Asset Trading Solutions

HML

Information correct as at 2014

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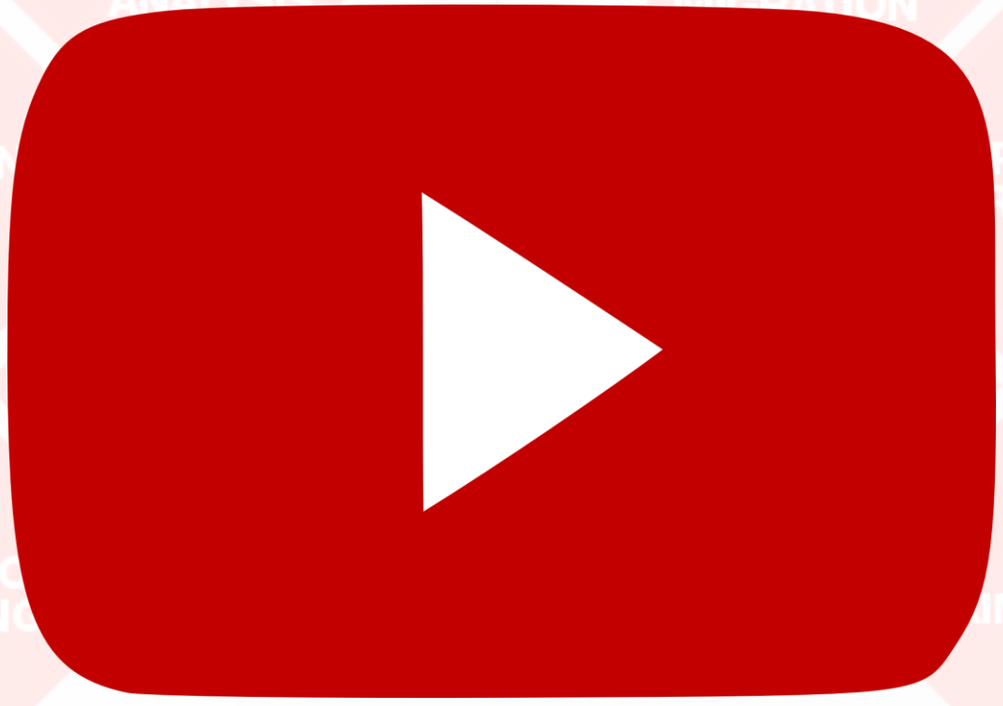

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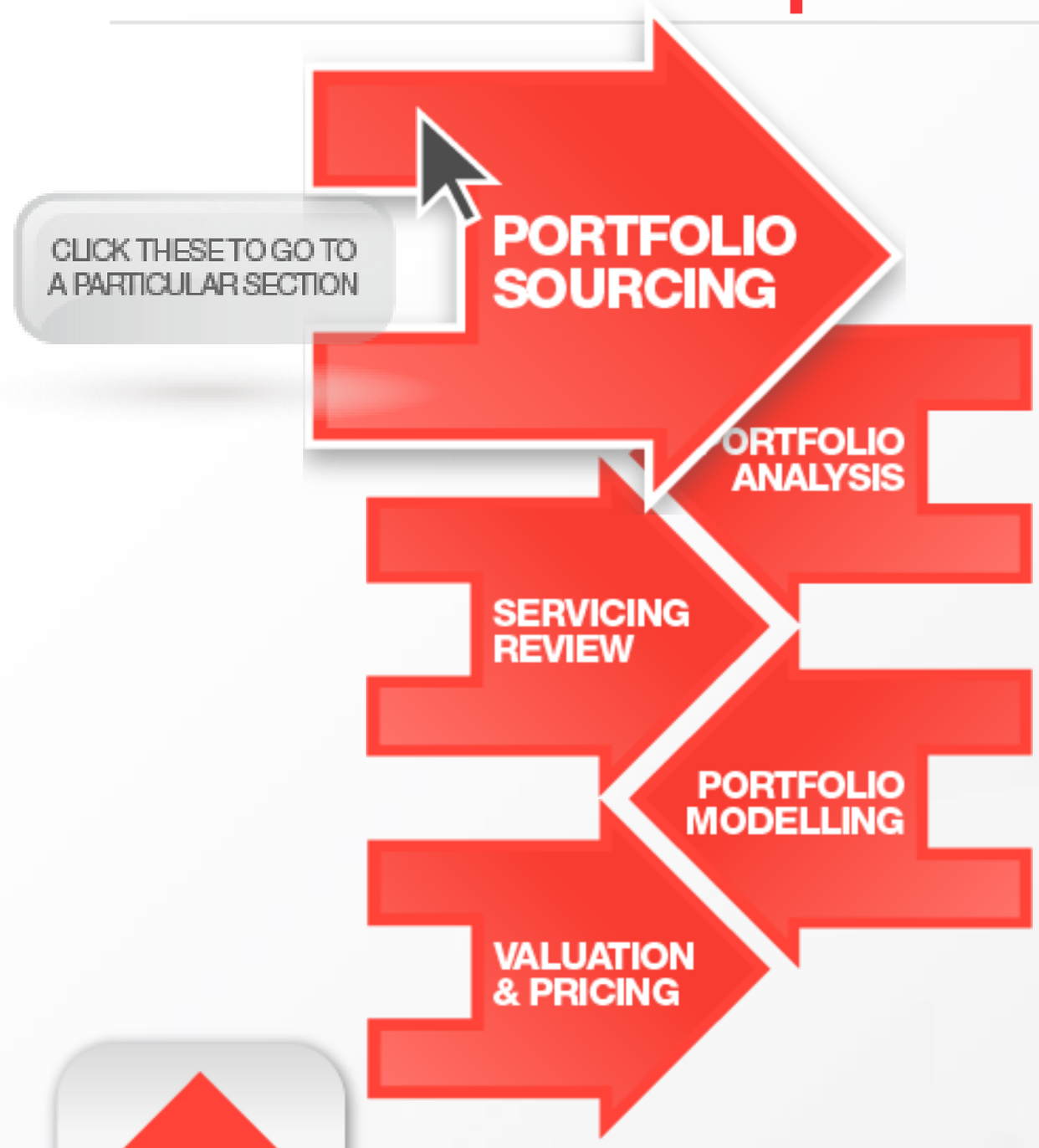
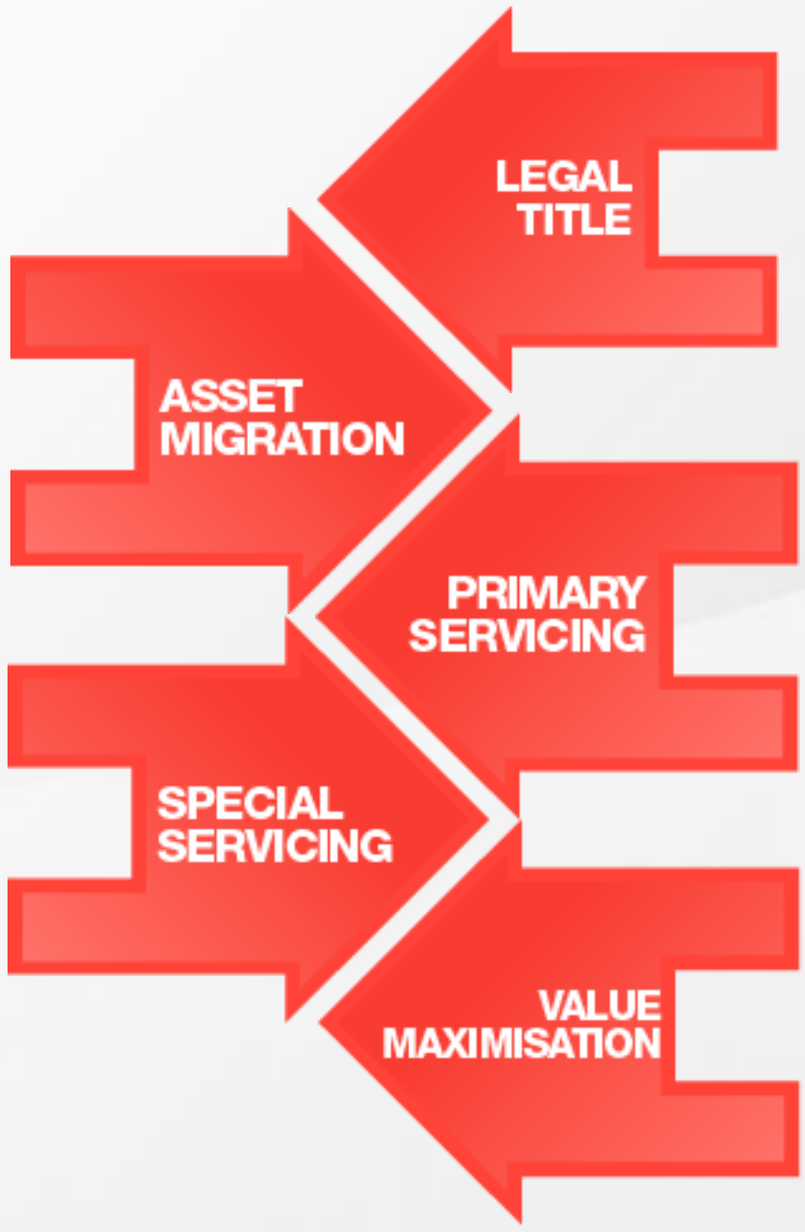
How to use this presentation





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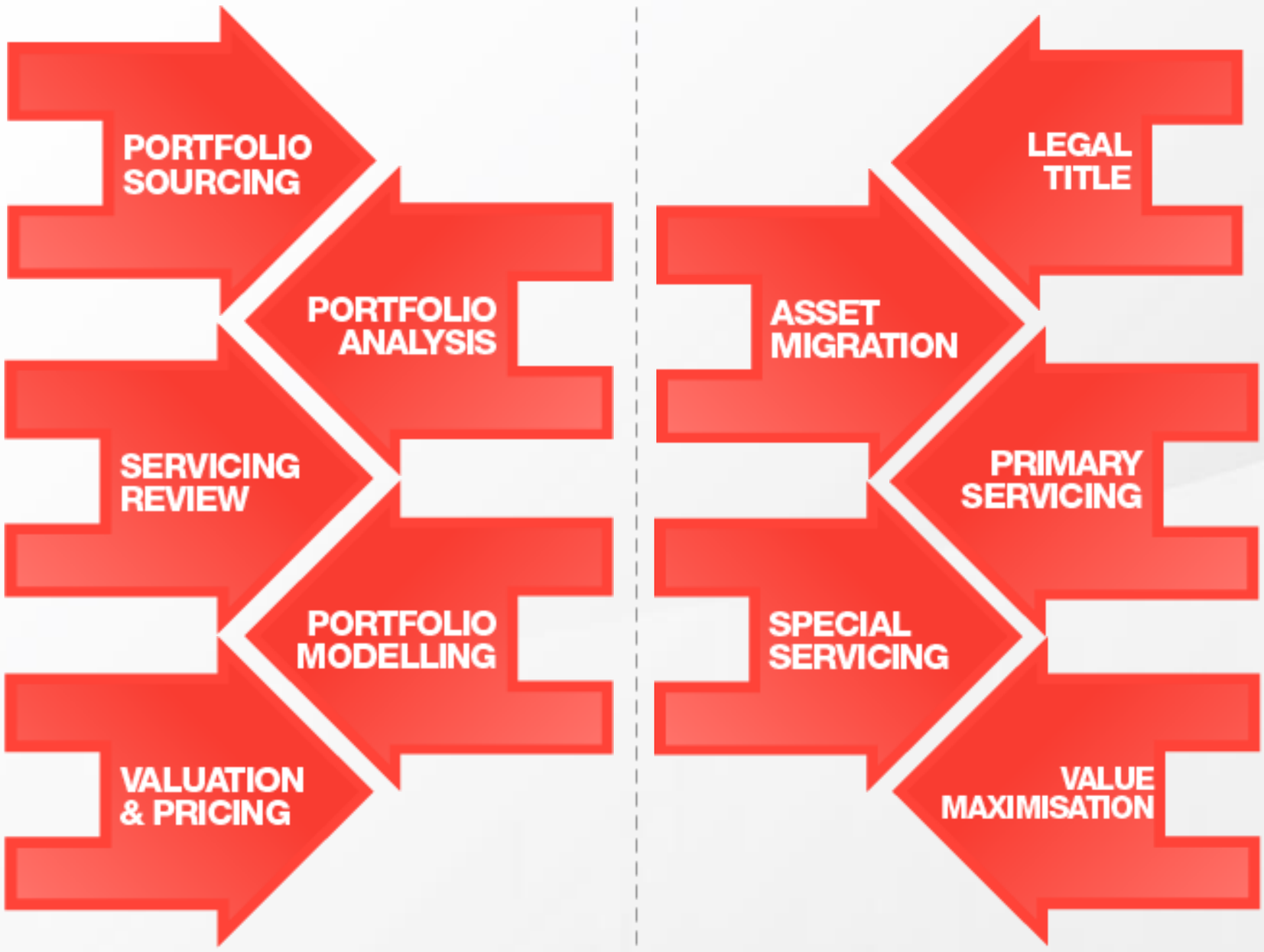
Asset Trading Solutions

Pre-servicing, consultancy and due diligence processes



Servicing processes

HML

Portfolio Sourcing

- Consultancy service to provide advice and assist in sourcing assets which will provide you with the required return
- Transaction facilitator for asset trades using our wide network of clients and industry contacts

Portfolio Sourcing

HML can provide consultancy to source assets with a risk profile which will give you the return you require through:

- **Our network of existing portfolios under management**
- **HML's access to all the main players in the UK and Ireland mortgage markets and through our 50 servicing and standby clients**
- **Access to a wide pool of advisors and investors through our established relationships**

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Portfolio Sourcing

Our 25 years operating in the mortgage market ensures we have the expertise and experience which can help secure the portfolio you require

All major global asset purchasers already either use HML to service assets or have mapped from our iCONNECT system onto their in-house systems. This makes assets serviced by HML significantly more marketable

Portfolio Sourcing

Why HML?

- £37bn assets under management to review for purchase opportunities
- Our knowledge of the market gained over the last 25 years
- We have the contacts and network to identify potential portfolios for purchase
- Huge ‘standby’ portfolio provides a further pool of potential assets to purchase
- 50 UK and Irish clients providing a network of potential portfolios
- Respected and highly rated by the rating agencies giving assurance of our credibility
- Key member of the Council of Mortgage Lenders (CML) and other industry groups providing access to the main players in the mortgage market

HML

Portfolio Analysis

- **Segmentation and analysis tools**
- **Assessment of current and historic performance**
- **Analysis of vintage**
- **Multi-dimensional**

  - Product, region, arrears position etc

- **Detailed performance metrics**

  - Balances, arrears, loan to value etc

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Portfolio Analysis

HML Business Intelligence provides a range of products and services to support your portfolio analysis requirements ranging from high level portfolio summaries to detailed segmentation analysis

- Analysis tools for quick assessment of current and historical performance
- Instant multi segment analysis through point and click interfaces to consider key product and arrears splits
- Benchmark against industry peers by utilising our full data pool (a history of over 1 million records)
- In-depth bespoke analysis supported by our team of data modellers

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Portfolio Analysis

Why HML?

- Unique hosted database of transactional level information relating to live accounts and historical records (over 1 million) from a cross section of lenders
- Sophisticated tools allow for data to be supplied, through a variety of means, for analysis
- Our team of data modellers can liaise directly to gain a deeper understanding of client requirements in order to ensure analysis is fit for purpose

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Servicing Review

- Data verification
- File reviews
- Property valuation
- Regulatory risk review
- Asset and credit risk review
- Data audit

Servicing Review

HML's experienced Portfolio Servicing team can provide a loan level risk assessment of the portfolio tailored to your individual requirements. File and servicing reviews integrated with HML's unique scorecards and credit reference agencies enable a comprehensive review of the quality of the assets

- **Comprehensive credit account behavioural data**
- **Scorecards to differentiate risk**
- **Servicing reviews led by experienced Portfolio Servicing Director with over 25 years experience in Financial Services**

In addition, a data audit can be undertaken at this stage to provide confirmation and oversight on the completeness, quality and accuracy of the portfolio data

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Servicing Review

Why HML?

- Experienced subject matter experts with an excellent understanding of client requirements and arrears management processes, with over 125 years of combined industry experience

- Extensive analytical ability to use credit account behavioural data to offer a bespoke approach tailored to you

- Innovative analytics tools, customer database and cutting edge statistical modelling techniques

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Portfolio Modelling

- View of future risk and associated losses
- Projected cash flows
- Pre-payment/redemption forecasts
- Set period or full term predicted net present value (NPV) values

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Portfolio Modelling

HML Business Intelligence builds upon its multi-lender data pool through the development of statistical models to help predict redemption, future losses and ultimately account profitability

- Full set of Basel capital models
- Arrears management scorecards to predict performance in any arrears state
- Repossession models to directly predict overall loss rates
- Pre-payment/redemption curves and models to predict reduction in cash flows
- Combine predicted losses and income to predict future cash flows discounted back to current value (NPV models)

Portfolio Modelling

Why HML?

- Unique data pool provides scale for robust statistical modelling
- Solution delivered by leading industry experts
- Models currently in use by multiple clients
- On-going validation of models ensure predictions remain up to date and accurate
- Account level forecasting aggregated to produce portfolio level view providing greater insight and granularity than high level forecasts

Portfolio Valuation & Pricing

- Forecast future performance
- Ratings for accounts, segments and portfolio
- Capital requirements estimation
- Due diligence and data evaluation
- Identification of profitable segments
- Consultancy – validate your outputs

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Portfolio Valuation & Pricing

By combining our Portfolio Analysis and Modelling propositions we are able to:

- Utilise segmentation and NPV models to drive a range of pricing scenarios dependent on assumptions
- Challenge and validate asset purchasers' and asset sellers' assumptions
- Provide a forward-looking view allowing portfolios to be broken down into targeted segments (e.g. by projected profit, current arrears state, product type)
- Consider a range of financial, economic and outcome assumptions, including interest rates, IPR and capital costs, which impact valuations and prices
- Suggest alternative uses for capital through our pricing models

Portfolio Valuation & Pricing

Why HML?

- Unique combination of analytical tools and statistical models
- Powerful predictions that can be tailored to meet various assumptions on portfolio and economic performance
- Experts in assessing portfolio worth

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Legal Title Management

- Regulatory risk management
- Compliance oversight
- Holding of advisory permissions
- Subject to Financial Conduct Authority (FCA) scrutiny
- Regulatory responsibility assumed
- Overheads associated with oversight and compliance reduced

Legal Title Management

Specialist Mortgage Services (SMS), a subsidiary of HML, can handle all mortgage portfolio regulatory issues and conduct risk, backed by our expertise and proven track record in the mortgage servicing industry

By managing mortgage portfolios to our strict regulatory policies, we can reduce barriers to entry for owning mortgage assets without any disruption to customers

This approach enables asset buyers to execute on investment decisions and achieve objectives for investors - rather than having to set a vehicle up from scratch which would be very costly

The option to outsource Legal Title therefore provides the opportunity for a wider potential purchase pool of mortgage portfolios and allows a number of different types of investor to be able to enter the market and benefit from the available returns

Legal Title Management

Why HML?

- Our Legal Title Management service is delivered by experts with an unrivalled track record and knowledge across all mortgage products
- Our excellent credentials with rating agencies can enhance deal structures
- HML's Legal Title entity, Specialist Mortgage Services (SMS), enables us to provide customer advice in line with new MMR requirements

Asset Migration

- Data mapping
- Data migration
- Robust testing process
- Dedicated project management
- Bespoke system configuration to match purchased assets

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Asset Migration

HML's tried and tested methodology for migration of assets onto our system includes four high-level phases:

- **Start-up** - Governance established and critical dependencies agreed
- **Initiation** - Requirement definition workshops
- **Execution -** Create the components needed to deliver the services
- **Closedown -** Ensure the project is formally de-commissioned

Our onboarding process involves a robust data validation, transformation, reconciliation and testing process

We have a deep understanding of potential pitfalls and challenges and the ability to mitigate these

Bespoke system configuration to match the assets purchased making things simpler for the asset purchaser

Robust and repeatable project management framework used

Asset Migration

Why HML?

- Extensive experience in delivering business transformation, service outsourcing and standby projects. 100% successful transition of over 100,000 accounts, from a variety of platforms, clients and servicers in the last 3 years
- Reliable system - availability rate of 99.99% in last 18 months
- HML's scale provides comfort that we can absorb portfolios without making any compromises to the quality of the service delivered
- Fitch's 2013 report recognises HML's approach to onboarding; "underlines its unique expertise of onboarding new clients"
- Well defined documented process for the onboarding of loans and asset details to mitigate potential pitfalls and challenges
- Market leading timeframes for boarding assets

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Primary Servicing

End to end management of the customer lifecycle including:

- Customer contact centre
- Administration
- Collections
- Advice
- Complaint handling
- Redemptions

Primary Servicing

A range of services covering the full mortgage lifecycle from new lending, through to administration, credit management and redemption

Delivering the customer experience you require, whilst providing a cost-effective business process outsourcing solution managing mortgage portfolios more effectively, enabling asset purchasers to focus on their core business

HML

Primary Servicing

Customer contact centre

A manned telephone enquiry service for customers from 0800 hours to 2000 hours on Monday to Friday and on Saturday mornings as required, to provide:

- **Current outstanding and settlement balances**
- **Details of transaction entries on the account**
- **Details of interest rates applicable**
- **Arrears**
- **Complaint handling**

HML will provide fully trained staff to handle all inbound call traffic associated with a wide variety of queries relating to the account status

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Primary Servicing

Administration

This will include, but is not limited to, the provision of information and responses to customer queries relating to:

- Balances
- Transaction history
- Interest rate queries
- Payments
- Redemptions
- Customer related changes

Interest only

We provide a full range of customer contact strategies to establish what repayment plans interest only customers have in place and enable lenders to present options, capture responses on the iCONNECT repayment strategy screen and report all responses

Proven communication methods, bespoke systems and market leading MI and analytics are at the heart of HML's tried and tested, end-to-end service

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Primary Servicing

Collections

Arrears management provided in an empathetic and pragmatic manner with customers in a distressed financial position driving outcomes in the customers' and clients' best interests. Including:

- Pre-arrears
- Early arrears
- Litigation
- Possession
- Letter, telephony and text message contact campaigns

Advice

HML subsidiary, Specialist Mortgage Services is regulated by the FCA and has permissions to undertake a regulated advice service

Primary Servicing

Why HML?

- Market leading mortgage administration platform with an on-going multi-million pound investment programme
- Reassurance provided by independent ratings from Fitch and S&P for primary and special servicing in the UK and primary servicing in Ireland
- We currently service over 400,000 accounts worth over £37bn
- Authorised and regulated by the Financial Conduct Authority (FCA)
- Specialist knowledge and depth of experience across all aspects of mortgage arrears management
- Performance based pricing incentivises us to understand, share and strive to achieve your performance objectives
- HML's scale ensures we can easily absorb portfolios of any size

- c200,000 direct debits collected every month and over 30,000 card payments per month

- Over 5,500 new forbearance actions and Arrangements to Pay are set up each month

- 87,000 automated letters are sent to borrowers in pre-arrears and arrears each month

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Special Servicing

- Arrears strategies
- Panel management
- Recoveries
- Professional negligence
- Scorecard segmentation
- Shortfall debt recovery

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Special Servicing

- A fully integrated approach comprising supplier and arrears management solutions designed around an individual client's needs and objectives
- Arrears strategies including use of scorecards, operational strategies, case management and bespoke customer strategies to increase cash collection and ensure favourable outcomes for customers
- Scorecard segmentation to drive operational effectiveness including an early scorecard which identifies customers likely to pay
- Shortfall debt recovery service designed to deliver significant results for our clients
- Our supplier management can utilise already embedded relationships we have with key suppliers and benchmark them based on a number of KPIs
- Using analytical and predictive modelling tools, we can provide intelligent, bespoke collections solutions that ensure informed and effective outcomes that meet your key objectives
- Professional negligence - forensic accountants assess large loss cases, with a view to identifying any potential claims for professional negligence
- Dramatically improve arrears performance, reducing provisioning requirements

Special Servicing

Why HML?

- **Experienced subject matter experts with an excellent understanding of client requirements and arrears management processes, with over 125 years of combined industry and supplier management experience**

- **Authorised and regulated by the Financial Conduct Authority (FCA)**

- **Reassurance provided by independent ratings from Fitch and S&P for special servicing – ratings affirmed in 2013**
  - S&P above average
  - Fitch RSS2

- **Bespoke shortfall debt recovery service tailored to each customer utilising the latest trace and locate, behavioural and monitor data solutions coupled with advanced analytical techniques**

Value Maximisation

- Assisted sale
- Re-broking
- Asset sale
- Principal forgiveness campaign
- Targeted bespoke propositions
- Benefits of Legal Title
- Segmentation models

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Value Maximisation

- Segmentation models used to drive selection of accounts for sale, retention or workout strategies
- Bespoke propositions and targeted communication programmes
- Legal Title – beneficial sale ensures no customer detriment/upheaval and allows a wider circle of potential buyers as no need for permissions
- Support management of latent risk contained within the portfolio including interest only and interest rate rise susceptibility, allowing value to be derived from the portfolio and preparation for sale at a later date

Value Maximisation

HML is experienced in utilising a range of workouts including:

Assisted sale – enabling customers to make an informed choice and obtain the best price for the property whilst incurring the lowest costs

Re-broking – independent advice before making any changes including advice on “Partnership Mortgages”, remortgage or equity release

Asset sale – review the market for opportunities to sell the portfolio or a portion of the portfolio

Principal forgiveness – incentivising customers to redeem their account

Value Maximisation

Why HML?

- Our unique segmentation tool provides an understanding of the make-up of the portfolio and the underlying distributions of account volumes, arrears and profitability

- Instant online access to the largest highest quality commercially available data pool in the industry which is refreshed with live performance data on a monthly basis

- Experienced subject matter experts with an excellent understanding of client requirements and arrears management processes, with over 125 years of combined industry experience

- Experienced in using our expertise and knowledge to assist clients with maximising value from their investment. HML worked closely with a client, whose loan book had been loss-making, to develop a range of segmentation, propensity modelling and operational initiatives to make a step change in performance