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METHODOLOGY

Operational Risk Assessment for European Structured Finance Servicers

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Related Research

For a list of the Structured Finance related methodologies for our principal Structured Finance asset class methodologies that may be used during the rating process, please see the DBRS Global Structured Finance Related Methodologies document on www.dbrs.com. Please note that not every related methodology listed under a principal Structured Finance asset class methodology may be used to rate or monitor an individual structured finance or debt obligation.

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Scope and Limitations

This report describes DBRS Ratings Limited's (DBRS) approach to evaluating the quality of the parties that service, or may conduct back-up servicing on loans that are about to be securitised or have previously been securitised in a transaction rated by DBRS. It is important to note that the methods described herein may not be applicable in all asset classes. Further, this methodology is meant to provide guidance regarding the DBRS methods used in the sector and should not be interpreted with formulaic inflexibility, but understood in the context of the dynamic environment in which it is intended to be applied.

Operational Risk Assessment for European Structured Finance Servicers

Introduction

DBRS operational risk assessment procedures for servicers of European Structured Finance (ESF) products, including Residential Mortgage-Backed Securities (RMBS), Asset-Backed Securities (ABS), loans to Small- and Medium-sized Enterprises (SME) and Covered Bonds (CVB), are designed to evaluate the quality of the parties that administer and manage the loans, receivables and/or leases about to be securitised or that have previously been securitised in a transaction rated by DBRS. The review process may also be extended to back-up servicers (BUS), although the scope and depth of the review is linked to the type of stand-by arrangement and/or contingency plans, as well as the servicing expertise of the named BUS, where applicable. While DBRS does not assign formal ratings to these processes, it does conduct operational risk reviews to determine if a servicer is acceptable and incorporates the results of the review into the rating process.

DBRS typically begins the initial servicer review process by sending a questionnaire to the company that outlines the topics to be covered during discussions with management, which includes a list of documents to be provided, such as organisational charts, financial statements and presentations regarding the servicer's operations (Appendices 1 to 11). In instances where DBRS determines that the servicer is below average, and potentially unable to meet its servicing obligations, issuers may incorporate certain structural enhancements into a proposed transaction, such as additional credit support, dynamic triggers or the presence of a back-up servicer in order for DBRS to be able to rate the transaction.

DBRS may also conduct periodic reviews of the servicer as part of the ongoing monitoring of outstanding transactions. The reviews are intended to inform DBRS of any changes that have taken place since the last operational risk review, especially highlighting any material changes to the operation or its management. Relevant findings from the update review may be incorporated into the rating and surveillance process, as warranted.

In cases when the servicer or its parent is publicly or privately rated at below investment grade, or if DBRS believes that the servicer's weak financial condition may result in a servicing transfer event triggered by an insolvency event, issuers may incorporate a warm or hot back-up servicer as a transaction counterparty and/or devise a detailed contingency plan to ensure the uninterrupted continuation of servicing throughout the life of the transaction. The suitability of the back-up arrangement and/or contingency plan may be assessed as part of the rating process and can vary depending on various factors, including, but not limited to, the asset class, sector, jurisdiction, historical performance and the overall structure of the securitisation or covered bond programme.

Reasons for the inclusion of a warm back-up servicer include but are not limited to: the company being up for sale, key senior management having recently departed, lines of credit not being renewed or having more restrictive covenants placed upon them, or delinquency levels trending upward and causing concern about potentially hitting servicing transfer triggers in a transaction. Certain reasons for the inclusion of a hot back-up servicer include but are not limited to: a servicer being relatively new to the servicing business, lacking experience servicing the product being securitised, having a limited number of loans in its portfolio, or the servicer or its parent being a below-investment-grade-rated entity.

In the event that DBRS determines that a servicer is unable to effectively manage the assets within a specific transaction for operational and/or financial reasons and/or there are limited mitigating factors surrounding the identified operational risks, the agency may refuse to rate the deal.

Servicer Review Process

The servicer review process typically involves an analysis of the following:

1. Company and management.
2. Financial condition.
3. Controls and compliance.
4. Loan/lease administration.
5. Customer service.
6. Account maintenance.
7. Default management:
 - Collections.
 - Loss mitigation.
8. Investor reporting.
9. Technology.

Company and Management

DBRS believes that no servicing operation can be successful without a strong, seasoned management team that possesses demonstrated expertise in the product(s) they are servicing. As a result, DBRS views favourably those servicers whose management team possesses greater than ten years of industry experience. Furthermore, adequate capacity and resources to handle fluctuations in loan/lease volume are also important. Servicers with experienced staff, manageable turnover rates and robust training programmes, including dedicated training resources and tools for monitoring staff participation, are also viewed favourably by DBRS.

Financial Condition

DBRS typically reviews a servicer's financial condition or considers compensating factors. In its analysis, DBRS generally classifies a servicer as investment grade or non-investment grade. Review of the servicer may include an internal assessment consistent with DBRS policies (see DBRS Internal Assessments Global Policy on www.dbrs.com). To the extent that no public or private rating is maintained on the servicer and no internal assessment is performed, DBRS generally assumes that the servicer is non-investment grade.

Some items that are reviewed as part of this process may include:

- Company ownership structure.
- Business lines.
- Management experience.
- Corporate rating of any parent company (if applicable).
- Industry competitive landscape and company position.
- Internal and external audit results.
- Financial statements.
- Revenue sources and lines of credit.
- Costs to service.
- Litigation (past, present and expected).
- Existing business strategy and strategic initiatives.
- Recent or planned mergers or acquisitions.
- Recent or planned transfers.
- Securitisation history and future plans.

Controls and Compliance

DBRS believes quality control reviews and internal assessments are important for a company's management to aid in recognising procedural errors that may not be easily detectable. These reviews can be used to identify trends, training opportunities and exception practices. Frequent checks can assist management in quickly instituting changes to areas needing improvement, as well as benchmarking those results to performance.

DBRS also believes that it is important for servicers to be in compliance with the regulatory framework within their jurisdiction and be in good standing with their regulators. DBRS views favourably those servicers that are not the subject of any regulatory investigation(s) and have few borrower complaints filed. Additionally, strong internal controls and procedures that prevent violations of jurisdictional laws are also considered to be of paramount importance.

Cover Pool Management

As part of the operational review for banks with mortgage covered bond programmes, DBRS focuses considerable attention on the servicer's ability to effectively manage the assets within the cover pool. In the case of CVB programmes, the servicing of the cover assets is generally performed by the issuer, whether or not the applicable legal and structuring framework allows identification of the role of "servicer." In this methodology, we refer to the "servicer" even if such role is not specifically identified. Processes surrounding the identification and flagging of loans and related cash flows to segregate them from non-cover pool assets, interaction with the cover pool monitor and compliance with national covered bond legislation are key components of the review.

Loan/Lease Administration

DBRS reviews the loan administration area to assess a servicer's boarding accuracy, data integrity, billing, application of payments to borrower accounts and exception rates. Servicers with large numbers of unreconciled items indicate a fundamental problem with the cash management operation. As a result, DBRS views favourably those servicers with a high level of automation and a low tolerance for unapplied funds. Additionally, DBRS reviews the servicer's efforts towards compliance with regulatory guidelines and industry best practices.

Customer Service

DBRS reviews the customer service area to see how well the servicer responds to borrower enquiries and, in some instances, performs early-stage collection calls. Performance metrics such as call hold times and abandonment rates are typically reviewed to determine if the department is appropriately staffed or if certain call blockage features are in place to prevent customers from being able to speak to a representative. A monitoring process that ensures that the servicer is in compliance with all applicable laws, rules and regulations and that all employees in borrower-facing positions are appropriately trained is viewed favourably by DBRS.

Dealer Management

For ABS auto finance and lease transactions, DBRS reviews the servicer's processes around managing dealer relationships and financial condition. The size and composition of the dealer network, the active surveillance and oversight, including performance monitoring of all dealers and fraud detection practices, are taken into account when reviewing auto loan and lease servicers.

Default Management

The effectiveness of a servicer's operation has a direct impact on security performance and, ultimately, losses to the investor. A servicer's strategy for handling loans in default, as well as its ability to effectively manage loans/leases requiring legal enforcement or that have already defaulted, may stabilise or improve pool performance. The marketing of repossessed properties, as well as enforcement, sale timelines and cost containment, can also indicate a servicer's capabilities.

Some servicers use predictive dialer systems that incorporate behavioural scores to identify and prioritise the riskiest borrowers. Collection efforts generally escalate in intensity as accounts roll to more advanced arrears categories. Depending on the stage of arrears, the servicer may offer a forbearance or modification plan that can include a reduced interest rate, capitalisation of monies owed or debt forgiveness, in addition to formal payment arrangements, to help the account become current. In instances where a servicer determines that a borrower is unable to honour his or her debt obligations, the servicer may employ additional loss mitigation options such as loan restructuring, short sale or discounted pay-off (DPO) as alternatives to legal action. DBRS believes that the use of such strategies may ultimately serve to reduce losses; however, their implementation and use requires suitable control.

DBRS notes that the flexibility allowed to servicers in executing various workout strategies may be significantly hindered in some ESF transactions. Since the onset of the economic crisis, many European governments initiated various modification and forbearance schemes to encourage debt restructuring and ease borrowers' financial stress. Several regulated markets also enhanced their oversight of lenders and servicers with increased focus on customer service. As a result, DBRS views favourably those servicers that effectively manage their regulatory responsibilities while maintaining compliance with transaction requirements.

DBRS also views favourably those servicers that have predictable performance and strong monitoring procedures for arrears and defaults. Once an account becomes delinquent, effective collection procedures can minimise losses to investors. Accordingly, DBRS evaluates the quality of the collections strategy and staff in order to determine their success rates in contacting borrowers and determining their ability and willingness to pay (or repossessing/remarketing the collateral as applicable).

Additionally, a servicer's ability to prevent and manage fraud is reviewed to determine the precautions utilised to detect such activity. Fraud risk varies across jurisdictions and asset types, and in certain instances DBRS believes this area is vital to maintaining a successful operation. As a result, DBRS views favourably servicers that have formal processes surrounding fraud that are communicated regularly to staff and employ experts to continuously update prevention strategies.

Investor Reporting

While investor reporting functions are typically handled by other ESF transaction parties, such as the cash bond administrator, calculation agent, paying agent and/or trustee, DBRS reviews the servicer's ability to generate reports, including loan-by-loan data, to those parties responsible for the function. In some cases, this party may be the issuer. DBRS also reviews the commingling provisions within the relevant transaction and how effectively the servicer can orchestrate changes to the collection and transfer of funds to appropriate segregated accounts following trigger breaches. Consequently, DBRS views favourably those servicers that have a track record of timely and accurate reporting and who have never had to restate a report.

Technology

Technology resources are an integral component of the servicer review process. While DBRS does not subscribe to specific systems architecture, in reviewing the servicer DBRS considers whether adequate systems controls, consumer privacy protection and backup procedures, including disaster recovery and business continuity plans, are in place. Furthermore, DBRS reviews backup arrangements, especially for any offshore suppliers, to gain comfort that a backup plan is in place to ensure minimal downtime. Over the past few years, leveraging the Internet has enabled companies to operate more effectively. Servicers may use the Internet for marketing, customer service and/or the dissemination of pertinent information to borrowers, investors and other transaction parties. As a result, DBRS expects servicers to have the appropriate staff and controls in place to ensure website availability, account maintenance and enhancements. Sophisticated technology with robust functionality is viewed favourably by DBRS, as it often brings efficiency and predictability (in terms of loan performance) to servicing operations.

Seller-Servicer

The vast majority of servicing in ESF and CVB is done by banks and financial institutions that originate the loans being securitised or included in the cover pool. As these seller-servicers (or issuer-servicers in the case of CVB) are responsible for the entire operational chain from origination through servicing and final asset disposition for defaulted accounts, the origination and servicing operational risk reviews are performed concurrently.

Master Servicer

A master servicer is responsible for collecting loan data from primary servicers, calculating the expected principal and interest payments that should be remitted and reconciling any differences with the servicers. A master servicer is also responsible for making advances (if applicable) in the event the primary servicer fails to do so. As a result, financial condition is of utmost importance when evaluating a master servicer. Additionally, master servicers need to report and remit funds timely and accurately to the trustee. Therefore, DBRS expects master servicers to be able to handle non-traditional products and complex deal structures.

Primary Servicer

The primary servicer is responsible for the general day-to-day administration of the loans and receivables included in the transaction. This is generally performed by the originating bank or seller-servicer in European transactions. However, several jurisdictions have well-developed third-party servicing markets. While the bank or lender is typically named as the servicer on the transaction, the primary servicing activities may be outsourced to a third party or sub-servicer. The third-party servicer may also fulfill a backup servicing function. In such cases, DBRS may include the third-party servicer in its servicer review process.

Special Servicer

The special servicer is tasked with managing the collection, workout and/or legal enforcement process for arrears and defaulted accounts. This may be done by returning delinquent loans to a performing status or efficiently managing non-performing loans (NPLs), including the disposal of repossessed assets for secured loans. As a result, DBRS places particular emphasis on the number of years of experience and default management expertise of the special servicing unit, whether internal or via a third party.

The point at which servicing moves from primary to special servicing is not standard in Europe, mainly due to the prevalence of banks performing their own servicing and the various national regulatory regimes that may define loan classifications including defaults. Of significant importance is the ability of the servicer to manage the movement of loans between various arrears categories (i.e. roll rates), offer effective workout strategies and minimise re-default rates. DBRS views favourably those servicers that employ sophisticated decision-making software to facilitate and track the loss mitigation process. Furthermore, a special servicer's ability to effectively liquidate repossessed assets in compliance with regulatory guide-lines, where applicable, is paramount.

Back-Up Servicer

A BUS is responsible for performing the activities necessary to ensure that in the event of a default of the current servicer, it would be able to take over the servicing responsibilities outlined in the servicing agreement within a reasonable period of time. The estimated transfer time can range from a few days to nearly a year depending on the “temperature” of the arrangement (hot, warm or cold). The type of arrangement is also determined by the quality of the operational diligence and ongoing surveillance carried out by the BUS prior to contract invocation.

While there are currently no formalised definitions for back-up servicing in Europe, DBRS believes that the more preparation and ongoing surveillance of the existing servicer performed by the BUS, the hotter the stand-by arrangement.

The following chart illustrates some of the characteristics associated with a BUS, as well as the activities typically undertaken by the relevant BUS prior to invocation of the stand-by agreement.

Bus Traits/Activities	Hot	Warm	Cold
	< 30 days	30-90 days	> 120 days
Estimated transfer time	< 30 days	30-90 days	> 120 days
On-site visit of servicer	Yes	Yes	No
Periodic loan-level data files	Weekly	Quarterly	None
Data mapping	Full	Partial	No
Run data transfer tests	Yes	Limited	No
Reconcile securitisation reports	Yes	No	No
Ongoing servicer surveillance	Yes	Limited	No
Resignation rights w/o cause	No	No	Yes

DBRS views back-up servicing agreements, specifically those classified as warm or hot, as a useful feature in helping to mitigate potential operational risks within ESF transactions, especially those deals with long-term secured loans, such as mortgages and auto finance products. DBRS also believes that ESF transactions with new servicers and/or first-time issuers typically necessitate a back-up servicing agreement. Additionally, for transactions with a sub-investment grade and/or financially weak servicer, a stand-by servicing agreement and/or structural features addressing possible cash flow disruptions following a servicer event of default are often necessary in order for a transaction to achieve high investment-grade (AAA/AA) ratings.

The ESF and CVB transaction rating analysis includes a review of the relevant back-up servicing arrangements, including stand-by servicing and back-up servicing facilitator agreements where present. This analysis, as well as a review of the mechanisms incorporated into the transaction structure to address potential servicing risks, may result in positive or negative adjustments being made to the assumptions in the respective rating analysis.

As part of the rating analysis, DBRS also takes into account various aspects within the respective jurisdiction relating to the transaction that may be viewed as additional mitigants surrounding servicing risk. The robustness of the regulatory and insolvency regimes, the sophistication of the national servicing market, including the existence of experienced third-party servicers, and/or any recent precedents regarding the treatment of servicing operations in an insolvency scenario are addressed in the rating analysis.

The lack of a named warm or hot BUS on an ESF transaction may not alone negatively affect the rating analysis. However, the absence of any structural mitigants, including servicing contingency plans to address the credit issues resulting from a servicer default, coupled with the lack of a suitable back-up arrangement, may result in DBRS being unable to rate the transaction.

The following provisions have been observed in some ESF transactions designed to mitigate potential operational and credit risks associated with a servicer default:

- Limited commingling risk due to daily sweeps to the issuer/trustee account and/or dynamic triggers for movement to a daily sweep protocol.
- Rating triggers for investment-grade servicers to engage a BUS if a rating falls to (BBB (low)) or sub-investment grade.
- Reserve funds established at transaction closing and/or mechanisms for trapping excess spread.
- Creation of a commingling reserve at closing or following breach of a rating trigger to cover short-term payment shortfalls due to servicing disruption.
- Provisions for migration from a cold to a warm stand-by arrangement based on certain events affecting the current servicer and/or transaction.
- Detailed contingency plans, developed by external consultants, outlining the appropriate actions to be taken following an insolvency event designed to preserve current servicing operations in the short to medium term.

The above list provides just a sample of some of the stipulations included in European securitisations designed to address servicing disruption risk. Any decision made regarding the suitability of the back-up servicing agreement and/or the mitigating factors is on a case-by-case basis.

Cold Backup Servicer and Mitigating Factors

While the majority of BUS arrangements in pre-crisis ESF transactions were defined as cold, DBRS believes cold arrangements offer limited protection, if any, in mitigating operational servicer risk, particularly in fixed, long-term transactions, such as RMBS. DBRS believes the significant timeframes involved in executing a servicing transfer to a cold back-up or stand-by servicer, the lack of operational diligence (pre-contract) and oversight undertaken by the named BUS and, in some cases, the ability of the named BUS to refuse invocation, hinder the effectiveness of any cold arrangement. DBRS will negatively view stand-by agreements with opt-out clauses whereby a named BUS can refuse invocation.

In assessing the suitability of a cold BUS for a specific transaction, DBRS will take into account various factors that may result in a reclassification of the stand-by arrangement or may be viewed as potential mitigants. The relationship between the servicer and the named stand-by, including any sub-servicing arrangements, similar banking structures like cooperatives with complementary products and/or shared technology and/or use of a centralised, support institution such as Spain's Banco Cooperativo Español (BCE) or ICCREA Banca and Cassa Centrale Banca in Italy as the named BUS, may result in the agreement being considered more warm than cold. Furthermore, the minimal risk (if present) associated with a servicer default and/or the immediate shut-down and liquidation of the servicing operations resulting in potentially significant cash flow disruptions to the relevant deal may also mitigate the need for a warm or hot contract. This is particularly true for short-term ABS transactions issued in European jurisdictions with robust and efficient insolvency regimes.

Back-Up Servicer Facilitator

Although transactions with investment-grade-rated servicers may not have any back-up servicing agreement, all ESF deals include provisions for the identification and engagement of a stand-by or replacement servicer should the need arise. Such facilitation activities are typically the responsibility of an external party, e.g., trustee, management company (gestora, société de gestion), noteholders representative, issuer and/or another designated transaction counterparty. For example, in Italian securitisations, a back-up servicer facilitator (BUSF) is specifically named as a transaction counterparty responsible for appointing the new servicer.

The BUSF role is generally carried out by a select number of companies, such as master servicers in Italy authorised by the central bank. These companies may also provide other services within the transaction including, but not limited to, securitisation and tax reporting, as well as some ongoing surveillance of the existing servicer(s). BUSFs may also be contractually obligated to assume the servicing role if a suitable replacement cannot be found; therefore, the BUSF is expected to have some servicing capabilities.

While the BUSF may be able to assume the servicing role, the BUSF agreement does not, in DBRS's opinion, constitute a cold back-up arrangement. As a result, BUSFs offer limited protection in the event of servicer default. However, DBRS acknowledges that facilitator agreements do provide some benefits, namely a dedicated resource charged with engaging a replacement servicer following a servicer event of default. DBRS believes that this may ultimately reduce the estimated lengthy servicing transfer period for transactions with no existing back-up agreement.

Appendix 1: Sample Operational Risk Agenda for European RMBS Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Management experience.
- Staffing, training and retention rates.
- Portfolio size and composition.
- Strategic initiatives.
- Recent or planned mergers or acquisitions.
- Recent or planned transfer of servicing (rights), if any.
- Run-off rates.
- Securitisation history and future plans.

Controls and Compliance

- Internal and external audit procedures and results.
- Efforts to ensure regulatory compliance.
- Details of current or past regulatory actions including any findings.
- Corporate litigation (past, present and expected).
- Cause of servicing termination from any previous transaction, if applicable.
- Cause of termination of any third-party servicing contracts.
- Procedures for vendor selection and oversight.
- Storage and updating of policies and procedures.
- Approach to fraud detection.

Loan Administration

- New loan boarding process.
- Procedures for boarding accuracy and data integrity.
- Interest rate and/or payment reset process and notification.
- Cash management procedures and controls.
- Payment processing and controls including payment methods and frequencies.
- Exception and suspense account management.
- Account reconciliation and timing.
- Property insurance monitoring procedures.

Customer Service

- Procedures for responding to customer inquiries including response times.
- Strategy and technology.
- Call volume and average time to answer.
- Number of staff and ratio to call volume.
- Process for training and monitoring department and staff performance.
- Complaints monitoring procedures.

Collections

- Collection strategies for early-, middle- and late-stage collections.
- Details on whether collections process is centralised or not.
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Right-party contact rates.
- Hold time and abandonment rates.
- Use of predictive (behavioural) scoring and other technology.
- Policies regarding modifications, forbearance and deferrals.
- Delinquency, roll and cure rates.
- Use of technology.

Loss Mitigation

- Significant changes (past or planned) in procedures or workout strategies or timelines and impact on performance.
- Repayment plan, modification and forbearance plan procedures.
- Re-default rates.
- Use of re-modification, deed in lieu, short sales, DPO and voluntary repossession procedures.
- Insurance claim (PMI, NHG, national guarantee schemes) processing.

Enforcement and Insolvency

- Legal enforcement process and initiation.
- Percentage of foreclosure sold privately versus auction.
- Bankruptcy procedures and technology.
- Percentage of loans performing under the bankruptcy plan.
- Timeline management (by region where applicable).
- Attorney selection process.
- Number of loans in bankruptcy.
- Auction process, frequency, performance.

Possession Management

- Repossession portfolio by amount and number.
- Eviction processes.
- Vendor selection and pricing strategy.
- Property evaluation procedures (condition and value).
- Property management.
- Liquidation methods and marketing plan and strategy for disposition (e.g., auctions, renting, etc.).
- Process for filing and recovering borrower deficiency/shortfalls.
- Recovery rates and timelines (by region where applicable).

Investor Reporting

- Procedures for dissemination of reports to investors and trustees.
- Average number of investors remitted to on a monthly or quarterly basis (last 12 months).
- Average amount of monthly remittances (last 12 months).
- Number of late remittances in the last 12 months.
- Details on whether accounts are commingled (including how long they are commingled for).

Technology

- Core servicing system strengths and weaknesses.
- Capacity remaining in the servicing system.
- Website availability, usage and security.
- Procedures for vendor selection and oversight.
- Security measures employed to ensure compliance with national and EU data protection laws.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system back-up.
- Future initiatives.

Appendix 2: Sample Operational Risk Agenda for European SME CLO Loan Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Management experience.
- Staffing, training and retention rates.
- Portfolio size and composition.
- Strategic initiatives.
- Competition.
- Recent or planned mergers or acquisitions.
- Recent or planned transfer of servicing (rights), if any.
- Third-party outsourcing/servicing arrangements (if applicable).
- Serviced portfolio runoff rates.
- Securitisation history and future plans.
- Vintage loss performance and trends to date.
- Historical prepayment rates.

Controls and Compliance

- Internal and external audit procedures and results.
- Efforts to ensure regulatory compliance.
- Details of current or past regulatory actions including any findings.
- Cause of termination of any third-party servicing contracts.
- Procedures for vendor selection and oversight.
- Corporate litigation (past, present and expected).
- Description of any termination of servicing mandate.
- Storage and updating of policies and procedures.

Loan Administration

- New loan booking process.
- Procedures for checking booking accuracy and data integrity.
- Interest rate and/or payment reset process and notification.
- Cash management procedures and controls.
- Billing, payment processing and controls including payment methods.
- Account reconciliation and timing.
- Procedures for tracking insurance coverage, where applicable.
- Discuss periodic review of the borrower's business and how business performance, profitability, liquidity and asset quality are assessed on an ongoing basis.
- Discuss procedures for periodic review of the borrower and the loan facility for identifying any credit issues and/or breaches of any loan terms.
- Discuss monitoring funds availability in borrower's accounts as an indicator of potential delinquency.
- Evaluation methods of performance of the entire SME portfolio over time.
- Correspondence and dispute resolution.

Collections & Loss Mitigation

- Collection strategies for early-, middle- and late-stage collections.
- Details on strategies for borrower contact and assessment of ability/willingness to pay.
- Describe incentives used to entice collections.
- Discuss the use of internal/external counsel in the recovery process.
- Discuss the use of internal/external collection agencies, asset disposal companies, etc., in the recovery process.
- Policies regarding extensions, deferrals, payment holidays and/or loan modifications.
- Discuss significant changes (past or present) in procedures regarding work-out strategies and timelines.

Bankruptcy & Enforcement

- Discuss bankruptcy procedures.
- Use of internal or external counsel for bankruptcies, and process for managing external resources.
- Enforcement process and initiation of legal action.
- Asset valuation process where applicable.
- Auction process, frequency and performance.
- Liquidation methods, marketing plan and strategy for disposition of real estate.
- Recovery rates and timelines by region.
- Discuss write-off procedures and outline time frames for charging off accounts.
- Details on what the consequences of a write-off for an SME borrower for its accounts and credit lines throughout the institution would be.
- Details on write-off trends.
- Details of any changes to the write-off policy or procedure in the last five years.

Investor Reporting

- Procedures for dissemination of reports to investors and trustees.
- Average number of investors remitted to on a monthly or quarterly basis (last 12 months).
- Number of late remittances in the last 12 months.
- Describe the mitigation of commingling risk.

Technology

- Core servicing system strengths and weaknesses.
- Capacity remaining in the servicing system.
- Website availability, usage and security.
- Procedures for vendor selection and oversight.
- Security measures to ensure compliance with national and/or EU data protection laws.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system backup.
- Storage and access (i.e. company intranet, shared drive, hard).
- Discuss document retention and management.
- Future initiatives.

Appendix 3: Sample Operational Risk Agenda for European ABS (Consumer/Unsecured) Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Overall funding profile including term debt and maturities and covenants per facility. Include information on any breaches to covenants that have ever occurred.
- Ability to provide representations and warranties.
- Management experience.
- Staffing, training and retention rates.
- Portfolio size and composition.
- Strategic initiatives.
- Competition.
- Recent or planned mergers or acquisitions.
- Recent or planned transfer of servicing (rights), if any.
- Third-party outsourcing/servicing arrangements (if applicable).
- Serviced portfolio run-off rates.
- Securitisation history and future plans.
- Vintage loss performance and trends to date.
- Average servicing fees.

Controls and Compliance

- Internal and external audit procedures and results.
- Efforts to ensure regulatory compliance.
- Details of current or past regulatory actions including any findings.
- Corporate litigation (past, present and expected).
- Description of any termination of ABS servicing mandate.
- Controls for managing potential conflicts of interest associated with ABS transaction parties.
- Procedures for vendor selection and oversight.
- Storage and updating of policies and procedures.
- Process for interpreting and tracking compliance with regulatory guidelines and future changes.
- Post-closing quality reviews.
- Approach to fraud detection.

Loan Administration

- New loan booking process.
- Procedures for checking booking accuracy and data integrity.
- Cash management procedures and controls.
- Payment processing and controls.
- Account reconciliation and timing.
- Exception and reconciliation failure management.
- Interest rate and/or payment reset process and notification, if applicable.

Customer Service

- Procedures for responding to customer inquiries.
- Strategy and technology.
- Call volume and average time to answer.
- Number of full-time equivalent (FTE) staff and ratio to call volume.
- Level of call blockage, if any.
- Response times for inquiries.
- Procedures for monitoring complaints.

Collections

- Collection strategies for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Details on the role branches play in early stage arrears management.
- Describe process for transferring delinquent loans to centralised collection department.
- Explanation of call and notice (letter) cycles.
- Early warning indicators of distressed performance.
- Procedures for distressed accounts.
- Describe process for assessing the customer's ability and willingness to pay.
- Use of external collection agencies. Include how the bank monitors the activities of the external agency and whether the external agency is owned by the bank.
- Describe incentives used to encourage collections.
- Delinquency, roll and cure rates.
- Describe credit bureau reporting procedures.
- Describe process for filing and pursuing judgements and bankruptcy claims.
- Account-to-collector ratio.
- Right-party contact rate.
- Hold time and abandonment rates.
- Policies regarding extensions, deferrals or payment holidays.
- Use of internal or external counsel for bankruptcies.
- Write-off policies and process.
- Use of technology.
- Recovery performance to date.

Investor Reporting

- Procedures for dissemination of reports to investors and trustees.
- Average number of investors remitted to on a monthly or quarterly basis (last 12 months).
- Average balance of monthly remittances (last 12 months).
- Number of late remittances in the last 12 months.
- Details on whether accounts are commingled (including how long they are commingled for).

Technology

- Core servicing system strengths and weaknesses.
- Capacity remaining in the servicing system.
- Website availability, usage and security.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system backup.
- Future initiatives.
- Security measures employed to ensure compliance with national and EU data protection laws.

Appendix 4: Sample Operational Risk Agenda Items for European ABS (Auto Finance and Lease) Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Management experience.
- Staffing, training and retention rates.
- Portfolio size and composition.
- Strategic initiatives.
- Average servicing fee.
- Recent or planned mergers or acquisitions.
- Recent or planned transfer of servicing (rights), if any.
- Serviced portfolio runoff rates.
- Securitisation history and future plans.
- Third-party outsourcing/servicing arrangements (if applicable).
- Vintage loss performance and trends to date.
- Historical repayment rates.
- Describe relationship between manufacturing organisation and the servicer.

Controls and Compliance

- Internal and external audit procedures and results.
- Efforts to ensure regulatory compliance.
- Details of current or past regulatory actions including any findings.
- Corporate litigation (past, present and expected).
- Description of any termination of ABS servicing mandate.
- Controls for managing potential conflicts of interest associated with ABS transaction parties.
- Procedures for vendor selection, including external collection agencies, and oversight.
- Storage and updating of policies and procedures.
- Process for interpreting and tracking compliance with regulatory guidelines and future changes.
- Post-closing quality reviews.

Dealer Management

- Describe the process for evaluating relationships with dealers.
- Ongoing dealer oversight and management.
- Describe methods used to prevent and detect dealer fraud.
- Method and timing of payment to dealers.
- Performance monitoring of dealers, including first payment defaults, arrears and repossessions by dealer.
- Breakdown of dealer network by type of automobiles (new, used, mixed).
- Details on how information received from the dealers is validated.
- Procedures for monitoring dealer credit lines and locations.
- Insurance requirements for dealers.

Loan Administration

- New loan boarding process.
- Procedures for boarding accuracy and data integrity.
- Insurance requirements and process for monitoring borrower compliance.
- Cash management procedures and controls.
- Payment processing and controls.
- Exception and suspense account management.
- Account reconciliation and timing.
- Describe collateral/title/insurance tracking.

Customer Service

- Procedures for responding to customer inquiries, including response times.
- Strategy and technology.
- Call volume and average time to answer.
- Number of staff and ratio to call volume.
- Process for training and monitoring department and staff performance.
- Complaints monitoring procedures.

Collections

- Collection strategies for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Right-party contact rates.
- Hold time and abandonment rates.
- Use of predictive (behavioural) scoring and other technology.
- Policies regarding modifications, forbearance and deferrals.
- Charge-off process and repossession timelines.
- Delinquency, roll and cure rates.
- Use of technology.

Remarketing/Loss Mitigation

- Remarketing and disposition process.
- Use of auctions to sell repossessed automobiles.
- Recovery rates by type.
- Filing and pursuit of deficiency/shortfall claims.
- Approach to fraud detection.

Investor Reporting

- Procedures for dissemination of reports to investors and trustees.
- Average number of investors remitted to on a monthly or quarterly basis (last 12 months).
- Average amount of monthly remittances (last 12 months).
- Number of late remittances in the last 12 months.
- Details on whether accounts are commingled (including how long they are commingled for).

Technology

- Core servicing system strengths and weaknesses.
- Capacity remaining in the servicing system.
- Website availability, usage and security.
- Security measures employed to ensure compliance with national and EU data protection laws.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system back-up.
- Future initiatives.

Appendix 5: Sample Operational Risk Agenda Items for European ABS (Commercial Lease) Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Management experience.
- Staffing, training and retention rates.
- Portfolio size and composition.
- Strategic initiatives.
- Average servicing fee.
- Recent or planned mergers or acquisitions.
- Recent or planned transfer of servicing (rights), if any.
- Serviced portfolio run-off rates.
- Securitisation history and future plans.
- Third-party outsourcing/servicing arrangements (if applicable).
- Vintage loss performance and trends to date.
- Historical repayment rates.
- Describe relationship between manufacturing organisation and the servicer.
- Percent of company's net worth made up of unrealised residuals.
- Funding facilities.

Controls and Compliance

- Internal and external audit procedures and results.
- Efforts to ensure regulatory compliance.
- Details of current or past regulatory actions including any findings.
- Process for interpreting and tracking compliance with regulatory guidelines and future changes.
- Corporate litigation (past, present and expected).
- Description of any termination of ABS servicing mandate.
- Controls for managing potential conflicts of interest associated with ABS transaction parties.
- Procedures for vendor selection, including external collection agencies, and oversight.
- Storage and updating of policies and procedures.

Lease Administration

- Describe the terms of the lease for each asset type.
- Details on any leases with affiliates of the lessor.
- Provide concentrations for top 20 lease types, lessors and vendors.
- Details on the estimated useful life for each asset.
- Term of leases (include payment type, i.e., fixed-rate or balloon).
- Describe the management process for cross-border leases.
- Describe end-of-lease options available to the lessees.
- Details on when a delinquent lease stops accruing interest.

Account Maintenance

- Procedures for boarding accuracy and data integrity.
- Describe collateral tracking process.
- Interest rate and/or payment reset process and notification.
- Cash management procedures and controls.
- Payment processing and controls, including payment methods used and percentages.
- Exception and suspense account management.
- Account reconciliation and timing.
- Post-closing quality reviews.

Customer Services

- Procedures for responding to lessee and vendor enquiries, including response times.
- Call volume and average time to answer.
- Number of FTE staff and ratio to call volume.
- Technology used, if applicable.
- Procedures for monitoring complaints.

Collections

- Collection strategies for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Use of external collection agencies. Details on how the bank monitors the activities of the external agency and if the external agency is owned by the bank.
- Account-to-collector ratio.
- Right-party contact rates.
- Hold time and abandonment rates.
- Use of predictive (behavioural) scoring and other technology.
- Policies regarding modifications, forbearance and deferrals.
- Delinquency, roll and cure rates.
- Charge-off process and repossession timelines by lease type, where applicable.
- Use of technology.

Remarketing/Loss Mitigation

- Remarketing and disposition process.
- Recovery rates by product/lease type.
- Residual value policies and procedures.
- Residual value performance and turn-in rates and trends.
- Filing and pursuit of deficiency judgments.
- Approach to fraud detection.

Investor Reporting

- Procedures for dissemination of reports to investors and trustees.
- Average number of investors remitted to on a monthly or quarterly basis (last 12 months).
- Average amount of monthly remittances (last 12 months).
- Number of late remittances in the last 12 months.
- Details on whether accounts are commingled (including how long they are commingled for).

Technology

- Core servicing system strengths and weaknesses.
- Capacity remaining in the servicing system.
- Website availability, usage and security.
- Security measures employed to ensure compliance with national and EU data protection laws.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system back-up.
- Future initiatives.

Appendix 6: Sample Operational Risk Agenda Items for European ABS (Credit Card) Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Management experience.
- Staffing, training and retention rates.
- Portfolio size and composition.
- Strategic initiatives.
- Average servicing fees.
- Risk management practices.
- Recent or planned mergers or acquisitions.
- Recent or planned transfer of servicing (rights), if any.
- Third-party outsourcing/servicing arrangements (if applicable).
- Serviced portfolio runoff rates.
- Securitisation history and future plans.
- Vintage loss performance and trends to date.

Controls and Compliance

- Internal and external audit procedures and results.
- Efforts to ensure regulatory compliance.
- Details of current or past regulatory actions including any findings.
- Process for interpreting and tracking compliance with regulatory guidelines and future changes.
- Corporate litigation (past, present and expected).
- Description of any termination of ABS servicing mandate.
- Cause of termination of any third-party servicing contracts.
- Controls for managing potential conflicts of interest associated with ABS transaction parties.
- Procedures for vendor selection and oversight.
- Storage and updating of policies and procedures.

Account Maintenance

- Procedures for new account setup and data integrity checks.
- Cash management procedures and controls.
- Billing and payment processing and controls.
- Account reconciliation and timing.
- Exception and suspense account management.
- Average utilisation rates.
- Payment methods used.

Customer Service

- Procedures for responding to customer inquiries and response times.
- Call volume and average time to answer.
- Percentage calls handled by interactive voice response technology.
- Number of FTEs and ratio to call volume.
- Average credit limits, including how the limits are reviewed and adjusted.
- Over-limit fees and procedures.
- Strategy and technology used.
- Procedures for monitoring complaints.

Collections

- Collection strategies for early-, middle- and late-stage collections.
- Process for transferring arrears to centralised collection department.
- Explanation of call and notice cycles by product type.
- Use of external collection agencies. Details on how the bank monitors the activities of the external agency and if the external agency is owned by the bank.
- Describe incentives used to encourage collections.
- Account-to-collector ratio.
- Right-party contact rate.
- Hold time and abandonment rates.
- Use of predictive (behavioural) scoring and other technology.
- Policies regarding payment holidays, re-aging, extensions and/or deferrals and payment plans.
- Policies regarding freezing or lowering credit lines and increasing annual percentage rates.
- Delinquency, roll and cure rates.
- Use of technology.
- Credit bureau reporting procedures.

Loss Mitigation

- Significant changes (past or planned) in procedures or emphasis regarding workout strategies or timelines.
- Settlement practices.
- Procedures for handling accounts following borrower insolvency declaration.
- Charge-off process including timelines.
- Approach to fraud detection.
- Describe process for filing and pursuing judgements and bankruptcy claims.
- Use of credit counsellors.
- Outsourcing strategies for recoveries.
- Recovery rates.

Investor Reporting

- Procedures for dissemination of reports to investors and trustees.
- Average number of investors remitted to on a quarterly basis (last 12 months).
- Average balance of monthly remittances (last 12 months).
- Number of late remittances in the last 12 months.
- Details on whether accounts are commingled (including how long they are commingled for).

Technology

- Core servicing system strengths and weaknesses.
- Capacity remaining in the servicing system.
- Website availability, usage and security.
- Procedures for vendor selection and oversight.
- Security measures to ensure compliance with national and/or EU data protection laws.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system back-up.
- Future initiatives.

Appendix 7: Sample Operational Risk Agenda Items for European ABS (Student Loan) Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Management experience.
- Staffing, training and retention rates.
- Portfolio size and composition.
- Strategic initiatives.
- Risk management practices.
- Recent or planned mergers or acquisitions.
- Recent or planned transfer of servicing (rights), if any.
- Third-party outsourcing/servicing arrangements (if applicable).
- Serviced portfolio runoff rates.
- Securitisation history and future plans.
- Vintage loss performance and trends to date.

Controls and Compliance

- Internal and external audit procedures and results.
- Efforts to ensure regulatory compliance.
- Details of current or past regulatory actions including any findings.
- Corporate litigation (past, present and expected).
- Description of any termination of ABS servicing mandate.
- Controls for managing potential conflicts of interest associated with ABS transaction parties.
- Procedures for vendor selection and oversight.
- Storage and updating of policies and procedures.
- Process for interpreting and tracking compliance with regulatory guidelines and future changes.
- Post-closing quality reviews.
- Approach to fraud detection.

Loan Administration

- New loan boarding process.
- Procedures for boarding accuracy and data integrity.
- Management of borrower benefit programs and government guarantee or assistance schemes.
- Percentage of loans with third-party guarantees.
- Interest rate and/or payment reset process and notification.
- Cash management procedures and controls.
- Billing and payment processing and controls.
- Exception and suspense account management.
- Account reconciliation and timing.
- Payment methods used.

Customer Services

- Procedures for responding to customer inquiries and response times.
- Call volume and average time to answer.
- Number of FTEs and ratio to call volume.
- Strategy and technology used.
- Procedures for monitoring complaints.

Collections

- Collection strategies for early-, middle- and late-stage collections.
- Strategy for assessing a borrower's ability and willingness to pay.
- Process for contacting guarantor(s).
- Explanation of call and notice cycles by product type.
- Use of external collection agencies, including monitoring of external agencies.
- Collection incentives.
- Account-to-collector ratio.
- Right-party contact rate.
- Hold time and abandonment rates.
- Use of predictive (behavioural) scoring and other technology.
- Policies regarding grace periods, forbearance and deferrals.
- Delinquency, roll and cure rates.
- Charge-off (write-down) process.
- Use of technology.
- Credit bureau reporting procedures.

Loss Mitigation

- Significant changes (past or planned) in procedures or emphasis regarding workout strategies or timelines.
- Explanation of call and notice cycles by product type.
- Repayment plan, modification and forbearance plan procedures.
- Rejected claims curing process and cure rates.
- Exit or loan distribution strategies.
- Describe process for filing and pursuing judgments and bankruptcy claims.
- Recovery rates.

Investor Reporting

- Procedures for dissemination of reports to investors and trustees.
- Average number of investors remitted to on a monthly or quarterly basis (last 12 months).
- Average balance of monthly remittances (last 12 months).
- Number of late remittances in the last 12 months.
- Details on whether accounts are commingled (including how long they are commingled for).

Technology

- Core servicing system strengths and weaknesses.
- Capacity remaining in the servicing system.
- Website availability, usage and security.
- Security measures employed to ensure compliance with national and EU data protection laws.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system back-up.
- Future initiatives.

Appendix 8: Sample Operational Risk Agenda Items for European ABS (Premium Finance) Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Management experience.
- Staffing, training and retention rates.
- Portfolio size and composition.
- Strategic initiatives.
- Risk management practices.
- Recent or planned mergers or acquisitions.
- Recent or planned transfer of servicing (rights), if any.
- Third-party outsourcing/servicing arrangements (if applicable).
- Serviced portfolio runoff rates.
- Securitisation history and future plans.
- Historical performance.

Controls and Compliance

- Internal and external audit procedures and results.
- Efforts to ensure regulatory compliance.
- Details of current or past regulatory actions including any findings.
- Process for interpreting and tracking compliance with regulatory guidelines and future changes.
- Corporate litigation (past, present and expected).
- Cause of servicing termination, if applicable.
- Controls for managing potential conflicts of interest associated with ABS transaction parties.
- Procedures for vendor selection and oversight.
- Storage and updating of policies and procedures.

Account Management

- Procedures for new account setup and data integrity checks.
- Cash management procedures and controls.
- Billing and payment processing and controls.
- Account reconciliation and timing.
- Exception and suspense account management.

Account Monitoring

- Describe how the collection of the receivable is monitored.
- Details on how the company monitors financial statements for agents and insurance carriers.
- Describe how insurance carrier disputes are handled.
- Details on any prohibitions against the sale or pledge of the receivables.
- Describe the credit monitoring system.
- Describe the invoicing process.

Customer Service

- Procedures for responding to customer inquiries and response times.
- Call volume and average time to answer.
- Number of FTE staff and ratio to call volume.
- Strategy and technology used.
- Procedures for monitoring complaints.

Collections

- Collection strategies for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Use of external collection agencies. Details on how the bank monitors the activities of the external agency and if the external agency is owned by the bank.
- Describe incentives used to encourage collections.
- Account-to-collector ratio.
- Right-party contact rate.
- Hold time and abandonment rates.
- Use of predictive (behavioural) scoring and other technology.
- Policies regarding payment holidays, re-aging, extensions and/or deferrals.
- Details on when a policy is cancelled due to non-payment.
- Use of technology.

Loss Mitigation

- Charge-off process, including timelines.
- Recovery rates.
- Recovery process for refund of unearned premium from insurance carriers.
- Approach to fraud detection.

Investor Reporting

- Procedures for dissemination of reports to investors and trustees.
- Average number of investors remitted to on a monthly or quarterly basis (last 12 months).
- Average balance of monthly remittances (last 12 months).
- Number of late remittances in the last 12 months.
- Details on whether accounts are commingled (including how long they are commingled for).

Technology

- Core servicing system strengths and weaknesses.
- Capacity remaining in the servicing system.
- Website availability, usage and security.
- Security measures employed to ensure compliance with national and EU data protection laws.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system back-up.
- Future initiatives.

Appendix 9: Sample Operational Risk Agenda for European Covered Bonds

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Management experience.
- Staffing, training and retention rates.
- Portfolio size and composition.
- Strategic initiatives.
- Recent or planned mergers or acquisitions.
- Recent or planned transfer of servicing (rights), if any.
- Runoff rates.
- Offshoring strategy.
- Securitisation history and future plans.

Controls and Compliance

- Internal and external audit procedures and results.
- Efforts to ensure regulatory compliance.
- Details of current or past regulatory actions including any findings. Corporate litigation (past, present and expected).
- Cause of servicing termination from any previous transaction, if applicable.
- Cause of termination of any third-party servicing contracts.
- Procedures for vendor selection and oversight.
- Storage and updating of policies and procedures.

Cover Pool Management

- Details on what loan products are eligible to be included in the cover pool.
- Describe how the assets for the cover pool are selected.
- Provide a description of those products that have non-standard characteristics.
- Describe any expected changes in cover pool composition.
- Describe the decision process to issue new covered bonds.
- Details on the frequency of new assets being included in the cover pool.
- Describe the process for removing assets from cover pool.
- Details on the type of information that will be supplied to investors (please provide an example).
- Details on what data and how frequently the data is provided to the Cover Pool Monitor.
- Process for verifying compliance with legal/regulatory/contractual guidelines for covered bonds issuance.
- Identification of cover assets and swaps.
- Details on how the overcollateralisation ratio is calculated in the programme (including which assets are included and which are not).
- Describe how the documents are stored, i.e., externally/internally.
- Outline the segregation of the cover pools from the issuer's bankruptcy estate.
- Provide details on your contingency plan in the event a transfer is necessary.

Loan Administration

- New loan boarding process.
- Procedures for boarding accuracy and data integrity.
- Interest rate and/or payment reset process and notification.
- Cash management procedures and controls.
- Payment processing and controls including payment methods and frequency.
- Exception and suspense account management.
- Account reconciliation and timing.
- Property insurance monitoring procedures.

Customer Service

- Procedures for responding to customer inquiries, including response times.
- Strategy and technology.
- Call volume and average time to answer.
- Number of staff and ratio to call volume.
- Process for training and monitoring department and staff performance.
- Complaints monitoring procedures.

Collections

- Collection strategies for early-, middle- and late-stage collections.
- Details on whether the collections process is centralised or not.
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Right-party contact rates.
- Hold time and abandonment rates.
- Use of predictive (behavioural) scoring and other technology.
- Delinquency, roll and cure rates.
- Use of technology.

Loss Mitigation

- Significant changes (past or planned) in procedures or workout strategies or timelines and impact on performance.
- Repayment plan, modification and forbearance plan procedures.
- Re-default rates.
- Use of remodifications, deed in lieu, short sales, DPO and voluntary repossession procedures.
- Approach to fraud detection.
- Insurance claim (PMI, NHG, national guarantee schemes) processing.

Bankruptcy/Insolvency

- Bankruptcy procedures and technology.
- Number of loans in bankruptcy.
- Percentage of loans performing under the bankruptcy plan.
- Attorney selection process.

Enforcement/Foreclosure

- Legal enforcement process and initiation.
- Percent of foreclosure sold privately versus auction.
- Timeline management (by region where applicable).
- Auction process, frequency, performance.

Possession Management

- Repossession portfolio by amount and number.
- Eviction processes.
- Vendor selection and pricing strategy.
- Property evaluation procedures (condition and value).
- Property management.
- Liquidation methods and marketing plan and strategy for disposition (e.g., auctions, renting, etc.).
- Process for filing and recovering borrower deficiency/shortfalls.
- Recovery rates and timelines (by region where applicable).

Investor Reporting

- Procedures for dissemination of reports to investors and trustees.
- Average number of investors remitted to on a monthly or quarterly basis (last 12 months).
- Average amount of monthly remittances (last 12 months).
- Number of late remittances in the last 12 months.
- Details on whether accounts are commingled (including how long they are commingled for).

Technology

- Core servicing system strengths and weaknesses.
- Capacity remaining in the servicing system.
- Website availability, usage and security.
- Security measures employed to ensure compliance with national and EU data protection laws.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system back-up.
- Future initiatives.

Appendix 10: Sample Back-Up Servicer Agenda

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability (include current ratings of parent and three years' audited financials).
- Management experience.
- Staffing in the company as a whole and in the servicing department.
- Retention rates.
- Portfolio size (EUR and number of loans) of servicing by product and loan type (residential mortgages, unsecured loans, leases).
- Length of time servicing the type of products related to the back-up servicing role.
- Strategic initiatives.
- Recent or planned mergers or acquisitions.
- Recent or planned transfer of servicing (rights), if any.
- Runoff rates.
- Securitisation history and future plans.

Back-Up Servicing

- Details on how long will it take to be able to completely step into the role as a fully functioning servicer. Please provide a timeline for the transition plan.
- Details of any on-site visits to the company you have conducted or plan to conduct (include dates).
- Details on whether you have received or plan to receive a data dictionary and completed the data mapping of the portfolio (include dates).
- Details on how often you will be receiving electronic loan data files on the portfolio.
- Details on how you will be validating that the monthly (quarterly) remittance reports are complete and accurate (including re-calculating the available funds and loan payments).
- Describe what happens if you are not able to reconcile a discrepancy in a remittance report.
- Details on whether you plan to outsource or sub-service your responsibilities as a back-up servicer (include who to and your selection criteria).
- Describe the circumstances under which can you resign as back-up servicer.
- Details on what upfront and/or ongoing fees you are being paid for acting as back-up servicer.

Controls and Compliance

- Internal and external audit procedures and results.
- Efforts to ensure regulatory compliance.
- Details of current or past regulatory actions including any findings.
- Corporate litigation (past, present and expected).
- Cause of servicing termination from any previous transaction, if applicable.
- Approach to fraud detection.

Loan Administration

- Loan boarding process.
- Procedures for boarding accuracy and data integrity.
- Cash management procedures and controls.
- Payment processing and controls.
- Exception and suspense account management.
- Account reconciliation and timing.

Customer Service

- Procedures for responding to customer inquiries, including response times.
- Strategy and technology.
- Call volume and average time to answer.
- Number of staff and ratio to call volume.
- Process for training and monitoring department and staff performance.
- Complaints monitoring procedures.

Collections

- Collection strategies for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Right-party contact rates.
- Hold time and abandonment rates.
- Use of predictive (behavioural) scoring and other technology.
- Policies regarding modifications, forbearance and deferrals.
- Delinquency, roll and cure rates.
- Use of technology.

Loss Mitigation

- Significant changes (past or planned) in procedures or workout strategies or timelines and impact on performance.
- Repayment plan, modification and forbearance plan procedures.
- Re-default rates.
- Use of deed in lieu, short sales, DPO and voluntary repossession procedures.
- Insurance claim (PMI, NHG, national guarantee schemes) processing (if applicable).

Enforcement and Insolvency

- Legal enforcement process and initiation.
- Percent of foreclosure sold privately versus auction (if applicable).
- Bankruptcy procedures and technology.
- Percentage of loans performing under the bankruptcy plan.
- Timeline management (by region where applicable).

Possession Management

- Repossession portfolio by amount and number.
- Eviction/repossession processes.
- Vendor selection and pricing strategy.
- Property/asset evaluation procedures (condition and value).
- Property/asset management.
- Liquidation methods and marketing plan and strategy for disposition (e.g., auctions, renting, etc.).
- Process for filing and recovering borrower deficiency/shortfalls.
- Recovery rates and timelines (by region where applicable).

Investor Reporting

- Procedures for dissemination of reports to investors and trustees.
- Average number of investors remitted to on a monthly or quarterly basis (last 12 months).
- Average amount of monthly remittances (last 12 months).
- Number of late remittances in the last 12 months.
- Details on whether accounts are commingled (including how long they are commingled for).

Technology

- Core servicing system strengths and weaknesses.
- Capacity remaining in the servicing system.
- Website availability, usage and security.
- Security measures employed to ensure compliance with national and EU data protection laws.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system back-up.
- Future initiatives.

Appendix 11: Sample Operational Risk Agenda for European Non Performing Loans (Secured/Unsecured) Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Ability to provide representations and warranties.
- Management experience.
- Staffing, training and retention rates.
- Portfolio size and composition.
- Strategic initiatives.
- Competition.
- Recent or planned mergers or acquisitions.
- Recent or planned transfer of servicing (rights), if any.
- Third-party outsourcing/servicing arrangements (if applicable).
- Serviced portfolio runoff rates.
- Vintage loss performance and trends to date.
- Average servicing fees.

Controls and Compliance

- Internal and external audit procedures and results.
- Efforts to ensure regulatory compliance.
- Details of current or past regulatory actions including any findings.
- Corporate litigation (past, present and expected).
- Controls for managing potential conflicts of interest associated with ABS transaction parties.
- Procedures for vendor selection and oversight.
- Storage and updating of policies and procedures.
- Process for interpreting and tracking compliance with regulatory guidelines and future changes.
- Post-closing quality reviews.
- Approach to fraud detection.

Loan Administration

- New loan boarding process.
- Procedures for checking booking accuracy and data integrity.
- Cash management procedures and controls.
- Payment processing and controls.
- Account reconciliation and timing.
- Exception and reconciliation failure management.

Customer Service

- Procedures for responding to customer inquiries.
- Strategy and technology.
- Call volume and average time to answer.
- Number of FTEs staff and ratio to call volume.

- Level of call blockage, if any.
- Response times for inquiries.
- Procedures for monitoring complaints.

Collections

- Collection strategies.
- Explanation of call and notice cycles by product type.
- Explanation of call and notice (letter) cycles.
- Procedures for distressed accounts.
- Describe process for assessing customer's ability and willingness to pay.
- Use of external collection agencies. Details on how the bank monitors the activities of the external agency and if the external agency is owned by the bank.
- Describe incentives used to encourage collections.
- Delinquency, roll and cure rates.
- Describe process for filing and pursuing judgements and bankruptcy claims.
- Account-to-collector ratio.
- Right-party contact rate.
- Hold time and abandonment rates.
- Policies regarding extensions, deferrals or payment holidays.
- Use of internal or external counsel for bankruptcies.
- Write-off policies and process.
- Recovery performance to date.

Loss Mitigation

- Significant changes (past or planned) regarding workout strategies and/or timelines.
- Repayment plan, modification and forbearance plan procedures.
- Details on what percentage of modifications re-defaulted (including the average timeframe to re-default).
- Describe process for re-modifications, if applicable, as well as use of deed in lieu, short sales, DPO and voluntary repossession procedures.
- Approach to fraud detection.

Bankruptcy/Insolvency

- Bankruptcy procedures and technology.
- Number of loans in bankruptcy.
- Percentage of loans performing under the bankruptcy plan.
- Attorney selection process.

Enforcement/Foreclosure

- Foreclosure process and initiation.
- Average time to repossess a property.
- Auction process, frequency and performance.
- Percentage of assets sold privately or through lender/servicer-assisted sale and auction.

Possession Management

- Average monthly repossession portfolio (number of loans and value).
- Eviction processes (use of incentives as necessary).
- Vendor selection and pricing strategy.
- Property evaluation (condition and value) procedures.
- Property management procedures.
- Liquidation methods, marketing plan and strategy for disposition (e.g., auctions, renting, etc.).
- Process for filing and recovering borrower deficiency/shortfalls.
- Recovery rates and timelines (by region).

Investor Reporting

- Procedures for dissemination of reports to investors and trustees.
- Average number of investors remitted to on a monthly or quarterly basis (last 12 months).
- Average balance of monthly remittances (last 12 months).
- Number of late remittances in the last 12 months.
- Details on whether accounts are commingled (including how long they are commingled for).

Technology

- Core servicing system strengths and weaknesses.
- Capacity remaining in the servicing system.
- Website availability, usage and security.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system back-up.
- Future initiatives.
- Security measures employed to ensure compliance with national and EU data protection laws.



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