

## PNC Consumer Services, a Division of PNC Bank N.A.

### MOODY'S AUTHOR:

Francis Wissman  
AVP - Analyst  
(212) 553-2808  
[Francis.Wissman@moodys.com](mailto:Francis.Wissman@moodys.com)

### MOODY'S CONTACT:

William Fricke  
Vice President/Senior Credit Officer  
(212) 553-4586  
[William.Fricke@moodys.com](mailto:William.Fricke@moodys.com)

### MOODY'S CLIENT SERVICES:

New York +1-212-553-1653  
Tokyo +81-3-5408-4100  
London +44-20-7772-54  
Hong Kong +852-3551-3077  
Sydney +61-2-9270-810  
Singapore +65-6398-8308

### WEBSITE:

[www.moodys.com](http://www.moodys.com)

### COMPANY CONTACTS:

Neal J. Heiss  
SVP and General Manager  
(412) 762-8197  
[neal.heiss@pnc.com](mailto:neal.heiss@pnc.com)

James C. DeFoggia  
SVP and President of PNC Consumer Services  
(412) 768-3518  
[james.defoggia@pnc.com](mailto:james.defoggia@pnc.com)

### COMPANY WEBSITE:

[www.pnccs.com](http://www.pnccs.com)

### RATINGS

Primary Servicer of Home Equity Residential Mortgage Loans	<b>SQ2+</b>
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### RELATED RATINGS

PNC Bank N.A.	<b>A1</b>
PNC Financial Services Group, Inc.	<b>A3</b>

**Rating Publication Date: May 15, 2009**

### SUMMARY OPINION

Moody's Investors Service has affirmed PNC Bank N.A.'s (PNC) servicer quality (SQ) rating of **SQ2+** as a Primary Servicer of home equity residential mortgage loans. PNC provides consumer lending services through its PNC Consumer Services (PNCCS) business unit. Moody's rating is based on the company's strong collection abilities, average loss mitigation results and strong servicing stability.

PNCCS services primarily high-quality first and second lien home equity lines of credit (HELOCs) and first and second lien home equity installment loans (HEILs). Moody's rating applies only to 2nd lien HELOCs and HEIL's serviced by PNCCS.

As of March 31, 2009, PNCCS servicing portfolio totaled 103,630 loans for an unpaid principal balance (UPB) of approximately \$5 billion. Subordinate liens comprised approximately 75% of total accounts and 65% of the outstanding balance. PNCCS's third-party servicing represents approximately 20% of the company's total servicing portfolio. PNCCS offers both origination and servicing to its third party clients.

Moody's views PNCCS collection abilities as strong. PNCCS demonstrated solid default and collection call center metrics. Since our last review, the company updated their predictive dialer system used to conduct calling campaigns and calls are prioritized using a behavioral scoring model. In addition, the collections group operates in a blended call environment in which both inbound and outbound calls are handled by the same team of collectors.

Moody's views the company's loss mitigation results to be average. Although Moody's observed deterioration in the loss mitigation metrics over the review period, PNCCS has enhanced their servicing system to track

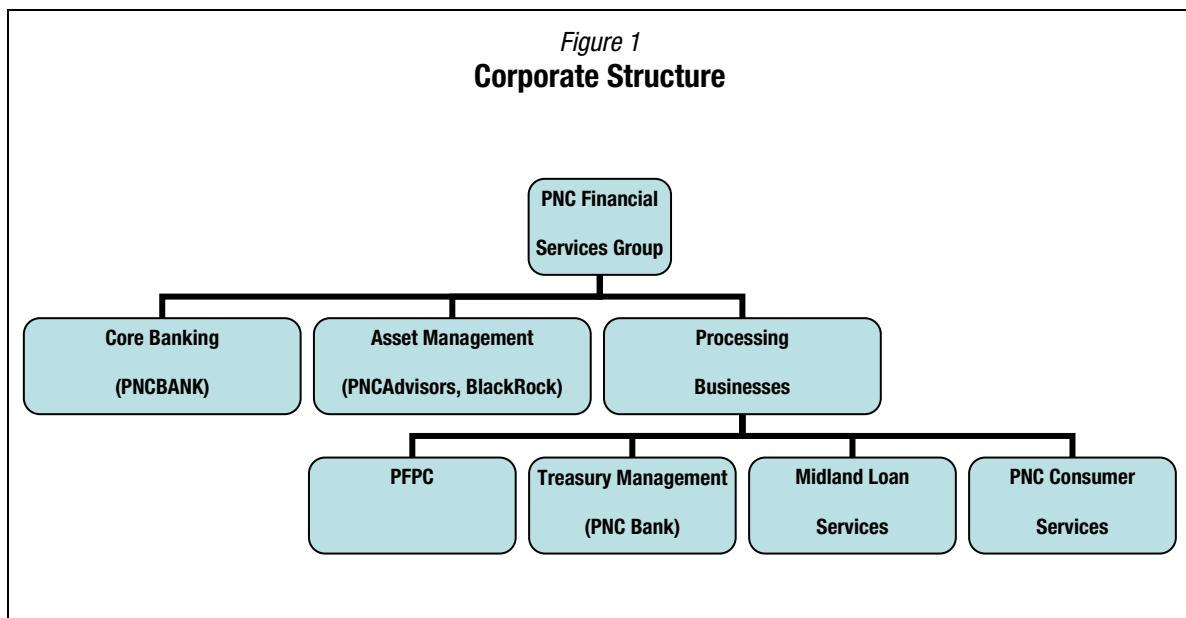


severities and better manage credit losses. In addition, PNCCS has restructured their default operation to utilize a tiered approach which should allow greater focus on assisting borrowers.

Moody’s views PNCCS as strong in servicing stability. PNC Consumer Services Group is a wholly-owned subsidiary of PNC Financial Services Group, a publicly-traded company which holds PNC Bank, among other assets. PNC Financial Services Group, Inc. and PNC Bank have issuer ratings of **A3** and **A1**, respectively. The company has a comprehensive disaster recovery plan and performs periodic testing of internal controls in addition to audit reviews. Servicing operations for PNC Consumer Services are located in Pittsburgh, Pennsylvania.

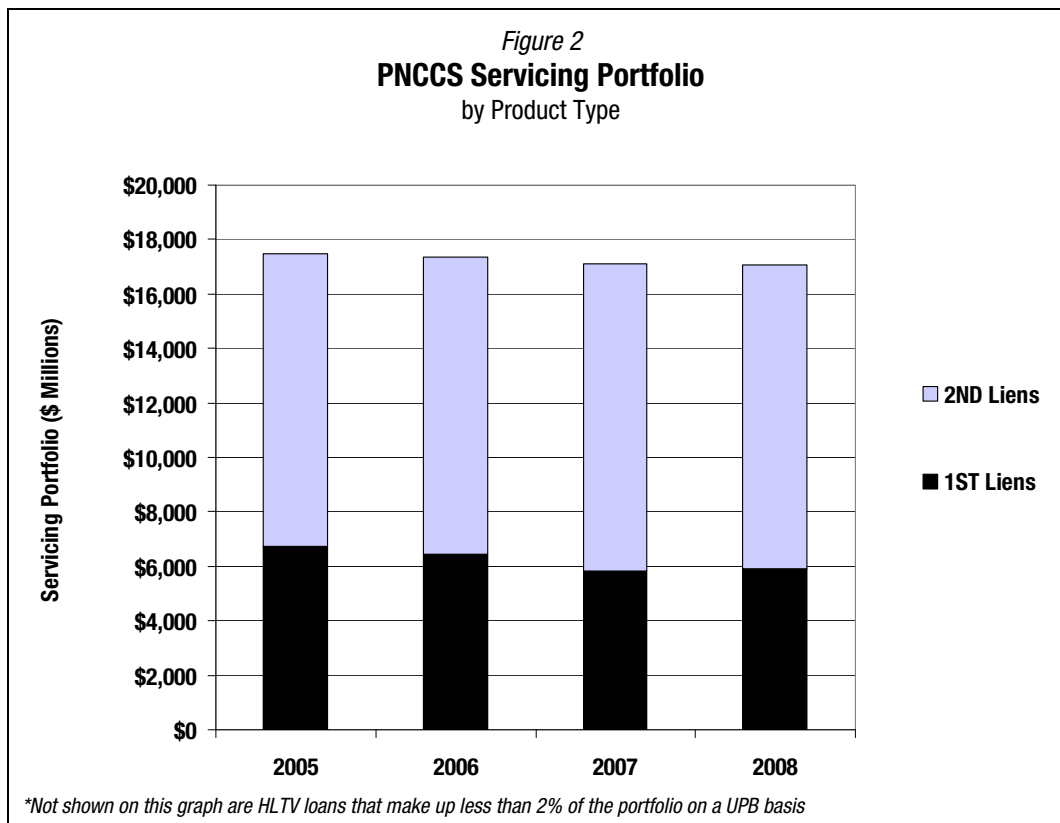
**COMPANY BACKGROUND**

The PNCCS servicing operation was established in November 1992 as part of the company’s Regional Community Bank division. In 1997, PNCCS began to offer third-party servicing. PNCCS offers both origination and servicing to its third party clients. In October 2008, PNC announced the acquisition of National City Corporation; the acquisition strengthens PNC’s market position in western Pennsylvania and Ohio and gains entry into new markets in the Midwest.



**SERVICING PORTFOLIO**

The company services a variety of secured consumer loans, including HELOCs, HEILs and a variety of auto and boat loans. As of December 31, 2008, PNCCS servicing portfolio totaled 374,204 loans for an unpaid principal balance (UPB) of approximately \$17 billion. (See Figure 2) The company also services both secured and unsecured business loans of up to \$500,000. The servicing operations for PNCCS are located in Pittsburgh, Pennsylvania. PNCCS utilizes the Advanced Consumer Lending System (ACLS) as its main servicing platform.



## SERVICING ABILITY

### Collections Management

- Updated predictive dialer
- Extended collection hours
- Solid call center metrics

Moody's views PNCCS' collection abilities as strong. PNCCS' collection operations management team has an average of 25 years experience in the mortgage banking industry. At the time of the review, the collections operations consisted of 90 full time employees. PNCCS anticipates increasing the default staffing levels in 2009 by adding an additional 30 full time employees. The collection operations group was restructured in 2009 to a tiered approach. The payment assistance group manages the early-stage collections from 1-59 days delinquent. The customer advocacy group manages both the late-stage collections from 60+ days delinquent and reviews loans for short term loss mitigation solutions, as early as the 35<sup>th</sup> day of delinquency.

PNCCS handles its inbound and outbound collection calls in a blended environment, allowing for more efficient use of the collection staff. Complex inbound calls are handled by more experienced collectors, while newly-hired collectors handle the more complex calls only after two to-four months of tenure with the company. PNCCS also calls borrowers cell phones via a manual dialing process to increase contact rates. Moody's positively views innovative communication methods that may increase the likelihood of establishing successful contact with borrowers.

During the review period, PNCCS extended the collection unit hours of operation to improve contact rates and reduce delinquencies. At the time of the review the hours of operations with the collection unit were 8:00 a.m. – 11:30 p.m. (Eastern Time) Monday through Thursday, 8:00 a.m. – 5:00 p.m. on Friday, 8:00 a.m. – 3:30 p.m. Saturday and 3:00 p.m. – 9:00 p.m. on Sunday. Moody's positively views the increase in collection operations hours to improve borrower contact rates.

PNCCS utilizes a series of behavioural scorecards in the collection process to assess the risks associated with each loan. The risk group runs the scorecards through STRATA, a proprietary decision engine, within the PNCCS servicing application. When an account becomes past due, STRATA provides a risk score to the account that assists the portfolio management group in determining the appropriate collection strategy. Calls may be initiated as early as the first day of delinquency or as late as the 20<sup>th</sup> day, of delinquency, depending on the score derived through STRATA. Delinquency performance is compared to monthly reports to determine if any adjustments are necessary to the collection strategy and dialer campaigns. A dedicated dialer strategist works with the risk management and collections manager to track the performance of the portfolio and to determine the effectiveness of calling campaigns. The portfolio management group also works in conjunction with the risk management team to review the effectiveness of the scorecards every six months.

PNCCS records 100% of both its inbound and outbound collection calls. The call recording system captures the conversation and the screens accessed throughout the conversation and can be matched to comment reports pulled from the collections management system for review. Recordings are stored for 90 days unless there is a complaint, in which case the recording is stored until the complaint has been resolved. Moody's views the use of call recording technology as an important feature that helps to ensure a high quality of customer interaction.

Collectors are eligible for incentive compensation based on dollars collected, promises kept and referrals to the loss mitigation. Moody's positively views incentive compensation plans to encourage a high level of customer service.

Among the metrics that Moody's uses to evaluate a servicer's collection abilities are various roll-rate analyses over different time horizons. *Figure 3* shows one such analysis over a 12-month period for loans that were two to five years seasoned at the beginning of the period. The loans were classified at the outset of a 12-month static pool period in three delinquency categories, current to 29 days delinquent, 30 days delinquent and 60 days delinquent. The delinquency state of these loans was then measured again at the end of the static pool period. When compared to other servicers that Moody's rates, PNCCS exhibited strong performance in preventing the deterioration of home equity loans to a worse delinquency status in the early stages of delinquency.

*Figure 3*

**COLLECTION MANAGEMENT STATIC POOL PERFORMANCE**  
*Static Pool Period: October 31, 2007 – October 31, 2008*

Status on Start Date	Current to 29 Days Delinquent	30 Days Delinquent	60 Days Delinquent		
Status on End Date	Worse	Better	Worse	Better	Worse
Home Equity Loans	2.8%	54.3%	41.8%	31.5%	65.6%

## Loss Mitigation

- **NPV test utilized to assess severity**
- **Innovative letter campaigns**
- **Decline in loss mitigation performance metrics**

Moody's views PNCCS' loss mitigation performance as average. In 2009, PNCCS restructured the default operations to a tiered approach. The Customer Advocacy team offers borrowers short term workout solutions resolving the delinquency in twenty four months or less. The Debt Resolution group is utilized when a short term workout solution is not a viable option and a long term solution needs to be implemented.

PNCCS determines the optimal default resolution based on analysis of the borrower's financial situation, intentions, as well as loan characteristics such as lien position, collateral value, and outstanding balance. In addition, the Debt Reclamation group utilizes an NPV test to assist with the workout decision.

PNCCS proactively reaches out to troubled borrowers through calling and innovative letter campaigns to improve contact rates, the company sends loss mitigation letters via overnight mail for no contact borrowers. PNCCS has taken a proactive approach to loss mitigation by offering modifications early in the delinquency timeline with its customer advocacy team. A separate skip tracing group attempts to get contact information for "no contact" delinquent borrowers. If PNCCS is unable to contact a borrower, the company also utilizes a field-chase service to attempt contact. PNCCS attempts to determine the status of an associated first lien loan via the borrower or credit bureau.

HEILs and HELOC's are charged off in the month they become 120 and 180 days delinquent, respectively. Once an account is charged off, PNCCS's internal recovery group will attempt to collect on the loan 6-9 months before sending it to an external agency for collections.

### Loss Mitigation Metrics

Among the metrics Moody's uses to evaluate a servicer's loss mitigation skills is the servicer's performance in curing and re-performing loans that are seriously delinquent. Moody's also reviews the servicer's loss mitigation efforts including third-party sales, short sales, and deeds-in-lieu. *Figure 4* shows a static pool analysis of loans that were two-to-five years seasoned and were either seriously delinquent, on a modification or repayment plan, or in foreclosure as of October 2007 and their status a year later. PNCCS' loss mitigation performance declined from the prior year's assessment. PNCCS was able to cure 17.9% of the loans a decline from the 34.5% cure rate in the prior year.

*Figure 4*

**LOSS MITIGATION STATIC POOL PERFORMANCE**

*Status as of 11/1/2008 of Loans that were 90+ Days Delinquent as of 11/1/2007*

	<b>Total Cure<sup>[1]</sup></b>	<b>Cash Flowing<sup>[2]</sup></b>	<b>In Limbo<sup>[3]</sup></b>	<b>Loss Mitigation<sup>[4]</sup></b>	<b>Loss with No Loss Mitigation<sup>[5]</sup></b>
Home Equity Loans	17.9%	5.0%	18.8%	58.3%	Home Equity Loans

[1] Includes "current" and "paid in full"

[2] Includes "minor delinquency", "modification" and "re-performing forbearance"

[3] Includes "90+ day delinquency," "foreclosure,"

[4] Includes "REO sold from foreclosure," "in REO from foreclosure" and "charge-offs"

A foreclosure specialist typically refers loans for foreclosure between the 90 and 120 days of delinquency, and a foreclosure manager approves each referral. Broker price opinion ("BPO") are ordered pre-foreclosure and a subsequent equity analyses is performed. After a loan is referred to foreclosure, PNCCS monitors the attorney to ensure all steps in the foreclosure process are performed in a timely and cost effective manner.

Once the foreclosure sale is completed, properties are transferred to the realty services department and a full appraisal is obtained. Properties are analyzed individual to determine the best repair and listing strategy. The REO inventory is monitored for timely disposal at the optimal price.

## **BORROWER INTERACTION**

- **Speech analytics tool for enhanced Quality Control monitoring**
- **Solid call center metrics**
- **Dedicated central customer assistance team handles escalated calls**

### **Customer Service**

PNCCS exhibits a high level of customer service in its loan servicing operations. Customer service is performed through PNC Bank's firm-wide customer service group, the National Financial Services Center. PNCCS changed their customer service call center hours from 6:00 a.m. to 12:00 p.m. Eastern and no longer provide 24/7 live customer service due to the limited number of calls received during the overnight hours. PNCCS' call center metrics were solid with an abandonment rate of 1% and average speed of answer of 17 seconds for the review period.

The customer service agents who provide support for home equity, auto, and personal loans are highly-trained and tenured group of specialists. A centralized customer assistance team (CCAT) supports the customer service agents in resolving the more complex issues that may require additional research and handling escalated and regulatory issues, respectively. PNCCS also has a team of Spanish-speaking loan specialists to assist borrowers.

Customer service agents are formally monitored at a rate of four calls per month by a centralized monitoring team to ensure a non-biased assessment. A scorecard is utilized to assess the quality of the monitored calls and is factored into an incentive program for customer service agents. Customer service agents also receive side-by-side training and are informally reviewed by their manager six times per month. In addition, PNCCS implemented a speech analytics tool for better quality control monitoring and now records 100% of its customer service calls and 20% that include an analysis of screen shots as well. Moody's views call recording technology as an important feature that helps to ensure a high quality of customer interaction.

### **Payment Processing**

PNCCS operates an internal lockbox. Checks received at the lockbox are imaged and can be accessed by customer service agents from their desktops as needed. Electronically-transmitted payments are posted on the day of receipt. Checks that are received before 3:00 p.m. are posted on the same day, while those received after 3:00 p.m. are posted the next day but effective-dated to the receipt date.

### **Document Management**

PNCCS exhibits solid document management capabilities in its loan servicing operations. The company safeguards legal documents on-site in a secure area accessible only by document control personnel. All files are imaged using the FileNet imaging system. Customer service representatives have direct access to imaged files, while other departments can request retrieval from the document control area. The use of bar-coding to index imaged documents facilitates document retrieval. Moody's positively views PNCCS' document management technology to facilitate document retrieval, verification and dispute resolution.

## **SERVICING STABILITY**

- **Consolidation of National City Corporation**
- **Tenured senior management team**
- **Comprehensive disaster recovery program**

### ***Financial Stability***

Moody's views PNCCS's servicing stability as strong. PNCCS is a division of PNC Bank, which has an issuer rating **A1**. The firm's ultimate parent, PNC Financial Services Group, Inc., is a publicly-traded company (NYSE: PNC) with an issuer rating of **A3**.

As of December 31, 2008, PNC Financial Services Group, Inc. had total assets of approximately \$291 billion and shareholders' equity of approximately \$13 billion, compared to approximate \$138 billion in assets and approximately \$5 billion in shareholders' equity a year earlier. Net income declined to approximately \$882 million for 2008 from approximately \$1.5 billion for 2007, due largely to the acquisition of National City Corporation. During 2008, the company benefited from U.S. government financial involvement including raising \$7.6 billion in capital for the sale of preferred stock to the U.S. department of Treasury under the Troubled Asset Relief Program (TARP). The company utilized the TARP funds to facilitate the acquisition of National City Corporation.

### ***Legal, Compliance and Oversight***

PNCCS has solid internal audit and corporate compliance processes. The corporate internal audit department of PNC Bank, which is independent of PNCCS, is responsible for auditing the servicing function. The audit function is designed to evaluate compliance with policies and procedures and address the soundness and adequacy of the company's accounting and operating controls. Internal audit results are reported to management and to PNC Bank's board of directors.

PNC Bank also has a corporate compliance department, independent of PNCCS, that assists management in establishing policies and procedures designed to ensure compliance with applicable internal policies and external regulations. The compliance unit is also responsible for monitoring legal and regulatory changes and working with PNCCS to address these changes.

PNCCS has solid vendor management policies and procedures. PNCCS manages its vendors by conducting periodic site visits and by maintaining and reviewing vendor files. PNCCS assigns rankings to its vendors according to their relevance to PNCCS' business. The ranking system determines the frequency of on-site visits and the comprehensiveness of vendor file maintenance. PNCCS uses scorecards to evaluate BPO vendors as well as attorneys used in the foreclosure process.

### ***Management and Staffing***

PNCCS' senior management averaged 25 years of industry experience and 17 years of tenure with the company. At the time of the review, PNCCS' overall employee turnover rate for its servicing staff is 6%, which is lower than most servicers rated by Moody's.

PNC Bank N.A. has transitioned from a decentralized to a centralized training organization, driven by the desire for efficiency and consistency and with the intention of helping employees to transition more easily to other positions and departments within PNC Bank. New hires are required to attend a new employee orientation program that covers PNCCS' code of conduct, compliance guidelines, bank policies and procedures, and an overview of the consumer lending business. Upon completion of the program, new hires also take additional job-specific training classes.

For existing employees, PNCCS provides refresher and remedial courses. Classes are also offered in conjunction with system enhancements and client acquisitions as needed. Additionally, leadership and supervisory/management development courses are offered through PNC University, a corporate-wide training platform.

## **Technology and Disaster Recovery**

PNCCS utilizes The Advanced Consumer Lending System (ACLS) as its main servicing system. For delinquent accounts, PNCCS employs the Collections Management System and the Recovery Management System for REO and charged-off accounts. In 2008, PNCCS updated the STRATA advanced decision system to assist in determining calling campaigns.

The STRATA decision engine interfaces quarterly with ACLS to update behavioral scores on the entire portfolio. FICO scores are also updated quarterly, and STRATA re-scores delinquent accounts to determine the appropriate collection calling strategy.

PNCCS utilizes an auto-dialer for its outbound calls. For inbound calls, "Whisper tone" technology is used to provide information to agents regarding the portfolio to which an account belongs. The representatives can therefore greet borrowers accordingly, achieving a level of "private label" servicing.

PNCCS has two servicing centers in Pittsburgh that serve as alternative back-up sites. As both centers are in Pittsburgh, PNCCS is still subject to the risk of a disaster affecting both centers, although the National City acquisition will provide PNCCS with additional back up site capabilities. PNCCS also uses PENCRO Associates, Inc., a third-party vendor, as a back-up for making collection calls in the event of a disaster.

SunGard Recovery Services provides hot back-up services for PNCCS. Critical applications are backed up daily and sent to a secure offsite storage facility. Tapes can be retrieved from the facility within three working hours. PNCCS has a risk-weighted rating system to ensure that the most critical applications and services are recovered first. PNCCS takes part in annual enterprise systems test, and each operating unit conducts a business resiliency test at least once per year.

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