DMFCO

Ratings

Master Servicer	MS2/Positive

Last rating action: Affirmed on 16 June 2022; Positive Outlook assigned

Applicable Criteria

Criteria for Rating Loan Servicers (February 2020)

Sources of Information

This report is based on information provided to Fitch as of end-2021, unless stated otherwise.

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Key Rating Drivers

Increasing Assets Under Management: DMFCO began originating and master servicing in 2014. At end-December 2021, master-servicing assets under management (AUM) totalled EUR22.7 billion (88,803 loans) up from EUR14.7 billion (61,407 loans) at end-January 2020. The AUM growth is driven by new originations and has been well managed, despite the relatively short history and servicing experience, limited to Dutch residential owner-occupied loans.

Senior Management Changes: Since the previous review in 2020, DMFCO's senior management team (SMT) has been strengthened with the addition of three new members. The increase in senior managers follows the growth in the portfolio and need for additional expertise to further expand the business. An example of this is the creation of a general counsel role, which is performed by the previous director of investor relations. The average company tenure of the eight-member SMT is commensurate with the '3' rating category.

Adequate Middle Management Experience: The SMT is supported by seven middle managers, whose average company tenure is commensurate with the '2' rating category. In the 12 months leading to 31 December 2021, one middle manager left DMFCO. Given the relatively small size of the management team, this departure resulted in a Fitch Ratings-calculated annualised management turnover commensurate with the '3' rating category.

Enhanced Staff Training: Master servicing activities are performed by a team of 35 operational staff, whose average industry experience is commensurate with the '1' ratings category. Five operational staff left in the 12 months to end-December 2021, leading to a Fitch-calculated annualised turnover commensurate with the '4' rating category. The relatively high turnover is offset by the enhancements made to the training programme and subsequent increase in training hours for new hires, which led to improvements in Fitch's scoring of training protocols.

Good Risk Management: DMFCO operates a three-lines-of-defence risk governance framework which Fitch considers best practice and the structure of which is viewed as commensurate with the '1' rating category. The first line comprises two-person checks carried out by the operational staff. The second line is the risk and compliance department who conduct risk assessments and monitor legal and regulatory changes and emerging risks, while the third line is in the form of an ISAE 3402 Type II certification, with no recent high-risk findings.

Effective Master Servicing: The servicer outsources investor services (financial reporting and cash-flow management), primary servicing and middle office/first acceptance loan underwriting activities, and as such the number of sub-servicers over which DMFCO has oversight is lower than some other master servicers. While controls over sub-servicers are good, oversight activities are less automated than is commensurate with the '1' rating category, as no automated alerts are generated once triggers have been breached.

Proficient Technology: DMFCO largely outsources servicing activities and therefore relies on third-party and vendor technology, while the technology used to carry out sub-servicer oversight and reporting is viewed as adequate. The servicer has good business-continuity procedures and disaster-recovery plans.

The business-continuity and disaster-recovery plans on information and communications technology are tested annually by DMFCO's information and communications technology providers. However, DMFCO does not carry out tests of the organisational aspects of these plans and this has been reflected in Fitch's scoring.

Servicer Considerations

Servicer Considerations

Positive	Risk governance: • Full policies and procedure reviewed annually; • Use of dashboards for quality checks; dual reviews of all relevant operational tasks; • Clearly defined processes on legal and regulatory compliance and monitoring effectiveness of internal controls; • Defined risk strategy monitored by the dedicated risk team, with senior management oversight; and • Strong internal and external audit processes; no recent high-risk findings. Loan administration: • At least weekly quality control reviews; • Automated reporting with quality checks on all reports; no late or erroneous reports in the 12 months to the cut-off date; and • Frequent vendor performance reviews. Master servicing activities: • Clearly defined criteria for sub-servicers selection; • Regular monitoring of service level agreement performance; • Independent analysis of borrower, property and portfolio status; • At least annual full review of sub-servicers; and • Good management oversight of sub-serviced activities.
Negative	Company experience: • Relatively short company activity in the sector compared to Fitch rated servicers in the '1' ratings category; and • Servicing experience limited to Dutch residential loans. Management, staffing and training: • Turnover at both management and operational staff level higher than is commensurate with the '1' rating category.

Source: Fitch Ratings

Servicer Overview

DMFCO is an asset manager for Dutch residential mortgages and acts as a master servicer for institutional investors. The servicer handles the complete process from marketing and distribution, underwriting, risk- and portfolio-management to cash-flow management and reporting. As part of its strategy to grow and diversify its areas of activities, in October 2021 DMFCO set up DMF Holding, which became the new shareholder for the various operating entities of the group.

The subsidiaries of DMF Holding include:

- DMF Investment Management (an investment manager of alternative investment funds, which includes master servicing activities);
- DMF Investments (used to co-invest in securitisations); and
- DMF Hypotheek Management (owns 100% of Munt Hypotheken: a lender of record).

The ultimate shareholders of the group have remained broadly the same as at the previous review, with the addition of a 5% management shareholding incentive scheme, available to some employees in management roles.

Significant Changes

- Increased AUM to EUR22.7 billion (88,803 loans) from EUR14.7 billion (61,407 loans), led to growth in the structure, i.e. addition of three new senior managers and staff headcount.

Rating Drivers

Company Experience

DMFCO's operating model relies on outsourcing to financial advisers with proven records. The servicer's objective is to deliver economies of scale, efficiency and best practices to its investors.

DMFCO, which is based in The Hague, has been master-servicing Dutch residential mortgages since September 2014 and originating residential mortgages since October 2014. Its master-servicing experience is relatively low both in terms of time, asset types and number of sub-servicers managed, compared to those typically seen at servicers in the '1' rating category. Most other Fitch-rated master servicers provide a wider array of servicing activities across varying asset types, regions and have oversight over a significant number of sub-servicers.

Since Fitch's previous review, the servicer has increased the number of middle office service providers to five from three, which has been taken into the scoring of the relevant sections of our scoring matrix.

In 2018, DMFCO took over the special servicing activities for its portfolios, and to date has managed 263 loans which were more than 90 days in arrears (including payment arrangements resulting from the Covid-19 pandemic).

Overall, Fitch views DMFCO's company experience to be commensurate with the '2' rating category.

Portfolio Summary

	End-December 2021		End-January 2020	
	Number	(EURbn)	Number	(EURbn)
Residential master	88,803	22.7	61,407	14.8
Residential special	67	0.1	180	0.5

Note: The scope of the rating analysis does not include special servicing
Source: Fitch Ratings, DMFCO

Financial Condition

The Dutch master servicing activities are managed in DMF Investment Management and the audited financial accounts for DMF Investment Management show the company is viable with a stable trend. The company's fee-based earnings are dominated by management fees in the Dutch mortgage fund, accounting for 95% of earnings.

Management, Staffing and Training

Since the previous cut-off date in January 2020, DMFCO's senior management team has been strengthened with the addition of three new members: a general director, a director of investor relations, and business development and a new head of portfolio management. The increase in senior managers follows the growth in the portfolio and need for additional expertise to further expand the business. An example of this is the creation of a general counsel role, which is performed by the previous director of investor relations.

The average company tenure of the eight-member senior management team is 4.4 years (end-January 2020: 4.6 years) and remains commensurate with the '3' rating category. The short tenure with the company is offset by their average industry experience of 23.5 years. The team is supported by seven middle managers, three of whom have been promoted to their roles since the previous rating action. The average company tenure of middle managers is four years (up from two years at end-January 2020), commensurate with the '2' rating category. The middle management team has good industry experience averaging 14.9 years.

In the 12 months leading to the data cut-off date, one middle manager left DMFCO. Given the small size of the management team, the one departure in the middle management team has resulted in a Fitch-calculated annualised management turnover commensurate with the '3' rating category.

DMFCO's succession plan covers all members of the senior management and defines individuals that can take on the team's activities and responsibilities in their absence. The plan is reviewed at least annually or sooner if the senior management team changes. Furthermore, the experience, skills and expertise of the two management layers overlap, implying that senior managers can cover each other's absence and the department heads can support the absence of a senior manager or another department head.

The day-to-day master-servicing activities are performed by a team of operational staff, whose average industry experience is 13.6 years (end-January 2020: 10.5 years) and is commensurate with the '1' rating. Although the team of operational staff is small, turnover in 2021 was higher than the sector's average, which resulted in a Fitch-calculated annualised turnover that is commensurate with the '4' rating category.

DMFCO does not have a workforce planning tool. Instead, staffing levels and workloads are discussed in the weekly management team meetings. All its staff were on permanent contracts at end-2021, compared with 83% of operational staff carrying out master-servicing activities on permanent contracts at the 2020 review cut-off, leading to small improvements in the scoring of the relevant questions of Fitch's scoring matrix.

Formal performance reviews take place annually when employees discuss objectives, individual progression ambitions and goals with their line manager. Continued feedback is provided to employees in monthly one-to-ones. Compensation is linked to the company's overall performance, through an annual profit-sharing programme available to all staff.

DMFCO has a company-wide training and development programme aimed at personal, professional, job-specific and managerial competencies. The programme is provided through a combination of internal, external, classroom, web-based and on-the-job training. Training needs are assessed annually based on the individual staff performance evaluation. Each new hire has on-the-job training (provided by their peers, manager or external coach) for an hour each day for the first six months and will complete a company-wide programme that includes workshops from each department. Each staff member has access to a personal training budget (in addition to the regular training).

DMFCO also has a young professionals programme, which includes a series of workshops covering subjects such as time management, giving and receiving feedback and presenting.

The servicer is increasingly focused on cyber and information security. All DMFCO employees received a full day of cyber security awareness training in 2021.

The average number of training hours for new master servicing staff (excluding on the job) is 125 hours (compared to 35 hours as at end-January 2020), while for existing staff the metric was at 73 hours (121 hours end-January 2020). The combination of enhancements made to the training programme and subsequent increase in training hours for new hires has led to improvements in Fitch's scoring of DMFCO's training protocols.

Overall, Fitch deems DMFCO's management, staffing and training to be commensurate with the '2' rating category.

Risk Governance

DMFCO's risk governance structure follows the three lines of defence framework, which Fitch deems to be best practice. Fitch views DMFCO's risk governance processes and controls as commensurate with the '1' rating category.

Policies and procedures are stored on a central drive, which is accessible to all staff. The documents are reviewed at least annually or more frequently if changes are required. The documents are initially approved by a member of the senior management team, with final sign-off from the director of risk and compliance.

Controls at Operational Level

All key operational tasks are quality-checked by members of the operational teams, including peers, team leaders, managers and department heads. In addition, the management team monitors compliance with service-level agreement (SLA) requirements and policies using monthly system-generated reports. The management team also carries out manual checks of servicing activities, such as adherence to specific borrower requests and file reviews.

Overall, Fitch deems DMFCO's quality controls at operational level commensurate with the '1' rating category.

Compliance

The risk and compliance team comprises three people, senior operational risk and compliance manager, senior credit risk manager and risk junior, and is headed by the director of risk and compliance. The team reports to the general director and is responsible for:

- Monitoring the company's compliance with legal and regulatory requirements and internal policies;
- Providing guidance on compliance to the management team and reporting annually on the servicer's overall compliance with legal requirements and internal policies;
- Monitoring the quality and effectiveness of the internal policies and procedures; and
- Observing and recording any shortcomings in compliance with statutory and internal policies, and ensuring that these are resolved or prevented.

Each month, the compliance findings are recorded and reported to the management team and the operations team. The compliance team will monitor the progress of the resolution of the findings until their completion.

DMFCO has an inventory of legal and regulatory requirements applicable to its services that is continuously monitored for changes. Once changes in the legislation become apparent, the risk and compliance team will work with the department heads and the relevant supplier to amend the affected policies and/or procedures and organise training for the operational staff.

Compliance with policies and legal and regulatory requirements is monitored at least monthly. System-generated reports highlight any area of non-compliance.

Fitch views DMFCO's compliance processes and controls as being commensurate with the '1' rating category.

Risk Management

As part of its risk management role, the risk and compliance team:

- Formulates the overarching risk policy and tests the business' compliance with these policies;
- Supports the management team in managing risks;
- Maintains the risk control framework and procedures; and
- Monitors the execution of the policy and management measures, and approves exceptions to DMFCO's policies.

The risk management department oversees the annual review of the risk register, ensuring risks are identified, monitored and appropriate controls are implemented. The identified risks are categorised in the risk register based on their possible impact to the business and likelihood of their occurrence. All identified risks are assigned an owner and controls are documented.

The risk management and senior management teams are constantly on alert for emerging risks, with risk committee forming part of weekly management team meetings.

DMFCO's risk management processes and controls are deemed to be commensurate with the '1' rating category.

Internal Audits

DMFCO has outsourced its internal auditing activities to third parties. All key operational processes are included in the scope of the annual ISAE 3402 Type II audit, which focuses on the existence, set-up and effectiveness of controls across the business. There have been no high-risk findings from the audit.

Progress on remedial actions taken to address audit findings is monitored by the risk management department and reported to the senior management team each quarter.

Fitch views DMFCO's internal audit processes and controls as commensurate with the '1' rating category.

External Audits

The annual accounts of DMFCO's funds were audited by an external firm. The most recent audits have resulted in no findings.

Fitch views DMFCO's external audit processes and controls as commensurate with the '1' rating category.

Financial Covenants and Service Level Agreement Compliance

DMFCO appointed Intertrust Depositary Services (IDS) as a depositary of the investor funds to comply with the requirements of the AIFMD guidelines. As a depositary, IDS continuously monitors compliance with funding covenants on which there are reports each quarter.

SLA agreements are monitored monthly by the relevant manager using the service level report, which highlights significant deviations from the SLA requirements. Deviations are discussed with the respective outsourcing partner and reported to DMFCO's senior management team.

Service quality is reviewed annually. The review focuses on SLA objectives, assurance reports and compliance with the contractual terms agreed with investors, as well as a proposal of possible amendments. The findings are summarised in the annual service level report, which is discussed during the management team meeting.

DMFCO had no reported SLA and financial covenant breaches in the 12 months to the cut-off date.

Fitch scored DMFCO's funding covenants and service level compliance processes and controls as commensurate with the '2' rating category, as the process and controls are less automated than is commensurate with a '1' rating category.

Loan Administration

In Fitch's view, DMFCO's loan administration processes and controls are commensurate with the '1' rating category, compared to '2' at the previous review.

Loan Accounting/Cash Management

In accordance with the master-servicing agreements, DMFCO's main activities are to appoint and oversee the sub-servicers and quality assurance. Unlike other rated master servicers, DMFCO does not carry out direct loan cash processing and loan accounting activities, but it does perform monthly bank reconciliations. The servicer outsources primary servicing activities to STATER Nederland B.V. (Stater, RPS1-), which carries out cash management, loan accounting and loan modification activities.

Reporting

All mortgage portfolio data are held in the internally managed data warehouse, which is used by the portfolio management team to produce models and reports.

DMFCO's portfolio management and finance and control teams produce reports on approval quotations, debt collection activities, equity and solvency, as well as financial statements. These reports are sent to clients via a secure online portal.

All external reporting is automated using standard, pre-defined templates, which have been approved by management. Approval from the investors at the investor committee is required for changes to investor report templates.

DMFCO does not produce any ad-hoc reports; instead investors receive all the necessary information from the regular reporting activities. For specific requests from investors, DMFCO creates tailored reports, which will then be automated and subject to the standard procedures and controls.

All reports produced by DMFCO are subject to a two-person check. In the 12 months leading to the cut-off date, end-2021, there were no late or erroneous reports. In Fitch's view, DMFCO's reporting processes and controls are commensurate with the '1' rating category.

Customer Relations

The operational staff oversees borrower complaints and requests for consent to amend the mortgage terms and conditions.

When a complaint is received, an independent team member reviews the account and the details of the complaints by the end of the following working day. Complaints are tracked using the primary servicer's systems and root cause analysis is reported to the senior management team with feedback also provided to the relevant team, vendor or individual involved in the complaint.

Approvals for borrower requests for consent are processed by the operational staff and subject to two-person checks and approvals in line with DMFCO's authority matrix. Similar to the complaint handling, the process is managed through the primary servicer's system.

DMFCO also carries out net performance score surveys to track borrower satisfaction. Surveys are sent electronically to borrowers and the findings are used by the management to determine whether changes to policies are required. Feedback from such surveys is provided to the relevant teams.

Overall, Fitch views DMFCO's customer relations processes and controls to be commensurate with the '1' rating category.

Master Servicing Activities

The servicer outsources investor services (financial reporting and cash-flow management) to the Intertrust Group, primary servicing activities to Stater N.V. (RPS1-) and middle office/first acceptance loan underwriting activities to five vendors. While the number of sub-servicers over which DMFCO has oversight has grown since previous review, it remains lower than is deemed commensurate with the '1' rating category.

DMFCO has a centralised vendor procurement and oversight function, while ongoing third-party monitoring is done by the operations team.

At the point of assigning a new sub-servicer, each of DMFCO's outsourcing partners need to be:

- Of sufficient scale, with a strong performance record;
- Financially stable with efficient processes and robust business continuity and disaster recovery plans;
- Strong in reporting, process and data management and in compliance with regulatory requirements (as well as having detailed processes and defined service level agreements); and
- ISAE 3402 certified.

The SLAs define the processes that the sub-servicers need to perform, and their performance is monitored using the service level and internal process reports, which DMFCO reviews monthly. Sub-servicer monitoring also includes regular meetings with the sub-servicer. Any significant deviations from the SLA will be reviewed by the management team and escalated to the relevant service provider. Oversight includes:

- Daily monitoring of the number of mortgage applications and file completions;
- Weekly benchmark reports for each distribution party and their local branches; and
- Periodic inspection of applications and product databases.

The annual review of sub-servicers is carried out with oversight of the senior management team and using pre-defined criteria. Findings are addressed with the sub-servicer and the outcome is tracked by the operations team until they are resolved.

DMFCO does not carry out full shadow servicing of the primary servicer. Instead, the servicer monitors the performance of the sub-servicer using internal and external reports.

DMFCO has a strict policy to prevent conflicts of interest, which aims to protect the position and interests of its investors. Interest-rate setting, product conditions and acceptance criteria are the same for all participants in the fund, and there is no difference in the treatment of any of the fund participants. The fund's supervisory board will take actions should a conflict of interest occur between DMFCO and participants or between participants.

Fitch deems DMFCO's sub-servicer default/termination contingency plans to be appropriate. They include identified back-up servicers and an assessment of the ease of replacing an existing servicer.

Overall, Fitch views DMFCO's sub-servicer oversight processes and controls to be commensurate with the '2' rating category.

Technology

As DMFCO largely outsources primary and special servicing activities, it relies heavily on third-party technology. For its day-to-day operations, DMFCO uses the following systems:

- **OnGuard Collector:** a vendor-developed workflow system used by other Fitch-rated servicers to good effect. The system was implemented in March 2018 for special servicing activities and is used for diary management and automated alerts;
- **Tableau:** an asset management/investor reporting portal, which was introduced in October 2019;
- **SAS – Reports:** a vendor-developed data warehouse, which DMFCO has used since December 2014; and
- **Freshdesk:** a vendor-developed mid-office referrals system, which was implemented in December 2016. The system is used to record and disseminate loan-level referrals between the servicer and sub-servicers.

Software updates are largely carried out by the third-party vendors, with DMFCO testing the results of the project development. For internal developments, a proposal for the necessary enhancements is drawn up by the relevant department head and approved by the senior management team. The relevant department works with the vendor to ensure that the requirements are met and appropriate tests have been conducted, before signing off the release in the live environment. The relevant department tracks timelines and costs and will update the senior management team on any changes to the agreed terms. There is evidence of some recent internal enhancements to systems, which have led to marginal improvements to the relevant score within the scoring matrix, although the level of system enhancements remains limited to those typically seen at other servicers.

Technical support and IT hardware and software, including servers, laptops and networking equipment, are provided by Lime Networks, a third-party vendor. Employees can contact Lime Networks via telephone or email daily from 7am until 11pm. The vendor regularly visits DMFCO to assist with tasks that cannot be done remotely, such as installing new equipment or moving hardware.

Fitch views DMFCO's IT infrastructure as commensurate with the '2' rating category.

Disaster Recovery and Business Continuity

DMFCO has good disaster-recovery and business-continuity plans, which cover all areas of the business. Employees work in cloud-based applications and are therefore able to work from any location. The data centre belongs to Lime Networks and DMFCO's systems are backed up every hour, with a recovery point objective of one hour, while the recovery time objective is between 15 minutes and 24 hours.

The business-continuity plan contains a response plan for such events as fire, burglary, epidemics, terrorist attacks and flooding. In addition, it contains response plans for systems outage, power and network failure, computer virus attacks and staff shortages. The business continuity plan also contains a detailed plan to manage major office emergencies, with procedures on how to set up and manage an emergency response team.

The business-continuity and disaster-recovery plans on information and communications technology are tested annually by DMFCO's information and communications technology providers. Fitch notes there has been no full walk-through annual test of the disaster-recovery plan over the review period, as is commonly seen at servicers in the '2' rating category and deemed to be best practice. Key operational activities are outsourced to sub-servicers, who regularly carry out such tests. Business continuity plans have been used to good effect during the coronavirus pandemic, with DMFCO promptly moving its entire staff to remote working, with no impact on servicing activities.

Cyber and Information Security

DMFCO's cybersecurity procedures are deemed to be appropriate. They include penetration testing (most recently completed in November 2021, with some minor findings), antivirus and malware software (checks performed daily), firewalls and data encryption. In August 2020, DMFCO created the role of an IT coordinator, who allocates and centrally controls access to all DMFCO's systems. Access rights are allocated on a personal and functional level, according to an access rights template, which is reviewed annually by the senior management team. A monthly control process ensures leavers' access rights have been removed.

DMFCO has defined information security policies. The servicer outsources all IT activities and the oversight of the outsourced activities is the responsibility of the IT coordinator.

Overall, Fitch views DMFCO's cyber-security protocols to be commensurate with the '2' rating category, while the information security processes and controls were scored as being commensurate with the '1' rating category.

Appendix 1: Comparison to Previous Review

Operational Trends

Scorecard section	Review-on-review change primary	Comment
Company experience	■	• Established market player (founded in 2014), with experience in the owner occupied Dutch residential mortgage market sector; • Growth in assets under management
Financial condition	■	• Viable financial condition with stable trend.
Management, staffing and training	■	• Improved middle management average company tenure, • Improved headcount management and operational staff training, offset by • Increased management and operational staff turnover compared to previous review.
Risk governance	▲	• Three lines of defence risk governance framework; • Improvement to scoring for internal and external audits to reflect no high-risk findings.
Loan administration	▲	• Minor improvement to the vendor management oversight to reflect that the processes are closer aligned with the '1' rating category.
Master servicing	▲	• Minor improvements to the surveillance scores to reflect that the processes are aligned with the '3' rating; • Minor improvement to reflect that there is a legal counsel involved in the document defect management.
Technology	■	• Minor improvement to technology enhancements and information security scoring to reflect that the processes are aligned with the '2' and '1' rating category, respectively, offset by • Minor negative scoring to reflect some penetration test findings.

Source: Fitch Ratings

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