

Shellpoint Mortgage Servicing

U.S. Residential Servicer Report

Ratings

Residential Primary Servicer
Prime
Special

RPS3+
RSS3+

Rating Outlook

Stable

Servicer Summary

Shellpoint Mortgage Servicing (Shellpoint) is a seasoned high-touch servicer specializing in distressed loans. The company has a 17-year history through its predecessor, Resurgent Mortgage Servicing. Shellpoint's primary servicing site is located in Greenville, SC, with a second fully operational site in Houston. The servicer maintains a business relationship with its direct parent, New Penn Financial, LLC (New Penn), which operates a mortgage lending platform headquartered in Plymouth Meeting, PA.

Rating Summary: Shellpoint's 'RPS3+' and 'RSS3+' ratings with a Stable Rating Outlook are based on the company's managed growth, systems and process enhancements, support from New Penn and the servicer's experienced senior management team. As of March 31, 2017, Shellpoint serviced approximately 185,000 loans totaling approximately \$43.3 billion.

Related Research

[U.S. RMBS Servicer Handbook
\(June 2017\)](#)

Key Rating Drivers

Continued Managed Growth: Shellpoint has expanded into various business arrangements through both its parent and other third-party clients. The servicer continues to invest in technology and processes and expand operating facilities. Further, the company has added several key management positions. Since 2015, the servicer has more than doubled its staffing and expanded operations at both servicing facilities.

Systems Enhancements: Shellpoint has developed its website and telephony systems to enhance customer self-service functionalities. The servicer has also invested in an online modification technology and has started private-label servicing capabilities.

Financial Condition: Fitch Ratings does not publicly rate the credit and financial strength of Shellpoint or New Penn. However, Fitch's Financial Institutions group reviewed New Penn's financial statements to provide an internal assessment, as a company's financial condition is a component of Fitch's servicer rating analysis. Fitch's review confirmed that the parent continues to invest in staffing, technology, and system and risk management processes.

Experienced Senior Management Team: Shellpoint has an experienced senior management team averaging over 16 years' industry experience and eight years' company tenure. In addition, the servicer maintains adequate bench strength through recruiting, training and retention programs. Shellpoint continues to recruit various industry professionals to support its growth initiatives. The servicer maintains an effective recruiting and training program.

Reg AB Noncompliance: Shellpoint experienced one instance of material noncompliance regarding bank reconciliations for the year ended Dec. 31, 2016. The servicer indicated the finding was noted, remedied and that the necessary internal controls were implemented.

Continued Performance versus Increasing Cost: Regulatory guidelines and related costs continue to be important factors as servicers aim to balance these requirements with the economics of their business.

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Servicer Overview

Shellpoint Partners is a group of companies made up of New Penn (a national mortgage lender specializing in the residential real estate market), Avenue 365 (a national provider of title services to the real estate and mortgage industry), and E-Street Appraisal Management Company (which oversees and manages a network of certified and licensed appraisers in 15 states).

New Penn is licensed to originate in 48 states and the District of Columbia and offers conventional, government and portfolio loan programs through three different channels: call center, retail and wholesale.

The companies operate as vertically integrated residential mortgage banking entities with diversified revenue sources and capabilities. The companies (aside from New Penn) do not provide any direct or indirect services to Shellpoint’s servicing operation.

Shellpoint continues to make strategic changes to its servicing operation to support third-party subservicing and special servicing capabilities. In addition, Shellpoint implemented private-label servicing and established its first private-label client relationship during the period under review.

Shellpoint continues to expand its government-sponsored enterprise relationships to include additional servicing for GNMA and FNMA on distressed loan portfolios. Furthermore, the servicer maintains a well-developed business relationship with various originators who deliver agency loans involving bifurcated transactions.

Fitch believes Shellpoint has effectively managed its growth and continues to make the necessary enhancements to controls, systems, procedures and staffing commensurate with the expansion. The servicer maintains a developed corporate governance structure and recruits experienced management and middle managers.

Shellpoint maintains two servicing locations. Its primary servicing site is located in Greenville, while the Houston office has additional staff who cover redundant functions, including but not limited to foreclosure, loss mitigation, default support and customer service.

During the course of this review period, Shellpoint continued to make enhancements to its telephony and web functionalities. Shellpoint indicated that the changes improved customer self-servicing functions. In addition, the servicer hired a new head of human resources and expanded its prescreening testing process for new recruits. The servicer does not utilize any

Residential Loan Servicer Ratings

Fitch Ratings’ Operational Risk Group provides ratings for primary (RPS), master (RMS), and special servicers (RSS). These ratings provide investors and other market participants with a clear indication of a servicer’s performance and capabilities, which are evaluated using a standardized methodology. The residential servicer rating scale is summarized below.

Residential Servicer Rating Scale

Rating	Description
1/1–	Servicers demonstrating the highest standards in overall servicing ability.
2+/2/2–	Servicers demonstrating high performance in overall servicing ability.
3+/3/3–	Servicers demonstrating proficiency in overall servicing ability.
4	Servicers lacking proficiency due to weakness in one or more areas of servicing ability.
5	Servicers demonstrating limited or no proficiency in servicing ability.

Fitch’s servicer ratings are used internally to augment the residential securitization model when assigning levels and credit enhancements. For more information on the review and rating process for servicers, see Fitch Research on “Criteria for Rating U.S. and Canadian Residential and Small Balance Commercial Mortgage Servicers,” dated February 2017, available on Fitch’s website at www.fitchratings.com.

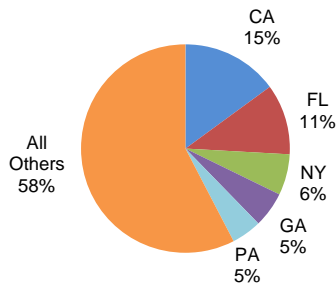
Related Criteria

[Criteria for Rating Loan Servicers \(February 2017\)](#)

[Criteria for Rating U.S. and Canadian Residential and Small Balance Commercial Mortgage Servicers \(February 2017\)](#)

Total Servicing Portfolio Distribution by State

(As of March 31, 2017)

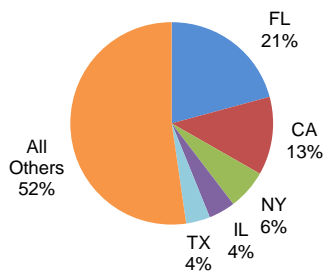


Note: Numbers may not add to 100% due to rounding.

Source: Data provided by servicer.

Distribution of Loans 90+ Days Delinquent by State

(As of March 31, 2017)

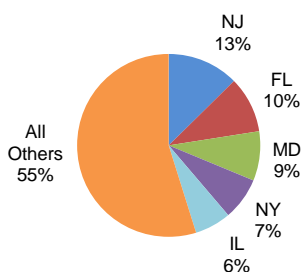


Note: Numbers may not add to 100% due to rounding.

Source: Data provided by servicer.

Distribution of REO by State

(As of March 31, 2017)



Note: Numbers may not add to 100% due to rounding.

Source: Data provided by servicer.

offshore provider as part of its servicing operation and indicated it has no immediate plans to change this strategy.

Portfolio Summary

(As of March 31, 2017)

	Amount (\$)	% of Market ^a	No. of Loans	% of Market
Non-agency Loans	7,920,318,333	1.42	30,660	0.95
Agency Loans	18,628,873,232	0.53	90,246	0.42
Owned Portfolio	0	0.00	0	0.00
Third-Party Servicing	16,782,808,684	11.85	63,911	7.72
Other (Not Included in Above Categories)	0	0.00	0	0.00
Total Servicing Portfolio	43,332,000,249	0.83	184,817	0.61

^aMarket share based on Fitch-rated servicers.

Source: Based on Fitch-rated servicers.

Rating Drivers

Continued Managed Growth

Fitch considers a stable servicing operating history supported by a well-developed growth strategy as an important characteristic of a highly rated servicer. Since 2015, Shellpoint has doubled its portfolio to approximately \$44 billion and tripled the company's special servicing client base, but while Shellpoint has shown strong growth, the servicer continues to make enhancements to its servicing, telephony and web systems, strengthening the corporate governance structure, expanding the Houston facilities and proportionately increasing management and staff levels to reflect this growth.

Additionally, during this review period the servicer began offering private-label servicing and also indicated that the company remains focused on its prevailing growth strategy, which includes adding new business relationships and gaining additional business from existing servicing clients.

Systems and Technology Development

Entities that provide high-quality servicing generally maintain advanced technology to standardize and streamline processes and provide effective access to loan details and status. Shellpoint's technology has been effectively designed to disseminate portfolio information to clients, investors, trustees and other information recipients, as defined in servicing agreements. Shellpoint has evidenced continued technology investments.

Shellpoint has a dedicated technology team of 41 full-time equivalents (FTEs) averaging over eight years of industry experience and five years' company tenure. The servicer utilizes Servicing Director, an industry standard system, for its residential servicing functions and has several integrated proprietary systems to support the company's technology platform. Shellpoint makes regular enhancements to its servicing system to meet regulatory and servicing obligations. During this review period, the servicer created more self-service functionalities to its customer service interactive voice response and web systems. Fitch believes that Shellpoint's technology is adequate to meet the company's current servicing requirements.

Highly rated servicers have plans in place to reduce or eliminate the amount of time that critical systems are off-line in the event of a power outage, natural disaster or other emergency. Fitch reviews servicers' disaster recovery and business resumption plans for adequacy and completeness. Also important are the frequency and success of disaster recovery simulations and data restoration tests.

The servicer indicated that all critical systems have real-time replication to its Houston location, with a full-time technology staff on hand for maintenance and disaster recovery assistance. The servicer's failover process is highly automated. The most recent disaster recovery test was completed in October 2016, with no material system changes required. Fitch believes that Shellpoint maintains an effective disaster recovery plan.

Financial Condition

The servicer and its parent company's financial condition is an important indication of Shellpoint's ability to meet obligations, including advancing if applicable and the funding of operations. Fitch's financial review includes an assessment of the ability of the company to weather adverse market conditions, finance expansions and make capital investments as it focuses on sustaining and growing the servicing platform. Typically, servicers with an investment-grade credit rating will receive a higher score in the financial condition category of Fitch's review.

Fitch Ratings does not publicly rate the credit and financial strength of Shellpoint or New Penn. However, Fitch's Financial Institutions group reviewed the companies' financial statements to provide an internal assessment, as a company's financial condition is a component of Fitch's servicer rating analysis. Fitch's review confirmed that the parent continues to invest in staffing, technology, system and risk management processes.

Experienced Senior Management Team

A servicer's ability to effectively manage its portfolio and accommodate growth is contingent on the credentials of company's management and staff. Therefore, Fitch considers the quality of servicing employees on three levels: senior management, middle management and staff.

Shellpoint's senior management team averages 16 years' industry and eight years' company experience. Group and functional managers average 11 and 10 years of industry experience, respectively, and approximately three years of company tenure. The senior management team members held various positions at other mortgage companies, with some having previously worked together. Shellpoint maintains a highly developed succession plan and focuses on providing ongoing specialized management training to meet corporate growth objectives.

As of March 31, 2017, Shellpoint had 788 FTEs, representing an increase of approximately 33% since March 31, 2016. The servicer maintains 3% temporary or contract employees, which is a reduction from the 6% level during the previous review period. The voluntary turnover rate was 8.4% and involuntary was 2.6%. This represents a combined turnover rate of 11% (a decrease from 20% in the previous year), which is below the industry average of Fitch-rated servicers. The servicer's staffing level is projected 90 days ahead of planned changes to platform needs. Shellpoint had 373 new hires and 110 internal promotions during the last 12-month period under review and provided 130 hours of training for new staff and 30 hours for existing employees. During this review period, Shellpoint added a new human resources director to coordinate training across both locations and to enhance process improvements companywide.

Fitch's onsite observations indicated that the servicer maintains stable and experienced staff across the servicing operation. Fitch believes Shellpoint is adequately staffed and incorporates adequate recruiting, training and developmental training programs to effectively manage its servicing responsibilities. Shellpoint utilizes its TRAIL program for the two-year rotational leadership and development program for recent college graduates. The servicer also maintains

adequate bench strength to meet growing platform needs. Fitch will continue to monitor the servicer's staffing effectiveness as the company continues to pursue its growth initiatives.

Reg AB Noncompliance

Fitch places particular emphasis on the adequacy of a servicer's compliance with the legal and regulatory framework. In addition, Fitch also reviews the servicer's relevant policies and procedures and its processes for ensuring timely dissemination of updates. This includes an assessment of the capabilities of the staff responsible for legal and regulatory compliance. Shellpoint indicated that it has been audited by various state agencies and investors in the ordinary course of business over the past year, but that it has not received any notices of investigation and is currently not under investigation.

Shellpoint experienced one instance of material noncompliance for the year ended Dec. 31, 2016, regarding the timely reconciliation of a monthly bank statement. The servicer indicated that the finding has been remedied and the necessary internal controls were implemented. In addition, Shellpoint indicated that the issue was identified and the remediation completed prior to the Reg AB annual audit being completed.

Shellpoint maintains effective internal controls and oversight of its servicing operations through quality assurance (QA) and quality control (QC), compliance and internal audit programs. The servicer's QC and QA practices cover both the Greenville and Houston offices. Shellpoint evidences an effective vendor-management oversight program.

Shellpoint's compliance program mandates independence and a consistent risk-based approach and control framework, including independent compliance and testing, to manage and mitigate compliance risk and to assess compliance with the regulatory requirements governing the servicer's various activities. Shellpoint indicated that the purpose of this program is to formalize the framework, structures and processes for compliance risk management of the company's servicing business.

The legal, compliance and QC teams report directly to the general counsel and chief compliance officer, who in turn reports to the president of Shellpoint. To ensure independence, the general counsel and chief compliance officer and the director of internal audit also report regularly to the Shellpoint Mortgage Servicing risk committee of New Penn's board of directors.

Continued Performance versus Increasing Costs

The U.S. regulatory landscape for servicers has undergone significant changes over the past several years. Regulatory guidelines and related costs continue to be important factors as servicers aim to balance these requirements with the economics of their business.

Shellpoint has demonstrated ongoing investments in regulatory compliance. The servicer maintains a staff of 24 FTEs dedicated to managing the company's compliance, customer complaints and inquiries, litigation, vendor management audit and quality control programs. The servicer indicated that it focuses on compliance by proactively anticipating and mitigating operational, strategic and regulatory risk through a series of monitoring programs across each line of business.

Servicer Metrics

Select Staffing Metrics^a

(As of March 31, 2017)	Subject Servicer Provided Data	Fitch Assessment
% of Temp Staff (Including Contract)	2.60	Superior
% of Voluntary Turnover	8.46	Strong
% of Involuntary Turnover	2.61	Superior
Training: 12-month Average No. of Hours for Staff Members (Excluding New Hires)	30	Adequate
Training: 12-month Average No. of Hours for New Hires	130	Superior

^aAssessment based on collected data from Fitch's rated servicers.
Source: Based on Fitch-rated servicers.

Main Systems

Applications, Interfaces and Tools	Name	Vendor Product, Customized Vendor Product, or Proprietary
Core Servicing	Servicing Director	Customized Vendor Product
Telephony	Avaya	Vendor Product
Collections	Avaya	Vendor Product
Loss Mitigation	LMS	Proprietary
Bankruptcy	Servicing Director	Customized Vendor Product
Foreclosure	Black Knight Desktop	Vendor Product
REO	Equator	Vendor Product

Source: Based on Fitch-rated servicers.

Select Loan Admin Metrics^a

(%, As of March 31, 2017)	Subject Servicer Provided Data	Fitch Assessment
Suspense Items Aged 30+ Days	5.92	Strong
Misapplied Payment	0.02	Superior
Hold Time (Speed to Answer by CSR in Seconds)	52.34	Adequate
Abandonment Rate	3.32	Adequate

^aAssessment based on collected data from Fitch's rated servicers. Note: Metrics are for the most recent 12-month period. CSR – Customer service representative.
Source: Based on Fitch-rated servicers.

Select Default Metrics^a

(%, As of March 31, 2017)	Subject Servicer Provided Data	Fitch Assessment
Hold Time (Speed to Answer by CSR in Seconds)	61	Below Average
Abandonment Rate	18.06	Below Average

^aAssessment based on collected data from Fitch's rated servicers. Note: Metrics are for the most recent 12-month period. CSR – Customer service representative.
Source: Based on Fitch-rated servicers.

Product Type: Prime

Delinquency Statistics — Prime

	2015				2016				As of 3/31/17			
	Amount (\$000)	% of Amount	No. of Loans	% of No. of Loans	Amount (\$000)	% of Amount	No. of Loans	% of No. of Loans	Amount (\$000)	% of Amount	No. of Loans	% of No. of Loans
30 to 59 Days	20,352	4	34	4	31,501	3	88	4	26,217	3	66	4
60 to 89 Days	16,857	4	33	4	24,743	3	66	3	24,768	3	71	4
90+ Days	77,133	16	149	17	119,744	12	272	13	98,415	11	200	11
All loans in Bankruptcy Status	55,523	12	114	13	99,487	10	238	11	74,961	8	165	9
In Foreclosure Status (Excluding Bankruptcy)	213,172	45	386	43	450,497	47	913	43	250,892	28	495	28
Subtotal	383,037	82	716	80	725,973	75	1,577	73	475,252	54	997	56
In REO Status	11,480	2	28	3	69,539	7	173	8	71,964	8	156	9
Total Delinquency	394,518	84	744	83	795,512	82	1,750	82	547,216	62	1,153	65
Total Non-Agency RMBS Prime Portfolio	469,486	—	898	—	968,309	—	2,147	—	884,060	—	1,771	—

REO – Real estate owned. Notes: Numbers may not add due to rounding. Data reflect the Mortgage Bankers Association method of delinquency reporting. Source: Data provided by servicer.

Average 12-Month Delinquency Migration — Prime

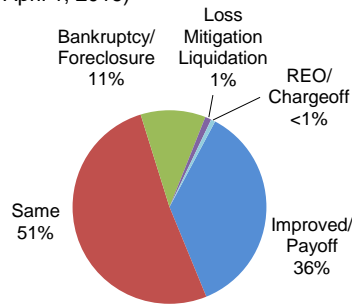
(% of Number of Loans, 12-Month Period Ended March 31, 2017)

Status at Beginning of Month	No. of Loans	Paid in Full	Status at End of Month							Charged Off	Service Released	Liquidated at a Loss
			Current	30 Days	60 Days	90+ Days	BK	FC	REO			
Current	1,051	0.2	92.4	2.7	0.0	0.0	0.0	0.0	0.0	0.0	2.6	0.0
30 Days	92	0.1	30.1	46.8	22.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
60 Days	65	0.0	6.8	12.1	55.4	25.2	0.1	0.0	0.0	0.0	0.0	0.0
90 Days or More	224	0.0	2.6	0.6	3.2	87.2	0.3	5.1	0.3	0.0	0.0	0.2
Bankruptcy	204	0.0	1.5	0.2	0.1	1.3	91.2	5.4	0.1	0.0	0.0	0.1
Foreclosure	711	0.1	1.9	0.1	0.1	0.4	1.5	91.9	2.1	0.0	0.0	0.8

Source: Data provided by servicer.

Resolution of Non-Agency RMBS Prime Loans 60+ Days Delinquent Ending March 31, 2017

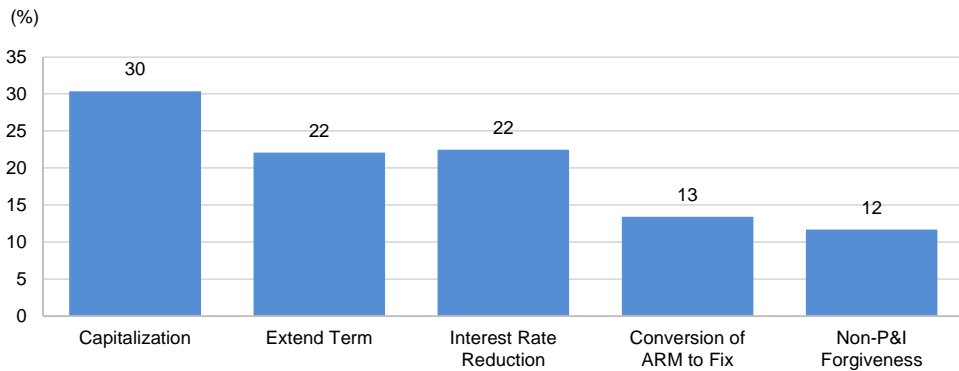
(Based on 286 loans as of April 1, 2016)



Source: Data provided by servicer.

Modification Features — Prime

(As of March 31, 2017, Based on 1,291 Modifications)



Note: Individual loans may be counted with multiple modification features. Source: Data provided by servicer.

Product Type: Special

Delinquency Statistics — Special

	2015				2016				As of 3/31/17			
	Amount (\$000)	% of Amount	No. of Loans	% of No. of Loans	Amount (\$000)	% of Amount	No. of Loans	% of No. of Loans	Amount (\$000)	% of Amount	No. of Loans	% of No. of Loans
30 to 59 Days	105,556	4	813	3	59,860	3	461	3	239,525	1	1,456	2
60 to 89 Days	36,159	1	312	1	20,775	1	129	1	83,044	0	538	1
90+ Days	211,589	8	2,544	11	170,508	8	2,106	13	612,755	4	10,623	17
All loans in Bankruptcy Status	128,559	5	914	4	113,142	5	804	5	419,576	3	3,359	5
In Foreclosure Status (Excluding Bankruptcy)	755,344	27	3,921	17	566,113	25	2,861	18	1,292,763	8	6,475	10
Subtotal	1,237,207	44	8,504	36	930,399	42	6,361	39	2,647,663	16	22,451	36
In REO Status	220,084	8	1,309	6	184,829	8	1,093	7	325,459	2	1,824	3
Total Delinquency	1,457,291	52	9,813	42	1,115,227	50	7,454	46	2,973,122	18	24,275	39
Total Non-Agency RMBS Special Portfolio	2,819,171	—	23,584	—	2,222,062	—	16,211	—	16,782,809	—	62,393	—

REO – Real estate owned. Notes: Numbers may not add due to rounding. Data reflect the Mortgage Bankers Association method of delinquency reporting. Source: Data provided by servicer.

Average 12-Month Delinquency Migration — Special

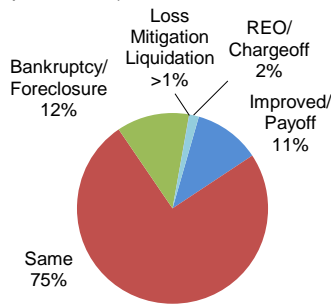
(% of Number of Loans, 12-Month Period Ended March 31, 2017)

Status at Beginning of Month	No. of Loans	Status at End of Month											
		Paid in Full	Current	30 Days	60 Days	90+ Days	BK	FC	REO	Charged Off	Service Released	Liquidated at a Loss	
Current	33,379	0.3	94.3	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	0.0
30 Days	1,646	0.3	33.1	45.2	19.1	0.3	0.1	0.0	0.0	0.0	0.0	0.5	0.1
60 Days	632	0.2	11.6	14.2	37.6	34.8	0.2	0.0	0.0	0.0	0.0	0.3	0.0
90 Days or More	14,408	0.0	0.6	0.2	0.4	90.4	0.3	1.5	0.1	0.0	0.0	0.0	4.9
Bankruptcy	3,354	0.0	1.2	0.2	0.1	2.4	93.3	1.9	0.0	0.0	0.0	0.0	0.2
Foreclosure	4,884	0.1	1.3	0.1	0.1	0.7	1.2	92.0	2.8	0.0	0.0	0.0	0.3

Source: Data provided by servicer.

Resolution of Non-Agency RMBS Special Loans 60+ Days Delinquent Ending March 31, 2017

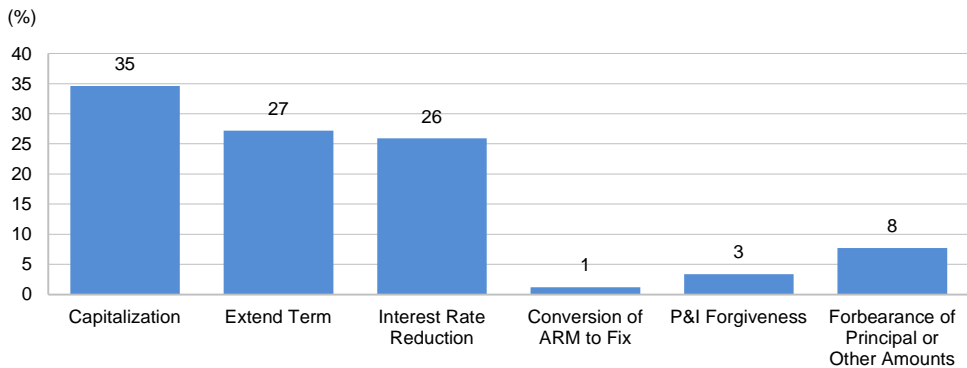
(Based on 12,647 loans as of April 1, 2016)



Source: Data provided by servicer.

Modification Features — Special

(As of March 31, 2017, Based on 9,061 Modifications)



Note: Individual loans may be counted with multiple modification features. Source: Data provided by servicer.

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