



Servicer Evaluation: Vericrest Financial Inc.

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Opinion

Standard & Poor's Ratings Services' rankings on Vericrest Financial Inc. (formerly CIT Group Inc.) are AVERAGE for residential subprime mortgage servicing and special servicing.

The rankings reflect our opinion of the company's knowledgeable and experienced management team, generally effective systems environment, fairly efficient internal controls, and proficient default management strategy.

Vericrest appears to maintain a balance between its goals of minimizing losses to investors and keeping borrowers in their homes. In our view, the company maintains good-quality communication channels between all areas involved with default management and loss mitigation. In our opinion, Vericrest has been proactive in creating an infrastructure to support loss mitigation options for borrowers. Vericrest does not currently participate in the U.S. Treasury's Home Affordable Modification Program (HAMP), although the company has indicated that it significantly expanded its loan modification options and expects to be HAMP-compliant for its special servicing initiative by second-quarter 2010.

Vericrest has formed a staff from its subprime loan area which handles loans that generally require similar skill sets as those needed to handle specially serviced loans to service distressed loans purchased by its parent, Loan Star Funds VI. Vericrest has said it plans to use the experience it has attained in servicing the Loan Star loans for its special servicing initiatives.

Vericrest also converted to Fiserv's MortgageServ platform, which is one of the two platforms with the broadest use in the servicing industry.

The company's executive offices are in Dallas, Texas. It maintains various operational functions in Oklahoma City, Okla., San Diego, Calif., and East Hanover, N.J.

Outlook

Our outlook is positive for subprime servicing and stable for special servicing. We believe management is committed to growing the portfolio and capitalizing on the company's experienced management and staff, efficient servicing systems, and effective internal controls. In our opinion, Vericrest has sound quality control and internal audit programs aimed at minimizing risk to the company and its investors. In addition, in our view, the company has sound policies and procedures and proactive default management, and its overall customer service has improved significantly.

To supplement its Oklahoma City operations, Vericrest has expanded several default and loss mitigation functions in San Diego. Vericrest is in its early stages of building certain operations in Dallas. By hiring experienced staff including several senior managers with significant servicing experience we believe that Vericrest is becoming well situated to achieve its goals.

Profile

In March 2009, Lone Star Funds VI acquired the home lending business platform of CIT Group Inc., including the servicing group, and changed the name of the company to Vericrest Financial Inc. Vericrest is a privately held financial services company primarily engaged in the servicing of residential mortgage and consumer finance loans. Leading the company, in our view, is a seasoned team of financial services industry professionals. Vericrest's operations are located in Oklahoma City, Okla., Dallas, Texas, and San Diego, Calif., and the company has certain administrative operations in New Jersey.

Vericrest acquired certain servicing assets from Accredited Home Lenders Inc., in July of 2009, including some of its management group. Standard & Poor's also ranked Accredited. CIT Group had been servicing mortgages since 1995.

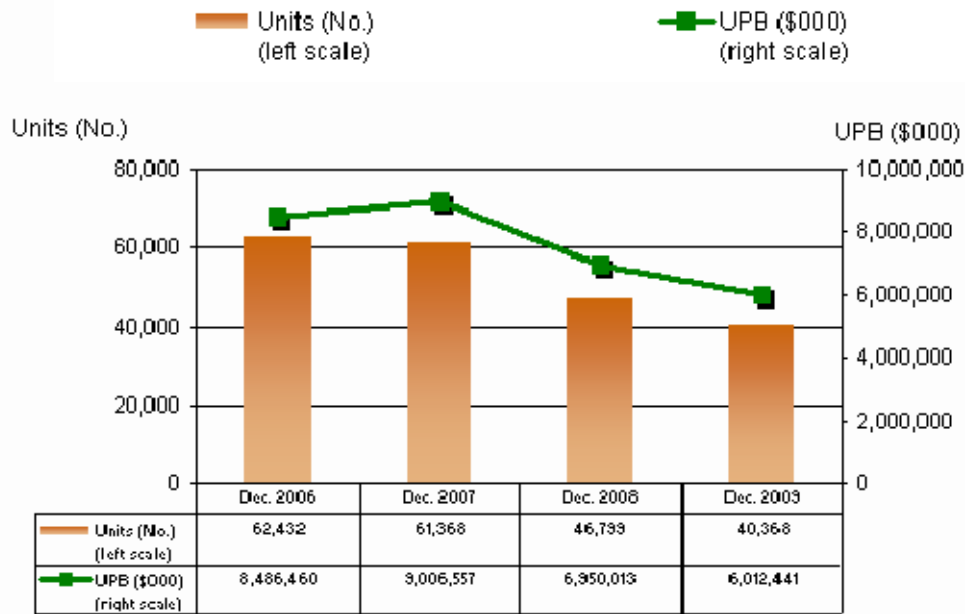
Table 1

First-Lien Delinquencies (%)

30-59 days	60-89 days	90-119 days	120+ days Foreclosure	Foreclosure	Bankruptcy	Total delinquencies
5.40	3.27	2.48	20.45	16.14	6.80	31.65

Chart 1

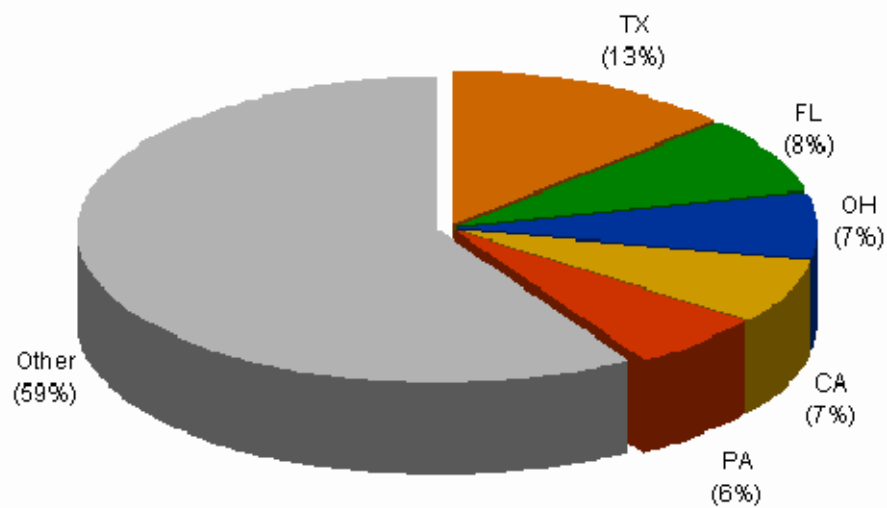
First-Lien Portfolio UPB And Units



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Chart 2

Subprime Geographic Distribution (% of units)



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Management And Organization

Standard & Poor's subranking on Vericrest for management and organization is ABOVE AVERAGE.

Management and staff recruitment, development, and education

Vericrest has made several key hires since the acquisition, including President and Chief Operating Officer Stephen Faulkner, who has more than 30 years of mortgage servicing experience. Additionally, the company has hired a new chief information officer and chief financial officer with significant industry experience.

In our opinion, Vericrest has a sound, experienced, and knowledgeable management team, efficiently written policies and procedures that are available online, effective quality and internal controls, and a strong systems environment. The company maintains a highly tenured senior management team with minimal turnover, which, in our view, contributes to a stable loan-servicing environment.

- Senior management personnel average more than 20 years of industry experience and an average eight years of tenure with the company;
- Middle managers average more than 12 years of mortgage servicing experience and have been with Vericrest for an average of approximately seven years; and
- Turnover for 2009 was approximately 20% overall, with management turnover of 2%.

We believe that Vericrest continues to place significant emphasis on training, employee education, and career-path opportunities. Training and development appear to be structured to meet the needs of each area within loan servicing, and the career tracks generally provide opportunities for employees to advance within the organization.

As part of their initial training, new customer service employees typically receive specialized training on how to manage challenging customers and an overview of relevant federal and state consumer laws.

According to the company, along with the general orientation curriculum, newly hired collectors receive additional training on managing challenging customers, loan documentation and collateral types, loss mitigation, bankruptcy laws, foreclosure procedures, federal and state laws, negotiation skills, and collection call techniques/best practices.

Overall, it is our opinion that Vericrest's management has developed an employee training program that appears to foster effective customer service while protecting the company's and investors' interests.

Internal controls

The company represents that it maintains a dedicated staff to produce and distribute manuals and bulletins that describe the company's legal requirements, policies, procedures, and programs. In our view, the company's policies and procedures manuals are competently written and appear to provide employees with definitions of key terms and guidelines. According to the company, dedicated employees typically identify necessary modifications of policies due to industry or regulatory changes and communicate them to the appropriate staff and adhere to applicable management oversight, as noted below. The policies and procedures are available in print and electronically through the company's online system, with the goal of providing uniformity, transparency, and accuracy throughout the servicing operation. Controls in place include:

- Changes are drafted at the department level; and
- Managers at appropriate levels approve changes to policies and procedures.

The compliance department reviews and monitors the servicing area's adherence with regulatory guidelines with the goal of ensuring that procedures incorporate regulatory changes and are communicated in a timely manner. Additional attributes of the compliance program include:

- State and federal regulatory compliance calling audits;
- Monitoring of 10 calls per representative per month, with remedial training scheduled if weakness is noted;
- Monthly account servicing reviews, which the company uses to counsel collectors;
- Monthly and quarterly auditing of selected collection processes;
- Annual credit audits;
- A 100% risk review performed by the Vericrest Group Quality Control unit at all locations; and
- Annual legal review of all correspondence issued by the collection department.

Vericrest's most recent complete internal audit was in 2008 and resulted in no material findings. The company has hired a senior audit manager and has developed a comprehensive audit plan for 2010, which includes annual audits for high-risk activities. In addition, the Dec. 31, 2009, Uniform Statement of Attestation Program (USAP) audit noted no exceptions.

Technology

In our opinion, Vericrest operates in a well-automated environment utilizing a combination of vendor and proprietary systems. Moreover, technology management personnel are, in our view, well seasoned and tenured, averaging more than 15 years of industry experience. The servicing area uses the following systems to support its operations and maximize efficiencies:

- Vericrest recently converted to FISERV, which is one of the two most common platforms used by servicers;
- Vericrest's predictive autodialer coordinates various calling campaigns to assist in default management efforts, including preview dialing, campaign management, and accurate skip-tracing;
- The company has added virtual calling and an outbound interactive voice response (IVR) system; and
- An internal lockbox system expedites payment processing and posting and includes a high-speed encoder.

Vericrest appears to have a well-developed disaster recovery and business continuity plan in place, which comprises the following:

- A hierarchy of critical business functions, with a calling tree;
- Annual testing of the disaster recovery and business continuity plan, as well as reviews of certain segments of the plan throughout the year;
- System backup tapes that are produced daily, weekly, and monthly and stored at an off-site archival facility; and
- Alternate payment processing support with a local bank, with annual testing of data capture and connectivity.

Loan Administration

Standard & Poor's subranking on Vericrest for loan administration is AVERAGE.

Overview

As of Dec. 31, 2009, the company's residential subprime loan servicing portfolio totaled approximately 40,000 first-lien loans, representing a total unpaid principal balance (UPB) of approximately \$6.3 billion. President and COO Stephen Faulkner has overall responsibility for loan administration. The company's portfolio is also geographically diverse, which, in our view, provides a satisfactory level of insulation against delinquency spikes arising from regional economic downturns, which in turn mitigates company

and investor risk. When measured by loan amount, the biggest concentrations of loans are in California, Texas, Florida, New York, and Ohio.

Standard & Poor's reviewed Vericrest's loan servicing and found the results to be satisfactory and improving overall. We discuss what we consider to be key areas of risk in more detail below.

Cash management and investor accounting

Departmental managers, in our view, are competent and proficient, averaging more than 11 years of industry experience and approximately seven years' tenure with the company. Vericrest has established a separate cash management department to perform payment processing activities, and it also employs image and remittance processing technology to expedite and control these activities.

The company scans and images all documents and uses Smart Routing to forward documents to the proper departments for review and processing, with the goal of allowing for full tracking and visibility of all correspondence. The lockbox capture rate is an effective 95%, in our view, and almost all monthly remittances are autoposted.

A separate and distinct team is responsible for reconciliation and cash control, which assures proper segregation of duties. The team performs daily and monthly reconciliations, and management monitors exception items to ensure their timely resolution. The company also maintains daily balancing and general ledger reconciliation.

Escrow administration

The company maintains its relationship with an industry-leading vendor to track tax payments for the entire portfolio. The portion of the portfolio for which escrows are collected is approximately 30%. The rates of lender-placed hazard and flood insurance are low at only 4% and 1%, respectively. The cancellation rates for lender-placed insurance are 10% for hazard and 4% for flood, and the renewal rates are 50% for both hazard and flood. The company has indicated that it performs escrow analysis according to RESPA (Real Estate Settlement Procedures Act) guidelines.

Customer relations

The call center is located in Oklahoma City and handles both inbound and outbound calls. The staff consists of 40 full-time employees, and customer service agents are available Monday through Friday from 8:00 a.m. to 6:00 p.m. Central Standard Time. The call center fully utilizes a variety of current technologies, such as an automated call distribution (ACD) system and a voice response unit (VRU). The VRU and Web site are available at all times.

Customer service management has undertaken to improve and enhance call center operations and has adopted "best practice" initiatives. Other customer service indicators are as follows:

- Since our last review, the company has added a messaging script to its IVR that informs borrowers that Vericrest is committed to assisting them with loss mitigation solutions;
- A bilingual VRU is in place for non-English-speaking customers, and 20% of the call center staff is proficient in a second language;
- The average speed-to-answer (ASA) has significantly improved and is now 17 seconds, and the abandonment rate has also improved to 1.48%;
- Vericrest has integrated a Fiserv module to proactively track first-call resolutions;
- Turnover of customer service staff has been manageable at less than 25%;
- The company monitors customer correspondence through a database to ensure RESPA compliance; and
- The company is enhancing its call monitoring for customer service representatives with the goal of ensuring quality.

Borrowers may also access their account information 24 hours a day, seven days a week through the company's Web site. Borrowers may obtain payment and balance information, make payments, get current account information, and view payment histories for the previous 12 months from the Web site. Another feature of the site allows borrowers to review frequently asked questions to obtain general information.

Mortgage reconveyance processing is the responsibility of the release team, which utilizes automation to manage the processes. The team applies timeline management discipline to ensure that reconveyances meet state guidelines. Management has represented that no late penalties have been assessed.

Default management

The company's default management department is responsible for all default management activities, from initial delinquency through the foreclosure and REO disposition process. The department consists of approximately 100 full-time employees and six temporary employees, and, in our view, both management and staff have significant experience.

We believe the department's procedures are well written and annotated, with sample letters and reports. The policies and procedures are maintained on the company's Web site for easy access. Collection counselors appear to be well versed in the Fair Debt Collection Practices Act (FDCPA).

The collection department is effectively divided into early (1-59 day delinquencies) and late-stage collections (60-plus-day delinquencies). The department schedules calls at the optimum time for each account according to the individual account history. The company maintains calling plans by time zone with the goal of maximizing daily call penetration.

Moreover, the company considers loss mitigation options for all loans from 30 days past due through the foreclosure process, and refers borrowers to the Loss Mitigation department when appropriate. The early-stage collection staff is organized to administer a combination of inbound and outbound calls during peak hours. The company has indicated that it continues to enhance its IVR for outbound calls in order to manage delinquencies and loss mitigation more efficiently and effectively.

Dedicated staff is responsible for tracking accounts for which phone numbers aren't available, as well as high-balance accounts (greater than \$200,000), newly boarded loans, accounts with funds in suspense accounts, and accounts with forced- placed insurance issues.

Late-stage collectors handle the 60-plus-day delinquent accounts, also using the autodialer features. Collectors primarily place calls in person for accounts that reach 90 days past due, with some continued autodialer support. The company uses bulk mailings to contact accounts without effective telephone numbers and attempts to communicate with delinquent borrowers directly at the property and use field agents when appropriate. The more experienced late-stage collectors also analyze borrowers in default, refer them for loss mitigation attempts when appropriate, and, as a last resort, perform the initial review and recommendation for foreclosure.

In our assessment, additional attributes of the collection process include:

- The company has added full-time on-the-job trainers to coach and develop agents;
- Vericrest has also added a dedicated call monitoring group to enhance collectors' effectiveness;
- Work schedules have been adjusted to optimize prime time utilization;
- The company has enabled skip tracing for accounts that are 0-29 days delinquent;

- Vericrest has revised its brochures to educate borrowers on alternatives to foreclosure and provide governmental and nonprofit counseling resources;
- The company has integrated its adjustable-rate mortgage (ARM) framework and process into early-stage collections; and
- All scorecards have generally been enhanced.

Other characteristics of Vericrest's early- and late-stage collection activities include:

- Collectors are responsible for daily and monthly productivity goals;
- Dialer software is frequently updated to maximize calling penetration;
- Late-stage borrowers are assigned to specific collectors;
- The company performs at least five monitoring sessions for each collection employee per month and provides supervisory feedback if necessary; and
- Inbound call statistics are solid, with an excellent ASA of 24 seconds and an abandonment rate of 2.5%.

Loss mitigation

Vericrest's default management operation includes a number of loss mitigation initiatives. The company has indicated that its goal is to recognize appropriate workout options that benefit the borrower while minimizing losses for investors. Vericrest has incorporated a net present value model into its foreclosure process to identify workout options, including loan modifications, short sales, and other alternatives. Loss mitigation specialists have the authority to approve certain loss mitigation options based on established authorization levels.

Vericrest currently does not participate in the U.S. Treasury's HAMP program, but has developed its own alternatives, including step modifications, rate modifications, and deferred principal modifications. Additionally, the company offers several property disposition solutions, including short sales and deeds-in-lieu of foreclosure. Although Vericrest currently does not participate in HAMP, the company that indicated it will be compliant during second-quarter 2010. The six-month recidivism rate for Vericrest's modification program is 28%.

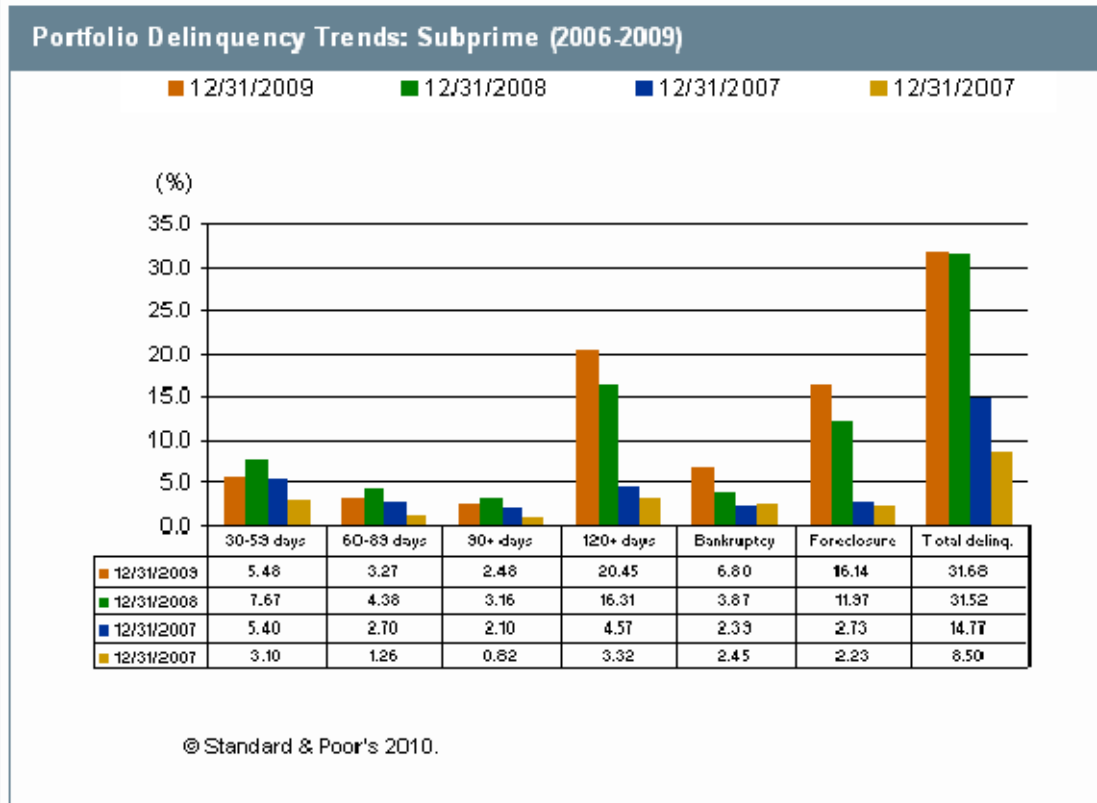
Vericrest has said that it has developed a group dedicated to reaching out to borrowers to help them understand their modification alternatives. This group also stays in contact with borrowers to deal with any future problems with their loans and to offer long-term solutions for their credit problems. Vericrest

has also indicated it works with HOPE NOW to explore community-based alternatives. In addition, the company has streamlined its process to reduce timelines and loss mitigation decisions.

We believe these processes should also be effective for the company's special servicing efforts.

Chart 3 provides delinquency trends for the past four years.

Chart 3

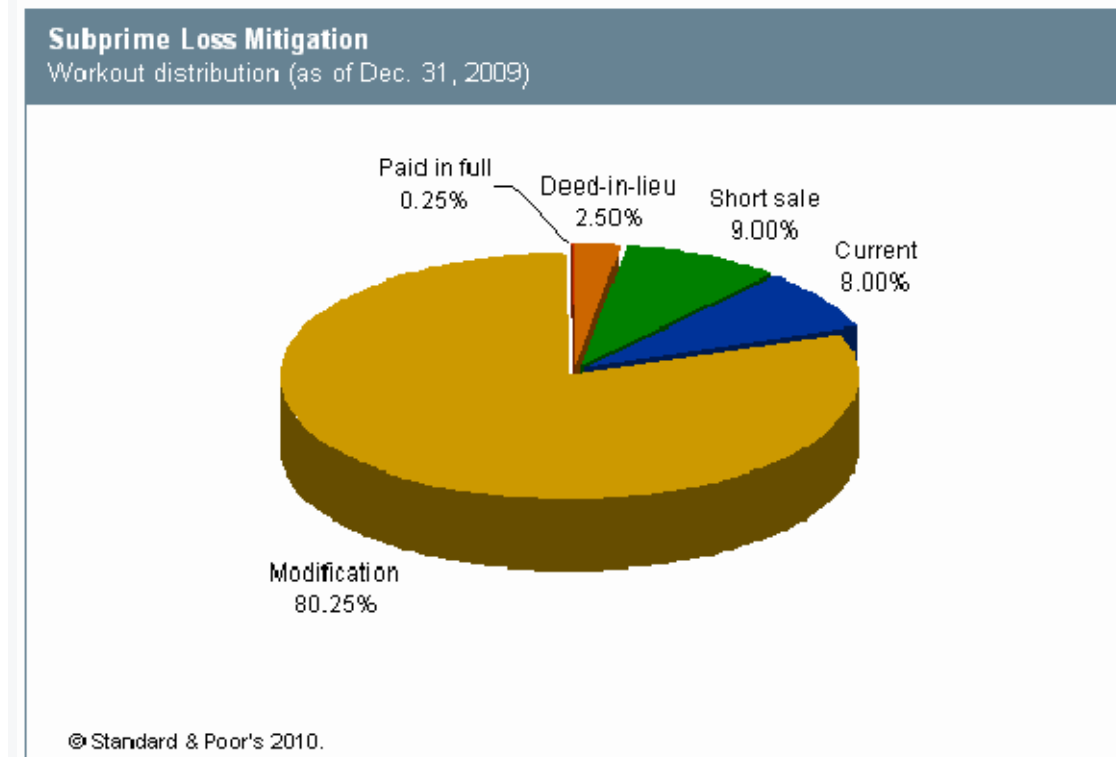


Vericrest outsources its foreclosure and bankruptcy cases to vendors and attorneys. The company attempts to maximize resources through the use of centralized servicing and technologies. All of the processes are performed electronically and through the Internet, with electronic monitoring and communication with service providers, along with monthly telephone communication.

Vericrest consolidated all REO functions to one nationally recognized vendor to promote increased efficiencies and facilitate a quick sale of REO assets while maximizing prices. Standard practice is to obtain two separate property valuations of all units for comparison, one from the REO vendor and one from an independent source located near the property for sale. The REO manager establishes the initial listing price based on these two values and also approves all sales contracts. Most recent statistics reflect

that the average inventory turnaround time is a solid 235 days, the gross sales-to- market value is sound at 84%, and the net sales to market is 73%. Approximately 10% of the REO inventory is sold each month.

Chart 4



Financial Position

Standard & Poor's considers the financial position to be SUFFICIENT.

Related Criteria And Research

- "[Servicer Evaluation Ranking Criteria: U.S.](#)," published Sept. 21, 2004.

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