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Servicer Evaluation: Shellpoint Mortgage Servicing

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Table Of Contents

Rationale

Profile

Management And Organization

Loan Administration – Primary And Special Servicing

Financial Position

Related Research

Servicer Evaluation: Shellpoint Mortgage Servicing

Ranking Overview

| Servicing Category | Overall Ranking | Subrankings | | |
|---------------------|-----------------|-----------------------------|---------------------|---------|
| | | 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 (Shellpoint, or The Company), a division of Newrez LLC (Newrez), are ABOVE AVERAGE as a residential mortgage loan primary and special servicer. On Jan. 25, 2022, we affirmed the rankings (please see "Shellpoint Mortgage Servicing Residential Mortgage Primary, Special Servicer Rankings Affirmed; Ranking Outlooks Stable"). The ranking outlook is stable for each ranking.

Our rankings reflect Shellpoint's:

- Well-experienced senior leadership team, while middle management exhibits lower experience averages compared to peers.
- Continued commitment to its range of recruiting strategies, its sound new-hire training program, and focus on staff development.
- Solid internal control framework with multiple lines of defense that include independent oversight and testing as well as dedicated quality assurance (QA) monitoring within some business units.
- Effective technology to support its performing and special servicing operations.
- Advanced functionality provided by its loss mitigation systems that includes rules-controlled workflows and the capability to provide self-service loan modification determinations.
- Continued focus on special servicing strategies to engage borrowers and resolve non-performing loans.
- Servicing performance metrics that are generally competitive with peers that we monitor.

Since our prior review (see "Servicer Evaluation: Shellpoint Mortgage Servicing," published April 1, 2020), the following changes and/or developments have occurred:

- Following the COVID-19 pandemic, Shellpoint transitioned to a remote work environment and developed a work from home optimization playbook to maximize productivity.
- Shellpoint implemented enhancements to its interactive voice response (IVR) system and borrower website to add functionality such as enabling borrowers to request or extend a COVID-19 forbearance plan and make the applicable system updates.

- It made enhancements to its recruiting program such as establishing a new internship program and implementing assessments to evaluate new-hire candidates' suitability for the role.
- It enhanced its systems to automatically import complaints from the borrower website into the complaint tracking database.
- It added an additional senior leader to the customer service area, increased customer service staff, and added a vendor to handle certain calls during times of peak volume.
- It enhanced its call center infrastructure with a new telephony system and a new customer relationship management system to improve agent efficiency.
- It implemented virtual hold technology to manage service levels during periods of high call volume.
- It expanded the website functionality to present borrowers with a loan modification offer in real-time in cases where documentation is not required.
- It transitioned the handling of property tax related calls to its tax vendor.

The ranking outlook is stable for each ranking. The stable outlooks reflect our base-case expectation that Shellpoint will continue to perform as an effective primary and special servicer. Our last review of Shellpoint noted the significant growth in the servicing portfolio and the investments to support its significantly larger servicing portfolio, notably in staffing and technology. Its experienced senior leadership team continues to invest strategically in infrastructure and develop default strategies, with a focus on automation and the borrower experience. It largely maintained its servicing performance metrics during that time, and we expect that to continue. We also expect Shellpoint to maintain its strategies and capabilities to effectively service its special servicing portfolio.

In addition to conducting a virtual meeting with servicing management, our review includes current and historical Servicer Evaluation Analytical Methodology data through June 30, 2021, as well as other supporting documentation provided by the company.

Profile

| Servicer Profile | |
|----------------------------|-------------------------------|
| Servicer name | Shellpoint Mortgage Servicing |
| Primary servicing location | Greenville, S.C. |
| Parent holding company | Shellpoint Partners LLC |
| Loan servicing system | Servicing Director® |

Shellpoint operates as a division of Newrez, which is a subsidiary of Shellpoint Partners LLC. In 2018, New Residential Investment Corp. (NRZ) acquired Shellpoint Partners LLC and all subsidiaries, including Shellpoint. Shellpoint's core business is servicing loans originated by Newrez, as well as servicing performing, re-performing (RPL), and nonperforming loans (NPLs) for its third-party servicing clients. It is an approved Freddie Mac, Fannie Mae, and Ginnie Mae servicer. Shellpoint has three servicing sites, with its main office in Greenville, S.C., a second in Houston, and a third site in Tempe, Ariz. There is also a small staff presence in Jacksonville, Fla.

Shellpoint has a total servicing portfolio of approximately 1.7 million loans with an unpaid principal balance (UPB) of \$320.5 billion as of Nov. 30, 2021. The servicing portfolio is geographically distributed across multiple states, which largely limits the concentration risk (see table 2). The primary portfolio growth drivers are Newrez originations, bulk transfers of NRZ mortgage servicing rights, and growth in Shellpoint's third-party business. Our residential primary and special servicer rankings focus on its processes and controls for its residential prime and special servicing portfolios (see table 1). On Aug. 23, 2021, NRZ announced that it completed its acquisition of Caliber Home Loans Inc. (Caliber), which also includes Caliber's servicing business. Management indicated it expects to continue to operate the Caliber servicing platform with no material operational integration or consolidation with Shellpoint at this time (see "Servicer Evaluation: Caliber Home Loans Inc.," published March 22, 2021).

Table 1

| Portfolio Volume | | | | |
|-------------------------|--------------------|-------------------------|--------------------|-------------------------|
| | Prime | | Special | |
| | Units (no.) | Volume (mil. \$) | Units (no.) | Volume (mil. \$) |
| June 30, 2021(i) | 25,279 | 7,150.39 | 905,687 | 137,500.06 |
| Dec. 31, 2020(i) | 18,912 | 5,205.97 | 1,364,547 | 228,553.54 |
| 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 | 19,248 | 130,038 | 33,478 |

(i)The volume change illustrated is mostly a function of the company's reclassification of the servicing type as opposed to a reduction in volume.

Table 2

| Portfolio Distribution By State | | | | | | |
|--|------------------------|------------------|-------------------------------------|------------------------|------------------|-------------------------------------|
| | Prime | | | Special | | |
| | Top five states | Units (%) | Unpaid principal balance (%) | Top five states | Units (%) | Unpaid principal balance (%) |
| California | 14.59 | 21.37 | California | 12.87 | 19.47 | |
| Florida | 8.52 | 7.85 | Florida | 8.29 | 7.70 | |
| Texas | 7.33 | 6.62 | Texas | 6.86 | 5.63 | |
| New Jersey | 4.67 | 5.39 | New York | 4.90 | 6.19 | |
| Georgia | 4.43 | 3.98 | New Jersey | 4.37 | 5.38 | |
| Other | 60.24 | 54.62 | Other | 62.59 | 55.58 | |
| Total(i) | 99.78 | 99.83 | Total | 99.88 | 99.95 | |

(i)Totals do not sum to 100% due to rounding.

Management And Organization

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

Organizational structure, staff, and turnover

Shellpoint's management team and staff exhibit solid levels of industry experience. Company tenure levels are adequate and, similar to of our last review, largely reflect a company that is expanding its management depth. The overall management turnover level has remained stable, and we consider it good. Furthermore:

- Senior management averages 20 years' industry experience and nine years of tenure with the company, both of which are generally in the range of peer averages.
- Middle managers have an average of five years of industry experience and company tenure, which are lower than peers.
- Overall management turnover is 7%, which is similar to its peer average.
- The company announced that the president and CEO transitioned to a vice chairman role. A well-experienced senior leader within the company will take over as president and lead the servicing organization.

We believe the organizational structure effectively addresses operational needs for the size of the servicing portfolio. Shellpoint has separate performing servicing, special servicing, and servicing operations divisions. This allows separate executives that lead the respective divisions to focus on performing loan administration and default functions, respectively.

The overall staff turnover rate of 28% is manageable, although it is higher than the peer average. Following significant staffing increases during 2018 and 2019, overall staff count has largely remained stable with a marginal reduction during the first half of 2021 as the company navigated industry cross currents. Since our last review, the company added staff in compliance and other internal control areas and also expanded middle management depth in multiple areas such as bankruptcy, foreclosure, and customer service. Management indicated it has or has access to space available to expand staff in all offices should the need arise.

Training

Shellpoint has a sound training program to acclimate new hires to their roles and promote the continuing development of existing employees. The company also has an effective approach to recruiting new staff, which is critical for large servicing organizations. Among other things, recruiters leverage relationships with local colleges to tap undergraduate and post-graduate programs as well as sponsored events and job fairs to accelerate hiring to meet staffing needs. Other training factors we considered in our analysis include the following:

- Like many servicers we rank, Shellpoint transitioned to a virtual training environment due to the COVID-19 pandemic.
- It developed a work from home playbook to promote productivity.
- Trainers sit in all servicing sites, with dedicated trainers for larger departments, including its customer-facing areas.
- There are dedicated trainers in certain areas to support the increased number of employees.
- A learning management system tracks training course completion.
- The total training hours for new customer-facing employees (160 hours for customer service and collections and 240 hours for single points of contact [SPOCs]) 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 management training program for new and experienced managers.
- It implemented an internship program in 2021 for college students that provides industry (servicing) experience,

which can be used as a recruitment tool.

Systems and technology

Shellpoint employs a combination of vendor-based and proprietary systems, which effectively support the servicing operation. It continued its trend of adding IT staff to support the needs of a larger organization, including in application development and maintenance, and furthering 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 infrastructure 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 servicing system, which management indicated is load-tested to handle a larger servicing portfolio. 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. These systems provide Shellpoint with a sound technology platform to support its primary and special servicing portfolios. It implemented LMS and website enhancements (described further in the Loss Mitigation section) to further the information and self-service options available to borrowers. Other key systems used to support the operations include:

- A new industry-recognized telephony solution for its call routing, IVR, and dialer applications that Shellpoint transitioned to in October 2021;
- A foreclosure and bankruptcy tracking system that provides good capabilities to manage default processes and timelines;
- A borrower website that provides self-service options for common requests along with loss mitigation processing (described further in the Loss Mitigation section); and
- A mobile application for certain clients.

Business continuity and disaster recovery

Shellpoint maintains documented plans to manage disaster recovery and business continuity events. The business continuity plan is refreshed at least annually. The company most recently implemented the plan due to the COVID-19 pandemic. It uses data replication between its primary and backup data centers and disc backups for data recovery. The data centers are in separate states, and the disc backups are stored offsite.

Disaster recovery tests are performed annually with the most recent test completed in August 2021. The company indicated there were no issues or findings. 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, most functions are redundant across sites, and its third servicing location further mitigates operational disruption risk.

Cybersecurity

Shellpoint has a security information and event management program to secure its data and information and detect and mitigate risk of unauthorized access. Key factors we considered include:

- Intrusion detection mechanisms to monitor network traffic;
- Firewalls, web filters, and anti-malware software;
- A security information and event management application to triage and manage threats;
- Semi-annual penetration testing performed by a third party;
- Annual information security training for all employees, although we note there are no targeted email phishing exercises which we commonly see among similarly ranked servicers;
- Software patching protocols based on criticality;
- Data protection and loss prevention systems; and
- It completed a cyber incident response exercise to test its response to a cybersecurity event.

Internal controls

The company has a sound internal control framework that 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

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

QA and call monitoring

It maintains a formal QA program comprised of in-line monitoring of key compliance indicators (KCIs) and early detection testing for compliance with procedures and regulatory and investor requirements. It uses exception-based dashboards that present KCI's and a proprietary audit tool to facilitate and track QA testing. All exceptions are reviewed by a separate group. Shellpoint also incorporated targeted QA reviews specific to COVID-19 that focus on compliance with CARES Act and investor requirements. There are weekly calibration meetings with business units to address issues discovered from the normal course of oversight.

Shellpoint uses a voice analytics technology to analyze all calls for compliance and operational purposes, including ensuring agents provide required disclosures, identifying potential escalation points, and optimizing call-handling practices. All flagged exceptions are reviewed. A separate team continues to perform traditional call monitoring for phone agents, incorporating intelligence provided by the voice analytics software. Shellpoint performs traditional complete call monitoring on a minimum of four calls monthly for each agent.

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 quality control team to test key procedures across all of servicing to ensure they are operating as expected and in compliance with regulatory requirements.

Shellpoint has a capable framework to identify potential changes, disseminate changes to applicable business areas,

and monitor updates and corresponding control activities. Key components that we considered in our review include:

- Systems to identify regulatory and investor changes and disseminate change information affected business units;
- A dedicated change-management team that tracks changes in a database, including process ownership, implementation process milestones, and reporting;
- A QA team to monitor the sustainability of recently implemented changes related to high-risk practices;
- Comprehensive quality control testing that occurs on a risk-based frequency, with high-risk processes tested monthly and others quarterly at minimum;
- An industry-recognized audit system that is used for quality control sampling, test scripts, and reporting; and
- The quality control results, which are shared with the business departments in weekly and monthly meetings and reported monthly to the risk management committee.

Internal and external audits

The internal audit department reports to the board of directors and performs traditional internal audits of the servicing operation. The audit team is satisfactorily credentialed with many auditors attaining industry-recognized audit certifications. The audit team performs independent risk assessments that drive its audit plan. Additional internal audit components we factored in our analysis include the following:

- It performs a risk assessment of auditable entities each year.
- High-risk areas are audited annually, moderate risk every two years, and low risk every three years.
- Audit findings are classified by severity and ultimately determine the overall audit score.
- Audit issues are tracked in the companywide change-management tracking file.
- Audit results are presented to the board quarterly.
- The audit team performs validation testing for sustainability of corrective actions.

The majority of internal audit reports that we examined reflected satisfactory results. We discussed two audits with findings that we considered significant with the internal auditor and are satisfied with the status and resolution efforts. Shellpoint's internal monitoring and control activities are supplemented by external SOC1 Type II and Regulation AB audits. The most recent reports available (2020) that we reviewed showed no exceptions that we consider material.

Complaint management

Shellpoint has sound practices to manage and address customer complaints. Complaints are logged and tracked in a database by source and topic. Since our last review, it enhanced the borrower portal to allow complaints from the borrower portal to import directly to the tracking database which improves efficiency. Management indicated that most complaints are received via the borrower portal, and the enhancement improved its overall response time.

In our view, complaint data and trends are appropriately reported to the business units and senior management. There are daily and monthly reporting to monitor complaint trends. The team meets monthly with the various departments to review root cause analyses to identify process improvement opportunities. Additional complaint management practices we considered include:

- Designated specialists to manage servicing transfer complaints;
- Dedicated resources to handle regulatory complaints;
- A dedicated team to address verbal complaints;
- Outgoing calls made on regulatory or escalated complaints and verbal complaints;
- A quality review of responses to regulatory complaints; and
- Social media complaint monitoring.

Shellpoint reported that it acknowledges Real Estate Settlement Procedures Act complaints within an average of one day of receipt and resolves those complaints within an average of nine days. The average resolution time has improved year over year and is similar to the peer average.

Vendor management

The vendor management department oversees procurement and performance of all vendor relationships. Shellpoint uses a vendor management software to manage, among other things, due-diligence assessments, ongoing oversight routines, and reporting. In our view, the controls and automation provided by this type of software is often warranted for large servicing operations. Furthermore:

- There is a formal due-diligence framework for prospective vendors;
- Shellpoint maintains a reasonable approach to assessing and assigning vendors a risk rating;
- Shellpoint performs annual audits for high and moderate-risk vendors;
- Documented performance evaluations (typically monthly for default attorney and other high risk tier vendors) are in place to monitor ongoing vendor performance and compliance with its policies;
- There are periodic reviews by the vendor management department of high-risk audits to validate performance evaluations. The reviews are performed by the vendor management team and documented in the system; and
- A dedicated team within default operations monitor default attorney performance.

Shellpoint performs on-site reviews for high and moderate risk non-attorney vendors as well as for default attorney vendors when issues are identified during remote reviews. We note that we typically see annual onsite reviews on a scheduled basis for high-risk vendors among similarly and higher ranked servicers.

Insurance and legal proceedings

Shellpoint 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 And Special Servicing

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

New-loan boarding

We believe Shellpoint has a well-controlled boarding process with solid 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 and coordinate with various business units for data validation. Since 2019, Shellpoint increased staff on its respective acquisitions and data teams to manage increased transaction frequency and volume since that time. Key aspects that we considered in our analysis of the loan boarding process include:

- 100% of loans boarded electronically;
- An import tool that automates much of the data mapping work between its system and the prior servicer;
- Data reviews before and after boarding to identify missing, incomplete, or illogical data;
- Automated data testing, such as identifying logical errors in preliminary data;
- A system-data to document review of mortgage insurance data;
- A system data to document review of interest rate terms for all adjustable-rate and step-rate loans before the next change date;
- Address and phone number skip tracing to ensure the accuracy of pre-boarding data;
- A pre-boarding customer website for bulk transfers; and
- A review of loss mitigation-related data by the loss mitigation department to ensure in-flight loss mitigation activity is accurately reflected in its system and corresponding documents are available.

A portfolio management team serves as client liaisons to oversee the respective portfolios and ensures the client's servicing strategies are operationalized. A newly established control team focuses on resolving operational issues raised by a client. In response to the COVID-19 pandemic, the portfolio management team established a menu of strategies to offer clients to manage loans affected by the COVID-19 pandemic. It also provided pertinent portfolio performance and forbearance plan performance reporting to clients. 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.
- Shellpoint makes portfolio and loan level data and reports available to clients through its proprietary client portal.
- The client portal provides system-based workflow to manage loss mitigation investor approvals.

Payment processing

Shellpoint's 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;
- Payment processing staff in two servicing sites, 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 23% of Shellpoint's total servicing portfolio is on an automated monthly draft plan, which is in line with its peer average; and
- A 19% turnover rate in Shellpoint's cashing area, which is higher relative to the peer average.

Investor reporting

We believe Shellpoint displays good controls over its investor reporting and remitting and account reconciling functions. The investor reporting team is cross-trained to handle multiple investors (see table 3). Since our last review, Shellpoint increased staffing and implemented new systems to automate accounting and reconciliation processes to manage reporting and accounting for its larger portfolio. Among the staffing additions is a new team to review and approve bank reconciliations. 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;
- Monthly reconciliation of custodial accounts;
- A system that mostly automates the monthly account reconciliation process;
- Alerts for incomplete items approaching timelines and service level monitoring for key activities;
- Biweekly meetings with senior management to review any aging open account reconciling items; and
- An investor account staff turnover rate of 7%, which is good and compares favorably to the peer average.

Shellpoint reported a significant increase in the number and dollar amount of open account reconciliation items aged over 60 and 90 days. The number of aged open items is higher than we typically see, and both age categories are higher than peers. Management indicated this is largely related to the volume of COVID-19-related loss mitigation activity, such as payment deferrals. We will continue to monitor the resolution progress.

Table 3

| Portfolio Breakdown By Investor (Units %) | | |
|---|--------|---------|
| Investor | Prime | Special |
| Fannie Mae | 7.58 | 67.97 |
| Freddie Mac | 0.01 | 32.01 |
| Ginnie Mae | 22.67 | 0.00 |
| Mortgage-backed securities investor | 32.74 | 0.00 |
| Portfolio | 0.28 | 0.00 |
| Other investor | 36.72 | 0.02 |
| Total | 100.00 | 100.00 |

Escrow administration

Shellpoint uses industry-recognized vendors to handle the majority of its tax and insurance administration. In late 2020, it transitioned handling of tax-related calls to its tax vendor. 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:

- The insurance vendor's 37-second average speed of answer (ASA) and 2.5% abandonment rate, which are solid;
- A personalized video sent to borrowers to describe the escrow analysis statement;
- An interdepartmental QA team to monitor service levels and production quality;
- Vendor oversight activities such as scorecards and regular meetings to discuss trends and open issues;
- Call calibration exercises with the tax and insurance vendors to ensure call behaviors are consistent with expectations;
- Manageable staff turnover within the escrow department;
- Reported non-reimbursable tax penalties of \$0.08 per loan, which is higher compared to peers;
- 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.

Similar to many servicers that we rank, mortgage insurance is managed in the escrow department. In early 2021, it established a team responsible for ensuring mortgage insurance data and any loan data that affects mortgage insurance is accurate, which we view as a positive factor.

Mortgage reconveyance

We believe that Shellpoint's mortgage reconveyance processes are effectively controlled. It uses two vendors to prepare and record lien releases, largely mitigating disruption risk. Shellpoint uses multiple vendors, allowing it to handle volume fluctuations, especially sudden spikes in payoffs that are common in low interest rate environments. 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. For adjustable-rate loans, staff perform dual verifications to confirm that the indices are correctly input into the system. The portfolio is reviewed monthly to identify loans that may qualify for SCRA benefits. There are also multiple reviews performed before foreclosure referral and sale.

Customer service

Shellpoint maintains efficient operations to manage customer inquiries through multiple contact channels, including self-service options and online chat. Since our last review, Shellpoint bolstered its customer service infrastructure to support its portfolio growth, notably in performing loans. It added a senior leader and meaningfully expanded customer service staff during 2019 and 2020. It engaged a domestic vendor as an outlet to handle the most basic

borrower inquiries during call volume spikes. In mid-2021, it also implemented a customer relationship management software to improve call handing efficiency. Additional factors we considered in our analysis include:

- Multiple call center sites that provide geographic time zone coverage and improve call center operational resilience.
- Hours of operation provide coverage across time zones.
- A language line available to assist borrowers in non-English languages;
- Text and website notifications for routine events such as payment received confirmation and new documents sent;
- Call-back (virtual hold) technology implemented in early 2020 to limit borrower hold times;
- Internal customer service call metrics (see table 4) that compare favorably to peer averages;
- Vendor call ASA and abandonment rate (ABA) of 35 seconds and 2%, respectively, which are better than that of peers.
- A voice response unit capture rate of 47%;
- A customer satisfaction survey to identify trends and improvement opportunities; and
- Customer service management and staff turnover of 6% and 53%, respectively (management turnover is competitive, while staff turnover is high relative to the peer averages).

Furthermore, Shellpoint performs traditional complete call monitoring on a minimum of four calls per month for each customer service call center employee, which is fewer than the peer average. Shellpoint augments its traditional call monitoring with speech analytics software that scans all calls for regulatory compliance issues and other required disclosures. Quality managers also perform live call monitoring and provide performance feedback to agents and their supervisors.

Table 4

| Average Speed Of Answer And Abandonment Rate | | |
|--|-----------------------------------|----------------------|
| | Average speed of answer (seconds) | Abandonment rate (%) |
| Customer service | 27.20 | 1.29 |
| Collection | 41.83 | 2.34 |
| Loss mitigation | 46.77 | 0.33 |

Default management

Shellpoint has sound practices to engage borrowers, resolve delinquencies, and mitigate loss with a range of technology to effectively manage loans through the default cycle. It also maintains systems and programs to effectively address a high-touch approach needed for special servicing loans including RPLs and NPLs.

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.) | |
| June 30, 2021 | 1.18 | 0.59 | 0.15 | 0.44 | 0.27 | 0.29 | 25 | |
| Dec. 31, 2020 | 1.09 | 0.26 | 0.14 | 0.69 | 0.69 | 1.17 | 23 | |
| 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 | |

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.) | |
| June 30, 2021 | 4.29 | 1.29 | 0.34 | 2.67 | 0.60 | 1.07 | 1,105 | |
| Dec. 31, 2020 | 7.12 | 2.31 | 0.76 | 4.05 | 0.74 | 1.08 | 1,499 | |
| 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 | |

We believe the default management team has a generally satisfactory management industry experience. Averages (see table 7) are largely similar to peers in foreclosure and bankruptcy and favorable in real estate-owned (REO).

Collections and loss mitigation management experience were lower relative to their peer averages.

Shellpoint added significant staffing in its collections and loss mitigation departments to support portfolio growth and manage the high volume of COVID-19-impacted borrowers. It increased loss mitigation staff by 17% since 2020 and collections staff by 57% during the same period. Staff industry experience averages are in the general range of peer averages, except for REO staff, which compare favorably. As we previously noted, the lower experience levels shown in table 7 are likely attributable to company growth. Default management and staff turnover rates remain manageable although collections and REO staff and foreclosure and REO management turnover rates are high compared to peer averages.

Table 7

| Default Management 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 | 6.00 | 4.00 | 6.45 | 6.70 | 2.00 | 28.09 | |
| Loss mitigation | 11.50 | 4.36 | 12.60 | 9.50 | 2.13 | 11.54 | |
| Foreclosure | 14.00 | 3.00 | 12.12 | 9.00 | 2.00 | 12.59 | |
| Bankruptcy | 11.60 | 2.94 | 0.00 | 7.06 | 2.15 | 8.57 | |
| Real estate owned | 22.00 | 10.35 | 18.18 | 17.20 | 11.12 | 16.67 | |

Collections

The collections team's primary duty is outbound calls, although it will use a blended strategy when inbound call volume necessitates. Dialer campaign types vary, and manual dialing is also deployed to maximize the probability of right-party contact. Loans, including RPLs and NPLs, are assigned a risk profile at time of boarding based on loan history. A risk-scoring model that factors the loan profile and other risk indicators is used to determine calling strategy and allocate more resources to higher-risk loans. Furthermore:

- Shellpoint maintains specialty collections teams and calling campaigns for its special servicing portfolios.
- The risk score is refreshed monthly.
- The promise-to-pay success rate for the 30-plus-day delinquent loan is 58%, which is lower relative to the peer average.
- Controls and technology are in place to mitigate Telephone Consumer Protection Act risk, including an interactive voice response system to capture borrower consent and manual calling to borrower cell phones where it lacks consent allowing the use of dialer technology.
- A minimum of four calls per month are monitored for each collections agent, which is fewer than that of 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.
- We consider the collections ASA and abandonment rates (see table 4) solid, and they are similar 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. Its website allows customers to initiate a loan modification request, which then provides a preliminary determination, and in some cases where documents are not required, an offer 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 Shellpoint and investors.

We also considered the following practices and metrics in our analysis:

- There are dedicated loss mitigation trainers.
- We consider its average SPOC active caseload to be manageable.
- Investor rules are managed within the loss mitigation system.
- 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.
- All underwriter-approved deals are reviewed by a supervisor, and denials, including income calculations, receive a second-look review by a separate team.
- Quality control checks are in place to review loss mitigation agreement documents before they are mailed and again when Shellpoint receives the returned agreement documents.
- Loss mitigation ASA and abandonment rates are 47 seconds 0.3%, respectively. Both compare favorably to peers.
- Shellpoint monitors a minimum of three 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.

Shellpoint has a proactive loss mitigation philosophy designed to engage the borrower early and execute the most effective workout to mitigate losses. In response to the COVID-19 pandemic, the company made enhancements to its website and IVR to automate the intake and processing of forbearance plan requests and extensions. The enhancements provide borrowers self-service options to initiate and manage their forbearance plan. It also used outbound IVR to provide forbearance plan status and allow borrowers to request extensions or initiate an exit.

Strategies and metrics that we considered include:

- Virtual outreach events to meet and engage with borrowers during the pandemic.
- SPOCs that can perform asset searches and initiate skip tracing when needed.
- Door-knock strategies for un-engaged borrowers.
- Outbound IVR technology to contact borrowers on forbearance plans and notify borrowers of streamline modification offers.
- Text messaging and email reminders to borrowers.
- Personalized videos to explain the approved loss mitigation workout.
- A program to use online auctions to maximize returns on short sales, which we view as an innovative strategy.
- Net present value as a factor in its decision model.
- Borrowers' ability to make trial payments online.
- An average of 17 and 13 days to loss mitigation decisions for the prime and special servicing portfolios, respectively; the former is longer than peers while the latter compares favorably.

- Management of portfolio performance metrics to drive engagement and workouts.

Table 8 shows the loss mitigation breakdown.

Table 8

| Loss Mitigation Breakdown (%) | | |
|-------------------------------|--------|---------|
| Resolution type | Prime | Special |
| Deed-in-lieu | 0.00 | 0.14 |
| Short sale | 0.42 | 0.23 |
| Repayment plan | 0.42 | 1.14 |
| Modification | 63.96 | 6.06 |
| Forbearance plan | 32.60 | 36.80 |
| Other | 2.60 | 55.62 |
| Total(i) | 100.00 | 99.99 |

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

Foreclosure and bankruptcy

The foreclosure and bankruptcy departments are organized in a manner that allows them to appropriately manage foreclosure and bankruptcy administration. The foreclosure area is organized by function with separate teams based on task. This specialization is common among larger servicers that we rank, as it typically increases operational efficiencies and improves ability to scale. Since our last review, it made process and reporting enhancements focused on improving efficiency such as a new process to upload documents from its imaging system to LoanSphere and reporting focused on foreclosure referral delays. Key foreclosure administration practices, controls, and metrics that we took into consideration during our review are as follows:

- Before initiating foreclosure, Shellpoint performs two reviews ensuring that investor and regulatory requirements are satisfied.
- A pre-foreclosure checklist is used to ensure a consistent review process.
- Attorney communication and tracking is facilitated through Black Knight Financial Services' LoanSphere.
- It enhanced its process to upload documents from its imaging system to LoanSphere
- A tool benchmarks foreclosure attorney performance relative to the industry.
- There are specialized foreclosure holds teams by specific hold reason.
- There is monthly communication with the operations to review root causes of foreclosure delays.
- A dedicated team executes foreclosure documents.
- It reported all foreclosures completed within standard timelines.
- Multiple SCRA checks occur before a foreclosure sale.
- There is an in-line QA team within the department.

Shellpoint also enhanced certain processes to increase efficiency to accommodate a larger foreclosure population that comes with portfolio growth or economic downturns. It enhanced the process to upload documents from the imaging

system to LoanSphere. It also implemented a new process to reconcile post-sale inventory with the status reported in the government-sponsored entity system.

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:

- Shellpoint has multiple channels to detect new filings and monitor cases for status changes.
- The case management team manages the timeline throughout the bankruptcy process.
- Shellpoint reported that no proofs of claim were rejected and that it had a minimal dispute rate; both are similar to peers.
- The assigned attorney firm prepares the proofs of claim; all are reviewed prior to filing.
- An interdepartmental QA team reviews bankruptcy documents before they are filed.

A dedicated team monitors the default attorney network and measures performance using a scorecard based on timeliness to key service levels. The monthly performance evaluation also includes feedback from the timeline management team and firm ranking relative to other firms. Procedures are in place to require improvement plans and hold new referrals for underperforming firms.

REO

The REO area has appropriate procedures and technology in place to manage the REO inventory. The REO department is organized into custom and standard teams, with the former handling assets that have unique investor requirements for asset disposition. Key REO processes, resources, and performance metrics include:

- Asset managers that use online task-based systems to manage assets and interact with listing agents.
- Two on-staff appraisers 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 net present value analysis incorporated into Shellpoint's decision model to determine the disposition strategy, including rehabilitation.
- Multiple industry-recognized property preservation vendors providing national coverage.
- No reported asset sales in its ranked portfolios during the reporting period; sales to market value performance ratios were not available.

Financial Position

The financial position is SUFFICIENT.

Related Research

- [Select Servicer List](#), Feb. 4, 2022
- [Shellpoint Mortgage Servicing Residential Mortgage Primary, Special Servicer Rankings Affirmed; Ranking Outlooks Stable](#) , Jan. 25, 2022
- [Consumer Finance Companies Ratings Affirmed Under Revised Criteria](#), Dec. 13, 2021
- [Servicer Evaluation Spotlight Report: Environmental, Social, And Governance Factors Have Consistently Powered Our Servicer Evaluation Rankings](#), Nov. 16, 2020
- [Servicer Evaluation: Shellpoint Mortgage Servicing](#), April 1, 2020
- [Analytical Approach: Global Servicer Evaluations Rankings](#), Jan. 7, 2019

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