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## Servicer Evaluation: Shellpoint Mortgage Servicing

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### Table Of Contents

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Key Ranking Factors

Opinion

Key Changes Since Our Last Review

Outlook

Management And Organization

Loan Administration

Financial Position

Related Criteria And Research

# Servicer Evaluation: Shellpoint Mortgage Servicing

## Ranking Overview

<b>Residential primary servicer</b>	
Overall ranking	ABOVE AVERAGE
<b>Subranking</b>	
Management and organization	ABOVE AVERAGE
Loan administration	ABOVE AVERAGE
Outlook	Stable
<b>Residential special servicer</b>	
Overall ranking	ABOVE AVERAGE
<b>Subranking</b>	
Management and organization	ABOVE AVERAGE
Loan administration	ABOVE AVERAGE
Outlook	Stable
Financial position	SUFFICIENT

## Key Ranking Factors

- An experienced and senior management team;
- Low overall turnover for management and staff;
- Default management has lower tenure averages that reflect the management team additions, though the new managers have good experience levels;
- A risk management and control framework that includes multiple lines of defense;
- Continued process enhancements, including a process improvement team to proactively evaluate procedures that it considers high-risk;
- Solid servicing performance metrics that are generally consistent with similarly ranked peers;
- Good transition rates from higher to lower delinquency buckets, evidencing effective loss mitigation efforts; and
- Average speed of answer (ASA) metrics that are within the industry standard but higher than peers'.

## Opinion

S&P Global Ratings' rankings on Shellpoint Mortgage Servicing (SMS) as a primary and special residential loan servicer are ABOVE AVERAGE. The outlooks are stable. On April 11, 2017, we affirmed the rankings (see "Shellpoint Mortgage Servicing ABOVE AVERAGE Residential Primary And Special Servicer Rankings Affirmed").

The rankings reflect our opinion of SMS's experienced senior management team, its sound risk management and control environment, and its proactive loss mitigation strategies.

Our opinion also reflects the internal control environment that has multiple lines of defense to detect risk and a good

level of technology throughout the organization. In addition, the sound default areas include proactive loss mitigation, which uses creative strategies to drive borrower engagement and pull-through.

## Key Changes Since Our Last Review

- SMS added several managers to key areas, including a new internal audit director, a vice president of human resources, a new director in bankruptcy, and multiple new managers to its foreclosure department.
- The company acquired new space to grow its Greenville and Houston servicing sites.
- The company made enhancements to complaint management to improve the borrower experience and resolve complaints faster. Complaint handling was also transitioned to the compliance department.
- A compliance quality assurance team was established in late 2015.
- Several website design enhancements were made.
- The company developed a new bankruptcy management module within its servicing system.
- SMS implemented a customer satisfaction survey.
- Supervisors and employees now have real-time access to call monitoring scores.

In addition to conducting an on-site meeting with servicing management, our review included current and historical Servicer Evaluation Analytical Methodology data up to Dec. 31, 2016, as well as other supporting documentation provided by the company.

## Outlook

The outlooks for both rankings are stable as SMS continues to invest in its servicing platform to support its portfolio growth strategies. The company plans to continue to grow its prime and special servicing books. In our view, its continued technology investments and process improvements provide the efficiency gains and scalable processes to support the growth. These factors, in addition to staff investments, support our belief that SMS will remain a competitive residential mortgage primary and special servicer. We will continue to monitor the growth strategy over the next 12 months to ensure it continues to reflect a satisfactory performance level.

Servicing Profile	
Servicing location	Greenville, S.C. and Houston
Loan servicing system	Servicing Director ®
Portfolio types	Prime and special residential mortgage-backed securities
As of Dec. 31, 2016	
Number of servicing employees	496
Volume (mil. \$ unpaid principal balance)	38,760
Loan count	153,511

SMS (formerly known as Resurgent Mortgage Servicing) operates as a division of New Penn Financial LLC, which is a subsidiary of Shellpoint Partners LLC. SMS' core business includes servicing loans originated by New Penn Financial LLC as well as performing, reperforming, and nonperforming (NPL) loans for its third-party special servicing clients. SMS main servicing facility is in Greenville, S.C., with a second servicing site in Houston. It is an approved Freddie

Mac, Fannie Mae, and Ginnie Mae servicer.

In aggregate, SMS services approximately 154,000 prime and special servicing assets representing a \$39 billion unpaid principle balance. Approximately 20% of the prime and special servicing portfolio consists of government-sponsored entity (GSE) and Ginnie Mae loans. The special servicing portfolio comprises roughly 45% of the portfolio by loan count, which is a 50% year-over-year increase.

SMS has approximately 30 third-party clients. New Penn Financial LLC is the largest individual client, providing approximately \$9 billion in new conforming loan volume in 2016.

**Table 1**

Portfolio Volume				
	Prime		Special	
	Units (no.)	Volume (mil. \$)	Units (no.)	Volume (mil. \$)
Dec. 31, 2016	84,168	21,348	69,343	17,413
Dec. 31, 2015	75,457	18,973	46,247	11,715
Dec. 31, 2014	61,278	14,714	32,172	7,508
Dec. 31, 2013	34,299	8,697	15,433	2,654
Dec. 31, 2012	8,055	1,268	6,831	462

**Table 2**

Portfolio Distribution By State						
	Prime			Special		
	Top five states	Units (%)	Unpaid principal balance (%)	Top five states	Units (%)	Unpaid principal balance (%)
California	14		23	California	17	28
Florida	9		8	Florida	11	10
Georgia	8		6	Texas	6	3
Pennsylvania	6		5	New York	6	9
Maryland	6		6	New Jersey	4	5
Others	57		52	Others	55	45
Total	100		100	Total	100	100

## Management And Organization

Our subrankings are ABOVE AVERAGE for SMS's management and organization.

### Staffing, turnover, and organizational structure

SMS management and staff display solid industry experience that is generally in line with peers. The senior management team has remained stable as reflected in its company tenure average. The company also added to the leadership team's bankruptcy and foreclosure management areas. A new internal audit director was also brought in to lead its internal audit program. The lower company tenure average for middle managers reflects these management additions. Although the tenure average for middle management is lower than peers', we view the additions as a positive. Management and staff have the following experience levels:

- Senior and middle managers average 17 and 11 years of industry experience, respectively.
- Senior managers average eight years with the company, while the middle managers average two years.
- Overall management and staff turnover are 6% and 9%, respectively, which we consider to be good and similar to peer averages and our last review.

Since our last review, SMS added staff in most servicing areas with the largest additions on a percentage basis in the default areas. With the larger servicing staff, SMS has maintained a similar loans per employee ratio compared with our last review.

### **Training**

SMS has multiple channels to recruit new employees to fill entry-level positions as well as roles that require industry experience. Among other things, recruiters leverage relationships with local colleges to tap undergraduate and post-graduate programs. A new recruiter was added in 2016 to strengthen recruiting.

The formalized training programs for new employees combines classroom, computer-based, and structured job shadowing activities. The curriculum is role-specific, and managers and subject matter experts provide specialized training that is relevant to their respective job functions (when applicable).

SMS also provides refresher and career development training. Training activities are scheduled, tracked, and in some cases delivered through the online learning management system. Training program capabilities and metrics we considered in our review include:

- All employees are required to complete annual regulatory compliance training.
- Certain training courses are followed by a knowledge assessment with a required score to pass.
- A new trainer was hired in 2016 that is dedicated to customer service and collections employees.
- The management training program is tailored to a manager's experience level. The training is in short video format to improve manager engagement.
- New customer-facing staff members receive 30 hours of classroom instruction and approximately 50 hours of on-the-job training.
- The new hire curriculum includes two weeks of training on Servicing Director®, the servicing system of record.
- The training curriculum includes inverter-specific courses.

The 2016 training curriculum that we reviewed is comprehensive, in our view, and covers the primary areas of servicing. The company has a sound framework to recruit new staff and manage and facilitate training to new and existing employees.

We believe the ability to recruit is valuable as the company continues to grow its operations. We also view the locations of its servicing sites as a positive because they present opportunities to hire skilled employees in less saturated markets.

### **Internal controls**

The risk management and control framework includes multiple lines of oversight, monitoring, and testing to detect risk. Most activities are independent of the servicing operation, reporting to either the chief compliance officer or, in internal audit's case, the board of directors.

SMS has a compliance management system (CMS) that is organized to monitor regulatory and investor changes as well as the change management process. It also ensures that the policy and procedure library remains current. A risk committee meets monthly to review regulatory changes, pending legislation, and other industry topics. The committee reviews the controls in place to mitigate identified risks and initiates a change if needed. SMS established a compliance quality assurance team in October 2015 to monitor compliance with regulatory and investor requirements through transactional testing and key performance indicator reporting. The dedicated quality control team handles call monitoring and tests servicing procedures to ensure that operations are functioning in a manner consistent with procedures and investor requirements. Components to the CMS and quality monitoring that we considered in our review include:

- Defined change management practices identify potential changes, are disseminated to applicable business areas, and monitor and track updates and corresponding control activities.
- The dedicated change management team tracks changes in a database that also tracks process ownership, implementation process milestones, and reporting.
- Policies and procedures are certified at least annually.
- An industry recognized audit system is used for sampling, test scripts, and reporting.
- Quality control testing is monthly and quarterly depending on risk. Findings are reported to operations and management on a monthly basis along with remediation plans and status.

In August 2016, SMS added a director to lead the internal group that reports to the board of directors. The frequency of internal audits, usually annual, is determined by risk. Audit findings are classified by severity and ultimately determine the overall audit score. A final audit report is drafted and communicated to the senior management team.

We reviewed internal audits completed between the second half of 2015 and December 2016. There were no material findings. Any areas identified as needing improvement have been remediated as of our review.

SMS' internal monitoring and control activities are supplemented by external SSAE16 SOC1 Type II and Regulation AB audits. The 2016 reports that we reviewed showed no material exceptions.

SMS also has a dedicated process improvement team that reviews processes at least annually based on risk. The assessment includes splitting out critical processes into subprocesses to understand risk based on the number of occurrences and severity. Processes are ranked by risk magnitude.

### **Complaint management**

SMS has a dedicated team to address complaints that, since our last review, were reorganized under compliance. Complaints (written and verbal) are logged into the servicing system upon receipt, and tracked by source and topic, and assigned an escalation level. The complaint specialist coordinates research when needed to resolve the complaint and drafts a response as appropriate. SMS has daily and monthly reporting to monitor complaint trends and meets monthly to review root cause analysis to identify process improvement opportunities. Additional complaint management practices we considered include:

- SMS now designates staff members within its operations to act as point persons to research complaints related to their respective areas. The management team indicated this practice has considerably improved complaint response times.

- A complaint specialist contacts the borrower to verbally acknowledge receiving the complaint.
- Compliance reviews responses to regulatory complaints.
- The complaint team monitors the various social media for complaints.

### **Technology and disaster recovery**

SMS leverages a combination of vendor-based and proprietary systems to support its servicing operations. Servicing Director® is the system of record. SMS developed a number of enhancement modules to provide an improved user interface as well as tracking and workflow capabilities for specific servicing areas. Loss Mitigation System (LMS) is a proprietary system used for cash flow-based loss mitigation, and it supports rule-based modifications, loss mitigation application requirements, and net present value calculation.

In our view, these systems provide SMS a sound technology platform to support its servicing operation and portfolios.

The company has a shared services agreement in place with Resurgent Capital Services for various IT support services and information security, which it expects will remain in place for the foreseeable future. Resurgent is managed as a vendor with recurring meetings and performance reviews in accordance with its service-level agreements. In addition to the shared services arrangement, SMS maintains dedicated IT staff on-site to provide support and development resources. The internal IT staff also supports its customer-facing website, which was enhanced in 2016. SMS enhanced the look and feel of the website and added new borrower self-service features to improve the borrower experience. This adds simplicity in our view. Web enhancements also provide mobile-device compatibility.

SMS also maintains a client portal that allows clients to access loan-level data, documents, and other portfolio information.

SMS maintains a security information and event management program to detect and prevent unauthorized access and secure its data and information. The program includes intrusion detection mechanisms and exercises (internal and external) and vulnerability scans.

SMS uses tape backups and data replication between its primary and backup data centers. The data centers are located in separate states and failover disaster recovery plans are tested annually. The most recent disaster recovery and business continuity test was completed in August 2016. A recovery testing report summary that we reviewed showed no findings, and systems were recovered within recovery time objectives.

### **Vendor management**

The vendor management department maintains governance as well as risk management and ongoing oversight of all vendor relationships. A team within default operations also monitors attorney performance. The vendor management team evaluates the scope of the engagement to assess risk and assign a risk tier before contracting with the prospective vendor. A due diligence review, which we believe is comprehensive, is then completed with the scope determined by risk tier.

SMS uses periodic vendor audits and performance scorecards to monitor ongoing vendor performance and compliance with its policies. SMS added two vendor auditors to the team in 2016 to handle the audit process, which is well-organized in our view. The audit frequency, ranging from 12-24 months, is based on risk tier. High-risk vendor audits include an on-site review, while Low-risk vendor audits just include attestations. An audit summary report is

published to document the audit observations, and an audit committee reviews audit observations and remediation plans if needed. Scorecards monitor supplier performance relative to service-level agreements.

The vendor management program is sound, in our view, and appropriately assesses risk during the procurement phase and provides necessary oversight of risk and performance.

### **Insurance and legal proceedings**

The company has represented that it maintains adequate director and officers and errors and omissions insurance coverage given the size of its servicing portfolio. SMS has not reported any material litigation.

## **Loan Administration**

The subrankings for loan administration are ABOVE AVERAGE.

### **New loan setup**

SMS' dedicated loan boarding team handled an average of 57 portfolio transfers per month in 2016. Nearly all loans are boarded electronically and are active on its system in an average of two business days. The loan boarding process is managed through a system that tracks tasks and key process milestones. Each portfolio is assigned an owner to oversee the boarding process, coordinate with various business units for data validation, and oversee the pre-boarding and post-boarding data validation routines. Key aspects that we considered in our analysis of the loan boarding process include the following:

SMS maintains a well-controlled loan boarding process:

- Data validation is completed before and after boarding to identify missing, incomplete, or illogical data.
- Address and phone number skip-tracing ensure accuracy of pre-boarding data.
- In-flight loss mitigation is identified early in the boarding process. The loss mitigation department validates loss mitigation-related data and make sure corresponding documents are available.
- The loan boarding team coordinates weekly meetings with the operations teams to review active transfers.
- A representative sample of accounts is subject to a post-acquisition verification exercise, which is a document-to-system check of critical fields.

SMS has a portfolio management team that serves as client liaisons to oversee the respective portfolios and manage the operational relationship with the various departments to ensure the client's servicing strategies are in place.

- Clients have a dedicated portfolio manager supported by an analytical team.
- Prior to loan boarding, the portfolio manager holds client meetings to establish goals and performance objectives.
- The portfolio manager ensures that systems and processes are set up to service the portfolio in a manner that aligns with the client's strategy.
- SMS provides multiple channels of communication and reporting to clients including monthly meetings, performance reporting, and a delegated authority request portal.
- The client portal was enhanced by adding reportable metrics including default timelines.

### **Escrow administration**

SMS reported that 90% of its prime portfolio and 88% of its special servicing portfolio is escrowed for taxes or

insurance. SMS has separate industry-recognized vendors that handle the majority of its tax and insurance administration, including monitoring, tracking, and disbursements. SMS' internal escrow team manages the escrow analysis process and oversees the daily activities of the two vendors. Additional escrow administration attributes and metrics that we considered include:

- Tax-related calls are handled by the internal customer service team. The insurance vendor takes calls related to insurance matters (including loss drafts).
- Vendor oversight activities include scorecards and regular meetings to discuss trends and open issues.
- The SMS quality control team monitors 10-20 insurance vendor calls per month.
- There was no staff turnover within the escrow department.
- Nonreimbursable tax penalties are \$0.02, which we consider to be good.
- Management expects to implement a proactive homeowner association lien-monitoring process for super-lien states in 2017.

### Cash management

SMS' payment processing area handles all payment processing and reversal activities. Borrowers have multiple channels to make payments, including online. Key attributes and metrics for SMS' cash management operations include:

- All received checks are imaged.
- A lockbox provider can resolve exceptions the same day as receipt.
- Checks received before the loan boarding are imaged to aid in customer service if the customer calls to confirm that a check was received.
- 99% of payments are posted electronically.
- There is a segregated and secured cashiering area.
- SMS reported no turnover in the cashiering area.

### Investor reporting

We believe SMS displays proper controls and risk mitigation practices for its investor reporting and remitting and account reconciling functions. The dedicated investor reporting team is cross-trained to handle multiple investors and can accommodate investor reporting requirements and remittance types for GSEs, Ginnie Mae, and private investors. The investor reporting team also has securitization expertise demonstrated in multiple issuances in 2016. Additional controls, metrics, and attributes we considered include:

- The investor reporting team was realigned under portfolio management in 2016. There was no reported turnover.
- The investor reporting process was largely automated in 2015 and 2016.
- Reporting and remittances are 100% electronic.
- Custodial accounts are reconciled monthly.
- There are biweekly meetings in place with senior management to review any aging items.
- The company reported no reconciliation items aged over 60 days.

**Table 3**

Portfolio Breakdown By Investor (%)		
Investor	Prime	Special
Fannie Mae	21	14
Freddie Mac	36	0

**Table 3**

Portfolio Breakdown By Investor (%) (cont.)		
Investor	Prime	Special
Ginnie Mae	33	0
Mortgage-backed securities investor	0	0
Portfolio	1	15
Other investor	9	70
Total	100	100

### Customer service

SMS provides customers with multiple channels to contact its customer service area. The redesigned website and interactive voice response (IVR) system provide self-service capabilities. Its inbound call centers are located in its Greenville, SC and Houston servicing sites. The customer service department handles inbound call for loans that are current or have one payment due. To focus on the customer experience, SMS enhanced its call routing by directing complex calls to more-senior staff. It also implemented customer surveys in 2016.

The company website includes a live chat feature in which a specially trained team within the correspondence department responds to customer inquiries within eight seconds on average. Chat streams are recorded, and the chat sessions are monitored and graded using a scorecard. Customer service metrics and highlights include:

- Customer service staffing increased 15% year over year.
- The quality control team monitors a minimum of 10 calls per month for each customer service call center employee. The sample size is similar to the peer average.
- SMS enhanced the website to allow customers to establish and stop monthly Automated Clearing House payments.
- The company monitors satisfaction survey results to identify trends and improvement opportunities.
- The VRU capture rate improved to 62% from 47% at the time of our last review.
- The extended call hours ensure availability in all U.S. time zones and mitigate the lack of a western U.S. presence.
- SMS implemented a language translation service in mid-2016.
- SMS reported approximately 39% of customers are registered to use its website. This number also reflects recently boarded bulk transactions.
- Customer service management and staff turnover is 9% and 21%, respectively. Management turnover compares favorably with peers, while staff turnover is similar to what we see in the industry.
- SMS reported an ASA and abandonment rate of 50 seconds and 3.01%, respectively. Both metrics have increased since our last review and compare unfavorably with peers.

**Table 4**

Average Speed Of Answer And Abandonment Rate		
	Average speed of answer (seconds annualized)	Abandonment rate (% annualized)
Customer service	50	3.01
Collection	50	3.01
Loss mitigation	52	2.96

### Mortgage reconveyance

The loan administration team manages lien release workflow through reporting. Lien releases are prepared by a vendor that also records the documents. Prior to recording, the loan administration team reviews the documents for

quality. In our view, the vendor approach allows SMS to handle volume fluctuations, especially sudden spikes. The company reported that all lien releases were processed within statutory compliance, which is better than peers.

## Default

We believe SMS' default operations management and staff have solid default servicing experience. We consider the default management's industry experience levels to be good and are generally similar to peer averages (see table 5). The average company tenure for management and staff in most of the default areas are generally lower than peer averages partly because of new hires to accommodate the growing servicing portfolio (see table 5).

**Table 5**

Experience And Tenure							
	Management			Staff			
	Avg. industry experience (years)	Avg. present employer experience (years)	Turnover rate (%)	Avg. industry experience (years)	Avg. present employer experience (years)	Turnover rate (%)	
Collection	12	3	16.67	5	1	0.00	
Loss mitigation	10	1	6.67	7	1	8.52	
Foreclosure	15	2	16.67	8	1	10.11	
Bankruptcy	12	1	0.00	5	1	0.00	
Real estate owned	11	4	0.00	14	2	0.00	

Call campaigns and loss mitigation strategies appropriately engage customers early in the default cycle or follow loan boarding for NPLs. The transition rates of loans that improve in delinquency compare favorably with peer averages. This, as well as a cure rate that is better than peers', reflects positively on SMS' proactive loss mitigation strategies in our view. We also note that roll rates for the 60-day, 90-day, and 120-day delinquency buckets have increased at varying degrees since our last review.

**Table 6**

Prime Delinquency Rates							
Year	30-59 days delinquency (%)	60-89 days delinquency (%)	90+ days delinquency (%)	Total delinquency (%)	Bankruptcy (%)	Foreclosure (%)	Real estate owned (no.)
Dec. 31, 2016	1.39	0.48	0.63	2.50	0.47	1.23	247
Dec. 31, 2015	0.45	0.17	0.59	1.21	0.49	1.81	180
Dec. 31, 2014	1.16	0.24	0.57	1.97	0.31	0.83	27
Dec. 31, 2013	1.30	0.84	13.52	15.67	0.67	0.21	576
Dec. 31, 2012	2.72	2.35	24.57	29.64	2.37	0.32	4

**Table 7**

<b>Special Delinquency Rates</b>								
<b>Year</b>	<b>30-59 days delinquency (%)</b>	<b>60-89 days delinquency (%)</b>	<b>90+ days delinquency (%)</b>	<b>Total delinquency (%)</b>	<b>Bankruptcy (%)</b>	<b>Foreclosure (%)</b>	<b>Real estate owned (no.)</b>	
Dec. 31, 2016	6.00	3.55	10.48	20.03	6.47	22.03	3,401	
Dec. 31, 2015	2.90	1.40	9.80	14.10	6.19	23.23	2,669	
Dec. 31, 2014	5.15	2.73	12.24	20.12	7.75	30.37	1,407	
Dec. 31, 2013	0.71	0.51	21.97	23.18	20.46	35.90	133	
Dec. 31, 2012	0.26	0.22	44.42	44.90	8.52	3.82	101	

### Collections

The collections team operates in a blended environment handling inbound calls and outbound campaigns for loans that have one or two payments past due. The IVR routes inbound calls directly to collections staff located in the Greenville and Houston servicing sites. SMS designed its outbound strategy around borrowers' historical performance, calling higher-risk borrowers earlier in the delinquency cycle. This strategy allows SMS to allocate more of its resources to the higher-risk loans. Collections staff use a proprietary calling system that provides pertinent loan and workflow data to the agent in an organized fashion. Dialer campaign types vary, and manual dialing is deployed to maximize the probability of right-party contact, which was 12% during the period. Collections agents are trained to identify loss mitigation opportunities early in the default cycle and proactively refer borrowers to loss mitigation. Key collections metrics include the following:

- SMS hired additional collectors since our last review, increasing the number of full-time employees (FTE) to 49 from 40 year over year.
- SMS reported no collector turnover, which is an improvement from last year and better than peer averages.
- The quality control team monitors a minimum of 10 calls per month for each collector which is similar to the peer average.
- The 50-second ASA is higher than peers', while the 3.01% abandonment is similar.
- Promise-to-pay (PTP) success rates for 30- and 60-day delinquency buckets are 66% and 26%, respectively. The former is in line with peer averages, and the latter is lower than peer averages.

### Loss mitigation

Loans enter loss mitigation at 61 days delinquent or upon imminent default identification, where a prospecting team begins outreach efforts to establish RPC. SMS uses various outreach strategies to engage the borrower in a foreclosure alternative with a focus on early engagement. The loan is assigned to a single point of contact (SPOC) once contact is made or the borrower expresses interest in loss mitigation. From that point, the SPOC handles evaluating and underwriting all loss mitigation solutions. SPOC negotiators use a proprietary loss mitigation system to evaluate borrowers for foreclosure alternatives. The system provides a solutions menu based on investor rules and customer eligibility, but negotiators can offer solutions other than the recommended ones to better fit the situation and give borrowers a better chance to succeed.

The loss mitigation area is well-organized, in our view, using a complimentary approach of a high-touch strategy and

technology. The loss mitigation department has separate prospecting, negotiating, and default support teams. This organizational structure allows the prospectors to focus on initial engagement, the negotiators to concentrate on loss mitigation application and underwriting complexities, and support teams to be efficient with their processes. The teams are investor-specific and provide a high level of expertise.

We considered the following controls in our analysis:

- Investor rules are managed within the loss mitigation system.
- All approved deals are reviewed by a supervisor.
- All loss mitigation denials go through a second look review.
- SMS monitors a minimum of 10 loss mitigation calls per month for each employee.
- Quality control checks are in place to review loss mitigation agreement documents before they are mailed to the borrowers, and they are reviewed again when SMS receives the returned agreement documents;
- Mortgage assistance application tracking is managed through the proprietary loss mitigation system. The system also provides net present value functionality with built-in approval controls based on loss mitigation terms.

**Table 8**

Loss Mitigation Breakdown (%)		
Resolution type	Prime	Special
Deed-in-lieu	5	5
Short sale	22	16
Modification	55	65
Forbearance plan	3	0
Other	15	14
Total	100	100

In our opinion, SMS has a proactive loss mitigation philosophy designed to engage the borrower early and execute the most effective workout to mitigate losses. Loss mitigation strategies and metrics that we considered include:

- Creative mailing campaigns and door-knock strategies;
- Skip-trace efforts using multiple sources;
- Workout solutions and borrower contact strategy designed around investor goals or requirement;
- A foreclosure cure rate for its prime and special servicing loans of 60% and 51%, respectively, which are both better than peer averages and reflect SMS' loss mitigation approach; and
- Loss mitigation staff turnover (see table 5) that is in line with similar servicers that we rank.

### Foreclosure

The SMS foreclosure department includes a timeline management team and foreclosure support team to handle foreclosure administration. Its preforeclosure review process focuses on loan history and collateral documents ensuring that all investor and regulatory requirements are met. Using an ownership model, the timeline management team monitors key milestones and service levels and executes foreclosure documents as required throughout the foreclosure. Attorney communication and tracking is facilitated through Black Knight Financial Services' LoanSphere. As an added level of monitoring, a dedicated performance manager monitors all foreclosure holds.

A dedicated team monitors the default attorney network and measures performance using a revised scorecard that has

qualitative and quantitative parameters. The monthly performance evaluation also includes feedback from the timeline management team. Procedures are in place to require improvement plans and hold new referrals for underperforming firms.

SMS added a new layer of management to the foreclosure department to provide further oversight.

### **Bankruptcy**

SMS hired a new director with a legal background to lead the bankruptcy area with approximately 30 FTE, which is an increase from last year. Bankruptcy administration and management is managed internally. SMS has multiple channels to detect new filings and monitor cases for status changes. The case management team handles cases from filing to disposition, managing the timeline throughout the process. The proprietary case management system provides an interactive user interface that provides relevant loan-level data in a well-organized format. The system workflow is task-driven based on key milestones. Since our last review, SMS has enhanced the system to improve efficiency by providing users with a summary of open tasks and key milestones. In addition:

- Management turnover was similar to the peer average, while staff turnover was better than the peer average.
- SMS reported no rejected proof of claims and a minimal percentage of proofs of claim were disputed. Both metrics were similar to peers.

### **Real estate owned (REO)**

The REO department is organized into a custom and standard team with the former handling assets that have unique investor requirements for asset disposition. The number of REO assets has nearly doubled since our last review because SMS boarded large portfolios of REO assets in 2016. The company added REO staff including additional managers to manage the increased number of assets. A second asset management system was added to handle assets for certain investors. Key REO processes, enhancements, and performance metrics that we reviewed include:

- The average eviction time for prime and special servicing loans is 123 and 107 days, respectively.
- The gross-to-market value ratio average of 89.60% for special servicing loans.

## **Financial Position**

We consider SMS' financial position to be SUFFICIENT.

## **Related Criteria And Research**

### **Related Criteria**

- Revised Criteria For Including RMBS, CMBS, And ABS Servicers On Standard & Poor's Select Servicer List, April 16, 2009
- Servicer Evaluation Ranking Criteria: U.S., Sept. 21, 2004

### **Related Research**

- Select Servicer List, April 27, 2017
- Shellpoint Mortgage Servicing ABOVE AVERAGE Residential Primary And Special Servicer Rankings Affirmed, April 11, 2017

- Servicer Evaluation: Shellpoint Mortgage Servicing, Oct. 23, 2015

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