STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

RPM Mortgage Inc. ABOVE AVERAGE Prime Residential Mortgage Originator Ranking Affirmed

Mortgage Originator Review Analyst:
Alicia Clarke, New York (1) 212-438-8805; alicia.clarke@standardandpoors.com

Secondary Contact:
Joseph P Speziale, New York (212) 438-5653; joseph.speziale@standardandpoors.com

U.S. Mortgage Originator Reviews, Analytical Manager:
Stephen Buteau, New York (212) 438-0174; stephen.buteau@standardandpoors.com

Lead Analytical Manager, U.S. RMBS:
Farooq Omer, CFA, New York (1) 212-438-1129; farooq.omer@standardandpoors.com

OVERVIEW

- We affirmed our ABOVE AVERAGE mortgage originator review ranking on RPM Mortgage Inc. after reviewing its origination process for prime residential mortgages, including conventional, government agency, and jumbo loans.
- The ranking reflects an ABOVE AVERAGE qualitative subranking and an ABOVE AVERAGE quantitative subranking.
- The ranking is based on our opinion of RPM's well-established retail underwriting model, long operational track record with measured growth, better-than-average historical loan performance, corporate governance concerns related to RPM's concentrated ownership structure, and recently formalized risk management structure (limited track record).

NEW YORK (Standard & Poor's) Feb. 19, 2016--Standard & Poor's Ratings Services' today affirmed its ABOVE AVERAGE mortgage originator review (MOR) ranking on RPM Mortgage Inc. (RPM) after reviewing its origination process for prime residential mortgages, including conventional, government agency, and jumbo loans.

RPM dates back to 1986 as a mortgage brokerage company. The company is privately held, and is based in Alamo, Calif. The current management team has led RPM since its early years and has transformed it into its present status as a mortgage originator. The company's performance has been notably stable facing the recent housing market challenges, and its origination exhibited better-than-average performance throughout the most recent housing cycle, which we view as strengths. RPM has a long operational track record with measured growth, which we also consider a positive. Despite the depth and breadth of its management team, we consider RPM's concentrated ownership structure, coupled with the fact that its strategic and operational initiatives are primarily conducted by the CEO and a limited number of executives, to be a potential weakness.

RPM operates through a retail-only mortgage origination model, under which all agents conducting client-facing interactions are RPM employees and, unlike other large prime and jumbo lenders, it does not use brokers or correspondents. The company recruits loan agents who live and work in their respective communities; it also sources originations through a network of realtors, builders, local businesses, certified public accountants (CPAs), and financial planners, as well as through client referrals.

RPM's lending philosophy emphasizes customer service. It maintains an efficient origination system using a "hub and spokes" business model whereby the central office performs back-end support and underwriting, while loan agents interact with clients.

In late 2014, RPM acquired Regency Mortgage Corp. (Regency), a New Hampshire-based private mortgage lender, to expand its footprint throughout the East Coast. With the addition of Regency, RPM operates 58 retail branches and has approximately 825 employees as of February 2016. RPM is licensed in 15 states: Arizona, California, Colorado, Connecticut, Idaho, Maine, Nevada, New Hampshire, New Jersey, North Dakota, Oregon, Rhode Island, Texas, Vermont, and Washington, with the bulk of its origination coming from the western region.

RPM is approved by Fannie Mae, the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), and the U.S. Department of Agriculture (USDA). It primarily originates Fannie Mae- and FHA-eligible loans but increased its prime jumbo originations to approximately 33% of its origination volume for 2015 from approximately 15% for 2012.

RPM's origination volume was approximately $6.4 billion and $5.9 billion in 2012 and 2013, respectively. Although origination volume decreased to $4.3 billion in 2014, the company originated $5.8 billion in 2015. Approximately 87% and 96% of RPM's origination was sold servicing-released in 2014 and January 2015 through October 2015, respectively, but RPM does have a servicing operation with a U.S.-based employee group that emphasizes direct communication with its customers.

KEY RANKING FACTORS

We believe the company has certain notable strengths:

- Well-established retail underwriting model;
- Long operational track record with measured growth;

- Conservative underwriting and strong appraisal valuation and origination practices;
- Closely monitored operating structure with external and strengthened internal quality control (QC) checks; and
- Better-than-average historical loan performance.

Partly offsetting the above strengths is our view of the company's potential weaknesses:
- Corporate governance concerns related to RPM's concentrated ownership structure;
- Recently formalized risk management structure (limited track record); and
- Evolving internal audit program.

ANALYSIS
The overall ABOVE AVERAGE ranking illustrates our ABOVE AVERAGE qualitative subranking of RPM's residential mortgage origination and underwriting process and our ABOVE AVERAGE quantitative subranking of its historical loan performance.

The ABOVE AVERAGE qualitative subranking for operational functions reflects our opinion of RPM's overall knowledge and experience in eight key areas: management and organization, including financial position; risk management; broker/correspondent/retail loan officer management; underwriting; pre-funding loan quality; post-funding quality control; appraisal/valuation management; and regulatory compliance.

We believe there are notable strengths in RPM's operations. Led by a knowledgeable and experienced management team, the company has a well-established retail underwriting model, conservative underwriting practices, a closely monitored operating structure with effective external and strengthened internal QC checks, and better-than-average historical loan performance. We believe the company is committed to the products and services it offers and has demonstrated measured portfolio growth. Since our last review in mid-2014, the company has strengthened its internal controls and has continued to invest in management, staff, training, and technology. We believe RPM's enhancements to its internal controls and training initiatives and investments in technology suggest that its risk and people management procedures are continually developing and satisfactory to mitigate risk. The executive and senior management teams are closely involved in the oversight of RPM's mortgage operations and appear focused on steady growth while maintaining effective and efficient client service.

RPM's strengths are partly offset by certain potential weaknesses. Since our last review, RPM formalized and built out its risk management department by creating a senior-level risk management position (executive vice president (EVP), chief legal and compliance officer) reporting to the CEO and indirectly to the board of directors (both reporting lines are independent of production). The company aligned all of its risk functions under her purview including compliance, legal, licensing, human resources, quality assurance, QC, and vendor management. The EVP, chief legal and compliance officer has more than 20 years' industry experience as a compliance officer and financial services attorney and previously held senior risk management positions. We believe both the addition of this executive management position and formalization of the risk management structure are improvements since our last review, but we consider their limited track records potential weaknesses. We also view the company's evolving internal audit program as a potential weakness, and we will continue to monitor its risk management operations, controls, and results.

Our ABOVE AVERAGE quantitative subranking reflects RPM's better-than-average loan performance during the most recent housing cycle compared with industry and peer averages. We evaluated historical performance data for RPM's origination from a combination of external sources and compared it with the performance of other prime (conforming, government agency, and jumbo) residential mortgage loan originations from like vintages to arrive at our opinion. Performance data for RPM's originations are somewhat limited because the majority of its loans are sold on a servicing-released basis into the secondary market; however, the company provided static loan-level information for a portion of its production where it received monthly performance data from its investors, as well as rolling delinquencies and losses on its servicing-retained portfolio.

Overall, RPM's historical delinquencies, early payment defaults, and repurchases compared favorably with those of other prime residential mortgage loan originations from the same vintages, and the company's two-year FHA compare ratio for serious delinquencies was better than the U.S. average in the two years ended Oct. 31, 2015. We reviewed the loan performance of RPM's originations (2006 and 2007 vintages) in pre-crisis prime and Alternative-A securitizations, and RPM's 90-plus delinquencies compared favorably with those of its industry peers. Further, we reviewed the performance of RPM's originations (2012-2014 vintages) in post-crisis prime securitizations; we found no reports of substantial delinquencies (no RPM loans were 90-plus-days delinquent), and there were no losses. We also analyzed investor scorecards for certain post-crisis RPM originations that showed lower delinquencies compared with its peers over the past two years.

RPM has made several key changes since our last review:

- Acquired Regency in late 2014.
- Obtained its origination license in Idaho, Maine, New Hampshire, North Dakota, Rhode Island, and Vermont.
- Settled a lawsuit with the Consumer Financial Protection Bureau in June 2015 regarding RPM's loan originator compensation practices during 2011-2013. Although the company did not admit any violations of the law or harm to borrowers, it agreed to settle the lawsuit and pay $18 million in redress to consumers and a $1 million civil penalty. RPM said it settled the lawsuit to avoid the cost and distraction of litigation. Also, as part of this settlement, RPM's CEO Rob Hirt was required to pay an additional $1 million civil penalty.
- Converted its loan origination system to Nexus Nova (CoreLogic Dorado), an advanced system typically used by substantially larger

lenders/originators in January 2015.

- Implemented a virtual desktop infrastructure to strengthen the security of its customer data.
- Created an elevated role of EVP, chief legal and compliance officer.
- Migrated its appraisal management system to a third-party vendor from an in-house system in March 2015.
- Implemented Fannie Mae's Collateral Underwriter into its review of conventional, government agency, and prime jumbo loans with varying waterfalls based on loan type.

We will publish a full report with additional details about our review and the strengths and potential weaknesses identified.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Mortgage Originator Review Criteria For U.S. RMBS, April 17, 2012

Related Research

- U.S. To Get *NSync And Move In One Direction (Up) Next Year, Dec. 3, 2015
- U.S. Economic Forecast: The Terrible Twos, June 26, 2015
- The U.S. Housing Market Gets Its (Now Slower) Groove Back, Feb. 9, 2015
- A Resilient Housing Market And Economic Momentum Buttress U.S. RMBS, May 30, 2014