CITADEL
SERVICING CORPORATION

Citadel Servicing Corporation Vendor Management Program

Table of Contents

Citadel Servicing Corporation Vendor Management Program

SECTION 1 - Introduction

The purpose of this program is to provide guidance relative to the management of vendor relationships. Senior management and the Board of Directors recognize that the development of relationships with vendors is established as a way for Citadel Servicing Corporation ("CSC" or "the Company") to offer certain products and services without the need to develop the products and services "in house."
Such "outsourced" relationships benefit CSC through reduced costs, improved performance, increased business competitiveness, access to a superior knowledge base and the need for limited in-house staff to support CSC's business needs.

The Consumer Financial Protection Bureau ("CFPB") expects non-bank lenders to have an effective process for managing the risks of vendor relationships. To limit the potential for statutory or regulatory violations and related consumer harm, supervised non-banks should take steps to ensure that their business arrangements with service providers do not present unwarranted risks to consumers. As per CFPB Bulletin 2012-03 dated April 13, 2012, these steps should include, but are not limited to:

- Conducting thorough due diligence to verify that a service provider understands and is capable of complying with Federal consumer financial law;
- Requesting and reviewing the service provider's policies, procedures, internal controls and training materials to ensure that the service provider conducts appropriate training and oversight of employees or agents that have consumer contact or compliance responsibilities;
- Including in the contract with the service provider clear expectations about compliance, as well as appropriate and enforceable consequences for violating and compliance related responsibilities, including engaging in unfair, deceptive, or abusive acts or practices;
- Establishing internal controls and on-going monitoring to determine whether the service provider is complying with Federal consumer financial law; and
- Taking prompt action to address fully any problems identified through the monitoring process, including terminating the relationship where appropriate.

Senior management and the Board of Directors also recognize that they are ultimately responsible for managing activities conducted by vendors, and identifying and controlling the risks arising from such relationships, to the same extent as if they were handled within CSC. Senior management and the Board of Directors recognize that vendor relationships present potential risks that must be properly managed on an ongoing basis, beginning with a sound due diligence process at the outset and continuing with annual or more frequent reviews of all key vendor relationships. It is recognized that the extent of risk varies with each vendor relationship. Among the most common vendor-related risks are due to lack of vendor oversight by the Company which could result in CSC experiencing operational risks, privacy risks and reputation risks.

The Board of Directors holds senior management accountable for the review and evaluation of all new and existing vendor relationships. Management is responsible for ensuring that adequate controls are in place to protect CSC and its customers from the risks associated with vendor relationships.

The goal of the Vendor Management Program is to ensure that CSC realizes the benefits of its relationships with vendors while at the same time maintaining a successful framework for managing and mitigating the risks inherent in the relationship sufficient to ensure compliance with applicable law and to meet supervisory expectations. CSC shall apply the vendor management policy, program and procedures to every key third party relationship of the Company. This includes, among others, any third party that:

Citadel Servicing Corporation Vendor Management Program

- Provides technology services and software, including loan origination or loan servicing platforms, and website providers;
- Develops, prepares, drafts or reviews disclosures or other loan documents;
- Conducts or oversees property valuations, including appraisers and appraisal management companies;
- Conducts loan closing functions on behalf of the company;
- Performs audits of the company;
- Supplies human resources administration;
- Refers or brokers loan applicants to the company.

Management of third party vendor relationships is the ultimate responsibility of the company's Board of Directors. While the Board can delegate day-to-day management to a key individual or individuals, the Board remains responsible for overseeing the Company's program and process for managing vendors, for identifying and controlling the risks presented by vendor relationships, and for ensuring sufficient resources and staff is devoted to the vendor management process.

The vendor management framework is structured around four key pillars:

- *Risk Assessment*. The company should develop a methodology to assess the risks involved in entering into any arrangement with a third party, including, among other things, the condition, experience and reputation of the vendor, the nature and necessity of the service or product, the volume of activity the vendor will perform, and the level of direct customer contact of the vendor. Each vendor should be assessed on a risk scale to identify the level and intensity of due diligence and ongoing monitoring necessary for that particular vendor.

- *Initial Due Diligence*. Based on the risk ranking of the vendor, the company must conduct precontract due diligence sufficient to verify the ability of the vendor to meet the needs of the company in a safe and compliant manner. The due diligence should inform the contractual provisions and the ongoing monitoring.

- *Contract Negotiation and Implementation*. All vendor relationships must be codified in a written contract that clearly specify all relevant expectations, rights, responsibilities and remedies of each party. The contract should secure the ability of the company and its regulators to review and audit the vendor when requested.

- *Ongoing Relationship Monitoring*. The oversight of the vendor does not stop at contract formation. The company should conduct ongoing monitoring of the vendor based on the risk level and performance (including compliance with applicable laws) of the vendor. Monitoring can include a number of oversight activities, ranging from review of periodic reporting through regular onsite reviews of the vendor's operations, and should include a review of complaints received by the vendor about the company's products and services.

A vendor management framework incorporating these tenets will enable the company to assess, manage, and mitigate the various types of risks presented by the vendor relationship.

It is the goal of management and the Board of Directors to ensure compliance with this program with respect to every vendor relationship. However, management and the Board of Directors recognize that certain existing contracts may not comply with all aspects of this program. It is management's responsibility to continuously seek opportunities to renegotiate changes (e.g., at contract renewal, etc.) to existing vendor contracts in order to achieve full compliance with this program.

Management will review this program at least annually and present it to the Board of Directors for their review and approval.

SECTION 2 – Vendor Risks

There are numerous risks that may arise from CSC's use of vendors. Some of the risks are associated with the underlying activity itself, similar to the risks faced if CSC conducted the activity. Other potential risks arise from or are heightened by the involvement of a vendor. Failure to manage these risks can expose the Company to regulatory action, financial loss, litigation and damage to the Company's reputation, and may even impair the Company's ability to establish new or service existing customer relationships.

Not all of the following risks will be applicable to every vendor relationship; however, complex or significant arrangements may have definable risks in most areas. The following summary of risks is not considered all-inclusive.

- *Transaction risk* is the risk arising from problems with service or product delivery. A vendor's failure to perform as expected by customers or CSC due to reasons such as inadequate capacity, technological failure, human error, or fraud, exposes CSC to transaction risk. The lack of an effective business resumption plan and appropriate contingency plans increase transaction risk. Weak control over technology used in the vendor arrangement may result in threats to security and the integrity of systems and resources. These issues could result in unauthorized transactions or the inability to transact business as expected.

- *Compliance risk* is the risk arising from violations of laws, rules, or regulations, or from noncompliance with internal policies or procedures or with CSC's business standards. This risk exists when the products or activities of a vendor are not consistent with governing laws, rules, regulations, policies, or ethical standards. Liability could potentially extend to CSC when vendors violate laws, rules, regulations or other required practices. Compliance risk is compounded when an institution has inadequate oversight, monitoring or audit functions.

- *Reputation risk* is the risk arising from negative public opinion. Vendor relationships that result in dissatisfied customers, interactions not consistent with company policies, inappropriate recommendations, security breaches resulting in the disclosure of customer information, and violations of law and regulation are all examples that could harm the reputation and standing of CSC in the community. Also, any negative publicity involving the vendor, whether or not the publicity is related to CSC's use of the vendor, could result in reputation risk.

- *Operational risk* is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. Third parties increase the company's overall operational complexity, and therefore increase operational risk.

- *Strategic risk* is the risk arising from adverse business decisions, or the failure to implement appropriate business decisions in a manner that is consistent with CSC's strategic goals. The use of a vendor to offer products or services that do not help CSC achieve corporate strategic goals and provide an adequate return on investment exposes CSC to strategic risk.

Citadel Servicing Corporation Vendor Management Program

The types of risk introduced by CSC's decision to use a vendor cannot be fully assessed without a complete understanding of the resulting arrangement. Therefore, a comprehensive list of potential risks that could be associated with a vendor relationship is not possible. In addition to the risks described above, vendor relationships may also subject CSC to liquidity, price, credit, and location risks.

The key to the effective use of a vendor in any capacity is for CSC's management to appropriately assess, measure, monitor, and control the risks associated with the relationship. While engaging another entity may assist management and the Board in achieving strategic goals, such an arrangement reduces management's direct control. Therefore, the use of a vendor increases the need for oversight of the process from start to finish. There are four main elements of an effective vendor risk management process: (1) risk assessment, (2) due diligence in selecting a vendor, (3) contract structuring and review, and (4) oversight.

While these four elements apply to any vendor activities, the precise use of this process is dependent upon the nature of the vendor relationship, the scope and magnitude of the activity, and the risks identified. This comprehensive risk management process, which includes management of any vendor relationship, enables management to ensure that the vendor is operating in a manner consistent with Federal and state laws, rules, and regulations, including those intended to protect consumers.

SECTION 3 - Risk Assessment

Risk assessment is fundamental to the initial decision of whether or not to enter into a vendor Relationship. The first step in the risk assessment process is to ensure that the proposed relationship is consistent with CSC's strategic planning and overall business strategy. Next, management must analyze the benefits, costs, legal aspects, and the potential risks associated with the vendor under consideration. Management must develop a thorough understanding of what the proposed relationship will accomplish for CSC, and why the use of a vendor is in CSC's best interests. A risk/reward analysis must be performed for significant matters, comparing the proposed third-party relationship to other methods of performing the activity or product offering, including the use of other vendors or performing the function in-house.

For such matters, the analysis must be considered integral to CSC's overall strategic planning. Responsible Company personnel must have the requisite knowledge and skills to adequately perform the analysis. Certain aspects of the risk assessment phase may include the use of compliance officers, technology officers, and legal counsel. This phase must also identify performance criteria, internal controls, reporting needs, and contractual requirements that would be critical to the ongoing assessment and control of specific identified risks.

After completing the general assessment of risks, particularly relative to CSC's overall strategic plan, management should review its ability to provide adequate oversight and management of the proposed vendor relationship on an ongoing basis. While identifying and understanding the risks associated with the vendor are critical at the outset, the long-term management of the relationship is vital to success. The Board and management should also ensure that CSC's compliance management system is adapted to effectively address the vendor relationship and appropriately respond to emerging issues and compliance deficiencies.

A final part of the initial risk assessment phase for significant relationships involves carefully estimating the long-term financial effect of the proposed vendor relationship. The Board should take into account all aspects of the long-term potential of the relationship, as well as the managerial expertise and other associated costs that would result from the decision to use a vendor, and not be unduly influenced by short-term cost savings. The long-term financial risk resulting from an initial incomplete accounting of costs and/or

Citadel Servicing Corporation Vendor Management Program

an overestimation of benefits can undermine appropriate decisions in other phases of the risk management process.

SECTION 4 – Due Diligence in Selecting a Vendor

The due diligence process provides management with the information needed to address qualitative and quantitative aspects of potential vendors to determine if a relationship would help achieve CSC's strategic and financial goals and mitigate identified risks. Not only should due diligence be performed prior to selecting a third party, but it should also be performed periodically during the course of the relationship, particularly when considering a renewal of a contract. The scope and depth of due diligence is directly related to the importance and magnitude of CSC's relationship with the vendor.

Comprehensive due diligence involves a review of all available information about a potential vendor, focusing on the entity's financial condition, its specific relevant experience, its knowledge of applicable laws and regulations, its reputation, and the scope and effectiveness of its operations and controls. The evaluation of a third party may include the following items:

- *Technical and Industry Expertise*: Assessment the vendor's experience and ability to provide the necessary services for current and anticipated needs, including evaluation of the vendor's knowledge of the regulations that are relevant to the services the vendor is providing and experience in providing services in the anticipated operating environment.

- *Operations and Controls:* Determination of the adequacy of a vendor's standards, policies and procedures relating to internal controls, facilities management (access requirements, sharing of facilities, etc.), security (systems, data, equipment, etc.), privacy protections, maintenance of records, business resumption contingency planning, systems development and maintenance and employee background checks.

- *Financial Condition:* Analysis of the vendor's most recent audited financial statements and annual report as well as other available documents (SEC filings, etc.). Consideration of factors such as how long the vendor has been in business and the vendor's market share for a given service, as well as the existence of any significant complaints or litigation, or regulatory actions against the vendor.

SECTION 5 – Contract Structuring and Review

A contract review provides an effective way to identify risk with a current or prospective vendor. Contracts with vendors should adhere to the same general guidelines as other contractual relationships in which CSC is involved. The contract should include clear and concise language regarding the arrangement between CSC and the vendor. Contracts should be reviewed by appropriate Management and Legal personnel at inception and renewal.

When entering into a contract it is management's responsibility to ensure that the following issues are addressed within the vendor contract. However, management and the Board of Directors recognize that not all vendors will agree to the terms desired by CSC and that under limited circumstances CSC may not be able to address each item noted below.

- Scope of Service
- Ancillary Products or Services
- Cost, Compensation or Fee Structure
- Consumer Complaints

CITADEL
SERVICING CORPORATION

Citadel Servicing Corporation Vendor Management Program

- Performance Standards
- Security and Confidentiality
- Internal Controls
- Custody and Control of Records
- Duration
- Dispute Resolution
- Right to Audit
- Business Continuity Planning
- Use of Company Resources
- Indemnification
- Contractual Remedies
- Limitation of Liability
- Default and Termination
- Assignment

SECTION 6 – Oversight

CSC must maintain adequate oversight of vendor activities and adequate quality control over those products and services provided through vendor arrangements in order to minimize exposure to potential significant financial loss, reputation damage, and supervisory action. Management must periodically review the vendor's operations in order to verify that they are consistent with the terms of the written agreement and that risks are being controlled. CSC's compliance management system should ensure continuing compliance with applicable federal and state laws, rules, and regulations, as well as internal policies and procedures.

Management must allocate sufficient qualified staff to monitor significant vendor relationships and provide the necessary oversight. Management must consider designating a specific officer to coordinate the oversight activities with respect to significant relationships, and involve their compliance management function and, as necessary, involve other operational areas such as audit and information technology, in the monitoring process. The extent of oversight of a particular third-party relationship will depend upon the potential risks and the scope and magnitude of the arrangement.

An oversight program will generally include monitoring of the vendor's quality of service, risk management practices, financial condition, and applicable controls and reports. Results of oversight activities for material vendor arrangements must be periodically reported to CSC's Board of Directors or designated committee. Identified weaknesses should be documented and promptly addressed.

Performance monitoring should include, as appropriate, the following:

- Evaluate the overall effectiveness of the vendor relationship and the consistency of the relationship with CSC's strategic goals.
- Review any licensing or registrations to ensure the vendor can legally perform its services.
- Review the adequacy of the vendor's insurance coverage.
- Ensure that the vendor's financial obligations to others are being met.
- Review audit reports or other reports of the vendor, and follow up on any needed corrective actions.
- Review the adequacy and adherence to the vendor's policies relating to internal controls and security issues.
- Monitor for compliance with applicable laws, rules, and regulations.
- Review the vendor's business resumption contingency planning and testing.
- Assess the effect of any changes in key vendor personnel involved in the relationship with CSC.
- Review reports relating to the vendor's performance in the context of contractual requirements and performance standards, with appropriate follow-up as needed.

Citadel Servicing Corporation Vendor Management Program

- Administer any testing programs for vendors with direct interaction with customers.
- Review customer complaints about the products and services provided by the vendor and the resolution of the complaints.
- Meet as needed with representatives of the vendor to discuss performance and operational issues.

Proper documentation will facilitate the monitoring and management of the risks associated with vendor relationships. Therefore, CSC must maintain documents and records on all aspects of the vendor relationship, including valid contracts, business plans, risk analyses, due diligence, and oversight activities (including reports to the Board or delegated committees).