SOVEREIGN
AFRICA RATINGS

Servicer Rating Methodology

April 2024

1. Introduction

This methodology outlines SAR's fundamentals and analytical approach to assigning servicer ratings in several sectors and for different types of underlying servicers and assets. These ratings give lenders, investors, and other market players information about the competence of the servicers handling their portfolios. They are also a helpful tool for servicers, helping them to find possibilities for performance improvement, operational strengths and weaknesses, and benchmarking against relevant peers and industry standards.

The general process includes the servicer providing information to SAR relating to its servicing platform and operational environment, as well as an onsite inspection of the servicer where SAR’s analysts would engage the relevant staff members and concomitant parties of the servicer. The initial assessment incorporates a review of the servicer type to determine whether the reviewed party is a (i) primary servicer – loan administration for performing loans with direct borrower contact, (ii) special servicer – focused on managing non-performing assets (defaults, covenant breaches, and repossessions) or a primary servicer for residential borrowers with below-average credit scores, or a (iii) master servicer – monitoring of loans serviced by other servicers and ensuring accurate investor reporting and compliance with servicing agreements and industry standards. It is worth noting that the functions of servicers may overlap, including one being a backup servicer on standby to assume the duties of a primary servicer where the primary servicer’s performance becomes inadequate in relation to its servicing agreements with the originator. The weights below are indicative and may have slight differences depending on the servicer type under review. For example, Default Management and Loss Mitigation will be weighted higher for special servicers.

2. Methodology Overview

Primary Service Pillar	Weight	Attribute	Weight
Management and Organisational Structure	25%	Experience	7.5%
		Business Strategy	7.5%
		Structure	10%
Loan/Asset Administration	45%	Loan/Asset Boarding and Document Tracking	15%
		Payment Processes	15%
		Insurance Management	7.5%
		Reporting	7.5%
Customer Service	25%	Customer Service and Contact	25%
Comparative Analysis	5%	Peer Analysis	5%
	100%		**100%**

Special Servicer Pillar	Weight	Attribute	Weight
Management and Organisational Structure	25%	Experience	7.5%
		Business Strategy	7.5%
		Structure	10%
Loan/Asset Administration	35%	Loan/Asset Boarding and Document Tracking	10%
		Payment Processes	10%
		Insurance Management	7.5%
		Reporting	7.5%
Customer Service, Delinquency and Default Management	35%	Customer Service and Contact	15%
		Default Management and Loss Mitigation	20%
Comparative Analysis	5%	Peer Analysis	5%
	100%		**100%**

Master Servicer Pillar	Weight	Attribute	Weight
Management and Organisational Structure	25%	Experience	7.5%
		Business Strategy	7.5%
		Structure	10%
Loan/Asset Administration	20%	Loan/Asset Boarding and Document Tracking	5%
		Payment Processes	5%
		Insurance Management	5%
		Reporting	5%
Servicer oversight and management systems	55%	Sub-servicer Reviews	15%
		Data Management Systems	20%
		Reporting Quality	20%
	100%		**100%**

2.1. Pillar 1: Management and Organisational Structure

Attributes 1 and 2: Experience and Business Strategy

In determining the experience score, SAR will review the number of years the servicer has been in existence and its tenure in servicing the various asset type classifications. Staff competency will be evaluated based on average performance relating to customer service and overall company performance incorporating loss mitigation track record, reporting efficiency, and average time for resolving delinquencies (elaborated upon in the sections below). The staff turnover rate, staff size for adequacy, skills base and training standards are also reviewed to assess the staff's efficiency.

The servicer's business strategy is assessed by reviewing management's quality and level of oversight of the entity's activities. In this assessment, management's responses to changing market dynamics, planning for expansions (or contractions), mergers and acquisitions, and portfolio volume statistics will be evaluated to determine any disruptions to the servicer's lines of business due to management decisions.

Attribute 3: Structure

SAR will review the servicer's internal reporting lines and segmentation of duties, portfolio complexity, as well as the robustness of the compliance, information technology, human resource, and legal functions. Segmentation of duties will receive granular attention in the core of the business, payment processing, where SAR will review whether the design of operations ensures separation of duties and strong controls for the movement of funds.

The scoring categories below correspond to the strongest (1) and weakest (4) classifications; scores of 2 and 3 generally possess some, but not all, of the characteristics of the higher score.

Attribute	Strong (1)	Weak (4)
Experience and Business Strategy	• Comprehensive succession planning and key personnel risk management at the management and operational level. • Long company and management tenure with a limited staff turnover rate. • Staff efficiency with a strong loss mitigation track record, accurate reporting and timeliness in resolving delinquencies. • Adequate and appropriate training and development at the management and operational level. • Strong management oversight and limited disruptions to operations due to management decisions.	• Unclear/lack of succession planning at various staff levels. • Limited company tenure with a high staff turnover rate. • Weak loss mitigation performance, inadequate reporting and slow turnaround times for resolving delinquencies. • Lack of appropriate training and development programmes. • Weak management oversight characterised by unnecessary disruptions to operations.
Structure	• Effective internal reporting lines and segmentation of duties appropriately structured for the portfolio complexity. • Robust compliance, information technology, human resource, and legal functions.	• Unclear reporting lines and lack of segmentation of duties. • Inadequately resourced compliance, information technology, human resource, and legal functions.

2.2. Pillar 2: Loan/Asset Administration

Attribute 1: Loan/Asset Boarding and Document Tracking

New Loan/Asset Boarding: SAR assesses the servicer's policies and procedures for new loan and asset boarding, as well as its compliance with these policies and procedures. The accuracy and timeliness of adding loans and assets to the servicing system are also reviewed, as well as the level of automation.

Document Tracking: SAR reviews the completeness of information (loan file tracking versus document tracking) and storage procedures, assesses document tracking methods and the measures put in place to ensure lien perfection, and evaluates the efficacy of the system used to monitor and pursue omitted documents.

Attribute 2: Payment Processes

Payment Processing: SAR assesses the operational design to ensure there are suitable controls over the movement of funds and separation of duties. It establishes whether funds are appropriately reconciled and assesses any issues with aged open reconciling items. The assessment also takes into account the degree of process automation.

Attribute 3: Insurance Management

Loan/Asset Insurance: SAR reviews the servicer's procedures for monitoring loan and property insurance policies, including coverage levels. It also assesses the servicer's processes for the involvement of external parties in the insurance process.

Attribute 4: Reporting

Investor/Client Reporting: SAR expects reporting to be conducted by appropriate staff (separate from funds transfer and reconciliation staff) and for the reporting to be reflective of the servicer's performance relative to its servicing agreements.

The scoring categories below correspond to the strongest (1) and weakest (4) classifications; scores of 2 and 3 generally possess some, but not all, of the characteristics of the higher score.

Attribute	Strong (1)	Weak (4)
Loan/Asset Boarding and Document Tracking	• Comprehensive new loan and asset boarding policies and procedures as well as compliance with said policies and procedures. • Strong track record of accurately and timely adding of loans and assets to the servicing system. • Effective loan file and document tracking system with efficient comprehensive storage procedures characterised by a strong document tracking system that ensures lien perfection. • Effective system that assigns cases and loans to operational employees, notifies them of changes in borrower performance and staff takes prompt action to get the loan back on track. • Efficiently automated servicing system in use.	• Unclear new loan and asset boarding policies and procedures as well as low compliance. • Weak accuracy track record and slow adding of loans and assets to the servicing system. • Inefficient loan file and document tracking system with weak storage procedures characterised by omitted documentation. • Low/lack of automation and controls resulting in the lack of monitoring of borrowers whose performance has declined.
Payment Processes	• Effective controls to ensure that funds are appropriately reconciled and strong management of aged open reconciling items. • Strong degree of automation.	• Weak controls and automation over cash management and aged open reconciling items.
Insurance Management	• Strong procedures for monitoring loan and property insurance policies, including coverage levels. • Vendors are chosen from a pre-approved list with resources monitoring their performance.	• Weak/lack of procedures for monitoring loan and property insurance policies. • Inadequate insurance coverage levels. • Inadequate and antiquated procedures for managing vendors and keeping track of expenses.
Reporting	• Reporting is conducted by staff separate from funds transfer and reconciliation staff. • Reporting is reflective of the servicer's performance relative to its servicing agreements and compliance with internal controls, covenants, and regulatory provisions where applicable.	• Reporting is conducted by staff with funds transfer and/or reconciliation duties. • Reporting is not reflective of the servicer's performance.

2.3. Pillar 3: Customer Service, Delinquency and Default Management

Attribute 1: Customer Service and Contact

Customer Service: SAR will evaluate the adequacy of policies and procedures that are in place for addressing resolutions and the servicer's maintenance of timely responses to meet customer needs while adhering to compliance measures. SAR also assesses the types of communication channels employed for effectiveness and frequency. SAR therefore assesses the appropriateness of technology that is utilised for communication with borrowers, including interactive response systems for managing peak traffic periods and handling incoming calls, call routing software, and borrower self-service capabilities on websites, portals, and mobile applications.

Asset/Borrower Review: SAR reviews the practices for monitoring portfolio performance. The following activities may be included in SAR's review, which is primarily related to the servicing of commercial mortgage loans: financial statement and tenant analysis; property insurance monitoring; loan and transaction covenant compliance; upkeep of the servicer "watchlist"; and management of surety and reserve accounts. SAR also examines the management of any external vendors providing these services, as well as the inspection and valuation procedures.

Attribute 2: Default Management and Loss Mitigation

Delinquencies: In addition to reviewing the delinquent statistics, SAR evaluates the servicer's policies and practices for sending out late notices and getting in touch with borrowers in the early phases of delinquency.

Default Management: SAR assesses the servicer's processes for loans and accounts that go unresolved during the early stages of delinquencies (30 – 90 days) and reviews the defaulted and delinquent portfolio's performance. Primary servicers or special servicers might do loan servicing for defaulting borrowers. In certain jurisdictions, defaulted loans are managed by the primary servicer until a specific trigger occurs, at which point the loan transfers to the special servicer for final resolution. The method could be less explicit when there is no differentiation between the primary and special servicer. Loans that have fallen behind should be promptly transferred to the special servicer once this procedure is set up. The legal and economic subtleties in the jurisdiction(s) where its assets are being managed are required to be clearly understood and appreciated by special servicers (and primary servicers when assigned these responsibilities).

Loss Mitigation: For the management of foreclosure, loan recovery, and general loss mitigation, SAR assesses the servicer's procedures for decision-making and approval processes, the timeliness of resolutions relative to the servicer's agreements and internal controls, as well as the track record of the servicer's resolution activities. SAR assesses the servicer's range of strategies and the experience of its asset managers and loss mitigation staff in loss mitigation activities. SAR will also assess the proceeds achieved from foreclosed and repossessed assets relative to peers. Policies and procedures relating to the management of third-party involvement in liquidation proceedings are also assessed.

The scoring categories below correspond to the strongest (1) and weakest (4) classifications; scores of 2 and 3 generally possess some, but not all, of the characteristics of the higher score.

Attribute	Strong (1)	Weak (4)
Customer Service and Contact	• Comprehensive policies and procedures for addressing resolutions and the servicer's maintenance of timely responses to meet customer needs while adhering to compliance measures. • Availability of strong and effective communication with borrowers, including interactive response systems for managing peak traffic periods and incoming calls, call routing software, and borrower self-service capabilities on websites, portals, and mobile applications. • Effective practices for monitoring portfolio performance resulting in accurate performance records.	• Unclear policies and procedures for addressing resolutions. • Slow responses to meet customer needs and lack of adherence to compliance measures. • Limited and ineffective borrower communication methods. • Lax portfolio performance monitoring practices resulting in inaccurate performance records.
Default Management and Loss Mitigation	• Effective policies and practices for sending out late notices and contacting borrowers in the early phases of delinquency. • The servicing system monitors the performance of all defaulted loans that are subject to waivers, payment plans, loan modifications, or restructuring and provides prompts to the relevant staff. • Timely foreclosure, loan recovery, and general loss mitigation resolutions, and a strong track record of resolution activities. • Strong recovery rate relative to peers.	• Weak practices for contacting borrowers in the early phases of delinquency. • No system for monitoring the performance of all defaulted loans. • Weak resolution track record for foreclosure, loan recovery and general loss mitigation. • Weak recovery rate relative to peers.

2.4. Pillar 4: Comparative Analysis

Attribute 1: Peer Analysis

SAR performs peer comparisons considering Pillar 3: Customer Service, Delinquency and Default Management. This approach ensures consistent outputs using a weighted average approach in scoring each factor under the pillar to establish the associated ranking order. SAR may drag or lift the servicer's rating by up to two notches depending on its relative performance metrics.

2.5. Master Servicer Pillar 3: Servicer Oversight and Management Systems

Attribute 1: Sub-servicer Reviews

SAR assess the frequency of master-sub-servicer interactions relating to the sub-servicer's compliance with its internal controls, covenants, service level agreements and regulations where applicable. SAR will focus its review on the master servicer's audit operations relating to a sub-servicer's compliance with its internal controls.

Attribute 2: Data Management Systems

In assessing a master servicer's data management systems, SAR will review its reporting ability for accuracy and timely reporting. SAR will also review the automation of data feeds from sub-servicers in assessing the risk of inaccurate data processing.

Attribute 3: Reporting Quality

SAR reviews the frameworks used for reporting as well as the accuracy of the data reported. SAR expects the reporting to be reflective of the sub-servicers' performance relative to its internal controls, covenants, service level agreements and regulations where applicable.

The scoring categories below correspond to the strongest (1) and weakest (4) classifications; scores of 2 and 3 generally possess some, but not all, of the characteristics of the higher score.

Attribute	Strong (1)	Weak (4)
Sub-servicer Reviews	• Regular communication with and continual evaluation of sub-servicer performance and tracking sub-servicer performance.	• Lack of policies and procedures for sub-servicer performance monitoring.
Data Management Systems	• Accurate and timely reporting with effective automation of data feeds from sub-servicers.	• Late and/or inaccurate reporting, usually characterised by a lack of automated data feeds from sub-servicers.
Reporting Quality	• Reporting is reflective of the sub-servicers' performance relative to its internal controls, covenants, service level agreements and regulations where applicable.	• Reporting is not reflective of the sub-servicers' performance relative to its internal controls, covenants, service level agreements and regulations where applicable.

3. Servicer Ratings

Servicer Ratings

Servicer ratings are assigned on a scale of one to five, where one represents the highest rating. SAR also utilises pluses (+) and minuses (-) to further distinguish between different ratings. Outlooks are also assigned to indicate the likely direction of the ratings in the short to medium term, including a positive outlook indicating a high likelihood for an upgrade, a negative outlook indicating a high likelihood for a downgrade, and a stable outlook indicating a high likelihood for maintaining the current ratings. The purpose of the rating scale is to give investors and other market participants a way to quantify servicer quality and pinpoint best practices in the sector. Each report issued will denote the type of servicer being rated, whether a primary servicer, special servicer, or master servicer.

Rating	Description
1 (-)	The best rating indicative of a track record of strong and stable management, performance that meets industry averages and servicer agreement standards, exceptional information technology, and exceptional internal controls, policies, and procedures, as well as the highest ability, efficiency, and competence in managing large and frequently diverse asset portfolios.
2 (+) (-)	A good rating is indicative of high efficiency and competence in overseeing medium- to large-sized portfolios; additionally, a strong management background, a respectable servicing track record, strong internal policies and procedures, and a managed portfolio performance history that is on par with or better than industry averages.
3 (+) (-)	A moderate rating is indicative of a reasonable servicing track record, internal procedures and guidelines that adhere to industry or servicer agreement requirements, and a managed portfolio performance history that is comparable to industry averages.
4 (+) (-)	A below-average rating is indicative of inadequate capacity and effectiveness or competency, a below-average servicing track record, or subpar internal controls.
5 (+) (-)	A weak rating is indicative of persistent losses and a severe lack of internal controls, both of which point to a bad servicing history.

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