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METHODOLOGY

Operational Risk Assessments for Canadian Structured Finance

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Scope and Limitations

This report describes the DBRS Limited (DBRS) approach to evaluating the quality of the parties that originate and service loans, leases or receivables that are about to be securitized or have previously been securitized in a Canadian structured finance transaction rated by DBRS. While DBRS may not assign formal evaluations to these processes, it does conduct operational risk reviews to determine if an originator and/or servicer is acceptable and incorporates the results of the review into the rating process. It is important to note that the methods described herein may not be applicable in all asset classes. Further, this methodology is meant to provide guidance regarding the DBRS methods used in the sector and should not be interpreted as prescribing a rigid template, but understood in the context of the dynamic environment in which it is intended to be applied.

Operational Risk Assessment for Canadian Structured Finance Originators and Servicers

Introduction

DBRS typically begins the initial originator and/or servicer review process by scheduling a date to conduct an on-site visit of the company and sending a questionnaire to the company that outlines the topics to be covered during discussions with management and includes a list of documents to be provided, such as organizational charts, financial statements, performance statistics and policies and procedures (see attached exhibits). In instances where DBRS determines that the originator and/or servicer is below average, issuers may incorporate certain structural enhancements into a proposed transaction, such as additional credit support, dynamic triggers, a third-party firm to provide the requisite representations and warranties or, in the case of unacceptable servicers, the presence of a warm or hot backup servicer, in order for DBRS to be able to rate the transaction. In the event that DBRS determines that an originator and/or servicer is unacceptable, it may also refuse to rate the deal.

DBRS conducts periodic reviews of the servicer as part of the ongoing monitoring of outstanding transactions or in cases when unexpected events warrant, such as the sale of the operation or a servicer's filing for bankruptcy. The reviews are intended to update DBRS on any changes that have taken place since the last operational risk review and highlight any material changes to the operation or its management. The review may be accomplished through a conference call, meeting with senior management or by an on-site visit to the originator/servicer. Relevant findings from the update review may be incorporated into the rating and surveillance process as warranted, in addition to being included in the analysis for new transactions.

Review Process

The originator review process typically involves a review and analysis of the following:

1. Company and management.
2. Financial condition.
3. Controls and compliance.
4. Origination and sourcing.
5. Underwriting guidelines.
6. Technology.

The servicer review process typically involves a review and analysis of the following:

1. Company and management.
2. Financial condition.
3. Controls and compliance.
4. Loan administration.
5. Customer service.
6. Account maintenance.

7. Default management
    - Collections,
    - Loss mitigation,
    - Bankruptcy and
    - Fraud.
8. Investor reporting.
9. Technology.
10. Outsourcing and Sub-Servicing Arrangements.

Company And Management

DBRS believes a seasoned management team that possesses demonstrated expertise in the product(s) they are originating/servicing is important. As a result, DBRS views favourably those originators/servicers whose management team possesses greater than ten years of industry experience. For an originator review, DBRS also believes the participation of the credit risk management, quality control, legal and compliance departments in the origination and underwriting process is important in order to identify and mitigate risk. Additionally, DBRS believes that in order to appropriately evaluate a servicer, they should have a sufficient number of loans in their portfolio to be representative for the particular asset type and have been servicing those loans for a minimum of one year. Furthermore, adequate capacity and resources to handle fluctuations in origination/loan volume are of importance.

Financial Condition

DBRS typically reviews an originator or servicer's financial condition or considers compensating factors. In its analysis, DBRS generally classifies an originator/servicer as investment grade or non-investment grade. Review of the originator or servicer may include an internal assessment consistent with DBRS policies. To the extent that no public rating is maintained on the originator or servicer and no internal assessment is performed, DBRS generally assumes that the originator or servicer is non-investment grade.

Some items that are reviewed as part of this process may include:
- Company ownership structure.
- Business lines.
- Management experience.
- Corporate rating of any parent company (if applicable).
- Industry competitive landscape and company position.
- Internal and external audit results.
- Financial statements.
- Revenue sources, including servicing fees and lines of credit.
- Costs to service.
- Litigation (past, present and expected).
- Existing business strategy and strategic initiatives.
- Recent or planned mergers or acquisitions.
- Recent or planned transfers.
- Securitization history and future plans.

Controls and Compliance

DBRS believes internal assessments and quality control reviews are important in recognizing procedural errors that may not be easily detectable. These reviews can be used to identify trends, training opportunities and exception practices. Frequent checks can assist management in quickly instituting changes to areas needing improvement, as well as benchmarking those results to performance. In addition to the aforementioned reviews, a monitoring process can assist originators/servicers in complying with all applicable laws, rules and regulations as well as training programs for employees in customer-facing positions.

For originators, DBRS views favourably the participation of the credit risk management, quality control, legal and compliance departments in the origination and underwriting process in order to identify and mitigate attendant risks. DBRS also views favourably those originators/servicers that are not the subject of any regulatory investigation(s) and have few borrower complaints filed with the relevant authorities. Minimal or no repurchases due to breaches of representations and warranties are considered, as well as procedures for vendor selection and oversight. Additionally, strong internal controls and procedures that prevent violations of regulations are also considered to be of paramount importance.

Technology

Technology resources are an important component of the originator/servicer review process. While DBRS does not subscribe to specific systems architecture, DBRS considers whether adequate systems controls, consumer privacy protection and backup procedures, including disaster recovery and business continuity plans, are in place. Furthermore, originators/servicers must ensure that any offshore vendors are monitored and a backup plan is in place to facilitate minimal downtime.

Over the past few years, leveraging the Internet has enabled many firms to operate effectively in the securitization business. Originators/servicers have used the Internet for marketing, customer service and the dissemination of pertinent information, such as applications, approvals, payment reminders or inquiries relating to repayment plans, restatements or payoffs. As a result, DBRS expects originators/servicers to have the appropriate staff and controls in place to ensure website availability, account maintenance and enhancements. Sophisticated technology with comprehensive functionality is viewed favourably by DBRS as it often brings large efficiencies to the origination/servicing operations and more predictability in terms of performance.

Origination And Sourcing (Originator)

DBRS reviews the origination and sourcing channels to determine if the originator has a clearly defined strategy. Sales and marketing practices that include pre-approvals are also typically reviewed to determine the screening process. Origination practices that include regular performance tracking and quality control reviews are viewed favourably by DBRS. Furthermore, procedures that ensure new account setup accuracy and data integrity are important to minimize errors. As a result, DBRS views favourably those originators with a high level of automation and established procedures for compliance with regulatory guidelines and industry best practices.

Underwriting Guidelines (Originator)

An originator's appetite for risk and the underlying quality of its underwriting guidelines can have an impact on deal performance. Therefore, DBRS typically uses both a qualitative and quantitative approach to conduct its originator reviews and make comparisons among originators.

DBRS views favourably those originators that have established guidelines and use reliable means to accurately assess a borrower's income and employment. An originator's exception and override practices can help to assess the quality of the originations, in addition to historical performance and repurchase volume.

Furthermore, sophisticated technology and fraud detection procedures can help prevent early payment defaults. DBRS believes this area is important to maintaining a successful program, and therefore would typically expect issuers to have formal processes surrounding fraud that are communicated regularly to staff and to employ experts to continuously update prevention strategies.

Loan Administration (Servicer)

DBRS reviews the loan administration area to assess servicers' boarding accuracy, data integrity, billing, application of payments to borrower accounts and exception rates. Servicers with large numbers of unreconciled items in suspense accounts indicate a fundamental problem with the cash management operation. As a result, DBRS views favourably those servicers with a high level of automation and a low tolerance for unapplied funds. Additionally, DBRS reviews the servicer's efforts toward compliance with regulatory guidelines and industry best practices.

Customer Service (Servicer)

DBRS reviews the customer service area to see how well the servicer responds to customer inquiries and, in some instances, performs early-stage collection calls. Performance metrics, such as call hold times and abandonment rates, are typically reviewed to determine if the department is appropriately staffed or if certain call blockage features are in place to prevent customers from being able to speak to a representative. A one-call resolution philosophy and a monitoring process that ensures that all employees in customer-facing positions are appropriately trained are viewed favourably by DBRS.

Default Management (Servicer)

The effectiveness of a servicer's operation has a direct impact on a transaction's performance and, ultimately, on losses to the investors. A servicer's strategy for handling loans in default and its ability to closely manage loans that have already defaulted can stabilize or improve pool performance. The marketing of repossessed assets, as well as ultimate disposition timelines and cost containment, can also determine a servicer's capabilities.

Many servicers use predictive dialer systems that incorporate behavioural scores to identify and prioritize the riskiest borrowers. Collection efforts generally escalate in intensity as accounts roll to more advanced delinquency categories. Depending on the stage of delinquency, the servicer may re-age the loan or offer repayment plans, extensions or deferrals to help the account become current. DBRS views favourably those servicers that have predictable performance and strong monitoring procedures for delinquent accounts. Once an account becomes delinquent, effective collection procedures can minimize losses to investors. Accordingly, DBRS evaluates the quality of the collections strategy and staff in order to determine their success rates in contacting borrowers and determining their ability and willingness to pay (or repossessing/remarketing the collateral as applicable).

Additionally, a servicer's ability to prevent and manage fraud is reviewed to determine the precautions taken to detect such activity. Authorization processes and contact with local law enforcement bodies to discuss the latest techniques can prevent fraud, as can having a reputation for prosecuting criminals. In addition, security surrounding mailings can stop theft and prevent fraud. DBRS believes that this area is vital to maintaining a successful operation and therefore views favourably those servicers that have formal processes surrounding fraud that are communicated regularly to staff and that employ experts to continuously update prevention strategies.

Investor Reporting (Servicer)

DBRS reviews the investor reporting function to see if servicers have a track record of timely and accurate remittances to trustees and/or master servicers. Consequently, DBRS views favourably those servicers who have never had a late or restated remittance report and have strong controls over data integrity.

Outsourcing And Sub-Servicing Arrangements (Servicer)

DBRS believes it can be prudent to outsource certain servicing functions, such as escrow reviews, as part of peak volume work flow management to handle the overflow or as a cost-saving measure. Outsourcing arrangements are reviewed carefully by DBRS to determine if proper supervision is maintained on the third party. DBRS views favourably those servicers that have outsourcing arrangements extensively documented in the company's procedures and controls, with a backup plan in place should the outsourcer lose its ability to operate.

Servicer Roles

When rating a transaction, the capacity of the servicer is a key analytical consideration as servicing quality affects the performance of the trust assets in delinquency, default and recovery and, consequently, in the ultimate repayment of rated securities. Servicers function in various capacities, including primary, master, special, backup or sub-servicer. Below is a summary of each of their roles.

Primary Servicer

The primary servicer is responsible for the general day-to-day administration of the loans included in a transaction. Some of the activities include the collection of payments, cash management, customer service, investor reporting, default management, loss mitigation and liquidation. Primary servicers are expected to report monthly (or more frequently if necessary) loan activity to trustees, investors and master servicers as applicable. In cases where there is no master servicer, the primary servicer may also be responsible for the advancing of principal and interest. DBRS views favourably those servicers that maintain effective servicing systems that are flexible and able to accurately report loan activity in a timely manner.

Master Servicer

A master servicer is responsible for collecting loan data from primary servicers, calculating the expected principal and interest payments that should be remitted and reconciling any differences with the servicers. A master servicer is also responsible for making advances, if applicable, in the event that the primary servicer fails to do so. As a result, financial condition is of utmost importance when evaluating a master servicer. Additionally, master servicers need to report and remit funds to the trustee in a timely and accurate manner; therefore, DBRS expects master servicers to be able to handle non-traditional products and complex deal structures.

Special Servicer

The special servicer is tasked with returning delinquent loans to a performing status or quickly disposing of loans that are non-performing. As a result, DBRS places particular emphasis on the years of experience and default management expertise of the special servicers. Of significant importance is the servicer's ability to manage delinquency roll rates, offer effective workouts and minimize recidivism rates. DBRS views favourably those servicers that employ sophisticated decision-making software to facilitate and track the loss mitigation process. Furthermore, a special servicer's ability to quickly liquidate assets at acceptable loss severities is paramount.

Primary Sub-Servicer

Primary sub-servicers provide a broad range of services to firms that do not wish to make the investment to develop a servicing platform or increase their current operation. Their role is substantially no different from other primary servicers. However, the sub-servicer's portfolios may only be held for a limited amount of time and typically must service in the manner in which the owner of the servicing rights dictates. Therefore, it is important that sub-servicers have demonstrated expertise in boarding and de-boarding loans, as well as proficiency in the investor reporting function. In addition, the sub-servicer may only be responsible for a limited set of functions within the overall servicing process. For example, the servicer may only handle the loans in a performing status, with all collection activities being the responsibility of a special servicer. As a result, primary sub-servicers should have controls in place to effectively meet both their individual client's requirements and the requirements of the transactions, if applicable.

Warm Backup Servicer

Warm backup servicers are responsible for performing all activities necessary to ensure that, in the event of a default or bankruptcy of the current servicer, they would be able to take over all primary servicing responsibilities outlined in the pooling and servicing agreement/indenture within a short period of time (typically 30 to 120 days). In an effort to prepare for the transfer, warm backup servicers typically conduct an on-site visit of the company, map all data fields to their servicing systems and receive monthly data tapes of the transactions to ensure minimal downtime.

Hot Backup Servicer

Hot backup servicers are responsible for performing all activities necessary to ensure that, in the event of a default or bankruptcy of the current servicer, they would be able to take over all primary servicing responsibilities within the time frame outlined in the pooling and servicing agreement within 30 days following notification of assumption. In an effort to prepare for the transfer, hot backup servicers typically conduct an on-site visit of the company and map all data fields to their servicing systems prior to closing. The hot backup servicer also receives daily/monthly data tapes of the transactions to ensure minimal downtime and is also responsible for tying out with the servicer on all remittance reports to ensure that they are accurate, in addition to monitoring the ongoing performance of the servicer.

Evaluations for Canadian Servicers

Canadian Servicer Evaluations may be assigned by DBRS to evaluate the quality of the parties that conduct primary, master and/or special servicing of mortgage loans that are about to be securitized in a Canadian transaction and that will be rated by DBRS. While DBRS only provides public evaluations at the request of the servicer, it may conduct internal, non-public servicer evaluations and incorporate the results of the review into the rating process for each new securitization transaction rated by DBRS.

Servicer evaluations provide a consistent measure for comparison by capital market participants. As the servicer is the only party that has regular interaction with the obligors of the pledged assets, the trustee, rating agencies and investors, among other parties, rely on the servicer's judgment, actions and accuracy in the receiving and reporting of data, which has an impact on the ultimate repayment of the rated debt.

Under a standardized approach, servicers can be directly compared through servicer evaluations that measure their respective servicing competence.

As a result, a positive servicer evaluation in one sector does not necessarily mean that a servicer is qualified to enter into new business lines or service assets in other sectors. A servicer evaluation highlights a servicer's strengths, weaknesses and mitigants regarding the various servicing roles it plays within securitization transactions. Compared with full-service companies, scalability and staffing constraints may exist for a servicer with limited service offerings. DBRS reviews a servicer by product/asset type before an evaluation is assigned. Servicer evaluations can be changed or discontinued at any time if there is performance deterioration or improvement in the areas of evaluation outlined in this section.

While this methodology provides a list of areas and items DBRS may review in the evaluation process, the scope of any specific servicer review may vary on a case-by-case basis, depending upon whether the servicer has an investment-grade rating from DBRS or other credit rating agencies, the approved lender status from mortgage insurers (for mortgage servicers) and/or the complexity of the servicing tasks involved.

Based on the results of the review, DBRS will assign the servicer's operation an evaluation of Superior, Good, Adequate or Weak (defined below). The results of the review are proprietary and used internally in the rating and surveillance processes unless DBRS is engaged to perform a public servicer evaluation. In this case, the results of the evaluations are announced through a press release and a servicer evaluation report is published on the DBRS website at www.dbrs.com.

Residential Mortgage Servicers

In transactions that include insured mortgages only and where servicers have approved lender status that is granted by mortgage insurers, these servicers are not typically subject to the servicer evaluation process described in this methodology.

Servicer Evaluation Definitions

Superior

A servicer evaluation of Superior indicates that a servicer has exhibited a thorough understanding and the implementation and execution of all of the facets of servicing. It may be characterized as having seasoned servicing professionals that have the capacity to handle peaks in work flow and that exhibit market leadership and experience through economic and credit cycles.

Good

A servicer evaluation of Good indicates that a servicer has exhibited a comprehensive understanding of the ten servicing areas and has received a positive assessment in most of the aspects of servicing, but could benefit from improvement in some less critical areas or could gain from additional experience. Servicers in this category may have experience in servicing similar assets outside of securitization and are entering securitization servicing as an expansion of current business lines.

Adequate

A servicer evaluation of Adequate indicates that a servicer has exhibited a full understanding of the ten areas reviewed by DBRS, but lacks a certain level of experience and consistency in implementation. These servicers may not have substantial volume to demonstrate their ability in execution or may be entering securitization servicing as a new line of business.

Weak

A servicer evaluation of Weak indicates that a servicer has fallen short in one or more of the ten areas, either through not exhibiting any of the benchmarked traits or through a lack of understanding of how to implement them correctly. A servicer with a Weak evaluation may have limited functions within the servicing agreements, and its ability to expand the services offered without further development is considered constrained.

Exhibit 1: Sample Operational Risk Questions for Canadian Auto Fleet Lease Originators/Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Ability to provide representations and warranties.
- Fleet size, composition and age.
- Strategic initiatives.
- Recent or planned mergers or acquisitions.
- Risk management practices.
- Management experience.
- Number of employees and underwriters.
- Staffing, training and retention rates.
- Organizational charts.
- Use of third-party outsourcing/servicing, temporary staff and offshore resources.
- Securitization history and future plans.
- Historical performance by origination channel.
- Recent or planned transfer of servicing (rights), if any.
- Runoff rates.
- Vintage loss performance and trends to date.
- Residual value policies and procedures.
- Competition.

Controls and Compliance

- Quality control (QC) and internal audit procedures.
- Internal and external audit results.
- Efforts to ensure regulatory compliance.
- Have you been or are you now the subject of a regulatory or provincial investigation? If so, discuss any findings.
- Have you ever been terminated or not in good standing with any regulatory body? If so, please explain.
- Repurchases due to breaches of representations and warranties ($ and #).
- Litigation (past, present and expected).
- Controls for managing potential conflicts of interest associated with parties to a transaction.
- Procedures for vendor selection and oversight.
- Storage and updating of policies and procedures.

Origination and Sourcing

- Origination strategy and channels.
- Sales and marketing practices.
- Use of dealers and brokers.
- Approval and monitoring processes for lessees.
- Delegated underwriting practices and policies.

- Procedures for ensuring new loan setup accuracy and data integrity.
- Exception and trailing documentation management, i.e., title.
- Post-closing quality reviews.

Underwriting Guidelines
- Underwriting policies and procedures by product and lease type.
- Is underwriting centralized?
- Recent or planned changes to underwriting guidelines.
- Approval process for potential lessees.
- Qualifying rate and ratios.
- Documentation requirements.
- Insurance requirements and verifications.
- Use of credit scoring, automated underwriting and other technology.
- Underwriter compensation structure.
- Authority levels.
- Exception and override process/practices.
- Process for completing data integrity checks.
- Fraud detection procedures and systems.
- Closing and funding process.

Technology
- Core origination/servicing system strengths and weaknesses.
- Capacity remaining in the origination/servicing system.
- Website availability, usage and security.
- Security measures employed to ensure compliance with consumer privacy laws.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full system backup.
- Future initiatives.

Customer Management/Monitoring
- Describe the process for ongoing evaluation and management of lessees.
- Describe methods used to prevent and detect lessee fraud.
- Method and timing of payments from lessees.
- First payment defaults, delinquencies and repossessions by lessee.

Asset Administration
- Are leases closed end or open end?
- Term of leases.
- Procedures for boarding accuracy and data integrity.
- Describe collateral/title/insurance tracking.
- Cash management procedures and controls.
- Payment processing and controls.

- Exception and suspense management.
- Account reconciliation and timing.
- Post-closing quality reviews.

Vehicle Maintenance and Tracking
- Auto preparation and maintenance process.
- Does the lessee manage the maintenance process or the company?
- Frequency of scheduled maintenance of vehicles.
- Tracking of vehicles.
- Process for tracking the age and mileage of vehicles.
- Coordination and tracking of fleet at client locations.
- Describe insurance coverage and terms of contract.
- Titling process, identity of lien holder and storage of titles.
- Theft experience and prevention.

Turn Back/Remarketing
- Reconditioning of vehicles.
- Historical expenses associated with reconditioning.
- Timing and method of transfer of title upon disposition.
- Vehicle remarketing and disposition process.
- Use of auctions or other disposal outlets.
- Recovery rates.

Investor Reporting
- Procedures for dissemination of reports to investors and trustees.
- Advancing procedures.
- Average number of investors remitted to on a monthly basis (last 12 months).
- Average dollar of monthly remittances (last 12 months).
- Number of late remittances (last 12 months).
- Are accounts commingled? If so, how long?

Exhibit 2: Sample Operational Risk Questions for Canadian Auto Lease Originators/Servicers

Company and Management
- Company history, ownership and operating experience.
- Financial condition/profitability.
- Ability to provide representations and warranties.
- Portfolio size and composition.
- Strategic initiatives.
- Recent or planned mergers or acquisitions.
- Risk management practices.
- Management experience.
- Number of employees and underwriters.
- Staffing, training and retention rates.
- Organizational charts.
- Use of third-party outsourcing/servicing, temporary staff and offshore resources.
- Securitization history and future plans.
- Historical performance by origination channel.
- Recent or planned transfer of servicing (rights), if any.
- Runoff rates.
- Vintage loss performance and trends to date.
- Residual value policies and procedures.

Controls and Compliance
- QC and internal audit procedures.
- Internal and external audit results.
- Efforts to ensure regulatory compliance.
- Have you been or are you now the subject of a regulatory or provincial investigation? If so, discuss any findings.
- Have you ever been terminated or not in good standing with any regulatory body? If so, please explain.
- Process for interpreting and tracking regulatory compliance statutes, including the use of counsel and compliance software.
- Repurchases due to breaches of representations and warranties ($ and #).
- Litigation (past, present and expected).
- Controls for managing potential conflicts of interest associated with parties to a transaction.
- Procedures for vendor selection and oversight.
- Storage and updating of policies and procedures.

Origination and Sourcing
- Origination strategy and channels.
- Itemize the programs, if any, used to originate leases.
- Sales and marketing practices.
- Use of dealers and brokers.
- Approval and monitoring processes for dealers and brokers.

- Procedures for ensuring new lease setup accuracy and data integrity.
- Title maintenance — where are titles kept and name of entity(ies) on title(s).
- Title processing with Ministry of Transportation — is this done electronically or otherwise? Outline how this is done with new and used vehicles, respectively.
- Exception and trailing documentation management, i.e., title.
- Post-closing quality reviews.

Residuals

- Describe the policy for determining residuals. What factors drive the ultimate determination of the residual (i.e., maturity, manufacturer, credit of lessee)?
- Pull ahead programs — are there any pull ahead programs used to generate auto leases or renew auto leases?
- Policy for use of residual subvention.
- Outline procedures auto lessee has to go through when returning vehicles.
- Use of dealers for returns or can lessee return vehicles at other points?
- When liquidated at auction, itemize how the finance company establishes a floor level to liquidate vehicles.
- Once vehicles are sold at auction (or in other ways) describe how the finance company knows the sale price.
- How often does the lessee return the vehicle early or at contract expiration?
- Outline the historical return rate.
- Provide historical residual realization experience.

Underwriting Guidelines

- Are underwriting practices and policies determined centrally or is there a portion of this determined on a decentralized basis?
- Underwriting policies and procedures by product and lease type.
- Recent or planned changes to underwriting guidelines.
- Approach to verifying income and employment documentation.
- Qualifying rate and ratios.
- Documentation requirements.
- Insurance requirements and verifications.
- Use of non-traditional credit in underwriting.
- Non-Canadian citizen requirements/eligibility.
- Procedures for ensuring compliance with regulatory and predatory lending laws.
- Use of credit scoring, automated underwriting and other technology.
- Underwriter compensation structure.
- Authority levels.
- Exception and override process/practices.
- Process for completing data integrity checks.
- Fraud detection procedures and systems.
- Closing and funding process.

Technology

- Core origination/servicing system strengths and weaknesses.
- Capacity remaining in the origination/servicing system.
- Website availability, usage and security.

- Security measures employed to ensure compliance with consumer privacy laws.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full system backup.
- Future initiatives.

Dealer Management
- Describe the process for evaluating relationships with manufacturer-franchised new or used car dealers or independent used-car-only dealers.
- Ongoing dealer oversight and management.
- Describe methods used to prevent and detect dealer fraud.
- Method and timing of payment to dealers.
- First payment defaults, delinquencies and repossessions by dealer.

Lease Administration
- Are leases closed end or open end?
- Term of leases.
- Procedures for boarding accuracy and data integrity.
- Describe collateral/title/insurance tracking.
- Cash management procedures and controls.
- Payment processing and controls.
- Exception and suspense management.
- Account reconciliation and timing.
- Post-closing quality reviews.

Customer Service
- Procedures for responding to customer inquiries.
- Strategy and technology.
- Call volume and average time to answer.
- Number of representatives and ratio to call volume.
- Level of call blockage, if any.
- Response times for inquiries.

Collections
- Collection strategies for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Right-party contact rate.
- Hold time and abandonment rates.
- Use of credit and behavioural scoring and other technology.
- Policies regarding rewrites, extensions, deferrals or payment holidays.
- Residual value performance and turn-in rates and trends.
- Repossession timelines.

- Charge-off policies and process.
- Use of technology.

Remarketing/Loss Mitigation

- Vehicle remarketing and disposition process.
- Use of auctions or dealer lots to sell repossessed vehicles.
- Vehicle maintenance, mileage and excess wear/tear recoveries.
- Recovery rates.
- Filing and pursuit of deficiency judgments.
- Approach to fraud detection.

Investor Reporting

- Procedures for dissemination of reports to investors and trustees.
- Advancing procedures.
- Average number of investors remitted to on a monthly basis (last 12 months).
- Average dollar of monthly remittances (last 12 months).
- Number of late remittances (last 12 months).
- Are accounts commingled? If so, how long?

Exhibit 3: Sample Operational Risk Questions for Canadian Auto Loan Originators/Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Ability to provide representations and warranties.
- Portfolio size and composition.
- Strategic initiatives.
- Recent or planned mergers or acquisitions.
- Risk management practices.
- Management experience.
- Number of employees and underwriters.
- Staffing, training and retention rates.
- Organizational charts.
- Use of third-party outsourcing/servicing, temporary staff and offshore resources.
- Securitization history and future plans.
- Historical performance by origination channel.
- Recent or planned transfer of servicing (rights), if any.
- Runoff rates.
- Third-party outsourcing/servicing arrangements, if applicable.
- Vintage loss performance and trends to date

Controls and Compliance

- QC and internal audit procedures.
- Internal and external audit results.
- Efforts to ensure regulatory compliance.
- Have you been or are you now the subject of a regulatory or provincial investigation? If so, discuss any findings.
- Have you ever been terminated or not in good standing with any regulatory body? If so, please explain.
- Process for interpreting and tracking regulatory compliance statutes, including the use of counsel and compliance software.
- Repurchases due to breaches of representations and warranties ($ and #).
- Litigation (past, present and expected).
- Controls for managing potential conflicts of interest associated with parties to a transaction.
- Procedures for vendor selection and oversight.
- Storage and updating of policies and procedures.

Origination and Sourcing

- Origination strategy and channels.
- Sales and marketing practices.
- Use of dealers and brokers.
- Approval and monitoring processes for dealers and brokers.
- Delegated underwriting practices and policies.

- Procedures for ensuring new loan setup accuracy and data integrity.
- Exception and trailing documentation management, i.e., title.
- Post-closing quality reviews.

Underwriting Guidelines

- Underwriting policies and procedures by product and loan type.
- Is underwriting centralized?
- Recent or planned changes to underwriting guidelines.
- Approach to verifying income and employment documentation.
- Qualifying rate and ratios.
- Documentation requirements.
- Insurance requirements and verifications.
- Use of non-traditional credit in underwriting.
- Non-Canadian citizen requirements/eligibility.
- Procedures for ensuring compliance with regulatory and predatory lending laws.
- Use of credit scoring, automated underwriting and other technology.
- Underwriter compensation structure.
- Authority levels.
- Exception and override process/practices.
- Process for completing data integrity checks.
- Fraud detection procedures and systems.
- Closing and funding process.

Technology

- Core origination/servicing system strengths and weaknesses.
- Capacity remaining in the origination/servicing system.
- Website availability, usage and security.
- Security measures employed to ensure compliance with consumer privacy laws.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system backup.
- Future initiatives.

Dealer Management

- Describe the process for evaluating relationships with dealers.
- Ongoing dealer oversight and management.
- Describe methods used to prevent and detect dealer fraud.
- Method and timing of payment to dealers.
- First payment defaults, delinquencies and repossessions by dealer.
- Are dealers manufacturer-franchised new or used car dealers or independent used-car-only dealers?
- How do you validate the information received from the dealers?

Loan Administration
- New loan boarding process.
- Procedures for boarding accuracy and data integrity.
- Describe collateral/title/insurance tracking.
- Cash management procedures and controls.
- Payment processing and controls.
- Exception and suspense management.
- Account reconciliation and timing.
- Post-closing quality reviews.

Customer Service
- Procedures for responding to customer inquiries.
- Strategy and technology.
- Call volume and average time to answer.
- Number of representatives and ratio to call volume.
- Level of call blockage, if any.
- Response times for inquiries.

Collections
- Collection strategies for early-, middle- and late-stage collections
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Right-party contact rate.
- Hold time and abandonment rates.
- Use of credit and behavioural scoring and other technology.
- Policies regarding rewrites, extensions, deferrals or payment holidays.
- Repossession timelines.
- Charge-off policies and process.
- Use of technology.

Remarketing/Loss Mitigation
- Describe remarketing procedures.
- Use of auctions or dealer lots to sell repossessed vehicles.
- Recovery rates.
- Filing and pursuit of deficiency judgments.
- Approach to fraud detection.

Investor Reporting
- Procedures for dissemination of reports to investors and trustees.
- Advancing procedures.
- Average number of investors remitted to on a monthly basis (last 12 months).
- Average dollar of monthly remittances (last 12 months).
- Number of late remittances (last 12 months).
- Are accounts commingled? If so, how long?

Exhibit 4: Sample Operational Risk Questions for Canadian Unsecured Consumer Loan Originators/Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Ability to provide representations and warranties.
- Portfolio size and composition.
- Strategic initiatives.
- Recent or planned mergers or acquisitions.
- Risk management practices.
- Management experience.
- Number of employees and underwriters.
- Staffing, training and retention rates.
- Organizational charts.
- Use of third-party outsourcing/servicing, temporary staff and offshore resources.
- Securitization history and future plans.
- Historical performance by origination channel.
- Sources for product
- Recent or planned transfer of servicing (rights), if any.
- Runoff rates.
- Vintage loss performance and trends to date.

Controls and Compliance

- QC and internal audit procedures.
- Internal and external audit results.
- Efforts to ensure regulatory compliance.
- Have you been or are you now the subject of a regulatory investigation? If so, discuss any findings.
- Process for interpreting and tracking regulatory compliance statutes, including the use of counsel and compliance software.
- Repurchases due to breaches of representations and warranties ($ and # last 12 months).
- Material litigation (past, present and expected).
- Procedures for vendor selection and oversight.
- Storage and updating of policies and procedures.

Origination and Sourcing

- Origination strategy, target market and channels.
- Sales and marketing practices.
- Criteria and use of prescreening and promotions.
- Response rates to preapprovals.
- Use of the Internet, direct mailings and third-party resources.
- Approval and monitoring processes for third-party originators/affiliates (if applicable).
- Procedures for ensuring new loan setup accuracy and data integrity.
- Post-origination quality reviews.

Underwriting Guidelines

- Underwriting policies and procedures by product type.
- Is underwriting centralized?
- Recent or planned changes to underwriting guidelines.
- Approach to verifying income, employment and assets.
- Credit limits extended.
- Documentation requirements.
- Use of non-traditional credit in underwriting (i.e., cancelled utility and rent checks).
- Use of credit scoring, automated underwriting and other technology.
- Percentage of portfolio approved through automated scoring.
- Procedures for ensuring compliance with regulatory and predatory lending laws.
- Interest rates and fee schedules (late fees, etc.).
- Underwriter compensation structure.
- Authority levels.
- Exception and override process/practices.
- Process for completing data integrity checks.
- Fraud detection procedures and systems.
- Process for delivering funds to the borrower (i.e., mail/in person).

Technology

- Core origination/servicing system strengths and weaknesses.
- Capacity remaining in the origination/servicing system.
- Website availability, usage and security.
- Security measures employed to ensure compliance with consumer privacy laws.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full system backup.
- Future initiatives.

Loan Administration

- New loan boarding process.
- Procedures for boarding accuracy and data integrity.
- Runoff rates and retention strategies.
- Cash management procedures and controls
- Payment processing and controls.
- Exception and suspense management.
- Account reconciliation and timing.
- Post-closing quality reviews.

Customer Service

- Procedures for responding to customer inquiries.
- Strategy and technology.
- Call volume and average time to answer.

- Percentage of calls handled by interactive voice response (IVR).
- Level of call blockage, if any.
- Response times for inquiries.
- Policies regarding increases in loan amounts.

Collections

- Collection strategies for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Right-party contact rate.
- Hold time and abandonment rates.
- Use of credit and behavioural scoring and other technology.
- Policies regarding payment holidays, re-aging and payment plans.
- Delinquency, roll and cure rates.
- Policies regarding credit reporting and fees for late payments.
- Use of technology.

Loss Mitigation

- Significant changes (past or planned) in procedures or emphasis regarding workout strategies or timelines.
- Settlement practices.
- Procedures for handling accounts that declare bankruptcy.
- Charge-off process.
- Approach to fraud detection.
- Filing and pursuit of deficiency judgments.
- Use of credit counsellors.
- Use of outsourcers for recoveries.
- Recovery rates.

Investor Reporting

- Procedures for dissemination of reports to investors and trustees.
- Advancing procedures.
- Average number of investors remitted to on a monthly basis (last 12 months).
- Average dollar of monthly remittances (last 12 months).
- Number of late remittances (last 12 months).
- Are accounts commingled? If so, how long?

Exhibit 5: Sample Operational Risk Questions for Canadian Credit Card Originators/Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Ability to provide representations and warranties.
- Portfolio size and composition.
- Strategic initiatives.
- Recent or planned mergers or acquisitions.
- Risk management practices.
- Management experience.
- Number of employees and underwriters.
- Staffing, training and retention rates.
- Organizational charts.
- Use of third-party outsourcing/servicing, temporary staff and offshore resources.
- Securitization history and future plans.
- Historical performance by origination channel.
- Sources for product.
- Recent or planned transfer of servicing (rights), if any.
- Runoff rates.

Controls and Compliance

- QC and internal audit procedures.
- Internal and external audit results.
- Efforts to ensure regulatory compliance.
- Have you been or are you now the subject of a regulatory investigation? If so, discuss any findings.
- Process for interpreting and tracking regulatory compliance statutes, including the use of counsel and compliance software.
- Repurchases due to breaches of representations and warranties ($ and # last 12 months).
- Litigation (past, present and expected).
- Procedures for vendor selection and oversight.
- Storage and updating of policies and procedures.

Origination and Sourcing

- Origination strategy and channels.
- Sales and marketing practices.
- Criteria and use of prescreening and promotions.
- Response rates to preapprovals.
- Use of the Internet, direct mailings and third-party resources.
- Approval and monitoring processes for third-party originators/affiliates (if applicable).
- Procedures for ensuring new account setup accuracy and data integrity.
- Post-origination quality reviews.

Underwriting Guidelines
- Underwriting policies and procedures by product.
- Is underwriting centralized?
- Recent or planned changes to underwriting guidelines.
- Approach to verifying employment and income.
- Credit limits/lines extended.
- Documentation requirements.
- Use of non-traditional credit in underwriting (i.e., cancelled utility and rent checks).
- Use of credit scoring, automated underwriting and other technology.
- Percentage of portfolio approved through automated scoring.
- Cash advances polices and criteria.
- Renewal criteria and underwriting.
- Procedures for ensuring compliance with regulatory and predatory lending laws.
- APRs and fee schedules.
- Underwriter compensation structure.
- Authority levels.
- Exception and override process/practices.
- Process for completing data integrity checks.
- Fraud detection procedures and systems.
- Process for delivering/activating credit cards.

Technology
- Core origination/servicing system strengths and weaknesses.
- Capacity remaining in the origination/servicing system.
- Website availability, usage and security.
- Security measures employed to ensure compliance with consumer privacy laws.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full system backup.
- Future initiatives.

Account Maintenance:
- Procedures for boarding accuracy and data integrity.
- Cash management procedures and controls.
- Payment processing and controls.
- Exception and suspense management.
- Runoff rates and retention strategies.
- Account reconciliation and timing.
- Post-closing quality reviews.

Customer Service
- Procedures for responding to customer inquiries and disputes.
- Strategy and technology.
- Call volume and average time to answer.
- Percentage of calls handled by IVR.
- Level of call blockage, if any.
- Response times for inquiries.
- Polices regarding line increases.
- Over-limit fees and procedures.

Collections
- Collection strategies for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Right-party contact rate.
- Hold time and abandonment rates.
- Use of credit and behavioural scoring and other technology.
- Policies regarding payment holidays, re-aging and payment plans.
- Polices regarding freezing or lowering credit lines and increasing annual percentage rates.
- Delinquency, roll and cure rates.
- Use of technology.

Loss Mitigation
- Significant changes (past or planned) in procedures or emphasis regarding workout strategies or timelines.
- Settlement practices.
- Procedures for handling accounts that declare bankruptcy.
- Charge-off process.
- Approach to fraud detection.
- Filing and pursuit of deficiency judgments.
- Use of credit counsellors.
- Use of outsourcers for recoveries.
- Recovery rates.

Investor Reporting
- Procedures for dissemination of reports to investors and trustees.
- Advancing procedures.
- Average number of investors remitted to on a monthly basis (last 12 months).
- Average dollar of monthly remittances (last 12 months).
- Number of late remittances (last 12 months).
- Are accounts commingled? If so, how long?

Exhibit 6: Sample Operational Risk Questions for Canadian Equipment Lease Originators/Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Ability to provide representations and warranties.
- Portfolio size and composition.
- Strategic initiatives.
- Recent or planned mergers or acquisitions.
- Risk management practices.
- Management experience.
- Number of employees and underwriters.
- Staffing, training and retention rates.
- Organizational charts.
- Use of third-party outsourcing/servicing, temporary staff and offshore resources.
- Securitization history and future plans.
- Historical performance by origination channel.
- Percentage of company's net worth made up of unrealized residuals.
- Funding facilities.
- Overview of your industry and how it has changed over the last five years.
- Recent or planned transfer of servicing (rights), if any.
- Runoff rates.
- Competition.

Controls and Compliance

- QC and internal audit procedures.
- Internal and external audit results.
- Efforts to ensure regulatory compliance.
- Have you been or are you now the subject of a regulatory investigation? If so, discuss any findings.
- Have you ever been terminated or not in good standing with any regulatory body? If so, please explain.
- Repurchases due to breaches of representations and warranties ($ and #).
- Litigation (past, present and expected).
- Controls for managing potential conflicts of interest associated with parties to a transaction.
- Procedures for vendor selection and oversight.
- Storage and updating of policies and procedures.

Sales and Marketing

- Origination strategy and channels.
- Sales and marketing practices.
- Use of dealers and brokers.
- Approval and monitoring processes for lessees.

- Delegated underwriting practices and policies.
- Procedures for ensuring new loan setup accuracy and data integrity.
- Exception and trailing documentation management, i.e., title.
- Post-closing quality reviews.

Underwriting Guidelines

- Underwriting policies and procedures by product and lease type.
- Is underwriting centralized?
- Recent or planned changes to underwriting guidelines.
- Approval process for potential lessees.
- Qualifying rate and ratios.
- Documentation requirements.
- Insurance requirements and verifications.
- Use of credit scoring, automated underwriting and other technology.
- Underwriter compensation structure.
- Authority levels.
- Exception and override process/practices.
- Process for completing data integrity checks.
- Fraud detection procedures and systems.
- Closing and funding process.

Technology

- Core origination/servicing system strengths and weaknesses.
- Capacity remaining in the origination/servicing system.
- Website availability, usage and security.
- Security measures employed to ensure compliance with consumer privacy laws.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system backup.
- Future initiatives.

Loan/Lease Administration

- Do the terms of the loan/lease vary for each asset type and what are the typical key terms?
- Are any loans/leases with affiliates of the obligor?
- Provide concentrations for top 20 loan/lease types, obligors and vendors.
- What is the estimated useful life for each asset?
- Term of contracts (include payment type, i.e., fixed rate or balloon).
- Are all leases hell or high water and triple net?
- Describe end of lease options available to the lessees.
- When does a delinquent loan/lease stop accruing interest?
- Recourse versus non-recourse lenders.

Account Maintenance:
- Procedures for boarding accuracy and data integrity.
- Describe collateral/Uniform Commercial Code tracking.
- Cash management procedures and controls.
- Payment processing and controls.
- Exception and suspense management.
- Account reconciliation and timing.
- Post-closing quality reviews.

Customer Service
- Procedures for responding to customer and vendor inquiries.
- Strategy and technology.
- Call volume and average time to answer.
- Number of representatives and ratio to call volume.
- Level of call blockage, if any.
- Response times for inquiries.

Collections
- Collection strategies for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Use of credit and behavioural scoring and other technology.
- Policies regarding rewrites, extensions and deferrals.
- Repossession timelines by product.
- Charge-off process.
- Use of technology.

Remarketing/Loss Mitigation
- Equipment remarketing and disposition process.
- Recovery rates by product.
- Residual value performance and turn-in rates and trends.
- Filing and pursuit of deficiency judgments.
- Approach to fraud detection.

Investor Reporting
- Procedures for dissemination of reports to investors and trustees.
- Advancing procedures.
- Average number of investors remitted to on a monthly basis (last 12 months).
- Average dollar of monthly remittances (last 12 months).
- Number of late remittances (last 12 months).
- Are accounts commingled? If so, how long?

Exhibit 7: Sample Operational Risk Questions for Canadian Insurance Premium Loan Originators/Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Portfolio size and composition.
- Strategic initiatives.
- Management experience.
- Number of employees and underwriters.
- Staffing, training and retention rates.
- Organizational charts.
- Recent or planned mergers or acquisitions.
- Securitization history and future plans.
- Use of third-party outsourcing/servicing, temporary staff and offshore resources.
- Historical performance by channel.
- Is the company federally or provincially regulated?
- Any regulatory issues?
- How are bad debt reserves established?
- Overview of your industry and how it has changed over the last five years.
- Recent or planned transfer of servicing (rights), if any.
- Runoff rates.
- Competitive position in the industry.

Controls and Compliance

- Risk management practices.
- Internal and external audit results.
- Efforts to ensure regulatory compliance.
- Have you been or are you now the subject of any regulatory action? If so, discuss any findings.
- Litigation (past, present and expected).

Market Position

- Who do you consider to be your chief competition and why?
- How has your market position changed since your entry into the business?
- Why has it changed? How do you expect it will change in the future?
- What do you consider your competitive advantages/disadvantages?
- What distinguishes you from the competition?
- Discuss the future growth outlook for the company.
- How do you manage the relationship with manufactures and clients?
- Cyclicality — cite the factors that affect the industry and your company, i.e., demand/utilization rates.

Target Markets
- Who is your primary target market?
- Why did you select this target market?
- How has sales trended? What is your expectation for growth?

Markets
- How large is the direct sales force?
- Are brokers or outside personnel used in the sales function?
- How are the sales force is compensated (salary, commission, share profits and losses of company)?
- Does the sales force act as the first level of credit (i.e., pre-screening)?
- How much business is sourced through direct sales versus indirect?
- Describe how sales leads are obtained (vendor, broker, cold calling)?
- Describe portfolio acquisitions that have occurred in the past?

Origination and Sourcing
- Origination strategy and channels.
- Sales and marketing practices.
- Use of dealers and brokers.
- Approval and monitoring processes for lessees.
- Delegated underwriting practices and policies.
- Procedures for ensuring new loan setup accuracy and data integrity.
- Exception and trailing documentation management, i.e., title.
- Post-closing quality reviews.

Legal
- Under what jurisdiction are the contracts originated and executed?
- Has the enforceability of contracts been tested in a bankruptcy?
- Does the company file UCCs?

Technology
- Core origination/servicing system strengths and weaknesses.
- Capacity remaining in the origination/servicing system.
- Website availability, usage and security.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system backup.
- Future initiatives.

Account Management
- When is the receivable created?
- New account boarding process.
- Does account boarding include insurance carrier and policy information?
- Procedures for boarding accuracy and data integrity.
- Cash management procedures and controls.

- Methods of payment (cash, check, automated clearing house, etc.).
- Payment processing and controls.
- Exception and suspense management.
- Account reconciliation and timing.
- Post-closing quality reviews.

Account Monitoring
- How is the collection of the receivable monitored?
- How does the company monitor financial statements for agents? Insurance carriers?
- How are insurance carrier disputes handled?
- Are there any prohibitions against the sale or pledge of the receivables?
- Is the credit monitoring system automated?
- When are invoices sent out?
- When are invoices due?

Customer Service
- Procedures for responding to customer inquiries.
- Strategy and technology.
- Call volume and average time to answer.
- Number of representatives and ratio to call volume.
- Response time for inquiries.

Collections
- Collection strategies for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Use of credit and behavioural scoring and other technology.
- Policies regarding re-aging of accounts.
- When is a policy cancelled because of non-payment?
- Use of technology.

Loss Mitigation
- Write-off process.
- Recovery rates by product, insurance carrier and insured.
- Recovery process for refund of unearned premium from insurance carriers (timing and recipient of refund).
- Approach to fraud detection.

Investor Reporting
- Procedures for dissemination of reports to investors and trustees.
- Advancing procedures.
- Average number of investors remitted to on a monthly basis (last 12 months).
- Average dollar of monthly remittances (last 12 months).
- Number of late remittances (last 12 months).
- Are accounts commingled? If so, how long?

Exhibit 8: Sample Operational Risk Questions for Canadian Rental Car Originators/Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Ability to provide representations and warranties.
- Fleet size, age and composition.
- Strategic initiatives.
- Recent or planned mergers or acquisitions.
- Risk management practices.
- Management experience.
- Number of employees.
- Staffing, training and retention rates.
- Organizational charts.
- Use of third-party outsourcing/servicing, temporary staff and offshore resources.
- Securitization history and future plans.
- Historical performance by manufacturer.
- Competition.

Controls and Compliance

- QC and internal audit procedures.
- Internal and external audit results.
- Efforts to ensure regulatory compliance.
- Have you been or are you now the subject of a regulatory investigation? If so, discuss any findings.
- Have you ever been terminated or not in good standing with any regulatory body? If so, please explain.
- Repurchases due to breaches of representations and warranties ($ and #).
- Litigation (past, present and expected).
- Controls for managing potential conflicts of interest associated with parties to a transaction.
- Storage and updating of policies and procedures.

Origination and Sourcing

- Manufacturer approval and selection process.
- Strategy/process for determining optimal fleet mix (program/non-program, make, model).
- Approval and monitoring processes for lessees/sub-lessees.
- Procedures for ensuring new manufacturer repurchase agreement setup accuracy and data integrity.
- Valuation procedures for used vehicle acquisitions.
- Title management.

Rental Process

- Reservation systems and process.
- Customer pick-up.
- Customer drop-off.

- Tracking of vehicles and customer information.
- Types of rental agreements.
- Use of technology.
- Fraud detection procedures and systems.

Technology
- Core origination/servicing system strengths and weaknesses.
- Capacity remaining in the origination/servicing system.
- Website availability, usage and security.
- Security measures employed to ensure compliance with consumer privacy laws.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system backup.
- Future initiatives.

Vehicle Maintenance and Tracking
- Auto preparation and maintenance process.
- Maintenance of program vehicles in accordance with repurchase agreements.
- Frequency of scheduled maintenance of non-program vehicles.
- Tracking of vehicles in and out of service.
- Process for tracking the age and mileage of vehicles.
- Coordination and tracking of fleet at franchise locations.
- Historical levels of ineligibles and reasons for becoming ineligible.
- Describe insurance coverage and terms of contract.
- Titling process, identity of lien holder and storage of titles.
- Theft experience and prevention.

Turn Back/Remarketing
- Turn back/sales process to program manufacturers.
- Reconditioning of vehicle.
- Historical expenses associated with reconditioning.
- Timing and method of transfer of title in relation to turn back/sale of vehicles.
- Vehicle remarketing and disposition process.
- Use of auctions or other disposal outlets.
- Disposition results, trends and future expectations.

Investor Reporting
- Procedures for dissemination of reports to investors and trustees.
- Advancing procedures.
- Average number of investors remitted to on a monthly basis (last 12 months).
- Average dollar of monthly remittances (last 12 months).
- Number of late remittances (last 12 months).
- Are accounts commingled? If so, how long?
- Representation and warranties or covenant breaches.

Exhibit 9: Sample Operational Risk Questions for Canadian Wholesale (Floorplan) Auto and Equipment Originators/Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Ability to provide representations and warranties.
- Portfolio size and composition.
- Strategic initiatives.
- Recent or planned mergers or acquisitions.
- Risk management practices.
- Management experience.
- Number of employees and underwriters.
- Staffing, training and retention rates.
- Organizational charts.
- Third-party outsourcing/servicing arrangements (if applicable).
- Securitization history and future plans.
- Have you ever been terminated from a transaction for cause?
- Historical repayment rate.
- Runoff rates.
- Vintage loss performance and trends to date.
- Competition.
- Outline payment terms and repurchase agreements, if any.
- Recent or planned transfer of servicing (rights), if any.

Controls and Compliance

- QC and internal audit procedures.
- Internal and external audit results.
- Efforts to ensure regulatory compliance.
- Have you been or are you now the subject of a regulatory investigation? If so, discuss any findings.
- Have you ever been terminated or not in good standing with any regulatory body? If so, please explain.
- Process for interpreting and tracking regulatory compliance statues, including the use of counsel and compliance software.
- Repurchases due to breaches of representations and warranties ($ and #).
- Litigation (past, present and expected).
- Storage and updating of policies and procedures.

Origination and Sourcing

- Origination strategy and channels.
- Sales and marketing practices.
- Approval and monitoring processes for dealers.

Underwriting Guidelines

- Underwriting policies and procedures.
- Recent or planned changes to underwriting guidelines.
- Approval process for potential dealers.
- Documentation requirements.
- Insurance requirements and verifications.
- Exception and override process/practices.
- Fraud detection procedures and systems.
- Closing and funding process.

Technology

- Core origination/servicing system strengths and weaknesses.
- Capacity remaining in the origination/servicing system.
- Website availability, usage and security.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system backup.
- Future initiatives.

Dealer Management

- Describe the process for evaluating relationships with dealers.
- Ongoing dealer oversight and management.
- Provide risk ranking of current dealer base.
- Describe methods used to prevent and detect dealer fraud.
- Method and timing of payment to dealers.
- Delinquencies and repossessions by dealer.
- How do you validate the information received from the dealers?
- Procedures for monitoring dealer credit lines and locations.
- Insurance requirements for dealers.

Loan Administration

- New loan boarding process.
- Procedures for boarding accuracy and data integrity.
- Describe collateral/title/insurance tracking (for used vehicles).
- Cash management procedures and controls.
- Invoice processing and controls.
- Exception and suspense management.
- Account reconciliation and timing.
- Post-closing quality reviews.

Collections
- Collection strategies for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Describe dealer visits in relation to collections activities.
- Use of credit and behavioural scoring and other technology.
- Policies regarding re-aging, extensions or deferrals.
- Repossession timelines.
- Charge-off process.
- Use of technology.

Remarketing/Loss Mitigation
- Describe remarketing procedures.
- Use of auctions or dealer lots to sell repossessed vehicles.
- Recovery rates.
- Filing and pursuit of deficiency judgments.
- Approach to fraud detection.

Investor Reporting
- Procedures for dissemination of reports to investors and trustees.
- Average number of investors remitted to on a monthly basis (last 12 months).
- Average dollar of monthly remittances (last 12 months).
- Number of late remittances (last 12 months).
- Are accounts commingled? If so, how long?

Exhibit 10: Sample Operational Risk Questions for Canadian Trade Receivables Originators/Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Ability to provide representations and warranties.
- Portfolio size and composition.
- Strategic initiatives.
- Recent or planned mergers or acquisitions.
- Risk management practices.
- Management experience.
- Number of employees and underwriters.
- Staffing, training and retention rates.
- Organizational charts.
- Third-party outsourcing/servicing arrangements (if applicable).
- Securitization history and future plans.
- History of termination from a transaction for cause, if any.
- Historical repayment rate.
- Runoff rates.
- Vintage loss performance and trends to date.
- Competition.
- Market Position
- Target Markets
- Outline payment terms and repurchase agreements, if any.
- Recent or planned transfer of servicing (rights), if any.

Controls and Compliance

- Overview of internal audit/quality control practices.
- Any significant internal audit findings?
- Internal audit reporting structure.
- Overview of compliance controls (legal, regulatory, etc.).
- Discuss any current, pending or recently concluded litigation and/or regulatory actions of a material nature, including but not limited to any class actions lawsuits, which would impact on the company's ability to originate or service.

Origination and Underwriting

- Product sourcing.
- Are underwriting methods determined/controlled/monitored centrally or regionally?
- Are any credit scoring models used? Is there more than one model used for different purposes? Are models proprietary? How often does validation occur?
- Discuss payment terms.
- Discuss exception/override process.
- How does the firm compete for business (e.g., fast turnaround or lower documentation requirements)?
- What fraud prevention techniques are used?

Dilutions
- Make-up of dilutions.
- Discuss biggest percentage item of dilutions.
- Dilutions Tracking.
- Describe how dilutions are separated from agings and credit memos.
- Historical dilutions trend.

Servicing
- Write-off procedures/outline timeframes for charging-off accounts.
- Write-off trends.
- Changes to write-off policy or procedure.
- Correspondence and dispute resolution.
- Discuss collection strategies for early-, middle- and late-stage collections.
- Discuss policies regarding loan modifications, deferrals or extensions.
- Discuss significant changes (past or planned) in procedures or emphasis regarding work-out strategies or timelines.
- Strategies for borrower contact and assessment of ability/willingness to pay.
- Discuss cash management processing including controls and suspense management.
- Use of incentives.
- Billing and payment processing.
- Payment methods used (checks, electronic funds transfer, other).
- Discuss bankruptcy procedures.

Staffing and Training
- Hiring and retention strategies.
- Employee performance and monitoring procedures.
- Turnover rates.
- Training processes.
- Functions outsourced.
- Training of offshore staff.
- Contingency planning.

Technology
- Describe the computer systems you have in place for receivables tracking.
- Describe systems in place for asset/liability management.
- Nature of emergency backup systems in place.
- Core origination/servicing system strengths and weaknesses.
- Website availability and usage.
- Discuss disaster recovery plans and success of last test.
- Storage and access (i.e., company intranet, shared drive, hardcopy, etc.).
- Future initiatives.

Commingling

- Describe the mitigation of commingling risk.
- If lockboxes are used, describe procedure.

Internal Audit/Quality Control

- Overview of internal audit/quality control practices.
- Note any significant internal audit findings.
- Internal audit reporting structure.

Compliance/External Audit

- Overview of compliance controls (legal, regulatory, etc.).
- Discuss any current, pending or recently concluded litigation and/or regulatory actions of a material nature, including but not limited to any class actions lawsuits, which would impact on the company's ability to originate or service.

Exhibit 11: Sample Operational Risk Questions for Canadian Franchise Loans Originators/Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Ability to provide representations and warranties.
- Portfolio size and composition.
- Strategic initiatives.
- Recent or planned mergers or acquisitions.
- Risk management practices.
- Management experience.
- Number of employees and underwriters.
- Staffing, training and retention rates.
- Organizational charts.
- Third-party outsourcing/servicing arrangements (if applicable).
- Securitization history and future plans.
- Have you ever been terminated from a transaction for cause?
- Historical repayment rate.
- Runoff rates.
- Historical franchisee default experience.
- Credit utilization rates.
- Vintage loss performance and trends to date.
- Competition.
- Outline payment terms and repurchase agreements, if any.
- Recent or planned transfer of servicing (rights), if any.

Franchise Network

- Overview of franchise network.
- Relationship between the company and the franchisees.
- Describe the application process to become a franchisee.
- Experience level of the principal dealers.
- Ownership of the real estate in which the franchisees operate on.
- Funding sources that are available to franchisees.

Controls and Compliance

- QC and internal audit procedures.
- Internal and external audit results.
- Efforts to ensure regulatory compliance.
- Have you been or are you now the subject of a regulatory investigation? If so, discuss any findings.
- Have you ever been terminated or not in good standing with any regulatory body? If so, please explain.
- Process for interpreting and tracking regulatory compliance statues, including the use of counsel and compliance software.

- Repurchases due to breaches of representations and warranties ($ and #).
- Litigation (past, present and expected).
- Storage and updating of policies and procedures.

Origination and Sourcing
- Origination strategy and channels.
- Sales and marketing practices.
- Approval and monitoring processes for franchisees.

Underwriting Guidelines
- Underwriting policies and procedures.
- Recent or planned changes to underwriting guidelines.
- Approval process for potential franchisees.
- Documentation requirements.
- Insurance requirements and verifications.
- Exception and override process/practices.
- Fraud detection procedures and systems.
- Closing and funding process.

Technology
- Core origination/servicing system strengths and weaknesses.
- Capacity remaining in the origination/servicing system.
- Website availability, usage and security.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full-system backup.
- Future initiatives.

Franchisee Management
- Describe the process for evaluating relationships with franchisees.
- Ongoing franchisee oversight and management.
- Provide risk ranking of current franchisee base.
- Describe methods used to prevent and detect franchisee fraud.
- Method and timing of payment to franchisees.
- Delinquencies and repossessions by franchisee.
- How do you validate the information received from the franchisees?
- Procedures for monitoring franchisee credit lines and locations.
- Insurance requirements for dealers.

Loan Administration
- New loan boarding process.
- Procedures for boarding accuracy and data integrity.
- Describe collateral/title/insurance tracking.
- Cash management procedures and controls.

- Invoice processing and controls.
- Exception and suspense management.
- Account reconciliation and timing.
- Post-closing quality reviews.

Collections
- Collection strategies for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Describe store visits in relation to collections activities.
- Use of credit and behavioural scoring and other technology.
- Policies regarding re-aging, extensions or deferrals.
- Repossession timelines.
- Charge-off process.
- Use of technology.

Remarketing/Loss Mitigation
- Describe the appraisal process of the underlying assets.
- The frequency in which the asset valuation is updated.
- Third parties that are engaged to provide appraisals.
- Validation of the asset appraisal process.
- Describe remarketing procedures.
- Use of auctions or dealer lots to sell repossessed vehicles.
- Recovery rates.
- Filing and pursuit of deficiency judgments.
- Approach to fraud detection.
- Describe the landlord agreements with respect to liquidation.

Investor Reporting
- Procedures for dissemination of reports to investors and trustees.
- Average number of investors remitted to on a monthly basis (last 12 months).
- Average dollar of monthly remittances (last 12 months).
- Number of late remittances (last 12 months).
- Are accounts commingled? If so, how long?

Exhibit 12: Sample Review Questions for Canadian Residential Mortgage Originators/Servicers

Company and Management

- Company history, ownership and operating experience.
- Financial condition/profitability.
- Ability to provide representations and warranties.
- Management experience.
- Portfolio size, composition and risk profile.
- Strategic initiatives.
- Litigation, claims and regulatory actions of material nature (past, present and expected).
- Cause of servicing arrangement termination (if applicable).
- Recent or planned mergers or acquisitions.
- Recent or planned transfer of servicing (rights), if any.
- Runoff rates.
- Securitization history and future plans.
- Risk management practices.
- Number of employees and underwriters.
- Staffing, training and retention rates.
- Organizational charts.
- Use of third-party outsourcing/servicing, temporary staff and offshore resources.
- Historical performance by origination channel.

Controls and Compliance

- QC and internal audit procedures.
- Internal and external audit results.
- Efforts to ensure regulatory compliance.
- Has the servicer been, or is now, the subject of any regulatory action? If so, discuss any findings.
- Process for interpreting and tracking regulatory compliance statutes.
- Storage and updating of policies and procedures.
- Repurchases due to breaches of representations and warranties ($, # and reason).
- Controls for managing potential conflicts of interest associated with parties to a transaction.
- Procedures for vendor selection and oversight.

Origination and Sourcing

- Origination strategy and channels.
- Sales and marketing practices.
- Use of brokers, correspondents and conduits.
- Approval and monitoring processes for third-party originators and brokers.
- Delegated underwriting practices and policies.
- Procedures for ensuring new loan setup accuracy and data integrity.
- Exception and trailing documentation management.

- Post-closing quality reviews.

Underwriting Guidelines
- Underwriting policies and procedures by product and loan type.
- Is underwriting centralized?
- Recent or planned changes to underwriting guidelines.
- Approach to verifying income, assets, employment and occupancy documentation.
- Loan-to-value and combined parameters.
- Qualifying rate and ratios.
- Documentation requirements.
- Occupancy and property eligibility.
- Escrow and insurance requirements.
- Use of non-traditional credit in underwriting.
- Procedures for ensuring compliance with regulatory and predatory lending laws.
- Use of credit scoring, automated underwriting and other technology.
- Underwriter compensation structure.
- Authority levels.
- Exception and override process/practices.
- Process for completing data integrity checks.
- Fraud detection procedures and systems.
- Closing and funding process.
- Trailing documentation follow-up.

Valuation Practices
- Methods and timelines used to assess property values.
- Appraiser approval process.
- Procedures for ensuring appraisal, broker price opinion and automated valuation models accuracy.
- Outsourcing practices.
- Seasoned loan property evaluation practices.

Technology
- Core origination/servicing system strengths and weaknesses.
- Capacity remaining in the origination/servicing system.
- Website availability, usage and security.
- Procedures for vendor selection and oversight.
- Disaster recovery/business continuity plans and success of last test.
- Frequency of full system backup.
- Future initiatives.
- Security measures employed to ensure compliance with consumer privacy laws.

Asset Administration, Reporting and Customer Service

- New loan boarding and accuracy control process.
- Payment processing.
- Cash management and lockbox administration.
- Procedures for responding to customer inquiries.
- Customer service strategy and technology.
- Escrow management, including tax, insurance and reserves.
- Investor reporting.
- Document covenant/trigger compliance.
- Asset management, including assumptions, document release and re-conveyance.
- Exception management process.
- Regulatory compliance.
- Procedures for advancing.

Loss Management

- Collection strategies and solicitation process for early-, middle- and late-stage collections.
- Explanation of call and notice cycles by product type.
- Account-to-collector ratio.
- Right-party contact rate.
- Use of credit and behavioural scoring and other technology.
- Delinquency, roll and cure rates.

Default and Bankruptcy Management

- Loan resolution frequency (i.e., workout, restructuring, receivership, recidivism rate) and approval levels.
- Re-marketing and disposition effort.
- Process of multiple tracking and monitoring of claim filing, bankruptcy status and repayment plans.
- Legal cost and attorney network management.
- Assessment of staff caseload and productivity (i.e., cost-to-service, file-per-employee ratio).
- Loan severity assessment and prioritization.
- Property inspection and valuation procedures and timelines.
- Significant changes (past or planned) in procedures or emphasis regarding workout strategies or timelines.

Workouts and Resolutions

- Asset manager experience, product-specific expertise and local market knowledge.
- Policies regarding loan modifications, deferrals, extensions, capitalization, payment methods or payment holidays.
- Resolution data review (i.e., performance statistics, actual delinquency statistics, re-performance rate, recovery proceeds and losses).
- Tracking of bankruptcy and foreclosure.

Power of Sale and Foreclosure Management

- Foreclosure process and initiation.
- Property management (i.e., preservation, evaluation, maintenance, repairs and inspections).
- Percentage of foreclosure sold through a third party.
- Eviction policies.
- Broker selection and monitoring.
- Expense monitoring.
- Recovery rates.
- Insurance claim processing.

Real Estate Owned

- Number and dollar of loans in portfolio.
- Broker selection and pricing strategy.
- Property evaluation (condition and value).
- Property management.
- Liquidation methods and marketing plan and strategy for disposition.
- Deficiency and judgment policy.
- Recovery rates.

Outsourcing and Sub-Servicing Arrangements

- Name and number of outsourced functions.
- Sub-servicing functions done by third party.
- Quality control process for outsource and Sub-Servicing Arrangements.

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