

FITCH AFFIRMS PRECS' RESIDENTIAL AND COMMERCIAL SPECIAL SERVICER RATINGS

Fitch Ratings-London-19 June 2017: Fitch Ratings has affirmed Prelios Credit Servicing SpA's (PRECS) Italian Residential and Commercial Mortgage Special Servicer Ratings at 'RSS2+' and 'CSS2+', respectively.

The ratings reflect PRECS' continued effective use of a variety of judicial and out-of-court work-out options. Legal timelines remain in line with the average seen across highly rated peers. PRECS demonstrates a good level of third-party oversight, through the review of qualitative and quantitative measures, in line with peers.

The timeliness and control of PRECS' loan administration activities, such as loan boarding, cash management, and investor reporting are also largely in line with highly rated Italian servicers. However, average time to resolve bounced and/or unmatched payments is longer than average at peers and PRECS does not manage client money accounts, so Fitch cannot assess and compare its capabilities in this area. The agency recognises PRECS only services securitised portfolios, and so it is not permitted to manage such accounts. Fitch also notes that PRECS has less experience over the past three years of boarding portfolios composed of a large number of loans than highly rated peers.

The '2+' ratings takes into account that PRECS's technology infrastructure is robust. The servicing platform provides flexible reporting capabilities, an effective diary management system, and system driven controls of authority processes and loan level activities. Appropriate system support and development resources are in place at both servicer and group level, and there are robust security protocols. Fitch also takes into consideration that PRECS has comprehensive business continuity and disaster recovery plans in place, with annual testing and no material findings in 2016. Overall in Fitch's view PRECS system is above market standards, but not as advanced as highly rated Italian servicers.

The ratings reflect PRECS' robust governance. Fitch has reviewed a sample set of policies and procedures, which cover all key servicing areas of the business and include a clear version control. Fitch understands that the full document suite has been reviewed and updated where necessary over the past two years.

The servicer operates a three-line of defence risk management framework, which is in line with industry standards and includes significant quality control checks on the first-line activities. The agency has reviewed the 2016 internal audit reports, which are thorough and demonstrate no significant findings. There is evidence of clear resolution and escalation procedures. Structured internal audits are complemented with an automated continuous monitoring tool for cash management activities. Such continuous monitoring is not widely seen across Italian rated servicers and in Fitch's view, it provides an additional layer of control around a high risk servicing activity.

The ratings also take into account PRECS' stability at the strategic level over the medium term, with no turnover across the senior management team. The servicer has successfully completed its 2013-2016 corporate plan, resulting in diversified revenue streams and a reduced cost base. This is reflected in PRECS' financial trend, which shows continued improvement over the past three years, although net results remain negative. In Fitch's view, PRECS has not yet demonstrated the long-term corporate stability and financial sustainability of its highly rated peers.

The corporate plan included a review of the training and development framework, which is complete. In Fitch's view, the training plans now in place demonstrate a good mixture of functional, technical and soft skills courses. Average training hours for new and existing staff have increased year-on-year but remain below the average across Italian Fitch-rated servicers. Rotation opportunities allow for staff to move across the business, increasing operational flexibility. However, the annualised staff turnover rate remains high compared with peers.

As of 31 December 2016, PRECS managed a portfolio of NPLs comprising 15,128 loans, with a gross book value of EUR3.21 billion (December 2015: EUR2.82 billion), of which 5,323 loans were secured and 9,805 were unsecured. The securitised portfolios represented 85.7% of the total book under management by value (December 2015: 52%).

This rating action commentary is based on information provided to Fitch as of end-December 2016, 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 rated servicers as part of the review process.

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