



## Rankings Announcement

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### **Morningstar Credit Ratings, LLC Assigns 'MOR RV2' Residential Vendor Ranking as an RMBS Deal Agent and 'MOR RV2' Residential Vendor Ranking as a Representation and Warranty Reviewer to Clayton Holdings LLC**

May 9, 2016—Morningstar Credit Ratings, LLC today assigned its 'MOR RV2' residential vendor ranking as a residential mortgage-backed securities (RMBS) deal agent and 'MOR RV2' residential vendor ranking as a residential representation and warranty reviewer to Clayton Holdings, LLC (Clayton), a wholly-owned subsidiary of Radian Group Inc. (Radian). The forecast for both rankings is Stable.

The assigned rankings reflect Morningstar's assessment of Clayton's operational infrastructure and client-driven performance results in its respective lines of business. The Stable forecast for both rankings reflects Clayton's solid vendor performance derived from a tenured management team, highly flexible technology environment, pervasive enterprise-wide risk-management infrastructure, and focus on client-driven performance results. A comprehensive training regimen, extensive and well-documented policies and procedures, and a strong quality-control environment minimize operational risk and provide a high level of performance as indicated by the company's execution of key indicators on its service-level agreements.

Since its founding in 1989, Clayton has been providing loan review and due-diligence services for the residential mortgage and RMBS markets, with particular focus on credit underwriting, regulatory compliance, and collateral valuation.

While the concept of a deal agent in the mortgage securitization industry is not a new one, the need for an independent third party to protect investors' interests is viewed as vital to the re-emergence of the private-label securitization market. This view is shared by the U.S. Treasury Department and the Structured Finance Industry Group (SFIG), two entities that have supported and promulgated the development of the deal-agent concept via SFIG's RMBS 3.0 initiative.

Clayton is uniquely positioned to fulfill the roles of a deal agent and a representation and warranty reviewer. As a due-diligence vendor since 1989, the company has reviewed more than 12 million loans of many varied types, encompassing conforming and nonconforming loans.

Since 1997, Clayton's surveillance and file review team has performed independent evaluations of RMBS, asset-specific reviews, and servicer performance assessments and maintains a database of 7.6 million mortgage loans for trending and performance analysis. Since 2012, the company has performed more than 300,000 loan reviews for mortgage industry stakeholders, often related to external regulator mandates, as well as more than 200 mortgage-servicing-related operational reviews.

Clayton has extensive experience in credit underwriting, loan reviews, and servicer surveillance. Clayton was acquired by Radian in 2014. Clayton held its own acquisitions—Green River Capital, LLC in 2012 as well as Red Bell Real Estate, LLC and ValuAmerica, Inc. in 2015—providing the company with significant diversification of products and revenue.

The specifics of the deal-agent role and its accompanying responsibilities continue to be discussed by industry stakeholders and may require a variety of different services based on investor preference and transaction type. The full suite of mortgage industry services offered by Clayton and its subsidiaries positions the company well to fulfill the anticipated role of the deal agent and representation and warranty reviewer as well as any customized requirements that may be mandated by industry stakeholders.

To access Morningstar's operational risk assessments methodology and all published reports, please visit <https://ratingagency.morningstar.com>.

Morningstar rankings, forecasts, and assessments contained in this rankings announcement are not assessments of the creditworthiness of an obligor or a security and thus are not credit ratings subject to NRSRO regulations.

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