a recurring basis may be materially different than the fair values of such assets as reflected in our consolidated statement of financial position as of any particular date. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values for such assets, which could have a material adverse effect on our consolidated financial position, results of operations or cash flows. Accordingly, there may be material uncertainty about the fair value of a substantial portion of our assets.

We may be unable to fully or successfully execute or implement our business strategies or achieve our objectives, including our transformation initiatives and goals, and we may be unable to effectively manage the inherent risks of our businesses, including market, credit, operational, and legal and compliance risks, any failure of which could have a material adverse effect on our business, financial position, results of operations or cash flows.

The businesses in which we engage are complex and heavily regulated and we are exposed to various market, credit, operational and legal and compliance risks. Due, in part, to these regulatory constraints and risks, we may be unable to fully or successfully execute or implement our business strategies or achieve our objectives, including our transformation initiatives and goals, and we may be unable to effectively manage the inherent risks of our businesses, including market, credit, operational, and legal and compliance risks, any failure of which could have a material adverse effect on our business, financial position, results of operations or cash flows.

In 2009, after assessing our cost structure and processes, we initiated a transformation effort directed towards creating greater operational efficiencies, improving scalability of our operating platforms and reducing our operating expenses. This effort involves evaluating and improving operational and administrative processes, eliminating inefficiencies and targeting areas of the market where we can leverage our competitive strengths. We may be unable to fully or successfully execute or implement our transformation initiatives and objectives, in whole or in part, and, if we are successful, there can be no assurances that we can implement these initiatives in a

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cost efficient manner or that these initiatives will have the impact that we intend on our business activities and results of operations. Our inability to achieve the goals targeted by our transformation efforts, or to implement and execute these initiatives within the timeframe we have projected, could result in us not achieving our stated goals.

Risks Related to our Common Stock

Future issuances of our Common stock or securities convertible into our Common stock and hedging activities may result in dilution of our stockholders or depress the trading price of our Common stock.

If we issue any shares of our Common stock or securities convertible into our Common stock in the future, including the issuance of shares of Common stock upon conversion of our 4.0% Convertible Senior Notes due 2012 and 4.0% Convertible Senior Notes due 2014 or the issuance of shares of Common stock upon exercise or settlement of any outstanding stock options, restricted stock units or performance stock units granted under the PHH Corporation Amended and Restated 2005 Equity and Incentive Plan, such issuances will dilute the voting power and ownership percentage of our stockholders and could substantially decrease the trading price of our Common stock. In addition, the price of our Common stock could also be negatively affected by possible sales of our Common stock by investors who engage in hedging or arbitrage trading activity that we expect to develop involving our Common stock following the issuance of the Convertible Notes.

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

The convertible note hedge and warrant transactions may negatively affect the value of our Common stock.

In connection with our offering of the 2012 Convertible Notes, we entered into convertible note hedge transactions that cover, subject to anti-dilution adjustments, approximately 12,195,125 shares of our Common stock and sold warrants to purchase, subject to anti-dilution adjustments, up to approximately 12,195,125 shares of our Common stock with affiliates of the initial purchasers of the 2012 Convertible Notes. In connection with the issuance and sale of the 2014 Convertible Notes, we also entered into convertible note hedge transactions that cover, subject to anti-dilution adjustments, approximately 8,525,484 shares of our Common stock and sold warrants to purchase, subject to anti-dilution adjustments, up to approximately 8,525,484 shares of our Common stock with affiliates of the initial purchasers of the 2014 Convertible Notes (together with the affiliates of the initial purchasers of the 2012 Convertible Notes that are parties to the convertible note hedge and warrant transactions associated with the 2012 Convertible Notes, the Option Counterparties). The convertible note hedge and warrant transactions are expected to reduce the potential dilution upon conversion of the 2012 Convertible Notes and 2014 Convertible Notes, respectively.

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

respect to our Common stock during the observation period for the converted 2012 Convertible Notes and 2014 Convertible Notes. These activities could negatively affect the value of our Common stock.

Provisions in our charter and bylaws, the Maryland General Corporation Law, and certain of our debt indentures may prevent, delay or deter our acquisition by a third party.

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

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

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

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

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

Finally, if certain changes in control or other fundamental changes under the terms of the Convertible Notes or the 9$^{1}/_{4}$ Senior Notes occur prior to their respective maturity date, holders of the notes will have the right, at their option, to require us to repurchase all or a portion of their notes and, for the Convertible Notes, in some cases, such a transaction will cause an increase in the conversion rate for a holder that elects to convert its notes in connection with such a transaction. In addition, the indentures for the 2012 Convertible Notes and 2014 Convertible Notes prohibit us from engaging in certain changes in control unless, among other things, the surviving entity assumes our obligations under the Convertible Notes. These and other provisions of the indentures for the Convertible Notes and the 9$^{1}/_{4}$ Seior Notes due 2016 could prevent, delay or deter potential acquirers.

Certain provisions of the PHH Home Loans Operating Agreement and the Strategic Relationship Agreement that we have with Realogy and certain provisions in our other mortgage loan origination agreements could discourage third parties from seeking to acquire us or could reduce the amount of consideration they would be willing to pay our stockholders in an acquisition transaction.

Pursuant to the terms of the PHH Home Loans Operating Agreement, Realogy has the right to terminate PHH Home Loans, at its election, at any time on or after February 1, 2015 by providing two years notice to us. In addition, under the PHH Home Loans Operating Agreement, Realogy may terminate PHH Home Loans if we effect a change in control transaction involving certain competitors or other third parties. In connection with such termination, we would be required to make a liquidated damages payment in cash to Realogy of an amount equal to the sum of (i) two times PHH Home Loans trailing 12 months net income (except that, in the case of a termination by Realogy following a

change in control of us, we may be required to make a cash payment to Realogy in an amount equal to PHH Home Loans trailing 12 months net income multiplied by (a) if the PHH Home Loans Operating Agreement is terminated prior to its twelfth anniversary, the number of years remaining in the first 12 years of the term of the PHH Home Loans Operating Agreement, or (b) if the PHH Home Loans Operating Agreement is terminated on or after its tenth anniversary, two years), and (ii) all costs reasonably incurred by Cendant (now known as Avis Budget Group, Inc.) and its subsidiaries in unwinding its relationship

with us pursuant to the PHH Home Loans Operating Agreement and the related agreements, including the Strategic Relationship Agreement, the Marketing Agreement and the Trademark License Agreements. Pursuant to the terms of the Strategic Relationship Agreement, we are subject to a non-competition provision, the breach of which could result in Realogy having the right to terminate the Strategic Relationship Agreement, seek an injunction prohibiting us from engaging in activities in breach of the non-competition provision or result in our liability for damages to Realogy.

In addition, our agreements with some of our financial institution clients, such as Merrill Lynch and Charles Schwab, provide the applicable financial institution client with the right to terminate its relationship with us prior to the expiration of the contract term if we complete certain change in control transactions with certain third parties. Because we may be unable to obtain consents or waivers from such clients in connection with certain change in control transactions, the existence of these provisions may discourage certain third parties from seeking to acquire us or could reduce the amount of consideration they would be willing to pay to our stockholders in an acquisition transaction. For the year ended December 31, 2010, approximately 73% of our mortgage loan originations were derived from our private label channel.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Mortgage Production and Mortgage Servicing Segments

Our Mortgage Production and Mortgage Servicing segments have centralized operations in approximately 555,000 square feet of shared leased office space in the Mt. Laurel, New Jersey area. We have a second area of centralized offices that are shared by our Mortgage Production and Mortgage Servicing segments in Jacksonville, Florida, where approximately 150,000 square feet is occupied. In addition, our Mortgage Production segment leases 46 smaller offices located throughout the U.S. and our Mortgage Servicing segment leases one additional office located in New York.

Fleet Management Services Segment

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

Item 3. Legal Proceedings

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

Item 4. (Removed and Reserved)

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PART II

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

Market Price of Common Stock

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

	Stock Price	
	High	Low
January 1, 2009 to March 31, 2009	$ 14.87	$ 8.50
April 1, 2009 to June 30, 2009	19.98	13.60
July 1, 2009 to September 30, 2009	22.88	15.78
October 1, 2009 to December 31, 2009	19.77	13.49
January 1, 2010 to March 31, 2010	23.81	15.84
April 1, 2010 to June 30, 2010	25.86	19.04
July 1, 2010 to September 30, 2010	22.39	17.83
October 1, 2010 to December 31, 2010	23.36	18.68

As of February 22, 2011 there were 6,909 holders of record of our Common stock.

Dividend Policy

Since our spin-off from Cendant Corporation (now known as Avis Budget Group, Inc.) in 2005, we have not paid any cash dividends on our Common stock nor do we foresee paying any cash dividends on our Common stock in the foreseeable future.

The declaration and payment of dividends in the future will be subject to the discretion of our Board of Directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our operating subsidiaries, legal requirements, regulatory constraints and other factors deemed relevant.

Many of our subsidiaries (including certain consolidated partnerships, trusts and other non-corporate entities) are subject to restrictions on their ability to pay dividends or otherwise transfer funds to other consolidated subsidiaries and, ultimately, to PHH Corporation (the parent company). These restrictions relate to loan agreements applicable to certain of our asset-backed debt arrangements and to regulatory restrictions applicable to the equity of our reinsurance subsidiary. The aggregate restricted net assets of these subsidiaries totaled $1.1 billion as of December 31, 2010. The restrictions on net assets of certain subsidiaries do not directly limit our ability to pay dividends from consolidated Retained earnings.

Certain debt arrangements require the maintenance of ratios and contain restrictive covenants applicable to our consolidated financial statement elements that potentially could limit our ability to pay dividends. See Note 16, Stock-Related Matters, in the accompanying Notes to Consolidated Financial Statements for further information on

these requirements.

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Item 6. Selected Financial Data

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

	Year Ended and As of December 31,				
	2010	2009	2008[1]	2007	2006
	(In millions, except per share data)				
Consolidated Statements of Operations Data:					
Net revenues	$ 2,438	$ 2,606	$ 2,056	$ 2,240	$ 2,288
Net income (loss) attributable to PHH Corporation	48	153	(254)	(12)	(16)
Basic earnings (loss) per share attributable to PHH Corporation	$ 0.87	$ 2.80	$ (4.68)	$ (0.23)	$ (0.29)
Diluted earnings (loss) per share attributable to PHH Corporation	0.86	2.77	(4.68)	(0.23)	(0.29)
Consolidated Balance Sheets Data:					
Total assets	$ 11,270	$ 8,123	$ 8,273	$ 9,357	$ 10,760
Debt	8,085	5,160	5,764	6,279	7,647
PHH Corporation stockholders equity	1,564	1,492	1,266	1,529	1,515

[1] Net loss attributable to PHH Corporation for the year ended December 31, 2008 included $42 million of income related to a terminated merger agreement with General Electric Capital Corporation and a $61 million non-cash charge for Goodwill impairment.

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

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

Our Management s Discussion and Analysis of Financial Condition and Results of Operations is presented in sections as follows:

§ Overview
§ Results of Operations
§ Risk Management
§ Liquidity and Capital Resources
§ Contractual Obligations
§ Off-Balance Sheet Arrangements and Guarantees
§ Critical Accounting Policies and Estimates
§ Recently Issued Accounting Pronouncements

Overview

We are a leading outsource provider of mortgage and fleet management services. We conduct our business through three operating segments: a Mortgage Production segment, a Mortgage Servicing segment and a Fleet Management Services segment. Our Mortgage Production segment originates, purchases and sells mortgage loans through PHH Mortgage Corporation. Our Mortgage Servicing segment services mortgage loans originated by PHH Mortgage and PHH Home Loans. Our Mortgage Servicing segment also purchases mortgage servicing rights and acts as a subservicer for certain clients that own the underlying servicing rights. Our Fleet Management Services segment provides commercial fleet management services to corporate clients and government agencies throughout the United States and Canada.

Although our Fleet Management Services segment has generated a larger portion of our Net revenues, our Mortgage Production and Mortgage Servicing segments have contributed a significantly larger portion of our Net income (loss). Our Mortgage Production and Mortgage Servicing segments have experienced, and may continue to experience, high degrees of earnings volatility due to significant exposure to interest rates and the real estate markets, which impacts our loan origination volumes, valuation of our mortgage servicing rights, and foreclosure-related charges.

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk in this Form 10-K for additional information regarding our interest rate and market risks.

Executive Summary

We entered 2010 with an aggressive plan to improve our business across all of our operating segments by focusing on the following areas:

§ executing our transformation plan to create greater operational efficiencies, improve scalability of our operating platforms and reduce operating expenses;

§ increasing our market share for mortgage originations;

- § improving our competitive position in the fleet market; and
- § executing our liquidity plan to diversify our funding sources.

We made significant progress on our transformation initiatives, which included implementing new technologies to increase efficiencies within our Fleet and Mortgage operations, evaluating and improving operational and administrative processes, eliminating inefficiencies and targeting areas of the market where we can leverage our competitive strengths. We estimate that our projected expenses in 2011 would be $88 million higher than if we had not executed this plan; however, the actual benefits realized can vary from our estimates due to changes in mortgage origination volumes or the mix of business in our Mortgage Production segment. Our transformation plan produced immediate benefits in 2010, as our total expenses for 2010 would have been $18 million higher than 2009 had we not executed the plan. This is below our initial estimate of a $40 million impact in 2010 due to the fact that we delayed certain initiatives and increased the scope of our plan to target additional revenue and cost opportunities. Furthermore, a portion of these cost savings have been, and will continue to be, reinvested into the business in various areas, including further development of our information technology platform, increasing sales and marketing efforts and developing an enterprise risk management process.

The historically low interest rate environment during 2010 was conducive for refinance activity, which benefited our Mortgage Production segment; however, this benefit was partially offset by increased regulatory costs incurred during 2010. Our initiatives to grow our wholesale/correspondent originations and increase the penetration within our existing client base enabled us to grow our total origination volume by 30% from 2009 and increase our origination market share. The total loan margins in our Mortgage Production Segment were negatively impacted by this shift to wholesale/correspondent volume, as well as increased regulatory costs; however, we were able to grow market share and add loans to our servicing portfolio at historically low interest rates, which should add to our servicing cash flows over time.

We continued to see improvement in our Fleet Management Services segment results as its Segment profit increased 17% in 2010 compared to 2009. The number of service-only units grew during the second half of 2010 and we continued to see an improvement in leasing margins.

During 2010, we executed and achieved our liquidity plan and diversified our funding sources by issuing senior term notes, amending and extending our revolving credit facility and entering into new asset-backed lending commitments in both our Mortgage Production and Fleet Management Services segments.

We experienced interest rate volatility late in the fourth quarter of 2010 and mortgage interest rates increased through the end of 2010 and into 2011. Mortgage industry volumes are projected to decline over 30% from 2010 and margins have tightened in the beginning of 2011. We anticipate that the beginning of 2011 will be challenging as we attempt to continue to grow our originations in a higher interest rate environment. Although we face these challenges, we expect to be well positioned with our diversified origination channels and servicing platform. The industry is projecting lower originations in 2011, primarily from a decline in refinance activity offset by a pickup in purchase originations. We expect to continue our efforts to increase our share of the mortgage origination market and take advantage of the increased market for home purchases. Additionally, we plan to continue our transformation initiatives to improve the operating efficiencies across all of our business segments, and focus on improving profitability in our Fleet business by continuing to target service clients and provide new product offerings in maintenance and safety.

The following table presents summarized results for PHH Corporation for 2010 and 2009:

	Year Ended December 31,	
	2010	**2009**
	(In millions, except per share data)	

PHH Corporation Consolidated:		
Net income attributable to PHH Corporation	$ 48	$ 153
Basic earnings per share attributable to PHH Corporation	0.87	2.80
Diluted earnings per share attributable to PHH Corporation	0.86	2.77
Reportable Segments Profit (Loss):[1]		
Mortgage Production segment	$ 268	$ 306
Mortgage Servicing segment	(241)	(85)
Fleet Management Services segment	63	54

[1] Segment Profit (Loss) is described in Note 22, Segment Information in the accompanying Notes to Consolidated Financial Statements.

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The following summarizes the key highlights that drove our operating performance and segment profit (loss) for our reportable segments during 2010 in comparison to 2009:

Mortgage Production Segment

§ The mortgage production segment generated strong volumes as interest rate lock commitments expected to close increased by $12.1 billion (46%) during the year ended December 31, 2010 compared to the same period in 2009

§ Total mortgage closing volumes increased and were driven by the increase in the mix of wholesale/correspondent closings to 32% during the year ended December 31, 2010 from 15% during the same period in 2009, which represents the execution of our strategy to expand on this channel in 2010 and grow market share

§ Total loan margins during the year ended December 31, 2010 were lower than the same period in 2009 due to the lower value of initial capitalized MSRs resulting from continuing reductions in mortgage interest rates that occurred throughout most of 2010

Mortgage Servicing Segment

§ The loan servicing portfolio grew as additions to the portfolio exceeded actual prepayments and the average loan servicing portfolio increased by $7.2 billion (5%) during the year ended December 31, 2010 compared to the same period in 2009

§ The fair value of our MSRs declined by $166 million during the year ended December 31, 2010 compared to an increase of $111 million during the same period in 2009 due to changes in market-related inputs and assumptions and was primarily impacted in both periods by changes in mortgage interest rates

§ Foreclosure-related charges were $72 million during the year ended December 31, 2010 compared to $70 million during the same period in 2009

Fleet Management Services Segment

§ The results during the year ended December 31, 2010 as compared to the same period in 2009 were positively impacted by improvement in leasing margins and our focus on cost reductions

§ Average leased units decreased 8% as existing clients have reduced fleets due to the current economic conditions and we continued to realize the impact of non-renewal of lease arrangements in previous years

See Results of Operations 2010 Compared With 2009 for additional information regarding our consolidated results and the results of each of our reportable segments for the respective period.

Industry Trends

Regulatory Trends

We are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on our business. By agreement with our

private label clients in our mortgage business, we are required to comply with additional requirements that our clients may be subject to through their regulators. These laws, regulations and judicial and administrative decisions include those pertaining to the following areas:

§ Real estate settlement procedures;

§ Consumer credit provisions; fair lending, fair credit reporting and truth in lending;

§ The establishment of maximum interest rates, finance charges and other charges;

§ Secured transactions; collections, foreclosure, repossession and claims-handling procedures;

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- § Privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers and guidance on non-traditional mortgage loans issued by the federal financial regulatory agencies;
- § Taxing and licensing of vehicles and environmental protection;
- § Insurance regulations and licensing requirements pertaining to standards of solvency that must be met and maintained; reserves and provisions for unearned premiums, losses and other obligations and deposits of securities for the benefit of policyholders.

Financial Regulatory Reform

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

With respect to asset-securitizations, the Dodd-Frank Act requires sponsors and issuers of securitizations to retain a portion of the economic interest in the credit risk associated with the assets securitized by them. Federal regulators have been authorized to provide exceptions to the risk retention requirements for certain qualified mortgages and mortgages meeting certain underwriting standards prescribed in such regulations.

If the mortgage loans sold into securities sponsored by Fannie Mae, Freddie Mac and Ginnie Mae do not meet the definition of a qualified mortgage , then the GSEs may be required to retain a portion of the risk of assets they securitize, which may in turn substantially reduce or eliminate their ability to issue mortgage-backed securities.

Any disruption or limitations in the purchase or securitization of mortgage loans by Fannie Mae, Freddie Mac, or Ginnie Mae would have a significant negative impact on the entire industry, including us, since a majority of loans currently being originated are sold to, or sold pursuant to programs sponsored by, these entities.

Our Fleet Management Services segment utilizes asset-backed debt issued by Chesapeake, our fleet securitization subsidiary, to support the acquisition of vehicles used in our U.S. leasing operations. Historically, we have maintained subordinated rights to, and a first loss position in, excess of five percent of the assets supporting the securities and other indebtedness issued by Chesapeake. While we expect to retain our economic interest in the credit risk associated with the assets securitized by Chesapeake consistent with historic levels, we may be required to retain a larger economic interest in Chesapeake depending on the final risk retention regulations to be issued by federal regulators under the Dodd-Frank Act.

We are continuing to evaluate all aspects of the Dodd-Frank Act. This legislation and related regulations will likely lead to heightened federal regulation and oversight of our business activities and result in higher regulatory compliance costs across the mortgage industry. We believe that the increase in these costs is likely to result in higher loan origination fees or interest rates to potential mortgage borrowers.

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Focus on Foreclosure Practices

During the third quarter of 2010, several of our mortgage servicing competitors announced the suspension of foreclosure proceedings in various judicial foreclosure states due to concerns associated with the preparation and execution of affidavits used in connection with foreclosure proceedings in such states. Due in part to these announcements, we have received inquiries from regulators and attorneys general of certain states as well as from the Committee on Oversight and Government Reform of the U.S. House of Representatives, requesting information as to our foreclosure processes and procedures. Additionally, various inquiries and investigations of, and legal proceedings against, certain of our competitors have been initiated by attorneys general of certain states and the U.S. Department of Justice, and certain title insurance companies have announced that they will suspend issuing title insurance policies on properties that have been foreclosed upon by such firms. We have not received any notice that a formal investigation or legal proceeding has been initiated against us by attorneys general or the U.S. Department of Justice.

We have completed a comprehensive review of our foreclosure procedures and based on this review we have not halted foreclosures in any states and have no plans to initiate a foreclosure moratorium. Potential delays in completing foreclosures could negatively impact both our liquidity position and ultimate loss severities; however, these recent developments are dynamic and the ultimate outcome of these actions is uncertain. We continue to monitor and evaluate the potential impact that the additional regulatory focus on foreclosure practices may have on our business.

Origination Practices

In December 2010, the U.S. Department of Housing and Urban Development (HUD) notified PHH Mortgage of a complaint filed by the National Community Reinvestment Coalition (NCRC), a non-profit corporation. In its complaint to HUD, which included other industry participants, the NCRC alleges that the establishment of a minimum credit score requirement for loans insured by the Federal Housing Administration is racially discriminatory and has a disproportionate, adverse and disparate impact on certain minority borrowers. HUD has made no determination as to the merits of the NCRC s complaint or that PHH Mortgage has violated any laws or regulations. HUD will conduct an investigation of the NCRC s complaint, and if HUD determines that there is no reasonable cause to believe that an unlawful discriminatory housing practice has occurred, it will dismiss the case.

See Part I Item 1A. Risk Factors Risks Related to our Company The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our business, financial position, results of operations or cash flows. in this Form 10-K for more information.

Mortgage Industry Overall Trends

The aggregate demand for mortgage loans in the U.S. is a primary driver of the Mortgage Production and Mortgage Servicing segments operating results. The demand for mortgage loans is affected by external factors including prevailing mortgage rates, the strength of the U.S. housing market and investor underwriting standards for borrower credit and loan-to-value ratios. Economic conditions have impacted mortgage interest rates during the year ended December 31, 2010. Mortgage rates remained at historically low levels throughout 2010, which generated an increase in refinance activity. We observed a significant amount of interest rate volatility and an increase in interest rates late in the fourth quarter of 2010, which has continued into the first quarter of 2011. Although the level of interest rates is a key driver of refinancing activity, there are other factors which influence the level of refinance originations, including home prices, underwriting standards and product characteristics.

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Mortgage Production Trends

The mortgage industry has continued to utilize more restrictive underwriting standards that makes it more difficult for borrowers with less than prime credit records, limited funds for down payments or a high loan-to-value ratio to qualify for a mortgage. As of January 2011, Fannie Mae s *Economics and Mortgage Market Analysis* forecasted a decrease in industry loan originations of approximately 32% in 2011 from 2010 levels, which was comprised of a 61% decrease in forecasted refinance activity offset by a 23% increase in forecasted purchase originations.

Given the extraordinary level of refinance activity experienced during 2010, we increased staffing levels in our Mortgage Production segment and entered into several outsourcing arrangements to assist us in processing and closing our current pipeline of loans and to maintain our service level standards with our private label clients. While these initiatives may increase production costs in the short-term, they provide us with significantly more flexibility in managing the changing level of origination volumes.

Loan margins across the industry declined on average during the fourth quarter of 2010 from the averages of the first three quarters of 2010. Loan margins have remained and we expect them to continue to remain higher than years prior to 2008, which we believe is reflective of a longer term view of the returns required to manage the underlying risk of a mortgage production business.

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

The majority of industry loan originations during the year ended December 31, 2010 were fixed-rate loans that conform to the standards of the GSEs and substantially all of our loans closed to be sold were conforming. We continued to observe a lack of liquidity and lower valuations in the secondary mortgage market for non-conforming loans during the year ended December 31, 2010. We have observed that the market for prime loan production with loan amounts exceeding the GSE guidelines has begun to re-emerge, and we expect that this market will continue to develop into 2011.

Mortgage Servicing Trends

The declining housing market and general economic conditions, including elevated unemployment rates, have continued to negatively impact our Mortgage Servicing segment. Industry-wide mortgage loan delinquency rates have increased and may continue to increase over 2009 levels in correlation with unemployment rates. We expect foreclosure costs to remain elevated going into 2011 due to continuing focus on repurchase and indemnification requests from investors and insurers and challenging conditions in the housing market.

There has been a recent industry focus on mortgage loan repurchase obligations from private investors and securitizations. Several firms have initiated lawsuits representing private investors alleging failure to comply with applicable representation and warranty provisions in the private sale and securitization agreements. Given the recent industry focus, we could experience an increase in loan repurchases and indemnifications from private investors and we are continuing to monitor these trends and the related impact on our overall loan repurchase and indemnification obligations.

In addition to the increased focus on loan repurchases and indemnifications, we have experienced elevated provisions for reinsurance losses as a result of the continued weakness in the housing market and increasing delinquency and foreclosure experience. We expect our paid claims for certain book years to increase during 2011 as foreclosures are

completed and insurance claims are processed and finalized. We hold securities in trust related to our potential obligation to pay such claims, which were $266 million and were included in Restricted cash, cash equivalents and investments in the accompanying Consolidated Balance Sheet as of December 31, 2010. We expect that the amount of securities currently held in trust will be significantly higher than future claims for reinsurance losses.

In January 2011, the Federal Housing Finance Agency directed Fannie Mae and Freddie Mac to develop a joint initiative to consider alternatives for future mortgage servicing structures and compensation. Under this proposal, the GSEs are considering potential structures in which the minimum service fee would be reduced or eliminated altogether. This would provide mortgage bankers with the ability to either sell all or a portion of the retained servicing fee for cash up front, or retain an excess servicing fee. While the proposal provides additional flexibility in managing liquidity and capital requirements, it is unclear how the various options might impact mortgage-backed security pricing and the related pricing of excess servicing fees. The GSEs are also considering different pricing options for non-performing loans to better align servicer incentives with MBS investors and provide the loan guarantor the ability transfer non-performing servicing. The Federal Housing Finance Agency has indicated that any change in the servicing compensation structure would be prospective and would not be expected to occur prior to mid-2012. These changes, if implemented, could have a significant impact on the entire mortgage industry and on the results of operations and cash flows of our mortgage business.

See Risk Management in this Form 10-K for additional information regarding mortgage reinsurance and loan repurchases.

Fleet Management Services Trends

The fleet management industry can be impacted by the overall strength of the U.S. economy and the levels of corporate spending and capital investment. Growth in our Fleet Management Services segment is driven principally by increased market share in fleets greater than 75 units and increased fee-based services. The U.S. commercial fleet management services market has continued to experience minimal growth over the last several years as reported by *Automotive Fleet*. Further, according to *Automotive Fleet,* only 49%, of the approximately 5.6 million, commercial cars and trucks operating in the U.S. during 2009, were included in managed fleets of 15 or more vehicles. The industry is concentrated in a limited number of national firms and the top five fleet management services providers accounted for 83% of the total number of vehicles funded and managed by the top 10 U.S. companies. The total number of funded vehicles for the top 10 fleet management companies declined approximately 3.9% during the year ending December 31, 2010. Consistent with this trend, we experienced a decline in our leased units in the year ended December 31, 2010 and we expect that this trend will continue into 2011. Although we have experienced a decline in our leased units, we have seen positive trends in our service-only units in the second half of 2010, which we expect to continue into 2011.

Inflation

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

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

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Results of Operations

Consolidated Results

The following table presents our consolidated results of operations for 2010, 2009 and 2008:

	Year Ended December 31,		
	2010	2009	2008
	(In millions)		
Net fee income	$ 448	$ 425	$ 371
Fleet lease income	1,370	1,441	1,585
Gain on mortgage loans, net	635	610	259
Mortgage net finance (expense) income	(73)	(58)	2
Loan servicing income	415	431	430
Valuation adjustments related to mortgage servicing rights, net	(427)	(280)	(733)
Other income	70	37	142
Net revenues	2,438	2,606	2,056
Depreciation on operating leases	1,224	1,267	1,299
Fleet interest expense	91	89	162
Goodwill impairment			61
Total other expenses	1,008	970	977
Total expenses	2,323	2,326	2,499
Income (loss) before income taxes	115	280	(443)
Income tax expense (benefit)	39	107	(162)
Net income (loss)	76	173	(281)
Less: net income (loss) attributable to noncontrolling interest	28	20	(27)
Net income (loss) attributable to PHH Corporation	$ 48	$ 153	$ (254)

2010 Compared With 2009

Our Net income (loss) attributable to PHH Corporation decreased by $105 million during 2010 compared to 2009 primarily due to a decline in segment profit in our Mortgage Production segment and an increase in segment loss in our Mortgage Servicing segment partially offset by an increase in segment profit in our Fleet Management Services segment. A more detailed discussion of the results for our reportable segments is presented within Segment Results below.

Our effective income tax rates were 33.7% and 38.3% for 2010 and 2009, respectively. Income tax expense changed favorably by $68 million primarily due to the change in Income (loss) before income taxes resulting in a $58 million decrease in federal income tax expense and a $9 million decrease in state and local income taxes. The determination of the effective income tax rates for 2010 and 2009 excludes $11 million and $9 million, respectively, of the Income tax

expense attributable to noncontrolling interest. See Note 13, Income Taxes, in the accompanying Notes to Consolidated Financial Statements for further information.

2009 Compared With 2008

Our Net income (loss) attributable to PHH Corporation increased by $407 million during 2009 compared to 2008 primarily due to favorable changes in segment profit (loss) in our Mortgage Production and Mortgage Servicing segments that were partially offset by a decrease in segment profit in our Fleet Management Services segment. In addition, for 2009 as compared to 2008 there was an unfavorable change of $57 million in other (expense) income not allocated to our reportable segments, primarily related to a terminated merger agreement with General Electric Capital Corporation during 2008. A more detailed discussion of the results for our reportable segments is presented within Segment Results below.

Our effective income tax rates were 38.3% and (36.6)% for 2009 and 2008, respectively. Income tax expense (benefit) changed unfavorably by $269 million primarily due to the change in Income (loss) before income taxes resulting in a $253 million increase in federal income tax expense and a $37 million increase in state and local income taxes, which was partially offset by a $19 million favorable change in the impact of Realogy Corporation s noncontrolling interest in the profit or loss of PHH Home Loans. The determination of the effective income tax rates for 2009 and 2008 excludes $9 million and ($10) million, respectively, of the Income tax expense (benefit) attributable to noncontrolling interest.

Segment Results

Discussed below are the results of operations for each of our reportable segments. Certain income and expenses not allocated to our reportable segments and intersegment eliminations are presented as Other in Note 22, Segment Information, in the accompanying Notes to Consolidated Financial Statements. Segment profit or loss 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 profits and losses of PHH Home Loans.

During the first quarter of 2010, our Mortgage and Fleet businesses paid dividends to PHH Corporation in order to effect a reallocation of capital between our businesses (recapitalization). Management evaluated several data sources, including rating agency leverage benchmarks, industry comparables and asset-backed securities market subordination levels to establish the revised equity levels in our businesses. The dividend payments impacted the balances under our intercompany funding arrangements, which are used to determine the allocation of our financing costs to our segments. Had the dividends been paid at the beginning of 2009, segment profit for our Mortgage Production segment would have changed favorably by $14 million and segment profit for our Fleet Management Services segment would have decreased by $14 million for 2009.

The following table presents a summary of our segment results:

	Year Ended and As of December 31,		
	2010	2009	2008
	(In millions)		
Net Revenues:			
Mortgage Production	$ 911	$ 880	$ 462
Mortgage Servicing	(63)	82	(276)
Fleet Management Services	1,593	1,649	1,827
Other	(3)	(5)	43
Total Net Revenues	$ 2,438	$ 2,606	$ 2,056
Segment Profit (Loss)[(1)]:			
Mortgage Production	$ 268	$ 306	$ (90)
Mortgage Servicing	(241)	(85)	(430)
Fleet Management Services	63	54	62
Other	(3)	(15)	42
Total Segment Profit (Loss)	$ 87	$ 260	$ (416)

Assets:			
Mortgage Production	$ 4,605	$ 1,464	$ 1,228
Mortgage Servicing	2,291	2,269	2,056
Fleet Management Services	4,216	4,331	4,956
Other	158	59	33
Total Assets	$ 11,270	$ 8,123	$ 8,273

(1) Segment Profit (Loss) is described in Note 22, Segment Information in the accompanying Notes to Consolidated Financial Statements.

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Mortgage Production Segment

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

	Year Ended December 31,		
	2010	2009	2008
	($ in millions, except average loan amount)		
Loans closed to be sold	$ 37,747	$ 29,370	$ 20,753
Fee-based closings	11,247	8,194	13,166
Total closings	$ 48,994	$ 37,564	$ 33,919
Purchase closings	$ 20,270	$ 15,401	$ 21,403
Refinance closings	28,724	22,163	12,516
Total closings	$ 48,994	$ 37,564	$ 33,919
Fixed rate	$ 38,657	$ 30,512	$ 20,008
Adjustable rate	10,337	7,052	13,911
Total closings	$ 48,994	$ 37,564	$ 33,919
Retail closings	$ 33,429	$ 31,834	$ 28,867
Wholesale/correspondent closings	15,565	5,730	5,052
Total closings	$ 48,994	$ 37,564	$ 33,919
First mortgage closings (units)	197,010	153,694	115,873
Second-lien closings (units)	8,687	10,692	30,176
Total number of loans closed (units)	205,697	164,386	146,049
Average loan amount	$ 238,187	$ 228,510	$ 232,241
Loans sold	$ 34,535	$ 29,002	$ 21,079
Applications	$ 74,628	$ 54,283	$ 48,545
IRLCs expected to close	$ 38,330	$ 26,210	$ 19,790

	Year Ended December 31,		
	2010	2009	2008
	(In millions)		
Mortgage fees	$ 291	$ 275	$ 208

Gain on mortgage loans, net	635	610	259
Mortgage interest income	97	79	92
Mortgage interest expense	(113)	(90)	(99)
Mortgage net finance expense	(16)	(11)	(7)
Other income	1	6	2
Net revenues	911	880	462
Salaries and related expenses	369	336	297
Occupancy and other office expenses	34	32	44
Other depreciation and amortization	10	14	13
Other operating expenses	202	172	164
Goodwill impairment			61
Total expenses	615	554	579
Income (loss) before income taxes	296	326	(117)
Less: net income (loss) attributable to noncontrolling interest	28	20	(27)
Segment profit (loss)	$ 268	$ 306	$ (90)

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2010 Compared With 2009

Mortgage Production Statistics

Interest rate lock commitments expected to close (IRLCs) increased by 46% during 2010 compared to 2009 due to the significant refinance activity in 2010 as well the increase in wholesale/correspondent volume as further described below. Total closings increased 30% during 2010 compared to 2009 which was comprised of a 32% increase in purchase closings and a 30% increase in refinance closings. The higher purchase closings in 2010 was primarily driven by improvement in home sales as compared to 2009 and the acceleration of purchase closings due to the expiration of the home purchase tax credit. The higher refinance closings in 2010 was a result of the significant decline in mortgage rates throughout most of 2010, which generated an increase in refinance activity.

The mix of total closings shifted from a higher percentage of retail closings in 2009 towards more wholesale/correspondent closings in 2010, which is due to our efforts to expand production in this channel. The increase in wholesale/correspondent originations has allowed us to grow our overall originations and market share; however, retail closings are generally more profitable than wholesale/correspondent and have higher loan margins and higher expenses.

Mortgage Fees

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

Mortgage fees increased by $16 million (6%) primarily due to the 5% increase in retail closings coupled with the 37% increase in fee-based originations during 2010 compared to 2009.

Gain on Mortgage Loans, Net

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

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

	Year Ended December 31,			
	2010	2009	Change	% Change
	(In millions)			
Gain on loans	$ 624	$ 552	$ 72	13%
Change in fair value of Scratch and Dent and certain non-conforming mortgage loans	(19)	(20)	1	5%
Economic hedge results	30	78	(48)	(62)%
Total change in fair value of mortgage loans and related derivatives	11	58	(47)	(81)%
Gain on mortgage loans, net	$ 635	$ 610	$ 25	4%

The $72 million increase in gain on loans during 2010 compared to 2009 was primarily due to a 46% increase in interest rate lock commitments expected to close that was partially offset by lower total margins and the higher mix of wholesale/correspondent volume. Although loan pricing margins were slightly higher in 2010 than in 2009, the decrease in total margin during 2010 was primarily attributable to the lower value of initial capitalized mortgage servicing rights resulting from continuing reductions in interest rates and relatively lower servicing values in 2010 compared to 2009. Loan pricing margins generally widen when mortgage interest rates decline and tighten when mortgage interest rates increase, as loan originators balance origination volume with operational capacity. The higher mix of wholesale/correspondent volume caused a reduction in Gain on loans as the cost to acquire the loan from the wholesale/correspondent originator reduces the gain from subsequently selling the loan into the secondary market.

The $47 million unfavorable variance from the change in fair value of mortgage loans and related derivatives was mostly attributable to a $48 million unfavorable variance from economic hedge results due to increased interest rate volatility and higher costs of hedging the larger volume of outstanding IRLCs in 2010 compared to 2009. The change in fair value of Scratch and Dent and certain non-conforming mortgage loans is primarily attributable to additions to the population of Scratch and Dent loans resulting from repurchases and salability issues. Scratch and Dent loans represent loans with origination flaws or performance issues.

Mortgage Net Finance Expense

Mortgage net finance expense allocable to the Mortgage Production segment consists of interest income on mortgage loans and interest expense allocated on debt used to fund mortgage loans and is driven by the average balance of loans held for sale, the average volume of outstanding borrowings, the note rate on loans held for sale and the cost of funds rate of our outstanding borrowings.

Mortgage net finance expense allocable to the Mortgage Production segment increased by $5 million (45%) during 2010 compared to 2009 due to a $23 million (26%) increase in Mortgage interest expense partially offset by an $18 million (23%) increase in Mortgage interest income. A significant portion of our loan originations are funded with variable-rate short-term debt. The increase in Mortgage interest expense was primarily attributable to the higher

average volume of loans closed to be sold. The increase in Mortgage interest income was primarily due to the higher average volume of loans held for sale due to the increase in loans closed to be sold partially offset by a lower average note rate on loans held for sale resulting from a decline in mortgage interest rates for conforming first mortgage loans. Additionally, Mortgage net finance expense was favorably impacted by $14 million in 2010 compared to 2009 as a result of the reallocation of capital between businesses.

Salaries and Related Expenses

Salaries and related expenses allocable to the Mortgage Production segment consist of commissions paid to employees involved in the loan origination process, as well as compensation, payroll taxes and benefits paid to employees in our mortgage production operations and allocations for overhead. Salaries and related expenses increased by $33 million (10%) during 2010 compared to 2009, due to a $35 million increase in salaries and related benefits and a $3 million increase in commissions expense due to higher retail closings which were partially offset by a $5 million decrease in incentive compensation. The increase in salaries and related benefits was primarily attributable to an increase in costs associated with temporary and contract personnel in response to higher loan origination volumes coupled with an increase in salaries and other benefit costs due to an increase in permanent employees during 2010 compared to 2009.

Other Operating Expenses

Other operating expenses allocable to the Mortgage Production segment consist of production-related direct expenses, appraisal expense and allocations for overhead. Other operating expenses increased by $30 million (17%) during 2010 compared to 2009 primarily due to an $12 million increase in corporate overhead costs associated with executing our transformation plan coupled with an increase in production-related direct expenses due to an increase in total closings and retail originations during 2010 compared to 2009.

2009 Compared With 2008

Mortgage Production Statistics

The change in mix between fee-based closings and loans closed to be sold was primarily due to a decrease in fee-based closings from our financial institutions clients during 2009 compared to 2008. Long-term mortgage interest rates declined to historic lows during the fourth quarter of 2008 and remained historically low throughout 2009, which resulted in a greater percentage of fixed-rate conforming mortgage loan originations, whereas our fee-based closings from our financial institutions clients have historically consisted of a greater percentage of ARMs. The change in mix of first and second-lien originations is attributable to the product offerings of our financial institutions clients during 2009 as compared to 2008, which is reflective of the general economic trends including home price depreciation, which has reduced the available equity of potential borrowers.

The increase in IRLCs expected to close was primarily attributable to an increase in refinance activity resulting from historically low mortgage interest rates during 2009 and the change in mix between fee-based closings and loans closed to be sold.

Mortgage Fees

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

Mortgage fees increased by $67 million (32%) primarily due to an 11% increase in total closings, an increase in first mortgage retail originations and the impact of a decrease in second-lien originations that was partially offset by a change in mix between fee-based closings and loans closed to be sold during 2009 compared to 2008. Mortgage fees associated with first mortgage retail originations are generally higher than those associated with second-lien

originations and closed mortgage loan purchases, as we have a greater involvement in the origination process.

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Gain on Mortgage Loans, Net

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

Prior to January 1, 2008, our IRLCs and loan-related derivatives were initially recorded at zero value at inception with changes in fair value recorded as a component of Gain on mortgage loans, net. Pursuant to the transition provisions of updates to Accounting Standards Codification 815, Derivatives and Hedging we recognized a benefit to Gain on mortgage loans, net during 2008 of approximately $30 million, as the value attributable to servicing rights related to IRLCs as of January 1, 2008 was excluded from the transition adjustment for the adoption of ASC 820, Fair Value Measurements and Disclosures. See Note 1, Summary of Significant Accounting Policies in the accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,			
	2009	2008	Change	% Change
	(In millions)			
Gain on loans	$ 552	$ 353	$ 199	56%
Change in fair value of MLHS and related derivatives:				
ARMs		(20)	20	100%
Scratch and Dent and Alt-A loans	(7)	(28)	21	75%
Second-lien loans	(6)	(6)		
Construction loans	(5)		(5)	n/m(1)
Jumbo loans	(2)	(15)	13	87%
Economic hedge results	78	(55)	133	n/m(1)
Total change in fair value of MLHS and related derivatives	58	(124)	182	n/m(1)
Benefit of transition provision of updates to ASC 815		30	(30)	(100)%
Gain on mortgage loans, net	$ 610	$ 259	$ 351	136%

[1] n/m Not meaningful.

Gain on mortgage loans, net increased by $351 million (136%) from 2008 to 2009 due to a $199 million increase in gain on loans and a $182 million favorable variance from the change in fair value of MLHS and related derivatives that were partially offset by the $30 million benefit of the transition provision of updates to ASC 815 during 2008.

The $199 million increase in gain on loans during 2009 compared to 2008 was primarily due to significantly higher margins and a 32% increase in IRLCs expected to close. The significantly higher margins during 2009 were primarily attributable to an increase in industry refinance activity for conforming first mortgage loans, resulting from lower mortgage interest rates, coupled with lower overall industry capacity. Loan margins generally widen when mortgage interest rates decline and tighten when mortgage interest rates increase, as loan originators balance origination volume with operational capacity.

The $182 million favorable variance from the change in fair value of MLHS and related derivatives was due to a $133 million favorable variance from economic hedge results and a $49 million reduction in unfavorable valuation adjustments for certain mortgage loans. The favorable variance from economic hedge results was primarily due to a decrease in hedge costs during 2009 compared to 2008 and a favorable change in mortgage

interest rates whereby the increase in value of IRLCs and MLHS exceeded the decrease in value of the related derivatives. The reduction in unfavorable valuation adjustments for certain mortgage loans was primarily due to a reduction in unfavorable adjustments related to Scratch and Dent and Alt-A, ARMs and jumbo loans that were partially offset by an increase in unfavorable adjustments related to construction loans. The unfavorable valuation adjustments for Scratch and Dent and Alt-A, second-lien, construction and jumbo loans during 2009 were primarily due to decreases in the collateral values and credit performance of these loans. The unfavorable valuation adjustment for Scratch and Dent and Alt-A, ARMs, jumbo and second-lien loans during 2008 was the result of a continued decrease in demand for these types of loans due to the adverse secondary mortgage market conditions unrelated to changes in interest rates.

Mortgage Net Finance Expense

Mortgage net finance expense allocable to the Mortgage Production segment consists of interest income on MLHS and interest expense allocated on debt used to fund MLHS and is driven by the average balance of loans held for sale, the average volume of outstanding borrowings, the note rate on loans held for sale and the cost of funds rate of our outstanding borrowings. Mortgage net finance expense allocable to the Mortgage Production segment increased by $4 million (57%) during 2009 compared to 2008 due to a $13 million (14%) decrease in Mortgage interest income that was partially offset by a $9 million (9%) decrease in Mortgage interest expense. The $13 million decrease in Mortgage interest income was primarily due to lower interest rates related to loans held for sale. The $9 million decrease in Mortgage interest expense was attributable to a lower cost of funds from our outstanding borrowings. The lower cost of funds from our outstanding borrowings was primarily attributable to a decrease in short-term interest rates. A significant portion of our loan originations are funded with variable-rate short-term debt. The average daily one-month LIBOR, which is used as a benchmark for short-term rates, was 235 basis points bps lower during 2009 compared to 2008.

Salaries and Related Expenses

Salaries and related expenses allocable to the Mortgage Production segment consist of commissions paid to employees involved in the loan origination process, as well as compensation, payroll taxes and benefits paid to employees in our mortgage production operations and allocations for overhead. Salaries and related expenses increased by $39 million (13%) during 2009 compared to 2008 due to a $22 million increase in commissions expense, a $19 million increase in management incentives and an $8 million increase in costs associated with temporary and contract personnel that were partially offset by a $10 million decrease in salaries and related benefits. The increase in commissions expense was primarily attributable to an 11% increase in total closings and an increase in first mortgage retail originations during 2009 compared to 2008, as there is higher commission cost associated with these loans. The increase in costs associated with temporary and contract personnel was due to the modification of our cost structure to a more flexible workforce. The decrease in salaries and related benefits was primarily attributable to a reduction in average permanent employees for 2009 compared to 2008.

Occupancy and Other Office Expenses

Occupancy and other office expenses decreased by $12 million (27%) during 2009 compared to 2008, primarily due to the reduction of leased space.

Other Operating Expenses

Other operating expenses allocable to the Mortgage Production segment consist of production-related direct expenses, appraisal expense and allocations for overhead. Other operating expenses increased by $8 million (5%) during 2009 compared to 2008. This increase was primarily attributable to a $16 million increase in production-related direct

expenses as a result of the increase in total closings and first mortgage retail originations, which was partially offset by an $8 million reduction in other expenses resulting from our efforts to reduce overall costs.

Mortgage Servicing Segment

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

	Year Ended December 31,		
	2010	2009	2008
	($ in millions)		
Average loan servicing portfolio	$ 156,825	$ 149,628	$ 152,681
Ending loan servicing portfolio	$ 166,075	$ 151,481	$ 149,750
Number of loans serviced	1,005,950	954,063	975,120
Weighted-average servicing fee (in basis points)	30	31	33

	Year Ended December 31,		
	2010	2009	2008
	(In millions)		
Mortgage interest income	$ 15	$ 12	$ 83
Mortgage interest expense	(69)	(61)	(72)
Mortgage net finance (expense) income	(54)	(49)	11
Loan servicing income	415	431	430
Change in fair value of mortgage servicing rights	(427)	(280)	(554)
Net derivative loss related to mortgage servicing rights			(179)
Valuation adjustments related to mortgage servicing rights	(427)	(280)	(733)
Net loan servicing (loss) income	(12)	151	(303)
Other income (expense)	3	(20)	16
Net revenues	(63)	82	(276)
Salaries and related expenses	37	39	31
Occupancy and other office expenses	9	9	11
Other depreciation and amortization	1	1	1
Other operating expenses	131	118	111
Total expenses	178	167	154
Segment loss	$ (241)	$ (85)	$ (430)

2010 Compared With 2009

Mortgage Net Finance (Expense) Income

Mortgage net finance (expense) income allocable to the Mortgage Servicing segment consists of interest income credits from escrow balances, income from investment balances (including investments held by Atrium) and interest expense allocated on debt used to fund our mortgage servicing rights, which is driven by the average volume of outstanding borrowings and the cost of funds rate of our outstanding borrowings.

Mortgage net finance (expense) income increased by $5 million (10%) during 2010 compared to 2009 due to an $8 million (13%) increase in Mortgage interest expense partially offset by a $3 million (25%) increase in Mortgage interest income. During 2010, Mortgage interest expense and Mortgage interest income both increased by $6 million compared to 2009 due to the consolidation of a mortgage loan securitization trust resulting from the adoption of accounting standards updates to ASC 810, Consolidation , whereby we consolidated securitized mortgage loans and the related debt certificates. Mortgage interest income has continued to be reduced by lower short-term interest rates as escrow balances earn income based on one-month LIBOR. The ending one-month LIBOR rate at December 31, 2010 was 26 basis points, which has continued to significantly reduce the earnings opportunity related to our escrow balances.

Loan Servicing Income

Loan servicing income includes recurring servicing fees, other ancillary fees and net reinsurance loss from Atrium. Recurring servicing fees are recognized upon receipt of the coupon payment from the borrower and recorded net of guaranty fees. Net reinsurance loss represents premiums earned on reinsurance contracts, net of ceding commission and adjustments to the reserves for reinsurance losses. The primary drivers for Loan servicing income are the average loan servicing portfolio and average servicing fee.

The components of Loan servicing income were as follows:

	Year Ended December 31,			
	2010	2009	Change	% Change
		(In millions)		
Net service fee revenue	$ 401	$ 422	$ (21)	(5)%
Late fees and other ancillary servicing revenue	66	58	8	14%
Curtailment interest paid to investors	(33)	(44)	11	25%
Net reinsurance loss	(19)	(5)	(14)	(280)%
Loan servicing income	$ 415	$ 431	$ (16)	(4)%

The decrease in Loan servicing income during 2010 compared to 2009 was primarily due to a decrease in net service fee revenue and an increase in net reinsurance loss partially offset by a decrease in curtailment interest paid to investors and an increase in late fees and other ancillary servicing revenue.

The $21 million decrease in net service fee revenue was primarily due to the sale of excess servicing associated with a portion of our MSRs executed during the fourth quarter of 2009 and an increase in guarantee fees as a result of a greater composition of loans sold to the GSEs included in our capitalized loan servicing portfolio partially offset by a 5% increase in the average loan servicing portfolio. The $14 million increase in net reinsurance loss was primarily attributable to an $8 million increase in the provision for reinsurance-related reserves due to higher delinquencies associated with reinsured loans coupled with a $6 million decrease in premiums earned related to outstanding reinsurance agreements which were placed into runoff during 2009. The $11 million decrease in curtailment interest paid to investors was primarily due to a 9% decrease in loans included in our loan servicing portfolio that paid off during 2010 compared to 2009. The increase in late fees and other ancillary servicing revenue was due to $5 million in servicer incentives earned under federal government modification programs, a $4 million increase in tax service fees attributable to a 30% increase in total closings and a $2 million increase in late fees related to timing of payments on delinquent mortgage loans.

Change in Fair Value of Mortgage Servicing Rights

The fair value of our mortgage servicing rights (MSRs) is estimated based upon projections of expected future cash flows from our MSRs considering prepayment estimates, our historical prepayment rates, portfolio characteristics, interest rates based on interest rate yield curves, implied volatility and other economic factors. Generally, the value of our MSRs is expected to increase when interest rates rise and decrease when interest rates decline due to the effect

those changes in interest rates have on prepayment estimates. Other factors noted above as well as the overall market demand for MSRs may also affect the MSRs valuation.

The components of Change in fair value of mortgage servicing rights were as follows:

	Year Ended December 31,			
	2010	2009	Change	% Change
	(In millions)			
Actual prepayments of the underlying mortgage loans	$ (184)	$ (244)	$ 60	25%
Actual receipts of recurring cash flows	(41)	(56)	15	27%
Credit-related fair value adjustments[1]	(36)	(91)	55	60%
Market-related fair value adjustments[2]	(166)	111	(277)	n/m[3]
Change in fair value of mortgage servicing rights	$ (427)	$ (280)	$ (147)	(53)%

[1] Represents the change in fair value of MSRs primarily due to changes in portfolio delinquencies and foreclosures.

[2] Represents the change in fair value of MSRs due to changes in market inputs and assumptions used in the valuation model.

[3] n/m Not meaningful.

The change in fair value of MSRs due to actual prepayments is driven by two factors: (i) the number of loans that prepaid during the period and (ii) the current value of the mortgage servicing right asset at the time of prepayment. Actual prepayments were 12% lower in 2010 as compared to 2009. Additionally, the average MSR value of prepayments was 14 basis points lower for 2010 compared to 2009.

Credit-related fair value adjustments reduced the value of our MSRs by $36 million during 2010 as portfolio delinquencies and foreclosures have begun to stabilize, but remained elevated. The $91 million decline during 2009 was primarily due to the continued deteriorating economic conditions in the broader U.S. economy which resulted in an increase in total delinquencies attributable to the capitalized servicing portfolio.

The $166 million unfavorable change during 2010 due to market-related fair value adjustments was primarily due to a decrease in mortgage interest rates which led to higher expected prepayments. The $111 million favorable change during 2009 was primarily due to an increase in mortgage interest rates leading to lower expected prepayments.

Refer to Item 7A. Quantitative and Qualitative Disclosures About Market Risk for an analysis of the impact of 25 bps, 50 bps and 100 bps changes in interest rates on the valuation of our MSRs at December 31, 2010.

Other Income (Expense)

Other income (expense) allocable to the Mortgage Servicing segment consists primarily of net gains or losses on Investment securities and changed favorably by $23 million during 2010 compared to 2009. This favorable change was primarily due to changes in the fair value of Investment securities during 2009, which were primarily attributable

to significant increases in the delinquency of the underlying mortgage loans and an acceleration of our assumption of projected losses, which caused a decline in the expected cash flows from the underlying securities.

Other Operating Expenses

The following table presents a summary of the components of Other operating expenses:

	Year Ended December 31,			
	2010	2009	Change	% Change
	(In millions)			
Foreclosure-related charges	$ 72	$ 70	$ 2	3%
Other expenses	59	48	11	23%
Other operating expenses	$ 131	$ 118	$ 13	11%

Other operating expenses allocable to the Mortgage Servicing segment include servicing-related direct expenses, costs associated with mortgage loans in foreclosure and real estate owned and allocations for overhead. Other operating expenses increased by $13 million (11%) during 2010 compared to 2009 primarily related to a $5 million increase in direct expenses associated with a sustained elevation of delinquencies and foreclosures in our mortgage servicing portfolio and a $4 million increase in corporate overhead costs associated with executing our transformation plan. Other operating expenses were also negatively impacted by a $2 million increase in foreclosure-related charges primarily due to the persistence of loan repurchases and indemnifications and the related impact on loss provisions.

2009 Compared With 2008

Mortgage Net Finance (Expense) Income

Mortgage net finance (expense) income allocable to the Mortgage Servicing segment consists of interest income credits from escrow balances, income from investment balances (including investments held by Atrium) and interest expense allocated on debt used to fund our MSRs, which is driven by the average volume of outstanding borrowings and the cost of funds rate of our outstanding borrowings.

Mortgage net finance (expense) income changed unfavorably by $60 million during 2009 compared to 2008 due to a $71 million (86%) decrease in Mortgage interest income that was partially offset by an $11 million (15%) decrease in Mortgage interest expense. The decrease in Mortgage interest income was due to lower short-term interest rates and lower average escrow balances in 2009 compared to 2008. Escrow balances earn income based on one-month LIBOR, which was 235 basis points lower, on average, during 2009 compared to 2008. The lower average escrow balances were due to the 2% decrease in the average loan servicing portfolio. The ending one-month LIBOR rate at December 31, 2009 was 23 basis points, which has significantly reduced the earnings opportunity related to our escrow balances compared to historical periods. The decrease in Mortgage interest expense was due to lower cost of funds from our outstanding borrowings, primarily due to the decrease in short-term interest rates, and lower average borrowings allocable to our Mortgage Servicing segment.

Loan Servicing Income

Loan servicing income includes recurring servicing fees, other ancillary fees and net reinsurance loss from Atrium. Recurring servicing fees are recognized upon receipt of the coupon payment from the borrower and recorded net of

guaranty fees. Net reinsurance loss represents premiums earned on reinsurance contracts, net of ceding commission and adjustments to the reserve for reinsurance losses. The primary driver for Loan servicing income is the average loan servicing portfolio.

The components of Loan servicing income were as follows:

	Year Ended December 31, 2009	2008	Change	% Change
	(In millions)			
Net service fee revenue	$ 422	$ 431	$ (9)	(2)%
Late fees and other ancillary servicing revenue	58	43	15	35%
Curtailment interest paid to investors	(44)	(27)	(17)	(63)%
Net reinsurance loss	(5)	(17)	12	71%
Loan servicing income	$ 431	$ 430	$ 1	

Loan servicing income increased by $1 million from 2008 to 2009 due to an increase in late fees and other ancillary servicing revenue and a decrease in net reinsurance loss that were nearly offset by an increase in curtailment interest paid to investors and a decrease in net service fee revenue. The $15 million increase in late fees and other ancillary servicing revenue was primarily due to a $7 million gain recognized from the sale of excess servicing associated with a portion of our MSRs as well as an increase in the expected proceeds from the sale of MSRs during 2007, coupled with an increase in loss mitigation revenue and recording fees. The $12 million decrease in net reinsurance loss during 2009 compared to 2008 was primarily due to a decrease in the provision for reinsurance losses. The $17 million increase in curtailment interest paid to investors was primarily due to a 68% increase in loans included in our loan servicing portfolio that paid off during 2009 compared to 2008. The $9 million decrease in net service fee revenue was primarily due to the 2% decrease in the average loan servicing portfolio coupled with the impact of higher delinquencies in our loan servicing portfolio.

Valuation Adjustments Related to Mortgage Servicing Rights

Valuation adjustments related to mortgage servicing rights include Change in fair value of mortgage servicing rights and Net derivative loss related to mortgage servicing rights. The components of Valuation adjustments related to mortgage servicing rights are discussed separately below.

Change in Fair Value of Mortgage Servicing Rights: The fair value of our MSRs is estimated based upon projections of expected future cash flows from our MSRs considering prepayment estimates, our historical prepayment rates, portfolio characteristics, interest rates based on interest rate yield curves, implied volatility and other economic factors. Generally, the value of our MSRs is expected to increase when interest rates rise and decrease when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. Other factors noted above as well as the overall market demand for MSRs may also affect the MSRs valuation.

The components of Change in fair value of mortgage servicing rights were as follows:

	Year Ended December 31, 2009	2008	Change	% Change
	(In millions)			

Actual prepayments of the underlying mortgage loans	$ (244)	$ (144)	$ (100)	(69)%
Actual receipts of recurring cash flows	(56)	(65)	9	14%
Credit-related fair value adjustments[1]	(91)	(58)	(33)	(57)%
Market-related fair value adjustments[2]	111	(287)	398	n/m[3]
Change in fair value of mortgage servicing rights	$ (280)	$ (554)	$ 274	49%

[1] Represents the change in fair value of MSRs primarily due to changes in portfolio delinquencies and foreclosures.

[2] Represents the change in fair value of MSRs due to changes in market inputs and assumptions used in the valuation model.

[3] n/m Not meaningful.

The fluctuation in the decline in value of our MSRs due to actual prepayments during 2009 compared to 2008 was primarily attributable to higher prepayment rates. The actual prepayment rate of mortgage loans in our capitalized servicing portfolio was 19% and 11% of the unpaid principal balance of the underlying mortgage loans during 2009 and 2008, respectively.

The increase in credit-related fair value adjustments during 2009 compared to 2008 was primarily due to the deteriorating economic conditions in the broader U.S. economy.

The $111 million favorable change during 2009 due to market-related fair value adjustments was primarily due to an increase in mortgage interest rates leading to lower expected prepayments. The $287 million unfavorable change during 2008 was primarily due to a decrease in mortgage interest rates leading to higher expected prepayments.

Net Derivative Loss Related to Mortgage Servicing Rights: During 2008, we assessed the composition of our capitalized mortgage loan servicing portfolio and its related relative sensitivity to refinance if interest rates decline, the costs of hedging and the anticipated effectiveness given the economic environment. Based on that assessment, we made the decision to close out substantially all of our derivatives related to MSRs during the third quarter of 2008. As of December 31, 2009, there were no open derivatives related to MSRs. See Risk Management in this Form 10-K for discussion of interest rate risk associated with our Mortgage servicing rights and Part I Item 1A. Risk Factors Risks Related to our Company Certain hedging strategies that we may use to manage risks associated with our assets, including mortgage loans held for sale, interest rate lock commitments, mortgage servicing rights and foreign currency denominated assets may not be effective in mitigating those risks and could result in substantial losses that could exceed the losses that would have been incurred had we not used such hedging strategies. in this Form 10-K for more information.

The value of derivatives related to our MSRs decreased by $179 million during 2008. As described below, our net results from MSRs risk management activities were gains of $111 million and losses of $466 million during 2009 and 2008, respectively.

The following table outlines Net gain (loss) on MSRs risk management activities:

	Year Ended December 31,	
	2009	2008
	(In millions)	
Change in fair value of mortgage servicing rights due to changes in market inputs or assumptions used in the valuation model	$ 111	$ (287)
Net derivative loss related to mortgage servicing rights		(179)
Net gain (loss) on MSRs risk management activities	$ 111	$ (466)

Although we did not use derivative instruments to hedge our MSRs during 2009, we were able to effectively replenish the lost servicing value from payoffs with new originations. During 2009, we experienced $24.3 billion in loan payoffs in our capitalized servicing portfolio, representing $244 million of MSRs, whereas we were able to add $27.7 billion mortgage loans to our capitalized loan servicing portfolio, with an initial MSR value of $497 million.

Other (Expense) Income

Other (expense) income allocable to the Mortgage Servicing segment consists primarily of net gains or losses on Investment securities and changed unfavorably by $36 million during 2009 compared to 2008. Our Investment securities consist of interests that continue to be held in the sale or securitization of mortgage loans, or retained interests. The realized and unrealized losses during 2009 were primarily attributable to significant increases in the delinquency of the underlying mortgage loans and an acceleration of our assumption of projected losses, which caused a decline in the expected cash flows from the underlying securities. The unrealized gains during 2008 were primarily attributable to a favorable progression of trends in expected prepayments and realized losses as compared to our initial estimates, leading to greater expected cash flows from the underlying securities.

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Salaries and Related Expenses

Salaries and related expenses allocable to the Mortgage Servicing segment consist of compensation, payroll taxes and benefits paid to employees in our mortgage loan servicing operations and allocations for overhead. Salaries and related expenses increased by $8 million (26%) during 2009 compared to 2008, primarily due to an increase in employees in our mortgage loan servicing operations associated with higher delinquencies and foreclosures, as well as an increase in management incentives.

Other Operating Expenses

Other operating expenses allocable to the Mortgage Servicing segment include servicing-related direct expenses, costs associated with mortgage loans in foreclosure and REO and allocations for overhead. Other operating expenses increased by $7 million (6%) during 2009 compared to 2008. This increase was primarily attributable to increased expenses due to managing the increased delinquencies in our mortgage servicing portfolio.

Fleet Management Services Segment

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

	Average for the Year Ended December 31,		
	2010	2009	2008
	(In thousands of units)		
Leased vehicles	290	314	335
Maintenance service cards	287	275	299
Fuel cards	276	282	296
Accident management vehicles	290	305	323

	Year Ended December 31,		
	2010	2009	2008
	(In millions)		
Fleet management fees	$ 157	$ 150	$ 163
Fleet lease income	1,370	1,441	1,585
Other income	66	58	79
Net revenues	1,593	1,649	1,827
Salaries and related expenses	75	86	100
Occupancy and other office expenses	17	18	19
Depreciation on operating leases	1,224	1,267	1,299
Fleet interest expense	94	95	169
Other depreciation and amortization	11	11	11
Other operating expenses	109	118	167

Total expenses		1,530		1,595		1,765
Segment profit	$	63	$	54	$	62

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2010 Compared With 2009

Fleet Management Fees

Fleet management fees consist primarily of the revenues of our principal fee-based products: fuel cards, maintenance services, accident management services and monthly management fees for leased vehicles. Fleet management fees are driven by leased vehicles and service unit counts as well as the usage of fee-based services.

Fleet management fees increased by $7 million (5%) during 2010 compared to 2009 primarily due to the higher usage of fee-based fleet management services, partially offset by lower average leased vehicles and service unit counts. Fleet management fees were also positively impacted in 2010 by the addition of transportation safety training services, which were the result of the acquisition of the assets of a former supplier. These services did not have a significant impact on our overall profitability during 2010, but we expect fees from these services to continue to increase into 2011 as the full-year operating results are realized.

Fleet Lease Income

Fleet lease income consists of leasing revenue related to operating and direct financing leases as well as the gross sales proceeds associated with our lease syndications. We originate certain leases with the intention of syndicating to banks and other financial institutions, which includes the sale of the underlying assets and assignment of any rights to the leases. Upon the transfer and assignment we record the proceeds from the sale within Fleet lease income and recognize the cost of goods sold within Other operating expenses for the undepreciated cost of the asset sold.

Leasing revenue related to operating leases consists of an interest component for the funding cost inherent in the lease as well as a depreciation component for the cost of the vehicles under lease. Leasing revenue related to direct financing leases consist of an interest component for the funding cost inherent in the lease.

Fleet lease income decreased by $71 million (5%) during 2010 compared to 2009 due to the 8% decrease in the average number of leased vehicles, coupled with a decrease in lease syndication revenue resulting from a decrease in the amount of lease syndications during 2010 compared to 2009.

Other Income

Other income primarily consists of gross sales proceeds from our owned vehicle dealerships and the gain or loss from the sale of used vehicles. The cost of vehicles sold from our owned dealerships is included in cost of goods sold within Other operating expenses.

Other income increased by $8 million (14%) during 2010 compared to 2009 primarily due to increased vehicle sales to retail customers at our dealerships.

Salaries and Related Expenses

Salaries and related expenses decreased by $11 million (13%) during 2010 compared 2009 primarily due to a $7 million decrease related to the reduction in the average number of employees and a $4 million decrease related to a reduction in incentive compensation.

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Depreciation on Operating Leases

Depreciation on operating leases is the depreciation expense associated with our vehicles under operating leases included in Net investment in fleet leases. Depreciation on operating leases during 2010 decreased by $43 million (3%) compared to 2009 primarily due to an 8% decrease in vehicles under operating leases, partially offset by the impact of higher depreciation associated with an increase in purchases of new vehicles under lease in 2010 compared to 2009.

Fleet Interest Expense

Fleet interest expense decreased by $1 million during 2010 compared to 2009 primarily due to a decrease in short-term interest rates related to borrowings associated with leased vehicles and lower average outstanding borrowings that were partially offset by an unfavorable change in the market value of interest rate cap agreements related to vehicle management asset-backed debt and an increase in the amortization of deferred financing fees during 2010 compared to 2009. The one-month LIBOR, which is used as a benchmark for short-term interest rates, was 6 basis points lower, on average, during 2010 compared to 2009.

Other Operating Expenses

The following table presents a summary of the components of Other operating expenses:

	Year Ended December 31,			
	2010	2009	Change	% Change
		(In millions)		
Cost of goods sold	$ 75	$ 87	$ (12)	(14)%
Other expenses	34	31	3	10%
Total Other operating expenses	$ 109	$ 118	$ (9)	(8)%

The decrease in Other operating expenses is primarily due to a decrease in the cost of goods sold attributable to a decrease in lease syndication volume that was partially offset by an increase in cost of goods sold from our dealerships. The increase in other expenses is primarily attributable to an increase in corporate overhead costs associated with executing our transformation plan.

2009 Compared With 2008

Fleet Management Fees

Fleet management fees consist primarily of the revenues of our principal fee-based products: fuel cards, maintenance services, accident management services and monthly management fees for leased vehicles. Fleet management fees decreased by $13 million (8%) during 2009 compared to 2008 primarily due to declines in average unit counts, which resulted in an $11 million decrease in revenues from our principal fee-based products. The decline in average unit counts, as detailed in the table above, was primarily attributable to deteriorating economic conditions in the broader

U.S. economy.

Fleet Lease Income

Fleet lease income decreased by $144 million (9%) during 2009 compared to 2008, primarily due to decreases in billings and lease syndication volume. The decrease in billings was primarily attributable to lower interest rates on variable-rate leases and a decline in average leased vehicles, as detailed in the table above.

Other Income

Other income decreased by $21 million (27%) during 2009 compared to 2008, primarily due to a decrease in interest income. Other income for 2008 included a $7 million gain recognized on the early termination of a technology development and licensing arrangement.

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Salaries and Related Expenses

Salaries and related expenses decreased by $14 million (14%) during 2009 compared to 2008, primarily due to a decrease in headcount as a result of management s efforts to reduce costs. Salaries and related expenses for 2009 and 2008 included a severance charge of $4 million and $5 million, respectively.

Depreciation on Operating Leases

Depreciation on operating leases is the depreciation expense associated with our leased asset portfolio. Depreciation on operating leases decreased by $32 million (2%) during 2009 compared to 2008, primarily due to a decrease in vehicles under operating leases.

Fleet Interest Expense

Fleet interest expense decreased by $74 million (44%) during 2009 compared to 2008, primarily due to decreasing short-term interest rates related to borrowings associated with leased vehicles. The average daily one-month LIBOR, which is used as a benchmark for short-term rates, was 235 basis points lower during 2009 compared to 2008.

Other Operating Expenses

Other operating expenses decreased by $49 million (29%) during 2009 compared to 2008, primarily due to a decrease in cost of goods sold as a result of the decreases in lease syndication volume.

Risk Management

In the normal course of business, we are exposed to various risks including, but not limited to, interest rate risk, consumer credit risk, commercial credit risk, counterparty credit risk, liquidity risk, and foreign exchange risk. The Finance and Risk Management Committee of the Board of Directors provides oversight with respect to the assessment of our overall capital structure and its impact on the generation of appropriate risk adjusted returns, as well as the existence, operation and effectiveness of our risk management programs, policies and practices. Our Chief Risk Officer, working with each of our businesses, is responsible for governance processes and monitoring of these risks including the establishment of risk strategy and documentation of risk policies and controls.

Risks unique to our Mortgage business are governed through various committees including, but not limited to: (i) interest rate risk, including development of hedge strategy and policies, monitoring hedge positions and counterparty risk; (ii) quality control, including audits related to the processing, underwriting and closing of loans, findings of any fraud-related reviews and reviews of post-closing functions, such as FHA insurance and monitoring of overall portfolio delinquency trends and recourse activity; and (iii) credit risk, including establishing credit policy, product development and changes to underwriting guidelines.

Risks unique to our Fleet business are governed through a committee that is responsible for approving risk management policies and procedures that include, but are not limited to the following: (i) credit and counterparty risks; (ii) credit losses and reserves; (iii) collections and accounts receivable; (iv) residual risk on closed-end units; (v) legal, compliance, and commercial litigation issues; and (vi) and operational, supply chain and price risks.

Liquidity risk is managed on a consolidated level by a committee, which reviews our current position and projected liquidity needs over the next three to four months including any potential and/or pending events that could impact liquidity positively or negatively as well as assessing our longer-term liquidity needs.

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk and Part I Item 1A. Risk Factors Risks Related to our Company Certain hedging strategies that we may use to manage risks associated with our assets, including mortgage loans held for sale, interest rate lock commitments, mortgage servicing rights and foreign currency denominated assets may not be effective in mitigating those risks and could result in

substantial losses that could exceed the losses that would have been incurred had we not used such hedging strategies.

Interest Rate Risk

Our principal market exposure is to interest rate risk, specifically long-term Treasury and mortgage interest rates due to their impact on mortgage-related assets and commitments. Additionally, our escrow earnings on our mortgage servicing rights and our net investment in variable-rate lease assets are sensitive to changes in short-term interest rates such as LIBOR and commercial paper rates. We also are exposed to changes in short-term interest rates on certain variable rate borrowings including our mortgage warehouse asset-backed debt, vehicle management asset-backed debt and our unsecured revolving credit facility. We anticipate that such interest rates will remain our primary benchmark for market risk for the foreseeable future.

Our Mortgage Services business is subject to variability in results of operations in both the Mortgage Production and Mortgage Servicing segments due to fluctuations in interest rates. In a declining interest rate environment, we would expect our Mortgage Production segment s results of operations to be positively impacted by higher loan origination volumes and high loan margins. On the contrary, we would expect the results of operations of our Mortgage Servicing segment to decline due to higher actual and projected loan prepayments related to our capitalized loan servicing portfolio. In a rising interest rate environment, we would expect a negative impact on the results of operations of our Mortgage Production segment and our Mortgage Servicing segment s results of operations to be positively impacted. The interaction between the results of operations of our Mortgage Production and Mortgage Servicing segments is a core component of our overall interest rate risk strategy.

Our Fleet Management Services business is subject to variability in results of operations due to fluctuations in interest rates due to changes in variable-rate leases that may be funded by fixed-rate or variable rate debt.

See Part I Item 1A. Risk Factors Risks Related to our Company Certain hedging strategies that we may use to manage risks associated with our assets, including mortgage loans held for sale, interest rate lock commitments, mortgage servicing rights and foreign currency denominated assets, may not be effective in mitigating those risks and could result in substantial losses that could exceed the losses that would have been incurred had we not used such hedging strategies. and Changes in interest rates could materially and adversely affect our volume of mortgage loan originations or reduce the value of our mortgage servicing rights, either of which could have a material adverse effect on our business, financial position, results of operations or cash flows. in this Form 10-K for more information.

Mortgage Loans and Interest Rate Lock Commitments

Interest rate lock commitments represent an agreement to extend credit to a mortgage loan applicant, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to funding. Our Mortgage loans held for sale, which are held in inventory awaiting sale into the secondary market, and our Interest rate lock commitments are subject to changes in mortgage interest rates from the date of the commitment through the sale of the loan into the secondary market. As such, we are exposed to interest rate risk and related price risk during the period from the date of the lock commitment through (i) the lock commitment cancellation or expiration date; or (ii) through the date of sale into the secondary mortgage market. Loan commitments generally range between 30 and 90 days; and our holding period of the mortgage loan from funding to sale is typically within 60 days.

Forward delivery commitments on MBS or whole loans are used to hedge our commitments to fund mortgages and loans held for sale. These forward delivery commitments fix the forward sales price that will be realized in the secondary market and thereby reduce the interest rate and price risk to us. Our expectation of how many of our interest rate lock commitments will ultimately close is a key factor in determining the notional amount of derivatives used in hedging the position.

Mortgage Servicing Rights

Our mortgage servicing rights (MSRs) are subject to substantial interest rate risk as the mortgage notes underlying the MSRs permit the borrowers to prepay the loans. Therefore, the value of MSRs generally tends to diminish in periods of declining interest rates (as prepayments increase) and increase in periods of rising interest rates (as prepayments decrease). Although the level of interest rates is a key driver of prepayment activity, there are other factors that influence prepayments, including home prices, underwriting standards and product characteristics. Since our Mortgage Production segment s results of operations are positively impacted when interest rates decline, our Mortgage Production segment s results of operations may fully or partially offset the change in fair value of MSRs either negating or minimizing the need to hedge the change in fair value of our MSRs with derivatives.

We consider the estimated benefit of new originations on our Mortgage Production segment s results of operations to determine the net economic value change from a decline in interest rates, and we continuously evaluate our ability to replenish lost MSR value and cash flow due to increased prepayments. During the year ended December 31, 2010, we replenished approximately 154% of the unpaid principal balance of loans in our servicing portfolio that paid off during the year. Loan payoffs in our capitalized servicing portfolio were $21.3 billion, as compared to additions of $32.9 billion.

This risk management approach requires management to make assumptions with regards to future replenishment rates, loan margins, the value of additions to MSRs and loan origination costs. Many factors can impact these estimates, including loan pricing margins and the ability to adjust staffing levels to meet changing consumer demand.

As of and during the years ended December 31, 2010 and 2009, there were no open derivatives related to our MSRs. Our decisions regarding the use of derivatives related to MSRs, if any, could result in continued volatility in the results of operations for our Mortgage Servicing segment into 2011.

Indebtedness

The debt used to finance much of our operations is exposed to interest rate fluctuations. We may use certain hedging strategies and derivative instruments to create a desired mix of fixed- and variable-rate assets and liabilities. Derivative instruments used in these hedging strategies may include swaps and interest rate caps. To more closely match the characteristics of the related assets, including the net investment in variable-rate lease assets, either variable-rate debt or fixed-rate debt is issued, which may be swapped to variable LIBOR-based rates. From time to time, derivatives that convert variable cash flows to fixed cash flows are used to manage the risk associated with variable-rate debt and net investment in variable-rate lease assets. Such derivatives may include freestanding derivatives and derivatives designated as cash flow hedges.

Consumer Credit Risk

Our exposures to consumer credit risk include:

§ Loan repurchase and indemnification obligations from breaches of representation and warranty provisions of our loan sales or servicing agreements, which result in indemnification payments or exposure to loan defaults and foreclosures;

§ Mortgage reinsurance losses; and

§ A decline in the fair value of mortgage servicing rights as a result of increases in involuntary prepayments from increasing portfolio delinquencies.

We are not subject to the majority of the credit-related risks inherent in maintaining a mortgage loan portfolio because loans are not held for investment purposes. Nearly all mortgage loans originated are sold in the secondary mortgage market within 60 days of origination. Conforming loan sales are primarily in the form of mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae.

For our loan servicing portfolio, we utilize several risk mitigation strategies in an effort to minimize losses from delinquencies, foreclosures and real estate owned including: collections, loan modifications, and foreclosure and property disposition. Since the majority of the risk resides with the investor and not with us, these techniques may vary based on individual investor and insurer requirements.

To minimize losses from loan repurchases and indemnifications, we closely monitor investor and agency eligibility requirements for loan sales. To monitor our production for such issues, our quality review teams perform audits related to the processing, underwriting and closing of mortgage loans prior to, or shortly after, the sale of loans to identify any potential repurchase exposures due to breach of representations and warranties. Subsequently, when an investor requests that we repurchase a loan that we originated, a comprehensive review is performed prior to authorizing the repurchase of the loan.

Loan performance is an indicator of the inherent risk associated with our origination and servicing activities. The following tables summarize certain information regarding the total loan servicing portfolio, which includes loans associated with capitalized Mortgage servicing rights as well as loans subserviced for others:

	As of December 31,		
	2010	**2009**	**2008**
Delinquent Mortgage Loans:[1]			
30 days	2.01%	2.26%	2.31%
60 days	0.60%	0.69%	0.62%
90 days or more	1.27%	1.73%	0.74%
Total delinquency	3.88%	4.68%	3.67%
Foreclosures/real estate owned[2]	2.37%	2.32%	1.42%
Major Geographical Concentrations:			
California	14.4%	13.6%	12.4%
Florida	6.8%	7.1%	7.2%
New Jersey	6.2%	6.7%	7.1%
New York	6.3%	6.5%	6.7%
Other	66.3%	66.1%	66.6%

(1) Represents delinquencies as a percentage of the total unpaid principal balance of the portfolio.

(2) As of December 31, 2010, 2009, and 2008 there were loans in foreclosure with unpaid principal balances of $3.3 billion, $2.9 billion and $1.6 billion, respectively.

The following table summarizes the percentage of loans that are greater than 90 days delinquent, in foreclosure and real estate owned based on the unpaid principal balance for significant geographical concentrations:

	As of December 31, 2010
Florida	14.6 %
California	12.6 %
New Jersey	8.9 %
New York	6.5 %
Illinois	4.8 %

Loan Repurchases and Indemnifications

Representations and warranties are provided to purchasers and insurers on a significant portion of loans sold and are assumed on purchased mortgage servicing rights. In the event of a breach of these representations and warranties, we may be required to repurchase a mortgage loan or indemnify the purchaser, and we may bear any loss on the mortgage loan. If there is no breach of a representation and warranty provision, there is no obligation to repurchase the loan or indemnify the investor against loss. In limited circumstances, the full risk of loss on loan sold is retained to the extent the liquidation of the underlying collateral is insufficient. In some instances where we have purchased loans from third parties, we may have the ability to recover the loss from the third party.

During the year ended December 31, 2010, we experienced increases in actual and projected repurchases, indemnifications and related loss severity associated with the representations and warranties that we provide to purchasers and insurers of our sold loans. These increases are expected to remain at elevated levels during 2011, and are primarily due to continued high levels of delinquencies and lower home values. These trends are considered in the determination of our foreclosure-related reserves; however, changes in these trends and other economic factors as well as the level and composition of our mortgage production volumes will impact the balance of our foreclosure-related reserves. We have considered the recent industry concerns regarding improper mortgage loan and foreclosure documentation, as well as the higher focus on foreclosure reviews and we have determined that no adjustments to reserves are required as there is no evidence that we will experience a higher risk of repurchases as a result of these trends.

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

	Year Ended December 31,	
	2010	2009
	(In millions)	
Balance, beginning of period	$ 86	$ 81
Realized foreclosure losses[1]	(63)	(73)
Increase in reserves due to:		
Changes in assumptions	74	70
New loan sales	14	8
Balance, end of period	$ 111	$ 86

[1] Realized foreclosure losses for the year ended December 31, 2009 include an $11 million settlement with an individual investor for all future potential repurchase liabilities.

Foreclosure-related reserves consist of the following:

Loan Repurchase and Indemnification Liability

As of December 31, 2010 and 2009, liabilities for probable losses related to our repurchase and indemnification obligations of $74 million and $51 million, respectively, were included in Other liabilities in the accompanying Consolidated Balance Sheets.

We subject the population of repurchase and indemnification requests received to a review and appeal process to establish the validity of the claim and the corresponding obligation. The following table presents the unpaid principal balance of our unresolved requests by status:

	As of December 31, 2010			As of December 31, 2009		
	Investor Requests	Insurer Requests	Total	Investor Requests	Insurer Requests	Total
	(In millions)					
Agency Invested:						
Claim pending[1]	$ 9	$ 1	$ 10	$ 8	$ 1	$ 9
Appealed[2]	34	22	56	13	4	17
Open to review[3]	50	9	59	26	8	34
Total Agency requests	93	32	125	47	13	60
Private Invested:						
Claim pending[1]	1	$ 2	$ 3	$ 2	$ 1	$ 3
Appealed[2]	15	7	22	14	3	17
Open to review[3]	13	2	15	8	4	12
Total Private requests	29	11	40	24	8	32
Total unresolved requests	$ 122	$ 43	$ 165	$ 71	$ 21	$ 92

(1) Claim pending status represents loans that have completed the review process where we have agreed with the representation and warranty breach and are pending final execution.

(2) Appealed status represents loans that have completed the review process where we have disagreed with the representation and warranty breach and are pending response from the claimant. Based on claims received and appealed during the year ended December 31, 2010 that have been resolved, we were successful in refuting over 90% of claims appealed.

(3) Open to review status represents loans where we have not completed our review process. We appealed approximately 70% of claims received and reviewed during the year ended December 31, 2010.

Mortgage Loans in Foreclosure and Real Estate Owned

Mortgage loans in foreclosure represent the unpaid principal balance of mortgage loans for which foreclosure proceedings have been initiated, plus recoverable advances made by us on those loans. These amounts are recorded net of an allowance for probable losses on such mortgage loans and related advances. As of December 31, 2010, mortgage loans in foreclosure were $106 million, net of an allowance for probable losses of $22 million, and were included in Other assets in the accompanying Consolidated Balance Sheets.

Real estate owned, which are acquired from mortgagors in default, are recorded at the lower of the adjusted carrying amount at the time the property is acquired or fair value. Fair value is determined based upon the estimated net realizable value of the underlying collateral less the estimated costs to sell. As of December 31, 2010, real estate owned were $39 million, net of a $15 million adjustment to record these amounts at their estimated net realizable

value, and were included in Other assets in the accompanying Consolidated Balance Sheet.

See Note 14, Credit Risk in the accompanying Notes to Consolidated Financial Statements for further information on Foreclosure-related reserves.

See Part I Item 1A. Risk Factors Risks Related to our Company Losses incurred in connection with actual or projected loan repurchase and indemnification claims may exceed our financial statement reserves and we may be required to increase such reserves in the future. Increases in our reserves and losses incurred in connection with actual loan repurchase and indemnification payments could have a material adverse effect on our business, financial position, results of operations or cash flows.

Mortgage Reinsurance

We have exposure to consumer credit risk through losses from two contracts with primary mortgage insurance companies, that are inactive and in runoff. Our exposure to losses through these reinsurance contracts is based on mortgage loans pooled by year of origination. As of December 31, 2010, the contractual reinsurance period for each pool was 10 years and the weighted-average remaining reinsurance period was 5 years. Loss rates on these pools are determined based on the unpaid principal balance of the underlying loans. We indemnify the primary mortgage insurers for losses that fall between a stated minimum and maximum loss rate on each annual pool. In return for absorbing this loss exposure, we are contractually entitled to a portion of the insurance premium from the primary mortgage insurers.

We are required to hold securities in trust related to this potential obligation, which were $266 million as of December 31, 2010 and were included in Restricted cash, cash equivalents and investments in the accompanying Consolidated Balance Sheet. As of December 31, 2010, a liability of $113 million was included in Other liabilities in the accompanying Consolidated Balance Sheet for incurred and incurred but not reported losses associated with our mortgage reinsurance activities, which was determined on an undiscounted basis. During 2010, we recorded an expense associated with the liability for estimated losses of $43 million within Loan servicing income in the accompanying Consolidated Statement of Operations.

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

	Year Ended December 31, 2010	2009
	(In millions)	
Balance, beginning of period	$ 108	$ 83
Realized reinsurance losses[1]	(38)	(10)
Increase in reinsurance reserves	43	35
Balance, end of period	$ 113	$ 108

[1] Realized reinsurance losses for the year ended December 31, 2009 include a $7 million payment associated with the termination of reinsurance agreements.

The following table summarizes certain information regarding mortgage loans that are subject to reinsurance by year of origination as of December 31, 2010 unless otherwise noted:

	Unpaid Principal Balance (UPB)	Maximum Potential Exposure to Reinsurance Loss	Average Credit Score[3]	Delinquencies[1][3]	Foreclosures/ Real Estate Owned/ Bankruptcies[2][3]
	(In millions)				
Year of Origination:					

2003 and prior	$ 1,387	$ 245	694	6.77%	6.51%
2004	951	104	692	5.85%	10.65%
2005	917	45	695	6.70%	13.94%
2006	611	18	692	7.25%	18.83%
2007	1,258	41	700	6.40%	18.46%
2008	2,166	63	726	4.90%	5.49%
2009	446	7	758	0.16%	0.06%
Total	$ 7,736	$ 523	707	5.81%	10.27%

(1) Represents delinquent mortgage loans for which payments are 60 days or more outstanding as a percentage of the total unpaid principal balance.

(2) Calculated as a percentage of the total unpaid principal balance.

(3) Based on September 30, 2010 data.

The following table summarizes the geographical concentration and defaults for loans subject to reinsurance in states representing more than 5% of the total outstanding reinsurance as of September 30, 2010:

	Percent of Outstanding Reinsurance	Defaults[1]
Pennsylvania	10.1%	12.8%
Texas	9.0%	9.1%
Minnesota	5.8%	12.2%
Florida	5.3%	24.4%
Illinois	5.2%	17.5%

(1) Represents delinquent mortgage loans for which payments are 60 days or more outstanding, foreclosure, real estate owned and bankruptcies as a percentage of the total unpaid principal balance.

We record a liability for mortgage reinsurance losses when losses are incurred. The projections used in the development of our liability for mortgage reinsurance assume we will incur losses related to reinsured mortgage loans originated from 2003 through 2009. While the maximum potential exposure to reinsurance losses as of December 31, 2010 was $523 million, our total expected losses to be incurred over the remaining term of the reinsurance agreements was $192 million, of which $104 million relates to loans originated from 2005 through 2007. We record incurred and incurred but not reported losses as of the balance sheet date, rather than the maximum potential future exposure to reinsurance losses. Expected future losses and expected future premiums are considered in determining whether or not an additional premium deficiency reserve is required. Based upon our estimates of expected future losses and expected future premiums, no premium deficiency reserve is required.

See Note 14, Credit Risk in the accompanying Notes to Consolidated Financial Statements.

Change in Fair Value of Mortgage Servicing Rights

The fair value of mortgage servicing rights is impacted by changes in delinquencies and foreclosures of the underlying mortgage loans. As loan delinquencies and foreclosures increase, estimated involuntary prepayments increase causing a decline in fair value due to a reduction in the weighted average life of the Mortgage servicing right asset.

Commercial Credit Risk

We are exposed to commercial credit risk for our clients under the lease and service agreements for PHH Arval. We manage such risk through an evaluation of the financial position and creditworthiness of the client, which is performed on at least an annual basis. The lease agreements generally allow PHH Arval to refuse any additional orders; however, the obligation remains for all leased vehicle units under contract at that time. The fleet management service agreements can generally be terminated upon 30 days written notice.

Vehicle leases are primarily classified as operating leases; however, as of December 31, 2010, direct financing leases comprised 3% of our Net investment in fleet leases. Direct financing leases and receivables that were greater than 90 days delinquent as of December 31, 2010 were $19 million.

Historical credit losses for receivables related to vehicle leasing and fleet management services have not been significant and as a percentage of the ending balance of Net investment in fleet leases have not exceeded 0.03% in any of the last three fiscal years.

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Counterparty & Concentration Risk

We are exposed to risk in the event of non-performance by counterparties to various agreements, derivative contracts, and sales transactions. In general, we manage such risk by evaluating the financial position and creditworthiness of counterparties, monitoring the amount for which we are at risk, requiring collateral, typically cash, in instances in which financing is provided and/or dispersing the risk among multiple counterparties.

As of December 31, 2010, there were no significant concentrations of credit risk with any individual counterparty or group of counterparties with respect to our derivative transactions. Concentrations of credit risk associated with receivables are considered minimal due to our diverse client base. With the exception of the financing provided to customers of our mortgage business, we do not normally require collateral or other security to support credit sales.

The Mortgage Production segment has exposure to risk related to the volume of transactions with individual counterparties of our Mortgage Production segment. During the year ended December 31, 2010, approximately 27% of our mortgage loan originations were derived from our relationship with Realogy and its affiliates, and Merrill Lynch, USAA and Charles Schwab accounted for approximately 15%, 14% and 11%, respectively, of our mortgage loan originations. The insolvency or inability for Realogy, Merrill Lynch, USAA or Charles Schwab to perform their obligations under their respective agreements with us could have a negative impact on our Mortgage Production segment.

The Mortgage Servicing segment has exposure to risk associated with the amount of our servicing portfolio for which we must maintain compliance with the requirements of the GSE servicing guides. As of December 31, 2010, 66% of our servicing portfolio relates to loans governed by these servicing guides.

For the year ending December 31, 2010, the Fleet Management Services segment had no significant client concentrations as no client represented more than 5% of the Net revenues of the business.

Liquidity Risk

Liquidity risk represents our ongoing ability to originate and finance mortgage loans, sell mortgage loans into secondary markets, purchase and fund vehicles under management, retain mortgage servicing rights and otherwise fund our working capital needs. We estimate how our liquidity needs may be impacted by a number of factors including fluctuations in asset and liability levels due to our business strategy, changes in our business operations, levels of interest rates and unanticipated events. We also assess market conditions and capacity for debt issuance in various markets we access to fund our business needs. Additionally, management has established internal processes to anticipate future cash needs and continuously monitor the availability under our existing debt arrangements. We address liquidity risk by maintaining committed borrowing capacity in excess of our expected needs and attempting to minimize the frequency of our market access by extending the tenor of our funding arrangements.

Foreign Exchange Risk

We also have exposure to foreign exchange risk through (i) our investment in our Canadian operations; (ii) any U.S. dollar borrowing arrangements we may enter into to fund Canadian dollar denominated leases and operations; and (iii) through any foreign exchange forward contracts that we may enter into. Currency swap agreements may be used to manage such risk.

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Liquidity and Capital Resources

We manage our liquidity and capital structure to fund growth in assets, to fund business operations, and to meet contractual obligations, including maturities of our indebtedness. In developing our liquidity plan, we consider how our needs may be impacted by various factors including maximum liquidity needs during the period, fluctuations in assets and liability levels due to changes in business operations, levels of interest rates, and working capital needs. Our primary operating funding needs arise from the origination and financing of mortgage loans, the purchase and funding of vehicles under management and the retention of mortgage servicing rights. Sources of liquidity include: equity capital (including retained earnings); the unsecured debt markets; committed and uncommitted credit facilities, secured borrowings, including the asset-backed debt markets; cash flows from operations (including service fee and lease revenues); cash flows from assets under management; and proceeds from the sale or securitization of mortgage loans and lease assets.

Conditions in the asset-backed securities markets in the U.S. and Canada and the credit markets generally impact our access and the costs to fund our business. In order to provide adequate liquidity throughout a broad array of operating environments, our funding plan relies upon multiple sources of liquidity and considers our projected cash needs to fund mortgage loan originations, purchase vehicles for lease, hedge our pipeline of mortgage originations, hedge our mortgage servicing rights (if any) and meet various other obligations. We maintain liquidity at the parent company level through access to the unsecured debt markets and through unsecured committed bank facilities. These various unsecured sources of funds are utilized to provide for a portion of the operating needs of our mortgage and fleet management businesses. In addition, secured borrowings, including asset-backed debt and asset sales and securitizations, are utilized to fund both vehicle purchases and mortgage loans held for sale.

We are continuing to monitor developments in regulations that may impact our businesses including the Dodd-Frank Act and ongoing GSE reforms that could have a material impact on our liquidity. See Item 1A. Risk Factors Risks Related to our Company The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our business, financial position, results of operations or cash flows, and We are highly dependent upon programs administered by Fannie Mae, Freddie Mac and Ginnie Mae. Changes in existing U.S. government-sponsored mortgage programs or servicing eligibility standards could materially and adversely affect our business, financial position, results of operations or cash flows. for more information.

Given our expectation for business volumes, we believe that our sources of liquidity are adequate to fund our operations for the next 12 months. We expect aggregate capital expenditures for 2011 to be between $35 million and $50 million, in comparison to $17 million for 2010.

Recent Funding Developments

Key funding highlights during the year ended December 31, 2010 include:

§ We issued $350 million of Senior Notes; a portion of the proceeds of this issuance were used to repay the outstanding borrowings under of our revolving unsecured credit facility.

§ We amended our revolving credit facility, extending $525 million of commitments through February 2012, with the option to extend to February 2013.

§ We issued and obtained commitments for further issuances of notes totaling $660 million for our Canadian fleet operations, $301 million of which is a dedicated bank conduit facility.

- § We obtained up to $1.0 billion of committed funding for our U.S. fleet operations through a bank conduit facility.
- § We diversified our mortgage asset-backed facilities and expanded the use of mortgage gestation facilities.

Cash Flows

At December 31, 2010, we had $195 million of Cash and cash equivalents, an increase of $45 million from $150 million at December 31, 2009. The following table summarizes the changes in Cash and cash equivalents during the years ended December 31, 2010 and 2009:

	Year Ended December 31,		
	2010	2009	Change
	(In millions)		
Cash (used in) provided by:			
Operating activities	$ (1,680)	$ 1,283	$ (2,963)
Investing activities	(1,040)	(550)	(490)
Financing activities	2,768	(655)	3,423
Effect of changes in exchange rates on Cash and cash equivalents	(3)	(37)	34
Net increase in Cash and cash equivalents	$ 45	$ 41	$ 4

Operating Activities

Our cash flows from operating activities reflect the net cash generated or used in our business operations and can be significantly impacted by the timing of mortgage loan originations and sales. In addition to depreciation and amortization, the operating results of our reportable segments are impacted by the following significant non-cash activities:

- **Mortgage Production** Capitalization of mortgage servicing rights
- **Mortgage Servicing** Change in fair value of mortgage servicing rights
- **Fleet Management Services** Depreciation on operating leases

During the year ended December 31, 2010, cash used in our operating activities was $1.7 billion. This is reflective of $2.6 billion of net cash used to fund the significant increase in mortgage loan originations and in the operating activities of our Mortgage Production segment that was partially offset by cash provided by the operating activities of our Fleet Management Services and Mortgage Servicing segments. The net cash used in the operating activities of our Mortgage production segment generated the $3.1 billion growth in the Mortgage loans held for sale balance in our Consolidated Balance Sheets between December 31, 2010 and 2009, which is the result of timing differences between origination and sale at the end of each year. The increase in Mortgage loans held for sale was funded by an increase in Mortgage Asset-Backed Debt as further described in Financing Activities below.

During the year ended December 31, 2009, cash provided by our operating activities was $1.3 billion. This was reflective of cash generated by the operating activities of our Fleet Management Services and Mortgage Servicing segments, as well as $338 million of net cash provided by the origination and sales of mortgage loans held for sale, that was partially offset by cash used in the operating activities of our Mortgage Production segment.

Investing Activities

Our cash flows from investing activities primarily include cash outflows for purchases of vehicle inventory, net of cash inflows for sales of vehicles within the Fleet Management Services segment as well as changes in the funding requirements of Restricted cash, cash equivalents and investments for all of our business segments. Cash flows related to the acquisition and sale of vehicles fluctuate significantly from period to period due to the timing of the underlying transactions.

During the year ended December 31, 2010, cash used in our investing activities was ($1.0) billion, which primarily consisted of $1.5 billion in net cash outflows for the purchase of new vehicles due to increased customer demand for vehicle leases that was partially offset by $353 million of proceeds received from the sale of used vehicles and a $67 million net decrease in Restricted cash, cash equivalents and investments.

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During the year ended December 31, 2009, cash used in our investing activities was ($550) million, which primarily consisted of $655 million in net cash outflows from the investment and sale of vehicles, which was reflective of the reduced demand for vehicle leases during that time.

Financing Activities

Our cash flows from financing activities include proceeds from and payments on borrowings under our Vehicle-Management Asset-Backed Debt, Mortgage Asset-Backed Debt and Unsecured Debt facilities. The fluctuations in amount of borrowings within each period are due to working capital needs and the funding requirements for assets supported by our secured and unsecured debt, including Net investment in vehicle leases, Mortgage loans held for sale, and Mortgage servicing rights.

During the year ended December 31, 2010, cash provided by our financing activities was $2.8 billion related to net proceeds from borrowings resulting from the increased funding requirements for Mortgage loans held for sale and net investment in vehicles described in the Operating Activities and Investing Activities sections above.

During the year ended December 31, 2009, cash used in our financing activities was $655 million related to net payments from borrowings, cash paid for debt issue costs and cash paid for hedging transactions related to the issuance of the 2014 Convertible Notes. The net payments from borrowings were primarily related to a decrease in the funding requirements for mortgage loans held for sale described in the Operating Activities section above.

Secondary Mortgage Market

We rely on the secondary mortgage market for a substantial amount of liquidity to support our mortgage operations. Nearly all mortgage loans that we originate are sold in the secondary mortgage market within 60 days of origination, primarily in the form of mortgage-backed securities (MBS), asset-backed securities (ABS) and whole-loan transactions. A large component of the MBS we sell is guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae (collectively, Agency MBS).

Historically, we have also originated non-agency (or non-conforming) loans that were sold in the secondary mortgage market through the issuance of non-conforming MBS and ABS or whole-loan transactions. We have also publicly issued both non-conforming MBS and ABS that are registered with the Securities and Exchange Commission, in addition to private non-conforming MBS and ABS. Generally, these types of securities have their own credit ratings and require some form of credit enhancement, such as over-collateralization, senior-subordinated structures, primary mortgage insurance, and/or private surety guarantees. Secondary market liquidity for all non-conforming products has been severely limited since the second quarter of 2007 and we have not issued non-agency MBS or ABS since 2007. We continue to observe a lack of liquidity and lower valuations in the secondary mortgage market for non-conforming loans during the year ended December 31, 2010. During 2010, our sales of non-agency loans have been focused on whole-loan sales to specified investors under best-efforts commitments, and we expect this to continue into 2011.

The following table sets forth the composition of our total mortgage loan originations, including fee-based closings, by product type:

	Year Ended December 31,		
	2010	**2009**	**2008**
Conforming[(1)]	80%	82%	64%
Non-conforming:			

Jumbo[2]	17%	13%	19%
Second lien	3%	5%	15%
Other			2%
Total Non-conforming	20%	18%	36%

(1) Represents mortgage loans that conform to the standards of the GSEs (collectively Fannie Mae, Freddie Mac and Ginnie Mae).

(2) Represents mortgage loans that have loan amounts exceeding the GSE guidelines.

The Agency MBS, whole-loan, and non-conforming markets for mortgage loans have historically provided substantial liquidity for our mortgage loan production operations. We focus our business process on consistently producing mortgage loans that meet investor requirements to continue to access these markets. Our loans closed to be sold originated during the year ended December 31, 2010 were primarily conforming.

See Overview Mortgage Production and Mortgage Servicing Segments Mortgage Industry Trends and Part I Item 1A. Risk Factors Risks Related to our Company Adverse developments in the secondary mortgage market have had, and in the future could have, a material adverse effect on our business, financial position, results of operations and cash flows. for more information regarding the secondary mortgage market.

Indebtedness

We utilize both secured and unsecured debt as key components of our financing strategy. Our primary financing needs arise from our assets under management programs which are summarized in the table below:

	December 31, 2010	December 31, 2009
	(In millions)	
Restricted cash, cash equivalents and investments	$ 531	$ 596
Mortgage loans held for sale	4,329	1,218
Net investment in fleet leases	3,492	3,610
Mortgage servicing rights	1,442	1,413
Assets under management programs	$ 9,794	$ 6,837

Asset-backed debt is used primarily to support our investments in vehicle management and mortgage assets, and is secured by collateral which include certain Mortgage loans held for sale and Net investment in fleet leases, among other assets. The outstanding balance under the Asset-backed debt facilities varies daily based on our current funding needs for eligible collateral.

The following table summarizes our indebtedness as of December 31, 2010:

	Balance	Total Assets Held as Collateral [1]
	(In millions)	
Vehicle Management Asset-Backed Debt	$ 3,066	$ 3,642
Mortgage Warehouse and Other Asset-Backed Debt	3,777	3,971

Unsecured Debt		1,212		
Mortgage Loan Securitization Debt Certificates, at Fair Value[2]		30		
Total Debt	$	8,085	$	7,613

[1] Assets held as collateral are not available to pay our general obligations.

[2] Mortgage Loan Securitization Debt Certificates were consolidated with securitized mortgage loans as a result of the adoption of updates to ASC 810. As of December 31, 2010, the balance of the securitized mortgage loans was $42 million, and was included in Other Assets in the Consolidated Balance Sheet. Cash flows of the loans support payment of the debt certificates and creditors of the securitization trust do not have recourse to us. See Note 1, Summary of Significant Accounting Policies in the accompanying Notes to Consolidated Financial Statements for additional information.

Unsecured credit facilities are utilized to fund our short-term working capital needs, and are utilized to supplement asset-backed facilities and provide for a portion of the operating needs of our mortgage and fleet management businesses. During the second quarter of 2010, we amended the terms of the unsecured facilities to reduce capacity from $1.3 billion to $805 million, and capacity was further reduced to $525 million on January 6, 2011 upon the termination of commitments of certain lenders.

At December 31, 2010, we did not have any outstanding amounts borrowed under the unsecured Amended Credit Facility. During the three months ended December 31, 2010, the maximum and weighted-average daily balances of the Amended Credit Facility were $275 million and $25 million, respectively. During the year ended December 31, 2010, the maximum and weighted-average daily balances of the facility were $561 million and $205 million, respectively.

See Note 11, Debt and Borrowing Arrangements , in the accompanying Notes to Consolidated Financial Statements for additional information regarding the components of our indebtedness.

See Part I Item 1A. Risk Factors Risks Related to our Company We are substantially dependent upon our secured and unsecured funding arrangements. If any of our funding arrangements are terminated, not renewed or otherwise become unavailable to us, we may be unable to find replacement financing on economically viable terms, if at all, which would have a material adverse effect on our business, financial position, results of operations and cash flows. for more information.

Vehicle Management Asset-Backed Debt

Vehicle management asset-backed debt primarily represents variable-rate debt issued by our wholly owned subsidiary, Chesapeake Funding LLC, to support the acquisition of vehicles used by our Fleet Management Services segment s U.S. leasing operations and debt issued by Fleet Leasing Receivables Trust, a special purpose trust, used to finance leases originated by our Canadian fleet operation.

Vehicle-management asset-backed debt structures may provide creditors an interest in: (i) a pool of master leases or a pool of specific leases; (ii) the related vehicles under lease; and/or (iii) the related receivables billed to clients for the monthly collection of lease payments and ancillary service revenues (such as fuel and maintenance services). This interest is generally granted to a specific series of note holders either on a pro-rata basis relative to their share of the total outstanding debt issued through the facility or through a direct interest in a specific pool of leases. Repayment of the obligations of the facilities is non-recourse to us and is sourced from the monthly cash flow generated by lease payments and ancillary service payments made under the terms of the related master lease contracts.

Our funding strategy for the Fleet Management Services segment may include the issuance of Asset-backed Term Notes, which provide a fixed funding amount at the time of issuance, or Asset-backed Variable-funding notes under which the committed capacity may be drawn upon as needed during a commitment period, which is typically 364 days in duration. The available committed capacity under Variable-funding notes may be used to fund growth in Net investment in fleet leases during the term of the commitment.

As with the Asset-backed Variable-funding notes, certain Asset-backed Term Notes contain provisions that allow the outstanding debt to revolve for specified periods of time. During these revolving periods, the monthly collection of lease payments allocable to each outstanding series creates availability to fund the acquisition of vehicles and/or equipment to be leased to customers. Upon expiration, the revolving period of the related series of notes ends and the repayment of principal commences, amortizing monthly with the allocation of lease payments until the notes are paid in full.

Our ability to maintain liquidity through Vehicle management asset-backed debt is dependent on:

- § market demand for ABS, specifically demand for ABS collateralized by fleet leases,
- § the quality and eligibility of assets underlying the arrangements,
- § our ability to negotiate terms acceptable to us,

- maintaining our role as servicer of the underlying lease assets,
- our ability to maintain a sufficient level of eligible assets, collateral or credit enhancements, and
- our ability to comply with certain financial covenants (see Debt Covenants below for additional information).

Mortgage Warehouse Asset-Backed Debt

Mortgage warehouse asset-backed debt primarily represents variable-rate mortgage repurchase facilities to support the origination of mortgage loans. As discussed in further detail above under Secondary Mortgage Market, we originate mortgage loans for sale in the secondary mortgage market, either in the form of MBS or whole-loan transactions. Our funding strategy for our Mortgage Production segment includes managing capacity to warehouse loans for the period between the date of mortgage loan funding and sale or securitization. The warehouse period is typically within 60 days.

Mortgage repurchase facilities, also called warehouse lines of credit, are one component of our funding strategy, and they provide creditors a collateralized interest in specific mortgage loans that meet the eligibility requirements under the facility during the warehouse period. Repayment of the facilities typically comes from the sale or securitization of the loans into the secondary mortgage market. We utilize both committed and uncommitted warehouse facilities and we evaluate our needs under these facilities based on forecasted volume of mortgage loan closings and sales.

Our funding strategies for mortgage origination may also include the use of committed and uncommitted mortgage gestation facilities. Gestation facilities effectively finance mortgage loans that are eligible for sale to an agency prior to the issuance of the related MBS. As of December 31, 2010, we have $1 billion of commitments under off-balance sheet gestation facilities with JP Morgan Chase and Bank of America and $420 million of those facilities was utilized.

Our ability to maintain liquidity through Mortgage warehouse asset-backed debt is dependent on:

- market demand for MBS and liquidity in the secondary mortgage market,
- the quality and eligibility of assets underlying the arrangements,
- our ability to negotiate terms acceptable to us,
- our ability to access the asset-backed debt market,
- our ability to maintain a sufficient level of eligible assets or credit enhancements,
- our ability to access the secondary market for mortgage loans,
- maintaining our role as servicer of the underlying mortgage assets, and
- our ability to comply with certain financial covenants (see Debt Covenants below for additional information).

Unsecured Debt

Historically, the public debt markets have been an important source of financing for us, due to their efficiency and low cost relative to certain other sources of financing. Since 2008, the credit markets have experienced extreme volatility and disruption, which has resulted in a significant tightening of credit, including with respect to unsecured debt. Prior to the disruption in the credit markets, we typically accessed these markets by issuing unsecured commercial paper and Medium term notes. During the years ended December 31, 2010, 2009, and 2008, there was no funding available to us in the commercial paper markets, and availability is unlikely given our short-term credit ratings. Although it is our policy to maintain available capacity under our committed unsecured credit facilities to fully support our outstanding unsecured commercial paper, given that the commercial paper markets are unavailable to us, our committed unsecured credit facilities also provide us with an alternative source of liquidity.

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Our credit ratings as of February 22, 2011 were as follows:

	Moody s Investors Service	Standard & Poor s	Fitch Ratings
Senior debt	Ba2	BB+	BB+
Short-term debt	NP	B	B

As of October 21, 2010, the rating outlook on our senior unsecured debt provided by Moody s Investors Service was Stable, and the rating outlook on our senior unsecured debt provided by Standard & Poor s and Fitch Ratings were Negative.

A security rating is not a recommendation to buy, sell or hold securities, may not reflect all of the risks associated with an investment in our debt securities and is subject to revision or withdrawal by the assigning rating organization. Each rating should be evaluated independently of any other rating.

As a result of our senior unsecured long-term debt no longer being investment grade, our access to the public debt markets may be severely limited. We may be required to rely upon alternative sources of financing, such as bank lines and private debt placements and pledge otherwise unencumbered assets. Furthermore, we may be unable to retain all of our existing bank credit commitments beyond the then-existing maturity dates. As a consequence, our cost of financing could rise significantly, thereby negatively impacting our ability to finance some of our capital-intensive activities, such as our ongoing investment in mortgage servicing rights and other retained interests.

See Part I Item 1A. Risk Factors Risks Related to our Company Our senior unsecured long-term debt ratings are below investment grade and, as a result, we may be limited in our ability to obtain or renew financing on economically viable terms or at all. in this Form 10-K for more information.

Debt Capacity and Maturities

Capacity under all borrowing agreements is dependent upon maintaining compliance with, or obtaining waivers of, the terms, conditions and covenants of the respective agreements. Capacity under asset-backed funding arrangements may be further limited by the asset eligibility requirements. Available capacity as of December 31, 2010 consisted of:

	Capacity	Utilized Capacity	Available Capacity
		(In millions)	
Vehicle Management Asset-Backed Debt:			
Term notes, in revolving period	$ 989	$ 989	$
Variable funding notes	1,301	871	430
Mortgage Asset-Backed Debt:			
Committed warehouse facilities	2,825	2,419	406
Servicing advance facility	120	68	52
Unsecured Committed Credit Facilities[1]	810	17	793

[1]

Utilized capacity reflects $17 million of letters of credit issued under the Amended Credit Facility, which are not included in Debt in the Consolidated Balance Sheet.

The capacity of our Unsecured committed credit facilities was reduced to $525 million as of January 6, 2011 upon the expiration of certain commitments as discussed above. Capacity for Mortgage-asset backed debt shown above does not reflect $750 million available under uncommitted warehouse facilities, and $580 million available under committed off-balance sheet gestation facilities.

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The following table provides the contractual debt maturities as of December 31, 2010:

	Vehicle Asset Backed Debt(1)	Mortgage Asset Backed Debt	Unsecured Debt	Mortgage Loan Securitization Debt Certificates	Total
			(In millions)		
Within one year	$ 1,197	$ 3,777	$	$ 9	$ 4,983
Between one and two years	950		250	8	1,208
Between two and three years	607		421	7	1,035
Between three and four years	306		250		556
Between four and five years	9				9
Thereafter	2		358	9	369
	$ 3,071	$ 3,777	$ 1,279	$ 33	$ 8,160

(1) Maturities of vehicle management asset-backed notes, a portion of which are amortizing in accordance with their terms, represent estimated payments based on the expected cash inflows related to the securitized vehicle leases and related assets.

Debt Covenants

Certain of our debt arrangements require the maintenance of certain financial ratios and contain affirmative and negative covenants, including, but not limited to, material adverse change, liquidity maintenance, restrictions on our indebtedness and the indebtedness of our material subsidiaries, mergers, liens, liquidations and sale and leaseback transactions

Among other covenants, the Amended Credit Facility, the RBS repurchase facility. the CSFB Mortgage repurchase facility, the Bank of America repurchase facility, the Bank of America gestation facility and the JPMorgan Chase gestation facility require that we maintain: (i) on the last day of each fiscal quarter, net worth of $1.0 billion; and (ii) at any time, a ratio of indebtedness to tangible net worth no greater than 6.5:1. The Senior Note indenture requires that we maintain a debt to tangible equity ratio not greater than 8.5:1 on the last day of each fiscal quarter. The Medium-term note indenture requires that we maintain a debt to tangible equity ratio of not more than 10:1.

The Amended Credit Facility, the Bank of America repurchase facility and the JPMorgan Chase gestation facility require us to maintain a minimum of $1.0 billion in committed mortgage repurchase or warehouse facilities, with no more than $500 million of gestation facilities and excluding, uncommitted facilities provided by Fannie Mae. In addition, the RBS repurchase facility and the CSFB Mortgage repurchase facility require PHH Mortgage to maintain a minimum of $2.5 billion and $2.0 billion in mortgage repurchase or warehouse facilities, respectively, comprised of any uncommitted facilities provided by Fannie Mae and any committed mortgage repurchase or warehouse facility, including the respective facility.

At December 31, 2010, we were in compliance with all of our financial covenants related to our debt arrangements.

Under certain of our financing, servicing, hedging and related agreements and instruments, the lenders or trustees have the right to notify us if they believe we have breached a covenant under the operative documents and may declare an event of default. If one or more notices of default were to be given, we believe we would have various periods in which to cure certain of such events of default. If we do not cure the events of default or obtain necessary waivers within the required time periods, the maturity of some of our debt could be accelerated and our ability to incur additional indebtedness could be restricted. In addition, an event of default or acceleration under certain of our agreements and instruments would trigger cross-default provisions under certain of our other agreements and instruments.

See Note 16, Stock-Related Matters in the accompanying Notes to Consolidated Financial Statements for information regarding debt covenants that may limit our ability to pay dividends.

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Contractual Obligations

The following table summarizes our future contractual obligations as of December 31, 2010:

	2011	2012	2013	2014	2015	Thereafter	Total
				(In millions)			
Asset-backed debt [1][2]	$ 4,974	$ 950	$ 607	$ 306	$ 9	$ 2	$ 6,848
Unsecured debt [1]		250	421	250		358	1,279
Mortgage Loan Securitization Debt Certificates	9	8	7			9	33
Operating leases	19	18	16	12	12	63	140
Capital leases [1]	1						1
Other purchase commitments	112	3	2				117
	$ 5,115	$ 1,229	$ 1,053	$ 568	$ 21	$ 432	$ 8,418

(1) The table above excludes future cash payments related to interest expense. Interest payments during 2010 totaled $169 million. Interest is calculated on most of our debt obligations based on variable rates referenced to LIBOR or other short-term interest rate indices. A portion of our interest cost related to vehicle management asset-backed debt is charged to lessees pursuant to lease agreements.

(2) Represents the contractual maturities for asset-backed debt arrangements as of December 31, 2010, except for our vehicle management asset-backed notes, where estimated payments have been used based on the expected cash inflows related to the securitized vehicle leases and related assets.

For further information about our Asset-backed debt, Unsecured debt and Mortgage securitization debt certificates, see Liquidity and Capital Resources Indebtedness and Note 11, Debt and Borrowing Arrangements in the accompanying Notes to Consolidated Financial Statements.

Operating lease obligations include (i) leases for our Mortgage Production and Servicing segments in Mt.Laurel, New Jersey; Jacksonville, Florida and other smaller regional locations throughout the U.S; and (ii) leases for our Fleet Management Services segment for its headquarters office in Sparks, Maryland, office space and marketing centers in five locations in Canada and four smaller regional locations throughout the U.S.

Other purchase commitments include various commitments to purchase goods or services from specific suppliers made by us in the ordinary course of our business, including those related to capital expenditures. Other purchase commitments exclude our liability for income tax contingencies, which totaled $9 million as of December 31, 2010, since we cannot predict with reasonable certainty or reliability of the timing of cash settlements to the respective taxing authorities for these estimated contingencies. For more information regarding our liability for income tax contingencies, see Note 1, Summary of Significant Accounting Policies in the accompanying Notes to Consolidated Financial Statements.

For further information about our Operating lease and Other purchase commitments, see Note 15, Commitments and Contingencies in the accompanying Notes to Consolidated Financial Statements.

As of December 31, 2010, we had commitments to fund mortgage loans with agreed-upon rates or rate protection amounting to $7.3 billion.

Commitments to sell loans generally have fixed expiration dates or other termination clauses and may require the payment of a fee. We may settle the forward delivery commitments on MBS or whole loans on a net basis; therefore, the commitments outstanding do not necessarily represent future cash obligations. Our $21.1 billion of forward delivery commitments on MBS or whole loans as of December 31, 2010 generally will be settled within 90 days of the individual commitment date.

For further information about our commitments to fund or sell mortgage loans, see Note 7, Derivatives in the accompanying Notes to Consolidated Financial Statements.

Off-Balance Sheet Arrangements and Guarantees

In the ordinary course of business, we enter into numerous agreements that contain guarantees and indemnities whereby we indemnify another party for breaches of representations and warranties. Such guarantees or indemnifications are granted under various agreements, including those governing leases of real estate, access to credit facilities, use of derivatives and issuances of debt or equity securities. The guarantees or indemnifications issued are for the benefit of the buyers in sale agreements and sellers in purchase agreements, landlords in lease contracts, financial institutions in credit facility arrangements and derivative contracts and underwriters in debt or equity security issuances.

While some of these guarantees extend only for the duration of the underlying agreement, many survive the expiration of the term of the agreement or extend into perpetuity (unless subject to a legal statute of limitations). There are no specific limitations on the maximum potential amount of future payments that we could be required to make under these guarantees and the maximum potential amount of future payments cannot be estimated . With respect to certain guarantees, such as indemnifications of landlords against third-party claims, we maintain insurance coverage that mitigates any potential payments to be made.

We utilize committed mortgage gestation facilities as a component of our financing strategy. Certain gestation agreements are accounted for as sale transactions and result in mortgage loans and related debt that are not included in our Consolidated Balance Sheets. As of December 31, 2010, we have $1 billion of commitments under off-balance sheet gestation facilities and $420 million of these facilities were utilized.

Critical Accounting Policies and Estimates

In presenting our financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the amounts reported therein. Several of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. However, events that are outside of our control cannot be predicted and, as such, they cannot be contemplated in evaluating such estimates and assumptions. If there is a significant unfavorable change to current conditions, it could have a material adverse effect on our business, financial position, results of operations and cash flows. We believe that the estimates and assumptions we used when preparing our financial statements were the most appropriate at that time. Presented below are those accounting policies that we believe require subjective and complex judgments that could potentially affect reported results.

Fair Value Measurements

We have an established and documented process for determining fair value measurements. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. We determine fair value based on quoted market prices, where available. If quoted prices are not available, fair value is estimated based upon other observable inputs, and may include valuation techniques such as present value cash flow models, option-pricing models or other conventional valuation methods. In addition, when estimating the fair value of liabilities, we may use the quoted price of an identical liability when traded and as an asset and quoted prices for similar liabilities or similar liabilities when traded as assets, if available.

We use unobservable inputs when observable inputs are not available. These inputs are based upon our judgments and assumptions, which represent our assessment of the assumptions market participants would use in pricing the asset or liability, which may include assumptions about risk, counterparty credit quality and liquidity and are developed based on the best information available. The incorporation of counterparty credit risk did not have a significant impact on the valuation of our assets and liabilities recorded at fair value on a recurring basis as of December 31, 2010. The use

of different assumptions may have a material effect on the estimated fair value amounts recorded in our financial statements. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk for a sensitivity analysis based on hypothetical changes in interest rates.

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As of December 31, 2010, 55% of our Total assets were measured at fair value on a recurring basis, and 2% of our Total liabilities were measured at fair value on a recurring basis.

Approximately 72% of our assets and liabilities measured at fair value on a recurring basis were valued using primarily observable inputs. These amounts were categorized within Level Two of the valuation hierarchy as defined by ASC 820, Fair Value Measurements and Disclosures and are comprised of the majority of our Mortgage loans held for sale and derivative assets and liabilities.

Approximately 28% of our assets and liabilities measured at fair value on a recurring basis were valued using significant unobservable inputs and were categorized within Level Three of the valuation hierarchy as defined by ASC 820. Approximately 80% of our assets and liabilities categorized within Level Three of the valuation hierarchy are comprised of our Mortgage servicing rights. See Mortgage Servicing Rights below.

The remainder of our assets and liabilities categorized within Level Three of the valuation hierarchy are comprised of certain non-conforming mortgage loans held for sale, interest rate lock commitments and the conversion option and purchased options associated with the 2014 Convertible Notes. Certain non-conforming mortgage loans held for sale are classified within Level Three due to the lack of observable market pricing data and the inactive market for trading such mortgage loans. The fair value of our interest rate lock commitments (IRLCs) is based upon the estimated fair value of the underlying mortgage loan, adjusted for: (i) estimated costs to complete and originate the loan and (ii) an adjustment to reflect the estimated percentage of commitments that will result in a closed mortgage loan, which can vary based on the age of the underlying commitment and changes in mortgage interest rates. The valuation of our IRLCs approximates a whole-loan price, which includes the value of the related mortgage servicing rights. Our IRLCs are classified within Level Three of the valuation hierarchy due to the unobservable inputs used by us and the inactive market for trading such instruments. The estimated fair value of the conversion option and purchased options associated with the 2014 Convertible Notes uses an option pricing model and is primarily impacted by changes in the market price and volatility of our Common stock.

See Note 19, Fair Value Measurements in the accompanying Notes to Consolidated Financial Statements for additional information regarding the fair value hierarchy, our assets and liabilities carried at fair value and activity related to our Level Three financial instruments.

Mortgage Servicing Rights

The fair value of our mortgage servicing rights (MSRs) is estimated based upon projections of expected future cash flows. We use a third-party model as a basis to forecast prepayment rates at each monthly point for each interest rate path calculated using a probability weighted option adjusted spread (OAS) model. Prepayment rates used in the development of expected future cash flows are based on historical observations of prepayment behavior in similar periods, comparing current mortgage rates to the mortgage interest rate in our servicing portfolio, and incorporates loan characteristics (e.g., loan type and note rate) and factors such as recent prepayment experience, the relative sensitivity of our capitalized servicing portfolio to refinance if interest rates decline and estimated levels of home equity.

We utilize an MSR committee, which consists of key members of management to approve our MSR valuation policies and ensure that the fair value of our MSRs is appropriate considering all available internal and external data. We validate assumptions used in estimating the fair value of our MSRs against a number of third-party sources, which may include peer surveys, MSR broker surveys, third-party valuations and other market-based sources. Key assumptions include prepayment rates, discount rate and volatility.

If we experience a 10% adverse change in prepayment rates, OAS and volatility, the fair value of our MSRs would be reduced by $71 million, $65 million and $24 million, respectively. These sensitivities are hypothetical and 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 fair value may not be linear. Also, the effect of a variation in a particular assumption is calculated without changing any other assumption; in reality, changes in one assumption may result in changes in another, which may magnify or counteract the sensitivities. Further, this analysis does not assume any impact resulting from management s intervention to mitigate these variations.

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Mortgage Loans Held for Sale

Mortgage loans held for sale (MLHS) represent mortgage loans originated or purchased by us and held until sold to secondary market investors. We elected to measure MLHS at fair value, which is intended to better reflect the underlying economics of our business, as well as eliminate the operational complexities of our risk management activities related to MLHS and applying hedge accounting.

The fair value of MLHS is estimated by utilizing either: (i) the value of securities backed by similar mortgage loans, adjusted for certain factors to approximate the value of a whole mortgage loan, including the value attributable to mortgage servicing and credit risk; (ii) current commitments to purchase loans; or (iii) recent observable market trades for similar loans, adjusted for credit risk and other individual loan characteristics. As of December 31, 2010, we classified Scratch and Dent (loans with origination flaws or performance issues), second-lien, certain non-conforming and construction loans within Level Three of the valuation hierarchy due to the relative illiquidity observed in the market and lack of trading activity between willing market participants. The valuation of our MLHS classified within Level Three of the valuation hierarchy is based upon either the collateral value or expected cash flows of the underlying loans using assumptions that reflect the current market conditions. When determining the value of these Level Three assets, we considered our own loss experience related to these assets, as well as discount factors that we observed when the market for these assets was active.

Goodwill

The carrying value of our Goodwill is assessed for impairment annually, or more frequently if circumstances indicate impairment may have occurred. Goodwill is assessed for impairment by comparing the carrying value of reporting units to their fair value. Our reporting units are the Fleet Management Services segment, PHH Home Loans, the Mortgage Production segment excluding PHH Home Loans and the Mortgage Servicing segment. The fair value of reporting units may be determined using an income approach, using discounted cash flows, or a combination of an income approach and a market approach, wherein comparative market multiples are used.

The carrying value of our Goodwill was $25 million as of December 31, 2010 and is attributable entirely to our Fleet Management Services segment. See Note 4, Goodwill and Other Intangible Assets in the accompanying Notes to Consolidated Financial Statements.

Income Taxes

We are subject to the income tax laws of the various jurisdictions in which we operate, including U.S federal, state, local and Canadian jurisdictions. These tax laws are complex, may be subject to different interpretations, and require the use of judgment in their application.

We record income taxes in accordance with ASC 740, Income Taxes which requires that deferred tax assets and liabilities be recognized. Deferred taxes are recorded for the expected future consequences of events that have been recognized in the financial statements or tax returns, based upon enacted tax laws and rates. Deferred tax assets are recognized subject to management s judgment that realization is more likely than not, and are reduced by valuation allowances if it is more likely than not that some portion of the deferred tax asset will not be realized.

As of December 31, 2010 and 2009, we had net deferred tax liabilities, which consisted of deferred tax assets primarily resulting from federal and state loss carryforwards and credits netted against deferred tax liabilities primarily resulting from the temporary differences created from originated Mortgage servicing rights and depreciation and amortization (primarily related to accelerated Depreciation on operating leases for tax purposes). The loss carryforwards are expected to reverse in future periods, offsetting taxable income resulting from the reversal of these

temporary differences.

Based on projections of taxable income and prudent tax planning strategies available at our discretion, we determined that it is more-likely-than-not that certain deferred tax assets would be realized; however, we had valuation allowances of $54 million and $70 million as of December 31, 2010 and 2009, respectively, which primarily represent state net operating loss carryforwards that we believe that it is more likely than not that the

loss carryforwards will not be realized. As of December 31, 2010 and 2009, we had no valuation allowances for deferred tax assets generated from federal net operating losses. Should a change in circumstances lead to a change in our judgments about the realization of deferred tax assets in future years, we would adjust the valuation allowances in the period that the change in circumstances occurs, along with a charge or credit to income tax expense. Significant changes to our estimates and assumptions may result in an increase or decrease to our tax expense in a subsequent period.

We record liabilities for income tax contingencies using a two-step process. We must first presume the tax position will be examined by the relevant taxing authority and determine whether it is more likely than not that the position will be sustained upon examination, based on its technical merits. Once an income tax position meets the more likely than not recognition threshold, it is then measured to determine the amount of the benefit to recognize in the financial statements.

Liabilities for income tax contingencies are reviewed periodically and are adjusted as events occur that affect our estimates, such as the availability of new information, subsequent transactions or events, the lapsing of applicable statutes of limitations, the conclusion of tax audits, the measurement of additional estimated liabilities based on current calculations (including interest and/or penalties), the identification of new income tax contingencies, the release of administrative tax guidance affecting our estimates of income tax liabilities or the rendering of relevant court decisions. The ultimate resolution of income tax contingency liabilities could have a significant impact on our effective income tax rate in a given financial statement period. Liabilities for income tax contingencies, including accrued interest and penalties, were $9 million and $8 million as of December 31, 2010 and 2009, respectively, and are reflected in Other liabilities in the accompanying Consolidated Balance Sheets.

Mortgage Loan Repurchase and Indemnification Liability

We have exposure to potential mortgage loan repurchase and indemnifications in our capacity as a loan originator and servicer. The estimation of the liability for probable losses related to repurchase and indemnification obligations considers both (i) specific, non-performing loans currently in foreclosure where we believe it will be required to indemnify the investor for any losses and (ii) an estimate of probable future repurchase or indemnification obligations. The liability related to specific non-performing loans is based on a loan-level analysis considering the current collateral value, estimated sales proceeds and selling cost. The liability related to probable future repurchase or indemnification obligations is estimated based upon recent and historical repurchase and indemnification trends segregated by year of origination. An estimated loss severity, based on current loss rates for similar loans, is then applied to probable repurchases and indemnifications to estimate the liability for loan repurchases and indemnifications.

The underlying trends for loan repurchases and indemnifications are volatile and there is a significant amount of uncertainly regarding our expectations of future loan repurchases and indemnifications and related loss severities. We have observed an increase in loan repurchase and indemnification requests from investors and insurers due to the deteriorating economic conditions and the related impact on mortgage loan performance. Due to the significant uncertainties surrounding these estimates related to future repurchase and indemnification requests by investors and insurers and home prices, it is possible that our exposure exceeds our mortgage loan repurchase and indemnification liability. Our estimate of the mortgage loan repurchase and indemnification liability considers the current macro-economic environment and recent repurchase trends; however, if we experience a prolonged period of higher repurchase and indemnification activity or if weakness in the housing market continues and further declines in home values occur, then our realized losses from loan repurchases and indemnifications may ultimately be in excess of our liability. Given the levels of realized losses in recent periods, there is a reasonable possibility that future losses may be in excess of our recorded liability.

See Note 14, Credit Risk in the accompanying Notes to Consolidated Financial Statements for further information.

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Liability for Reinsurance Losses

The liability for reinsurance losses is determined based upon an actuarial analysis of loans subject to mortgage reinsurance that considers current and projected delinquency rates, home prices and the credit characteristics of the underlying loans including credit score and loan-to-value ratios. This actuarial analysis is updated on a quarterly basis and projects the future reinsurance losses over the term of the reinsurance contract as well as the estimated incurred and incurred but not reported losses as of the end of each reporting period. In addition to the actuarial analysis, the incurred and incurred but not reported losses provided by the primary mortgage insurance companies for loans subject to reinsurance are evaluated to assess the estimate of the actuarial-based reserve. See Note 14, Credit Risk in the accompanying Consolidated Financial Statements for more information regarding the activity in our reinsurance liability.

As of December 31, 2010, the actuarial estimate of total losses to be incurred over the remaining term of the reinsurance contracts was $192 million, which includes losses already incurred and not yet paid. As of December 31, 2010, the reserve for reinsurance losses was $113 million and expected future premium revenue to be earned over the remaining term of the reinsurance contracts was $81 million. We believe the current reinsurance reserve, combined with expected future premium revenue, will be sufficient to cover our expected future losses.

Recently Issued Accounting Pronouncements

For detailed information regarding recently issued accounting pronouncements and the expected impact on our financial statements, see Note 1, Summary of Significant Accounting Policies in the accompanying Notes to Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our principal market exposure is to interest rate risk, specifically long-term Treasury and mortgage interest rates due to their impact on mortgage-related assets and commitments. Additionally, our escrow earnings on our mortgage servicing rights and our net investment in variable-rate lease assets are sensitive to changes in short-term interest rates such as LIBOR and commercial paper rates. We also are exposed to changes in short-term interest rates on certain variable rate borrowings including our mortgage warehouse asset-backed debt, vehicle management asset-backed debt and our unsecured revolving credit facility. We anticipate that such interest rates will remain our primary benchmark for market risk for the foreseeable future.

Interest Rate Risk

See Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management in this Form 10-K for a further description of our assets and liabilities subject to interest rate risk.

Sensitivity Analysis

We assess our market risk based on changes in interest rates utilizing a sensitivity analysis. The sensitivity analysis measures the potential impact on fair values based on hypothetical changes (increases and decreases) in interest rates.

We use a duration-based model in determining the impact of interest rate shifts on our debt portfolio, certain other interest-bearing liabilities and interest rate derivatives portfolios. The primary assumption used in these models is that an increase or decrease in the benchmark interest rate produces a parallel shift in the yield curve across all maturities.

We utilize a probability weighted OAS model to determine the fair value of MSRs and the impact of parallel interest rate shifts on MSRs. The primary assumptions in this model are prepayment speeds, OAS (discount rate) and implied volatility. However, this analysis ignores the impact of interest rate changes on certain material variables, such as the benefit or detriment on the value of future loan originations, non-parallel shifts in the spread relationships between MBS, swaps and Treasury rates and changes in primary and secondary mortgage market spreads. For mortgage loans, IRLCs and forward delivery commitments on MBS or whole loans, we rely on market sources in determining the impact of interest rate shifts. In addition, for IRLCs, the borrower s propensity to close their mortgage loans under the commitment is used as a primary assumption.

Our total market risk is influenced by a wide variety of factors including market volatility and the liquidity of the markets. There are certain limitations inherent in the sensitivity analysis presented, including the necessity to conduct the analysis based on a single point in time and the inability to include the complex market reactions that normally would arise from the market shifts modeled.

We used December 31, 2010 market rates on our instruments to perform the sensitivity analysis. The estimates are based on the market risk sensitive portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves. These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in fair value may not be linear.

The following table summarizes the estimated change in the fair value of our assets and liabilities sensitive to interest rates as of December 31, 2010 given hypothetical instantaneous parallel shifts in the yield curve:

	Change in Fair Value (In millions)					
	Down 100 bps	**Down 50 bps**	**Down 25 bps**	**Up 25 bps**	**Up 50 bps**	**Up 100 bps**
Mortgage assets:						
Restricted investments	$ 4	$ 2	$ 1	$ (1)	$ (3)	$ (5)
Mortgage loans held for sale	199	115	59	(63)	(126)	(254)
Interest rate lock commitments	193	126	68	(79)	(163)	(339)
Forward loan sale commitments	(444)	(254)	(130)	137	276	555
Total Mortgage loans held for sale, interest rate lock commitments and related derivatives	(52)	(13)	(3)	(5)	(13)	(38)
Mortgage servicing rights	(603)	(234)	(98)	82	150	249
Other assets	1			(1)	(1)	(2)
Total mortgage assets	(650)	(245)	(100)	75	133	204
Total vehicle assets	12	6	3	(3)	(6)	(12)
Interest rate contracts	(2)	(1)	(1)	1	2	4
Total liabilities	(35)	(18)	(9)	9	18	35
Total, net	$ (675)	$ (258)	$ (107)	$ 82	$ 147	$ 231

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of PHH Corporation:

We have audited the accompanying consolidated balance sheets of PHH Corporation and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedules listed in Items 8 and 15. These financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PHH Corporation and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2011 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Philadelphia, PA
February 28, 2011

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

	Year Ended December 31,		
	2010	**2009**	**2008**
Revenues			
Mortgage fees	$ 291	$ 275	$ 208
Fleet management fees	157	150	163
Net fee income	448	425	371
Fleet lease income	1,370	1,441	1,585
Gain on mortgage loans, net	635	610	259
Mortgage interest income	110	89	173
Mortgage interest expense	(183)	(147)	(171)
Mortgage net finance (expense) income	(73)	(58)	2
Loan servicing income	415	431	430
Change in fair value of mortgage servicing rights	(427)	(280)	(554)
Net derivative loss related to mortgage servicing rights			(179)
Valuation adjustments related to mortgage servicing rights, net	(427)	(280)	(733)
Net loan servicing (loss) income	(12)	151	(303)
Other income	70	37	142
Net revenues	2,438	2,606	2,056
Expenses			
Salaries and related expenses	497	482	440
Occupancy and other office expenses	60	59	74
Depreciation on operating leases	1,224	1,267	1,299
Fleet interest expense	91	89	162
Other depreciation and amortization	22	26	25
Other operating expenses	429	403	438
Goodwill impairment			61
Total expenses	2,323	2,326	2,499
Income (loss) before income taxes	115	280	(443)
Income tax expense (benefit)	39	107	(162)

Net income (loss)		76		173		(281)
Less: net income (loss) attributable to noncontrolling interest		28		20		(27)
Net income (loss) attributable to PHH Corporation	$	48	$	153	$	(254)
Basic earnings (loss) per share attributable to PHH Corporation	$	0.87	$	2.80	$	(4.68)
Diluted earnings (loss) per share attributable to PHH Corporation	$	0.86	$	2.77	$	(4.68)

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS
($ in millions, except share data)

	December 31,	
	2010	2009
ASSETS		
Cash and cash equivalents	$ 195	$ 150
Restricted cash, cash equivalents and investments (including $254 of available-for-sale securities at fair value at December 31, 2010)	531	596
Mortgage loans held for sale	4,329	1,218
Accounts receivable, net of allowance for doubtful accounts of $4 and $6	573	469
Net investment in fleet leases	3,492	3,610
Mortgage servicing rights	1,442	1,413
Property, plant and equipment, net	46	49
Goodwill	25	25
Other assets	637	593
Total assets [(1)]	$ 11,270	$ 8,123
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses	$ 521	$ 495
Debt	8,085	5,160
Deferred taxes	728	702
Other liabilities	358	262
Total liabilities [(2)]	9,692	6,619
Commitments and contingencies (Note 15)		
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; 55,699,218 shares issued and outstanding at December 31, 2010; 54,774,639 shares issued and outstanding at December 31, 2009	1	1
Additional paid-in capital	1,069	1,056
Retained earnings	465	416
Accumulated other comprehensive income	29	19
Total PHH Corporation stockholders equity	1,564	1,492
Noncontrolling interest	14	12
Total equity	1,578	1,504
Total liabilities and equity	$ 11,270	$ 8,123

(1) Our Consolidated Balance Sheet at December 31, 2010 includes the following assets of variable interest entities which can be used only to settle their obligations: Cash and cash equivalents, $47; Restricted cash, cash equivalents and investments, $241; Mortgage loans held for sale, $389; Accounts receivable, net, $64; Net investment in fleet leases, $3,356; Property, plant, and equipment, net, $1; Other assets, $82; and Total assets, $4,180.

(2) Our Consolidated Balance Sheet at December 31, 2010 includes the following liabilities of variable interest entities which creditors or beneficial interest holders do not have recourse to PHH Corporation and Subsidiaries: Accounts payable and accrued expenses, $38; Debt, $3,367; Other liabilities, $5; and Total liabilities, $3,410.

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
($ in millions, except share data)

	PHH Corporation Stockholders						
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
Balance at December 31, 2007	54,078,637	$ 1	$ 972	$ 527	$ 29	$ 32	$ 1,561
Adjustments to distributions of assets and liabilities to Cendant (now known as Avis Budget Group, Inc.) related to the Spin-Off				4			4
Effect of adoption of ASC 820 and ASC 825, net of income taxes of $(10)				(14)			(14)
Comprehensive loss:							
Net loss				(254)		(27)	
Currency translation adjustment					(26)		
Change in unfunded pension liability, net of income taxes of $(4)					(6)		
Total comprehensive loss				(254)	(32)	(27)	(313)
Distributions to noncontrolling interest						(4)	(4)
Proceeds on sale of sold warrants (Note 11)			24				24
Reclassification of purchased options and conversion option, net of income taxes of $(1) (Note 11)			(1)				(1)
Stock compensation expense			11				11
Stock options exercised, including excess tax benefit of $0	28,765		1				1
Restricted stock award vesting, net of excess tax benefit of $0	148,892		(2)				(2)
Balance at December 31, 2008	54,256,294	$ 1	$ 1,005	$ 263	$ (3)	$ 1	$ 1,267
Comprehensive income:							
Net income				153		20	

Currency translation adjustment					21		
Change in unfunded pension liability, net of income taxes of $1					1		
Total comprehensive income				153	22	20	195
Distributions to noncontrolling interest						(9)	(9)
Proceeds on sale of sold warrants (Note 11)			35				35
Stock compensation expense			13				13
Stock options exercised, including excess tax benefit of $0	302,760		4				4
Restricted stock award vesting, net of excess tax benefit of $0	215,585		(1)				(1)
Balance at December 31, 2009	54,774,639	$ 1	$ 1,056	$ 416	$ 19	$ 12	$ 1,504

Continued.

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)
($ in millions, except share data)

	PHH Corporation Stockholders						
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
Balance at December 31, 2009	54,774,639	$ 1	$ 1,056	$ 416	$ 19	$ 12	$ 1,504
Adjustments to distributions of assets and liabilities to Cendant (now known as Avis Budget Group, Inc.) related to the Spin-Off				1			1
Comprehensive income:							
Net income				48		28	
Currency translation adjustment					9		
Unrealized gains on available-for-sale securities, net of income taxes of $0					1		
Total comprehensive income				48	10	28	86
Distributions to noncontrolling interest						(26)	(26)
Purchase of noncontrolling interest			(1)				(1)
Stock compensation expense			8				8
Stock options exercised, including excess tax benefit of $0	593,429		10				10
Restricted stock award vesting, net of excess tax benefit of $0	331,150		(4)				(4)
Balance at December 31, 2010	55,669,218	$ 1	$ 1,069	$ 465	$ 29	$ 14	$ 1,578

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in millions)

	Year Ended December 31,		
	2010	**2009**	**2008**
Cash flows from operating activities:			
Net income (loss)	$ 76	$ 173	$ (281)
Adjustments to reconcile Net income (loss) to net cash (used in) provided by operating activities:			
Goodwill impairment charge			61
Capitalization of originated mortgage servicing rights	(456)	(496)	(328)
Net unrealized loss on mortgage servicing rights and related derivatives	427	280	733
Vehicle depreciation	1,224	1,267	1,299
Other depreciation and amortization	22	26	25
Origination of mortgage loans held for sale	(38,140)	(29,592)	(20,580)
Proceeds on sale of and payments from mortgage loans held for sale	35,496	29,930	21,252
Net gain on interest rate lock commitments, mortgage loans held for sale and related derivatives	(614)	(638)	(190)
Deferred income tax expense (benefit)	27	123	(118)
Other adjustments and changes in other assets and liabilities, net	258	210	20
Net cash (used in) provided by operating activities	(1,680)	1,283	1,893
Cash flows from investing activities:			
Investment in vehicles	(1,463)	(1,073)	(1,959)
Proceeds on sale of investment vehicles	353	418	532
Proceeds on sale of mortgage servicing rights	8	92	179
Net cash paid on derivatives related to mortgage servicing rights			(111)
Purchases of property, plant and equipment	(17)	(11)	(21)
Purchases of restricted investments	(400)		
Proceeds from restricted investments	148		
Decrease (increase) in Restricted cash and cash equivalents	319	18	(35)
Other, net	12	6	7
Net cash used in investing activities	(1,040)	(550)	(1,408)
Cash flows from financing activities:			
Net decrease in short-term borrowings			(133)
Proceeds from borrowings	61,242	44,347	30,291
Principal payments on borrowings	(58,406)	(44,913)	(30,627)
Issuances of Company Common stock	10	4	1
Proceeds from the sale of Sold Warrants (Note 11)		35	24
Cash paid for Purchased Options (Note 11)		(66)	(51)
Cash paid for debt issuance costs	(51)	(54)	(54)
Other, net	(27)	(8)	(4)

Net cash provided by (used in) financing activities	$ 2,768	$ (655)	$ (553)

Continued.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
($ in millions)

	Year Ended December 31,		
	2010	2009	2008
Effect of changes in exchange rates on Cash and cash equivalents	$ (3)	$ (37)	$ 28
Net increase (decrease) in Cash and cash equivalents	45	41	(40)
Cash and cash equivalents at beginning of period	150	109	149
Cash and cash equivalents at end of period	$ 195	$ 150	$ 109
Supplemental Disclosure of Cash Flows Information:			
Interest payments	$ 169	$ 164	$ 292
Income tax (refunds) payments, net	(9)	(21)	28

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

PHH Corporation and subsidiaries (collectively, PHH or the Company) is a leading outsource provider of mortgage and fleet management services operating in the following business segments:

- § **Mortgage Production** provides mortgage loan origination services and sells mortgage loans.
- § **Mortgage Servicing** performs servicing activities for originated and purchased loans.
- § **Fleet Management Services** provides commercial fleet management services.

The Consolidated Financial Statements include the accounts and transactions of PHH and its subsidiaries, as well as entities in which the Company directly or indirectly has a controlling interest and variable interest entities of which the Company is the primary beneficiary. PHH Home Loans, LLC and its subsidiaries are consolidated within the Consolidated Financial Statements, and Realogy Corporation s ownership interest is presented as a noncontrolling interest.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States, which is commonly referred to as 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, other financial instruments and goodwill, the estimation of liabilities for mortgage loan repurchases and indemnifications and reinsurance losses, 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 Consolidated Financial Statements are in millions.

Changes In Accounting Policies

Financing Receivables. In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses an update to ASC 310. This update enhances the disclosure requirements of ASC 310 regarding the credit quality of financing receivables and the allowance for credit losses and requires entities to provide a greater level of disaggregated information about the credit quality of financing receivables and the allowance for credit losses. In addition, ASU No. 2010-20 requires disclosure of credit quality indicators, past due information, and modifications of financing receivables. The disclosure provisions of the updates to ASU 2010-20 for end of period disclosure requirements were adopted effective December 31, 2010 and were included in Note 14, Credit Risk and discussion below. Further updates to ASU 2010-20 relate to disclosures about activity that occurs during a reporting period, and are effective for interim and annual reporting periods beginning on or after December 15, 2010. These updates enhance the disclosure requirements for financing receivables and credit losses, but will not impact the Company s financial position, results of operations or cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Transfers of Financial Assets. In June 2009, the FASB updated Accounting Standards Codification (ASC) 860, Transfers and Servicing to eliminate the concept of a qualifying special-purpose entity, modify the criteria for applying sale accounting to transfers of financial assets or portions of financial assets, differentiate between the initial measurement of an interest held in connection with the transfer of an entire financial asset recognized as a sale and participating interests recognized as a sale and remove the provision allowing classification of interests received in a guaranteed mortgage securitization transaction that does not qualify as a sale as available-for-sale or trading securities. The updates to ASC 860 clarify (i) that an entity must consider all arrangements or agreements made contemporaneously or in contemplation of a transfer, (ii) the isolation analysis related to the transferor and its consolidated subsidiaries and (iii) the principle of effective control over the transferred financial asset. The updates also enhance financial statement disclosures. Revised recognition and measurement provisions are to be applied to transfers occurring on or after the effective date and the disclosure provisions are to be applied to transfers that occurred both before and after the effective date. The updates to this standard were adopted effective January 1, 2010. Except for the elimination of qualifying special-purpose entities addressed in the updates to ASC 810, Consolidation below, the adoption of the updates to ASC 860 did not impact the Consolidated Financial Statements.

Consolidation of Variable Interest Entities. In June 2009, the FASB updated Consolidation guidance in ASC 810 to modify certain characteristics that identify a variable interest entity (VIE), revise the criteria for determining the primary beneficiary of a VIE, add an additional reconsideration event to determining whether an entity is a VIE, eliminating troubled debt restructurings as an excluded reconsideration event and enhance disclosures regarding involvement with a VIE. Additionally, with the elimination of the concept of qualifying special-purpose entities (QSPEs) in the updates to ASC 860, entities previously considered QSPEs are now within the scope of ASC 810. Entities required to consolidate or deconsolidate a VIE will recognize a cumulative effect in retained earnings for any difference in the carrying amount of the interest recognized. The Company adopted the updates to ASC 810 effective January 1, 2010. As a result of the adoption of updates to ASC 810, assets of consolidated VIEs that can be used only to settle the obligations of the VIE and liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of the Company are presented separately on the face of the Consolidated Balance Sheets. As a result of the updates to ASC 860 eliminating the concept of QSPEs, the Company was required to consolidate a mortgage loan securitization trust that previously met the QSPE scope exception. Upon consolidation, the fair value option of measuring the assets and liabilities of the mortgage loan securitization trust at fair value was elected under ASC 825, Financial Instruments. See Note 19, Fair Value Measurements for the transition adjustment related to the adoption of the updates to ASC 810 and ASC 860, which had no impact on Retained earnings, and Note 20, Variable Interest Entities for further discussion.

Fair Value Measurements. In September 2006, the Financial Accounting Standards Board issued ASC 820, Fair Value Measurements and Disclosures ASC 820 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 also prioritizes the use of market-based assumptions, or observable inputs, over entity-specific assumptions or unobservable inputs when measuring fair value and establishes a three-level hierarchy based upon the relative reliability and availability of the inputs to market participants for the valuation of an asset or liability as of the measurement date. The fair value hierarchy designates quoted prices in active markets for identical assets or liabilities at the highest level and unobservable inputs at the lowest level. (See below for additional information regarding the fair value hierarchy.) ASC 820 also nullified the guidance which required the deferral of gains and losses at the inception of a transaction involving a derivative financial instrument in the absence of observable data supporting the valuation technique.

The provisions of ASC 820 were adopted for assets and liabilities that are measured at fair value on a recurring basis effective January 1, 2008. As a result of the adoption of ASC 820 for assets and liabilities that are measured at fair value on a recurring basis, a $9 million decrease in Retained earnings was recorded as of January 1, 2008. This amount represents the transition adjustment, net of income taxes, resulting from recognizing gains and losses related to interest rate lock commitments (“