S&P Global Ratings

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Servicer Evaluation: Shellpoint Mortgage Servicing

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Ranking Overview

		Subrankings		
Servicing category	**Overall ranking**	**Management and organization**	**Loan administration**	**Outlook**
Residential primary	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Residential special	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable

Financial Position
SUFFICIENT

Rationale

S&P Global Ratings' rankings on Shellpoint Mortgage Servicing (SMS) are ABOVE AVERAGE as a residential mortgage loan primary and special servicer. On March 17, 2020, we affirmed the rankings (please see "Shellpoint Mortgage Servicing ABOVE AVERAGE Residential Primary And Special Servicer Rankings Affirmed; Outlooks Stable," published March 17, 2020). The outlooks for both rankings are stable.

Our rankings reflect:

- A seasoned and well-experienced senior management team.
- Sound internal controls that continue to season.
- A focus on mitigating borrower and operational impact related to boarding a large volume of loans.
- Servicing-performance metrics that are mostly competitive with similarly ranked peers.
- A dedicated staff to manage its special servicing portfolios.
- Its servicing strategies and loss mitigation technology to effectively manage non-performing or high-risk loans.

Furthermore, we recognize the significant growth in the servicing portfolio, which presents a level of risk. However, we note that the company has made significant investments in many areas of the servicing operations, notably staffing and technology, which provide efficiencies and controls necessary to support a large servicing portfolio. In addition, the company has broadly maintained servicing performance levels during the growth period.

Since our prior review (see "Servicer Evaluation: Shellpoint Mortgage Servicing," published July 20, 2018), the following changes and/or developments have occurred:

- It formed two divisions within servicing, one to handle mostly performing loan and administration functions, and one to handle default and special servicing functions.
- It added two new executive vice presidents to lead the performing loan division and servicing operations respectively.

- The combined prime and special servicing portfolio increased 126% in loan count during 2019.
- It implemented a voice analytics technology to enhance call monitoring capabilities.
- It implemented new workflow-driven technology such as a vendor management and short sale processing systems.
- For large loan transfers, it created a website that borrowers can use before their loan boards the servicing system.
- It made a number of website enhancements, including additional borrower self-service capabilities.
- It established an in-line quality assurance team within the foreclosure area.
- It established a team to handle verbal complaints.

Outlook

The outlooks are stable. We expect SMS will maintain its servicing performance levels as the portfolio grows. The experienced leadership team continues to invest in the staff and technology necessary to manage a large and growing portfolio in a well-controlled manner. Notwithstanding portfolio growth driven predominantly from performing loans, we expect the company will maintain its strategies and capabilities to effectively manage its special servicing portfolio. We will also continue to monitor performance as the operation grows.

In addition to conducting an on-site meeting with servicing management, our review includes current and historical Servicer Evaluation Analytical Methodology data through Dec. 31, 2019, as well as other supporting documentation provided by the company.

Profile

Servicer Profile	
Servicing locations	Greenville, S.C.; Houston; Tempe, Ariz.
Loan servicing system	Servicing Director®
Portfolio types	Prime and special
As of June 30, 2019	
Number of servicing employees	1,297
Volume (mil. $ unpaid principal balance)	183,802.56
Loan count	969,088

SMS operates as a division of NewRez LLC, which is a subsidiary of Shellpoint Partners LLC. In 2018, New Residential Investment Corp. (NRZ) closed on its acquisition of Shellpoint Partners LLC and all of its subsidiaries, including SMS. SMS continues its core business of servicing loans originated by NewRez LLC, as well as servicing performing, re-performing (RPL), and nonperforming (NPL) loans for its third-party servicing clients.

SMS has three servicing sites, with its main servicing facility in Greenville, S.C., a second in Houston, and a third site in Tempe, Ariz. that was acquired as part of NRZ's acquisition of select assets from Ditech Holding Corp. and Ditech Financial LLC. It is an approved Freddie Mac, Fannie Mae, and Ginnie Mae servicer.

The servicing portfolio increased significantly during 2018 and 2019 (see table 1). The primary growth drivers are NewRez originations, bulk transfers of NRZ mortgage servicing rights, and growth in SMS' third-party business. We also note that the special servicing volume change illustrated in table 1 is mostly a function of the company's reclassification of the servicing type as opposed to a reduction in volume.

Table 1

Portfolio Volume

	Prime		Special	
	Units (no.)	**Volume (mil. $)**	**Units (no.)**	**Volume (mil. $)**
Dec. 31, 2019	959,028	181,522.42	10,060	2,280.17
Dec. 31, 2018	14,418	5,831.73	428,269	101,777.48
Dec. 31, 2017	69,876	19,247.83	130,038	33,477.86
Dec. 31, 2016	84,168	21,347.78	69,343	17,413.02
Dec. 31, 2015	75,457	18,972.83	46,247	11,715.46

Table 2

Portfolio Distribution By State

Prime			Special		
Top five states	**Units (%)**	**Unpaid principal balance (%)**	**Top five states**	**Units (%)**	**Unpaid principal balance (%)**
California	14.38	21.24	California	17.23	25.58
Florida	9.67	8.34	Florida	16.58	16.31
Texas	6.57	5.31	New York	7.16	9.22
Georgia	4.41	3.81	Texas	4.88	2.88
Illinois	4.26	3.75	New Jersey	3.91	4.47
Other	60.71	57.55	Other	50.24	41.54
Total	100.00	100.00	Total	100.00	100.00

Management And Organization

The management and organization subrankings are ABOVE AVERAGE for primary and special servicing.

Organizational structure, staff, and turnover

SMS' management team and staff exhibit good levels of industry experience. Company tenure levels are adequate, and reflect a company that is growing its management depth, which is consistent with our prior report. We consider the overall management turnover levels to be good and overall staff turnover to be manageable. Factors contributing to our assessment include the following:

- Senior and middle management average 19 and 10 years of industry experience, respectively.
- Senior and middle management have an average of seven and four years of tenure with the company, respectively.
- Overall management turnover is 5%, which compares favorably to its peer average.
- The overall staff turnover increased marginally, to 17%, compared to year-end 2018, and it is similar compared to its peer average.

During 2019, SMS formed separate performing and special servicing divisions. The performing servicing division now handles loan administration along with customer service functions, and the special servicing division handles default-related functions. SMS also added a new executive vice president to lead the performing servicing division, which allows separate executives to focus on performing loan administration and default functions, respectively. This realignment is a logical progression, in our view, and it more closely aligns the operational structure with that of other large servicers that we rank.

SMS also continues to significantly increase staffing to support the rapid portfolio growth. In total, staffing has nearly doubled year over year, with significant growth across many areas of servicing, including control functions, technology, and customer-facing areas, which are typically less scalable.

Its workforce management strategy involves hiring staff in advance of boarding large portfolios to ensure staff are sufficiently trained when loans are live on its platform. It utilizes quarterly sponsored job fairs and employee referrals, in addition to its traditional recruiting efforts.

The company added trainers to expand its capacity to train the increased number of new employees. It reported successful job fair recruiting, which consists of a rigorous screening process that in most cases involved second interviews. While we typically see elevated turnover following accelerated hiring, the company believes its approach will minimize this effect. The company also hired a number of former Ditech employees, whose servicing experience and familiarity with the loan portfolios shortens the learning curve and allows them to contribute at an accelerated pace.

Training

The company has a sound approach to recruiting new staff, as well as managing and facilitating training to new and existing employees. The ability to recruit is increasingly critical as the company continues to grow its operations. Among other things, recruiters leverage relationships with local colleges to tap undergraduate and post-graduate programs, and more recently the company has utilized sponsored events and job fairs to accelerate hiring to meet staffing needs. Other training considerations we factored into our analysis include the following:

- Trainers sit in all servicing sites, with dedicated trainers for larger departments, including its customer-facing areas.
- There is an increased number of dedicated trainers in certain areas to support the increased number of employees.
- The total training hours for new customer-facing employees are satisfactory.
- All employees are required to complete annual regulatory compliance training.
- Certain training courses are followed by a knowledge assessment with a minimum passing score.
- A learning management system tracks training course completion.
- A new management training program for new and experienced managers was developed.
- The company requires new employees that were previously with Ditech to complete full, new-hire training despite their prior servicing experience, which we consider a conservative approach.

Systems and technology

SMS employs a combination of vendor-based and proprietary systems. It nearly doubled its technology department staffing during the prior 18 months to support the needs of a larger organization and further its analytics capabilities. In addition to internal IT staff, 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, according to its service-level agreements.

Servicing system applications

Servicing Director® is its primary servicing system, which management indicated is load-tested to handle its growing servicing portfolio. LMS (Loss Mitigation System) 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. These systems provide SMS with a sound technology platform to support its servicing operations and portfolios. In 2018, the borrower-facing website was redesigned. The changes (described further in the Loss Mitigation section) modernized the interface and provide the customer with more information and self-service options. Other key systems used to support the operations include:

- An industry recognized system for its interactive voice response and dialer applications;
- A mobile application for certain clients, with an application in development for SMS-branded loans; and
- A foreclosure and bankruptcy tracking system that provides good capabilities to manage default processes and timelines.

Business continuity and disaster recovery

SMS maintains documented plans to manage disaster recovery and business continuity events. It uses disc backups and data replication between its primary and backup data centers for data recovery. 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 2019, which the company stated resulted in no issues or findings. SMS recently implemented its plan due to the COVID-19 virus. Management reported that there were no material disruptions to the company's operations or data facilities. We also recognize that even though two of the servicing sites are in hurricane-prone areas, the company has a track record of no operational or data facility issues. In addition, its third servicing location further mitigates operational disruption risk.

Cybersecurity

SMS has a security information and event management program to detect and prevent unauthorized access and secure its data and information. Key factors we considered include:

- Intrusion detection mechanisms to monitor network traffic;
- Firewalls, web filters, and anti-malware software;
- Annual penetration testing performed by a third party;
- An annual simulated email phishing exercise;

- Software patching protocols based on criticality; and
- Data protection and loss prevention systems.

Internal controls

The internal control framework includes multiple lines of monitoring and testing to detect risk. Most activities are independent of the servicing operation, reporting to either the chief compliance officer or, in the internal audit department's case, the board of directors. The company utilizes a single system to monitor all identified issues and corrective actions, which provides enterprise-wide visibility to open issues and corrective actions.

Policies and procedures

SMS provides sound administration and governance of content standards, as well as version control of its policies and procedures (P&Ps). The P&Ps are reviewed, at minimum, on an annual basis. A workflow tool is used to facilitate and track the certification process.

Quality assurance (and call monitoring)

The company maintains a formal quality assurance program comprised of in-line monitoring, using exception reports, dashboards, and early detection testing for compliance with procedures and regulatory and investor requirements. There are weekly calibration meetings with business units to address issues discovered from the normal course of oversight.

SMS deployed a new voice analytics technology that allows the company to analyze a high volume of calls for compliance and operational purposes, including ensuring agents provide required disclosures, identifying potential escalation points, and optimizing call-handling practices. A separate team continues to perform traditional call monitoring for phone agents, incorporating intelligence provided by the voice analytics software.

Compliance and quality control

The compliance management system (CMS) is organized to monitor regulatory and investor compliance as well as its change management process. This includes a dedicated quality control team to test key procedures across all of servicing to ensure they are operating as expected and in compliance with regulatory requirements. Similar to quality assurance reporting, the quality control insights are shared with the business departments in weekly and monthly meetings and reported monthly to senior management.

SMS has a capable framework to identify potential changes, disseminate changes to applicable business areas, and monitor updates and corresponding control activities. Additional components of the control environment that we considered in our review include:

- A dedicated change-management team that tracks changes in a database, including process ownership, implementation process milestones, and reporting;
- A new team to monitor recently implemented changes related to high risk practices;
- An industry-recognized audit system that is used for sampling, test scripts, and reporting; and
- Comprehensive quality control testing that occurs on a risk-based frequency, with high risk items tested monthly.

Internal and external audits

The internal audit program continues to develop and season. As an example, SMS implemented a new risk assessment approach that is more analogous to what we commonly see in the industry. The audit department uses the redesigned risk-based approach to determine audit frequency. Audit findings are classified by severity and ultimately determine the overall audit score. Audit issues are tracked in the companywide change-management tracking file. The team also retests corrected issues for sustainability. The majority of internal audit reports that we examined reflected satisfactory results. We discussed any findings that we considered significant with the internal auditor and are satisfied with the status and resolution efforts. SMS' internal monitoring and control activities are supplemented by external SOC1 Type II and Regulation AB audits. The most recent reports available (2019) that we reviewed showed no exceptions that we consider material.

Complaint management

SMS has sound practices to manage and address customer complaints. Complaints are logged and tracked in a database by source and topic. The database is utilized to produce daily and monthly reporting to monitor complaint trends. The team meets monthly with the various departments to review root cause analysis to identify process improvement opportunities. Additional complaint management practices we considered include:

- A designated staff to manage servicing transfer complaints;
- Dedicated resources to handle regulatory complaints;
- A new team that was established in 2018 to address verbal complaints;
- Outgoing calls made on regulatory or escalated complaints, and now verbal complaints;
- A compliance department review of responses to regulatory complaints;
- Monitoring social media for complaints; and
- Resolution of escalated regulatory inquires in an average of nine days, which is similar to peers.

Vendor management

The vendor management department oversees all vendor relationships. SMS implemented software during 2019 to support, among other things, due-diligence work, ongoing oversight routines, and reporting. We view this as positive, as the controls and automation provided by this type of software is often warranted for large servicing operations. Key vendor management components we considered in our analysis include:

- A formal due-diligence framework for prospective vendors;
- A reasonable approach to assessing and assigning vendors a risk rating;
- Annual risk reviews for high risk vendors;
- Documented performance evaluations that are in place to monitor ongoing vendor performance and compliance with its policies;
- Periodic audits to validate performance evaluations; and
- A dedicated team within default operations to monitor default attorney performance.

Insurance and legal proceedings

SMS has represented that its directors and officers as well as its errors and omissions insurance coverage is in line with the requirements of its portfolio size. As of the date of this report, there were no material servicing-related pending litigation items.

Loan Administration – Primary/Special Servicing

The loan administration subrankings are ABOVE AVERAGE for primary and special servicing.

New-loan boarding

We believe SMS has a well-controlled boarding process with experience boarding flow and bulk acquisitions. 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 data validation routines. Key aspects that we considered in our analysis of the loan boarding process include:

- An import tool that automates much of the data mapping work between its system and the prior servicer;
- Automated data testing, such as identifying logical errors in preliminary data;
- Data validation before and after boarding to identify missing, incomplete, or illogical data;
- The review of interest rate terms for all adjustable-rate and step-rate loans before the next change date;
- A pre-boarding customer website for large transfers;
- Address and phone number skip tracing to ensure the accuracy of pre-boarding data; and
- Validation of loss mitigation-related data by the loss mitigation department to ensure corresponding documents are available.

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

- Clients have a dedicated portfolio manager who is supported by an analytical team.
- Before 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 a delegated authority request portal.
- A client portal provides system-based workflow to manage loss mitigation investor approvals.

Payment processing

SMS' payment processing area incorporates appropriate controls to mitigate posting-error risk and to ensure timely payment handling. Key processes and metrics for the cash management operations include:

- A lockbox provider that can resolve exceptions the same day as receipt;
- Additional payment processing staff in the Houston office, which further mitigates business disruption risk;
- An automated suspense sweep function and routines to request business units for posting instructions when required;
- Check imaging before loan boarding to aid in customer service if the customer calls to confirm that a check was received;
- Reports that 26% of SMS' total servicing portfolio is on an automated monthly draft plan, which is in-line with its peer average; and
- A 14% turnover rate in SMS' cashiering area, which is manageable and similar to peers.

Investor reporting

We believe SMS displays good controls over its investor reporting, and remitting and account reconciling functions. The investor reporting team is cross-trained to handle multiple investors. Controls and metrics that factored into our analysis include:

- A largely automated investor reporting process;
- Electronically reporting and remitting to 100% of investors, which is consistent with industry practice;
- A system module that automates some of the reconciliation process;
- Monthly reconciliation of custodial accounts;
- Biweekly meetings with senior management to review any aging items; and
- A good track record of no account reconciliation items aged over 60 days.

Table 3

Portfolio Breakdown By Investor (%)

Investor	Prime	Special
Fannie Mae	53.06	0.00
Freddie Mac	25.44	0.00
Ginnie Mae	14.97	0.00
Mortgage-backed securities investor	2.11	60.83
Portfolio	0.10	0.62
Other investor	4.31	38.55
Total	100.00	100.00

Escrow administration

SMS utilizes industry-recognized vendors to handle the majority if its tax and insurance administration. Its internal escrow team manages the escrow analysis process and exhibits sound oversight practices to monitor the activities of the two vendors. Practices and metrics we considered in our analysis include:

- A newly developed personalized video sent to borrowers to describe the escrow analysis statement;
- Vendor oversight activities such as scorecards and regular meetings to discuss trends and open issues;

- The insurance vendor's 32-second average speed of answer (ASA) and 1.5% abandonment rate, which are good;
- SMS' quality control team, which monitors 30 insurance vendor calls per month;
- Call calibration exercises with the insurance vendor to ensure call behaviors are consistent with expectations;
- An interdepartmental quality assurance team to monitor service levels and production quality;
- Manageable staff turnover within the escrow department;
- Non-reimbursable tax penalties of $0.01, which we consider to be good;
- An escrow shortage spread of up to 60 months depending on the client, which is a positive factor for its special servicing portfolio; and
- Homeowners' association lien monitoring for all loans in super lien states.

Mortgage reconveyance

SMS utilizes multiple vendors to prepare and record lien releases. 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 its peer average.

Special loans administration

Management has appropriate controls in place for the administration of its adjustable-rate mortgage (ARM) and Servicemember Civil Relief Act (SCRA) loan portfolio. This includes, among other things, routine processes to identify loans that may qualify for SCRA benefits as well as checks to verify ARM index value changes in its system.

Customer service

SMS provides borrowers with multiple channels, including a number of self-service options, such as online chat, to address customer inquiries. It continues to expand customer service staff to support the portfolio growth, notably in performing loans. The number of customer service staff expanded by 112% and 66% during 2018 and 2019, respectively. Additional factors we considered in our analysis include:

- A language line available to assist borrowers in non-English languages;
- Text notifications for routine events such as payment received confirmation;
- Call-back technology implemented in early 2020 to limit borrower hold times;
- Customer service call metrics (see table 4) that are competitive with peer averages;
- A voice response unit capture rate of 89%, which we consider good;
- Monitoring a minimum of two calls per month for each customer service call center employee by the quality control team, which is fewer compared to peers;
- Speech analytics software to augment manual call monitoring, which scans all calls for regulatory compliance issues;
- Live call monitoring by quality managers who provide real-time feedback to agents;
- A customer satisfaction survey to identify trends and improvement opportunities; and
- Customer service management and staff turnover of 13% and 36%, respectively (management turnover is

competitive, while staff turnover is elevated relative to the peer averages).

Table 4

Average Speed Of Answer And Abandonment Rate

	Average speed of answer	Abandonment rate (%)
Customer service	47.43	2.96
Collection	47.43	2.96
Loss mitigation	26.38	2.10

Default management

SMS has sound processes and methodologies to engage borrowers and provide solutions to resolve delinquencies and mitigate loss. It also maintains systems and programs to effectively address a high-touch approach needed for special servicing loans. Call campaigns appropriately engage borrowers early in the default cycle or follow loan boarding for NPLs.

The transition rates for loans in the prime and special servicing portfolios that improve in delinquency are mostly better than peer averages. Roll rates from lower to higher delinquent buckets for the prime and special servicing portfolio largely compare favorably to peers.

Tables 5 and 6 show the delinquency rates for the prime and special servicing portfolios, respectively.

Table 5

Prime Delinquency Rates

Year	Total delinquency (%)	30-59 days delinquency (%)	60-89 days delinquency (%)	90+ days delinquency (%)	Bankruptcy (%)	Foreclosure (%)	Real estate owned (no.)
Dec. 31, 2019	4.70	3.12	0.82	0.76	0.81	1.13	2,459
Dec. 31, 2018	4.88	2.48	0.71	1.69	0.91	3.38	47
Dec. 31, 2017	3.30	1.79	0.65	0.86	0.54	1.18	184
Dec. 31, 2016	2.50	1.39	0.48	0.63	0.47	1.23	247
Dec. 31, 2015	1.20	0.45	0.17	0.59	0.49	1.81	180

Table 6

Special Delinquency Rates

Year	Total delinquency (%)	30-59 days delinquency (%)	60-89 days delinquency (%)	90+ days delinquency (%)	Bankruptcy (%)	Foreclosure (%)	Real estate owned (no.)
Dec. 31, 2019	20.88	10.72	5.57	4.59	8.20	17.26	289
Dec. 31, 2018	7.60	3.61	1.46	2.53	1.74	3.73	3,915
Dec. 31, 2017	14.39	4.69	2.75	6.95	4.05	14.45	4,531
Dec. 31, 2016	20.04	6.00	3.55	10.48	6.47	22.03	3,401

Table 6

Special Delinquency Rates (cont.)							
Year	**Total delinquency (%)**	**30-59 days delinquency (%)**	**60-89 days delinquency (%)**	**90+ days delinquency (%)**	**Bankruptcy (%)**	**Foreclosure (%)**	**Real estate owned (no.)**
Dec. 31, 2015	14.10	2.90	1.40	9.80	6.19	23.23	2,669

The default management and staff industry experience averages (see table 7) are largely lower compared to peers. As we previously noted, the lower experience levels are likely attributable to growth. Default management and staff turnover rates are manageable and generally similar to peer averages.

Table 7

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	6.73	2.93	5.56	5.13	1.86	18.25
Loss mitigation	11.63	3.19	14.05	8.15	2.78	14.00
Foreclosure	12.00	2.55	0.00	7.80	2.35	18.09
Bankruptcy	6.85	3.19	6.06	4.33	3.33	10.91
Real estate owned	16.25	3.00	0.00	14.79	4.35	0.00

Collections

The collections team operates in a blended environment which provides efficiencies. It implemented a new dialer system in late 2018 that offers enhanced capabilities such as automated and self-service assisted outreach. Dialer campaign types vary, and manual dialing is also deployed to maximize the probability of right-party contact. Furthermore:

- SMS maintains specialty collections teams and calling campaigns for its special servicing portfolios.
- A risk-scoring model is leveraged to determine calling strategy and allocate more resources to higher-risk loans.
- The 67% promise-to-pay success rate for the 30-plus-day delinquent loans, which is in-line with peers.
- Controls and technology are in place to mitigate Telephone Consumer Protection Act risk, including an interactive voice response system to capture borrower consent.
- A minimum of two calls per month are monitored for each collections agent, which is fewer compared to peers. As previously noted and similar to customer service calls, manual call monitoring is augmented with speech analytics software that scans all calls for regulatory compliance issues.
- The collections ASA and abandonment rates (see table 4) compare favorably to peer averages.

Loss mitigation

The loss mitigation area utilizes a complementary approach of a high-touch strategy and technology. Its organizational structure allows it to operate efficiently with specialized staff to concentrate on loss mitigation application and underwriting complexities.

Its Loss Mitigation System provides a solutions menu based on investor rules and customer eligibility, while negotiators can offer solutions other than the recommended ones to better fit the situation and give borrowers a better chance to succeed. A redesigned website provides functionality that allows customers to initiate a loan modification request, which then provides a preliminary determination in real-time. Additionally, borrowers can upload documents, see specific items that may be missing, see the status of the review, and make trial payments online. This self-service functionality could reduce the loss mitigation review time and potentially increase pull-through, which have tangible benefits for SMS and investors.

We considered the following controls and metrics in our analysis:

- Investor rules are managed within the loss mitigation system.
- All approved deals are reviewed by a supervisor.
- Loss mitigation ASA and abandonment rates are 26 seconds and 2.10%, respectively. Both are improved since our last review and compare favorably to peers.
- SMS monitors a minimum of two loss mitigation calls per month for each employee. Similar to collections and customer service, speech analytics software scans all loss mitigation calls for regulatory compliance.
- Mortgage assistance application tracking is managed through the loss mitigation system, mitigating the risk of dropped files.
- The system has built-in approval controls based on loss mitigation terms.
- Quality control checks are in place to review loss mitigation agreement documents before they are mailed, and again when SMS receives the returned agreement documents.

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;
- Borrowers' ability to make trial payments online;
- Management of portfolio performance metrics to drive engagement and workouts;
- An average of 13 and 16 days to loss mitigation decisions for the prime and special servicing portfolios, respectively; both of which are favorable to peers;
- Skip trace efforts using multiple sources;
- Workout solutions that include streamline modifications and a proprietary modification waterfall;
- Net present value as a factor in its decision model; and
- Foreclosure cure rates for its prime and special servicing loans of 34% and 42%, respectively; both of which are better than peer averages.

Table 8 shows the loss mitigation breakdown.

Table 8

Loss Mitigation Breakdown (%)

Resolution type	Prime	Special
Deed-in-lieu	1.47	1.72
Short sale	0.00	0.00
Repayment plan	31.26	35.14
Modification	25.83	26.78
Forbearance plan	7.66	1.72
Other	33.65	34.64
Total(i)	99.87	100.00

(i)Total may not equal 100% due to rounding.

Foreclosure and bankruptcy

The pre-foreclosure review process focuses on loan history and collateral documents, ensuring that all investor and regulatory requirements are met. As the portfolio size increased, the foreclosure area re-organized to create separate groups based on specialized tasks. This specialization is common among larger servicers that we rank, as it typically increases operational efficiencies. Attorney communication and tracking is facilitated through Black Knight Financial Services' LoanSphere. SMS established an in-line quality assurance team within the department. As an added level of monitoring, a dedicated performance manager monitors all foreclosure holds.

The bankruptcy team utilizes a proprietary case management system with an interactive user interface that provides relevant loan-level data, open tasks, and key milestones in a well-organized format. The system workflow is task-driven based on key milestones. We considered the following bankruptcy administration processes, controls, and metrics:

- SMS has multiple channels to detect new filings and monitor cases for status changes.
- The case management team manages the timeline throughout the process.
- SMS reported that no proofs of claim were rejected and that it had a minimal dispute rate; both are in-line with peers.
- An attorney network now prepares the proofs of claim.
- An interdepartmental quality assurance team reviews bankruptcy documents before they are filed.

A dedicated team monitors the default attorney network and measures performance using a 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.

Real estate owned

The real estate owned (REO) area has appropriate procedures and technology in place to manage the REO inventory. A new director with solid industry experience leads the department as a replacement for the predecessor that left the organization. The REO department is organized into custom and standard teams, with the former handling assets that have unique investor requirements for asset disposition. The REO inventory declined 31% year over year (see tables 5 and 6) as the portfolio mix shifts toward agency loans. Key REO processes, resources, and performance metrics include:

- An on-staff appraiser to enhance property valuation quality;
- Experience utilizing online auctions as a disposition channel;
- A licensed general contractor on staff to review repair analyses;
- Asset managers who utilize virtual walk-throughs for all properties to better assess the property condition;
- A gross sale-to-market value ratio average of 102% for prime loans and 85% for special servicing loans; and
- A net present value analysis incorporated into SMS' decision model to determine the disposition strategy, including rehabilitation.

Financial Position

The financial position is SUFFICIENT.

Related Research

- Shellpoint Mortgage Servicing ABOVE AVERAGE Residential Primary And Special Servicer Rankings Affirmed; Outlooks Stable, March 17, 2020
- Select Servicer List, Feb. 6, 2020
- Analytical Approach: Global Servicer Evaluations Rankings, Jan. 7, 2019
- Servicer Evaluation: Shellpoint Mortgage Servicing, July 20, 2018