

FITCH UPGRADES SHELLPOINT MORTGAGE SERVICING'S U.S. RMBS SERVICER RATINGS

Fitch Ratings, New York, 26 November 2019: Fitch Ratings has upgraded the following U.S. residential mortgage servicer ratings for Shellpoint Mortgage Servicing (SMS), an indirect subsidiary of New Residential Investment Corp. as follows:

- U.S. residential primary servicer rating for prime product to 'RPS2-' from 'RPS3+';
- U.S. residential special servicer rating to 'RSS2-' from 'RSS3+'.

The Rating Outlook is Stable.

Shellpoint's upgraded ratings and Stable Outlook reflect the company's ongoing platform improvements, tenured management team, and service-performance levels. The company has embarked on an aggressive growth strategy during the past 24 months, including the October 2 acquisition of the forward mortgage business of Ditech Financial by New Residential. The Ditech acquisition represents an aggregate unpaid principal balance of \$62 billion, as of Aug. 31, 2019, consisting of approximately 620,000 loans. As part of the acquisition, SMS will transfer all Ditech mortgage loans from the Black Knight Financial Services MSP system to Finastra's Servicing Director system, which is used by SMS. In addition, SMS will retain Ditech's Tempe, AZ servicing location as well as 600 of its employees.

The onboarding of loans and Ditech employees is scheduled to occur in five phases, beginning in October 2019 and continuing through March 2020. While the SMS management team has significant industry tenure and experience in mergers and acquisitions, a servicing portfolio transfer of this size can present the potential for service level disruption. However, SMS management has identified synergies (such as using many common vendors) and best practices that could serve to support a smooth transition.

SMS employs an effective enterprise-wide compliance management system consisting of quality assurance, quality control, complaint management, and internal audit. A review of the company's internal audits during an 18-month period revealed satisfactory results overall with a few opportunities for improvement noted. The quality assurance process was found to be sufficiently robust, and the company's Regulation AB report indicated no instance of material noncompliance.

A review of SMS' loan-servicing performance metrics indicate competitive performance overall. Key risk areas in escrow administration, customer relationship management, and default administration revealed performance that is commensurate with industry averages and best practices. SMS services loans from over 150 securitizations and currently adds about five new securitizations monthly.

Since Fitch's last review, the company bifurcated its servicing division between conforming loan servicing for its parent (New Residential) and third-party clients and delinquent loan servicing. The company has enhanced its website with pre-qualification capabilities for homeowners and it is developing additional loss-mitigation functionality for its website, including smartphone application integration for photographing or scanning borrower documents, E-signature capabilities to facilitate modification bookings, and instructional videos.

SMS has a satisfactory technology environment, anchored by Finastra's Servicing Director system and ancillary proprietary software and licensed applications. The company has a multi-tiered disaster recovery and business continuity plan in place that includes a pandemic contingency

provision. Its newly-acquired third servicing location in Tempe, AZ, will provide additional geographic business diversity, including access to regional employment markets, extended hours of operation in multiple time zones, and enhanced business-recovery options.

The U.S. regulatory landscape for servicers has undergone significant change 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.

SMS is headquartered in Greenville, SC, with additional locations in Houston, TX and Tempe, AZ. As of June 30, 2019, SMS serviced 716,000 loans with an unpaid principal balance of \$159 billion.

Fitch rates residential mortgage primary, master, and special servicers on a scale of 1 to 5, with 1 being the highest rating. Within some of these rating levels, Fitch further differentiates ratings by plus (+) and minus (-) as well as the flat rating. For more information on Fitch's residential servicer rating program, please see Fitch's report, "Criteria for Rating U.S. Residential and Small Balance Commercial Mortgage Service," dated February 2017 and available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Criteria for Rating Loan Servicers (pub. 23 Feb 2017)

<https://www.fitchratings.com/site/re/894073>

Criteria for Rating U.S. and Canadian Residential and Small Balance Commercial Mortgage Servicers (pub. 23 Feb 2017)

<https://www.fitchratings.com/site/re/894072>

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