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Servicer Evaluation: RESIMAC Ltd.

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Servicer Evaluation: RESIMAC Ltd.

Opinion

Ranking: STRONG

The STRONG prime residential loan servicer ranking on RESIMAC Ltd. (Resimac) reflects its continued solid servicing quality and key servicer strengths, which include its:

- Well-established position as an experienced primary servicer of prime residential mortgage loans, with 31 years in the residential mortgage business;
- Senior management team's extensive experience and robust management structure;
- Comprehensive corporate governance and risk-management framework;
- Prudent operating policies and procedures; and
- Well-designed scalable technology platform, with a fully integrated end-to-end loan-processing platform.

The servicer evaluation ranking is limited to Resimac's capability in servicing prime residential mortgages in the Australian market.

A servicer ranking is a statement of opinion and not a statement of fact. A ranking is not and should not be represented as a credit rating.

Outlook

The outlook is stable. This outlook reflects our opinion that Resimac will continue to be an efficient and competent residential loan servicer, which is underpinned by the company's experienced management team, qualified staff, and substantial technology infrastructure. We expect that Resimac will continue to maintain a comprehensive corporate governance and risk-management framework, and optimize its collection strategies through ongoing enhancements to key technology platforms and processes.

Profile

Resimac is an unlisted, limited-liability company incorporated in Australia. In October 2016, it merged with Homeloans Ltd. (Homeloans) and became 100% owned by Homeloans. However, all operational aspects of the merged business are conducted by Resimac. Homeloans is a nonbank lender, mortgage manager, and mortgage broker listed on the Australian Stock Exchange.

Resimac, headquartered in Sydney, is a locally prominent nonbank lender and residential loan servicer. Its principal business is originating and servicing prime residential mortgage loans sourced through a national network of accredited mortgage originators, brokers, and aggregators. Since 2008, Resimac has diversified to the origination and servicing of nonconforming residential mortgage loans.

Resimac's funding is predominantly through the residential mortgage-backed securitization (RMBS) programs that it

manages, and warehousing facilities provided by several financial institutions. Resimac has issued more than A\$20 billion securities to date across 37 domestic and offshore RMBS transactions.

Resimac has an Australian Financial Services license, which allows it to provide financial advice, deal in financial products, and acquire, vary, or dispose of financial products on behalf of wholesale clients.

Business strategy and growth

Resimac's core strategic focus is to continue to build its prime and specialist (nonconforming) mortgage business through its distribution channels and maintain its position as a dominant player in the non-bank originator space. The company considers securitization and loan servicing to be its core competencies.

Its origination strategies include strengthening its origination sources by owning distribution entities such as State Custodians (online channel) and Finsure (aggregation channel), ensuring competitive product and pricing, introducing retail product via aggregation channels, securing funding sources, expanding distribution direct to consumers, and re-engineering third-party distributors.

Resimac believes that volume is key to its business. Hence, another key strategy for Resimac is geographic diversification outside of Australia in terms of distribution and funding, given that it has transportable skills in underwriting and funding. To this end, Resimac has been building its prime and specialist (nonconforming) mortgage business in New Zealand since 2011.

Resimac's growth strategy includes acquisitions, as demonstrated by the purchase of a U.K. portfolio of buy-to-let mortgages in 2013 and the A\$1.77 billion portfolio of prime mortgage assets of RHG Ltd. in 2014, as well as the recent merger with Homeloans. The purchase of the RHG portfolio increased Resimac's assets under management to more than A\$5 billion, and the merged business with Homeloans has a loan portfolio of more than A\$13 billion.

Resimac believes that its recent merger with Homeloans ties in with its ongoing strategy for growth and diversification. It will finalize strategy for the merged business in early 2017. Resimac said a key focus is effective integration that ensures business is not affected as well as the maintenance and enhancement of governance and risk regimes, as required.

Management And Organization

The subranking for management and organization is STRONG

In our view, Resimac has maintained a strong senior management team that has the requisite industry knowledge and expertise. Other selected attributes of the management include:

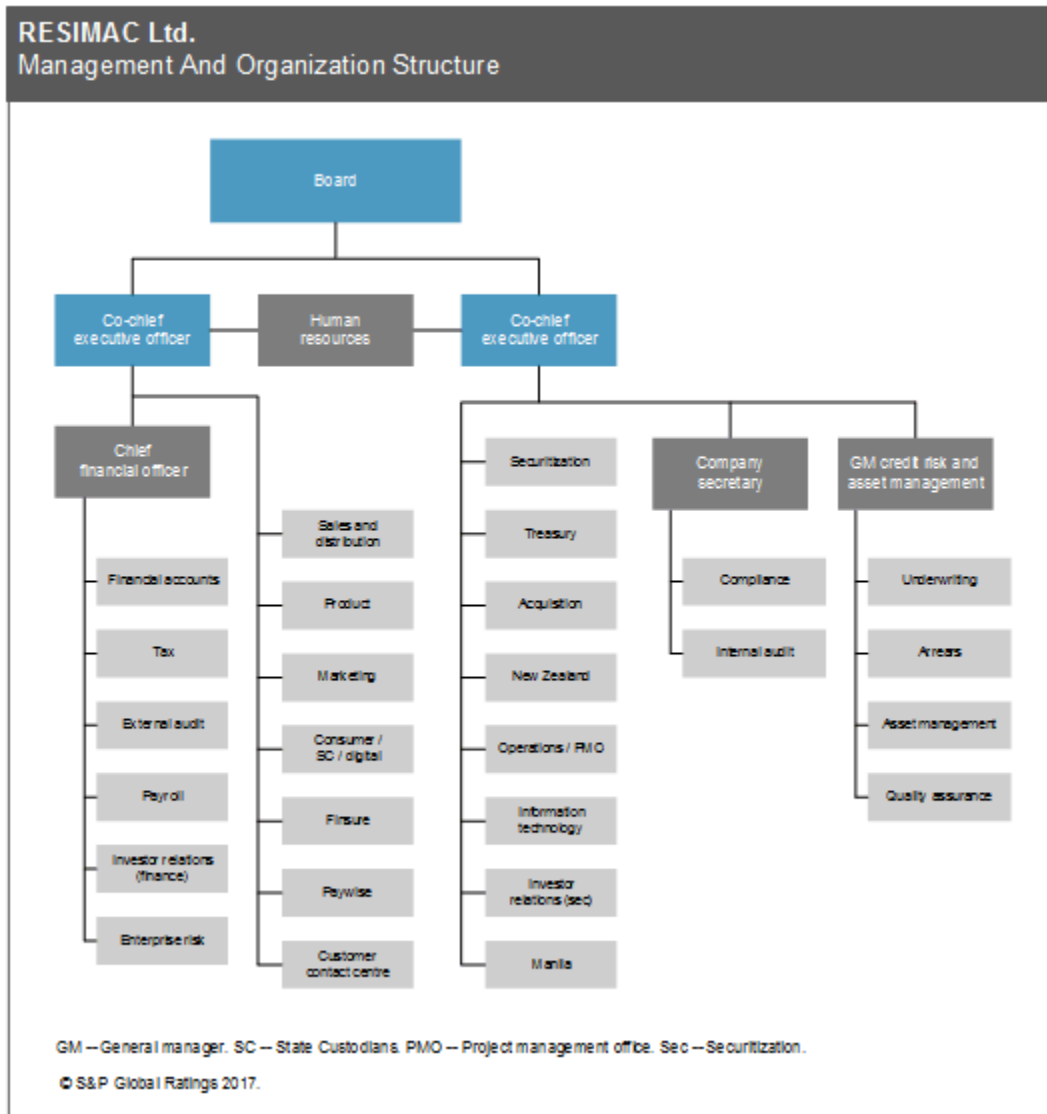
- Clear business strategies that are focused on steadily increasing business volumes through the distribution network, diversifying geographically outside of Australia, and acquiring residential mortgage portfolios, as well as building business infrastructure to support growth. We note that strategy for the merged business will be finalized in early 2017;
- A sound corporate governance framework that has resulted in a more strategic risk-management focus, with lending decisions informed by arrears performance and vice versa, which are ultimately feeding through into policies and procedures. We note that there have been some changes in the reporting line and staffing of the risk-management

function since the Homeloans merger; and

- Key performance indicators being used to measure performance and assess whether staff performance is in line with management expectations, organizational goals and objectives.

The management and organization structure is shown in chart 1.

Chart 1



Risk-management and compliance framework

In our opinion, Resimac demonstrates a sound risk-management and compliance framework. The framework provides a comprehensive mechanism to facilitate business, industry, and regulatory changes. It also ensures that there are prudent processes to identify, assess, and manage the risks associated with servicing residential mortgage loans.

Resimac's predominant form of risk management and risk reporting is through the respective risk registers for each business unit. The respective business heads report on risk to the enterprise risk function every six months.

There have been some changes to reporting lines and staffing of the risk-management function since the Homeloans merger. The enterprise risk function now reports to the CFO instead of the group risk-management function reporting to the CEO, and the quality assurance function now reports to the head of credit risk and asset management instead of being a joint risk-management and audit and compliance function. The audit and compliance function continues to report to the company secretary.

Audit and quality assurance

In our view, Resimac has in place a comprehensive and integrated internal audit program.

The internal audit and compliance function is responsible for the audits of Resimac's loan-servicing functions, including internal controls, as well as business units and their compliance with key legislative obligations. It is also responsible for undertaking mortgage originator audits.

An ongoing program of mortgage-originator audits monitors the performance of originators and their compliance with Resimac's policies, procedures, and performance standards. Management monitors the results of the originator audits, conveys them to the originators, and uses them to identify any training requirements.

Technology

Resimac operates in a secure and semi-automated environment, supported by a stable systems architecture that accommodates business growth and requirements. The company has committed considerable investment and resources into its technology infrastructure by automating certain processes to deploy a fully integrated end-to-end loan servicing platform. The following systems architecture supports Resimac's loan-servicing operations:

- QuickQuote Online preapproval system for instant indicative approval;
- Several gateways, such as Nextgen.net, linking to key suppliers and distributors to streamline the application process;
- RESIQ online prequalification system, which is linked to QuickQuote, validates key information requirements before the loan can pass to the underwriting workflow system;
- Resimac Underwriting System (RUS), which is linked to RESIQ, manages loan origination and underwriting processes for loan applications through to settlement;
- Mortgage Tracking System (MTS), which is linked to RUS, manages post-settlement loan-servicing;
- Galapagos manages data exchange between RUS and other systems, including MTS, mortgage originators, and Veda;
- Microsoft Analysis services, a business intelligence and reporting facility;
- Microsoft Great Plains manages financial accounting, including accounts payable and general ledgers for all trusts;
- Oracle Unified Content Management System, an electronic document and records management system; and
- Internet and phone banking, e-mail, unified messaging, personal computers, and scanning.

In our view, Resimac has maintained adequate disaster recovery capabilities and business continuity strategies that are documented and tested annually, in line with industry practices.

Training programs

In our view, the company has maintained a training and development program that is sufficient for its size. The company uses various formal and informal training mechanisms: on-the-job training, mandatory compliance training, and education sessions during staff meetings. Team leaders provide on-the-job training and support to staff in each

loan-servicing unit.

The company revises training programs regularly to incorporate changes to internal policies and procedures and to address external factors, such as fraud or alterations to the regulatory and compliance environment, which can affect loan origination and servicing. The current training and personal-development programs support individual development and have resulted in an efficient, well-informed, and professional workforce, in our view.

Mortgage originator training continues to be the responsibility of the business development and training manager. The training programs incorporate policies, procedures, products, systems, compliance, customer service, fraud detection, and other topics relevant to the processing and servicing of residential mortgage loans. Originators are required to pass the accreditation program, which ensures originators are fully aware of all of Resimac's policies, procedures, and servicing requirements.

Policies and procedures

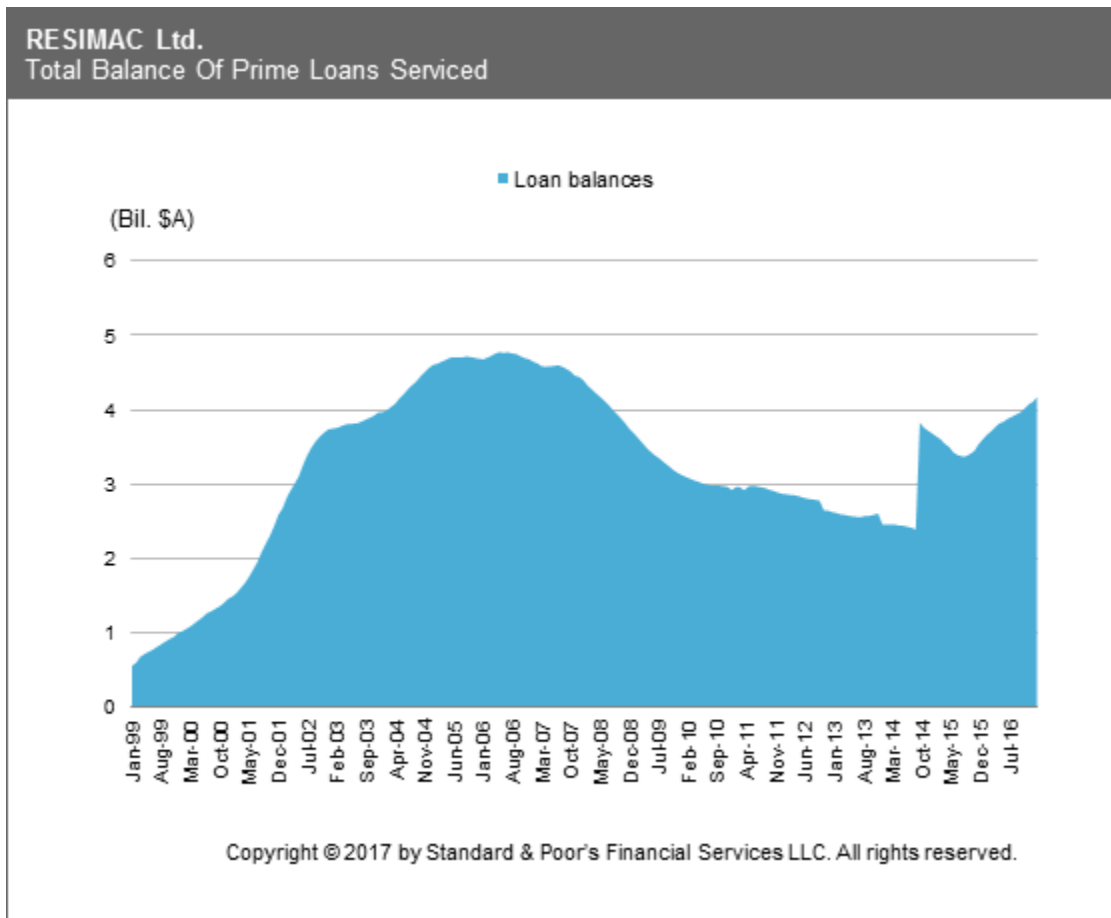
All key processing and servicing policies and procedures remain well documented across the servicing areas. They are available online via the company's intranet, and in hard copies. Resimac has a formal policy formulation, communication, and review process, which is the responsibility of enterprise risk. Requests to change policies are logged as part of the change control process application.

Loan Administration

The subranking for loan administration is STRONG.

As of January 2017, Resimac has serviced more than 17,000 prime residential mortgage loans totaling slightly less than A\$4.2 billion. The total balance of prime residential loans serviced by Resimac is shown in chart 2.

Chart 2



Loan-servicing objectives

Resimac's servicing objectives are based on important elements of its business model: delivering superior and unparalleled customer service in a controlled environment, establishing a flexible and efficient servicing platform, and providing a complete and competitive range of lending products.

Technology infrastructure is a critical component to Resimac's servicing objectives. Resimac has continued to invest considerable efforts and resources in its servicing platform so as to develop flexible, fully integrated, workflow-based systems that provide end-to-end processing, deliver exceptional customer service to clients, and drive operating efficiencies. The loan-servicing platform, business plans, and performance measures are clearly aligned with the company's loan-servicing drivers.

Processing and servicing technology/change management

In our opinion, Resimac's servicing systems continue to contribute to a stable, semi-automated, and efficient operating environment. The company uses MTS as its core servicing platform, and employs several interface applications to manage its data exchange, business intelligence, and reporting facility.

In our view, the servicing platform incorporates prudent security and access controls. It retains audit logs of all correspondence, transactions, arrangements, and diary notes to ensure the integrity of the database. In line with

industry standards, Resimac has maintained intrusion detection testing done by an external party to facilitate the broad adoption of consistent data security and maintain a secure network as stated in the company's information security policy.

For a modest-size company, Resimac's servicing change-management infrastructure appears comprehensive and systematic, comparing favorably with industry best practices. All process improvements and systems changes are managed through Resimac's change control office and governed by its change management process.

In our opinion, on the whole, Resimac's systems architecture sufficiently supports the company's loan-servicing operations, with flexibility to accommodate business growth and strategic targets in enhancing productivity and servicing.

Data processing and integrity

Resimac continues to possess tightly controlled data verification, document validation, and quality-assurance procedures for loading new loans onto its processing system. Data verification occurs at various stages of the process. The compliance and data validation staff perform document-to-system reviews and data validation of each loan. Resimac has a lending quality assurance program that provides a real-time review on a sample of loan applications to uncover any potential noncompliance with policies and procedures. This review provides a useful mechanism to identify any data-validation issues before the loan actually settles.

In our view, Resimac has made ongoing improvements to strengthen data integrity and quality. Key developments in the operational functions further support this objective, including the continued development of workflow process mapping, cross-training of staff in various business units, and strict segregation of duties between processing and servicing functions.

Accounting and investor reporting

Resimac has maintained a fully integrated and automated reporting facility, drawing data from the core systems through a data management and reporting application. This forms the basis of management, financial, loan, and investor reporting. The fully integrated system architecture and database-management applications constitute a flexible platform to produce a range of management reports on a routine or one-off basis. Resimac's data warehouse provides standard-definition reporting across business units and non-volatile data storage for more than seven years.

The general ledger continues to deliver the requisite accounting and financial reports for the board, management, funders, investors, and other parties to the securitization programs. The system adequately identifies mortgage loans relating to each funding portfolio. The general ledger and treasury management systems interface with the loan-servicing systems.

Resimac, as trust manager of various securitization and funding programs, provides investor reporting and accounting for each program. Resimac is committed to the provision of timely and accurate information to investors and funders. The company enables online reporting for investors in its securitization program, and trust reporting at reporting dates.

Document custody

Resimac maintains a controlled document custody, retrieval, and tracking process. The trustee of each securitization and funding program retains custody of all security documents. Following registration and stamping, solicitors lodge

the security documents, which include the title, mortgage, and other collateral security documents, with the trustee of the relevant funding program for audit and safe custody. The systems and procedures for tracking movements of the security documents are documented and tightly controlled.

Client relations

Resimac's client relationship model aims to provide a high standard of service and multiple-channel access, including through the internet and telephone banking. Resimac has maintained direct interfaces with select mortgage originators from loan application processing and verification, right through to settlement and servicing. Resimac has significantly consolidated the number of mortgage originators with which it deals, while further penetrating major aggregator platforms and expanding support for its own distribution channels. Business volumes are still principally sourced via third-party intermediaries.

To support borrowers, secure online access and a customer service helpdesk are available. Borrowers have access to a web-based platform to view their loan details and update non-critical data, such as contact details. Borrowers may request redraws and obtain details on loan repayments through the loan-enquiry web site. Resimac also provides a 24-hour interactive voice response system, which allows borrowers to access account information, request interim loan statements, apply for redraws, and perform other functions.

In our opinion, relative to Resimac's relatively modest size, the company has continued to proactively expand its client relationship model by strengthening internal processes, and consequently delivering a strong end-to-end customer experience.

Arrears management

Resimac has an experienced arrears management team that is responsible for the arrears management of the residential mortgage and commercial loan portfolios. Key responsibilities include managing collections, hardship applications, default management, and foreclosures.

Resimac is the sole manager of arrears from the start. All arrears officers manage the entire arrears process and have the requisite skills to manage early- and late-stage arrears. This structure allows for scalability and reduces key-person risk because loans requiring arrears management are allocated by alpha split and rotated regularly.

Sample accounts and transactions are routinely reviewed, including borrower phone calls, to assess whether arrears staff are complying with internal and external legal, regulatory, and policy obligations, and to identify any opportunities to improve process and control.

Details of action taken for individual loan accounts are managed through the arrears workflow management system, which is accessible by originators. Resimac has appropriate procedures and internal controls in place to comply with legal, regulatory, and mortgage insurance requirements.

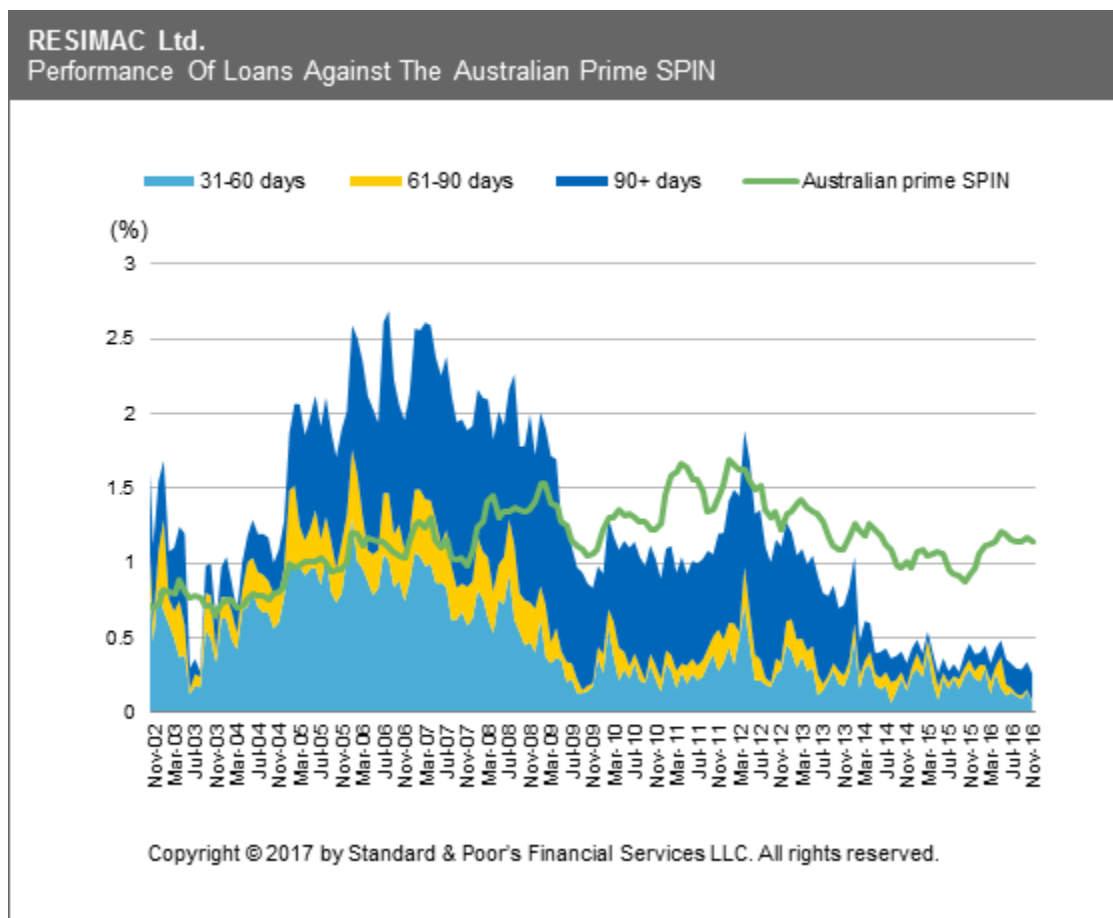
Resimac also has a backup servicer agreement with Perpetual for prime and specialist lending. As part of the agreement, Perpetual conducts an annual operational review and onsite due diligence.

In our opinion, Resimac continues to enhance its arrears-management strategies by modifying credit policies, procedures, and underwriting, and through review processes. The company has centralized arrears reporting, which

enables in-depth analysis of loans in arrears to determine resource allocation and strategy enhancements.

The level of arrears for Resimac's prime portfolio has continued to improve. Management has indicated that this is due to improvements made to key lending and servicing policies and procedures, as well as ongoing reviews of collections techniques. Chart 3 compares the level of arrears on prime residential mortgage loans securitized under Resimac's RMBS program with Standard & Poor's Performance Index (SPIN) for Australian prime residential mortgage loans

Chart 3



Financial Position

The financial position is deemed SUFFICIENT

Standard & Poor's is of the opinion that Resimac's financial position is sufficient to sustain its servicing operations for the next 12–18 months.

Related Criteria And Research

- Revised Criteria For Including RMBS, CMBS, And ABS Servicers On Standard & Poor's Select Servicer List, April 16, 2009

- Servicer Evaluation Criteria: Australia And New Zealand, Aug. 7, 2008

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