

Fitch Downgrades 37 Ocwen Serviced U.S. RMBS Classes

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has downgraded 37 classes in 24 U.S. RMBS transactions to 'Asf' with a Negative Outlook due to the increased risk of a servicing disruption in the high-stress and low-probability scenarios used to analyze high-investment grade ratings.

A spreadsheet detailing the actions can be found on Fitch's website by performing a title search for 'U.S. RMBS Rating Actions for Sept. 11, 2013' or by clicking the link. In addition, a summary of the mortgage pool and bond analysis can be found by performing a title search for 'RMBS Loss Metrics.'

KEY RATING DRIVERS

Ocwen Loan Servicing, LLC. (Ocwen) has implemented an aggressive growth strategy, including several significant acquisitions of mortgage servicing rights (MSRs) over the past year. Currently Ocwen services approximately 50% of all loans in the private-label subprime industry. Ocwen's bid for MSRs reflects a unique cost advantage due to much of its operations being located off-shore. Prior to completing the integration of the recently acquired servicing operations of GMAC Mortgage LLC, approximately 85% of the company's residential servicing headcount utilizing the company's proprietary REALServicing platform was located outside the United States.

Ocwen closed on the acquisition of Homeward Residential in December 2012 and GMAC Mortgage LLC in February 2013. Ocwen completed the integration of Homeward Residential onto its REALServicing platform in the first quarter 2013. Ocwen currently manages two technology platforms, REALServicing and Fiserv (utilized by the legacy GMAC Mortgage LLC servicing operation). The Fiserv platform is being maintained and operated separately from the REALServicing platform; however, the integration of the servicing of various loans from the FiServ platform to the REALServicing platform is expected to continue throughout the remainder of 2013 and into 2014.

Fitch's rating approach considers the increased risk of a future servicing disruption due to the company's rapid portfolio growth, outsized scale relative to the subprime industry, and off-shore staffing strategy. Fitch believes these factors may pose challenges to an orderly transfer of servicing from Ocwen (Issuer Default Rating 'B'; Rating Outlook

Negative by Fitch) if a transfer were necessary.

Fitch currently does not expect a servicing disruption in the base-case or even the mild-stress scenarios, but the agency believes that an assumption of a servicing disruption event is consistent with the high-stress and low-probability scenarios used to analyze high investment grade bonds. The agency believes the risk of a servicing disruption is lower than the risk of Ocwen experiencing financial stress. Many Ocwen-serviced transactions benefit from a Master Servicer, which should help mitigate the risk of a servicing disruption in most scenarios.

Fitch currently assumes any servicing disruption would be temporary, even in high-stress and low-probability scenarios. Consequently, the downgrades to 'Asf' reflect an increased risk of temporary interest shortfalls, rather than an increased risk of long-term impairments. Bonds may maintain a rating as high as 'Asf' despite a risk of temporary interest shortfalls if the shortfalls are expected to be repaid in full within a relatively short period of time, and temporary interest deferrals are permitted under the terms of the transaction documents.

RATING SENSITIVITIES

Fitch generally limits ratings to no higher than 'Asf' when over 30% of the pool's mortgage servicing is owned by Ocwen and the bond is expected to be outstanding for longer than 12 months.

However, Fitch allows for ratings above 'Asf' for bonds associated with some Prime and Alt-A mortgage pools which are estimated to have attractive relationships between the servicing fee and an estimated cost of servicing. Fitch assumes these selected mortgage pools will have more servicers willing to assume the servicing rights quickly and therefore will have a reduced risk of disruption in the event of a forced transfer.

To identify Prime and Alt-A pools with a reduced risk of disruption, Fitch compares each transaction's servicing fee to an estimated cost of servicing. To estimate the servicing cost for this analysis, Fitch assumes costs per loan above industry averages to account for the likelihood that bidders of servicing rights may be smaller servicers with higher

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costs. When estimating the cost to service each transaction, Fitch considers each mortgage pool's respective delinquency percentage and the average loan balances within the pool.

Prime and Alt-A downgraded classes in transactions determined not to have an attractive relationship between the servicing fee and servicing cost and consequently could be at higher risk for a servicing disruption in the future.

The spreadsheet 'U.S. RMBS Rating Actions for Sept. 11, 2013' provides the contact information for the performance analyst.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'U.S. RMBS Surveillance Criteria' (Oct. 11, 2012);

--'Global Structured Finance Rating Criteria' (May 24, 2013);

--'Criteria for Rating Caps and Limitations in Global Structured Finance Transactions' (June 12, 2013);

--'Counterparty Criteria for Structured Finance and Covered Bonds' (May 13, 2013).

Applicable Criteria and Related Research: U.S. RMBS Rating Actions for Sept. 11, 2013

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=718305

U.S. RMBS Surveillance Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=691057

Global Structured Finance Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=708661

Criteria for Rating Caps and Limitations in Global Structured Finance Transactions

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=709840

Counterparty Criteria for Structured Finance and Covered Bonds

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=707155

Additional Disclosure

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