UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission File Number: 1-7797

PHH CORPORATION

(Exact name of registrant as specified in its charter)

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

856-917-1744

(Registrant s telephone number, including area code)

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

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

Large accelerated filer x	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 x

As of October 22, 2012, 56,701,439 shares of PHH common stock were outstanding.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Generally, forward-looking statements are not based on historical facts but instead represent only our current beliefs regarding future events. All forward-looking statements are, by their nature, subject to risks, uncertainties and other factors. Investors are cautioned not to place undue reliance on these forward-looking statements. Such statements may be identified by words such as expects, anticipates, intends, projects, estimates, plans, may increase, may fluctuate and similar expressions or future or conditional verbs such as will, should, would, may Forward-looking statements contained in this Form 10-Q 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;
- our belief that sources of liquidity will be adequate to fund operations;
- our expectations regarding our ability to achieve our liquidity plans;
- mortgage repurchase and indemnification requests and associated reserves and provisions; and
- our assessment of legal proceedings and associated reserves and provisions.

Actual results, performance or achievements may differ materially from those expressed or implied in forward-looking statements due to a variety of factors, including but not limited to the factors listed and discussed in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, Part II Item 1A. Risk Factors in this Form 10-Q and those factors described below:

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

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

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

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

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

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

- the effects of 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 or other actions of the federal government;

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

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

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

- the ability to attract and retain key employees;

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

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

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

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

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

PHH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
REVENUES				
Mortgage fees	$ 91	$ 68	$ 254	$ 210
Fleet management fees	45	42	137	128
Net fee income	136	110	391	338
Fleet lease income	340	370	1,014	1,050
Gain on mortgage loans, net	257	203	695	381
Mortgage interest income	24	24	70	82
Mortgage interest expense	(54)	(48)	(162)	(150)
Mortgage net finance expense	(30)	(24)	(92)	(68)
Loan servicing income	112	112	333	337
Change in fair value of mortgage servicing rights	(225)	(410)	(451)	(601)
Net derivative gain related to mortgage servicing rights	8	1	5	1
Valuation adjustments related to mortgage servicing rights, net	(217)	(409)	(446)	(600)
Net loan servicing loss	(105)	(297)	(113)	(263)
Other income	26	22	65	127
Net revenues	624	384	1,960	1,565
EXPENSES				
Salaries and related expenses	159	124	438	375
Occupancy and other office expenses	15	14	43	44
Depreciation on operating leases	304	307	908	922
Fleet interest expense	18	19	52	60
Other depreciation and amortization	7	7	19	19
Other operating expenses	177	155	512	368
Total expenses	680	626	1,972	1,788
Loss before income taxes	(56)	(242)	(12)	(223)
Income tax benefit	(33)	(104)	(32)	(100)
Net (loss) income	(23)	(138)	20	(123)
Less: net income attributable to noncontrolling interest	19	10	44	17
Net loss attributable to PHH Corporation	$ (42)	$ (148)	$ (24)	$ (140)
Basic loss per share attributable to PHH Corporation	$ (0.74)	$ (2.62)	$ (0.42)	$ (2.48)
Diluted loss per share attributable to PHH Corporation	$ (0.74)	$ (2.62)	$ (0.42)	$ (2.48)

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net (loss) income	$ (23)	$ (138)	$ 20	$ (123)
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	7	(16)	7	(10)
Change in unrealized gains on available-for-sale securities, net			(1)	1
Change in unfunded pension liability, net		1	1	1
Total other comprehensive income (loss), net of tax	7	(15)	7	(8)
Total comprehensive (loss) income	(16)	(153)	27	(131)
Less: comprehensive income attributable to noncontrolling interest	19	10	44	17
Comprehensive loss attributable to PHH Corporation	$ (35)	$ (163)	$ (17)	$ (148)

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)
(In millions, except share data)

	September 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 677	$ 414
Restricted cash, cash equivalents and investments (including $126 and $226 of available-for-sale securities at fair value)	435	574
Mortgage loans held for sale	1,953	2,658
Accounts receivable, net of allowance for doubtful accounts of $4 and $2	742	700
Net investment in fleet leases	3,653	3,515
Mortgage servicing rights	1,002	1,209
Property, plant and equipment, net	68	64
Goodwill	25	25
Other assets	691	618
Total assets (1)	$ 9,246	$ 9,777
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses	$ 516	$ 504
Debt	6,318	6,914
Deferred taxes	604	626
Other liabilities	309	272
Total liabilities (1)	7,747	8,316
Commitments and contingencies (Note 10)		
EQUITY		
Preferred stock, $0.01 par value; 1,090,000 shares authorized; none issued or outstanding		
Common stock, $0.01 par value; 273,910,000 shares authorized; 56,695,730 shares issued and outstanding at September 30, 2012; 56,361,155 shares issued and outstanding at December 31, 2011	1	1
Additional paid-in capital	1,120	1,082
Retained earnings	314	338
Accumulated other comprehensive income	28	21
Total PHH Corporation stockholders equity	1,463	1,442
Noncontrolling interest	36	19
Total equity	1,499	1,461
Total liabilities and equity	$ 9,246	$ 9,777

See accompanying Notes to Condensed Consolidated Financial Statements.

Continued.

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CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

(Unaudited)
(In millions)

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

	September 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 63	$ 57
Restricted cash, cash equivalents and investments	236	313
Mortgage loans held for sale	722	484
Accounts receivable, net	96	79
Net investment in fleet leases	3,547	3,390
Property, plant and equipment, net	2	1
Other assets	49	66
Total assets	$ 4,715	$ 4,390
LIABILITIES		
Accounts payable and accrued expenses	$ 35	$ 36
Debt	4,025	3,549
Other liabilities	22	9
Total liabilities	$ 4,082	$ 3,594

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

(In millions, except share data)

	PHH Corporation Stockholders Equity						
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
	Shares	Amount					
Nine Months Ended September 30, 2012							
Balance at December 31, 2011	**56,361,155**	**$ 1**	**$ 1,082**	**$ 338**	**$ 21**	**$ 19**	**$ 1,461**
Total comprehensive (loss) income				(24)	7	44	27
Distributions to noncontrolling interest						(27)	(27)
Stock compensation expense			3				3
Stock issued under share-based payment plans	334,575		(1)				(1)
Conversion option related to Convertible note issuance, net (Note 7)			33				33
Recognition of deferred taxes related to Convertible notes			3				3
Balance at September 30, 2012	**56,695,730**	**$ 1**	**$ 1,120**	**$ 314**	**$ 28**	**$ 36**	**$ 1,499**
Nine Months Ended September 30, 2011							
Balance at December 31, 2010	**55,699,218**	**$ 1**	**$ 1,069**	**$ 465**	**$ 29**	**$ 14**	**$ 1,578**
Total comprehensive (loss) income				(140)	(8)	17	(131)
Distributions to noncontrolling interest						(16)	(16)
Stock compensation expense			5				5
Stock issued under share-based payment plans	641,495		6				6
Balance at September 30, 2011	**56,340,713**	**$ 1**	**$ 1,080**	**$ 325**	**$ 21**	**$ 15**	**$ 1,442**

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)

	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income (loss)	$ 20	$ (123)
Adjustments to reconcile Net income (loss) to net cash provided by operating activities:		
Capitalization of originated mortgage servicing rights	(244)	(357)
Net unrealized loss on mortgage servicing rights and related derivatives	446	600
Vehicle depreciation	908	922
Other depreciation and amortization	19	19
Origination of mortgage loans held for sale	(28,230)	(27,013)
Proceeds on sale of and payments from mortgage loans held for sale	29,655	29,131
Net gain on interest rate lock commitments, mortgage loans held for sale and related derivatives	(746)	(321)
Deferred income tax benefit	(42)	(109)
Other adjustments and changes in other assets and liabilities, net	16	(410)
Net cash provided by operating activities	1,802	2,339
Cash flows from investing activities:		
Investment in vehicles	(1,282)	(1,190)
Proceeds on sale of investment vehicles	227	280
Net cash received (paid) on derivatives related to mortgage servicing rights	7	(1)
Purchases of property, plant and equipment	(18)	(16)
Purchases of restricted investments	(151)	(185)
Proceeds from sales and maturities of restricted investments	187	204
Decrease (increase) in restricted cash and cash equivalents	105	(15)
Other, net	21	24
Net cash used in investing activities	(904)	(899)
Cash flows from financing activities:		
Proceeds from secured borrowings	48,063	42,065
Principal payments on secured borrowings	(48,472)	(43,668)
Proceeds from unsecured borrowings	518	610
Principal payments on unsecured borrowings	(671)	(530)
Issuances of common stock	1	8
Cash paid for debt issuance costs	(43)	(20)
Other, net	(31)	(15)
Net cash used in financing activities	(635)	(1,550)
Effect of changes in exchange rates on Cash and cash equivalents		(1)
Net increase (decrease) in Cash and cash equivalents	263	(111)
Cash and cash equivalents at beginning of period	414	195
Cash and cash equivalents at end of period	$ 677	$ 84

See accompanying Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED 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 Condensed Consolidated Financial Statements include the accounts and transactions of PHH and its subsidiaries, as well as entities in which the Company directly or indirectly has a controlling interest and variable interest entities of which the Company is the primary beneficiary. PHH Home Loans, LLC and its subsidiaries are consolidated within the Condensed Consolidated Financial Statements, and Realogy Corporation s ownership interest is presented as a noncontrolling interest. Intercompany balances and transactions have been eliminated from the Condensed Consolidated Financial Statements.

The Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States, which is commonly referred to as GAAP, for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In management s opinion, the unaudited Condensed Consolidated Financial Statements contain all adjustments, which include normal and recurring adjustments necessary for a fair presentation of the financial position and results of operations for the interim periods presented. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

On March 31, 2011, the Company sold 50.1% of the equity interests in its appraisal services business, Speedy Title and Appraisal Review Services, (STARS) to CoreLogic, Inc. for a total purchase price of $35 million. For the nine months ended September 30, 2011, a $68 million gain on the sale of the 50.1% equity interest was recorded within Other income. Subsequent to March 31, 2011, the Company participates in the appraisal services business through its 49.9% ownership interest in STARS, and is entitled to its proportionate share of STARS earnings.

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CHANGES IN ACCOUNTING POLICIES

Comprehensive Income. In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income . Subsequently in December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 . The updates to comprehensive income guidance require all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The Company adopted the new accounting guidance effective January 1, 2012, and applied it retrospectively. The adoption added the Condensed Consolidated Statements of Comprehensive Income but did not impact the Company s results of operations, financial position, or cash flows.

Fair Value Measurement. In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards . This update to fair value measurement guidance addresses changes to concepts regarding performing fair value measurements including: (i) the application of the highest and best use and valuation premise; (ii) the valuation of an instrument classified in the reporting entity s shareholders equity; (iii) the valuation of financial instruments that are managed within a portfolio; and (iv) the application of premiums and discounts. This update also enhances disclosure requirements about fair value measurements, including providing information regarding Level 3 measurements such as quantitative information about unobservable inputs, further discussion of the valuation processes used and assumption sensitivity analysis. The Company adopted the new accounting guidance effective January 1, 2012. The updated disclosures are included in Note 12, Fair Value Measurements .

Transfers and Servicing. In April 2011, the FASB issued ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements . This update to transfers and servicing guidance removes from the assessment of effective control the criterion relating to the transferor s ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. This update also eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The Company adopted the new accounting guidance effective beginning January 1, 2012 and the guidance will be applied prospectively to new transactions or modifications of existing transactions. The adoption of this update did not have an impact on the Company s financial statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Intangibles. In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. This update amends the current guidance on testing indefinite-lived intangibles for impairment and allows for the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangibles are impaired. If it is more likely than not that the indefinite-lived intangibles are impaired, the entity is required to determine the fair value of the indefinite-lived intangibles and perform the quantitative impairment test by comparing the fair value with the carrying amount. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 with early adoption permitted. The Company does not anticipate the adoption of this update will have a material impact on its financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Earnings Per Share

Basic loss per share attributable to PHH Corporation was computed by dividing Net loss attributable to PHH Corporation for the period by the weighted-average number of shares outstanding during the period. Diluted loss per share attributable to PHH Corporation was computed by dividing Net loss attributable to PHH Corporation for the period by the weighted-average number of shares outstanding during the period, assuming all potentially dilutive common shares were issued.

The weighted-average computation of the dilutive effect of potentially issuable shares of Common stock under the treasury stock method excludes the effect of any contingently issuable securities where the contingency has not been met and the effect of securities that would be anti-dilutive, which may include:

- outstanding stock-based compensation awards representing shares from restricted stock units and stock options;
- stock assumed to be issued related to convertible notes;
- purchased options and sold warrants related to the assumed conversion of the 2012 Convertible notes; and
- sold warrants related to the Company s 2014 Convertible notes.

The computation also excludes the assumed issuance of the 2014 Convertible notes and related purchased options as they are currently to be settled only in cash. Shares associated with anti-dilutive securities are outlined in the table below.

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(In millions, except share and per share data)			
Net loss attributable to PHH Corporation	$ (42)	$ (148)	$ (24)	$ (140)
Weighted-average common shares outstanding basic and diluted(1)	56,842,323	56,436,649	56,768,027	56,297,629
Basic and diluted loss per share attributable to PHH Corporation	$ (0.74)	$ (2.62)	$ (0.42)	$ (2.48)

Anti-dilutive securities excluded from the computation of dilutive securities:				
Outstanding stock-based compensation awards	2,356,488	2,062,302	2,356,488	2,062,302
Assumed conversion of debt securities	5,494,884		3,750,848	594,876

(1) Due to the net loss recognized for the three and nine months ended September 30, 2012 and 2011, there were no potentially dilutive securities included in the calculations of diluted earnings per share, as their inclusion would have been antidilutive.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Restricted Cash, Cash Equivalents and Investments

The following table summarizes Restricted cash, cash equivalents and investment balances:

	September 30, 2012	December 31, 2011
	(In millions)	
Restricted cash and cash equivalents	$ 309	$ 348
Restricted investments, at fair value	126	226
Total	$ 435	$ 574

The restricted cash related to our reinsurance activities is invested in certain debt securities as permitted under the reinsurance agreements. The restricted investments are classified as available-for-sale securities and remain in trust for capital fund requirements and potential reinsurance losses. In 2012, the Company terminated one of its reinsurance agreements. As a result, the restricted cash and investments held in trust to pay future losses were released and the remaining liability was settled with the primary mortgage insurer. See Note 9, Credit Risk for information regarding the termination.

The following tables summarize Restricted investments, at fair value:

	September 30, 2012				
	Amortized Cost	Fair Value	Unrealized Gains	Unrealized Losses	Weighted-average remaining maturity
			(In millions)		
Corporate securities	$ 30	$ 31	$ 1	$	26 mos.
Agency securities (1)	22	22			36 mos.
Government securities	72	73	1		18 mos.
Total	$ 124	$ 126	$ 2	$	23 mos.

	December 31, 2011				
	Amortized Cost	Fair Value	Unrealized Gains	Unrealized Losses	Weighted-average remaining maturity
			(In millions)		
Corporate securities	$ 53	$ 54	$ 1	$	28 mos.
Agency securities (1)	118	119	1		19 mos.
Government securities	52	53	1		34 mos.
Total	$ 223	$ 226	$ 3	$	25 mos.

(1) Represents bonds and notes issued by various agencies including, but not limited to, Fannie Mae, Freddie Mac and Federal Home Loan Banks.

During the three months ended September 30, 2012, the amount of realized gains and losses from the sale of available-for-sale securities was not significant. During the nine months ended September 30, 2012 and the three and nine months ended September 30, 2011, realized gains of $1 million from the sale of available-for-sale securities were recorded and realized losses were not significant.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Transfers and Servicing of Mortgage Loans

Residential mortgage loans are sold through one of the following methods: (i) sales to or pursuant to programs sponsored by Fannie Mae, Freddie Mac and Ginnie Mae, or (ii) sales to private investors. The Company may have continuing involvement in mortgage loans sold by retaining one or more of the following: servicing rights and servicing obligations, recourse obligations and/or beneficial interests (such as interest-only strips, principal-only strips, or subordinated interests). See Note 9, Credit Risk for a further description of recourse obligations.

The total servicing portfolio consists of loans associated with capitalized mortgage servicing rights, loans held for sale, and the servicing portfolio associated with loans subserviced for others. The total servicing portfolio, including loans subserviced for others was $185.1 billion and $182.4 billion as of September 30, 2012 and December 31, 2011, respectively. Mortgage servicing rights (MSRs) recorded in the Condensed Consolidated Balance Sheets are related to the capitalized servicing portfolio, and are created either through the direct purchase of servicing from a third party or through the sale of an originated loan.

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

	Nine Months Ended September 30, 2012	2011
	(In millions)	
Balance, beginning of period	$ 147,088	$ 134,753
Additions	24,794	26,502
Payoffs, sales and curtailments	(27,102)	(16,980)
Balance, end of period	$ 144,780	$ 144,275

The activity in capitalized MSRs consisted of:

	Nine Months Ended September 30, 2012	2011
	(In millions)	
Balance, beginning of period	$ 1,209	$ 1,442
Additions	244	357
Changes in fair value due to:		
Realization of expected cash flows	(199)	(146)
Changes in market inputs or assumptions used in the valuation model	(252)	(455)
Balance, end of period	$ 1,002	$ 1,198

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
		(In millions)		
Servicing fees from capitalized portfolio				