UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from to

Commission File Number: 1-7797

PHH CORPORATION

(Exact name of registrant as specified in its charter)

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

856-917-1744

(Registrant s telephone number, including area code)

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

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

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

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

As of April 29, 2014, 57,383,756 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 exploration of a separation or sale of our fleet business, our mortgage business or both such businesses;

¡ potential acquisitions, dispositions, partnerships, joint ventures and changes in product offerings to achieve disciplined growth in our franchise platforms and to optimize our mortgage and fleet management services businesses;

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

¡ our expected cost reductions and responses to the changing mortgage production environment;

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

¡ our belief that our mortgage servicing rights funding relationship will contribute positively to our cash flows;

¡ our belief that sources of liquidity will be adequate to fund operations;

¡ our belief that Fannie Mae and Freddie Mac are substantially complete with pre-2009 vintage mortgage loan repurchase and indemnification requests, as well as our expectations for future requests and associated reserves and provisions;

¡ the impact of the adoption of recently issued accounting pronouncements on our financial statements; 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 2013 Form 10-K 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 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 changes in the U.S. financial condition and fiscal and monetary policies, or any actions taken or to be taken by the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System on the credit markets and the U.S. economy;

¡ the effects of any 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 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;

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

¡ the ability to maintain our status as a government sponsored entity-approved seller and servicer, including the ability to continue to comply with the respective selling and servicing guides;

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

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

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

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

¡ 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 ability to obtain alternative funding sources for our mortgage servicing rights or to obtain financing (including refinancing and extending existing indebtedness) on acceptable terms, if at all, to finance our operations or growth strategies, to operate within the limitations imposed by our financing arrangements and to maintain the amount of cash required to service our indebtedness;

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

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

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

¡ the ability to attract and retain key employees.

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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PHH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per share data)

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
REVENUES				
Mortgage fees	$	47	$	79
Fleet management fees		44		43
Net fee income		91		122
Fleet lease income		343		332
Gain on mortgage loans, net		51		187
Mortgage interest income		8		20
Mortgage interest expense		(38)		(48)
Mortgage net finance expense		(30)		(28)
Loan servicing income		115		108
Change in fair value of mortgage servicing rights		(79)		5
Net derivative gain (loss) related to mortgage servicing rights		6		(16)
Valuation adjustments related to mortgage servicing rights, net		(73)		(11)
Net loan servicing income		42		97
Other income		20		20
Net revenues		517		730
EXPENSES				
Salaries and related expenses		127		159
Occupancy and other office expenses		17		15
Depreciation on operating leases		300		302
Fleet interest expense		13		15
Other depreciation and amortization		8		7
Other operating expenses		123		136
Total expenses		588		634
(Loss) income before income taxes		(71)		96
Income tax (benefit) expense		(27)		32
Net (loss) income		(44)		64
Less: net (loss) income attributable to noncontrolling interest		(2)		12
Net (loss) income attributable to PHH Corporation	$	(42)	$	52
Basic (loss) earnings per share attributable to PHH Corporation	$	(0.73)	$	0.90
Diluted (loss) earnings per share attributable to PHH Corporation	$	(0.73)	$	0.79

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net (loss) income	$ (44)	$ 64
Other comprehensive loss, net of tax:		
Currency translation adjustment	(7)	(5)
Total other comprehensive loss, net of tax	(7)	(5)
Total comprehensive (loss) income	(51)	59
Less: comprehensive (loss) income attributable to noncontrolling interest	(2)	12
Comprehensive (loss) income attributable to PHH Corporation	$ (49)	$ 47

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions, except share data)

	March 31, 2014		December 31, 2013	
ASSETS				
Cash and cash equivalents	$	1,155	$	1,245
Restricted cash		336		234
Mortgage loans held for sale		605		834
Accounts receivable, net		1,000		981
Net investment in fleet leases		3,619		3,653
Mortgage servicing rights		1,224		1,279
Property and equipment, net		69		75
Goodwill		25		25
Other assets		509		522
Total assets (1)	$	8,542	$	8,848
LIABILITIES AND EQUITY				
Accounts payable and accrued expenses	$	763	$	803
Debt		5,334		5,505
Deferred taxes		661		685
Other liabilities		140		165
Total liabilities (1)		6,898		7,158
Commitments and contingencies (Note 12)				
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; 57,379,112 shares issued and outstanding at March 31, 2014; 57,265,517 shares issued and outstanding at December 31, 2013		1		1
Additional paid-in capital		1,147		1,142
Retained earnings		465		507
Accumulated other comprehensive income		9		16
Total PHH Corporation stockholders equity		1,622		1,666
Noncontrolling interest		22		24
Total equity		1,644		1,690
Total liabilities and equity	$	8,542	$	8,848

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

(Unaudited)

(In millions)

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

	March 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$ 94	$ 99
Restricted cash	304	206
Mortgage loans held for sale	274	318
Accounts receivable, net	154	53
Net investment in fleet leases	3,556	3,581
Property and equipment, net	2	2
Other assets	30	25
Total assets	$ 4,414	$ 4,284
LIABILITIES		
Accounts payable and accrued expenses	$ 21	$ 23
Debt	3,807	3,753
Other liabilities	13	12
Total liabilities	$ 3,841	$ 3,788

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

(In millions, except share data)

	PHH Corporation Stockholders Equity						
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
Three Months Ended March 31, 2014							
Balance at December 31, 2013	**57,265,517**	**$ 1**	**$ 1,142**	**$ 507**	**$ 16**	**$ 24**	**$ 1,690**
Total comprehensive loss				(42)	(7)	(2)	(51)
Stock compensation expense			3				3
Stock issued under share-based payment plans	113,595		1				1
Recognition of deferred taxes related to Convertible notes			1				1
Balance at March 31, 2014	**57,379,112**	**$ 1**	**$ 1,147**	**$ 465**	**$ 9**	**$ 22**	**$ 1,644**
Three Months Ended March 31, 2013							
Balance at December 31, 2012	**56,975,991**	**$ 1**	**$ 1,127**	**$ 372**	**$ 26**	**$ 36**	**$ 1,562**
Total comprehensive income (loss)				52	(5)	12	59
Distributions to noncontrolling interest						(15)	(15)
Stock compensation expense			2				2
Stock issued under share-based payment plans	113,350		(1)				(1)
Recognition of deferred taxes related to Convertible notes			1				1
Balance at March 31, 2013	**57,089,341**	**$ 1**	**$ 1,129**	**$ 424**	**$ 21**	**$ 33**	**$ 1,608**

See accompanying Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
Cash flows from operating activities:				
Net (loss) income	$	(44)	$	64
Adjustments to reconcile Net (loss) income to net cash provided by operating activities:				
Capitalization of originated mortgage servicing rights		(25)		(74)
Net loss on mortgage servicing rights and related derivatives		73		11
Vehicle depreciation		300		302
Other depreciation and amortization		8		7
Origination of mortgage loans held for sale		(2,725)		(7,845)
Proceeds on sale of and payments from mortgage loans held for sale		3,003		8,506
Net gain on interest rate lock commitments, mortgage loans held for sale and related derivatives		(33)		(194)
Deferred income tax (benefit) expense		(26)		29
Other adjustments and changes in other assets and liabilities, net		(60)		27
Net cash provided by operating activities		471		833
Cash flows from investing activities:				
Investment in vehicles		(409)		(447)
Proceeds on sale of investment vehicles		103		77
Net cash received (paid) on derivatives related to mortgage servicing rights		8		(21)
Proceeds on sale of mortgage servicing rights		4		
Purchases of property and equipment		(3)		(11)
Purchases of restricted investments				(51)
Proceeds from sales and maturities of restricted investments				58
(Increase) decrease in restricted cash		(104)		15
Other, net		6		1
Net cash used in investing activities		(395)		(379)
Cash flows from financing activities:				
Proceeds from secured borrowings		4,873		12,755
Principal payments on secured borrowings		(5,027)		(13,093)
Issuances of common stock		2		
Cash paid for debt issuance costs		(9)		(2)
Distributions to noncontrolling interest				(15)
Other, net		(1)		(1)
Net cash used in financing activities		(162)		(356)
Effect of changes in exchange rates on Cash and cash equivalents		(4)		
Net (decrease) increase in Cash and cash equivalents		(90)		98
Cash and cash equivalents at beginning of period		1,245		829
Cash and cash equivalents at end of period	$	1,155	$	927

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 (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 2013 Form 10-K.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions include, but are not limited to, those related to the valuation of mortgage servicing rights, mortgage loans held for sale and other financial instruments, the estimation of liabilities for 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 Condensed Consolidated Financial Statements are in millions.

Changes in Accounting Policies

Income Taxes. In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists . This update to the income tax guidance clarifies the diversity in practice in the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This update requires the unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset or as a liability to the extent the entity cannot or does not intend to use the deferred tax asset for such purpose. The Company adopted the new accounting guidance effective January 1, 2014 and applied the guidance prospectively to all unrecognized tax benefits that existed as of the effective date. The adoption of the guidance did not have a material impact on the Company s financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Recently Issued Accounting Pronouncements

Receivables. In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure . This update to the receivable guidance clarifies when a creditor is considered to have received physical possession of residential real estate resulting from an in substance repossession or foreclosure. In addition, the amendments require disclosure of both: (i) the amount of foreclosed residential real estate property held by the creditor; and (ii) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The update requires the Company to apply the guidance using either a modified retrospective transition method or a prospective transition method for interim and annual periods beginning after December 15, 2014, with early adoption permitted. The Company does not expect the adoption of the new guidance to have a material impact on its financial statements.

Presentation and Disclosure of Discontinued Operations. In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity . Under the new guidance, only disposals of a component of an entity that represent a major strategic shift on an entity s operations and financial results shall be reported in discontinued operations. The guidance also requires the presentation as discontinued operation for an entity that, on acquisition, meets the criteria to be classified as held for sale. In addition, the update expands disclosures for discontinued operations, requires new disclosures regarding disposals of an individually significant component of an entity that does not qualify for discontinued operations presentation and expands disclosures about an entity s significant continuing involvement with a discontinued operation. The update requires the Company to apply the amendments prospectively to all disposals and classifications as held for sale of components of an entity and to all businesses that, on acquisition, are classified as held for sale within interim and annual periods beginning on or after December 15, 2014. Early adoption is permitted in limited circumstances. The Company is currently evaluating the impact of adopting this new standard.

2. Earnings Per Share

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

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

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

The computation also excludes shares related to the assumed issuance of the Convertible notes due 2014 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(In millions, except share and per share data)	
Net (loss) income attributable to PHH Corporation	$ (42)	$ 52
Weighted-average common shares outstanding basic	57,543,886	57,248,825
Effect of potentially dilutive securities:		
Share-based payment arrangements(1)		239,361
Conversion of debt securities		8,297,949
Weighted-average common shares outstanding diluted	57,543,886	65,786,135
Basic (loss) earnings per share attributable to PHH Corporation	$ (0.73)	$ 0.90
Diluted (loss) earnings per share attributable to PHH Corporation	$ (0.73)	$ 0.79
Anti-dilutive securities excluded from the computation of dilutive securities:		
Outstanding stock-based compensation awards(2)	2,367,992	479,323
Assumed conversion of debt securities	9,584,725	

(1) Represents incremental shares from restricted stock units and stock options.

(2) For the three months ended March 31, 2014, excludes 554,804 shares that are contingently issuable for which the contingency has not been met.

3. 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 11, Credit Risk for a further description of recourse obligations.

The total servicing portfolio consists of loans associated with capitalized mortgage servicing rights, loans held for sale, and the portfolio associated with loans subserviced for others. The total servicing portfolio, including loans subserviced for others, was $225.7 billion and $226.8 billion, as of March 31, 2014 and December 31, 2013, 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.

During 2013, the Company entered into an agreement to sell a portion of its newly-created Mortgage servicing rights to a third party, and the Company will have continuing involvement as subservicer. During the three months ended March 31, 2014, sales with a fair value of $1 million were completed under the terms of this arrangement. As of March 31, 2014, the Company had commitments to sell servicing rights related to $600 million of the unpaid principal balance of Mortgage loans held for sale and Interest rate lock commitments that are expected to result in closed loans. Under this arrangement, the Company also had commitments to sell servicing rights related to $522 million of unpaid principal balance of mortgage loans (fair value of $6 million) that were included in the capitalized portfolio as of March 31, 2014.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended March 31,	
	2014	2013
	(In millions)	
Balance, beginning of period	$ 129,145	$ 140,381
Additions	2,266	6,964
Payoffs, sales and curtailments	(4,253)	(10,512)
Balance, end of period	$ 127,158	$ 136,833

The activity in capitalized MSRs consisted of:

	Three Months Ended March 31,	
	2014	2013
	(In millions)	
Balance, beginning of period	$ 1,279	$ 1,022
Additions	25	74
Sales	(1)	
Changes in fair value due to:		
Realization of expected cash flows	(34)	(77)
Changes in market inputs or assumptions used in the valuation model	(45)	82
Balance, end of period	$ 1,224	$ 1,101

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

	Three Months Ended March 31,	
	2014	2013
	(In millions)	
Servicing fees from capitalized portfolio	$ 92	$ 100
Late fees	5	5
Other ancillary servicing revenue	8	10

As of March 31, 2014 and December 31, 2013, the MSRs had a weighted-average life of 6.2 years and 6.5 years, respectively. See Note 14, "Fair Value Measurements" for additional information regarding the valuation of MSRs.