Operational Risk Assessment

Vervent

May 2020

Operational Classifications:	Consumer Finance Servicer
Rankings:	MOR ABS1 (Affirmed)
Forecast:	Stable
Analysts:	Monte Bays, monte.bays@dbrsmorningstar.com, +1 646 560-4536

Rationale

Morningstar Credit Ratings, LLC (DBRS Morningstar) has affirmed its MOR ABS1 consumer finance servicer ranking for Vervent, formerly ranked as First Associates Loan Servicing, LLC. The forecast for the ranking is stable.

Vervent provides third-party loan and lease servicing for originators and institutional investors. The company was founded in 1986 as First Associates Mortgage Corp. Current management acquired the company in 2008 and rebranded it as First Associates Loan Servicing, LLC (First Associates) after restructuring the organization. In 2019, First Associates was acquired by Stone Point Capital, LLC, a private equity firm focused on financial services companies; merged the company with Portfolio Financial Servicing Company (PFSC); and rebranded the company as Vervent. Vervent services a wide assortment of loans, leases, and other debt obligations, including unsecured consumer loans, credit cards, purchase finance loans and leases, auto loans and leases, power sports loans and leases (motorcycles, all-terrain vehicles, and boats), student loans, debt-consolidation loans, solar energy financing, elective medical-procedure financing, and small-business loans. The company is headquartered in San Diego and has additional operations in Portland, Oregon, and in Tijuana, Mexico. As of March 2020, the company had about 652 servicing employees. Vervent also offers call center support, backup servicing, document custody, document verification, treasury services, and other administrative services.

DBRS Morningstar affirmed the ranking based on a variety of factors, including the following:

Vervent has largely completed the integration of First Associates and PFSC without any significant disruption. Vervent has completed a full review and updated the policies and procedures of First Associates and PFSC into a single uniform resource. The IT platforms have been integrated so clients and borrowers see little or no changes. The company has expanded its number of managers as the larger servicing portfolio warrants additional resources.

The company's enterprise risk-management strategy includes consumer finance compliance protocols, internal audit, self-risk assessment protocols, quality assurance, call monitoring scoring and feedback, a robust vendor-management oversight program, and platformwide artificial intelligence that analyzes all inbound and outbound voice communications.

Vervent has a dedicated training team with an extensive training and compliance curriculum that focuses on new hires and providing employees with a continuous learning environment. It also has policies and procedures to ensure employees perform in accordance with company expectations and industry best practices.

The company engages a third-party auditing firm to produce a Service Organization Control 1 (SOC 1) audit report annually. The most recent review was completed in 2019 and contained no findings.

Call center metrics, portfolio volume growth, strong client diversity, and minimal client turnover demonstrate that Vervent has an effective servicing platform.

The company benefits from a strong technology environment that includes a customized third-party consumer finance servicing system, a well-defined project management process, a layered network-security strategy, and disaster-recovery and business-continuity plans that leverage the company's cloud-based infrastructure, multiple locations, and backup locations for geographic data redundancy and processing.

The company's strategic growth plan is to pursue additional servicing assignments and expand its service offerings to further diversify its client base.

Forecast

DBRS Morningstar forecasts a Stable consumer finance servicer ranking. Vervent is an effective consumer finance servicer for originators and investors covering a wide variety of loans, leases, and other debt obligations. The company continues to increase its servicing volume and is well positioned to handle significant portfolio volume increases. DBRS Morningstar believes Vervent will maintain organizational stability, provide high-quality service for clients, and recognize efficiencies and technology enhancements as it integrates best practices and leverages synergies while capitalizing on opportunities.

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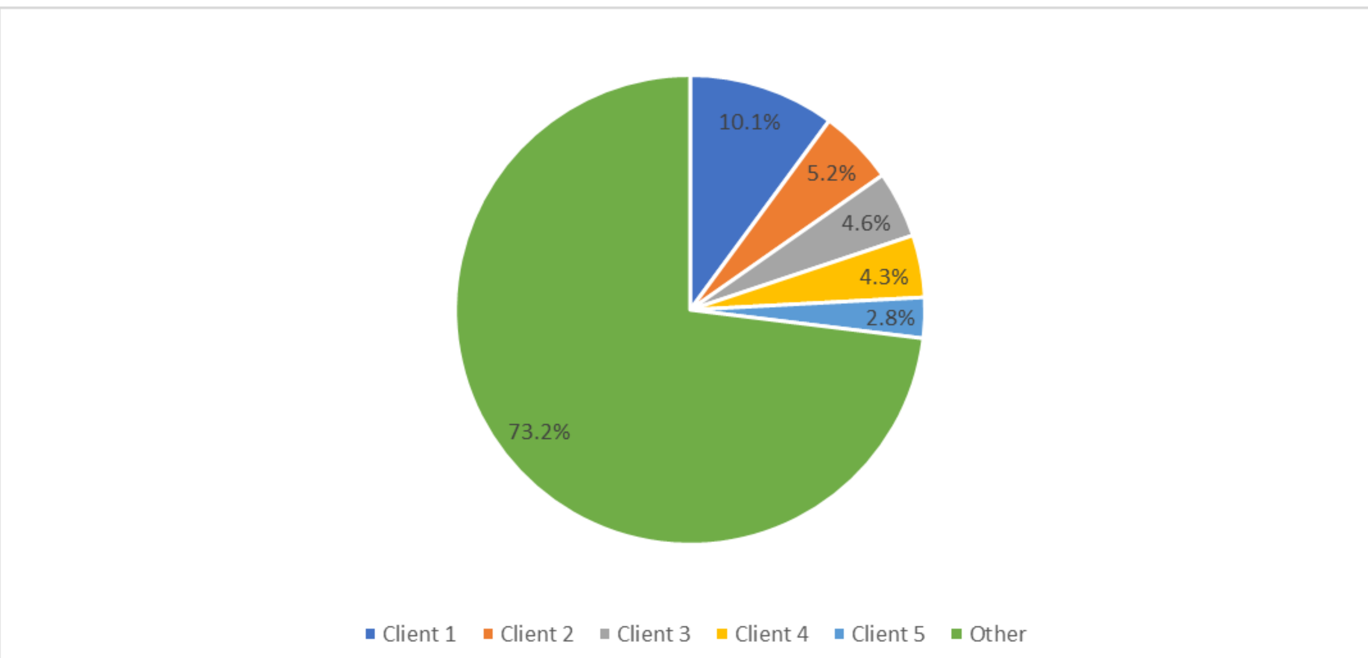
Company Profile and Business Overview

Vervent is a privately held consumer finance servicing company founded in 1986 as First Associates Mortgage Corp. The current management team acquired First Associates Mortgage Corp. in 2008, restructured the organization, and rebranded the company as First Associates. The company is headquartered in San Diego with additional offices in Tijuana and Portland. As of February 2020, Vervent had approximately 652 employees. The company services a wide assortment of loans, leases, and other debt obligations, including unsecured consumer loans, credit cards, purchase finance loans and leases, auto loans and leases, power sports loans and leases (motorcycles, all-terrain vehicles, and boats), student loans, debt-consolidation loans, solar energy financing, elective medical-procedure financing, and small-business loans. Other lending support solutions includes:

- Primary loan and lease servicing.
- Capital markets support, including backup servicing, contract verification, borrowing base calculation and validation, custodial services, and treasury services.
- Call center support.
    - Prefunding support, including lead generation, taking phone applications, customer service, borrower-verification phone calls, and document verification.
    - Postfunding support, including customer service, collection calls, and borrower verification calls.

Vervent has developed a diversified client base, with the largest client responsible for approximately 10.1% of the company's total servicing volume and the top four clients representing about 24.1% of the company's volume.

Chart 1: Vervent Client Diversity



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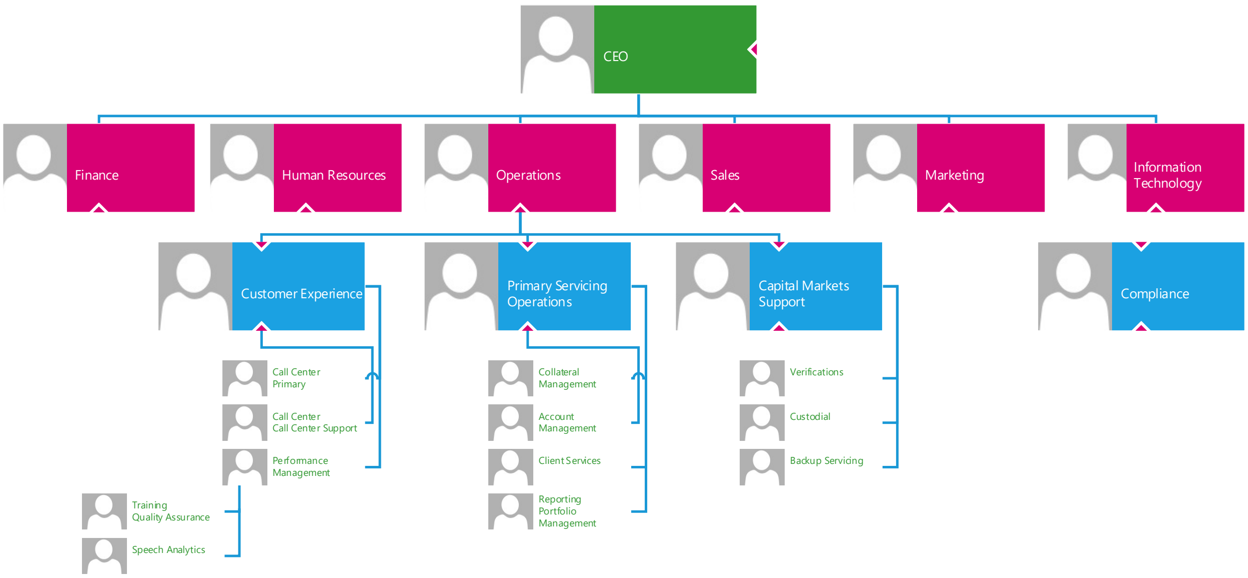
Vervent has developed clear reporting lines for different business units defining roles and responsibilities. The compliance group is part of the operations group but reports directly to the chief executive officer (CEO) and board of directors.

Chart 2: Vervent Organizational Chart



Operational Infrastructure and Risk Management

Audit and Compliance

Vervent has a robust audit, compliance, quality control, and risk-management framework to govern enterprise risk management. An external auditing firm completes an annual independent Statement on Standards for Attestation Engagements No. 18 Type II (SSAE 18 II) report. The most recent SSAE 18 II review was in 2019 with no findings. The company has an independent internal-audit team that reports to the board of directors and encompasses the following elements:

- The internal-audit plan is reviewed annually by senior management and includes operational, technology, and compliance functions.
- The internal-audit process monitors outstanding issues and conducts follow-up testing to ensure the corrective actions have been satisfactorily completed.
- The audit methodology includes a call-monitoring program to evaluate the effectiveness of customer-focused employees and identify performance issues and training needs.
- There is an escalation process via a monthly status report of open items that goes to the management team and the audit committee.

The 2020 audit calendar includes the following reviews:

- *Servicemembers Civil Relief Act* (SCRA) audit.
- Consumer periodic statement audit.
- Payment posting audit (compliance with terms of client contractual agreements).

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- Charge-off audit.
- Auto repossession audit per applicable state law.
- Policy and procedure review.
- Credit reporting audit.
- Redacted account numbers.

Other recently completed internal-audit items include:

- SOC 1 Type 2.
- *Health Insurance Portability and Accountability Act/Health Information Technology for Economic and Clinical Health Act* audit.
- *USA PATRIOT Act* procedures audit.
- Deceased consumer procedures audit.
- Document-retention procedures.
- Consumer regulations policy and procedure review.
- Call center audit.
- Consumer correspondence audit.
- Fraud dispute process procedures.
- Notice of default procedures audit.
- Automated clearing house audit.
- Modification and forbearance audit.
- Complaint-handling procedures.
- Third-party vendor on-site procedures audit.

A monthly audit confirms that late notices, collection-call frequency, and campaigns on delinquent accounts are timely and effective. Vervent handles borrower requests for nonstandard account settlements and coordinates approval or denial with the client. If approved, the company will issue an Internal Revenue Service Form 1099-C for debtors who have had some portion of their debt forgiven.

An internal technology audit process ensures that the disaster-recovery and business-continuity plans are updated semiannually and tested on a regular basis and that the company performs audits of system access, disaster recovery, and information security.

Vervent centralizes its vendor-management functions within its organizational structure and designs them to provide a framework for managing the lifecycle of the vendor relationship. The vendor-management process consists of the following procedures: vendor risk assessment, vendor due diligence, contract management, and supervision.

A vendor-management specialist performs an initial risk assessment and assigns a risk rating of low, medium, or high based on Vervent's vendor-risk rating matrix, which generally determines the level of due diligence required for that particular vendor relationship. The company's risk matrix considers factors such as business impact, consumer contact when applicable, terms of the contract, and the vendor's access to nonpublic personal information. The scope of due diligence depends on the risk rating and may include many aspects, including audit reports, financial condition and annual reports, insurance coverage, and on-site visits. Vendors with a high-risk rating require an annual due-diligence review. The senior vice president of operations and the chief compliance officer/legal counsel jointly handle vendor contract management and negotiation for consideration of financial, legal, operational, and risk-management impact. They review contract terms for compliance with

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various regulatory guidelines and numerous other company guidelines. The vendor-management specialist performs the initial risk analysis and the vendor due-diligence review, fulfills the role of vendor liaison, maintains vendor records, and performs an annual status report of medium- and high-risk vendors that it sends to the compliance department. Each individual loan-servicing area monitors and gives feedback on vendor performance.

> **Assessment**: Vervent operates within an audit and risk-management infrastructure commensurate with the size and scope of the organization. DBRS Morningstar reviewed Vervent's internal-audit program results and the SSAE 18 II audit without any findings or systemic issues. The company's audit and quality-control reports also do not indicate any systemic servicing issues. The centralized vendor-management program provides enhanced compliance functionality by selection, certification, and performance monitoring

Technology

Vervent uses a cloud-based software-as-a-service (SaaS) loan-servicing system, a real-time application for transaction management. The company's technology provides compliance with regulatory guidelines, workflow efficiencies, and audit and performance-management capabilities by using electronic dashboards for various servicing areas. The scalable technology architecture can support multiples of the loan-servicing portfolio to accommodate business growth. Vervent uses the Public Access to Court Electronic Records (PACER) database to receive bankruptcy case filings and status updates.

The IT department reports independently to the chief technology officer and comprises technology infrastructure and operations, information security, and application development and architecture. The IT department reviews monthly reports to ensure that terminated users do not have access. Vervent periodically conducts network penetration testing and has employee password policies and controls. The company uses a storage-area network and cloud-technology architecture to interconnect and store applications and data.

The company's project-management office handles software-enhancement requests in a multistep process that includes the receipt of a statement of work from the requester, follow-up meetings for discussion, assignment of the project to an owner, referral to IT, and subsequent tracking of the project in the IT pipeline. The team prioritizes and reviews projects weekly until rollout is complete.

Vervent's disaster-recovery and business-continuity plan is based on the geographical redundancy of the company's three locations in San Diego, Portland, and Tijuana, and a backup locations in Salt Lake City and Northern Europe. Customer accounts are run via the vendor's SaaS platform, providing data replication and redundant services. Ancillary applications and necessary data are replicated to an off-site commercial co-location facility in Nevada. The senior management crisis team determines if an event is sufficient to activate the disaster-recovery plan. Two applications, email and finance and accounting, are run external to the headquarters in a hosting location within San Diego County. A cold site, remote backup strategy ensures restoration of those applications. Operations are feasible from any location with an Internet connection and Ethernet-based networking. If a disaster were to render the San Diego facility inoperable, the company maintains a backup agreement with a related financial services company in the Salt Lake City area, which would house operations personnel in the event of a regional disaster in Southern California.

The company performs loan-servicing system database backups nightly, and they are located at two separate locations in Maricopa County, Arizona. The call center software provided through a cloud-based SaaS application provides Vervent with access to its global redundancy center, which provides system failover to an Atlanta center. Vervent tests its disaster-recovery plan at least annually or more frequently if it makes changes to the plan. The company has a pandemic response plan to prepare for and respond to any serious widespread illness.

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Assessment: Vervent operates in an effective automated environment. The company's technology platform is commensurate with the size of the organization and provides an appropriate level of support for the company's loan-servicing business, as well as a solid foundation for growth.

Management and Staff Tenure and Organizational Turnover

As of April 1, 2020, Vervent had approximately 652 servicing employees. The senior management team has an average of 28 years of relevant industry experience and six years with Vervent. Approximately 74% of managers have been with the company for more than one year. About 72% of servicing agents and 63% of operations professionals based in San Diego have more than one year of company tenure. At least 90% of the Tijuana-based servicing agents and operations professionals have been with Vervent for more than a year as the company has staffed up the operations at that location. Most of the Tijuana employees were previously employed by a vendor originally used by First Associates, making them familiar with the company's policies, procedures, and systems. There has been no management turnover in the past 12 months, and the servicing employee turnover is relatively low at about 16% in the United States centers and 11% in the Tijuana location. The Tijuana location has been able to reduce turnover by offering benefits not typically available to workers in Mexico or other Tijuana call centers, such as health plans that also cover family members, on-site healthcare, gated parking, a desirable location in Tijuana, professional training, and other office perks.

Assessment: Vervent has a seasoned management team and staff with minimal organizational turnover contributing to a stable loan-servicing platform.

Organizational Structure and Business Strategy

Vervent continues to experience growth in the loan-servicing portfolio, assets it can service, and the different services it can offer to lenders, leasing companies, and investors.

Assessment: Vervent's management team and staff tenure contribute to a stable business environment. The technology, core risk-management methodologies, and operating history provide Vervent with a framework for business growth and diversification.

Training

Vervent actively recruits for new hires internally via multiple digital and in-market channels and uses a temporary-to-permanent strategy with coordination from third-party recruiting agencies. The company conducts job fairs to fill new-hire requirements and maintains about 5% excess operational capacity to accommodate client volume surges. The company provides new employees with an employee handbook and requires them to sign a document acknowledging receipt and understanding. In addition, employees and subcontractors must sign a confidentiality and nondisclosure agreement. Vervent conducts background checks on applicants before they have access to facilities or systems. It has developed an extensive training curriculum that includes education on the *Fair Debt Collection Practices Act* (FDCPA), *Fair and Accurate Credit Transaction Act*, the SCRA, and the *Fair Credit Reporting Act*. The company requires testing and annual recertification in these regulations for collection and customer-service employees. New employees undergo on-the-job training, which consists of reading company policies and procedures as well as side-by-side mentoring on systems and applications. Employees must be familiar with applicable consumer regulations policies and procedures which include:

- The FDCPA.
- The *Fair Credit Reporting Act*.

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- The *Equal Credit Opportunity Act*.
- The *Gramm-Leach-Bliley Act*.
- The prohibition against unfair, deceptive, or abusive acts or practices.
- The SCRA.
- Consumer Financial Protection Bureau guidance for debt collections.
- Minimizing regulatory risk.

A three-day introductory program provides new employees with an overview of the company's business, technology systems, and servicing portfolio. For employees serving in a direct customer-contact role, a minimum of three weeks of training provides in-depth courses on Vervent's loan-servicing business. The company maintains mirrored training facilities at all three servicing sites in San Diego, Portland, and Tijuana and employs trainers at all locations. A curriculum developer position in the learning and development department works with team members and various subject matter experts in authoring, editing, and formatting training materials and course curriculum across the enterprise.

> **Assessment**: Vervent has a robust training program that ensures employees receive training tailored to their position within the organization. The training program ensures employees receive ongoing training to secure a high level of competency and compliance.

Policies and Procedures

Individual business units author policies and procedures under the supervision of the compliance department. The policies and procedures have a consistent format across the enterprise with a uniform template and are stored on a shared drive. Vervent continuously reviews and updates its policies and procedures to ensure compliance with regulatory guidelines and state and federal statutes. The methodology for updating policies and procedures creates an audit trail of changes by using versioning.

> **Assessment**: Staff members have access to Vervent's policies and procedures, which allows for a solid training foundation and consistent servicing practices across the company's platform.

Legal Liability and Corporate Insurance

Management represented that Vervent is not subject to any outstanding material litigation. Management reports that the company has a directors and officers/fidelity bond as well as errors and omissions and mortgage impairment insurance.

> **Assessment**: Based on management's statements, the company is not subject to any material litigation that could significantly affect its operational ability.

Loan Administration: Servicer Performance Metrics – Consumer-Finance Servicer

Loan Boarding and Document Tracking

Vervent uses a secure third-party platform to receive information from clients, including boarding files and customer agreements as well as project documentation and templates. Files are encrypted both in flight and at rest. Monthly client reports are also made available on this platform. Vervent employs a multitier approach prior to boarding that includes an in-depth requirements discussion with the client and a customer experience walkthrough that includes a review of client documentation and a test file of about five to 10 accounts. The loan-boarding

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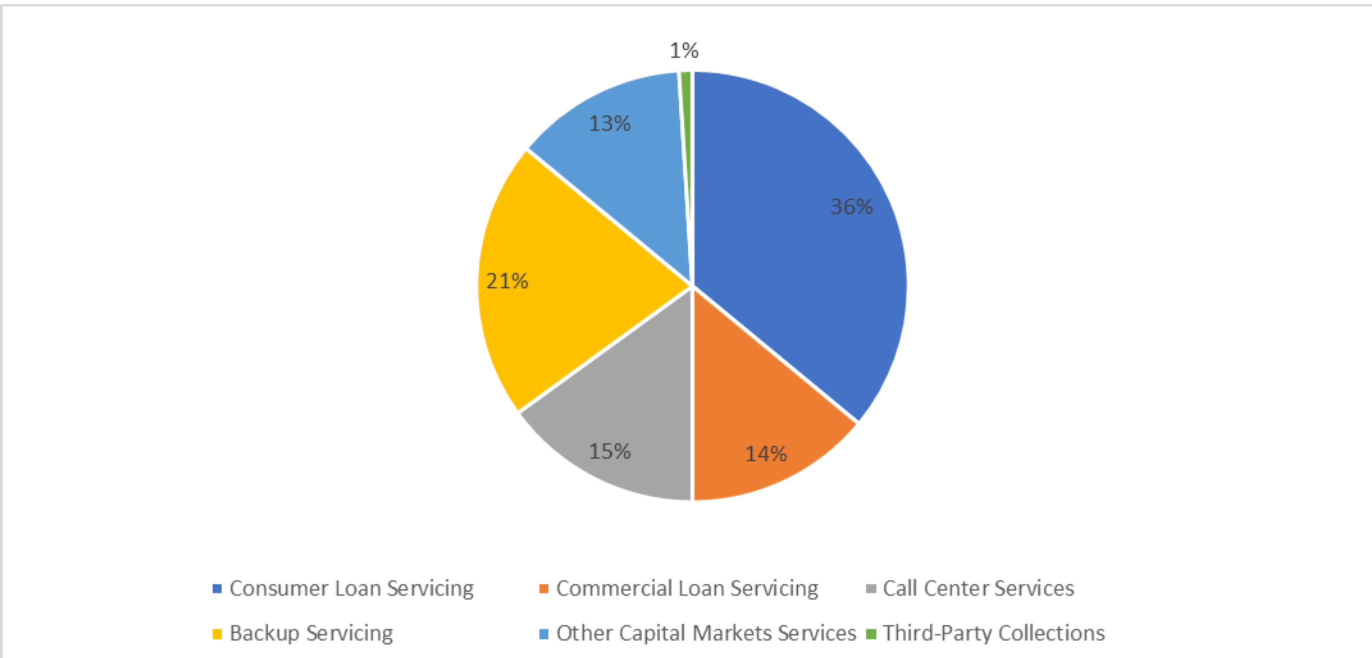
process focuses on data completion, accuracy, and security. Loan-administration staff can enter new loan information into the servicing system, and a second person subsequently validates and acknowledges it. The company reviews exceptions to identify the source of the issue and may need to further coordinate with the client to resolve it. The onboarding process includes an enhanced quality-control focus and frequent communication with the client during the boarding and postboarding time frame. Postlaunch activities include the creation of a support desk for ongoing account-level information requests, the initial setup and loading of client-level reports to the third-party platform, the scheduling of a quarterly portfolio review, and a postlaunch review for feedback and issue-resolution purposes.

> **Assessment**: The new loan-boarding and document tracking process is highly automated and effective with an appropriate focus on new client training and coordination.

Chart 3: Servicing Portfolio by Asset Class



Payment Processing

The document-management department receives, sorts, and distributes incoming mail where it is opened in the presence of two people to ensure dual control over receipts. A small number of borrower checks that come into the company's office are separated from corporate checks, and the borrower checks go to the lockbox bank vendor for processing. Customers can opt to have their monthly billing statements uploaded to Vervent's website. Vervent processes customer payments on the same business day it receives them. Payment methods include ACH, credit/debit card, lockbox vendor, MoneyGram, Western Union, and wire transfer. ACH represents 70% of payments, with debit/credit cards at 10% and lockbox/wires at 18%. The account-management department uploads payment files to the servicing system to credit individual borrower accounts. The accounting assistant reconciles the payment files to the generated cash reports daily, and a supervisor in the

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accounting department reviews the reconciliation. The account-management team researches payment exceptions to ensure that payments are posted on the same day. Unidentified payments undergo an investigative process so that they may ultimately be resolved and posted within 24 hours to 48 hours. The loan-servicing system, general ledger, and bank accounts are reconciled daily, and an additional manager reviews them to verify that the payments were posted. Borrower payments go into client trust bank accounts and are segregated from the Vervent operating accounts. There has been 1% staff turnover in the cashiering area. Vervent's performance metrics and efficiencies in the cash-processing area include:

- The lockbox processing rate of 99% is competitive with the industry average.
- Automated payment methods, such as electronic funds transfer, e-commerce, and other autoposted payment methods account for 98% of monthly payment processing.
- The lockbox error/rejection rate is 0.01%.

Certain executive team members, including the CEO and chief operating officer, are authorized to sign cash disbursements. Checks greater than $25,000 require two signatures, and wires and nonrecurring ACHs require secondary approval within the accounting department. ACH and wire template setup or changes require secondary approval. Borrower funds are remitted to clients based on the various servicing agreements. The investor reporting department initiates remittance calculations and forwards them to the accounting department where management reviews and approves them via pre-established payment templates through online banking platforms. The finance department management reviews journal entries. It reconciles general ledger accounts monthly and researches and clears exceptions in a timely manner. The preparer reviews and signs off on individual general ledger account reconciliations. Accounting management compiles and approves a general ledger reconciliation package consisting of the balance sheet, checklist, and reconciliations. An individual with no check writing or payment authorization access performs bank-account reconciliations within the accounting software, and two levels of management must approve monthly. Upon completion, the reconciliation, monthly bank statement, canceled checks, and applicable forms are scanned and stored electronically. The vice president of finance prepares monthly financial statements in accordance with GAAP. Annually, the company engages an independent auditing firm to review the company's consolidated financial statements in accordance with accepted auditing standards.

> **Assessment**: The payment-processing function has multiples channels and is highly automated, contributing to a high degree of efficiency. The reporting and remitting functions have an effective level of automation and are housed within a traditional control environment that serves to minimize risk of loss to clients.

Customer-Relationship Management

Call-center representatives handle all calls in a blended call-center environment. The company maintains mirrored call centers in San Diego, Portland, and Tijuana. Customer-service hours are 6 a.m. to 7 p.m. Monday through Friday Pacific Standard Time (PST) and 7 a.m. to 12 p.m. PST Saturday, and the company employs bilingual representatives at all locations. The customer-service group uses smart-call routing and employs an interactive voice response unit. Ongoing training and mentoring promotes and maintains call quality. Call monitoring occurs daily and is a combination of monitored calls and speech analytics.

Vervent uses a third-party artificial-intelligence-enabled speech-analytics platform to monitor 100% of all inbound and outbound calls. Speech analytics enable the company to score and provide agent feedback on calls with consumers using data-driven benchmarking. The speech-analytics platform provides enhanced compliance, verifying that the company has made all required identity verifications and disclosures and flags any calls with potential compliance issues. The system automatically redacts payment card industry (PCI) restricted data in compliance with PCI's data-security standards for entities that process, store, and/or transmit cardholder data. The system monitors and tracks the tonality

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and emotional state of the customer and agent throughout the call and charts that information alongside the call transcript providing a record of what was said and the corresponding emotional trend of the conversation. The speech-analytics capability provides a record of customer calls including an assessment of the reasons for default and other information and data that clients may find useful in managing their customer relationships and product marketing outreach. The technology provides representatives with extensive feedback and call scoring, which they can see at any time. The supplemental management and quality assurance staff help with coaching and training.

Vervent assigns call-center representatives with significant experience to handle calls involving more complicated collateral, while less experienced representatives use scripting and whisper coaching to handle routine account inquiries. The quality-assurance team validates the supervisor call scoring results and conducts a weekly calibration session. The company has developed call-center career-path programs, including a call center team lead leadership program and a call center supervisor leadership program. The company clearly delineates its expectations regarding these programs for those individuals who want to advance within the organization and encourages promoting internally, which provides organizational stability and minimizes employee turnover.

Vervent's performance metrics are as follows:

- Its abandonment rate of 0.5% is superior when compared with industry call-center standards.
- The average speed to answer is less than 12 seconds.
- The average hold time is typically less than 10 seconds.

According to the new servicing rules, a customer advocacy group handles customer correspondence, including borrower-information and error resolution requests, as defined by the Consumer Financial Protection Bureau, and tracked for internal operational trends and root cause analysis. Vervent provides a website with account information and payment options.

> **Assessment**: Vervent's customer-relationship management performance is highly effective compared with industry standards. The company's performance metrics in this area indicate highly effective borrower outreach and responsiveness. Customer-service staff and supporting loan-servicing personnel handle the call volume to ensure first-call resolution and a single point of contact.

Delinquent Account Servicing

Vervent performs delinquent account servicing for a variety of consumer loans and installment contracts. The customer-service and loan-advisory areas combine in a blended call-center environment to bring delinquent accounts to a current, performing status and mitigate risk of loss for clients. The company has delinquent account servicing policy and procedures that focus on complying with federal collections laws. All delinquent account servicing personnel must take training on FDCPA. There is an FDCPA testing and certification process, as well as refresher training and an annual recertification process. Representatives perform skip tracing on delinquent accounts using technology applications and external vendors to assist with locating and identifying borrowers.

Vervent follows state and federal law and industry practice when collecting on delinquent accounts. It uses multiple communication channels to reach delinquent customers and uses a table-based communication cadence to ensure compliance with both state and federal contact requirements. The various channels help maximize contacts while maintaining high customer satisfaction. If the customer promises to pay, Vervent includes when the payment will arrive and be processed. If a customer has a history breaking his or her promise to pay, the company tries to contact the customer the day after payment is due to verify that payment is in transit.

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The company has well-defined procedures for handling complaints from customers regarding servicing, products, or call-center representative issues. Complaints are referred to department managers, who are primarily responsible for addressing any issues, and company leaders. Unresolved complaints as well as complaints from local, state, or federal agencies immediately go to company management.

The communications department maintains a log of complaints and reviews them with the relevant associates for training purposes. The company mandates that all collection activity must be suspended when it receives a complaint from a customer or a governmental agency until all issues raised have been addressed and resolved. A summary of the written response to the customer or governmental agency and the corresponding complaint log goes in the customer's permanent account record. If a customer or governmental complaint reveals evidence of a violation of law or company collection policy, additional training leading up to possible termination may occur.

The following are key performance metrics:

- Vervent uses a speech analytical automated scorecard for a compliance review of all calls. The accuracy rate since inception for right party calls is 99%.
- The quality score has averaged about 90% in 2020 across all three locations.

Vervent complies with the SCRA, which provides certain protections for active duty individuals. Certain types of borrower relief are available under the act including interest rate reduction and reamortization at no more than 6%, a moratorium on repossession activity, and the ability to retroactively provide relief to the date when the servicemember was called to active duty. When a customer notifies that they are in active duty, the company provides that customer with an email and physical address for mailing the appropriate documentation to verify military status. The company reviews the relevant documents and determines eligibility as reflected on the Defense Manpower Database Center SCRA website.

> **Assessment**: Delinquent account collection is well managed by virtue of the company's focus on communication between its call center representatives and borrowers. Vervent's organizational structure, technology, and internal policies are designed to facilitate servicer-borrower communication and execution of client directives.

Collateral Repossession

Vervent has well-written policies and procedures to determine if an account should be considered for repossession activity. The process provides for those situations in which a customer has protection from collateral repossession by virtue of an active bankruptcy case or eligibility for relief under the SCRA.

The collateral management team reviews customer accounts daily to determine if an account is eligible for repossession. When an account becomes 30 days past due, the company sends a right to cure notice to the customer if the state has a statutory requirement. The company maintains an internal matrix of state-by-state legal requirements. A validation for an active bankruptcy case is based on public research databases or eligibility under the SCRA. If these protections are not present, Vervent assigns the collateral for repossession. The company maintains delegated authority and a corresponding power of attorney to act on behalf of clients in repossession cases. It uses a national repossession network to seize the collateral. Upon repossession of the collateral, the company sends a state-specific notice of intent of sale letter to the borrower via certified mail and, as applicable, provides a specific number of days by which the borrower can reinstate the account by paying the total amount due in addition to repossession fees before the collateral is sold at auction. Once the notice of intent has expired, the company works with the auction vendor to process the sale of the asset. The auction vendor provides a condition report and a remarketing price evaluation. The vendor subsequently schedules an auction or online sale date and collects purchase offers. If an offer is received that

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complies with the sale guidelines, the offer is approved, accepted, and the collateral is sold. Sale proceeds are wired from the auction vendor to Vervent. During the postsale process, Vervent sends a notice of sale letter, which details the sale amount and associated costs and fees, to the borrower. If there is a surplus, the company sends a check to the borrower. In cases where there is a deficiency postsale, the company sends the borrower a notice of sale and deficiency balance letter to satisfy any outstanding fees. Vervent promotes an environment in which borrowers are treated fairly and consistently during the collateral repossession process and evaluates collateral based on uniform standards.

The company reports that of the accounts eligible for repossession based on days past due, 90% are placed for repossession each month. Of those placed for repossession, 64% are repossessed and sold at auction within three months. The company further reports that the average recovery/book value is about 81%.

> **Assessment**: The company's technology environment provides real-time loan-level data to investors that facilitates their decision-making capabilities on a loan-level basis. Management has implemented a robust investor-strategy model that allows investors to develop effective strategies for minimizing losses and maximizing recovery.

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Ranking Definitions

The numerical scale of MOR ABS1 to MOR ABS4 is defined as follows:

Exceeds prudent loan servicing standards in key areas of risk

Demonstrates proficiency in key areas of risk

Demonstrates compliance in key areas of risk

Demonstrates lack of compliance in one or more key areas of risk

A servicer assigned a ranking of at least MOR ABS3 is deemed to comply with what we view as the minimum prudent loan servicing/vendor standards and requirements for the servicer's/vendor's operational category and role. To access DBRS Morningstar's "Operational Risk Assessments of Residential Servicers and Vendors: Methodology and Process" and other published reports, please visit www.morningstarcreditratings.com

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