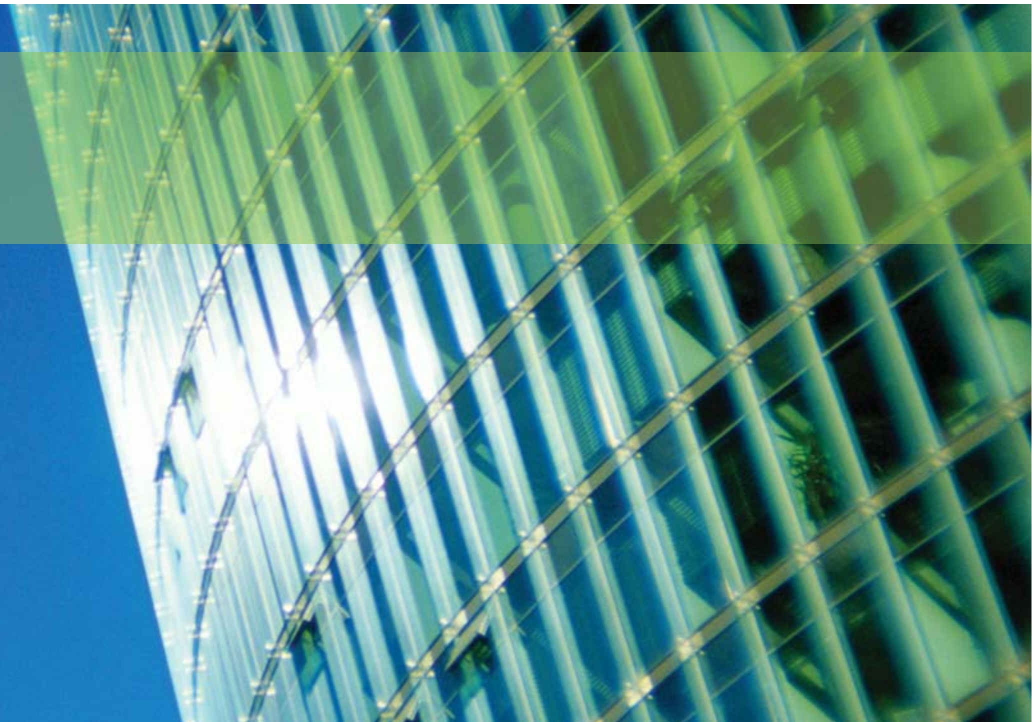

Methodology

Canadian Residential Mortgage Servicer Evaluations

MARCH 2011

DBRS

Insight beyond the rating.

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Canadian Residential Mortgage Servicer Evaluations

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Summary

As the Canadian residential mortgage market continues to grow and develop, an increasing number of entities are servicing and administering mortgages. In response to the growth of third-party residential mortgage servicing and interest expressed by market participants in residential mortgage backed-securities (RMBS) servicing, the criteria DBRS uses to evaluate residential mortgage servicing capabilities is updated and discussed in this report.

Within the RMBS market, servicers function in various capacities, including as master, primary or special servicers. Generally, in terms of servicing functions, a master servicer is responsible for oversight of the assets and reporting, and may be obligated to advance certain payments to RMBS trusts as outlined in the transaction's legal documents for the benefit of investors when the assets are subject to delinquencies. A primary servicer has direct contact with the borrowers, is responsible for the day-to-day administration of the assets and payments, and may share some responsibilities with a master servicer. A special servicer oversees the workout of distressed or seriously delinquent assets. A single company may perform all of these servicing roles within a transaction, or the roles may be divided among multiple servicers. Servicing may be performed by third-party servicers or the seller of the assets may retain servicing rights when the assets are sold. In the latter case, the seller continues to service the assets over the life of a transaction until a replacement is appointed according to the transaction documents.

DBRS's approach to evaluating residential mortgage servicers in Canada is based on its experience in reviewing servicers' operations for RMBS transactions. Broadly speaking, the evaluation process encompasses a review of servicing in the areas of company structure, asset administration, loss management, technology and systems, financial condition, staff and training, procedures and controls, outsourcing and sub-servicing arrangements. These areas are grouped into two categories, Group A and Group B, with the evaluation of Group A areas completed prior to Group B.

As part of DBRS's analysis, new sellers of residential mortgages acting as servicers and performing daily servicing activities shall be evaluated based on the criteria described in this report. As DBRS typically assesses servicers' capabilities as part of its transaction analysis, servicers in current RMBS transactions without sub-servicing arrangements are subject to a full evaluation only at their request. Prior to rating a new RMBS transaction with a third-party sub-servicer, DBRS expects the sub-servicer to be formally evaluated in respect of its servicing capacity. The exception to this guideline is servicers for insured mortgages where approved lenders by mortgage insurers are generally allowed in a RMBS transaction without an explicit DBRS servicer evaluation.

Objectives

DBRS establishes RMBS servicer criteria for the following reasons:

(1) To provide a consistent and transparent approach for comparing the capabilities of RMBS servicers

DBRS believes that the capacity of the servicer in an RMBS transaction is important as the servicer is the only party that has regular interaction with the borrowers, the trustee, rating agencies and investors, among other parties, who rely upon the servicer's judgment, actions and accuracy in the receiving and reporting of data. Servicing may affect the performance of the assets in delinquency, default and recovery, and could, therefore, affect the ultimate repayment of RMBS notes. Under a standardized approach, the quality of residential mortgage servicers can be benchmarked against established industry benchmarks and best practices and DBRS can opine on their respective servicing competence. The DBRS servicer evaluation scale consists of Superior, Good, Adequate and Weak.

(2) To clearly define the criteria used in the process of RMBS servicer evaluations

A DBRS servicer evaluation is a risk assessment of the ongoing operations of a servicer. The approach employed by DBRS incorporates a review of the following eight major areas. Each of the eight areas listed below is assessed as Superior, Good, Adequate or Weak during the evaluation process:

(1) Company Structure, Management Experience and Outlook
(2) Asset Administration, Reporting and Customer Service
(3) Loss Management
(4) Technology and Systems
(5) Financial Condition
(6) Staff and Training
(7) Procedures and Controls
(8) Outsourcing and Sub-Servicing Arrangements

Each item is weighted based on its importance within the given area. It is possible that a servicer with businesses across multiple sectors or asset types could have different evaluations for each asset type or sector.

(3) To support the continuation of servicer monitoring

The analysis and supporting information underlying DBRS's assessment of servicing ability is detailed in a servicer evaluation report. Given the importance of the servicing role, DBRS will conduct regular on-site review meetings and discussions with management, in addition to ongoing surveillance activities, to gain full understanding of a company's servicing capabilities. Servicer evaluations can be changed or discontinued at any time if there is performance deterioration or improvement in the areas of evaluation outlined below.

Introduction

Servicers function as a conduit between borrowers and investors; therefore, the quality of the servicer's capabilities is a key analytical consideration when assigning ratings to RMBS transactions. A servicer protects the investors' interest in the securitized collateral, and is a third- party that can be relied upon to make decisions on behalf of the investors.

MASTER SERVICER

In RMBS transactions, the assets are pledged to the trust and the trustee and are generally administered by a master servicer on behalf of the investors. Accordingly, the master servicer may be called upon to maintain and enforce the trust's security interest in the assets. In doing so, the master servicer is contractually bound to operate within an agreed-upon servicing standard that stipulates it will service the loans in accordance with the pooling and servicing agreement, and according to the same standard as other prudent lenders or as if it were servicing the assets for its own portfolio.

Another role of the master servicer is to track the performance of the asset pool and communicate the results to the trustee, rating agencies and ultimately the investors. Information received by the servicer is accounted for, aggregated and disseminated to the trustees and published in the servicer report. In addition to reporting on the aggregate flow of funds, RMBS master servicers report specific performance metrics such as delinquencies, defaults, losses and prepayments. Master servicers must also ensure that the trust is compliant with ongoing regulatory changes.

PRIMARY SERVICER

The primary servicer is the main contact for the borrowers and is responsible for administering the borrowers' loan payments and enforcing the loan documents. The primary servicer is often the first to identify potential loan performance problems. Therefore, a proactive primary servicer can help to mitigate losses in a RMBS transaction. In all of its duties, the primary servicer is required to adhere to the standards set out in the servicing agreement to enforce the terms of the loan agreement with the borrower.

SPECIAL SERVICER

While master and primary servicers play important roles, the main responsibility for risk management in RMBS transactions lies with the special servicer, which handles the workouts, resolution and disposition of defaulted loans. The special servicer contacts delinquent borrowers to establish payment plans to bring them current. At the same time, the special servicer often pursues foreclosure and other workout alternatives with the ultimate goal of minimizing losses to the investors. Special servicers are also subject to the servicing standard referenced above and must consider the positions of all classes of investors when devising a workout strategy.

Evaluation Definitions

SUPERIOR

A servicer evaluation of "Superior" indicates that a servicer has exhibited a thorough understanding and the implementation and execution of all of the facets of servicing. It may be characterized as having seasoned servicing professionals that have the capacity to handle peaks in work flow and that exhibit market leadership and experience through economic and credit cycles.

GOOD

A servicer evaluation of "Good" indicates that a servicer has exhibited a comprehensive understanding of the eight servicing criteria and has received a positive assessment in most of the aspects of servicing, but could benefit from improvement in some less critical areas or could gain from additional experience. Servicers in this category may have experience in servicing similar assets outside of securitization, and are entering securitization servicing as an expansion of current business lines.

ADEQUATE

A servicer evaluation of "Adequate" indicates that a servicer has exhibited a full understanding of the eight criteria reviewed by DBRS, but lacks a certain level of experience and consistency in implementation. These servicers may not have substantial volume to demonstrate their ability in execution, or may be entering securitization servicing as a new line of business.

WEAK

A servicer evaluation of "Weak" indicates that a servicer has fallen short in one or more of the eight criteria, either through not exhibiting any the benchmarked traits, or through lack of understanding of how to implement them correctly. A servicer with a "Weak" evaluation may have limited functions within the servicing agreements, and its ability to expand the services offered without further development is considered constrained.

Evaluation Process

GROUPING OF CRITERIA

The eight areas subject to evaluation are grouped by their importance as follows:

Group A (determining factors) – Different levels of competency, Superior, Good, Adequate or Weak, directly affect the servicer evaluation assigned by DBRS. A significant and ongoing weakness in any area within Group A would result in an assessment result of Weak and suspension of the evaluation process until the weakness is rectified.

- Company Structure, Management Experience and Outlook
- Asset Administration, Reporting and Customer Service
- Loss Management
- Technology and Systems
- Financial Condition

Group B (supporting factors) – These considerations include factors which are important but may not directly affect the outcome of a servicer's evaluation. However, weakness in more than one area will generally result in a lower evaluation.

- Staff and Training
- Procedures and Controls
- Outsourcing and Sub-Servicing Arrangements

EVALUATION APPROACH

To begin the evaluation process, DBRS requests various forms of documentation and information from the servicer such as annual reports, organization charts, policy and procedural manuals and historical performance that are reviewed prior to an onsite review. The onsite review enables DBRS to gain greater insight into a servicer's management, strategies and day-to-day operations.

Once an onsite review is completed, DBRS evaluates Group A factors and a preliminary opinion of Superior, Good, Adequate or Weak is formed. When the preliminary opinion reached is either Superior, Good or Adequate, DBRS continues with the analysis of Group B factors.

After DBRS completes its evaluation, a rating committee is held and the evaluation result is made public through a press release and a report on the DBRS website. Evaluations are subject to annual reviews and may be placed Under Review, changed or discontinued as part of the surveillance process.

Evaluation Factors

The following sections outline the general criteria to be evaluated in each area and are not intended to be exhaustive. Some of the best practices employed by servicers in RMBS transactions are also highlighted.

GROUP A FACTORS

(1) Company Structure, Management Experience and Outlook

Company structure and management experience are essentially the core of servicing and can be excellent indicators of the company's capability to deliver high quality mortgage servicing on a consistent basis. Furthermore, this area highlights management's capability in dealing with various market conditions and competitive forces in a dynamic environment.

As part of the RMBS servicer review, DBRS looks at the structure of the group. DBRS also considers the history and ownership of the company and reviews its recent accomplishments and planned initiatives. DBRS assesses the strength of the management team by reviewing the length of time for which it has worked together, including tenure with the company and experience with other servicing companies. Management teams with broad experience across all aspects of the servicing business, such as servicing acquisitions and transfers and default management are considered well-prepared to service mortgage loans throughout all cycles of the residential real estate market. Detailed items of DBRS assessment in this area are included in Appendix 1.

(2) Asset Administration, Reporting and Customer Service

Good quality control and asset administration, and compliance with regulatory guidelines, requests of investors, originators and borrowers and acceptable industry practices are highly relevant to good servicing performance. This is an easily comparable area of servicing as it is tangible and quantifiable when benchmarked against established industry practices.

DBRS reviews servicing processes and controls throughout the life of the loan from new loan boarding to loan payoff and release. As part of its assessment, DBRS looks at the balance between automation and manual processing, including the controls in place, in order to gauge the efficiency of the servicer. Some areas can be considered as high-volume, process-oriented tasks while others require a higher degree of credit analysis and judgement to be staffed with employees with residential real estate experience. Detailed items of DBRS assessment and positive examples in this area are included in Appendix 2.

(3) Loss Management

Optimal loss mitigation requires servicers to monitor portfolio performance and demonstrate their expertise in default management during the process of maximizing the eventual recovery. Such processes require sophisticated legal, product and market knowledge from staff who have the experience of a full economic cycle and more importantly, a market downturn with the types of mortgages serviced.

Loss management is not limited to the special servicer of an RMBS transaction. DBRS expects primary and/or master servicers to detect the early warning signs of a loan in trouble. As the borrower's primary contact, primary servicers are on the front line when it comes to detecting loan performance issues. DBRS prefers that servicers have procedures in place that are designed to prevent and address potential areas of weakness within a serviced portfolio. Proactive primary and/or master servicers should maintain a solid line of communication with the special servicers (whether internal or external) and keep them informed of potential problem loans, as early action often leads to lower loan losses or more amicable solutions. The procedures a servicer follows to monitor the portfolio, provide optimal solutions and mitigate loss severity are considered at every level of servicing.

Successful RMBS special servicers are expected to maintain experienced staff trained in all aspects of default management, resolution and residential real estate management and disposition. Credit decisions made by committee or according to an established delegation of authority lead to stronger action plans. Standardized asset status reports and business plans provide consistent investor reporting while maintaining quality control.

Special servicers often rely on third parties with specialized expertise, such as attorneys, appraisers and residential real estate brokers. Therefore, prudent servicers develop strong relationships with third party vendors and maintain stringent vendor management and approval processes. Detailed items of DBRS assessment and positive examples in this area are included in *Appendix 3*.

(4) Technology and Systems

It is unlikely that any company in the servicing business can operate without the assistance of modern technology. However, DBRS believes it is more important to possess sufficient and useful technology and employ it effectively than to simply have the most advanced technology.

It is critical that the systems are supported by the company. System support should include, but not be limited to, dedicated information technology resources responsible for continual systems evaluation and enhancement to respond to reporting needs and/or to gain efficiency. In addition, the company should perform regular full-system backups and maintain comprehensive disaster recovery and business continuity plans that are tested on a scheduled basis.

DBRS considers the degree of completeness of the technology used by the servicer and prefers to see as few processes as possible be handled manually outside of the system of record. Detailed items of DBRS assessment and positive examples in this area are included in Appendix 4.

(5) Financial Condition

The goal of assessing the financial condition of the servicer is to measure its earnings and profitability in terms of adequacy, quality, sustainability, predictability and diversity. DBRS performs a medium- to long-term assessment of a company's ability to survive during a severe market downturn or to take advantage of market opportunities such as acquisitions. Support from a corporate parent is also assessed under this factor as it will affect the availability of financial resources. Financial condition is especially important when evaluating master servicers, who may be responsible for the advancing.

DBRS treats the viability of the servicing platform and related pricing structure as a stand-alone business. Review of the company's recent financial statements can provide a good indication of the viability, but DBRS also explores the future funding needs of the business. The company's ability to provide service during periods of stress and to manage servicing portfolio run-off or growth is an important part of DBRS's financial assessment. Detailed items of DBRS's assessment and positive examples in this area are included in Appendix 5.

GROUP B FACTORS

(1) Staff and Training

This is another medium- to long-term assessment of a company's ability to compete in the marketplace based on its talent pool and human resource development. Providing employees with updated and relevant training, knowledge and career planning generally contribute to higher productivity and hence better servicing results. Consequently, DBRS reviews the servicer's recent training programs, in terms of content, volume and employee participation, both for new hires and existing staff. Well-rounded training programs should provide a mix of residential real estate, technology and soft skills. Servicers who have a manager responsible for training initiatives are viewed favourably.

The experience and tenure of the servicer's staff is also a key consideration. DBRS collects staffing data from the servicer and compares it to the data collected from other servicers. A servicer that maintains a management team made up of highly experienced and tenured individuals (when compared to the levels of its peers) generally gains operating efficiencies when people work together over a period of time. Servicing staff experience levels, while important, can differ among servicers due to variations in organizational structure. Detailed items of DBRS assessment and positive examples in this area are included in *Appendix 6*.

(2) Procedures and Controls
DBRS reviews the company's policies and procedures manual to ensure that daily processes are documented and the servicer has the means to monitor adherence to the procedures stated therein. Accessibility of documentation related to policies and procedures with extensive coverage of useful content can provide employees with proper operating guidelines and reduce uncertainty and errors in the event of turnover or the departure of key personnel. This is especially true if the policies and procedures provide step-by-step instructions for servicing tasks.

Quality control programs, including approval requirements, delegations of authority and management reports, such as key indicator reports, are also assessed. Additionally, DBRS expects servicers to participate in regularly scheduled audits, both internal and external. DBRS requests a review of the servicer's latest audits, including findings, and expects that the servicer will address any deficiencies discovered in the audit in a timely manner. Detailed items of DBRS assessment and positive examples in this area are included in Appendix 6.

(3) Outsourcing and Sub-Servicing Arrangements
DBRS believes it can be prudent to outsource certain servicing functions, such as escrow reviews, as part of peak volume work flow management to handle the work overflow. Outsourcing arrangements are reviewed carefully by DBRS to determine if proper supervision is maintained. DBRS prefers that all of these arrangements be extensively documented in the company's procedures and controls, with a backup plan in place should the outsourcer lose its ability to operate.

Conclusion

This report provides an overview of DBRS's approach to evaluating residential mortgage servicers in Canada, taking into consideration the potential impact many areas could have on servicing. The eight criteria outlined and categorized into Group A and B, together with any additional criteria DBRS may consider important, determine a servicer evaluation.

The servicer evaluation of Superior, Good, Adequate or Weak assigned by DBRS is based on an aggregate review of all areas in accordance with the individual importance. As described above in the Evaluation Process section, it is reasonable to expect that any major deficiency in one or more areas will likely result in a less satisfactory evaluation result or in a reduction of the assessed evaluation. The evaluation is detailed in a published servicer evaluation report.

DBRS performs continued surveillance of the servicer and a servicer evaluation may be changed, placed Under Review with Positive, Negative or Developing Implications, or discontinued at any time as determined by DBRS.

Appendix 1: Company Structure, Management Experience and Outlook

DBRS evaluates the following items to measure management's ability to understand the market and adapt to changes effectively:

- Experience, tenure, stability and depth of senior and middle management
- Servicing business model
- Competitive strategies for ongoing success
- Strategic goals, planning and process
- Exit strategy
- Recent acquisitions and mergers
- Recent sale, purchase or transfer of servicing rights
- Operating history in different portfolio types
- Competency of core servicing business
- Commitment to servicing
- Economies of scale of managed portfolio
- Residential mortgage loan servicing history and future plans
- Back-up/emergency servicing capacity
- Economic interest in residual value
- Servicing fee structure
- Risk profile of managed portfolio
- Approved lender status (full or limited designation) for insured mortgages
- Regulated entity and governing regulations
- Litigation, claims and regulatory actions of material nature
- Oversight ability of sub-servicers

Appendix 2: Asset Administration, Reporting and Customer Service

Items reviewed in this area of the evaluation and positive examples include:

- New loan boarding and accuracy control process
- Payment processing
- Cash management and lockbox administration
- Customer service
- Escrow management, including tax, insurance and reserves
- Investor reporting
- Document covenant/trigger compliance
- Asset management, including assumptions, document release and re-conveyance
- Exception management process
- Regulatory compliance
- Procedures for advancing

Positive Examples

- Existence of performance evaluation guidelines (e.g., delinquency roll rates, right party contacts, broken promises to pay, dropped call frequency)
- Dedicated staff with a demonstrated ability to absorb new portfolio acquisitions in an efficient manner and match all investor/originator/borrower requirements
- No history of being suspended/removed from mortgage portfolio administration by mortgage insurers
- Establishment and maintenance of segregated custodial/trust accounts
- Existence of clearly documented quality control procedures, including regular internal audit rotations
- Changes in managed portfolio (e.g., size, product type, geographic distribution) aligned with management discussion
- High degree of automated payment process (pre-authorized payment)
- Electronic portfolio conversion/boarding with low error rates
- Clearly documented and executed segregation of duties in reporting, remitting and reconciliation
- Automatic electronic fund transfer from clearing to custodian/securitization agent
- Daily reconciliation of clearing account
- Electronic reporting and remittance to investors/originators/borrowers
- Satisfactory submission of monthly arrears and defaults reports required by mortgage insurers
- Central repository for third party reporting data
- Online tracking of tax status, insurance coverage, escrowed and non-escrowed accounts
- No late reporting or tax penalties or un-reconciled funds
- No property loss due to non-payment of taxes
- Existence of call centre and call monitoring or dedicated team for customer service with low abandonment rate
- Existence of total automated review of prepayment penalty calculation with limited penalty waived
- Automated analysis and system generated management reports
- Existence of audit program, including annual on-site visits
- Dedicated staff for portfolio conversion, funds management, investor reporting/accounting, training and quality control monitoring
- Proven ability to produce various static portfolio performance reports regularly and upon request
- No history of compliance fines (payoff or release) paid

Appendix 3: Loss Management

Items reviewed in this area of the evaluation and positive examples include:

COLLECTION

- Strategies for early, middle and late stage collections
- Strategies for borrower contact and assessment of ability/willingness to pay
- Delineation of collectors' responsibilities and account assignment process
- Initiation and coordination process with loss mitigation effort
- Discuss credit bureau reporting procedures if applicable

Positive Examples

- Existence of performance evaluation guidelines (e.g., delinquency roll rates, right party contacts, broken promises to pay, dropped call frequency)
- Expertise in specific products
- Existence of call centre or dedicated team
- Extensive staff shifts to canvass diverse portfolios in different time zones
- Aggressive collection timelines in call and notice cycles
- Early initiation of borrower contact after first payment in arrears

- Existence of regular watch lists and risk ratings of all accounts for collectors
- Proactive and preventive delinquency management in early stage collections
- Good usage of the interactive voice response (IVR)
- Effective call monitoring

DEFAULT AND BANKRUPTCY MANAGEMENT

- Borrower contact and solicitation process
- Loan resolution frequency (workout, restructuring, receivership, recidivism rate) and approval levels
- Re-marketing and disposition effort
- Process of multiple tracking and monitoring of claim filing, bankruptcy status and repayment plans
- Legal cost and attorney network management
- Assessment of staff caseload and productivity (cost-to-service, file-per-employee ratio)
- Loan severity assessment and prioritization
- Property inspection and valuation procedures and timelines
- Significant changes (past or planned) in procedures or emphasis regarding workout strategies or timelines

Positive Examples

- Existence of performance evaluation guidelines
- Ongoing comparison of portfolio performance to historical and industry data
- Constant trend analysis of reasons for delinquent account aging and defaults
- Existence of recovery and loss experience analysis
- Existence of fraud detection procedures
- Automated decision, timeline management or event-driven tracking module
- Monitoring of expenses to budget and approval levels for variances
- Proven management of collateral disposal venues
- Dedicated skip tracing unit or devices
- Ongoing collateral review and inspections
- Dedicated surveillance team to monitor portfolios and maintain watch lists
- Extensive company and employee experience in loan workout process

WORKOUTS AND RESOLUTIONS

- Asset manager experience, product specific expertise and local market knowledge
- Policies regarding loan modifications, deferrals, extensions, capitalization, payment methods or payment holidays
- Resolution data review (performance statistics, actual delinquency statistics, re-performance rate, recovery proceeds and losses)
- Tracking of bankruptcy and foreclosure

Positive Examples

- Existence of performance evaluation guidelines
- Automated event-driven tracking module
- Dual approach to loan resolution (early settlements, power of sale and foreclosure)
- Existence of adept system to handle volume increases in delinquencies and power of sale
- Expertise in delinquent borrowers
- Experienced collectors
- Specific loss and loan-level workout documentation provided and supported by recovery statistics and loss calculations
- Effective and efficient mortgage insurance claim procedure

POWER OF SALE/FORECLOSURE MANAGEMENT

- Foreclosure timelines and strategies
- Property evaluation (condition and value), maintenance and repairs
- Referral procedures
- Eviction policies
- Property preservation procedures
- Marketing strategy
- Vendor selection and monitoring
- Expense monitoring
- Deficiency and judgment policy

Positive Examples

- Existence of performance evaluation guidelines
- Electronic and frequent monitoring of vendors
- Existence of in-house surveillance and database of residential mortgage market information
- Ongoing monitoring of qualified appraisers and licensed realtors for property power of sale
- Active pursuit of alternative solutions to foreclosures
- Standardized reporting format of business plan with automatic population of quantitative data
- Active analysis of loan servicing costs at various stages and revenue generated
- Compliance of property management procedures within mortgage insurance guidelines for insured loans
- No rejection of mortgage insurance claims by mortgage insurers

Appendix 4: Technology and Systems

The following factors are considered in assessing the technology of servicers:

- Strengths and weaknesses of core servicing system
- Capacity utilization of the servicing system
- Integration of individual systems
- The ability of the system to address all servicing functionality and the degree of process outside of the system
- Website availability and usage
- Procedures for vendor selection and oversight
- Disaster recovery plans and success of past tests
- Frequency of full system backup
- Budget allocation to technology
- Future initiatives

Positive Examples

- Accessibility to investors, originators, borrowers, mortgage insurers and fund clearing agents
- Ability to produce customized reporting options
- Comprehensive backup and data retention policies
- Comprehensive business continuation and disaster recovery plan (DRP)
- Regular integrated DRP tests of all sites with high success rates
- Central data warehousing capabilities
- High degree of integration with other business lines (origination, servicing and remarketing)
- Compatibility with other systems
- Full scalability
- Dedicated team
- Document imaging system
- Regular business impact analysis

- Outsourcing/back-up arrangements on IT functions
- Effective data integrity control
- High degree of system automation
- Automated servicing functions

Appendix 5: Financial Conditions

The following factors are considered in assessing the financial condition of a servicer:
- Credit rating or internal assessment by DBRS; for non-rated entities: preferably three-year financials to assess profitability, liquidity, capitalization and leverage
- Capacity and stability of financing sources and profile (terms, maturities and covenants)
- Strength of balance sheet (parents, affiliates and lenders)
- Strategic initiatives with impact on financial condition
- Parent company's rating

Positive Examples
- Assets under administration in excess of break-even levels
- Investment grade rating
- Ready access to capital
- Sound ownership structure and support from major financial institutions

Appendix 6: Staff and Training

The following assessment criteria form the basis for evaluating the adequacy of staff and training:
- Experience of middle management and supervisors
- Hiring and retention strategies
- Employee performance and monitoring procedures
- Mix of full-time/part-time/temporary personnel
- Turnover rate of staffing level or composition of staff
- Staff planning and development resources
- Training process and requirements for all employees (onshore and offshore) in specialized functions and technology, both initially and ongoing
- Soft skills available or required
- Contingency planning

Positive Examples
- Forward-looking staffing plan and well-structured career path
- Thorough, ongoing, centrally administered, formalized training function to address the needs of staff with varied experience levels
- Formal tracking of course work participation and attendance
- Cross-training and staff versatility
- Active participation in industry conferences, forums and associations
- Dedicated training facilities and personnel
- Effective retention of experienced employees and staff
- Ongoing skills testing and certification
- Availability and accessibility of training material
- Alignment of compensation and incentive programs with company interests
- Dedicated service quality unit

Appendix 7: Procedures and Controls

An assessment of this area includes the following factors:
• Overview of compliance controls (legal, regulatory, etc.)
• Quality control procedures
• Internal audit process
• Standards for file volume management at each stage of servicing process
• Adequacy of internal and external audit program
• Review of significant internal and external audit findings
• Policy update process
• Implementation procedures and management involvement
• Access and storage of manuals
• Adequacy of insurance policies

Positive Examples
• Independent internal audit reporting structure
• Internal audit database to track findings, corrective actions and status
• Audit scope based on risk exposure which is revised at least annually
• Frequent formal policy review and updates to keep pace with industry changes and best practices
• Legal department review and approval of all customer correspondence
• Comprehensive and well-documented policies and procedures available online and updated annually

Appendix 8: Outsourcing and Sub-Servicing Arrangements

The following factors are considered when assessing this area:
• Nature of sub-servicing agreements (volume, functions and product types)
• Procedures for monitoring sub-servicer performance and compliance
• Amounts and numbers of loans sub-serviced by a third party or sub-service for others

Positive Examples
• Complete, written procedures for sub-servicer oversight and proactive supervision
• Standardized sub-servicer exception letter
• Dedicated sub-servicer e-mail accounts
• Standardized sub-servicer reporting and requirement packages for new transactions
• Detailed quarterly compliance tracking reports for sub-servicers on each loan status of escrow account, reserve account, certified account balance, insurance coverage and payment amounts
• Back-up plan to bring the function in-house or engage another sub-servicer if the sub-servicing arrangement falls through

Appendix 9: Summary of Methodology – Canadian Residential Mortgage Servicer Evaluations

The following tables provide a summary and application of the concepts discussed in the preceding document.

LIMITATIONS

- Future servicer performance may deviate significantly from past performance.
- The methodology considers the current legal and regulatory framework and its impact on the evaluations as at the publication of this summary.

APPLICATION OF EVALUATION RATIONALE

Summary of Risk Analysis Process for Canadian Residential Mortgage Servicer Evaluations

Input	Factor	Key Variables
Servicer Information (Determining Factors)	Company Structure, Management Experience and Outlook	• Experience, tenure, stability and depth of senior and middle management • Servicing business model • Competitive strategies for ongoing success • Strategic goals, planning and process • Exit strategy • Recent acquisitions and mergers • Recent sale, purchase or transfer of servicing rights • Operating history in different portfolio types • Competency of core servicing business • Commitment to servicing • Economies of scale of managed portfolio • Residential mortgage loan servicing history and future plans • Back-up/emergency servicing capacity • Economic interest in residual value • Servicing fee structure • Risk profile of managed portfolio • Approved lender status (full or limited designation) for insured mortgages • Regulated entity and governing regulations • Litigation, claims and regulatory actions of material nature • Oversight ability of sub-servicers
	Asset Administration, Reporting and Customer Service	• New loan boarding and accuracy control process • Payment processing • Cash management and lockbox administration • Customer service • Escrow management, including tax, insurance and reserves • Investor reporting • Document covenant/trigger compliance • Asset management, including assumptions, document release and re-conveyance • Exception management process • Regulatory compliance • Procedures for advancing

Summary of Risk Analysis Process for Canadian Residential Mortgage Servicer Evaluations

Input	Factor	Key Variables
	Loss Management	***A. Collection*** • Strategies for early, middle and late stage collections • Strategies for borrower contact and assessment of ability/willingness to pay • Delineation of collectors' responsibilities and account assignment process • Initiation and coordination process with loss mitigation effort • Discuss credit bureau reporting procedures if applicable ***B. Default and Bankruptcy Management*** • Borrower contact and solicitation process • Loan resolution frequency (workout, restructuring, receivership, recidivism rate) and approval levels • Re-marketing and disposition effort • Process of multiple tracking and monitoring of claim filing, bankruptcy status and repayment plans • Legal cost and attorney network management • Assessment of staff caseload and productivity (cost-to-service, file-per-employee ratio) • Loan severity assessment and prioritization • Property inspection and valuation procedures and timelines • Significant changes (past or planned) in procedures or emphasis regarding work out strategies or timelines • Collection process (including power of sale/foreclosure) ***C. Workouts and Resolutions*** • Asset manager experience, product specific expertise and local market knowledge • Policies regarding loan modifications, deferrals, extensions, capitalization, payment methods or payment holidays • Resolution data review (performance statistics, actual delinquency statistics, re-performance rate, recovery proceeds and losses) • Tracking of bankruptcy and foreclosure ***D. Power of Sale/Foreclosure Management*** • Foreclosure timelines and strategies • Property evaluation (condition and value), maintenance and repairs • Referral procedures • Eviction policies • Property preservation procedures • Marketing strategy • Vendor selection and monitoring • Expense monitoring • Deficiency and judgment policy
	Technology and Systems	• Strengths and weaknesses of core servicing system • Capacity utilization of the servicing system • Website availability and usage • Procedures for vendor selection and oversight • Disaster recovery plans and success of past tests • Frequency of full system backup • Budget allocation to technology • Future initiatives
	Financial Condition	• Credit rating or internal assessment by DBRS; for non-rated entities: preferably three-year financials to assess profitability, liquidity, capitalization and leverage • Capacity and stability of financing sources and profile (terms, maturities and covenants) • Strength of balance sheet (parents, affiliates and lenders) • Strategic initiatives with impact on financial condition • Parent company's rating

Summary of Risk Analysis Process for Canadian Residential Mortgage Servicer Evaluations

Input	Factor	Key Variables
Servicer Information (Supporting Factors)	Staff and Training	• Experience of middle management and supervisors • Hiring and retention strategies • Employee performance and monitoring procedures • Mix of full-time/part-time/temporary personnel • Turnover rate of staffing level or composition of staff • Staff planning and development resources • Training process and requirements for all employees (onshore and offshore) in specialized functions and technology, both initially and ongoing • Soft skills available or required • Contingency planning
	Procedures and Controls	• Overview of compliance controls (legal, regulatory, etc.) • Quality control procedures • Internal audit process • Standards for file volume management at each stage of servicing process • Adequacy of internal and external audit program • Review of significant internal and external audit findings • Policy update process • Implementation procedures and management involvement • Access and storage of manuals • Adequacy of insurance policies
	Outsourcing and Sub-Servicing Arrangements	• Nature of sub-servicing agreements (volume, functions and product types) • Procedures for monitoring sub-servicer performance and compliance • Amounts and numbers of loans sub-serviced by a third party or sub-service for others
Output	**Assessment**	**Application**
Assessment of Determining Factors	Superior, Good, Adequate, Weak	Each determining factor is provided with an assessment to form the base of preliminary evaluation.

Summary of Process to Evaluate Canadian Residential Mortgage Servicers

Input	Assessment	Process
Preliminary Assessment	Superior, Good, Adequate, Weak	A preliminary overall assessment is formed based on the aggregate assessment of determining factors. A significant and ongoing weakness in any determining factor would result in an assessment of Weak. Proceed with the review of supporting factors when the preliminary assessment is one of Superior, Good or Adequate.
Assessment of Supporting Factors	Superior, Good, Adequate, Weak	Following the preliminary assessment, each supporting factor is assessed, similar to determining factors. Weakness in more than one area will generally result in a lower evaluation.
Output		**Servicer Evaluation of Superior, Good, Adequate or Weak**

SURVEILLANCE AND MONITORING

Procedure	Information Reported	Frequency	Source and Results
Review of All Factors	An assessment of each factor with detailed descriptions	At least annually	Company information and servicer evaluation reports

EVALUATION DEFINITIONS

Superior

A thorough understanding and superior implementation and execution of all of the facets of servicing with seasoned servicing professionals that have the capacity to handle peaks in workflow and that exhibit market leadership and experience through economic and credit cycles

Good

A comprehensive understanding and a positive assessment in most of the aspects of servicing, with improvement in some less critical areas or additional experience desirable

Adequate

A full understanding of the servicing aspects with a lack of certain experience and consistency in implementation

Weak

Deficiency in one or more of the assessed areas, either through not exhibiting any the benchmarked traits, or through lack of understanding of how to implement them correctly

Related Servicer Evaluation Methodology

Commercial Mortgage Servicer Evaluations

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