

Operational Risk Assessments News Bulletin

Green River Capital, LLC (Clayton Holdings LLC)

Morningstar Assigns Green River Capital, LLC (Clayton Holdings LLC) 'MOR RV2/Favorable' Residential Vendor Ranking (REO Asset Management); 'MOR RS2/Favorable' for Residential Component Servicer Ranking (Short Sales)

Morningstar Credit Ratings, LLC (Morningstar) has assigned Green River Capital, LLC (GRC) its 'MOR RS2' ranking as a residential component servicer (short sales) and assigned its 'MOR RV2' ranking to GRC as a residential vendor (REO asset management). The forecast is Favorable for both rankings. The assigned rankings reflect our assessment of GRC's operational infrastructure and client-driven performance results in its respective duties as a residential component servicer and REO asset manager. The Favorable forecast for the component servicer and REO asset manager rankings reflects a pervasive audit, quality control and compliance culture across the enterprise arising from a solid training regimen, comprehensive and client-driven policies and procedures, and internal performance monitoring and reporting. GRC's proprietary technology and overall systems infrastructure provides GRC with a highly flexible platform from which to effectively pursue new business opportunities and launch new products quickly as industry developments occur. GRC's flexible business model and proprietary technology provide GRC, both as a component servicer and vendor, opportunistic market growth and a diversified business strategy as evident in new business ventures such as collateral underwriting and property manager oversight and compliance for the emerging REO-to-rental securitization market.

In January 2012, GRC became a wholly owned subsidiary of Clayton Holdings, LLC, a due diligence, consulting, and analytics provider to the residential and commercial mortgage industries. Although GRC will remain a standalone entity, there are synergies that can be leveraged across the two companies from both a product and technology standpoint that should only serve to strengthen GRC's market position.

In particular, Morningstar's assessment and assigned rankings are based on these factors:

- *Effective Training Programs* - Our positive opinion of GRC is based on an effective training regimen for new and current employees that benefits from a blend of internal and external training solutions. Extensive training in the Fair Debt Collection Practices Act (FDCPA) is required, as well as annual testing and certification. As a vendor to the financial services industry, the company incorporates external advisory resources and internal sources to deliver comprehensive advice and training on emerging Consumer Financial Protection Bureau (CFPB) guidelines. The company is currently rolling out individual employee learning plans consisting of required and optional training courses and a program consisting of minimum training credits will be introduced across the enterprise in 2014. We believe that GRC has the requisite training infrastructure, staff, and resources commensurate with the size of the organization.
- *Comprehensive Policies and Procedures* - It is our view that GRC has comprehensive policies and procedures that incorporate specific client-driven processes that maximize compliance and performance with the requirements inherent in client mandated service level agreements. Weekly best practices meetings and monthly policy and procedure reviews serve to ensure consistent practices across the business platform. Morningstar believes that GRC should, at some future point, move all policies and procedures from a shared drive to a company intranet site.
- *Robust Technology Environment* - Morningstar believes that GRC has an effective technology architecture and systems infrastructure that supports GRC's products and services and that is fully scalable commensurate with business goals. GRC's proprietary technology provides the company with the necessary flexibility to develop new business strategies and effectively execute on those strategies. Additionally, GRC's technology infrastructure provides the necessary performance management tools critical in monitoring and delivering performance to clients as outlined in service level agreements. GRC has a comprehensive regimen in place for developing and prioritizing technology projects including an annual project

road map and database, project scorecards, user acceptance testing utilizing subject matter experts from business areas, a technical writer to update manuals, and a technical trainer to deliver systems training. System enhancements are issued in monthly releases.

- *Disaster Recovery and Business Continuity* - It is our view that GRC has an acceptable disaster recovery and business continuity plan in place. However, significant improvements are underway that will leverage Clayton's infrastructure and technology and further strengthen GRC's reliability as a vendor. GRC has migrated to Clayton's network and other joint infrastructure projects are underway, including the implementation of a geographical redundancy strategy wherein GRC's Salt Lake City, UT location and Clayton's Shelton, CT location become redundant data operations providing an enhanced testing environment and improved business resumption time.
- *Risk Management* - Our view is that GRC has implemented an effective control environment throughout the organization by instituting sound internal controls. These controls include, but are not limited to, effective training programs, comprehensive procedures, continuous performance monitoring and review, internal risk assessment methodologies and control monitoring. Additionally, a SSAE No.16, *Reporting on Controls at a Service Organization*, (SOC 1) exam is conducted by an external firm on an annual basis. A review of the 2012 exam report revealed no adverse material findings.
- *Solid Performance Record* - GRC is led by a highly tenured management team with an average of approximately 20 years of relevant industry experience and has acceptable organizational turnover rates. Based on our assessment, GRC has a successful record of REO asset management practices for a wide variety of clients. The company also has sound practices in place to assist clients with short sale opportunities and delinquent account collection work, including on-site borrower interviews and referrals. GRC has developed a continuous performance monitoring and reporting infrastructure to ensure compliance with client expectations. Extensive data is collected daily and scorecards are used to grade and evaluate performance on numerous benchmarks to ensure that client-based service level agreements are substantially met or exceeded. A monthly performance summary is consolidated and presented to management for review. GRC provides REO management and valuation services and, through its Green River Financial (GRF) subsidiary, provides loss mitigation and short sale management services to a wide scope of financial institutions.

Forecast

Favorable - Residential Vendor and Residential Component Servicer Rankings

Morningstar believes that GRC is fully capable of serving as an effective residential vendor and residential component servicer for a wide variety of financial institution clients. The Favorable forecast for both rankings is based on our belief that GRC will maintain organizational stability, provide high quality service and performance to its clients, and recognize additional performance efficiencies and technology enhancements as it continues to integrate best practices and leverage synergies with its parent, Clayton Holdings. Additionally, GRC's flexible technology environment should provide the continuing agility to launch new products, such as REO-to-rental collateral underwriting and property management network certification and surveillance, as short sale and REO asset management volume potentially recedes in the coming year.

Our full assessment report on Green River Capital, LLC is forthcoming and will be made available on our website.

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