# Ocwen Loan Servicing, LLC

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| **RATINGS** | |
|---|---|
| Primary Servicer of Subprime Loans | **SQ2-** |
| Special Servicer | **SQ2** |
| **RELATED RATING** | |
| Ocwen Financial Corporation Senior Unsecured Shelf | (P)**B2** |

## SUMMARY OPINION

Moody's Investors Service has affirmed Ocwen Loan Servicing, LLC's ("Ocwen") rating of **SQ2-** as a primary servicer of subprime residential mortgage loans and a rating of **SQ2** as a special servicer. Moody's ratings are based on Ocwen's average collection abilities, strong loss mitigation results, above average foreclosure and REO timeline management, and below average servicing stability. Ocwen is a third-party servicer that specializes in the servicing of subprime and seriously delinquent loans. The company's residential servicing operations are located in West Palm Beach, Florida; Orlando, Florida; Bangalore, India; and Mumbai, India.

The company has a robust technology infrastructure and solid processes in place in its customer service and default management areas including best-time-to-call software, postal planet code technology and Office of the Ombudsman. Ocwen also continues to enhance its systems and processes. Since Moody's last review, Ocwen reconfigured its interactive voice response unit (IVR) to provide more customer self-fulfillment options, including full Spanish-language functionality and a customer survey.

An area for improvement for the company are the abandonment rates in its collections and customer service groups which at 4.5% and 6.7%, respectively, are relatively high compared to other servicers rated by Moody's.

In anticipation of rising delinquencies, Ocwen has increased staffing in its default management group. A majority of Ocwen's customer service and less-than-80-day-delinquency collections representatives are located offshore. Ocwen has increased its proportion of offshore staff since Moody's last review.

Ocwen's special servicer rating reflects the company's strong focus on loss mitigation and the ability to develop unique and creative solutions for delinquent borrowers. The company also continues to expand its relationships with local housing advocates and credit counseling programs to reach more delinquent borrowers. Ocwen's loss mitigation operations primarily are based in the United States.

In early 2007, Ocwen closed its subprime originations subsidiary, Funding America LLC, which reported pre-tax losses in 2005 and 2006. Ocwen Financial Corporation, the holding company of Ocwen, is rated (P)**B2** for senior unsecured debt.

*Moody's Investors Service*

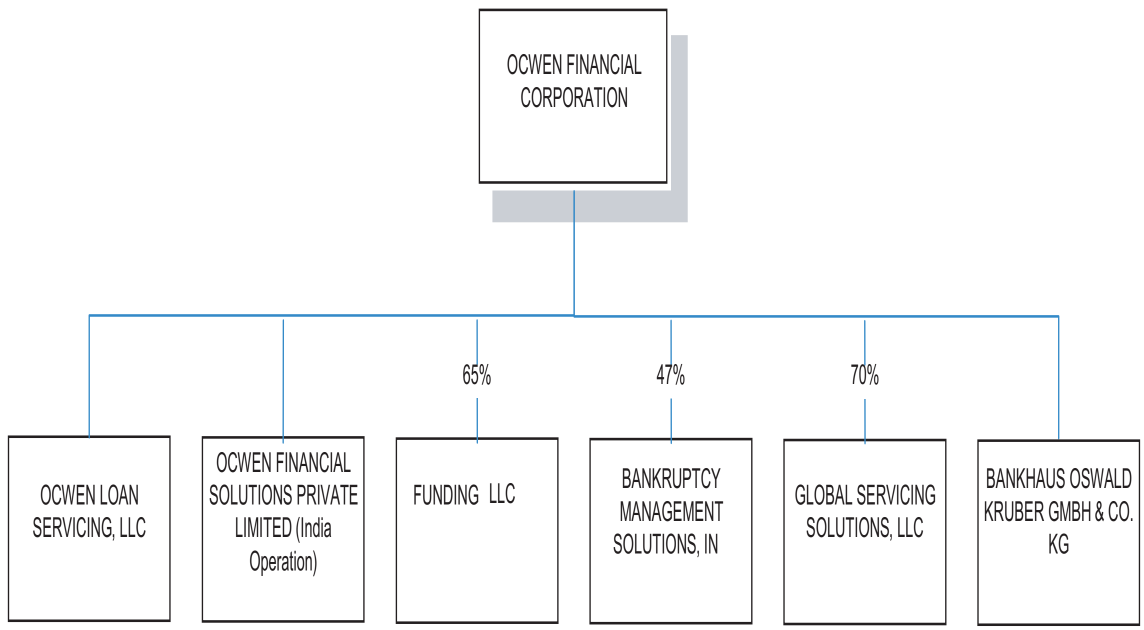
**September 20, 2007**

## COMPANY BACKGROUND

Ocwen is a third-party servicer specializing in the servicing of subprime and seriously delinquent loans. As shown in *Figure 1*, Ocwen is the mortgage loan servicing operation of Ocwen Financial Corporation ("Ocwen Financial"), which is a publicly-traded company (NYSE: OCN).

Ocwen Financial is a diversified financial services holding company with its headquarters in West Palm Beach, Florida, and global operations in Canada, Germany, and India. Ocwen Financial is engaged in a variety of businesses related to residential and commercial mortgage servicing, real estate asset management, asset recovery, business process outsourcing and the marketing and sales of technology solutions to third parties.

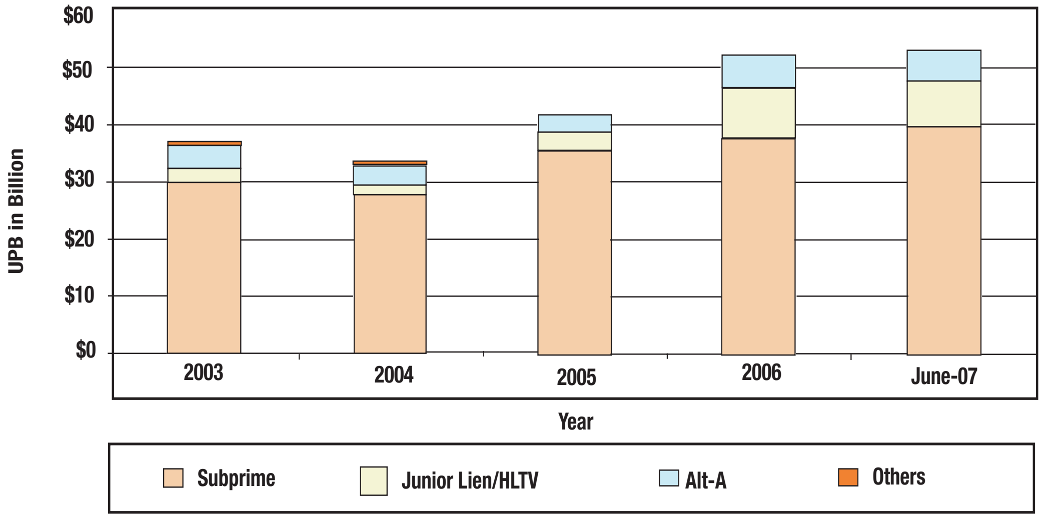
*Figure 1*
**Corporate Organization**




## SERVICING PORTFOLIO

Ocwen's servicing portfolio totaled 447,142 loans for an unpaid principal balance (UPB) of approximately $53.12 billion as of June 30, 2007. As shown in *Figure 2*, Ocwen's servicing portfolio consists primarily of subprime (74%), Junior Lien/HLTV (15%) and Alt-A (10%) first lien loans, as well as a small number of HUD and non-performing loans. Ocwen acquires the loans it services and mortgage servicing rights through both flow relationships and bulk purchases. The portfolio is secured by properties located in California (24%), Florida (10%), New York (8%) and Texas (5%), with no other state exceeding a 5% concentration on an unpaid principal balance basis.

*Figure 2*
**Servicing Portfolio**




## SERVICING ABILITY

Ocwen's customer service and collections activities are performed at its servicing sites in Orlando, Florida; Bangalore, India; and Mumbai, India. Ocwen has a higher proportion of its call center staff in India than most of the other servicers rated by Moody's, with a majority of Ocwen's customer service and less-than-80-day-delinquency collections representatives located offshore. Approximately 89% of Ocwen's customer service staff and 92% of its collections staff are located in India, an increase from approximately 70% and 75%, respectively, during Moody's last review. Ocwen experienced turnover of approximately 46% for its worldwide staff.

### Customer Service

- **Reconfigured IVR provides more functionality**
- **Robust complaint handling process**
- **Majority of customer service and collections staff are located in India**

Ocwen's customer service group is subdivided into several teams: customer relations, customer research and customer fulfillment. While the customer relations unit handles basic customer inquires, the customer research unit handles written inquiries and performs root cause tracking for borrower complaints. The customer fulfillment unit is tasked with handling customer requests for loan documents and payment history, as well as providing payoff quotes. Ocwen has a robust complaint handling process. A consumer ombudsman handles escalated borrower issues and serves as the customer advocate. Additionally, Ocwen's customers can use Ocwen's IVR and website for self-serve options including obtaining loan information, requesting payoff quotes and making payments. Ocwen has made several enhancements to its IVR since Moody's last review including introducing full Spanish-language functionality and a customer service survey to gauge the company's performance and borrowers' overall satisfaction. The quality assurance group then listens to calls associated with low survey scores to determine root causes.

Ocwen employs an independent group to monitor customer service and collections calls and records 100% of its calls. Moody's believes that a separate call monitoring group provides servicers with the ability to objectively assess their customer service performance and views call recording technology as an important feature that helps to ensure a high quality of customer interaction.

Ocwen utilizes eWorkforce management software in conjunction with a proprietary staffing model to provide adequate staffing levels for its call center. New hires receive six weeks of classroom training and four weeks of additional on-the-job training.

## Collections Management

- **Multiple letters sent to ARM borrowers prior to rate reset**
- **Hours of operation have been extended**
- **Field chase services utilized on a limited basis**

Moody's views Ocwen's collection abilities to be average. Ocwen's collections group employs 231 collectors based in Orlando, Florida; Bangalore, India; and Mumbai, India. While currently collectors are scheduled to work either inbound or outbound queues, Ocwen is transitioning to a blended inbound/outbound environment. The group has extended hours of operation including weekends and most holidays, which increases the possibility of reaching delinquent borrowers.

Calling campaigns are prioritized using a number of factors including a borrower's Early Indicator score, payment behavior, time since the loan was boarded and the time zone in which the borrower is located. Ocwen utilizes optimizer software to determine the best time of day to call delinquent borrowers based on previous contact history, which Moody's believes may increase the contact rate with borrowers. Ocwen also utilizes postal planet code technology to remove from the calling queues borrowers whose payments have already been mailed. In November 2006, Ocwen began sending two letters, in addition to the RESPA required ARM letter, to borrowers whose ARM loans were due to reset, at 180 and 90 days prior to the reset date. In addition, the company introduced a Spanish-language letter program within its collections unit. Since Moody's last review, Ocwen has also created a separate group to focus on early payment defaults.

An independent group monitors a minimum of six calls per collector per month. In addition, group leaders review calls daily and meet regularly with staff to discuss areas for improvement. Collectors participate in a monthly incentive compensation program based on call monitoring scores and key performance indicators such as promises taken, promises kept and the ratio of the two. Moody's believes that the effective use of incentive compensation plans may improve a servicer's performance.

An area for improvement for the company are the abandonment rates in its collections and customer service groups which at 4.5% and 6.7%, respectively, are relatively high compared to other servicers rated by Moody's.

Ocwen utilizes field chase services at the 45th day of delinquency only on a limited basis - based on investors' requests and for high-risk loans including high loan-to-value, second lien and first-payment-default loans. This is a potential area for improvement within the collections group as Moody's believes door knocks are a proactive process that may increase the likelihood of establishing contact with borrowers.

In evaluating a servicer's collections performance, Moody's measures a servicer's ability to prevent current, 30-day and 60-day delinquent loans from deteriorating to a worse delinquency status and then improve these loans to a better delinquency status. Among the metrics Moody's uses to evaluate a servicer's collection abilities are various roll-rate analyses measured over different time horizons.

*Figure 3* shows one such analysis during a 12-month period for subprime loans that were two to five years seasoned at the beginning of the period. The loans were classified at the outset in three delinquency categories: current to 29 days delinquent, 30 days delinquent and 60 days delinquent. The delinquency state of these loans was then measured again at the end of the static pool period. Compared with the prior review, a 12-month static pool analysis of loans revealed a slight improvement in performance in the number of current loans that became delinquent and a slight deterioration in the performance of 30-day and 60-day delinquent loans.

*Figure 3*

**Collection Management Static Pool Performance**

1/1/06 to 1/1/07

| **Status on Start Date** | **Current** | **30 Days** | | **60 Days** | |
|---|---|---|---|---|---|
| **Status on End Date** | **Worse** | **Better** | **Worse** | **Better** | **Worse** |
| (2-5 yrs Seasoned) | 13% | 48% | 34% | 44% | 48% |

## Loss Mitigation

- **State-specific IRS tables utilized to assess reasonableness of submitted financial information**
- **Partnerships with consumer advocacy groups enhance probability of reaching borrowers**
- **Audits performed on 100% of repayment plans**

Moody's considers Ocwen's loss mitigation performance to be strong. Ocwen's loss mitigation team, consisting of 74 loss resolution consultants, is based primarily in Orlando and West Palm Beach, Florida. The department is structured in several teams to focus on specific loan and resolution types, with less experienced consultants, for example, working on repayment plans, while the more experienced handle short sales deeds-in-lieu and modifications. Inbound calls are worked in a queue environment to ensure that a loan resolution consultant is available when the borrower calls.

Loans enter the loss mitigation department on the 80th day of delinquency which is earlier than many servicers rated by Moody's and provides Ocwen with the opportunity to get an earlier start to resolving loans in late-stage delinquency. As is the case with most servicers rated by Moody's, Ocwen pursues loss mitigation options and the foreclosure process simultaneously.

The forbearance plan is Ocwen's most commonly utilized loss mitigation tool. A group in India sends out loss mitigation packages and performs a 100% audit on all repayment plans. The audit helps to ensure compliance with investor guidelines, affirms the reasonableness of the workout option given the financial information submitted by the borrower, and confirms that the necessary management approval has been received. Borrowers have multiple methods to submit their financials to qualify for a workout option including through Ocwen's website. The loss mitigation team then assesses the reasonableness of the borrowers' self-reported expenses via state-specific IRS tables, a process that Moody's believes may result in determining a more sustainable loss mitigation alternative. Ocwen then utilizes proprietary software, Real Resolution, to perform a net present value analysis of the various loss mitigation options.

Ocwen employs a consultative approach to working with borrowers in late-stage delinquency. As an extension of this approach, Ocwen continues to expand its partnerships with consumer advocacy groups to counsel and re-establish contact with delinquent borrowers. For example, Ocwen partners with the National Training and Information Center to contact non-responsive delinquent borrowers by phone, mail and/or door knocks in order to facilitate non-foreclosure default resolutions. Ocwen is also part of the Home Ownership Preservation Enterprise, a partnership with the city of Chicago and other servicers, which provide free credit counseling to delinquent borrowers. Moody's views these partnerships as a proactive method to aid delinquent borrowers.

Among the metrics that Moody's uses to evaluate a servicer's loss mitigation skills is the servicer's performance in resolving loans that are seriously delinquent. Moody's reviews the servicer's loss mitigation efforts including third-party sales, short sales, and deeds-in-lieu. *Figure 4* shows a static pool analysis of loans that were seriously delinquent or in foreclosure as of January 2006 and their status a year later. Ocwen was able to cure and cash flow 55% of its first lien loans, compared to 50% during Moody's last review.

*Figure 4*

**Loss Mitigation Static Pool Performance**

Status as of 1/1/07 of Loans that were 90+ Days Delinquent 1/1/06

| | Total Cure [1] | Cash Flowing [2] | In Limbo [3] | Loss Mitigation [4] | Loss with No Loss Mitigation [5] |
|---|---|---|---|---|---|
| 2-5 yrs Seasoned | 21% | 34% | 20% | 5% | 21% |

[1] Includes "current" and "paid in full"
[2] Includes "minor delinquency," "modification" and "re-performing forbearance"
[3] Includes "90+ day delinquency" and "foreclosure"
[4] Includes "third party sale," "short sale/short payoff," and "deed-in-lieu"
[5] Includes "REO sold from foreclosure," "in REO from foreclosure" and "charge-offs"

## Foreclosure and REO Timeline Management

- **Pre-foreclosure committee reviews all loans prior to foreclosure referral**
- **Proprietary net present value model determines marketing strategy for each property**
- **Cash-for-keys program facilitates the foreclosure process and avoids eviction delays and expenses**

Moody's views Ocwen's foreclosure and REO timeline management abilities to be above average. The company employs 82 FTE and 46 FTE to manage its foreclosure and REO processes, respectively. A pre-foreclosure committee reviews all loans after the 80th day of delinquency. The committee reviews all loans for compliance, legal issues, predatory lending and to ensure that all loss mitigation opportunities have been exhausted. Moody's views positively Ocwen's use of a pre-foreclosure review to ensure that unnecessary or improper foreclosure actions are not pursued.

Ocwen's policy is to refer loans to foreclosure on the 92nd day of delinquency. Loans are assigned to a network of attorneys and milestones are tracked through a foreclosure module in Real Resolution. Attorney performance is monitored through quarterly scorecards and attorneys must submit a chronology report to the company if any deadlines were missed. While Ocwen operates a robust vendor management program, other servicers rated by Moody's monitor attorney performance more frequently, often with monthly scorecards.

The REO group is segregated into pre-marketing, marketing, closing and expense management teams. The company typically transfers loans to REO within two days of the foreclosure sale. Properties are assigned to real estate agents based on their transaction volume, proximity to the property and performance. The bidding process and communication with agents is managed via REALTrans, a proprietary bid management system.

The company utilizes a cash-for-keys program to facilitate the foreclosure process and avoid delays and expenses relating to the eviction process if a property is still occupied. Moody's views the use of cash-for-keys as potentially beneficial to reducing the carrying costs of the property.

To determine a property's list price, Ocwen obtains two property values. Additionally, physical inspections are received from the agent every two to three weeks while the loan is in REO. Ocwen utilizes a proprietary net present value model to determine the marketing strategy for each property.

Moody's evaluates servicers' timeline management performance over a 12-month period in three main areas: missed payment to foreclosure referral; foreclosure referral to foreclosure sale; and REO acquisition to disposition, net of the redemption period.

### Missed Payment to Foreclosure Referral

Moody's considers the period from missed payment to foreclosure referral as an indication of the speed at which a servicer refers a borrower to foreclosure. The period from missed payment to foreclosure referral commonly occurs around the 90th day of delinquency. In recent years, predatory servicing concerns have led the company to conduct additional pre-foreclosure activities to ensure the thoroughness of collections and loss mitigation. On average, for loans that boarded less than 30 days delinquent, Ocwen referred loans to foreclosure on the 152nd day of delinquency, which excludes bankruptcy delays experienced prior to foreclosure referral.

### Foreclosure Referral to Foreclosure Sale

The period between the foreclosure referral and the foreclosure sale measures the efficiency at which the servicer is able to obtain REO from a corresponding foreclosure action. This period is significantly influenced by property location and by other delays that can be outside the servicers' control. Moody's neutralizes the impact of location on a servicer's ability to manage the foreclosure process by measuring servicers' foreclosure timelines relative to a state-weighted Freddie Mac timeline.

On average, Ocwen completed the foreclosure sales 247 days after the referral date. As shown in *Figure 5*, fifty-nine percent (59%) of Ocwen's foreclosures had delays beyond the company's control. When analyzing a servicer's foreclosure timeline, Moody's evaluates loans with and without delays, the proportion of loans with delays, and their subsequent effect on timeline performance.

## REO Acquisition to Disposition, Net of the Redemption Period

A property enters REO when a servicer purchases it at the foreclosure sale after any applicable redemption period. The time from the acquisition of REO to liquidation is directly impacted by the number of properties subject to the eviction process as well as by property quality and location. For Ocwen, 8% of the REO properties included in our analysis experienced some delays related to eviction procedures

*Figure 5*

**Average Foreclosure-REO Timeline Information**

| | |
|---|---|
| **Foreclosure Referral** | |
| Average Days from Next Payment to Foreclosure Referral | 179 |
| Percentage of Foreclosure Referrals Affected by Bankruptcy | 1% |
| Impact of Pre-Foreclosure Bankruptcy Delays (in Days) | 5 |
| **Foreclosure Referral to Sheriff Sale** | |
| Average Days from Foreclosure Referral to Sheriff Sale | 247 |
| Freddie Mac Timeline Assuming No Delays | 162 |
| Days Over (Under) Freddie | 85 |
| Days Over (Under) Freddie (assuming 50% delays) | 68 |
| Percentage of Foreclosures With Delays | 59% |
| **Real Estate Owned ("REO")** | |
| Average Days a Property is REO (Excluding Redemption) | 201 |
| % Evictions | 8% |

## BORROWER INTERACTION

- **Secure, limited access facility for payment processing**
- **Robust vendor management program**

### Tax and Insurance

At the time of Moody's last review, Ocwen was utilizing three companies for its tax processing. In November 2006, Ocwen began to fully outsource its tax functions to First American Tax Services ("First American") which employs personnel dedicated to the Ocwen account. As of December 31, 2006, 46% of Ocwen's 1st lien portfolio was escrowed for taxes or insurance.

Ocwen outsources its hazard and flood insurance processing to Assurant Solutions. Moody's views Ocwen's lender placed insurance process, which undertakes multiple efforts to contact the borrower before insurance is placed, positively. The process involves a three-letter cycle (the second of which is sent by certified mail) and phone calls before insurance is placed between the 90th and 136th day after expiration of the initial insurance policy. An expense reimbursement is provided to Ocwen for its costs associated with the lender placed insurance program.

Moody's believes Ocwen has a robust vendor management program, which includes call monitoring, bi-weekly meetings, workflow reviews, control reports and periodic site visits.

### Payment Processing

Ocwen receives payments via lockbox (55%), ACH (31%), and the remaining 14% through other methods including Western Union, Metavante, Checkfree, Wires, website, IVR and manual posting. Ocwen uses a lockbox operated by Regulus, located in Carol Stream (outside of Chicago), Illinois. The firm posts more than 98% of its payments within 24 hours of receipt. The less than 2% remaining are effective-dated to the date of receipt.

Ocwen has a separate, limited-access facility for check processing within the Orlando, Florida office. As an added measure of security, the company also has cameras within the check processing department.

## SERVICER STABILITY

- **High percentage of staff based offshore**
- **Solid training program**
- **Robust technology infrastructure**

### Financial Stability

Ocwen Financial Corporation, the holding company of Ocwen, is a publicly-traded company rated (P)B2 for senior unsecured shelf. While Ocwen is engaged in multiple business activities, the residential servicing operation provides most of the company's income and is integral to the holding company. Ocwen's net income for the first quarter of 2007 was approximately $12.4 million, a decrease from approximately $16.5 billion for the same period a year earlier. As of March 31, 2007, the company's assets were approximately $2 billion and the company stockholders' equity was approximately $570 million.

### Management and Staffing

Ocwen has a tenured management team. Senior Management has an average of 19 years of experience in the industry and an average of 8 years tenure with the company; business unit managers have an average of 13 years of experience in the industry and 8 years of tenure with the company.

A large percentage of Ocwen's staff operates from its captive centers in Bangalore and Mumbai, India. To address staff turnover in its operations located in India—which typically experience higher turnover rates than servicing operations located in the U.S.—Ocwen has introduced higher compensation and increased its emphasis on career planning.

Ocwen has a solid training program, with a higher trainer to employee ratio than most other servicers Moody's rates. The company has three dedicated trainers in the U.S. and 15 dedicated trainers located in India. The company offers six weeks of classroom training for new hires in the customer service, collections and loss mitigation areas, followed by 4 weeks of on-the-job training during which new employees are partnered with more experienced staff. A third-party vendor offers an additional two weeks of accent neutralization training to employees based in India. Existing employees receive ongoing training covering compliance, time management, and leadership.

### Legal, Compliance and Oversight

Moody's views Ocwen as having solid controls and oversight of its operations through a comprehensive internal audit program and robust quality assurance practices. While the internal audit program covers financial, operational technology and compliance activities, the quality assurance group conducts a systematic quality review of all customer contact functions.

As part of the risk-based audit plan, audits of significant business activities are performed no less than every two years, with an annual review of high-risk areas. Ocwen conducts monthly reviews of all outstanding audit issues and conducts testing to validate that corrective action was properly implemented. To ensure the group's independence, the director of the internal audit group reports to the audit committee of the board of directors, which consists of three outside directors and meets at least quarterly. In 2006, Ocwen engaged Grant Thornton to assess the internal audit function's conformance with the International Standards for the Professional Practice of Internal Auditing. Grant Thornton did not identify any internal audit activities that did not conform to the standards. PricewaterhouseCoopers LLP serves as Ocwen's external financial auditor.

Ocwen's quality assurance team is responsible for reviewing all customer contact functions. The group, which reports to the company's chief risk officer, monitors a minimum of six calls per month for every agent in customer relations, performing collections, loan resolution, ombudsman, recovery and research groups. Additionally, the group monitors calls made by the insurance processing vendor and was in the process of expanding the call monitoring to its tax processing vendor at the time of this review. The group also attempts to determine the root cause of contacts made to the presidential hotline by listening to all other calls to Ocwen from that borrower.

Ocwen has been named in a number of lawsuits, including an ongoing MDL proceeding challenging the company's servicing practices. The uncertain liability surrounding the firm's various outstanding legal issues is an area for concern and Moody's will continue to monitor these legal proceedings as they develop.

## Technology and Disaster Recovery

Ocwen has a robust technology infrastructure which is continually reviewed and upgraded, and processes are automated whenever possible. Ocwen utilizes a proprietary servicing system, REALServicing, which the company also markets to other servicers. Moody's believes that the proprietary system provides Ocwen with the flexibility to make enhancements quickly to the system based on Ocwen's changing business needs. Ocwen also operates a comprehensive website through which borrowers can access their account information, make payments and upload their financial information to qualify for a loss mitigation option.

Ocwen has a comprehensive disaster recovery plan. The company has four sites that can back up each other should the need arise. Its disaster recovery plan allows the company to resume critical operations within 72 hours in the event of a disaster. In February 2006, Ocwen set up a dedicated disaster recovery site in Bangalore, India. Ocwen's data is backed up daily and stored off-site.

All of Ocwen's sites in Florida and India are equipped with generators to ensure minimal disruption in case of a power outage. The generator in Orlando can sustain power for 7 days without re-fueling; the generator in West Palm Beach can function for 24 hours without re-fueling; and both the Bangalore and Mumbai generators can function for 8 hours without re-fueling. Each location also has an uninterrupted power supply system, which can provide temporary power for up to 30 minutes. To ensure that the disaster recovery plan is aligned with the company's current business needs, it is updated quarterly and tested semi-annually. A disaster recovery test to recover the REALServicing database was successfully completed in December 2006.

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