



RATING ACTION COMMENTARY

Fitch Upgrades Prelios' Special Servicer Ratings

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Fitch Ratings - London - 10 Jun 2021: Fitch Ratings has upgraded Prelios Credit Servicing S.p.A.'s Residential and Commercial Special Servicer Ratings to 'RSS1-' and 'CSS1-' from 'RSS2+' and 'CSS2+', respectively.

The upgrade of Prelios reflects enhancements to their loan administration and their ability to deliver on their business objectives i.e. the set-up of the unlikely-to-pay business, UTP. The advancements made over the review period, coupled with Prelios' robust risk governance and technology frameworks, are in line with Fitch's definition of 'highest level of proficiency' (i.e. '1' rating category) under its Criteria for Rating Loan Servicers.

Prelios manages non-performing loans (NPL) and UTP assets, with some servicing activities outsourced to its sister company Prelios Credit Solutions S.p.A. (PreCSO). The activities performed by PreCSO are included in the scope of Prelios' rating, as the sister company is organisationally and functionally integrated within the same group.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
Prelios Credit Servicing S.p.A. (formerly Pirelli Real Estate Credit Servicing)			
● ● CMBS Special Servicer	CSS1-	Upgrade	CSS2+
● ● RMBS Special Servicer	RSS1-	Upgrade	RSS2+

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KEY RATING DRIVERS

Prelios began special servicing in 1987 and has extensive special-servicing experience across various asset types. Assets under management increased yoy by 15% to EUR2.9 billion and 34% to EUR11.5 billion at end-2020 for residential- and commercial-backed loans, respectively. The portfolio remains well-spread across Italy.

The servicer has achieved its goal of growing its UTP business with a portfolio of EUR7.8 billion at end-2020. The UTP portfolio is managed by a dedicated business function, which was established in 2019. As such, the company's experience is commensurate with the '1' rating category.

With the growth of the portfolio Prelios has made some enhancements to its loan administration processes and controls, which are deemed sound. At the previous rating action in May 2020, payment processing was performed manually. Since then Prelios has increasingly used a semantic identification tool, enriched with machine-learning, to ease the cash-allocation activities. The servicer has a dedicated reporting department, which is increasingly using automated tools compared with our previous review. During 2020 no reports were delayed, compared with five reports at the previous review.

Workout processes are commensurate with the '1' rating category and are, in Fitch's view, well-defined. As a result of extensive pre-signing due diligence, Prelios will commence workout procedures on boarded loans promptly. Business plans are automatically generated in the servicing system and are based, among other factors, on the loan judicial procedure phase and on Prelios' expected costs and revenues. Prelios has set clear procedures for secured loan shortfall management, which include gathering data on borrower and guarantor income, as well as on disposable assets. Although not yet fully automated, all records are stored in the servicing system.

Prelios' senior and middle management have significant experience in servicing, banking and law on average at 25 and 19 years, respectively. Company tenure has decreased to nine and six years, respectively, from 11 and 10 due to new managers joining the team. Some enhancements were made to training, with a new HR platform allowing for training monitoring and direct access to online courses. Annual training hours are on average about 20 per employee.

Risk governance is strong and commensurate with the '1' rating category. Prelios' control framework follows the three lines of defence, which is industry best practice. The first line is at operational level and includes system-driven process controls using standard dashboards. The second line includes risk management, compliance and anti-money laundering, carried out by a dedicated function. Prelios' internal audit function - third line of defence - reports to the board and has gone through a full audit cycle. Findings from the most recent audits have so far been resolved in a timely manner.

Prelios has sound IT systems, which were recently enhanced to include UTP management suites. Other recent enhancements include the adoption of artificial intelligence in areas such as cash management, KPI monitoring and the chat-bot function, which provides support to loan managers. Detailed disaster recovery and business continuity plans are in place - last tested in December 2020 - and proved to be effective during the pandemic.

The rating action commentary is based on information provided to Fitch as at end-2020, unless stated otherwise.

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Criteria for Rating Loan Servicers \(pub. 07 Feb 2020\)](#)**ADDITIONAL DISCLOSURES**[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Prelios Credit Servicing S.p.A. -

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