Operational Risk Assessments

First Associates Loan Servicing, LLC

September 2017

Operational Classifications:	Vendor: Consumer Loan Servicer
Ranking:	MOR RV1
Forecast:	Stable
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Rationale

Morningstar Credit Ratings, LLC has assigned First Associates Loan Servicing, LLC our MOR RV1 ranking as a consumer loan servicer. The forecast is Stable. First Associates provides loan and lease servicing for originators and institutional investors. The company was founded in 1986 as First Associates Mortgage Corp. and the current management team subsequently acquired it in 2008 and reformed as First Associates Loan Servicing, LLC. The company services an assortment of debt obligations including unsecured consumer loans, purchase finance loans and leases, auto loans, power sports loans, student loans, solar energy loans, elective medical-procedure financing, and small business loans. The company has a second servicing center located in Tijuana, Mexico. As of Feb. 28, 2017, First Associates has a total of 267 employees companywide. The company also offers other lending support services including capital markets support, prefunding support and postfunding support.

Morningstar based our ranking on a variety of factors, including the following:

- Culture and Training: First Associates has a pervasive enterprise risk-management culture that consists of consumer finance compliance protocols, internal audits, self-risk assessment protocols, quality assurance, call-monitoring scoring and feedback, and a robust vendor-management oversight program. An extensive training and compliance curriculum promotes both a new hire and continuous learning environment. Comprehensive policies and procedures ensure that employees perform their responsibilities in accordance with industry best practices.
- Audit Function: The company engages a third-party auditing firm to produce a Statement on Standards for Attestation Engagements 16 audit report annually. The most recent report, completed in 2016, revealed no significant findings.
- Servicing Platform: The effectiveness of First Associates' servicing platform is evidenced by above-average call center metrics, portfolio volume growth, strong client diversity, and minimal client turnover.
- Speech Analytics Platform: First Associates uses a third-party speech analytics platform that incorporates artificial intelligence capabilities to monitor 100% of all inbound and outbound calls for compliance, quality, tonality, and effectiveness.
- Infrastructure: The company opened an operations center in Tijuana, Mexico, with a capacity of 1,000 seats to accommodate business growth.

- Technology Environment: First Associates benefits from a solid technology environment that includes a third-party consumer finance servicing system, a well-defined project management process, effective network security protocols, and a disaster-recovery and business-continuity plan that leverages the company's cloud-based infrastructure and multiple office locations for geographic data redundancy and processing.

The company's strategic growth plan is to pursue additional servicing assignments and expand its service offerings to attract further diversification of its client base.

Forecast

The forecast for the consumer finance servicer ranking is Stable. The company could obtain substantial servicing agreements based on market trends, so it's well-positioned both internally and via third-party vendors to handle significant portfolio volume increases. Morningstar believes First Associates will maintain organizational stability, provide high-quality service for clients, and recognize potential efficiencies and technology enhancements as it integrates best practices and leverages synergies while capitalizing on opportunities.

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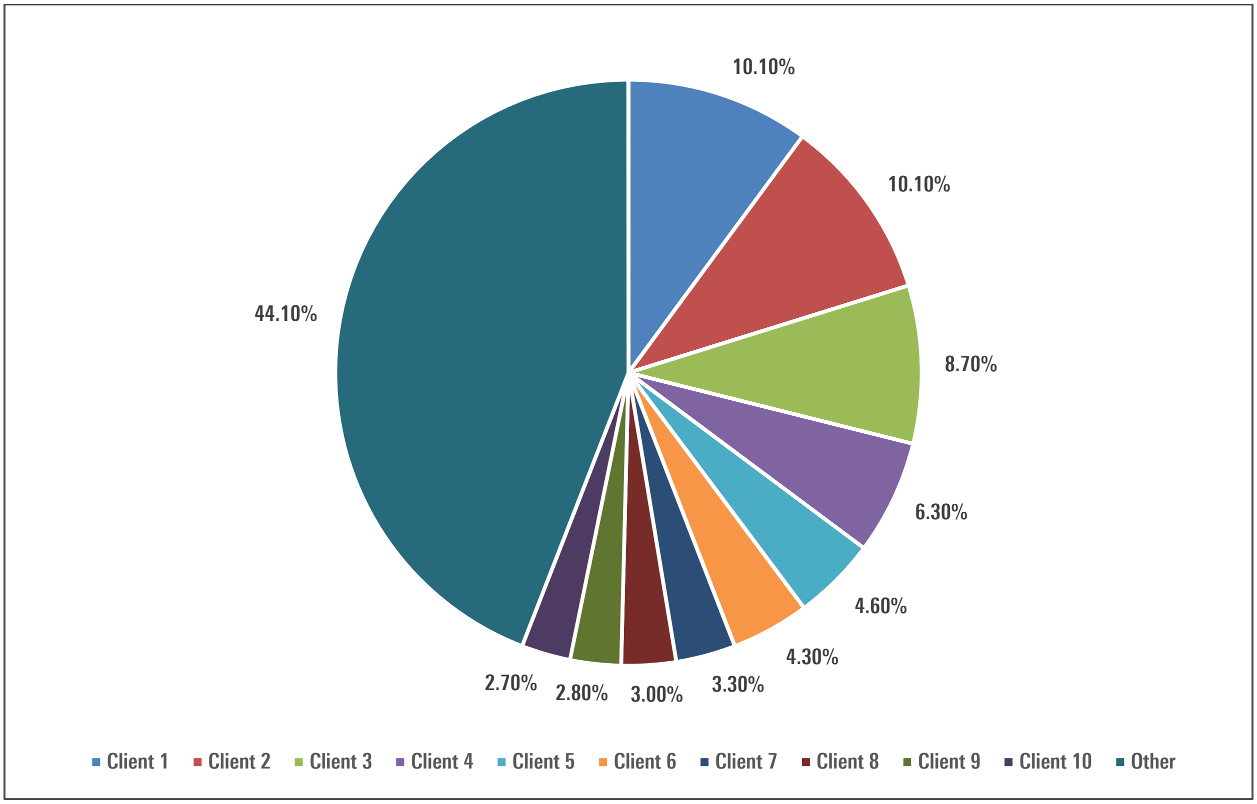
Chart 1: First Associates Client Diversity



Servicer Profile

First Associates is a privately held consumer finance loan servicing entity founded in 1986 as First Associates Mortgage Corp. The present management team acquired the assets of First Associates Mortgage Corp. in 2008 and reformed the company as First Associates Loan Servicing. The company is headquartered in San Diego with an additional location in Tijuana, Mexico, and has about 267 total employees. The company services a variety of debt obligations including unsecured consumer loans, purchase finance loans and leases, auto loans, power sports loans, student loans, solar energy loans, elective medical procedure financing, and small-business loans. Other lending support solutions include:

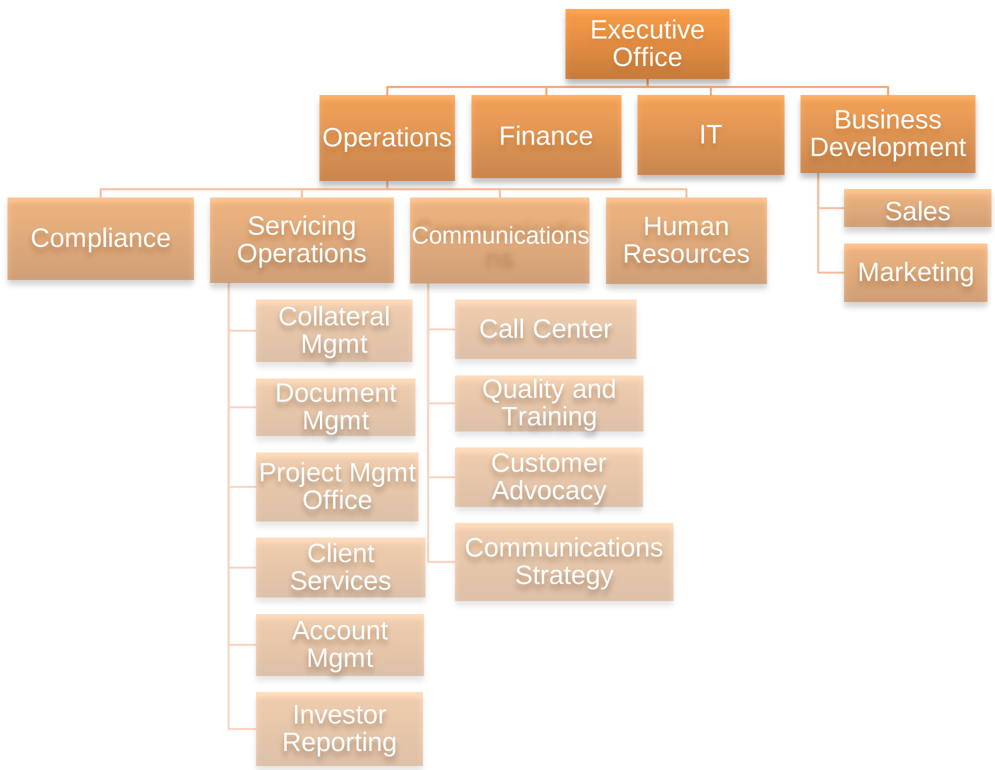
- Primary Loan Servicing
- Capital-Markets Support
  -Backup Servicing
  -Contract Verification
  -Borrowing Base Calculation or Validation
  -Custodial Services
  -Treasury Services
- Prefunding Support -
  Application by Phone
  -Customer Service

-Borrower Verification Calls
-Document Verification

- Postfunding Support

-Customer Service
-Collections Support Calls
-Borrower Verification Calls

Chart 2: First Associates Organizational Chart



Operational Infrastructure and Risk Management

Audit and Compliance

First Associates has a robust audit, compliance, quality control and risk-management infrastructure. An external auditing firm performs an annual independent SSAE 16 II. The most recent SSAE 16 II report for the period June 1, 2015, through June 30, 2016, revealed no significant findings. First Associates also has an internal-audit team, reporting to the board of directors, and encompasses the following elements:

- The plan, reviewed annually, encompasses operational, technology, and compliance functions.
- The process monitors outstanding issues and conducts testing to ensure that corrective action has been taken.

- The audit methodology incorporates a call-monitoring program to assess the effectiveness of customer-centric employees and identify performance issues and training needs.
- There is an escalation process via a monthly status report of open items that is distributed to the management team and the audit committee.

The audit calendar includes the following topics:

- Patriot Act procedures audit (compliance with consumer address retention)
- Payment posting audit
- Deceased consumer procedures audit
- Document retention procedures audit
- Auto repossession audit (compliance with state law)
- Consumer regulations policy and procedure review
- Consumer periodic statement audit
- Call center audit
- Consumer correspondence audit
- Fraud dispute process procedures audit
- Notice of default procedures audit
- Servicemember's Civil Relief Act audit
- Automated Clearing House audit
- Modification and forbearance audit
- Complaint handling procedures audit
- Vendor on-site visit procedure audit

A monthly audit is performed to verify that late notices, collection-call frequency, and campaigns on delinquent accounts are timely and effective. First Associates handles borrower requests for nonstandard account settlements and coordinates approval or denial with the client. If approved, the company will issue an Internal Revenue Service Form 1099-C for debtors who have had some portion of the debt forgiven.

An internal technology audit process ensures that the disaster-recovery and business-continuity plan is updated semiannually and tested periodically and that audits of system access, disaster recovery, and information security are performed.

Other internal controls include call monitoring with accompanying feedback forms, and the use of a third-party lockbox payment processor.

First Associates centralizes its vendor-management functions within its organizational structure and designs them to provide a framework for managing the lifecycle of the vendor relationship. Vendor management consists of the following four principles:

- Vendor risk assessment
- Vendor due diligence
- Contract management
- Vendor supervision

A vendor-management specialist performs an initial risk analysis and assigns a risk rating of low, medium, or high based on First Associates' vendor-risk rating matrix, which generally signifies the level of due diligence for that particular vendor relationship. The company's risk matrix considers factors such as the business impact, consumer contact (if applicable), term of the contract, and the vendor's access to nonpublic personal information. The scope of due diligence performed for a vendor depends on its risk rating and may include many aspects including audit reports, financial condition and annual reports, insurance coverage, and on-site visits. Vendors considered high risk require an annual due-diligence review. The senior vice president of operations, compliance, and legal handles vendor contract management and negotiation for consideration of financial, legal, operational, and risk-management impact. Contract terms are reviewed for compliance with various regulatory guidelines and numerous other company guidelines. The vendor-management specialist performs the initial risk analysis and the vendor due-diligence review, fulfills the role of vendor liaison, maintains vendor records, and performs an annual status report of medium and high-risk vendors to the compliance department. Each individual loan-servicing area monitors and gives feedback on vendor performance.

> **Assessment:** First Associates operates within an audit and risk-management infrastructure commensurate with the size and scope of the organization. Morningstar reviewed First Associates' internal-audit program results and the SSAE 16 II audit and found no significant findings or systemic issues. The company's audit and quality-control reports also do not indicate any systemic servicing issues. The centralized vendor-management program provides enhanced compliance functionality by selection, certification, and performance monitoring.

Technology

First Associates uses a cloud-based software-as-a-service, or SaaS, loan-servicing system, a real-time application for transaction management. The company's technology provides compliance with regulatory guidelines, workflow efficiencies, and audit and performance-management capabilities by using electronic dashboards for various servicing areas. The scalable technology architecture can support multiples of the loan-servicing portfolio to accommodate business growth. First Associates uses the Public Access to Court Electronic Records, or PACER, database to receive bankruptcy case filings and status updates.

The information-technology department reports independently to the chief technology officer and comprises technology infrastructure and operations, information security, and application development and architecture. IT reviews monthly reports to ensure that terminated users do not have access. First Associates periodically conducts network penetration testing and has employee password policies and controls. The company uses a storage-area network and cloud-technology architecture to interconnect and store applications and data.

The company's project-management office handles software-enhancement requests in a multistep process that includes the receipt of a statement of work from the requester, follow-up meetings for discussion, assignment of the project to an owner, referral to information technology, and subsequent tracking of the project in the information-technology pipeline. The team prioritizes and reviews projects weekly until rollout is complete.

First Associates' disaster-recovery and business-continuity plan is based on the geographical redundancy of the company's two locations in San Diego Tijuana and Salt Lake City. Customer accounts are run via the vendor's SaaS platform, providing data replication and redundant services. Ancillary applications and necessary data are replicated to an off-site commercial colocation facility in Nevada. The senior management crisis team determines if an event is sufficient to activate the disaster-recovery plan. Two applications, email and finance and accounting, are run external to the headquarters in a hosting location within San Diego County. A cold site, remote backup strategy is used to ensure restoration of those applications. Operations are feasible from any location with an Internet connection and Ethernet-based networking. In the event that a disaster renders the San Diego facility inoperable, the company maintains a backup agreement with a related financial services company in the Salt Lake City area, which would be used to house operations personnel in the event of a regional disaster in Southern California.

Loan servicing system database backups are performed nightly and are located at two separate locations in Maricopa County, Arizona. The call-center software provided through a cloud-based SaaS application, provides First Associates with access to their global redundancy center, which provides system failover to an Atlanta center. First Associates tests its disaster-recovery plan at least annually or more frequently if it makes changes to the plan. The company has a pandemic response plan to prepare for and respond to any serious widespread illness.

> **Assessment:** First Associates operates in an effective automated environment. First Associates' technology platform is commensurate with the size of the organization and provides an appropriate level of support for the company's loan-servicing business, as well as an acceptable foundation for growth.

Management and Staff Tenure and Organizational Turnover

As of June 30, 2017, First Associates has about 267 employees. The senior management team has an average of 27 years of relevant industry experience and five years with First Associates. Supervisors and managers have an average of 16 years of industry experience and five years' tenure with First Associates. There was 10% management turnover in 2016-17, and the servicing employee turnover was minimal at 4.2%.

> **Assessment:** First Associates has a seasoned management team and staff with minimal organizational turnover contributing to a stable loan-servicing platform.

Organizational Structure and Business Strategy

First Associates continues to experience growth both in its loan-servicing portfolio and the varied services it offers to investors.

> **Assessment:** First Associates' management team and staff tenure contribute to a stable business environment. The technology, core risk-management methodologies, and operating history provide First Associates with a framework for business growth and diversification.

Training

First Associates actively recruits for new hires using a temporary-to-permanent strategy with coordination from third-party recruiting agencies. The company conducts job fairs to fill new-hire requirements and maintains about 5% excess operational capacity to accommodate client volume surges. The company provides new employees with an employee handbook and requires them to sign a document acknowledging receipt. In addition, employees and subcontractors must sign a confidentiality and nondisclosure agreement. First Associates conducts background checks on applicants before they have access to facilities or systems. First Associates has developed an extensive training curriculum that includes education on the Fair Debt Collection Practices Act, Fair and Accurate Credit Transaction Act, the Servicemembers Civil Relief Act, and the Fair Credit Reporting Act. The company requires testing and annual recertification in these regulations for collection and customer-service employees. New employees undergo on-the-job training, which consists of reading company policies and procedures as well as side-by-side mentoring on systems and applications. Employees must be familiar with applicable consumer regulations policies and procedures which include:

- Fair Debt Collection Practices Act

- Fair Credit Reporting Act
- Equal Credit Opportunity Act
- Gramm-Leach-Bliley Act
- Prohibition Against Unfair, Deceptive or Abusive Acts or Practices
- Servicemembers Civil Relief Act
- Consumer Financial Protection Bureau Guidance for Debt Collections
- Minimizing Regulatory Risk

A three-day introductory program provides new employees with an overview of the company's business, technology systems, and servicing portfolio. For employees serving in a direct customer-contact role, a minimum of three weeks of training provides in-depth courses on First Associates' loan-servicing business. The company maintains mirrored training facilities at both servicing sites in San Diego and Tijuana and employs trainers at both locations. A curriculum developer position in the learning and development department is responsible for working with team members and various subject matter experts in authoring, editing, and formatting of training materials and course curriculum across the enterprise.

> **Assessment:** First Associates' training regimen provides an appropriate level of education for its management and experienced personnel. The training programs offered by a third-party vendor are a cost-efficient method and provide standardized training, which is supplemented by internal training sessions and third-party educational offerings.

Policies and Procedures

Individual business units author policies and procedures under the supervision of the compliance area. The policies and procedures have a consistent format across the enterprise with a uniform template and are stored on a shared drive. First Associates continuously reviews and updates its policies and procedures to ensure compliance with regulatory guidelines and state and federal statutes. The methodology for updating policies and procedures creates an audit trail of changes by using versioning.

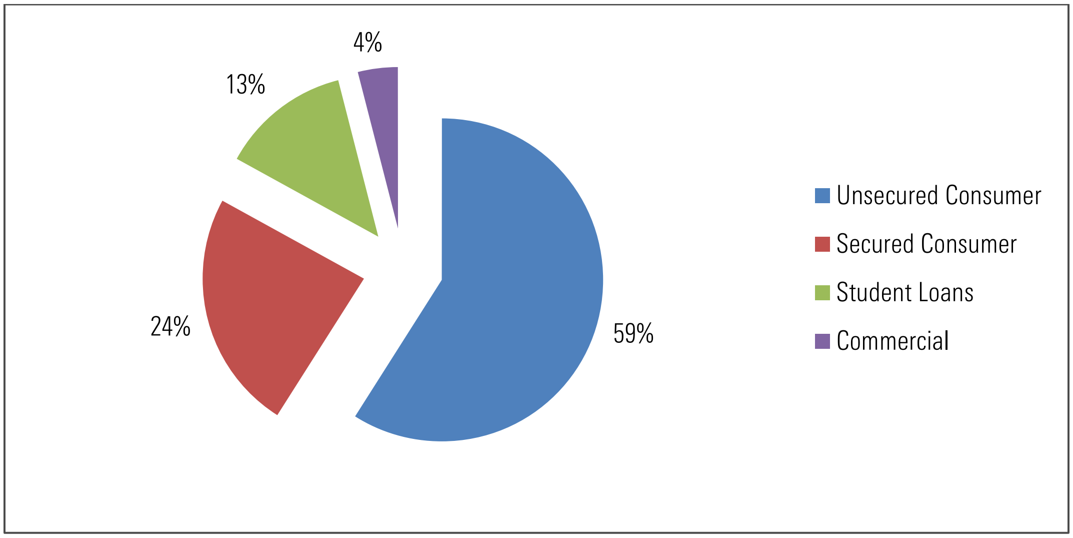
> **Assessment:** Staff has access to First Associates' policies and procedures, which allow for a solid training foundation and consistent servicing practices across the company's platform.

Legal Liability and Corporate Insurance

Management said that First Associates is not subject to any outstanding material litigation. Management reports that the company has a directors and officers/fidelity bond, and errors and omissions and mortgage impairment insurance.

> **Assessment:** Based on management's statements, the company is not subject to any material litigation that could significantly affect its operational ability.

Chart 3: Portfolio Breakdown by Asset Type



Loan Administration: Servicer Performance Metrics – Consumer-Finance Servicer

Loan Boarding and Document Tracking

First Associates uses a secure third-party platform to receive information from clients, including boarding files and customer agreements as well as project documentation and templates. Files are encrypted both in flight and at rest. Monthly client reports are also made available on this platform. First Associates employs a multitier approach prior to boarding that includes an in-depth requirements discussion with the client and a customer experience walkthrough that includes a review of client documentation and a test file of about five-10 accounts. The loan-boarding process focuses on data completion, accuracy, and security. Loan-administration staff can enter new loan information into the servicing system and a second person subsequently validates and acknowledges it. Exceptions are reviewed to identify the source of the issue and further coordination with the client may be necessary to resolve the issue. The on-boarding process includes an enhanced quality-control focus and frequent communication with the client during the boarding and postboarding time frame. Postlaunch activities include the creation of a support desk for ongoing account level information requests, the initial setup and loading of client-level reports to the third-party platform, the scheduling of a quarterly portfolio review, and a postlaunch review for feedback and issue-resolution purposes.

> **Assessment:** The new loan-boarding and document tracking process is highly automated and effective with an appropriate focus on new client training and coordination.

Payment Processing and Accounting

The document-management department receives, sorts, and distributes incoming mail where it is opened in the presence of two people to ensure dual control over receipts. A small number of borrower checks that come into the company's office are separated from corporate checks and the borrower checks are sent to the lockbox bank vendor for processing. Customers can opt to have their monthly billing statements uploaded to First Associates' website. It is First Associates' policy to process customer payments on the same business day that they are received. Payment methods include automated clearing house, credit/debit card, lockbox vendor, MoneyGram, Western Union, and wire transfer. ACH represents 70% of payments with debit/credit cards at 10% and lockbox/wires at 18%. The account-management department uploads payment files to the servicing system to credit individual borrower accounts. The accounting assistant reconciles the payment files to the generated cash reports daily, and a supervisor in the accounting department reviews the reconciliation. The account management team researches payment exceptions to ensure that payments are posted on the same day. Unidentified payments undergo an investigative process so that they may ultimately be resolved and posted within 24-48 hours. The loan-servicing system, general ledger and bank accounts are reconciled daily, and an additional manager reviews them to verify that payments posted were received. Borrower payments are deposited into client trust bank accounts and are segregated from the First Associates operating accounts.

There has been 1% staff turnover in the cashiering area. First Associates' performance metrics and efficiencies in the cash-processing area include:

- The lockbox processing rate of 99% is competitive with the industry average.
- Automated payment methods, such as electronic funds transfer, e-commerce, and other autoposted payment methods account for 98% of monthly payment processing.
- The lockbox error/reject rate is .01%.

Certain executive team members, including the chief executive officer, executive vice president of sales, and the senior vice president of operations, are authorized to sign cash disbursements. Checks in excess of $25,000 require two signatures, and wires and nonrecurring ACHs require secondary approval within the accounting department. ACH and wire template setup or changes require secondary approval. Borrower funds are remitted to clients according to the various servicing agreements. The investor reporting department initiates remittance calculations and forwards them to the accounting department where they reviewed approved by management via pre-established payment templates through online banking platforms.

The finance department management reviews journal entries. General ledger accounts are reconciled monthly and exceptions are researched and cleared in a timely manner. The preparer reviews and signs off on individual general ledger account reconciliations. Accounting management compiles and approves a general ledger reconciliation package consisting of the balance sheet, checklist, and reconciliations.

An individual with no check writing or payment authorization access performs bank-account reconciliations within the accounting software, and two levels of management must approve monthly. Upon completion, the reconciliation, monthly bank statement, cancelled checks, and applicable forms are scanned and stored electronically.

The vice president of finance prepares monthly financial statements in accordance with generally accepted accounting principles. Annually, the company engages an independent auditing firm to review the company's consolidated financial statements in accordance with accepted auditing standards.

> **Assessment:** The payment-processing function is multichanneled and highly automated contributing to a high degree of efficiency. The reporting and remitting functions have an effective level of automation and are housed within a traditional control environment that serves to minimize risk of loss to clients.

Customer-Relationship Management

Call-center representatives handle all calls in a blended call-center environment. The company maintains mirrored call centers in San Diego and Tijuana with a 60/40 call volume split, respectively. Customer-service hours are 6 a.m. to 7 p.m. Monday through Friday PST, and 7 a.m. to 12 p.m. PST Saturday, and the company employs bilingual representatives at both locations. The customer-service group uses smart call routing and employs an interactive voice response unit. Ongoing training and mentoring promotes and maintains call quality. Call monitoring is conducted daily and is a combination of monitored calls and speech analytics.

First Associates uses a third-party artificial-intelligence-enabled speech-analytics platform to monitor 100% of all inbound and outbound calls. Speech analytics enable the company to score and provide agent feedback on calls with consumers using data-driven benchmarking. The speech-analytics platform provides enhanced compliance, verifying that the company has made all required identity verifications and disclosures and flags any calls with potential compliance issues. The system automatically redacts payment card industry restricted data in compliance with PCI data-security standards for entities that process, store, and/or transmit cardholder data. The system monitors and tracks the tonality and emotional state of the customer and agent throughout the call and charts that information alongside the call transcript providing a record of what was said and the corresponding emotional trend of the conversation. The speech-analytics capability provides a record of customer calls including an assessment of the reasons for default and other information and data that clients may find useful in managing their customer relationships and product marketing outreach. The technology provides representatives with extensive feedback and call scoring, which they can see at any time. The supplemental management and quality assurance staff are used for coaching and training.

First Associates assigns call-center representatives with significant experience to handle calls involving more complicated collateral, while less experienced representatives use scripting and whisper coaching to handle routine account inquiries. The quality-assurance team validates the supervisor call scoring results and conducts a weekly calibration session. The company has developed call-center career-path programs including a call center team lead leadership program and a call center supervisor leadership program. The company clearly delineates its expectations with regard to these programs for those individuals who want to advance within the organization and encourages a promote-from-within philosophy that provides organizational stability and minimizes employee turnover.

First Associates' performance metrics are as follows:

- Its abandonment rate of 0.5% is superior when compared with industry call-center standards.
- Of all calls, 93% have an average speed of answer of less than 20 seconds, which exceeds service level and industry standards of 80%.
- Call-center employee turnover averaged a low 1.4% in 2016 and has averaged 0.4% during the first half of 2017.
- The attrition rate during the customer service training period is 40%.

According to the new servicing rules, customer advocacy group handles customer correspondence, including borrower-information and error-resolution requests, as defined by the CFPB, and tracked for internal operational trends and root cause analysis. First Associates provides a website with account information and payment options.

> **Assessment:** First Associates' customer-relationship management performance is highly effective compared with industry standards. The company's performance metrics in this area indicate highly effective borrower outreach and responsiveness. Customer-service staff and supporting loan-servicing personnel handle the call volume to ensure first call resolution and single point of contact.

Delinquent Account Servicing

First Associates performs delinquent account servicing for a variety of consumer loans and installment contracts. The customer-service and loan-advisory areas combine in a blended call-center environment to bring delinquent accounts to a current, performing status and mitigate risk of loss for clients. The company has delinquent account servicing policy and procedures that are focused on compliance with federal collections laws. All delinquent account servicing personnel must take Fair Debt Collection Practices Act training. There is an FDCPA testing and certification process, as well as refresher training and an annual recertification process. Representatives perform skip tracing on delinquent accounts using technology applications and external vendors to assist with borrower location and identification.

First Associates follows state and federal law and industry practice when collecting on delinquent accounts. First Associates uses multiple communication channels to reach delinquent customers and uses a table-based communication cadence to ensure compliance with both state and federal contact requirements. The various channels are used to maximize contacts while maintaining high customer satisfaction. If a promise-to-pay agreement is reached with the customer, communication is adjusted to reflect time for the payment to arrive/be processed. If a customer has a history of broken promise-to-pay commitments, contact efforts are made the day after a scheduled promise-to-pay is due to verify that a payment is in transit.

The company has well-defined procedures for handling complaints from customers regarding servicing, products, or call-center representative issues. Complaints are referred to department management who are primarily responsible for addressing any issues and company leaders. Unresolved complaints as well as complaints received from local, state, or federal agencies are immediately escalated to company management.

The communications department maintains a log of complaints and is responsible for reviewing them with the relevant associates for training purposes. The company mandates that all collection activity must be suspended when a complaint is received from a customer or a governmental agency until all issues raised have been addressed and resolved. A summary of the written response to the customer or governmental agency and the corresponding complaint log is placed in the customer’s permanent account record. If a customer or governmental complaint reveals evidence of a violation of law or company collection policy, additional training leading up to possible termination may occur.

The following are key performance metrics:

- First Associates uses a speech analytic automated scorecard for compliance review of all calls. The accuracy rate since inception for right party calls is 99%.
- Of customers surveyed, 88% respond that they are “extremely satisfied” with agent interaction inclusive of both customer service and collection calls.

First Associates complies with the Servicemembers Civil Relief Act, which provides certain protections for active duty individuals. Certain types of borrower relief are available under the act including interest-rate reduction and reamortization at no more than 6%, a moratorium on repossession activity, and the ability to retroactively provide relief to the date when the servicemember was called to active duty. When notified by a customer that they are in active duty, the company provides that customer with an email and physical address for mailing the appropriate documentation to verify military status. The company will review the relevant documents and determine eligibility as reflected on the Defense Manpower Database Center Servicemembers Civil Relief Act website.

> **Assessment:** Delinquent account collection is well-managed by virtue of the company’s focus on communication between its call center representatives and borrowers. First Associates’ organizational structure, technology, and internal policies are designed to facilitate servicer-borrower communication and execution of client directives.

Collateral Repossession

First Associates has well-written policies and procedures to determine if an account should be considered for repossession activity. The process provides for those situations in which a customer has protection from collateral repossession by virtue of an active bankruptcy case or eligibility for relief under the SCRA.

The collateral management team reviews customer accounts daily to determine if an account is eligible for repossession. When an account becomes 30 days past due, the company sends a right to cure notice to the customer if the state has a statutory requirement. The company maintains an internal matrix of state-by-state legal requirements. A validation for an active bankruptcy case is based on public research databases or eligibility under the SCRA. If these protections are not present, First Associates assigns the collateral for repossession. The company maintains delegated authority and a corresponding power of attorney to act on behalf of clients in repossession cases. A national repossession network is used to seize collateral. Upon repossession of the collateral, the company sends a state-specific notice of intent of sale letter to the borrower via certified mail, and, as applicable, provides a specific number of days by which the borrower can reinstate the account by paying the total amount due in addition to repossession fees before the collateral is sold at auction. Once the notice of intent has expired, the company works with the auction vendor to process the sale of the asset. The auction vendor will provide a condition report and a remarketing price evaluation. An auction or online sale date is subsequently scheduled and purchase offers are collected. If an offer is received that is compliant with the sale guidelines, the offer is approved, accepted, and the collateral is sold. Sale proceeds are wired from the auction vendor to First Associates. During the postsale process, First Associates sends a notice of sale letter, which details the sale amount and associated costs and fees, to the borrower. If there is a surplus, the company will send a check to the borrower. In cases where there is a deficiency postsale, the company will send the borrower a notice of sale and deficiency balance letter to satisfy any outstanding fees. First Associates promotes an environment in which borrowers are treated fairly and consistently during the collateral repossession process and evaluate collateral based on uniform standards.

The company reports that of the accounts eligible for repossession based on days past due, 90% are placed for repossession each month. Of those placed for repossession, 64% are repossessed and sold at auction within three months. The company further reports that the average recovery/book value was about 81%.

> **Assessment:** First Associates has a well-defined process for reviewing accounts and referring collateral for repossession in compliance with statutory guidelines and accepted industry practices.

Ranking Definitions

The numerical scale of MOR RS1 to MOR RS4 is defined as follows:

1 Exceeds prudent loan-servicing standards in key areas of risk

2 Demonstrates proficiency in key areas of risk

3 Demonstrates compliance in key areas of risk

4 Demonstrates lack of compliance in one or more key areas of risk

A servicer assigned a ranking of at least MOR RS3 is deemed to comply with what we view as the minimum prudent loan-servicing standards and requirements for the servicer's operational category and role. For access to Morningstar's Operational Risk Assessment: (Methodology and Process for Residential and Consumer Finance Servicers and Vendors), please visit www.morningstarcreditratings.com.

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