



RATING ACTION COMMENTARY

Fitch Ratings Affirms Prelios Credit Servicing S.p.A. Italian Special Servicer Ratings

Fri 22 May, 2020 - 1:37 PM ET

Fitch Ratings - London - 22 May 2020: Fitch Ratings has affirmed Prelios Credit Servicing S.p.A.'s Residential and Commercial Special Servicer Ratings at 'RSS2+' and 'CSS2+', respectively.

RATING ACTIONS

ENTITY/DEBT	RATING
Prelios Credit Servicing S.p.A.	
<ul style="list-style-type: none"> • CMBS Special Servicer 	CSS2+ Affirmed

ENTITY/DEBT	RATING
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● ● RMBS Special Servicer	RSS2+ Affirmed
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KEY RATING DRIVERS

Prelios Credit Servicing began special servicing commercial and residential mortgages in 1987 and has extensive special servicing experience across various asset types. Assets under management have increased steadily year-on-year, reaching EUR20 billion in March 2019.

On 1 April 2019 Prelios Credit Servicing entered in an agreement with Prelios Credit Solutions S.p.A, which allows them to mandate specific activities including recovery collections, foreclosure and bankruptcy management to Prelios Credit Solutions. The agreement implies that Prelios Credit Servicing's economic performance is no longer entirely linked to collection fees and the relative variable and fixed costs (such as expenses related to maintaining a real estate network, managing external lawyers and employing loan managers), and performance is instead dependent on master servicing and base fees, which are generally more stable.

Prelios S.p.A. (the group) provides key support functions, including IT, HR, treasury and real estate services. With the group's core business being Italian real estate and alternative asset management, Prelios Credit Servicing is operationally integral to Prelios S.p.A.

The audited financial accounts for 2016-2018 show a profitable company. Fitch considers the servicer's financial condition to be viable in the short to medium term.

In Fitch's view, Prelios Credit Servicing's boarding process is above average. It includes detailed quality checks and strict boarding timelines, and is overall commensurate with the '2' rating category. Although Prelios Credit Servicing manages non-performing loans, bank reconciliations are not done electronically, while cash-processing activities and controls are less automated than those of peers in the '1' rating category.

There is a dedicated reporting department and detailed automated reporting is available; however, five reports were issued between two and 16 days late in the 12 months to the cut-off date, making the reporting processes commensurate with the '3' rating category. However, the delay in reporting occurred on new mandates and was caused by the late delivery of data by external parties.

Prelios Credit Servicing uses a mix of judicial and extra-judicial methods when working out loans. Business plans are generated and monitored using the servicing system. They contain thorough loan and borrower history, including the circumstances surrounding the default, as well as property status and valuations. The system generates automated alerts where the business plan requirements have not been met. In addition, exception reports highlight any illogical entries that have been made and are reviewed by the analysts and portfolio managers.

The centralised procurement function at group level manages vendor oversight. The third-party management processes are proficient and include an assessment of compliance with the contractual requirements; however, the process is less advanced than those of servicers in the '1' rating category. Servicers in the '1' rating category would typically organise monthly meetings and benchmark all of their suppliers.

Prelios Credit Servicing operates a three-lines-of-defence risk-management framework. The first line comprises quality checks of the operational team's activities, which are completed by the business analysts, as well as embedded automated controls within the servicing systems. The risk management, compliance and anti-money laundering function represents the second line of defence and carries out quarterly reviews of the business analysts' and AML monitoring findings. The risk-management function works jointly with the risk owners within the operational teams to define the risk management policies, develop controls and set up the risk mapping.

The independent risk-based internal audit function, which was set up in 2007, forms the third line of defence. There were no high-risk findings from audits during the review period; however, there were some medium- and low-risk ones. At the time of the review all findings had been resolved. Prelios S.p.A. has developed a new automated tool, known as GAIA - Gestioni Azioni Internal Audit, which is used to monitor the progress of the remedial actions in relation to any auditing findings. The system records the action plan, the owner and the agreed timelines. Each action plan

closed by the audited functions is reviewed by the Internal Audit function, who will confirm the appropriateness of the remedial actions implemented by the business.

Prelios Credit Servicing's servicing platforms are highly automated and well integrated with the key system. The systems have embedded controls, limiting activity that does not comply with the delegated authority matrix and the defined business plans. Prelios Credit Servicing has good business continuity and disaster-recovery planning, which enabled effective management of the coronavirus pandemic. The servicer has appropriate cybersecurity and information security processes, which include regular penetration testing and vulnerability assessments.

At end-March 2019, Prelios Credit Servicing's residential servicing portfolio had a gross book value of EUR2.8 billion (end-2017: EUR638 million) with 32,022 loans (end-2017: 5,971 loans). The commercial loans portfolio had a gross book value of EUR9.5 billion (end-2017: EUR1.8 billion) with 43,224 loans (end-2017: 6,935 loans). The other secured loan portfolio's gross book value was EUR2.9 billion (end-2017: EUR433 million) with 11,586 accounts (end-2017: 1,818 accounts). The unsecured debt portfolio stood at EUR5 billion (end-2017: EUR1.6 billion) comprising 31,481 accounts (end-2017: 6,265 accounts).

The rating action commentary is based on information provided to Fitch as of end-March 2019, unless stated otherwise.

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APPLICABLE CRITERIA

[Criteria for Rating Loan Servicers \(pub. 07 Feb 2020\)](#)

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Prelios Credit Servicing S.p.A. -

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