

Structured Finance Servicer Evaluation

Residential Reverse Mortgage Servicer

USA

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Reverse Mortgage Solutions Inc.

Opinion

RANKING

Residential Reverse Mortgage
Servicer: **ABOVE AVERAGE**

Standard & Poor's Ratings Services has assigned its ABOVE AVERAGE ranking to privately owned Reverse Mortgage Solutions Inc. (RMS) as a residential reverse mortgage servicer. The outlook is stable.

RMS has been servicing reverse mortgage loans since 2007. Since incorporating, the company has continued to develop its sound servicing platform and has actively pursued relationships with companies that originate reverse mortgage loans. RMS offers a "front-end" system for easy new loan boarding and provides both primary servicing and private-label subservicing for the industry. The company is expanding its portfolio and now services more than 8,600 reverse mortgage loans with outstanding balances of approximately \$904 million, making it the fifth-largest servicer of Department of Housing and Urban Development (HUD)-insured home equity conversion mortgage (HECM) loans in the industry. Based on forward commitments, the company expects its portfolio to grow to 10,000 loans by mid-June 2008 and 20,000 loans by year-end 2008.

The ranking is based on the company's knowledgeable and experienced management team, a superior and robust systems environment, and efficient internal controls, along with superior policies and procedures, sound business strategies, and its ability to effectively administer reverse mortgage loans, particularly in the area of systems management. Because the characteristics of reverse mortgage loans are quite distinct from those of traditional mortgages, specific knowledge and expertise is required to administer them satisfactorily. Moreover, the technology packages available to reverse mortgage servicers are limited, and traditional forward-mortgage loan software doesn't work for reverse mortgage servicing. As such, RMS senior management rapidly put together a sound team of supervisors and staff to develop a proprietary computer system of record to manage its reverse mortgage portfolio and to communicate with borrowers, originators, and investors.

While RMS continues to enhance its servicing platform and expand its portfolio, the foundation of the company has been its unique proprietary servicing systems and its management of the IT area. The system, along with effective and experienced management, has facilitated the company's continued expansion of its reverse mortgage-servicing platform while aligning with satisfactory industry standards.

OUTLOOK STABLE

The outlook is stable. Management is committed to growing the reverse mortgage portfolio and capitalizing on its senior management leadership, experienced mortgage loan administration middle management and staff, robust servicing systems, effective planning, and sound internal controls. The company’s servicing staff is well-versed in traditional, forward-mortgage loan servicing and continues to develop its expertise in reverse mortgage loan administration, including specialized customer service. We expect RMS to add staff as necessary as this portfolio grows.

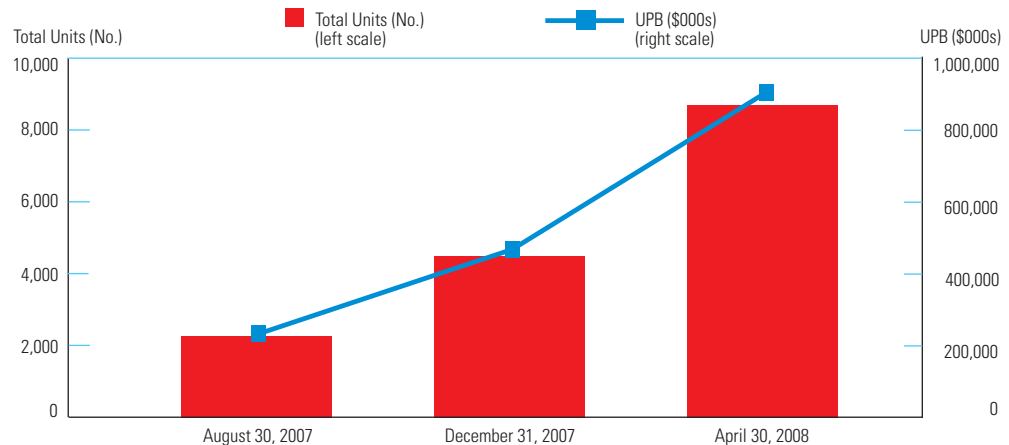
The company has introduced efficient training programs focused on the reverse mortgage product and plan to develop ongoing training to augment its servicing function. RMS maintains satisfactory and developing compliance and quality control programs, effective internal audits, and satisfactory oversight of the unique requirements of reverse mortgage servicing. Standard & Poor’s believes RMS will continue to enhance its reverse loan servicing environment, grow its portfolio, develop new technologies, and continue to be a very active participant in the residential reverse mortgage market.

Profile

RMS reverse mortgage loan portfolio has shown moderate and steady growth in both the

number of loans and aggregate unpaid principal balances since early 2007 (see chart 1).

Chart 1
Portfolio Growth



Formed in March 2007, RMS is a private-owned company that provides services for all aspects of the reverse mortgage industry, with a focus on loan administration. The company benefits from a management team of leading mortgage and technology professionals with over 120 years of industry experience combined, augmented by a recent focus on the reverse mortgage product and further bolstered by its soundly developed

proprietary technology system. The overall corporate structure includes affiliates such as Mortgage Asset Systems Inc. (IT and product development), RMS Consulting LLC, and Specialty Servicing Solutions LLC. RMS is now forming a separate Specialty Servicing Solutions arm to provide special servicing of both performing and nonperforming loans for traditional forward mortgages.

RMS' business strategies include offering reverse mortgage software and technical support and general mortgage-related management consulting to other mortgage servicers. HUD, Fannie Mae, and Ginnie Mae have approved RMS as a reverse mortgage servicer. Management is developing relationships with companies that originate reverse mortgage loans, offering them comprehensive servicing and private-label subservicing opportunities. The company had boarded

5,900 reverse mortgage loans by February 2008 and projects a portfolio of at least 20,000 loans by year-end 2008. Currently, RMS has 30 full-time employees dedicated to servicing reverse mortgages and is approved to do business in all 50 states. The company's business plan calls for a continued focus on and steady growth in its reverse mortgage servicing portfolio and ancillary products over the next 12 to 18 months.

Management And Organization

RANKING ABOVE AVERAGE

Standard & Poor's has assigned RMS an ABOVE AVERAGE ranking for management and organization.

Management and staff recruitment, development, and training

RMS has an experienced and knowledgeable management team. Robert D. Yearly serves as the company's chairman and CEO. The company's president is a noted reverse mortgage loan industry expert, and its chief information officer developed the reverse mortgage system that HUD has used for all HUD-assigned loans. Almost all reverse mortgages made and sold into the secondary market are HUD-insured. Knowledge of HUD's computer systems and programs are of particular importance and very beneficial to RMS. A management team with vast mortgage banking backgrounds and supervisory expertise also supports RMS. The company's management is active in many industry-related committees and organizations, often in leadership roles. Several senior employees have also been active in the development of the reverse mortgage loan product. The company is an approved reverse mortgage servicer for HUD, Fannie Mae, and Ginnie Mae and services portfolios for several large financial institutions.

Reverse mortgage loan administration is a specialized endeavor. In developing its reverse mortgage servicing platform, the company has relied on its mortgage industry-experienced and tenured managers to mentor and guide staff in the performance

of their duties. RMS has also successfully hired non-management personnel with mortgage industry experience. Management recognizes the importance of sound training, and all servicing employees have opportunities to select training from a well-developed curriculum. The company has developed an effective training program that covers all areas of reverse mortgage loan servicing, including classes offered by HUD, the Mortgage Bankers Association, and the National Reverse Mortgage Loan Association. While we currently consider the company's training program to be satisfactory, we expect RMS will continue to enhance this area. As noted previously, management anticipates steady growth in its reverse mortgage loan servicing portfolio. The company anticipates increasing its staff as its portfolio grows and feels it is well positioned to do so because the Houston area provides an adequate pool of sufficiently skilled employees.

RMS' policies and procedures are well-written and thorough, available online, and provide employees the tools they need to provide sound loan servicing. They are patterned after the relevant GSE, investor, and federal government housing agency guidelines. A senior vice president serves as the company's procedural control officer. Operating procedures are updated in real time, in two areas: operational considerations (process improvements, investor/agency requirements, internal audit recommendations, regulatory requirements, etc.) and as a result of system enhancements. The

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company's operational review committee must approve all procedural changes.

The company maintains a small but tenured senior management team with minimal management turnover, which contributes to a stable loan-servicing environment. Staff attributes include:

- Senior management team is very experienced averaging almost 30 years in relevant mortgage banking industry experience. Middle management has approximately 20 years on related mortgage servicing experience and staff has approximately 15 years of industry experience; and
- The turnover rate for management since incorporation in March 2007 is measured at 0%, and staff turnover 0%.

The unique nature of the reverse mortgage product requires servicers to exhibit a different skill set than those of traditional "forward" mortgage loans.

RMS provides new hires with adequate training. New customer service agents receive approximately five hours of classroom training and 24 hours of formal on-the-job training, and RMS has plans to enhance training in this area. Because there is almost no collection or loss mitigation activity, RMS does not emphasize FDCPA training.

Internal controls

Senior management plays a significant role in ensuring that the company properly manages its responsibilities to investors, clients, and borrowers. The company has a small but effective organizational chart with clearly defined reporting lines. Management has developed a satisfactory internal audit schedule with appropriate scope, including proper requirements for management's response to any findings. Standard & Poor's has reviewed the first internal audit reports RMS completed, covering investor accounting and cash management. The audits noted no significant findings and found both areas to be in compliance with established policies and procedures, and management's response

to audit comments was satisfactory and timely.

RMS schedules quarterly internal HUD audits and employed a reputable regional accounting firm to perform an external audit, including USAP attestation, for year-end 2007. A separate accounting firm has conducted quarterly audits. RMS has committed to pursuing an SAS 70 Audit and begun preliminary work to achieve the SAS 70 rating. RMS also conducts lower-level compliance audits monthly. The company has developed the RMS Corporate Quality Control Plan, which will govern the scope of future monthly compliance audits and has employed an experienced compliance officer. The audit scope, when fully developed, will effectively address all areas of risk to the company and its investors. Overall, RMS senior management has implemented sound internal controls and policies.

Legal

Senior management represents that there are currently no outstanding matters of litigation or unresolved claims.

Technology

RMS has developed an effective automated environment with a proprietary system specifically designed for its portfolio type. In 2007 the company hired a new chief technology officer with over 20 years of experience in developing and managing technology systems. The company's technology staff now totals 14 employees, all of whom are located in Palm Beach, Fla. The system utilizes RMS Navigator™, which the company's chief information officer developed. Software development tools, SYBASE/PowerBuilder, and SQL Server are also key components of the operation. The IT staff and system are effective and give RMS a competitive edge. An IT audit by an independent third-party vendor will take place in June 2008.

RMS' system security is satisfactory, as evidenced by its solid password administration and firewall/penetration protection. All access to data is monitored and audited to

ensure that only those with authorization access certain fields. RMS uses EVault Protect for data protection and recovery. Daily disk-to-disk backups are stored offsite.

The company's disaster recovery and business continuity plans are effective. RMS uses internal and external sites in its disaster recovery and business resumption plans.

Residential Mortgage Loan Administration

RANKING ABOVE AVERAGE

The ranking of ABOVE AVERAGE is assigned for loan administration.

RMS reverse mortgage loan administration falls under the direct supervision of Chief Operating Officer (COO) H. Marc Helm, who reports directly to the company's CEO and brings 30 years of overall mortgage servicing experience to the company. RMS management is currently committed to servicing only reverse mortgage loans.

Accordingly, it has structured and trained the reverse mortgage servicing staff to adequately administer this product. Senior management has successfully directed the growth of the reverse mortgage portfolio to approximately \$900 million as of April 30, 2008.

As part of our evaluation, we reviewed all areas of RMS' loan servicing, including loan boarding, the remittance of borrower requested payments, payment type amendments, interest rate changes, investor accounting and reporting, customer service, default administration, repair administration, and foreclosure processing. We found all areas to be satisfactory, and key areas of risk are discussed in greater detail below.

New loan boarding

The new loan boarding process is effective, enhanced by the company's proprietary systems and technologies, and 100% of new loans are now boarded electronically. RMS completes new loan setup in approximately 2.5 days from funding and audits 100% of all new loans with a complete document-to-system check within approximately two days after boarding. A total of 75 automated edit

Redundant sites are available through EVault. Backup sites are in both Houston, Texas, and West Palm Beach, Fla. The company tested its disaster recovery plan in March 2008 without incident and plans to perform such tests at least annually. RMS has established a calling tree to facilitate employee contact in the event of disaster.

checks are performed before a loan is released to the servicing system. In addition, RMS performs a quality control audit of all critical loan-level information to further ensure accurate setup. The company provides feedback regarding the documents and information boarded to originators, and it issues a welcome package to all new reverse mortgage loan clients within 15 days of loan funding in accordance with RESPA guidelines. The company also places welcome calls (two attempts) with an effective 98% success rate. Critical documents are bar-coded and imaged.

Cash management and investor accounting

Cash management and mortgage accounting functions for reverse mortgages differ greatly from those of traditional residential mortgage loans. Unlike traditional mortgage loans, reverse mortgage borrowers are not required to remit monthly payments of principal and interest to amortize loans or reimburse advances. Repayments of advances (with the exception of corporate advances for payment of taxes or insurance) are made at the borrower's discretion. Some choose to pay down previous advances, but the majority never make monthly payments. RMS manually posts the few borrower payments it receives and doesn't need a lockbox operation for its reverse mortgage portfolio. The company has established policies and procedures to assure the timely and accurate processing of all borrower requests for payments and repayments received from borrowers while adhering to all investor and regulatory requirements. RMS advances payments as borrowers leverage the equity of

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their homes based on the type of payment plan the borrower has chosen. Basic payment plans are as follows:

- Tenure payment plan;
- Line-of-credit payment plan;
- Modified tenure payment plan (combines the characteristics of the tenure payment and line-of-credit plans);
- Term payment plan;
- Lump sum plan, in which the borrower takes all available funds at closing; and
- Modified term payment plan.

Because reverse mortgage servicers must comply with the payment options available to borrowers, they must have appropriate policies and procedures, capable staff, and proper systems. Monthly tenure and monthly term payments are payable to the borrowers on the first business day of the month. A borrower's request for an advance from a line of credit must be satisfied within five days after the written request is received. Most remittances to borrowers are by direct deposit; however, approximately 32% are sent by check.

Virtually all reverse mortgage loans are adjustable-rate mortgages, and interest rates adjust monthly. Servicers are responsible for accurately adjusting mortgage interest rates. With reverse mortgages, borrowers have the option to amend the type of payment plan they choose, and servicers must make the necessary adjustments to scheduled remittances to borrowers when their payment plans change. Standard & Poor's has reviewed RMS' administration of payment plans and borrower payment remittances, including supervision, segregation of duties, quality control, reconciliations, interest rate changes, and monthly integration with investor accounting. Based on this review, we believe RMS is administering these functions soundly and satisfactorily.

Servicers are required to report loan activity monthly to investors. Moreover, they must report the following loan-level information throughout the month:

- Unscheduled payment requests (daily requests for funds);

- Payment suspensions (reported monthly);
- Foreclosures (reported monthly);
- Bankruptcies (reported monthly);
- Issuance of repayment notices to borrowers (reported monthly);
- Payment plan change requests (reported monthly);
- Monthly portfolio summaries;
- Partial repayments; and
- Payoffs and repurchases.

RMS is required to perform daily reconciliations of custodial accounts and does monthly reconciliations with investors, and the servicer is reimbursed for all scheduled and unscheduled remittances to borrowers on a daily basis. The company has performed 100% of its investor reporting and remitting electronically. Management reviews all investor reports and custodial bank account statements, and the company has incurred no penalties for late reporting or remitting. RMS has established the necessary controls to provide timely and accurate reporting to investors.

Escrow administration

Properties securing reverse mortgage loans must be covered by hazard and flood insurance when applicable, and the amount of coverage must equal the full insurable value of the improvements. RMS doesn't usually escrow tax and insurance payments for its reverse mortgage loan portfolio because of the characteristics of this loan type. At closing, borrowers can choose whether or not to maintain a separate account for tax and insurance (set-aside amounts). Historically, reverse mortgage borrowers have assumed responsibility for timely payment of taxes and insurance premiums and must provide proof of payment to the servicer within 30 days after the due date. If proof is not provided, RMS must exercise the necessary due diligence to verify payment. All policies must have a mortgagee clause requiring that the servicer is notified if the insurance premium isn't paid. RMS utilizes independent third-party vendors for the tracking and oversight of taxes and insurance. However, RMS

representatives handle all contact with borrowers about delinquent and unpaid taxes.

Employees make contact with borrowers when necessary and provide workout solutions for the unpaid taxes or insurance due. If necessary, funds available to the borrower under the terms of the loan are used for the unpaid escrow item. RMS' lender-placed insurance policies and cancellation rates are low; RMS has had to force-place insurance on only a few loans, most of which the company inherited as the result of a servicing transfer.

RMS exhibits proper administration of its vendors, with annual reviews of procedures and annual recertification of vendors' financial status. By virtue of its internal policies and procedures, the outsourcing arrangements, and management of its vendors, RMS has established satisfactory oversight of tax and insurance indemnification on behalf of its investors.

Internal RMS staff prepare reconveyances, all of which are processed in compliance with state guidelines; RMS has incurred no penalties for noncompliance. The company sends and tracks all lien-release packages by certified mail and images all recorded documents.

Customer relations

RMS has an established customer service unit. RMS has indicated that as the company's loan portfolio grows, its customer service staff will grow accordingly. Company management has initiated a formal customer service training curriculum and is focusing on hiring customer service representatives with prior experience, although such experience may not necessarily be mortgage-related. Attributes of RMS' customer service unit include:

- The effective interactive voice response (IVR) unit includes technology for the hearing-impaired;
- Hours of operation are 8:00 a.m.–5:00 p.m. Monday–Friday, nationwide;
- The IVR directs callers to basic loan information;
- Call monitoring is conducted to provide quality control and identify potential

training opportunities; and

- The unit operates in a blended call environment.

Customer service duties include:

- Responding to written correspondence, including performing the necessary research;
- Monitoring the annual occupancy requirements;
- Responding to unscheduled requests for funds by borrowers;
- Administering payment plan requests; and
- Providing year-end statements.

The customer service unit also manages tax and insurance issues and repair administration matters. The company reports a highly satisfactory abandonment rate of 2% and an average speed of answer of only 15 seconds. The first-call resolution rate is reported to be 98%. Standard & Poor's has determined that RMS' customer service management is satisfactory overall and anticipates that it will maintain the standards set by senior company management as the portfolio grows.

Default management

Like the other components of reverse mortgage servicing, default management requirements are vastly different from those for traditional loan servicing. Defaults on reverse mortgages are rare because borrowers' equity in their homes provide the loan proceeds and because borrowers aren't required to remit monthly payments. When defaults do occur, however, the causes are different than in traditional mortgage scenarios. Typical causes of defaults in reverse mortgages include the following:

- Nonpayment of property taxes or hazard insurance;
- Death of the last remaining borrower;
- The last borrower on the note no longer occupies the home;
- Change in ownership;
- Repairs (itemized at closing) aren't completed within the required time; and
- Failure to maintain the property.

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RMS has a small default management department and well-developed policies and procedures in place to assure the proper oversight of foreclosures, bankruptcies, and the disposition of real estate owned (REO) assets should it become necessary. The company does not collect or measure traditional collection performance metrics, as they do not apply to reverse mortgages. Nonpayment of taxes or insurance and death of the last surviving borrower are the primary reasons for default. RMS staff monitor the status of these defaults, the cure for which is often payoff of the loan balance or, in the case of a tax/insurance default, advancing funds from an existing line of credit or a repayment plan. Employees also track occupancy (annual certification) and receive daily alerts from a national database upon the death of the last surviving borrower.

Repair administration personnel monitor repairs required as a condition of the loan by ordering property inspections. As of April 30, 2008, there were only 14 loans in some stage of foreclosure, and the primary reason for default was the death of the last surviving borrower. Staff also monitors the status of bankruptcy petitions filed by RMS' reverse mortgage borrowers. RMS has established a timeline for all of the various bankruptcy chapters and manages the necessary steps through its proprietary Navigator system. The company uses a network of attorneys to file proofs of claim and uses Banko® to track the disposition of bankruptcy filings. Law firms with state-specific expertise coordinate RMS' limited

foreclosure-related litigation.

RMS has the established policies, procedures, and oversight needed to effectively manage defaults, loss mitigation, foreclosures, and borrower bankruptcies and minimize investor risk.

Repair administration

Repair administration is unique to reverse mortgage servicing and is a major component of the business. Often, FHA-insured reverse mortgage loans require property repair and improvements to ensure that the owner-occupied home securing the mortgage meets minimum HUD standards. In such cases, a portion of the proceeds of the reverse mortgage loan is set aside to pay for the repairs, which must be completed within 12 months of the loan's closing. The amount set aside should equal approximately 150% of the estimated cost of repairs. These funds are subtracted from the principal limit and are not available to the borrower.

RMS is responsible for ensuring that the repairs are completed and paid for, and the company currently has two full-time employees who handle this function. Representatives send a welcome letter to borrowers with a reminder that property repairs are necessary. The letter includes recommendations and a guide to the repair process. Due diligence follow-up is coordinated between the borrower, contractors, and inspectors. RMS has developed satisfactory procedures to ensure that property repairs are completed effectively and on time.

**Financial
Position**

RANKING SUFFICIENT

Standard & Poor's deems RMS' financial position to be SUFFICIENT.

**Contact
Information**

REVERSE MORTGAGE SOLUTIONS INC.

RMS' loan servicing operation is located in Spring, Texas.

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Notes

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