PULTEGROUP INC/MI/
Form 10-Q
October 24, 2013

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, 2013

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

Commission File Number 1-9804

PULTEGROUP, INC.
(Exact name of registrant as specified in its charter)

MICHIGAN	38-2766606
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Bloomfield Hills Parkway, Suite 300
Bloomfield Hills, Michigan 48304
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (248) 647-2750

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 [ ]

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 [ ]

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 [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES [ ] NO [X]

Number of shares of common stock outstanding as of October 18, 2013: 383,057,410

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PULTEGROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
($000's omitted)

	September 30, 2013 (Unaudited)	December 31, 2012 (Note)
ASSETS		
Cash and equivalents	$1,349,994	$1,404,760
Restricted cash	69,421	71,950
House and land inventory	4,150,964	4,214,046
Land held for sale	65,100	91,104
Land, not owned, under option agreements	27,612	31,066
Residential mortgage loans available-for-sale	296,922	318,931
Investments in unconsolidated entities	45,006	45,629
Other assets	440,524	407,675
Intangible assets	139,423	149,248
Deferred tax assets, net	2,108,756	—
	$8,693,722	$6,734,409
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, including book overdrafts of $37,495 and $42,053 in 2013 and 2012, respectively	$214,098	$178,274
Customer deposits	173,665	101,183
Accrued and other liabilities	1,445,649	1,418,063
Income tax liabilities	196,870	198,865
Financial Services debt	115,098	138,795
Senior notes	2,056,657	2,509,613
	4,202,037	4,544,793
Shareholders' equity	4,491,685	2,189,616
	$8,693,722	$6,734,409

Note: The Condensed Consolidated Balance Sheet at December 31, 2012 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying Notes to Condensed Consolidated Financial Statements.

PULTEGROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(000's omitted, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Homebuilding				
Home sale revenues	$1,491,959	$1,232,704	$3,811,386	$3,070,895
Land sale revenues	55,783	22,623	102,299	69,770
	1,547,742	1,255,327	3,913,685	3,140,665
Financial Services	34,336	47,264	110,571	112,367
Total revenues	1,582,078	1,302,591	4,024,256	3,253,032
Homebuilding Cost of Revenues:				
Home sale cost of revenues	1,180,137	1,023,704	3,072,425	2,605,249
Land sale cost of revenues	49,933	21,061	92,661	62,069
	1,230,070	1,044,765	3,165,086	2,667,318
Financial Services expenses	23,244	20,578	68,867	62,914
Selling, general and administrative expenses	138,637	125,191	418,794	372,691
Other expense (income), net	17,055	7,453	79,166	24,570
Interest income	(1,036)	(1,219)	(3,321)	(3,582)
Interest expense	171	201	544	616
Equity in (earnings) loss of unconsolidated entities	(785)	(284)	(282)	(3,836)
Income before income taxes	174,722	105,906	295,402	132,341
Income tax expense (benefit)	(2,107,162)	(10,727)	(2,104,661)	(15,062)
Net income	$2,281,884	$116,633	$2,400,063	$147,403
Per share:				
Basic earnings	$5.92	$0.31	$6.20	$0.39
Diluted earnings	$5.87	$0.30	$6.14	$0.38
Cash dividends declared	$0.10	$—	$0.10	$—

See accompanying Notes to Condensed Consolidated Financial Statements.

PULTEGROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(000's omitted)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$ 2,281,884	$ 116,633	$ 2,400,063	$ 147,403
Other comprehensive income, net of tax:				
Change in fair value of derivatives	77	58	273	173
Other comprehensive income	77	58	273	173
Comprehensive income	$ 2,281,961	$ 116,691	$ 2,400,336	$ 147,576

See accompanying Notes to Condensed Consolidated Financial Statements.

PULTEGROUP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(000's omitted, except per share data)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
	Shares	$				
Shareholders' Equity, January 1, 2013	386,608	$3,866	$3,030,889	$ (992)	$ (844,147)	$2,189,616
Stock option exercises	1,359	14	18,535	—	—	18,549
Stock awards, net of cancellations	700	7	(7)	—	—	—
Dividends declared	—	—	—	—	(38,462)	(38,462)
Stock repurchases	(5,609)	(56)	(3,063)	—	(86,821)	(89,940)
Stock-based compensation	—	—	11,586	—	—	11,586
Net income	—	—	—	—	2,400,063	2,400,063
Other comprehensive income	—	—	—	273	—	273
Shareholders' Equity, September 30, 2013	383,058	$3,831	$3,057,940	$ (719)	$ 1,430,633	$4,491,685
Shareholders' Equity, January 1, 2012	382,608	$3,826	$2,986,240	$ (1,306)	$ (1,050,145)	$1,938,615
Stock option exercises	2,403	24	27,408	—	—	27,432
Stock awards, net of cancellations	1,316	13	(13)	—	—	—
Stock repurchases	(104)	(1)	(813)	—	(147)	(961)
Stock-based compensation	—	—	9,384	—	—	9,384
Net income	—	—	—	—	147,403	147,403
Other comprehensive income	—	—	—	173	—	173
Shareholders' Equity, September 30, 2012	386,223	$3,862	$3,022,206	$ (1,133)	$ (902,889)	$2,122,046

See accompanying Notes to Condensed Consolidated Financial Statements.

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PULTEGROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
($000's omitted)
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	$2,400,063	$147,403
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:		
Deferred income taxes	(2,108,756)	—
Write-down of land inventory and deposits and pre-acquisition costs	6,371	12,623
Depreciation and amortization	23,134	22,278
Stock-based compensation expense	21,570	14,368
Equity in (earnings) loss of unconsolidated entities	(282)	(3,836)
Distributions of earnings from unconsolidated entities	1,693	7,223
Loss on debt retirements	26,930	—
Other non-cash, net	5,943	5,254
Increase (decrease) in cash due to:		
Restricted cash	1,654	(966)
Inventories	89,040	160,973
Residential mortgage loans available-for-sale	21,967	(5,275)
Other assets	(29,989)	(1,612)
Accounts payable, accrued and other liabilities	97,607	63,832
Income tax liabilities	(1,995)	(1,033)
Net cash provided by (used in) operating activities	554,950	421,232
Cash flows from investing activities:		
Distributions from unconsolidated entities	200	2,696
Investments in unconsolidated entities	(1,057)	(1,266)
Net change in loans held for investment	236	736
Change in restricted cash related to letters of credit	875	26,096
Proceeds from the sale of property and equipment	9	4,705
Capital expenditures	(18,354)	(10,597)
Net cash provided by (used in) investing activities	(18,091)	22,370
Cash flows from financing activities:		
Financial Services borrowings (repayments)	(23,697)	103,000
Other borrowings (repayments)	(477,220)	(92,493)
Stock option exercises	18,549	27,432
Stock repurchases	(89,940)	(961)
Dividends paid	(19,317)	—
Net cash provided by (used in) financing activities	(591,625)	36,978
Net increase (decrease) in cash and equivalents	(54,766)	480,580
Cash and equivalents at beginning of period	1,404,760	1,083,071
Cash and equivalents at end of period	$1,349,994	$1,563,651
Supplemental Cash Flow Information:		
Interest paid (capitalized), net	$(18,304)	$(28,072)
Income taxes paid (refunded), net	$(792)	$(12,901)

See accompanying Notes to Condensed Consolidated Financial Statements.

PULTEGROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Summary of significant accounting policies

Basis of presentation

PulteGroup, Inc. is one of the largest homebuilders in the United States. Our common stock trades on the New York Stock Exchange under the ticker symbol “PHM”. Unless the context otherwise requires, the terms "PulteGroup", the "Company", "we", "us", and "our" used herein refer to PulteGroup, Inc. and its subsidiaries. While our subsidiaries engage primarily in the homebuilding business, we also have mortgage banking operations, conducted principally through Pulte Mortgage LLC (“Pulte Mortgage”), and title operations.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent events

We evaluated subsequent events up until the time the financial statements were filed with the Securities and Exchange Commission ("SEC").

Cash and equivalents

Cash and equivalents include institutional money market investments and time deposits with a maturity of three months or less when acquired. Cash and equivalents at September 30, 2013 and December 31, 2012 also included $13.6 million and $8.1 million, respectively, of cash from home closings held in escrow for our benefit, typically for less than five days, which are considered deposits in-transit.

Restricted cash

We maintain certain cash balances that are restricted as to their use. Restricted cash consists primarily of deposits maintained with financial institutions under cash-collateralized letter of credit agreements (see Note 9). The remaining balances relate to certain other accounts with restrictions, including customer deposits on home sales that are temporarily restricted by regulatory requirements until title transfers to the homebuyer.

PULTEGROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Other expense (income), net

Other expense (income), net consists of the following ($000's omitted):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Write-off of deposits and pre-acquisition costs	$811	$893	$1,402	$1,798
Loss on debt retirements (Note 9)	3,858	—	26,930	—
Lease exit and related costs (a)	378	152	1,146	6,312
Amortization of intangible assets	3,275	3,275	9,825	9,825
Miscellaneous expense (income), net (b)	8,733	3,133	39,863	6,635
	$17,055	$7,453	$79,166	$24,570

(a) Excludes $2.5 million of lease exit costs classified within Financial Services expense during the nine months ended September 30, 2012. There were no such costs during the three and nine months ended September 30, 2013 or the three months ended September 30, 2012.

(b) Includes charges of $8.0 million and $38.0 million during the three and nine months ended September 30, 2013, respectively, resulting from a contractual dispute related to a previously completed luxury community (see Note 10).

Notes receivable

In certain instances, we may accept consideration for land sales or other transactions in the form of a note receivable. Such receivables are reported net of allowance for credit losses within other assets. The following represents our notes receivable and related allowance for credit losses ($000's omitted):

	September 30, 2013	December 31, 2012
Notes receivable, gross	$59,683	$57,841
Allowance for credit losses	(27,048)	(26,865)
Notes receivable, net	$32,635	$30,976

We also record receivables from various parties in the normal course of business, including amounts due from municipalities, insurance carriers, and vendors. Such receivables are generally reported within other assets. See Residential mortgage loans available-for-sale in Note 1 for a discussion of receivables related to our mortgage operations.

Earnings per share

Basic earnings per share is computed by dividing income (loss) available to common shareholders (the "Numerator") by the weighted-average number of common shares, adjusted for unvested shares of restricted stock (the "Denominator") for the period. Computing diluted earnings per share is similar to computing basic earnings per share, except that the Denominator is increased to include the dilutive effects of stock options, non-vested restricted stock, and other potentially dilutive instruments. Any stock options that have an exercise price greater than the average market price are considered to be anti-dilutive and are excluded from the diluted earnings per share calculation. Our earnings per share excludes 10.3 million and 10.5 million stock options and other potentially dilutive instruments for the three and

nine months ended September 30, 2013, respectively, and 12.0 million and 18.8 million stock options and other potentially dilutive instruments for the three and nine months ended September 30, 2012, respectively.

PULTEGROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

In accordance with ASC 260 "Earnings Per Share" ("ASC 260"), the two-class method determines earnings per share for each class of common stock and participating securities according to an earnings allocation formula that adjusts the Numerator for dividends or dividend equivalents and participation rights in undistributed earnings. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share pursuant to the two-class method. The Company's outstanding restricted stock awards and deferred shares are considered participating securities. The following table presents the earnings per share of common stock ($000's omitted, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator:				
Net income	$2,281,884	$116,633	$2,400,063	$147,403
Less: earnings distributed to participating securities	(273)	—	(273)	—
Less: undistributed earnings allocated to participating securities	(15,884)	—	(17,526)	—
Numerator for basic earnings per share	$2,265,727	$116,633	$2,382,264	$147,403
Add back: undistributed earnings allocated to participating securities	15,884	—	17,526	—
Less: undistributed earnings reallocated to participating securities	(15,753)	—	(17,358)	—
Numerator for diluted earnings per share	$2,265,858	$116,633	$2,382,432	$147,403
Denominator:				
Basic shares outstanding	382,883	381,355	384,159	380,839
Effect of dilutive securities	3,220	3,215	3,745	2,036
Diluted shares outstanding	386,103	384,570	387,904	382,875
Earnings per share:				
Basic	$5.92	$0.31	$6.20	$0.39
Diluted	$5.87	$0.30	$6.14	$0.38

Land option agreements

In the ordinary course of business, we enter into land option agreements in order to procure land for the construction of homes in the future. Pursuant to these land option agreements, we generally provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Such contracts enable us to defer acquiring portions of properties owned by third parties or unconsolidated entities until we have determined whether and when to exercise our option, which reduces our financial risks associated with long-term land holdings. Option deposits and pre-acquisition costs (such as environmental testing, surveys, engineering, and entitlement costs) are capitalized if the costs are directly identifiable with the land under option, the costs would be capitalized if we owned the land, and acquisition of the property is probable. Such costs are reflected in other assets and are reclassified to inventory upon taking title to the land. We write off deposits and pre-acquisition costs when it becomes probable that we will not go forward with the project or recover the capitalized costs. Such decisions take into consideration changes in local market conditions, the timing of required land purchases, the availability and best use of necessary incremental capital, and other factors. We record any such write-offs of deposits and pre-acquisition costs within other expense (income), net. See Note 3.

If the entity holding the land under option is a variable interest entity ("VIE"), our deposit represents a variable interest in that entity. If we are determined to be the primary beneficiary of the VIE, we are required to consolidate the VIE. Certain of our land option agreements are with entities considered VIEs. In evaluating whether we are required to consolidate a VIE, we take into consideration that the VIE is generally protected from the first dollar of loss under our land option agreement due to our deposit. Likewise, the VIE's gains are generally capped based on the purchase price within the

land option agreement. However, we generally have little control or influence over the operations of these VIEs due to our lack of an equity interest in them. Additionally, creditors of the VIE have no recourse against us, and we do not provide financial or other support to these VIEs other than as stipulated in the land option agreements. Our maximum exposure to loss related to these VIEs is generally limited to our deposits and pre-acquisition costs under the applicable land option agreements. Historically, cancellations of land option agreements have resulted in write-offs of the related deposits and pre-acquisition costs but have not exposed us to the overall risks or losses of the applicable VIEs.

Separately, certain land option agreements represent financing arrangements even though we generally have no obligation to pay these future amounts. As a result, we recorded $27.6 million and $31.1 million at September 30, 2013 and December 31, 2012, respectively, to land, not owned, under option agreements with a corresponding increase to accrued and other liabilities. Such amounts represent the remaining purchase price under the land option agreements, some of which are with VIEs, in the event we exercise the purchase rights under the agreements.

The following provides a summary of our interests in land option agreements as of September 30, 2013 and December 31, 2012 ($000's omitted):

	September 30, 2013			December 31, 2012		
	Deposits and Pre-acquisition Costs	Remaining Purchase Price	Land, Not Owned, Under Option Agreements	Deposits and Pre-acquisition Costs	Remaining Purchase Price	Land, Not Owned, Under Option Agreements
Consolidated VIEs	$6,705	$10,488	$12,107	$5,216	$8,590	$8,590
Unconsolidated VIEs	32,678	683,158	—	24,078	360,495	—
Other land option agreements	48,561	707,547	15,505	40,822	554,307	22,476
	$87,944	$1,401,193	$27,612	$70,116	$923,392	$31,066

Residential mortgage loans available-for-sale

Substantially all of the loans originated by us are sold in the secondary mortgage market within a short period of time after origination, generally within 30 days. In accordance with ASC 825, "Financial Instruments" ("ASC 825"), we use the fair value option to record residential mortgage loans available-for-sale. Election of the fair value option for these loans allows a better offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. We do not designate any derivative instruments as hedges or apply the hedge accounting provisions of ASC 815, "Derivatives and Hedging."

Expected gains and losses from the sale of residential mortgage loans and their related servicing rights are included in the measurement of written loan commitments that are accounted for at fair value through Financial Services revenues at the time of commitment. Subsequent changes in the fair value of these loans are reflected in Financial Services revenues as they occur. At September 30, 2013 and December 31, 2012, residential mortgage loans available-for-sale had an aggregate fair value of $296.9 million and $318.9 million, respectively, and an aggregate outstanding principal balance of $285.9 million and $305.3 million, respectively. The net gain (loss) resulting from changes in fair value of these loans totaled $4.4 million and $0.9 million for the three months ended September 30, 2013 and 2012, respectively, and $2.6 million and $0.6 million for the nine months ended September 30, 2013 and 2012. These

changes in fair value were substantially offset by changes in fair value of the corresponding hedging instruments. Net gains from the sale of mortgages were $18.1 million and $33.9 million for the three months ended September 30, 2013 and 2012, respectively, and $66.4 million and $76.9 million for the nine months ended September 30, 2013 and 2012, respectively, and have been included in Financial Services revenues.

Derivative instruments and hedging activities

We are exposed to market risks from commitments to lend, movements in interest rates, and canceled or modified commitments to lend. A commitment to lend at a specific interest rate (an interest rate lock commitment) is a derivative financial instrument (interest rate is locked to the borrower). In order to reduce these risks, we use other derivative financial instruments, principally cash forward placement contracts on mortgage-backed securities and whole loan investor

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commitments, to economically hedge the interest rate lock commitment. We enter into these derivative financial instruments based upon our portfolio of interest rate lock commitments and closed loans. We do not use any derivative financial instruments for trading purposes.

At September 30, 2013 and December 31, 2012, we had aggregate interest rate lock commitments of $317.7 million and $161.6 million, respectively, which were originated at interest rates prevailing at the date of commitment. Since we can terminate a loan commitment if the borrower does not comply with the terms of the contract, and some loan commitments may expire without being drawn upon, these commitments do not necessarily represent future cash requirements. We evaluate the creditworthiness of these transactions through our normal credit policies.

Forward contracts on mortgage-backed securities are commitments to either purchase or sell a specified financial instrument at a specified future date for a specified price that may be settled in cash, by offsetting the position, or through the delivery of the financial instrument. Forward contracts on mortgage-backed securities are the predominant derivative financial instruments we use to minimize market risk during the period from the time we extend an interest rate lock to a loan applicant until the time the loan is sold to an investor. We also use whole loan investor commitments, which are obligations of the investor to buy loans at a specified price within a specified time period. At September 30, 2013 and December 31, 2012, we had unexpired forward contracts of $519.6 million and $428.0 million, respectively, and whole loan investor commitments of $30.2 million and $4.7 million, respectively. Changes in the fair value of interest rate lock commitments and other derivative financial instruments are recognized in Financial Services revenues, and the fair values are reflected in other assets or other liabilities, as applicable.

There are no credit-risk-related contingent features within our derivative agreements, and counterparty risk is considered minimal. Gains and losses on interest rate lock commitments are substantially offset by corresponding gains or losses on forward contracts on mortgage-backed securities and whole loan investor commitments. We are generally not exposed to variability in cash flows of derivative instruments for more than approximately 75 days.

The fair values of derivative instruments and their location in the Condensed Consolidated Balance Sheets is summarized below ($000's omitted):

	September 30, 2013		December 31, 2012	
	Other Assets	Other Liabilities	Other Assets	Other Liabilities
Interest rate lock commitments	$12,239	$117	$6,045	$24
Forward contracts	41	8,997	245	891
Whole loan commitments	78	219	30	85
	$12,358	$9,333	$6,320	$1,000

New accounting pronouncements

In December 2011, the FASB issued ASU 2011-11, “Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"), which requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. The guidance was effective for our fiscal year beginning January 1, 2013 and was applied retrospectively. The adoption of this guidance, which is related to disclosure only, did not have a material impact on our financial statements.

PULTEGROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

2. Corporate office relocation

On May 31, 2013, we announced our plan to relocate our corporate offices to Atlanta, Georgia, from its current location in Bloomfield Hills, Michigan, in 2014. The decision to relocate reflects long-term growth trends for both us and the homebuilding industry and is intended to bring our corporate offices closer to our customers and a larger portion of our investment portfolio. The relocation of operations will occur in phases over time but is expected to be substantially complete no later than early 2015. We expect to incur the following approximate costs in connection with the relocation, the substantial majority of which represent future cash expenditures ($000's omitted):

Employee severance, retention, and relocation costs	$21,000	to	$26,000
Asset impairments	355	to	500
Lease termination and other exit costs	27,000	to	32,000

During the three and nine months ended September 30, 2013, we recorded employee severance, retention, and relocation costs of $0.3 million and $13.4 million, respectively, and asset impairments of $0.0 million and $0.4 million, respectively. Severance, retention, and relocation costs are recorded within selling, general, and administrative expense, while lease exit and asset impairments are included in other expense (income), net. We expect to record additional charges of approximately $2.0 million in 2013 related to the relocation with the remaining costs to be recognized primarily in 2014 and early 2015. We will also incur costs at the new location related to the recruitment and onboarding of new employees and certain redundant operating costs. The amount of such costs is not expected to be material.

3. Inventory and land held for sale

Major components of inventory were as follows ($000's omitted):

	September 30, 2013	December 31, 2012
Homes under construction	$1,277,648	$1,116,184
Land under development	2,117,653	2,435,378
Raw land	755,663	662,484
	$4,150,964	$4,214,046

We capitalize interest cost into inventory during the active development and construction of our communities. Each layer of capitalized interest is amortized over a period that approximates the average life of communities under development. Interest expense is recorded based on the timing of home closings. Interest expensed to Homebuilding home sale cost of revenues included capitalized interest related to inventory impairments of $0.8 million and $1.9 million, for the three months ended September 30, 2013 and 2012, respectively, and $2.7 million and $4.9 million for the nine months ended September 30, 2013 and 2012, respectively. In all periods presented, we capitalized all Homebuilding interest costs into inventory because the level of our active inventory exceeded our debt levels.

Information related to interest capitalized into inventory is as follows ($000's omitted):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest in inventory, beginning of period	$298,575	$358,451	$331,880	$355,068
Interest capitalized	35,962	50,730	118,527	153,369

Interest expensed	(68,013)	(57,155)	(183,883)	(156,411)
Interest in inventory, end of period	$266,524	$352,026	$266,524	$352,026
Interest incurred*	$35,962	$50,730	$118,527	$153,369

*Homebuilding interest incurred includes interest on senior debt and certain other financing arrangements.

Land valuation adjustments and write-offs

Impairment of inventory

We record valuation adjustments on land inventory and related communities under development when events and circumstances indicate that they may be impaired and when the cash flows estimated to be generated by those assets are less than their carrying amounts. Such indicators include gross margin or sales paces significantly below expectations, construction costs or land development costs significantly in excess of budgeted amounts, significant delays or changes in the planned development for the community, and other known qualitative factors. For communities that are not yet active, an additional consideration includes an evaluation of the probability, timing, and cost of obtaining necessary approvals from municipalities and any potential concessions that may be necessary in order to obtain such approvals. We also consider potential changes to the product offerings in a community and any alternative strategies for the land, such as the sale of the land either in whole or in parcels. Communities that demonstrate potential impairment indicators are tested for impairment. We compare the expected undiscounted cash flows for these communities to their carrying values. For those communities whose carrying values exceed the expected undiscounted cash flows, we estimate the fair value of the community. Impairment charges are recorded if the fair value of the community's inventory is less than its carrying value.

We determine the fair value of a community's inventory using a combination of market comparable land transactions, where available, and discounted cash flow models. These estimated cash flows are significantly impacted by estimates related to expected average selling prices, expected sales paces, expected land development and construction timelines, and anticipated land development, construction, and overhead costs. The assumptions used in the discounted cash flow models are specific to each community tested for impairment. Due to uncertainties in the estimation process, the significant volatility in demand for new housing, and the long life cycles of many communities, actual results could differ significantly from such estimates. Our determination of fair value also requires discounting the estimated cash flows at a rate commensurate with the inherent risks associated with each of the assets and related estimated cash flow streams. The discount rate used in determining each community's fair value depends on the stage of development of the community and other specific factors that increase or decrease the inherent risks associated with the community's cash flow streams. For example, communities that are entitled and near completion will generally be assigned a lower discount rate than communities that are not entitled and consist of multiple phases spanning several years of development and construction.

During the three and nine months ended September 30, 2013 and 2012, we reviewed each of our land positions for potential impairment. As a result of these reviews, we recorded impairments of $0.8 million and $2.3 million during the three months ended September 30, 2013 and 2012, respectively, and $2.7 million and $9.6 million during the nine months ended September 30, 2013 and 2012, respectively, which are recorded within Homebuilding home sale cost of revenues. Our evaluations for impairments recorded to date were based on our best estimates of the future cash flows for our communities. However, if conditions in the homebuilding industry or our local markets worsen in the future or if our strategy related to certain communities changes, we may be required to evaluate our assets for further impairments or write-downs, which could result in future charges that might be significant.

Net realizable value adjustments – land held for sale

Land held for sale is valued at the lower of carrying value or fair value less costs to sell. In determining the value of land held for sale, we consider recent offers received, prices for land in recent comparable sales transactions, and other factors. During the three months ended September 30, 2013 and 2012, we recognized net realizable value adjustments

related to land held for sale of $0.1 million and $0.2 million, respectively. Such adjustments totaled $2.3 million and $1.3 million during the nine months ended September 30, 2013 and 2012, respectively. We record these net realizable value adjustments within Homebuilding land sale cost of revenues. During 2013, the decrease in the gross land held for sale and net realizable value reserves balances resulted primarily from the sale of land parcels, certain of which were previously impaired. Land held for sale was as follows ($000's omitted):

	September 30, 2013	December 31, 2012
Land held for sale, gross	$73,698	$135,201
Net realizable value reserves	(8,598)	(44,097)
Land held for sale, net	$65,100	$91,104

Write-off of deposits and pre-acquisition costs

We wrote off deposits and pre-acquisition costs in the amount of $0.8 million and $0.9 million during the three months ended September 30, 2013 and 2012, respectively, and $1.4 million and $1.8 million during the nine months ended September 30, 2013 and 2012, respectively. We record these write-offs of deposits and pre-acquisition costs within other expense (income), net.

4. Segment information

Our Homebuilding operations are engaged in the acquisition and development of land primarily for residential purposes within the U.S. and the construction of housing on such land. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

Northeast:	Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Virginia
Southeast:	Georgia, North Carolina, South Carolina, Tennessee
Florida:	Florida
Texas:	Texas
North:	Illinois, Indiana, Michigan, Minnesota, Missouri, Northern California, Ohio, Oregon, Washington
Southwest:	Arizona, Colorado, Nevada, New Mexico, Southern California

We also have a reportable segment for our Financial Services operations, which consist principally of mortgage banking and title operations. The Financial Services segment operates generally in the same markets as the Homebuilding segments.

Evaluation of segment performance is generally based on income before income taxes. Each reportable segment generally follows the same accounting policies described in Note 1 - "Summary of Significant Accounting Policies" to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

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Operating Data by Segment
($000's omitted)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Northeast	$259,413	$194,732	$555,856	$502,813
Southeast	234,605	194,654	602,379	496,244
Florida	227,614	165,621	562,890	439,665
Texas	217,897	179,581	621,972	471,648
North	343,748	277,297	826,054	666,458
Southwest	264,465	243,442	744,534	563,837
	1,547,742	1,255,327	3,913,685	3,140,665
Financial Services	34,336	47,264	110,571	112,367
Consolidated	$1,582,078	$1,302,591	$4,024,256	$3,253,032
Income (loss) before income taxes:				
Northeast	$33,508	$20,303	$62,162	$42,940
Southeast	37,687	21,227	78,811	40,724
Florida	43,834	23,723	89,711	46,530
Texas	32,111	18,807	79,015	34,704
North	48,674	26,494	95,303	38,281
Southwest	49,508	27,882	119,908	41,817
Other homebuilding (a)	(81,728)	(59,257)	(271,308)	(162,230)
	163,594	79,179	253,602	82,766
Financial Services (b)	11,128	26,727	41,800	49,575
Consolidated	$174,722	$105,906	$295,402	$132,341

(a) Other homebuilding includes the amortization of intangible assets, amortization of capitalized interest, and other items not allocated to the operating segments. Other homebuilding also included for the three and nine months ended September 30, 2013: losses on debt retirements totaling $3.9 million and $26.9 million, respectively; costs associated with the previously announced relocation of our corporate headquarters totaling $0.3 million and $13.8 million, respectively; and charges resulting from a contractual dispute related to a previously completed luxury community totaling $8.0 million and $38.0 million, respectively.

(b) Financial Services income before income taxes includes interest income of $2.1 million and $1.6 million for the three months ended September 30, 2013 and 2012, respectively, and $5.2 million and $4.1 million for the nine months ended September 30, 2013 and 2012, respectively.

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	Land-Related Charges by Segment ($000's omitted)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Land and community valuation adjustments:				
Northeast	$—	$—	$—	$535
Southeast	—	—	—	—
Florida	—	—	—	—
Texas	—	—	—	—
North	—	385	—	2,373
Southwest	—	—	—	1,810
Other homebuilding (a)	766	1,878	2,701	4,855
	$766	$2,263	$2,701	$9,573
Net realizable value adjustments (NRV) - land held for sale:				
Northeast	$—	$—	$—	$—
Southeast	—	69	—	350
Florida	—	11	567	49
Texas	(6)	154	(2)	412
North	172	29	1,703	94
Southwest	(81)	(14)	—	347
	$85	$249	$2,268	$1,252
Write-off of deposits and pre-acquisition costs:				
Northeast	$219	$727	$328	$815
Southeast	56	46	144	589
Florida	126	69	208	80
Texas	6	21	2	70
North	155	13	337	156
Southwest	249	17	383	88
	$811	$893	$1,402	$1,798
Total land-related charges	$1,662	$3,405	$6,371	$12,623

(a) Represents write-offs of capitalized interest related to land and community valuation adjustments.

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Operating Data by Segment
($000's omitted)

	September 30, 2013				
	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	$263,889	$331,779	$117,532	$713,200	$809,063
Southeast	160,916	256,949	131,724	549,589	589,929
Florida	161,204	293,858	91,238	546,300	629,724
Texas	148,158	221,958	49,607	419,723	477,936
North	300,452	327,529	100,737	728,718	781,447
Southwest	197,689	475,663	206,387	879,739	955,368
Other homebuilding (a)	45,340	209,917	58,438	313,695	4,098,818
	1,277,648	2,117,653	755,663	4,150,964	8,342,285
Financial Services	—	—	—	—	351,437
	$1,277,648	$2,117,653	$755,663	$4,150,964	$8,693,722

	December 31, 2012				
	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	$198,549	$445,436	$109,136	$753,121	$866,024
Southeast	147,227	286,210	120,193	553,630	590,650
Florida	130,276	310,625	100,633	541,534	620,220
Texas	145,594	256,704	54,556	456,854	523,843
North	219,172	369,144	46,414	634,730	680,447
Southwest	226,204	496,488	167,295	889,987	963,540
Other homebuilding (a)	49,162	270,771	64,257	384,190	2,140,739
	1,116,184	2,435,378	662,484	4,214,046	6,385,463
Financial Services	—	—	—	—	348,946
	$1,116,184	$2,435,378	$662,484	$4,214,046	$6,734,409

(a) Other homebuilding primarily includes cash and equivalents, capitalized interest, net deferred tax assets, intangibles, and other corporate items that are not allocated to the operating segments.

5. Investments in unconsolidated entities

We participate in a number of joint ventures with independent third parties. Many of these joint ventures purchase, develop, and/or sell land and homes. A summary of our joint ventures is presented below ($000's omitted):

	September 30, 2013	December 31, 2012
Investments in joint ventures with debt non-recourse to PulteGroup	$26,362	$11,155
Investments in other active joint ventures	18,644	34,474
Total investments in unconsolidated entities	$45,006	$45,629
Total joint venture debt	$10,104	$6,915
PulteGroup proportionate share of joint venture debt:		
Joint venture debt with limited recourse guaranties	$955	$769
Joint venture debt non-recourse to PulteGroup	2,065	826
PulteGroup's total proportionate share of joint venture debt	$3,020	$1,595

We recognized (income) expense from unconsolidated joint ventures of $(0.8) million and $(0.3) million during the three months ended September 30, 2013 and 2012, respectively, and $(0.3) million and $(3.8) million during the nine months ended September 30, 2013 and 2012, respectively. During the nine months ended September 30, 2013 and 2012 we made capital contributions of $1.1 million and $1.3 million, respectively, and received capital and earnings distributions of $1.9 million and $9.9 million, respectively.

The timing of cash obligations under the joint venture and any related financing agreements varies by agreement. If additional capital contributions are required and approved, we would need to contribute our pro rata portion of those capital needs in order to not dilute our ownership in the joint ventures. While future capital contributions may be required, we believe the total amount of such contributions will be limited. Our maximum financial loss exposure related to joint ventures is unlikely to exceed the combined investment and limited recourse guaranty totals.

6. Shareholders' equity

We reinstated our quarterly cash dividend in July 2013. During the three months ended September 30, 2013, we declared two cash dividends of $0.05 per common share; the first paid in August 2013, the second in October 2013.

In July 2013, we increased our common share repurchase authorization to $352.3 million of common shares. During the three months ended September 30, 2013, we repurchased 5.3 million shares under the repurchase authorization for a total of $83.0 million. Such repurchases are reflected as a reduction of common stock and retained earnings. At September 30, 2013, we had remaining authorization to repurchase $269.3 million of common shares.

Under our stock-based compensation plans, we accept shares as payment under certain conditions related to stock option exercises and vesting of restricted stock, generally related to the payment of minimum tax obligations. During the nine months ended September 30, 2013 and 2012, employees surrendered shares valued at $6.9 million and $1.0 million, respectively, under these plans. Such share transactions are excluded from the above noted stock repurchase authorization.

7. Income taxes

Our effective tax rate is affected by a number of factors, the most significant of which are the valuation allowance related to our deferred tax assets and changes in our unrecognized tax benefits. Due to the effects of these factors, our effective tax rates in 2013 and 2012 are not correlated to the amount of our income or loss before income taxes.
From 2007 to 2011, we generated significant deferred tax assets primarily from asset impairments combined with reduced operational profitability. At September 30, 2013 and December 31, 2012, we had deferred tax assets of $2.3 billion and $2.5 billion, respectively. We evaluate our deferred tax assets each period to determine if a valuation allowance is required based on whether it is "more likely than not" that some portion of the deferred tax assets would not be realized. The ultimate realization of these deferred tax assets is dependent upon the generation of sufficient taxable income during future periods. We conduct our evaluation by considering all available positive and negative evidence. This evaluation considers, among other factors, historical operating results, forecasts of future profitability, the duration of statutory carryforward periods, and the outlooks for the U.S. housing industry and broader economy. Based on our evaluation through June 30, 2013, we fully reserved our net deferred tax assets due to the uncertainty of their realization. One of the primary pieces of negative evidence we considered was the significant losses we incurred in recent years, including being in a three-year cumulative pre-tax loss position through June 30, 2013.
Consistent with the above process, we evaluated the need for a valuation allowance against our deferred tax assets at September 30, 2013, and determined that the valuation allowance against substantially all of our federal deferred tax assets and a significant portion of our state deferred tax assets was no longer required. Accordingly, we reversed $2.1 billion of valuation allowance in the quarter ended September 30, 2013. This reversal is reflected in our income tax expense (benefit) in the accompanying consolidated statements of operations. When a change in valuation allowance is recognized in an interim period, a portion of the valuation allowance to be reversed must be allocated to the remaining interim periods. Accordingly, a portion of the remaining valuation allowance of $231.0 million at September 30, 2013, will reverse in the fourth quarter of 2013. The other components of the remaining valuation allowance relate primarily to state net operating losses that have not met the "more likely than not" realization threshold.
We conducted our evaluation by considering all available positive and negative evidence. The principal positive evidence that led to the reversal of the valuation allowance included: (1) our emergence from a three-year cumulative loss in 2013; (2) the significant positive income we generated during 2012 and 2013, including six consecutive quarters of pretax income; (3) continued improvements in 2013 over recent years in other key operating metrics, including revenues, gross margin, overhead leverage, and backlog; (4) our forecasted future profitability; (5) improvement in our financial position; and (6) significant evidence that conditions in the U.S. housing industry are more favorable than in recent years and our belief that conditions will continue to be favorable over the long-term. Even if industry conditions weaken from current levels, we believe we will be able to adjust our operations to sustain long-term profitability.
The accounting for deferred taxes is based upon an estimate of future results. Differences between our estimated and actual results could have a material impact on our consolidated results of operations or financial position and our ability to fully realize our deferred tax assets. Changes in existing tax laws could also affect actual tax results and the realization of deferred tax assets over time.
As a result of our merger with Centex in August 2009, our ability to use certain of Centex’s pre-ownership change NOL carryforwards and built-in losses or deductions is limited by Section 382 of the Internal Revenue Code. Our Section 382 limitation is approximately $67.4 million per year for NOLs, losses realized on built-in loss assets that are sold within 60 months of the ownership change (i.e. before August 2014), and certain deductions. We do not believe that the Section 382 limitation will prevent the Company from using Centex’s pre-ownership change federal NOL carryforwards and built-in losses or deductions.

At September 30, 2013, we had $165.9 million of gross unrecognized tax benefits, of which $31.0 million would impact the effective tax rate if recognized. Additionally, we have $32.9 million of related accrued interest and penalties at September 30, 2013. It is reasonably possible within the next twelve months that our gross unrecognized tax benefits may decrease by up to $130.0 million, excluding interest and penalties, primarily due to expirations of certain statutes of limitations and potential settlements. We are currently under examination by the IRS and various state taxing jurisdictions and anticipate finalizing certain of the examinations within the next twelve months. The final outcome of these examinations is not yet determinable. The statute of limitations for our major tax jurisdictions remains open for examination for tax years 2003 to 2013.

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8. Fair value disclosures

ASC 820, “Fair Value Measurements and Disclosures,” provides a framework for measuring fair value in generally accepted accounting principles and establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy can be summarized as follows:

Level 1	Fair value determined based on quoted prices in active markets for identical assets or liabilities.
Level 2	Fair value determined using significant observable inputs, generally either quoted prices in active markets for similar assets or liabilities or quoted prices in markets that are not active.
Level 3	Fair value determined using significant unobservable inputs, such as pricing models, discounted cash flows, or similar techniques.

Our assets and liabilities measured or disclosed at fair value are summarized below ($000’s omitted):

Financial Instrument	Fair Value Hierarchy	Fair Value September 30, 2013	December 31, 2012
Measured at fair value on a recurring basis:			
Residential mortgage loans available-for-sale	Level 2	$296,922	$318,931
Interest rate lock commitments	Level 2	12,122	6,021
Forward contracts	Level 2	(8,956)	(646)
Whole loan commitments	Level 2	(141)	(55)
Measured at fair value on a non-recurring basis:			
House and land inventory	Level 3	$—	$11,243
Disclosed at fair value:			
Cash and equivalents (including restricted cash)	Level 1	$1,419,415	$1,476,710
Financial Services debt	Level 2	115,098	138,795
Senior notes	Level 2	2,060,018	2,663,451

Fair values for agency residential mortgage loans available-for-sale are determined based on quoted market prices for comparable instruments. Fair values for non-agency residential mortgage loans available-for-sale are determined based on purchase commitments from whole loan investors and other relevant market information available to management. Fair values for interest rate lock commitments, including the value of servicing rights, are based on market prices for similar instruments. Forward contracts on mortgage-backed securities are valued based on market prices for similar instruments. Fair values for whole loan investor commitments are based on market prices for similar instruments from the specific whole loan investor.

Certain assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value may not be recoverable. The non-recurring fair values included in the table above represent only those assets whose carrying values were adjusted to fair value as of the respective balance sheet dates. See Note 3 for a more detailed discussion of the valuation methods used for inventory.

The carrying amounts of cash and equivalents and Financial Services debt approximate their fair values due to their short-term nature. The fair values of senior notes are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of similar issues. The carrying value of senior notes was $2.1 billion at September 30, 2013 and $2.5 billion at December 31, 2012.

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9. Debt

Our senior notes are summarized as follows ($000's omitted):

	September 30, 2013	December 31, 2012
5.25% unsecured senior notes due January 2014 (a)	$—	$187,970
5.70% unsecured senior notes due May 2014 (a)	—	208,274
5.20% unsecured senior notes due February 2015 (a)	95,627	95,615
5.25% unsecured senior notes due June 2015 (a)	232,243	264,058
6.50% unsecured senior notes due May 2016 (a)	458,975	457,154
7.625% unsecured senior notes due October 2017 (b)	122,641	149,481
7.875% unsecured senior notes due June 2032 (a)	299,185	299,152
6.375% unsecured senior notes due May 2033 (a)	398,550	398,492
6.00% unsecured senior notes due February 2035 (a)	299,436	299,417
7.375% unsecured senior notes due June 2046 (a)	150,000	150,000
Total senior notes – carrying value (c)	$2,056,657	$2,509,613
Estimated fair value	$2,060,018	$2,663,451

(a) Redeemable prior to maturity; guaranteed on a senior basis by certain wholly-owned subsidiaries.
(b) Not redeemable prior to maturity; guaranteed on a senior basis by certain wholly-owned subsidiaries.
(c) The recorded carrying value reflects the impact of various discounts and premiums that are amortized to interest cost over the respective terms of the senior notes.

Debt retirement

During the three and nine months ended September 30, 2013, we retired prior to their scheduled maturity dates $27.0 million and $461.4 million of senior notes, respectively. We recorded losses related to these transactions totaling $3.9 million and $26.9 million during the three and nine months ended September 30, 2013, respectively. Losses on these transactions included the write-off of unamortized discounts, premiums, and transaction fees and are reflected in other expense (income), net. During the three and nine months ended September 30, 2012, we retired $96.4 million of senior notes at their scheduled maturity dates.

Letter of credit facilities

We maintain separate cash-collateralized letter of credit agreements with a number of financial institutions. Letters of credit totaling $53.7 million and $54.5 million were outstanding under these agreements at September 30, 2013 and December 31, 2012, respectively. Under these agreements, we are required to maintain deposits with the respective financial institutions in amounts approximating the letters of credit outstanding. Such deposits are included in restricted cash.

We also maintain an unsecured letter of credit facility with a bank that expires in September 2014. This facility permits the issuance of up to $150.0 million of letters of credit for general corporate purposes in support of any wholly-owned subsidiary. Letters of credit totaling $124.4 million and $124.6 million were outstanding under this facility at September 30, 2013 and December 31, 2012, respectively.

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Financial Services

Pulte Mortgage provides mortgage financing for the majority of our home closings utilizing its own funds and funds made available pursuant to credit agreements with third parties or through intercompany borrowings. Pulte Mortgage uses these resources to finance its lending activities until the mortgage loans are sold in the secondary market, which generally occurs within 30 days.

In September 2013, Pulte Mortgage entered into the First Amendment to Master Repurchase Agreement with third party lenders, which extended the term of the Master Repurchase Agreement (the "Repurchase Agreement") through September 2014, modified the pricing applicable under the Repurchase Agreement, and made other adjustments to the credit available under the Repurchase Agreement. The Repurchase Agreement provides for loan purchases of up to $150.0 million, subject to certain sublimits. Borrowings under the Repurchase Agreement are secured by residential mortgage loans available-for-sale. The Repurchase Agreement contains various affirmative and negative covenants applicable to Pulte Mortgage, including quantitative thresholds related to net worth, net income, and liquidity. At September 30, 2013, Pulte Mortgage had $115.1 million outstanding under the Repurchase Agreement.

10. Commitments and contingencies

Loan origination liabilities

Our mortgage operations may be responsible for losses associated with mortgage loans originated and sold to investors in the event of errors or omissions relating to representations and warranties that the loans sold meet certain requirements, including representations as to underwriting standards, the existence of primary mortgage insurance, and the validity of certain borrower representations in connection with the loan. If determined to be at fault, we either repurchase the loans from the investors or reimburse the investors' losses (a “make-whole” payment).

In recent years, we experienced a significant increase in losses related to repurchase requests as a result of the high level of loan defaults and related losses in the mortgage industry and increasing aggressiveness by investors in presenting such claims to us. To date, the significant majority of these losses relates to loans originated in 2006 and 2007, during which period inherently riskier loan products became more common in the mortgage origination market. In 2006 and 2007, we originated $39.5 billion of loans, excluding loans originated by Centex's former subprime loan business sold by Centex in 2006. Because we generally do not retain the servicing rights to the loans we originate, information regarding the current and historical performance, credit quality, and outstanding balances of such loans is limited. Estimating these loan origination liabilities is further complicated by uncertainties surrounding numerous external factors, such as various macroeconomic factors (including unemployment rates and changes in home prices), actions taken by third parties, including the parties servicing the loans, and the U.S. federal government in its dual capacity as regulator of the U.S. mortgage industry and