Methodology

Canadian Residential Mortgage Servicer Evaluations

JULY 2014
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Canadian Residential Mortgage Servicer Evaluations

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Introduction

DBRS Canadian Residential Mortgage Servicer Evaluations are designed to evaluate the quality of the parties that conduct primary, master, special or sub-servicing on portfolios of loans that are about to be securitized in a transaction which will be rated by DBRS. While DBRS only provides public evaluations at the request of the servicer, it conducts internal, non-public servicer evaluations to determine if a servicer is Superior, Good, Adequate or Weak (Appendix 1) and incorporates the results of the review into the rating process for each new residential mortgage-backed security (RMBS) and residential mortgage-related transaction rated by DBRS.

DBRS typically begins the initial servicer review process by scheduling a date to conduct an on-site visit of the company. In preparation for the meeting, DBRS sends an outline of the topics to be covered which includes a list of documents to be provided, such as organizational charts, employee resumes, financial statements, performance statistics and policies and procedures (Appendix 2). During the on-site review, DBRS meets with senior management to discuss the servicing operations, tour the facilities and review system demonstrations, as appropriate. DBRS assesses the information gathered through the review process, along with its surveillance data and industry statistics, to determine if a servicer is acceptable. In instances where DBRS determines that the servicer is weak, issuers may incorporate certain structural enhancements into a proposed transaction, such as additional credit support, dynamic triggers or the presence of a warm or hot backup servicer in order for DBRS to be able to rate the transaction.

DBRS conducts periodic reviews of the servicer as part of the ongoing monitoring of outstanding transactions or in cases when unexpected events warrant, such as the sale of the operation or a servicer filing for bankruptcy. The reviews are intended to bring DBRS up to date on any changes that have taken place since the last servicer evaluation and highlight any material changes to the operation or its management. The review may be accomplished through a conference call, meeting with senior management or by an on-site visit to the servicer. The type of review needed is typically determined based on the length of time since the last on-site review, the performance of the rated transactions and the materiality of any changes within the organization. Any findings from the update review are incorporated into the surveillance process, in addition to being included in the analysis for new transactions.

In cases where the servicer or its parent has a public or private rating or internal assessment by DBRS at below investment grade, or if DBRS believes that, while not imminent, there is a potential risk that the servicing may need to be transferred at a future date, issuers may incorporate a warm or hot backup servicer as a transaction party. Some reasons for the inclusion of a warm backup servicer could be: the company is up for sale; senior management has recently departed; lines of credit were not renewed or now have more restrictive covenants; or delinquency levels are trending upward and there is concern about potentially hitting servicing transfer triggers in a transaction. Reasons for the inclusion of a hot backup servicer or third-party sub-servicer could be: a servicer is relatively new to the servicing business; it lacks experience servicing the product being securitized; it does not have a significant number of loans in its portfolio; or it or its parent is a below-investment-grade or non-rated entity. In the event that DBRS determines that a servicer is unacceptable, it may refuse to rate the deal.

In transactions that include mortgages where servicers have approved lender status that is granted by mortgage insurers, DBRS generally allows these servicers to be included in rated RMBS transactions without being subject to the servicer evaluation process described in this methodology.
Servicer Evaluation Process

The servicer evaluation process typically involves a review and analysis of the following areas:
(1) Company Structure and Management Experience
(2) Financial Condition and Outlook
(3) Asset Administration, Reporting and Customer Service
(4) Loss Management
(5) Technology and Systems
(6) Staffing and Training
(7) Procedures and Controls
(8) Outsourcing and Sub-Servicing Arrangements

Based on the results of the review, DBRS will assign the servicer’s operation an evaluation of Superior, Good, Adequate or Weak. The results of the review are proprietary and used internally in the rating and surveillance processes unless DBRS is engaged to perform a public servicer evaluation. In this case, the results of the evaluations are announced through a press release and a servicer evaluation report is published on the DBRS website at www.dbrs.com.

This methodology describes the servicer evaluation process, including the eight areas that are reviewed, the roles a servicer can play in RMBS transactions and the DBRS rationale for providing servicer evaluations to capital market participants, which includes the definitions of each category. While this methodology provides a comprehensive list of items that DBRS may review, the scope of any specific servicer review may vary on a case-by-case basis, depending upon whether the servicer has an investment-grade rating from DBRS or other credit rating agencies, the approved lender status from mortgage insurers and/or the complexity of the servicing tasks involved.

Areas of Evaluation

Servicers are evaluated based on the eight primary areas noted above. Each area is reviewed periodically as DBRS continues to refine its evaluation process and updates are published as necessary. Below is a description of each of the components of the review.

COMPANY STRUCTURE AND MANAGEMENT EXPERIENCE

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.

DBRS considers the history and ownership of the company and reviews its recent accomplishments and planned initiatives. The overall servicing performance of the company over the past few years is also reviewed. For example, the servicer’s participation in industry association is assessed as a way of determining how engaged it is in the development of industry best practices. Additionally, the company’s servicing portfolio statistics and stratifications are reviewed for changes or performance trends. It is important to explore significant movements in these items, as they can be important indicators of operational stress.
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 in mortgage servicing. 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.

DBRS also believes internal assessments and quality-control reviews are critical in recognizing procedural errors that may not be easily detectable. These reviews can be used to identify trends, training opportunities and exception practices. Frequent checks can assist management in quickly instituting changes to areas needing improvement, as well as benchmarking those results to performance.

**FINANCIAL CONDITION AND OUTLOOK**

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. Support or guarantee from a corporate parent is also considered, 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 function in RMBS.

DBRS considers the pricing structure of servicing and the viability of the servicing platform as a stand-alone business. Review of the company’s recent financial statements can provide a good indication of the viability of the servicing portfolio. Furthermore, the company’s ability to provide service during periods of stress and to manage servicing portfolio runoff or growth is an important part of DBRS’s financial assessment.

In cases where DBRS does not maintain a public rating on the entity performing or guaranteeing a servicing role, the DBRS Financial Institutions Group usually provides an internal assessment of the relevant institution. In certain cases, DBRS may rely on public ratings assigned and monitored by other credit rating agencies.

Items to be reviewed as part of this process may include:

- Company ownership structure
- Management experience
- Corporate rating of any parent company (if applicable)
- Internal and external audit results
- Revenue sources, including servicing fees and lines of credit
- Costs to service
- Litigation (past, present and expected)
- Existing business strategy and strategic initiatives
- Recent or planned mergers or acquisitions
- Recent or planned transfer of servicing rights
- Securitization history and future plans

Any financial stress identified can elicit servicing problems either immediately, as in the case of a servicer bankruptcy, or lead to a slow degradation of the performance of the collateral. Therefore, the servicer’s financial condition is incorporated into the DBRS analysis of RMBS transactions, including the evaluation of proposed credit enhancement levels and the presence of proposed structural safeguards.
ASSET ADMINISTRATION, REPORTING AND CUSTOMER SERVICE

Important items considered in the loan administration are accuracy of loan boarding, data integrity, application of payments and exceptions. Servicers with large numbers of un-reconciled items in suspense accounts indicate a fundamental problem with the cash management operation. As a result, DBRS views favourably those servicers with a high level of automation and a low tolerance for un-applied funds. Additionally, DBRS reviews the servicer’s efforts towards compliance with regulatory guidelines and industry best practices. Furthermore, the servicer’s portfolio is reviewed for changes in size, product type or delinquency to determine if more frequent reviews or management calls might be necessary to monitor the performance of the portfolio.

Items considered in this section of the evaluation typically include the following:

- 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
- Asset management, including assumptions, document release and re-conveyance
- Exception management process
- Regulatory compliance
- Procedures for advancing

Some items can be considered as high-volume, process-oriented tasks, while others require a higher degree of credit analysis and judgment, and therefore need to be staffed with employees with residential real estate experience. When possible, DBRS attempts to compare servicing performance with industry benchmarks. Items where DBRS looks at servicing performance measures typically include the following:

- Time to board new loans to the servicing system
- Percentage of lock-box rejects and average time to reconcile
- Amount of real estate tax penalties as a percentage of taxes paid
- Timeliness of investor reporting
- Percentage of annual financial statements collected
- Time from financial statement collection to reporting

LOSS MANAGEMENT

The effectiveness of a servicer’s operation has a direct impact on security performance and, ultimately, losses to the RMBS investor. A servicer’s strategy for handling loans in default, as well as its ability to closely manage loans in foreclosure and bankruptcy, can stabilize or improve pool performance. The marketing of real estate owned (REO) properties, as well as ultimate disposition timelines and cost containment, can also determine a servicer’s capabilities.

DBRS views favourably those servicers that have predictable performance and strong monitoring procedures for delinquent accounts. Once an account becomes delinquent, effective collection procedures can minimize losses to investors. Accordingly, DBRS evaluates the quality of the collections strategy and staff in order to determine their success rates in contacting borrowers and determining their ability and willingness to pay.
Loss management is not limited to the special servicer of an RMBS transaction. As the borrower’s primary contact, primary servicers are on the front line when it comes to detecting loan performance issues. As a result, DBRS believes it is important that servicers have procedures in place that are designed to prevent and address potential areas of weakness within a serviced portfolio. The procedures that a servicer follows to monitor the portfolio, provide optimal solutions and mitigate loss severity are considered at every level of servicing.

DBRS also considers the role played by primary and/or master servicers in loss management in detecting the early warning signs of a loan in trouble. A servicer’s portfolio surveillance practice, including the administration of its loan watchlist, is a key component of loss management. Proactive servicers maintain a solid line of communication with the special servicers (whether internal or external) and keep them informed of potential problem loans, as early detection often leads to lower loan losses or more amicable solutions.

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.

Lastly, 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.

TECHNOLOGY AND SYSTEMS
Technology resources are an integral component of the servicer review process. While DBRS does not expect the use of any specific system architecture, adequate systems controls, consumer privacy protection and backup procedures, including disaster recovery and business continuity plans, are considered critical processes and should be in place. Furthermore, servicers must ensure that any offshore vendors are monitored and a backup plan is in place to ensure minimal downtime. Over the past few years, leveraging the Internet has enabled many firms to operate effectively in the mortgage business. Servicers have used the Internet for marketing, customer service and the dissemination of pertinent information, such as payment reminders or inquiries relating to refinances, modifications or payoffs. As a result, DBRS expects servicers to have the appropriate staff and controls in place to ensure website availability, account maintenance and enhancements. Sophisticated technology, with robust functionality, is viewed favourably by DBRS as it often helps bring large efficiencies to the servicing operations, in addition to more predictability in terms of loan performance.

STAFFING AND TRAINING
DBRS believes that providing employees with updated and relevant training, knowledge and career planning generally contributes to higher productivity and hence better servicing results. Consequently, DBRS reviews the servicer’s recent training programs, in terms of content, volume (i.e., number of courses) and employee participation (i.e., average hours per employee per year), 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 are also key considerations. A servicer that maintains a management team made up of highly experienced and tenured individuals (compared with the levels of its peers) generally experiences operating efficiencies that are gained when people work together over a longer period of time. Servicing staff experience levels, while important, can differ among servicers due to variations in organizational structure.
PROCEDURES AND CONTROLS
DBRS considers properly documented policies and procedures an important factor in ensuring a consistent quality of servicing. The content, timeliness, usefulness and accessibility of documentation related to policies and procedures 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.

DBRS reviews the company’s policies and procedures manual to ensure that daily processes are documented and the servicer has a way to monitor adherence to the procedures stated therein. Quality control programs, including approval requirements, delegations of authority and management reports, such as key indicator reports, may also be reviewed. Servicers that measure servicing performance against established benchmarks demonstrate dedication to process improvements and are viewed favourably by DBRS.

Finally, DBRS expects servicers to participate in regularly scheduled audits, both internal and external. DBRS may request a review of the servicer’s latest audits, including findings, management’s response and the resolution of deficiencies.

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 overflow or as a cost-saving measure. Outsourcing arrangements are reviewed carefully by DBRS to determine if proper supervision is maintained on the third party. DBRS views favourably those servicers that have outsourcing arrangements extensively documented in the company’s procedures and controls, with a backup plan in place should the outsourcer lose its ability to operate.
Roles of Servicers in RMBS

When rating a RMBS transaction, the capacity of the servicer is a key analytical consideration as servicing quality affects the performance of the trust assets in delinquency, default and recovery and, consequently, in the ultimate repayment of rated securities. Because of the importance of the servicing role, DBRS performs periodic reviews to remain up to date on the company’s servicing capabilities.

RMBS servicers function in various capacities, including primary, master, special or sub-servicer. Below is a summary of each of their roles.

PRIMARY SERVICER
The primary servicer is responsible for collecting payments, cash management, customer service, escrow administration and investor reporting. Therefore, it is important for the primary servicer to maintain systems that are sophisticated enough to effectively report loan activity directly to the trustee, master servicer, special servicer, investor and/or anyone else monitoring the primary servicer’s performance. The primary servicer is also responsible for all collection activities, including default management and liquidation functions (unless there is a designated special servicer, in which case the primary servicer would be only responsible for early-stage collection activity).

MASTER SERVICER
A master servicer is responsible for collecting loan data from primary servicers, calculating the expected principal and interest payments that should be remitted and reconciling any differences with the servicers. A master servicer is also responsible for making principal and interest advances in the event the primary servicer fails to do so. As a result, financial condition is of utmost importance when evaluating a master servicer. Additionally, master servicers need to report and remit funds to the trustee in a timely and accurate manner. Therefore, DBRS expects master servicers to be able to handle non-traditional products, such as option-adjustable rate mortgages and complex deal structures.

SPECIAL SERVICER
The special servicer is tasked with returning delinquent loans to a performing status or quickly disposing of loans that are non-performing. As a result, DBRS places particular emphasis on the years of experience and default management expertise of the special servicers. Of significant importance is the ability of the servicer to manage delinquency roll rates, offer effective workouts and minimize recidivism rates. DBRS views favourably those servicers that employ sophisticated decision-making software to facilitate and track the loss mitigation process. Furthermore, a special servicer’s ability to quickly liquidate REO properties at acceptable loss severities is paramount.

PRIMARY SUB-SERVICER
Primary sub-servicers provide a broad range of services to firms that do not wish to make the investment to develop a servicing platform or increase their current operation. Their role is substantially no different from other primary servicers. However, the sub-servicer’s portfolios may only be held for a limited amount of time and typically must service in the manner in which the owner of the servicing rights dictates. Therefore, it is important that sub-servicers have demonstrated expertise in boarding and de-boarding loans, as well as proficiency in the investor reporting function. In addition, the sub-servicer may only be responsible for a limited set of functions within the overall servicing process. For example, the servicer may only handle the loans in a performing status, with all collection activities being the responsibility of a special servicer. As a result, primary sub-servicers should have controls in place to effectively meet both their individual client’s requirements and the requirements of the RMBS transactions, if applicable.

RMBS issuers may find it necessary to incorporate warm or hot backup servicers into a transaction, in order for the deal to be rated at a desired level. Below is a summary of each of their roles.
WARM BACKUP SERVICER
A warm backup servicer is responsible for performing all of the activities necessary to ensure that, in the event of a default or bankruptcy of the current servicer, they would be able to take over all of the primary servicing responsibilities outlined in the pooling and servicing agreement within a short period of time (typically 30 to 120 days). In an effort to prepare for the transfer, the warm backup servicer typically conducts an on-site visit of the company, maps all of the data fields to their servicing system and receives monthly data tapes of the transactions to ensure minimal downtime.

HOT BACKUP SERVICER
A hot backup servicer is responsible for performing all of the activities necessary to ensure that, in the event of a default or bankruptcy of the current servicer, they would be able to take over all of the primary servicing responsibilities within the time frame outlined in the pooling and servicing agreement. In an effort to prepare for the transfer, the hot backup servicer typically conducts an on-site visit of the company, maps all of the data fields to their servicing system and receives daily/monthly data tapes of the transactions to ensure minimal downtime. The hot backup servicer is also responsible for tying out with the servicer on all remittance reports to ensure they are accurate, in addition to monitoring the ongoing performance of the servicer.

There are few entities in Canada providing sizable primary servicing and special servicing of non-insured mortgages to third parties. DBRS is not aware of any entity to date that provides master servicing to third-party transactions, likely due to the importance of financial wherewithal.

DBRS Rationale for RMBS Servicer Evaluations

Servicer evaluations provide a consistent measure for comparison by capital market participants. Specifically, servicer evaluations allow for cross-company comparisons, as the items considered within the evaluations are from established industry benchmarks and best practices. As the servicer is the only party that has regular interaction with the obligors of the pledged assets, the trustee, rating agencies and investors, among other parties, rely on the servicer’s judgment, actions and accuracy in the receiving and reporting of data, which has an impact on the ultimate repayment of the rated debt.

Under a standardized approach, servicers can be directly compared through servicer evaluations that measure their respective servicing competence. To the extent possible, each servicer’s process is measured against industry benchmarks. Each item is considered based on its importance within the given area. It is possible that a servicer with business across multiple sectors or asset types could have different evaluations for each product type or sector.

As a result, a positive servicer evaluation in one sector does not necessarily mean that a servicer is qualified to enter into new business lines or service assets in other sectors. A servicer evaluation highlights a servicer’s strengths, weaknesses and mitigants regarding the various servicing roles it plays within RMBS. Compared with full-service companies, scalability and staffing constraints may exist for a servicer with limited service offerings. DBRS reviews a servicer by product/asset type before an evaluation is assigned. Servicer evaluations can be changed or discontinued at any time if there is performance deterioration or improvement in the areas of evaluation outlined in this methodology.
Appendix 1: 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 areas 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 areas 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 areas, either through not exhibiting any of the benchmarked traits or through a 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.
Appendix 2: Sample Review Agenda for Canadian RMBS Servicers

Company Structure and Management Experience
- Company history, ownership and operating experience.
- Management experience.
- Portfolio size, composition and risk profile.
- Strategic initiatives.
- Litigation, claims and regulatory actions of material nature (past, present and expected).
- Cause of servicing arrangement termination (if applicable).
- Recent or planned mergers or acquisitions.
- Recent or planned transfer of servicing (rights), if any.
- Runoff rates.
- Securitization history and future plans.

Financial Condition and Outlook
- Financial condition/profitability.

Asset Administration, Reporting and Customer Service
- New loan boarding and accuracy control process.
- Payment processing.
- Cash management and lockbox administration.
- Procedures for responding to customer inquiries.
- Customer service strategy and technology.
- 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.

Loss Management
- Collection strategies and solicitation process for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Right-party contact rate.
- Use of credit and behavioural scoring and other technology.
- Delinquency, roll and cure rates.

Default and Bankruptcy Management
- Loan resolution frequency (i.e., 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 (i.e., 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.
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 (i.e., performance statistics, actual delinquency statistics, re-performance rate, recovery proceeds and losses).
- Tracking of bankruptcy and foreclosure.

Power of Sale and Foreclosure Management
- Foreclosure process and initiation.
- Property management (i.e., preservation, evaluation, maintenance, repairs and inspections).
- Percentage of foreclosure sold through a third party.
- Eviction policies.
- Broker selection and monitoring.
- Expense monitoring.
- Recovery rates.
- Insurance claim processing.

Real Estate Owned (REO)
- Number and dollar of loans in portfolio.
- Broker selection and pricing strategy.
- Property evaluation (condition and value).
- Property management.
- Liquidation methods and marketing plan and strategy for disposition.
- Deficiency and judgment policy.
- Recovery rates.

Technology and Systems
- Core servicing system strengths and weaknesses.
- Capacity remaining in the servicing system.
- Web site availability, usage and security.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full system backup.
- Future initiatives.

Staffing and Training
- Staffing size and location.
- Training and retention rates.

Procedures and Controls
- Quality control and internal audit procedures.
- Internal and external audit results.
- Efforts to ensure regulatory compliance.
- Has the servicer been, or is now, the subject of any regulatory action? If so, discuss any findings.
- Process for interpreting and tracking regulatory compliance statutes.
- Storage and updating of policies and procedures.

Outsourcing and Sub-servicing Arrangements
- Name and number of outsourced functions.
- Sub-servicing functions done by third party.
- Quality control process for outsource and sub-servicing arrangements.
Appendix 3: Positive Examples in Servicer Evaluation Areas

**Company Structure and Management Experience**
- Proven extensive experience, competency, stability and depth of senior and middle management.
- Profitable servicing business model.
- Competitive advantages for ongoing success.
- Long-term commitment to servicing business.
- Economies of scale of managed portfolio.
- Demonstrated oversight ability of sub-servicers.

**Financial Condition and Outlook**
- Investment-grade rating.
- Ready access to capital.
- Sound ownership structure and support from major financial institutions.

**Asset Administration, Reporting and Customer Service**
- 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 or removed from mortgage portfolio administration by mortgage insurers.
- Establishment and maintenance of segregated custodial/trust accounts.
- Existence of clearly documented quality control procedures.
- 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, 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.
**Loss Management**
- 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 watchlists and risk/behaviour scoring.
- Proactive and preventive delinquency management in early-stage collections.
- Good usage of the interactive voice response (IVR).
- Effective call monitoring.

**Default and Bankruptcy Management**
- 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 watchlists.
- Extensive company and employee experience in loan workout process.

**Workouts and Resolutions**
- Existence of performance evaluation guidelines.
- Automated event-driven tracking module.
- Dual approach to loan resolution (i.e., 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 procedures.

**Power of Sale/Foreclosure Management/REO**
- 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.
- Strong recovery rates.
Technology and Systems

- 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 (i.e., origination, servicing and remarketing).
- Compatibility with other systems.
- Full scalability.
- Dedicated team.
- Document imaging system.
- Regular business impact analysis.
- Outsourcing/backup arrangements on IT functions.
- Effective data integrity control.
- High degree of system automation.
- Automated servicing functions.

Staffing and Training

- Forward-looking staffing plan and well-structured career path.
- Thorough, ongoing, centrally administered and 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.

Procedures and Controls

- Independent internal audit reporting structure.
- Internal audit database to track findings, corrective actions and status.
- Audit scope based on risk exposure 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.

Outsourcing and Sub-Servicing Arrangements

- 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.
- Backup plan to bring the function in-house or engage another sub-servicer if the sub-servicing arrangement falls through.