

# Servicer Evaluation: EMC Mortgage Corp.

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Publication Date: Jun 04, 2007 10:27 EDT

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Publication date: 04-Jun-07, 10:27:25 EST  
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#### Opinion

The rankings on EMC Mortgage Corp. (EMC), a wholly owned subsidiary of The Bear Stearns Cos. Inc., are affirmed at ABOVE AVERAGE as a residential loan servicer, residential subprime loan servicer, and residential special servicer. Additionally, the rankings were removed from CreditWatch with negative implications on July 17, 2006. At the same time, the ranking of ABOVE AVERAGE was assigned to EMC as a residential subordinate-lien servicer. The outlook is stable.

The rankings are based on the company's seasoned management team, comprehensive training programs and employee development curriculum, effective use and oversight of external vendor relationships, and efficient use of technology in its highly automated loan servicing environment. EMC's established track record of purchasing and servicing distressed assets has allowed it to develop the requisite infrastructure for effective servicing of newly acquired prime, Alt-A, and subprime assets, as well as distressed and subperforming loan assets.

During 2005, the company expanded its loan servicing operations into a nearby facility in Lewisville, Texas. The expansion provided additional seating capacity and enhanced EMC's disaster recovery and business continuity capabilities through data redundancy. This year, Bear Stearns has ramped up its investment in EMC's servicing infrastructure and technology. The addition of several senior industry executives has strengthened the senior management team and created additional depth, which should position the company well for continued portfolio growth. The creation of this expanded senior management team has allowed EMC to focus on core issues, such as improving the company's internal quality assurance methodology, developing improved capacity modeling, enhancing project management oversight, and expanding its platform blueprint to accommodate continued business expansion.

As indicated in the Jan. 31, 2006, press release detailing the CreditWatch actions, Bear Stearns announced in an SEC filing that it is cooperating with a Federal Trade Commission (FTC) inquiry regarding the company's servicing practices. The demand was part of a Dec. 8, 2005, FTC resolution that may be part of a broader industry investigation into subprime lenders, brokers, and servicers to determine whether consumer protection laws have been violated.

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through Standard & Poor's proprietary SEAM data collection during the normal course of our servicer evaluation methodology. Based on our review, EMC's performance data is consistent with Standard & Poor's criteria for an ABOVE AVERAGE ranking. The review also showed that EMC's performance data compares favorably with that of its peer group. To date, the potential resource demands involved in complying with an FTC investigative demand do not appear to have affected EMC's servicing capabilities.

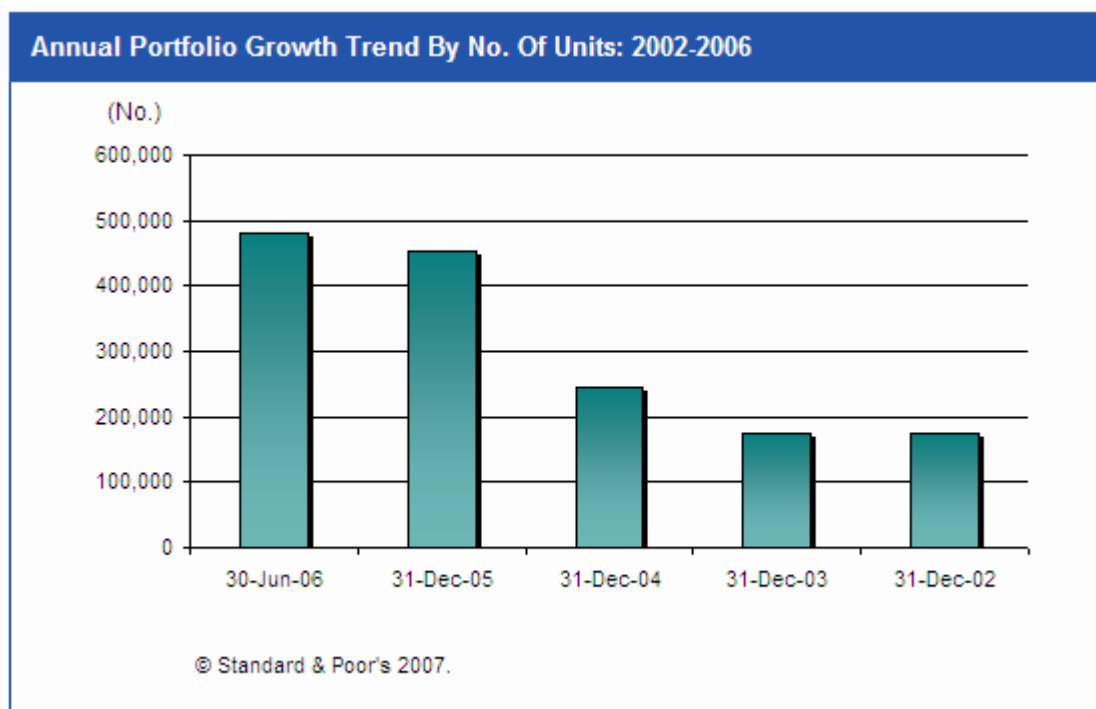
While Standard & Poor's did not detect any systemic servicing issues during its review, EMC has been tasked with the challenge of continuing to provide consistently high servicer performance while managing significant growth in its loan servicing portfolio during the past 24 months. Standard & Poor's is confident that EMC's highly tenured management team will continue to strengthen operational risk methodologies and provide staffing and platform capacity commensurate with business growth.

## Outlook

The outlook is stable. Although Standard & Poor's remains concerned over the aforementioned FTC investigation and the potential for future regulatory and headline risk, EMC's servicing performance did not deteriorate between 2005 and 2006. The recent additions to senior management and the significant financial investment in operations are illustrative of Bear Stearns' continued commitment to the mortgage servicing business. Standard & Poor's will continue to track

EMC's servicing performance in the months ahead and will monitor the status of the FTC investigation and comment as developments occur.

Chart 1



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## Profile

EMC, a wholly owned subsidiary of The Bear Stearns Cos. Inc., was established in 1990 to service Resolution Trust Corp.'s underperforming loans. EMC specializes in the acquisition, disposition, securitization, and servicing of prime, Alt-A, subprime, and underperforming loans. Management represents that future growth has migrated from an acquisitions-based strategy to a more organic approach. Continued organic portfolio growth should remain strong via Bear Stearns' conduit mortgage operations, with products such as Alt-A and subprime mortgage loans, as well as subordinate-lien products (closed-end second liens and home equity lines of credit {HELOCs}), representing about 20% of new product.

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## Management And Organization

The ranking for management and organization is affirmed at ABOVE AVERAGE.

## Management and staff recruitment, development, and training

EMC has a well-seasoned management team with acceptable turnover rates, contributing to a very stable loan servicing environment.

- Senior managers average 24 years of industry experience and nearly five years' tenure with EMC.
- Front-line managers and supervisors are well-seasoned, approaching 11 years of industry experience and approximately five years' tenure at EMC.

- The annualized turnover rate for management and staff is 13.42% and 24.30%, respectively. Management turnover is minimal at five percent.

EMC, with the support of parent company Bear Stearns, promotes and supports a highly effective training environment at its corporate and departmental levels. The well-structured and comprehensive training curriculum is designed for both new hires and existing staff, with course offerings available on the company intranet site. Employees may register for various courses online, with attendance and course completion tracked in a central database. The training program includes:

- Formal new-hire training consists of approximately 32 hours of classroom and self-study education.
- The new-hire orientation program includes 13 hours of classroom and self-study training.
- Technical training is provided for both the Fidelity MSP system as well as other ancillary software programs based on job-specific requirements.
- All new customer service employees enroll in up to 104 hours of classroom instruction that includes skill practices, mortgage banking processes and terminology, call observation, and the successful completion of a final exam covering all areas.
- An individual development plan is established for all managers to reinforce career-pathing, skills development, and promotion within EMC.
- Management training includes development of leadership skills, including coaching and counseling employees, defining goals, and refining interviewing skills.
- Employees receive multi-hour training and certification on the Fair Debt Collection Practices Act (FDCPA).
- Continuing education in default management averages 40 hours.

EMC utilizes outside vendors and industry organizations for additional training. The company has conducted off-site seminars featuring EMC managers and guest speakers, which are designed to promote cross-training in various topics as well as to draw attention to industry hot topics. EMC's combination of structured classroom instruction, on-the-job training and mentoring, and external seminars provides an excellent and varied methodology for ensuring that all new and current EMC staff are well-versed in company policies and procedures. Overall, EMC's well-designed, comprehensive training regimen is an excellent way to develop and maintain a professional and knowledgeable workforce.

### Internal controls

EMC's policy and procedure manuals are well written in a structured format, extremely comprehensive, and include flow charts, narratives, definitions, and step-by-step instructions. EMC has solid controls in place for developing and updating its procedure manuals, including:

- Policy and procedure manuals are available on the company's intranet.
- Senior managers must sign off on all new procedure updates.
- A dedicated writer in the training area writes the policies and procedures to ensure consistency. The amended policies and procedures are then incorporated online.
- Extensive help functionality is incorporated via RoboHelp.
- All pooling and servicing agreements are imaged, and a matrix summary of each agreement is retrievable online.
- AllRegs is used to reference investor and insurer guidelines.

EMC has sufficient levels of loan servicing audits designed to mitigate risk of loss to investors. The audits are designed to satisfy traditional risk assessment and performance methodologies, including:

- The quality assurance group performs monthly and quarterly audits of various loan servicing areas that are designed to comply with HUD requirements.
- Results of the compliance audits are distributed to senior management at Bear Stearns as well as the corporate audit group.
- EMC's corporate parent, Bear Stearns, performs an annual audit of various servicer risk areas, including investor accounting and reporting.
- Audit scope identifies key areas of risk, including cash management and investor accounting and reporting.
- All audit reports incorporate written feedback to management as well as a methodology for management's response.
- A database monitors quality assurance and annual audit schedules and responses.

All audit reports are structured to ensure that the company follows prudent loan servicing practices and to verify compliance with regulatory and investor guidelines. Standard & Poor's review of the company's internal audit reports produced during the recent 18-month period found the reports to be comprehensive and succinct. EMC has multiple levels of internal audits designed to minimize risk of loss to investors and to promote prudent loan servicing practices globally across its servicing platform. However, management should allow for more flexibility in the scope and frequency of its internal audit and quality assurance reviews to provide more in-depth follow-up on noted findings and issues; this will, in turn, tighten the issue escalation process and result in enhanced performance accountability.

## Technology

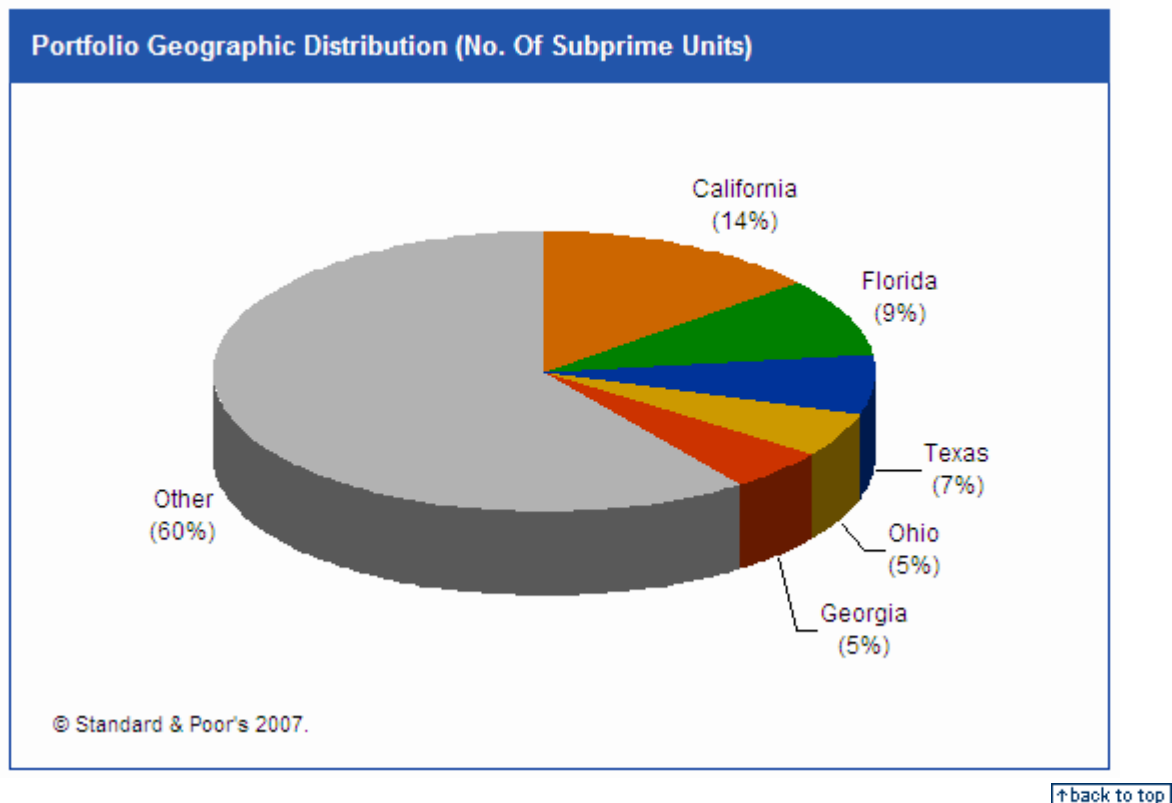
The servicing platform moved to a 122,000-square-foot facility in Lewisville, Texas, in January 2007. This facility, as well as the migration of certain processing functions offshore, has provided EMC with enhanced disaster recovery and business continuity through fully redundant processing. In addition, the Lewisville facility has a backup generator on-site that can provide up to four days of power without refueling. EMC operates in a highly efficient automated environment, utilizing the following systems architecture for business operations and recovery:

- Loan servicing records are housed on Fidelity's Mortgage Servicing Package (MSP).
- The current scalable systems architecture is sufficient to support projected portfolio growth.
- The platform utilizes Fidelity's suite of technology services, including Director for enhanced process automation, Powerview for customized reporting, ELI for electronic loan boarding, Navigator for online help, and Passport for querying and reporting.
- A scorecard is utilized for vendor management and feedback.
- Imaging provides easy access to legal documents, and RightFax is in place for desktop faxing.
- REKON software is used for processing mortgage reconveyance documents.
- Greatland ARM Auditor software is used for analyzing adjustable rate loans.
- A voice response unit (VRU) enables automated customer information retrieval.
- Autodialer technology is utilized to build, load, and track calling campaigns on delinquent loans.
- Early Resolution is used for workout strategies as early as the fifth day of delinquency.
- NewTrak is used to electronically refer and track bankruptcy and foreclosure cases sent to outside counsel.
- PACER is used to electronically monitor the status of bankruptcy filings and case dispositions.
- Remend, an asset management system, is employed to manage real estate owned (REO) inventory.

A formalized calling tree is part of EMC's business resumption plan, and managers have laminated telephone number cards for reference during an emergency event. In addition, managers maintain a disaster recovery manual at their homes and offices. Nightly backup tapes are stored off-site. The

disaster recovery plan is tested at least annually. Overall, EMC's systems and its disaster recovery and business resumption plan are well designed and appropriate to manage the company's loan portfolio.

Chart 2



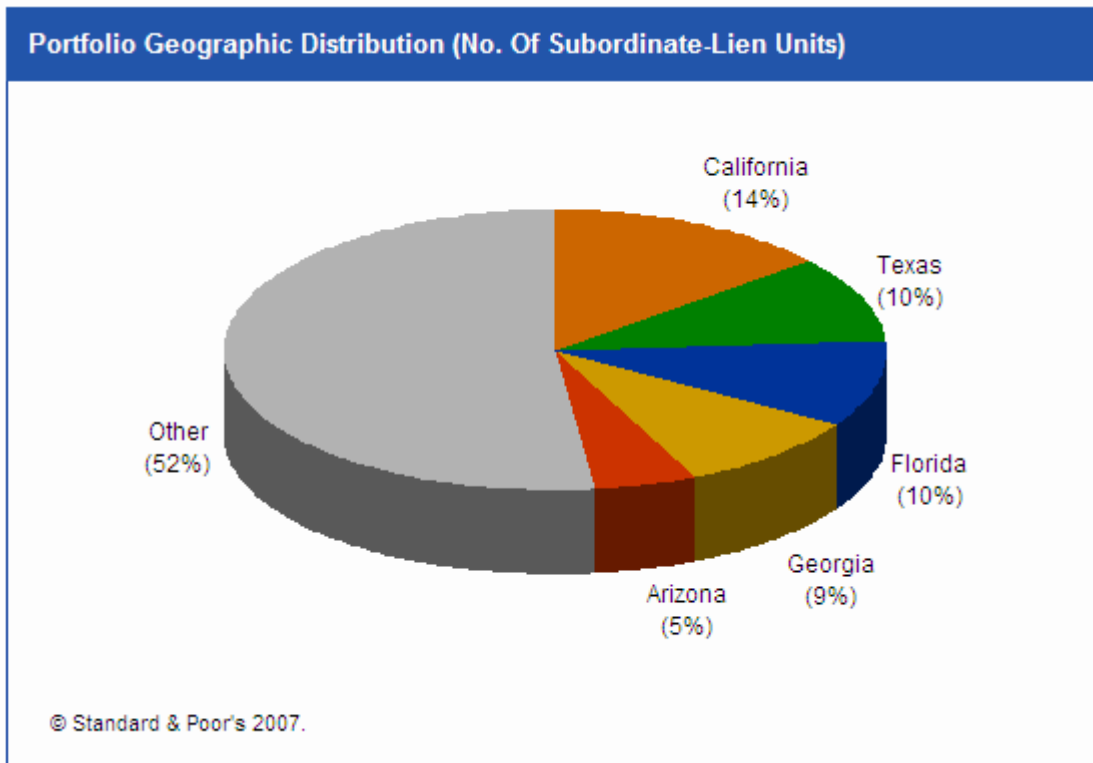
### Loan Administration

The ranking of ABOVE AVERAGE is affirmed in the categories of residential loan servicer (prime and Alt-A), residential subprime loan servicer, and residential special servicer. The ranking of ABOVE AVERAGE is assigned for residential subordinate-lien servicer.

### Overview

John A. Vella, president and chief executive officer, oversees the company's loan administration department, which employed approximately 1,407 full-time equivalents (FTEs) as of June 2006. As of June 2006, the company serviced a portfolio of more than 479,000 loans representing a total unpaid principal balance exceeding \$64 billion. The geographic diversity of the portfolio is good. The largest concentrations of subprime loans are in California, Florida, Georgia, Arizona, and Texas. The geographic concentration of the subordinate-lien portfolio is similarly dispersed (see chart 3). The remaining loans are highly dispersed among other regions of the U.S., thereby providing a satisfactory level of insulation from risk of loss arising from regional economic downturns.

Chart 3



Standard & Poor's reviewed all aspects of loan servicing, including loan boarding, payment processing, investor reporting, customer service, escrow administration, collections, foreclosure, and asset recovery functions. Key risk areas are discussed in more detail.

### New loan boarding

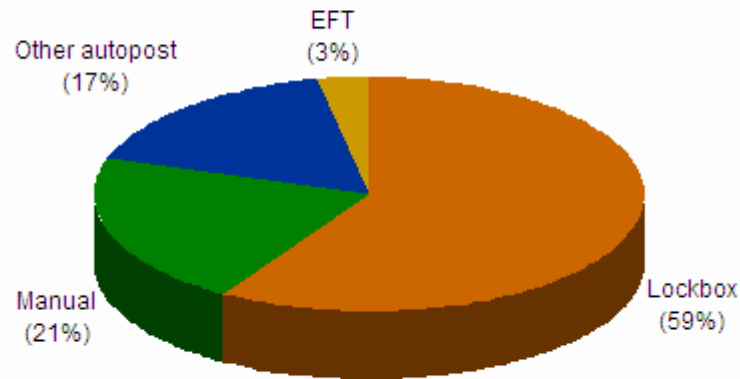
New loan boarding is both manual and electronic. EMC uses numerous conversion programs to enter new loan data into Fidelity MSP, including ELI, Fidelity's electronic interface for loan boarding. The following data integrity controls are in place:

- Extensive data scrubbing is performed, and exception reports are reviewed for incorrect data.
- Before August 2006, a 20% random sample quality control review was performed on all acquisitions of greater than 50 loans, and 100% quality control for portfolios of less than 50 loans; After August 2006, the quality control check was increased to 100% for all loan acquisitions.
- All key loan documents are imaged and stored online for efficient research/retrieval.
- Welcome calls are made to establish contact with the borrower, verify key data, and reinforce good pay habits.

### Cash management and investor accounting

EMC has an efficient cash management operation incorporating good internal controls to minimize risk of loss from human error or fraud. The excellent controls in the payment processing function include:

### Payment Posting Channels: Monthly % (Jan.-June 2006)



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- The lockbox capture rate for all products exceeds 96%, which compares favorably with EMC's SEAM peer group.
- The lockbox error rate is acceptable at 4%.
- Additional automated payment remittance methods represent 17% of volume.
- The penetration rate for ACH processing is low at 3%.
- Manual processing represents 21% of all payments posted.
- The annualized turnover rate of cashiering staff is low at 7.8%.
- Planet code tracking is utilized to update the system for payments in transit.
- Accounts Receivable Conversion (ARC) will be implemented in 2007.
- Check batches are subject to multiple levels of review and are system-reconciled.
- Unprocessed items require a 48-hour resolution, are stored in a fireproof cabinet, and are noted on a check log that is distributed to relevant departments for instructions.
- A check log is distributed to management weekly for follow-up.
- An appropriate level of security is in place for the payment posting area, including employee card key access. Management performs desk inspections periodically to ensure that all items have been processed within the specified period.
- The payment clearing account is reconciled daily by a dedicated individual disassociated from the payment posting function to ensure proper segregation of duties.

Investor remitting, reporting, and account reconciliation is similarly tightly controlled to minimize risk of loss. The following risk management methodologies are in place:

- There is appropriate segregation of duties among staff handling remitting, reporting, and bank account reconciliation functions.
- Workflow is primarily assigned by investor to develop and maintain expertise.
- Investor reporting is almost exclusively (98%) via electronic means.
- Data gathering process is 100% automated, maximizing the integrity of investor data.
- Pool-level performance data is accessible on the company's Web site.



- Custodial accounts are reconciled monthly by a dedicated staff disassociated from reporting and remitting functions. Outstanding items are identified within 30 days and cleared within 45 days.
- Online access to bank account statements facilitates the daily and monthly reconciliation process.
- Management reviews all bank account reconciliations and investor reports for accuracy.
- Bank Reconciliation Analysis Tracking (BRAT) provides oversight of the reconciliation process.
- Management has represented that no late reporting or remitting penalties have been assessed.

Chart 5



### Customer relationship management

EMC's customer service initiative is fully automated, utilizing a voice response unit (VRU) to provide account-level data to customers, and an automated call distribution system (ACD) efficiently routes call volume to appropriate cues. A review of qualified written inquiries processed by EMC during the six-month period between January and June 2006 indicated full compliance with RESPA guidelines. Additionally, the inflow of qualified written inquiries during this period remained consistent on a monthly basis, indicating no unusual trends. As of June 2006, EMC outsourced approximately 70% of call volume to a third-party vendor and managed the relationships according to key performance indicators. EMC provides a satisfactory level of service to its customers, as indicated by the following service indicators:

- The VRU capture rate of approximately 39% is adequate but should be targeted for

- improvement.
- Trending analysis is performed on VRU routing to identify problems and measure overall VRU efficiency.
- Bilingual 24/7 VRU and bilingual customer service representatives deliver account information in English and Spanish to accommodate diverse portfolio demographics.
- The average speed of answer (ASA) for EMC is an acceptable 66 seconds; the vendor performs at 62 seconds.
- The call abandonment rate for EMC is satisfactory at 4.60%; the vendor performs with a 4.00% abandonment rate.
- The first-call resolution rate is satisfactory at 80.08%.
- Customer Web site usage is effective at 34.90%.
- Efficient monitoring of call center staff includes eight formal call monitoring sessions per representative per month.
- The annualized turnover rate of 22.42% surpasses industry standards and EMC's SEAM peer group average.
- Written correspondence is handled in a dedicated research and correspondence unit and tracked to ensure RESPA compliance (see chart 5).

An external vendor that provides call center expertise supplements EMC's customer service operation. The external vendor acts as a satellite call center for EMC, utilizing a specially trained group of representatives dedicated to EMC accounts. This outsourcing arrangement permits load balancing of call volume between the two sites for optimum call center efficiency and flexibility. The vendor must perform according to EMC's service level goals, and EMC routinely monitors its performance. The company's quality assurance group within customer service performs periodic quality control reviews to ensure that both EMC and its vendor are providing a satisfactory level of customer service to its borrowers.

Mortgage reconveyance processing is tightly controlled to reduce risk of loss due to failure to comply with state reconveyance statutes. EMC utilizes REKON for processing nearly 40% of mortgage reconveyance documents in-house. An external vendor that EMC effectively monitors prepares the remaining 60% of mortgage reconveyances. Utilizing daily, weekly, and monthly aging reports effectively manages reconveyance timelines both internally and externally.

- Excellent 100% payoff quote completion rate per state guidelines.
- Approximately 48% of the portfolio has prepayment penalties.
- Prepayment penalties are system-calculated to minimize human error.
- EMC has paid minimal penalties for failure to reconvey.
- 11.53% of pending reconveyances in processing are out of statutory compliance; however, this represents a significant improvement from Standard & Poor's previous review.
- The reconveyance documentation rejection rate is excellent at 2.21%.

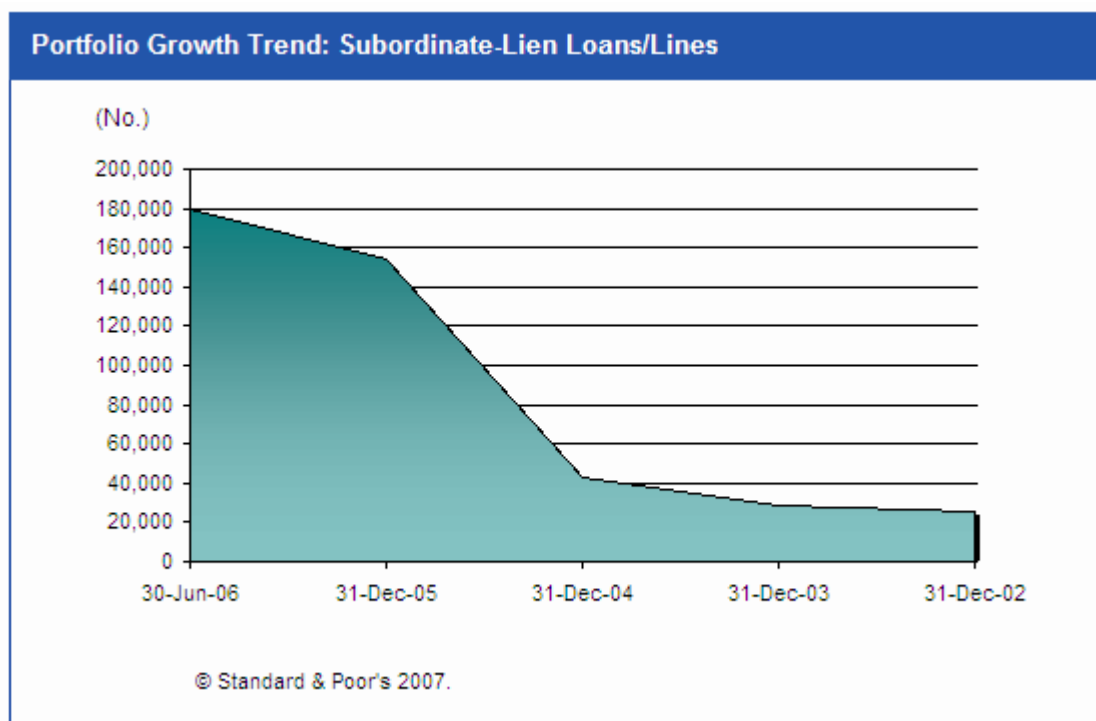
### Escrow administration

EMC operates a well-controlled escrow administration area that benefits from highly effective oversight of its third-party vendor relationships for hazard insurance and real estate tax bill procurement. The company collects escrow funds on approximately 40% of the combined portfolio and has implemented the following controls:

- Real estate tax bill procurement and hazard and flood insurance policy procurement are fully outsourced via two vendor relationships. Escrowed and non-escrowed accounts are tracked.
- EMC performs semiannual on-site business reviews of vendors and generates vendor scorecards monitoring performance in accordance with agreed-upon service levels.
- Vendors perform letter and calling campaigns both before and after the expiration date of

- insurance and tax items for escrowed and non-escrowed items.
- Nonreimbursable tax penalties have significantly improved, from a high of \$0.94 per loan in 2003, to \$0.16 per loan in June 2005, down to \$0.10 in June 2006.
- Lender-placed hazard insurance coverage represents approximately 8.53% of the combined portfolios.
- The lender-placed insurance cancellation rate is excellent at 3.87%.
- The annual renewal rate for lender-placed hazard insurance is a solid 47.75%.
- Lender-placed flood insurance coverage represents approximately 0.46% of the combined portfolios.
- The lender-placed flood insurance cancellation rate is excellent at 4%.
- The vendor reviews insurance carrier ratings to ensure sufficient claims-paying ability in the event of a hazard or flood insurance loss.

Chart 6



EMC has experienced significant growth in its subordinate-lien servicing portfolio, including closed-end loans and HELOC products. Management has developed sound practices and policies to effectively service HELOC products, as evidenced by the following controls:

- A third-party bank is utilized for check processing.
- A dedicated "special products" team handles all customer calls.
- Written requests are accompanied by certified funds required to pay off lines of credit.
- Address changes and billing disputes must be received in writing.

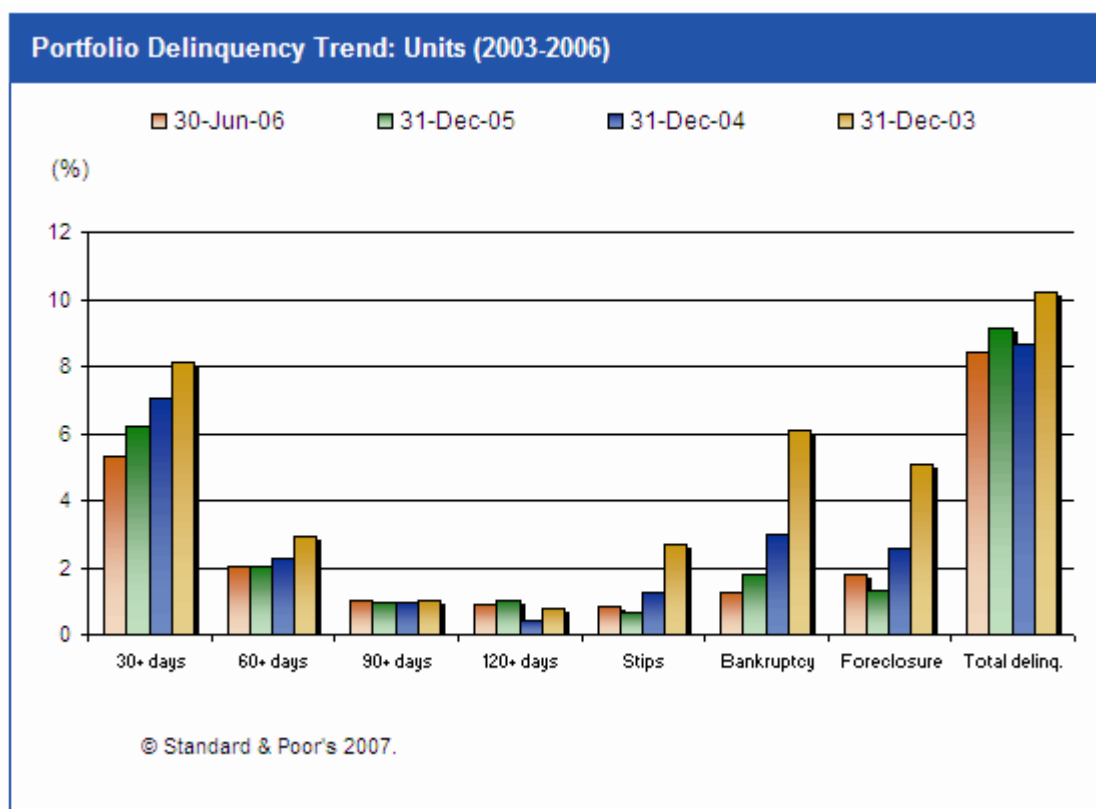
EMC will implement an advance or "check stop" under the following circumstances: if signature cards have not been received; the loan is 45 days delinquent; bankruptcy is filed; checks are reported lost or stolen; or the first lien is placed into foreclosure. Currently there is no approval required on high-dollar advances; however, Standard & Poor's believes it is prudent policy to

develop a high-dollar advance threshold requiring process approval.

A junior lien tracking group evaluates second-lien loans that are 90 days delinquent and handles situations when a senior lienholder notifies EMC of a foreclosure on the primary lien. The junior lien tracking group considers various factors when determining whether or not to proceed with foreclosure, including the availability of loss mitigation options, the potential for litigation, the equity amount, and recent payment activity. The group determines the amount to bid at foreclosure sale and whether there is sufficient or insufficient equity, which will ultimately guide the bid amount and the overall decision-making process.

## Default management

Chart 7



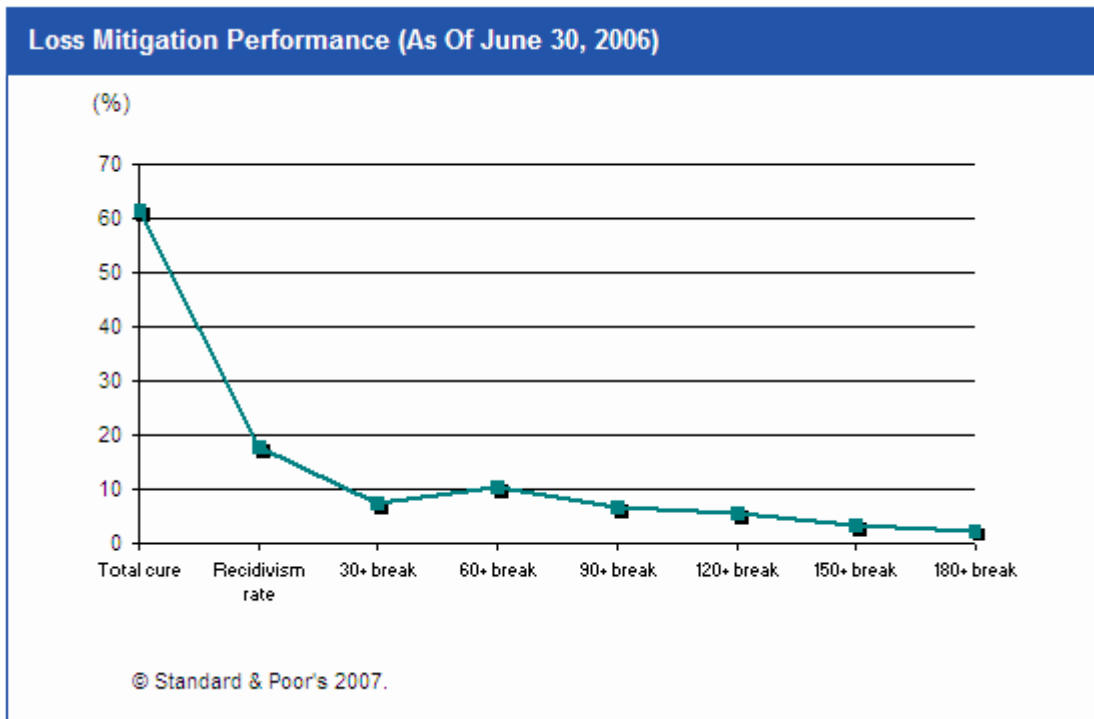
The collections effort is bifurcated between front-end collections (for loans up to 60 days delinquent) and back-end or advanced collection efforts. The front-end collectors use autodialer technology for all collection efforts and are less experienced than the back-end collectors. The company places welcome calls before the first payment due date; live calls for the subprime and second-lien portfolio, and autodialed calls for the Alt-A portfolio. Key characteristics of the company's effective approach to first-lien collections include:

- Collection timelines for all products are appropriate and based on investor requirements and prudent loan servicing practices.
- The welcome call contact rate is a solid 64%.
- Managers average eight years of industry experience and approximately two years of tenure with EMC. Collectors average three years of industry experience and approximately two years' tenure with EMC.
- The collector turnover rate is elevated at 32% and should be targeted for improvement.

- The bifurcated collection approach includes state-specific notices and calling campaigns.
- Delinquent borrowers are automatically routed from the VRU to a collection representative.
- Reason-for-default codes are routinely entered on the account for use in the loss mitigation and foreclosure stages.
- Freddie Mac's Early Indicator is used to score the FNMA portfolio and develop calling campaigns based on risk of default.
- Extended evening and weekend hours are in place to canvass the geographically diverse portfolio.
- The ASA for inbound collection calls is an excellent 13 seconds, while the abandonment rate is a solid 2.06%, a significant improvement since Standard & Poor's last review.
- The overall right-party contact rate is satisfactory at 18%, while the right-party contact rates for the 30- and 60-plus-day delinquency buckets are 20.39% and 11.45%, respectively.
- 52% of calling campaigns are conducted during prime-time calling hours.
- Promise-to-pay success rates in the 30- and 60-plus-day delinquency buckets are effective at 81% and 78%, respectively.
- EMC uses best-time-to-call methodology and is evaluating related alternative applications that may further assist in effective collection management.
- Inspections are ordered beginning at 45 days past due and subsequently performed on a monthly basis.
- National change of address database is utilized for skip tracing.
- The dedicated skip tracing unit has a solid locate rate of 41.23%.

Collectors have discretionary authority to enter into short-term repayment plans with borrowers, from three to six months in duration. In order to present the best workout strategies to borrowers, collectors utilize Early Resolution to analyze borrowers' intent to stay in their properties and their ability and willingness to pay. Collection repayment plans are system-tracked and, if broken, will automatically revert to the collection queue. Collector incentives are based on individual, team, and department-level achievements, and the incentives are modest. Overall, the company has effective practices to oversee its collection functions.

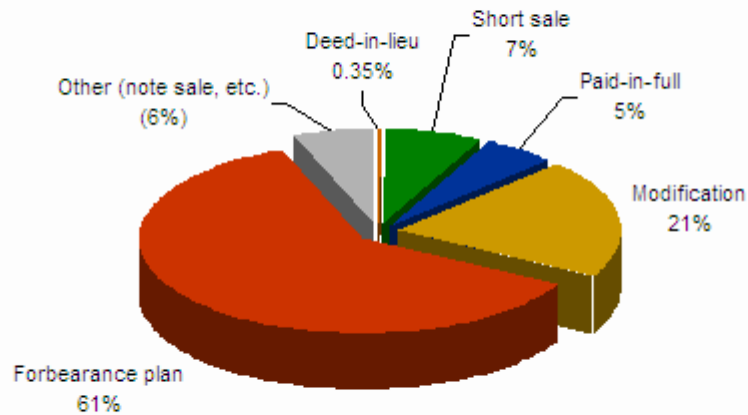
Chart 8



Loss mitigation efforts may begin as early as the fifth day of delinquency. The loss mitigation department targets loans in foreclosure, although collectors may refer loans to the loss mitigation department at any time. The highly experienced loss mitigation staff averages approximately seven years of industry experience, and the manager brings a solid 14 years of industry experience. EMC has an appropriately proactive approach to loss mitigation, soliciting delinquent borrowers at 45 days past due and continuing loss mitigation on a dual path through the foreclosure process. A formal loss mitigation solicitation letter is system-generated when foreclosure commences at 65 days delinquent. Standard & Poor's believes this is a cost-efficient approach, given the expenses associated with foreclosure real estate disposition. Staff members order broker price opinions (BPOs) and obtain financial data from borrowers. EMC then enters this data into the system and downloads it to spreadsheets for profit-and-loss analysis. As shown in chart 8, EMC exhibits solid results in the implementation of loss mitigation forbearance plans and associated cure rates. The monthly break rate in each category of the forbearance plan is quite low, and the ultimate recidivism rate compares favorably with industry standards and EMC's SEAM peer group.

Chart 9

### Loss Mitigation: Distribution By Workout Type (As Of June 30, 2006)



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Loss mitigation activities continue throughout the foreclosure process, following a dual path that consists of loan workout activities designed to minimize risk of loss to investors and simultaneous adherence with timelines critical to the foreclosure process. EMC proactively monitors its foreclosure and bankruptcy caseload to maximize performance and minimize risk of loss. The following procedures and controls are in place:

- Foreclosure files are assigned by state to develop and maintain expertise.
- Management has an average of 14 years of industry experience and approximately four years of tenure with EMC. Counselors have seven years of industry experience on average and approximately four years of tenure with EMC.
- Caseload management is efficient, with approximately 375 foreclosure files per representative.
- Automated file referral to foreclosure is in place and follows the investor timeline.
- The NewTrak system is used for electronic file referral and communication with outside counsel.
- Attorney and vendor lists are available online and must be approved by the company's vendor management group.
- The company maintains attorney scorecards and holds monthly conference calls.
- The foreclosure cure rate of 11.06% compares favorably with EMC's SEAM peer group and industry performance.
- Bankruptcy caseload files per representative equates to an efficient average of 450.
- Foreclosure cases completed to standard, at 96%, compares favorably with the SEAM peer group and industry performance.
- Escrow analysis is performed on all bankruptcy accounts.
- NewTrak facilitates electronic updates and communications.

When acquiring portfolios that qualify as special servicing loans, Bear Stearns' nonperforming desk within its capital markets area has a due diligence group that reviews such assets to ascertain the status of pending foreclosures and bankruptcies, as well as various contested legal issues and title

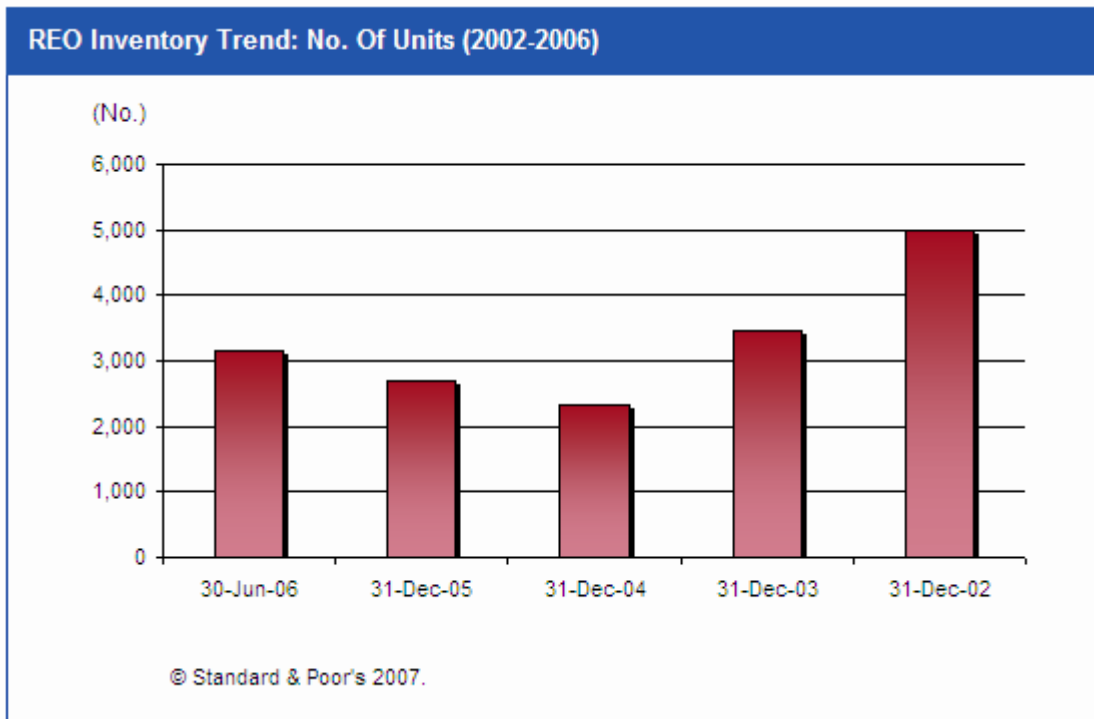
challenges. In addition, a default group within the acquisitions team is responsible for updating foreclosure information on the mortgage system, contacting counsel, validating the bankruptcy proof of claim, and reviewing documentation. Lastly, EMC maintains a triage unit, consisting of a dedicated staff that manages acquired bankruptcies and foreclosures. A foreclosure review committee examines certain loans to ensure all efforts have been executed to collect on the loan. The collector, loss mitigation, and foreclosure departments attend the review. This process contributes to the company's collection efforts by introducing a degree of individual collector accountability. Profit-and-loss analysis continues throughout the foreclosure and REO steps and is stored electronically to facilitate access. Marketing plans are updated on a rolling basis to reflect all activity involving the property. Managerial approval is required on the first plan and on all subsequent plans with incurred losses.

The company has sound procedures in place for maximizing recovery of its REO portfolio, as evidenced by the following:

- REO assets are assigned by region to develop and maintain market expertise.
- The caseload management is approximately 66 assets per manager.
- The REO manager has 20 years of industry experience and approximately 11 years of tenure with EMC. REO asset managers are well tenured, with more than 12 years of industry experience and six years of tenure with EMC, on average.
- Two interior valuations are secured to determine the listing price. A third value will be secured if there is a 10% variance between the two values.
- An individual marketing plan is developed for each asset that requires management approval.
- "Cash for keys" is used to avoid protracted eviction proceedings and expedite REO marketing time.
- Cost/benefit analysis is done when considering repairs.
- Average inventory turnaround time is 193 days, which compares favorably with EMC's SEAM peer group.
- The eviction process is well controlled at 96 days.
- The REO inventory turn rate is 14.54%, comparing favorably with EMC's SEAM peer group.
- The number of days from listing to liquidation is effectively controlled at 127 days.
- The gross sale-to-market value ratio is 88.75%.
- The net sale-to-market value ratio is 80.41%.

Chart 10





Properties generally list for 105% of the determined market value. EMC has designated one employee to manage the eviction function, which is an effective use of personnel that can greatly increase the timeliness of the eviction process. In addition to evaluating offers, the marketing staff has the authority to accept offers deemed profitable, as determined by the established marketing plan. All other offers require managerial approval. If a marketing plan includes repairs that are deemed economically feasible, EMC will make repairs on each property. Marketing personnel approve all maintenance or repair items costing less than \$10,000, as long as the repairs are included in the approved profit-and-loss analysis. Repairs exceeding the \$10,000 limit need managerial approval.

EMC reviews all REO properties every 30 to 45 days to confirm the execution of its marketing plans. A two-person staff travels the U.S. to perform random property inspections to monitor realtors and contractors, which is a proactive way to supervise REO performance and condition. Overall, the company has developed solid procedures and strong vendor oversight policies that are designed to achieve the maximum results for REO sales.

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### Financial Position

EMC's financial position is deemed SUFFICIENT based on the 'A+' counterparty credit rating and stable outlook on parent Bear Stearns. For additional information, please refer to Standard & Poor's Web site at [www.RatingsDirect.com](http://www.RatingsDirect.com)

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