

FITCH AFFIRMS PRELIOS CREDIT SERVICING'S SPECIAL SERVICER RATINGS

Fitch Ratings-London-12 October 2018: Fitch Ratings has affirmed Prelios Credit Servicing SpA's (PRECS) Residential and Commercial Special Servicer Ratings at 'RSS2+' and 'CSS2+', respectively.

During the review period, Lavaredo SpA (an asset management company indirectly owned by investment funds) completed the acquisition of 100% of Prelios Group's shares. During this period the servicer also relocated to a new office. In Fitch's view, there were no operational disruptions to the servicer's business following the change in the group's ownership and office move. The senior management team is unchanged, with reported average industry experience, company and role tenure comparing well with that of Fitch-rated Italian servicers.

Average industry experience and company tenure across middle management and operational staff also compare well with Italian rated peers. Since 2016, PRECS has focused on implementing staff retention schemes and in 2017, it introduced a training academy for new and existing employees. The effectiveness of these initiatives is evident from the reduction in staff turnover over the past two years, which is now marginally above the Italian rated-peer average. In Fitch's view, PRECS has a sound incentive scheme, which is comparable with peers in the '2' rating category.

Since October 2013, PRECS has consistently met its objectives and grown its business. Year-on-year, the servicer's secured portfolio under management increased by almost a third in value and 60% by loan number, and is comparable with most peers in the '2' rating category. The growth follows the company's focus on business relationship, and in Fitch's view, was well managed through appropriate new hires.

Effective cost controls and new mandates led to improving financial indicators. In 2017, PRECS reported its first profits since 2008 and in Fitch's view, the positive trend is expected to continue. Fitch notes that in line with its criteria, servicers in the '1' rating category would report extended history of financial stability. Income streams are across different clients and ancillary services and with more new mandates in the pipeline, business sustainability in the medium term is ensured.

Fitch views PRECS's boarding process as robust. It includes detailed quality checks and strict boarding timelines, comparable with peers rated '2+' and above. Cash processing activities and the controls around on-site manual records are less automated than at peers in the '1' rating category. The average time to match payments to accounts and resolve bounced/unmatched payments remains in line with that reported by most peers in the market; while frequency of bank accounts reconciliations is lower than the same peers.

PRECS uses a mix of judicial and extra-judicial loan work-out methods and reported good average recovery rates across outstanding portfolios. The average reported timeline to foreclose is longer than that reported by peers rated '2+' and above. However, Fitch understands that the timing reported by PRECS is based on conservative historical data, and has not been updated to include data from more recent sales. In Fitch's view, the servicer's third-party management processes are thorough, with tight controls over decision-making and regular performance benchmarking.

In 2017, PRECS was subject to Bank of Italy inspection, which resulted in no findings. The servicer also introduced a risk appetite framework, widening the scope of risks monitored and standardising the risk-monitoring processes across the group's subsidiaries. PRECS had two live business continuity incidents, which resulted in no findings, supporting Fitch's view that the

servicer's information and communication technology governance is robust. The annual disaster recovery test was also completed with no findings.

As of 31 December 2017, PRECS's secured portfolio comprised 8,698 loans (December 2016: 5,323), with a gross book value of EUR2.5 billion (December 2016: EUR1.9 billion). The securitised portfolios represented 92% of the secured book by value (December 2016: 77%).

This rating action commentary is based on information provided to Fitch as of end-December 2017, unless stated otherwise.

The servicer rating is based on the methodology described in 'Criteria for Rating Loan Servicers' dated 23 February 2017, which includes a comparison of similar Italian Fitch-rated servicers as part of the review process.

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Applicable Criteria

Criteria for Rating Loan Servicers (pub. 23 Feb 2017)

<https://www.fitchratings.com/site/re/894073>

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