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Servicer Evaluation: Prelios Credit Servicing SpA

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Ranking Overview

Servicing category	Ranking	Management and organization subranking	Loan administration subranking	Outlook
Residential loan master servicer	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Residential loan special servicer	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Commercial loan master servicer	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Commercial loan special servicer	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Unsecured credits master servicer	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Financial position	Insufficient	N/A	N/A	N/A

N/A--Not applicable.

Major Ranking Factors

- Prelios Credit Servicing SpA (PCS) special servicing portfolio dropped to €2 billion in 2014 from €4.1 billion at the end of 2013, following the end of its joint venture with Credit Agricole and the transfer of the Credit Agricole portfolio. PCS has a busy pipeline and is confident it can increase its special servicing business by the end of 2015. PCS' master servicing portfolio remained stable between 2013 and 2014, totaling €7.6 billion at the end of 2014. We will closely monitor the evolution of its special and master servicing business.
- PCS has a stable management team, appointed in 2013. In 2014, the staff turnover was lower than the previous year, but still high. The company forecasts a level closer to the market average for 2015. In our opinion, PCS will benefit from a more constant workforce.
- PCS has a reliable internal controls system based on a three-lines-of-defense model. Operations are designed to minimize errors and maximize efficiency. Risk and compliance functions verify operations' effectiveness and audit control the results. Control functions are independent from operations and periodically report to the board of directors.
- PCS' core servicing system, Phoenix, has been used for many years and has been upgraded many times; in 2014, it was enhanced to include new features to streamline the loan boarding process.
- Special servicing operations are well established, and PCS achieved its 2014 collection targets, even though the total recoveries amount decreased more than the portfolio under management, because of seasoning and the effect of adverse economic conditions.
- PCS monitors seven well-established subservicers through a periodic review of key performance indicators and other controls and, among other checks, verifies that subservicers promptly notify the supervisory bodies. The company plans to expand the scope of its master servicing activity, including periodic on-site reviews and internal rankings. In our opinion, this will enhance PCS' master servicing capability.

Opinion

Standard & Poor's Ratings Services' affirmed its ABOVE AVERAGE ranking on PCS as a special servicer of residential and commercial loans in Italy and as a master servicer of residential, commercial, and unsecured credits in Italy. Our rankings (including our subrankings) reflect our assessment of the company's operations based on the major ranking factors in our criteria (see "Related Criteria").

Outlook

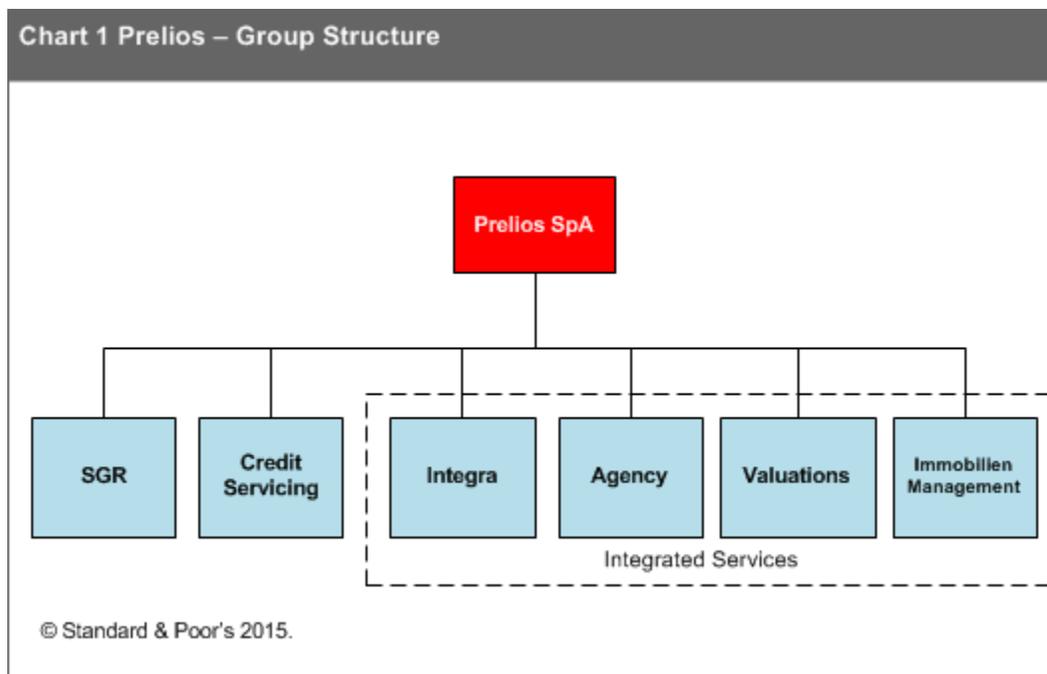
The outlook on PCS is stable as a special servicer of residential and commercial mortgages, and a master servicer of residential and commercial mortgages and unsecured credits in Italy. PCS continues to make operational enhancements across the business, which we are monitoring.

Profile

Company Overview	
Servicer name	Prelios Credit Servicing SpA
Date formed	2005
Servicing staff	60 FTE*
Servicing centers	Two
Client types	Banks, investors, and special-purpose vehicles
FTE*--Full time equivalents.	

PCS is the servicing subsidiary of Prelios SpA and part of the Prelios Group, offering real estate services across Europe. It is registered under Article 107 of the Italian Banking Act, allowing it to carry out a range of financial activities, including special and master servicing.

It is Prelios' priority to foster a great collaboration between the group companies to leverage on synergies and best practices (see chart 1). PCS works in close collaboration with other companies of the group such as Integra, which offers property and facility management services, among others; Agency, the Prelios group's advisory company; and Valuations, which offers appraisal of real estate assets and portfolio.



PCS manages nonperforming loans (NPLs) within a securitized portfolio owned by special-purpose entities (SPEs) and on behalf of other financial institutions. NPLs under management as of June 30, 2015 had a gross book value (GBV) of approximately €1.99 billion as a special servicer (about 13,400 loans). Residential mortgages were almost 17% of this portfolio, commercial mortgages were 50%, and unsecured the remainder.

The master servicing portfolio was €7.96 billion (135,500 credit lines) over the same period, in line with last year. Residential mortgages were nearly 31% of this portfolio, commercial mortgages were 24% and unsecured the remainder.

PCS servicing platform is in Milan (including master servicing operations), with a branch in Rome; its Palermo branch was closed).

Management And Organization

We affirmed our ABOVE AVERAGE subranking on PCS for management and organization as a special servicer of residential and commercial mortgages, and master servicer of residential, commercial, and unsecured loans.

PCS has effective internal controls, an experienced management team, and a reliable IT system. We based our subranking on our view of these segments.

Strategy and business plan

PCS is working on the guidelines set up in the last three-year business plan approved by the board of directors in 2015. Since 2013, PCS has undergone a considerable amount of restructuring to return to profit and the company expects to continue registering positive results in the future.

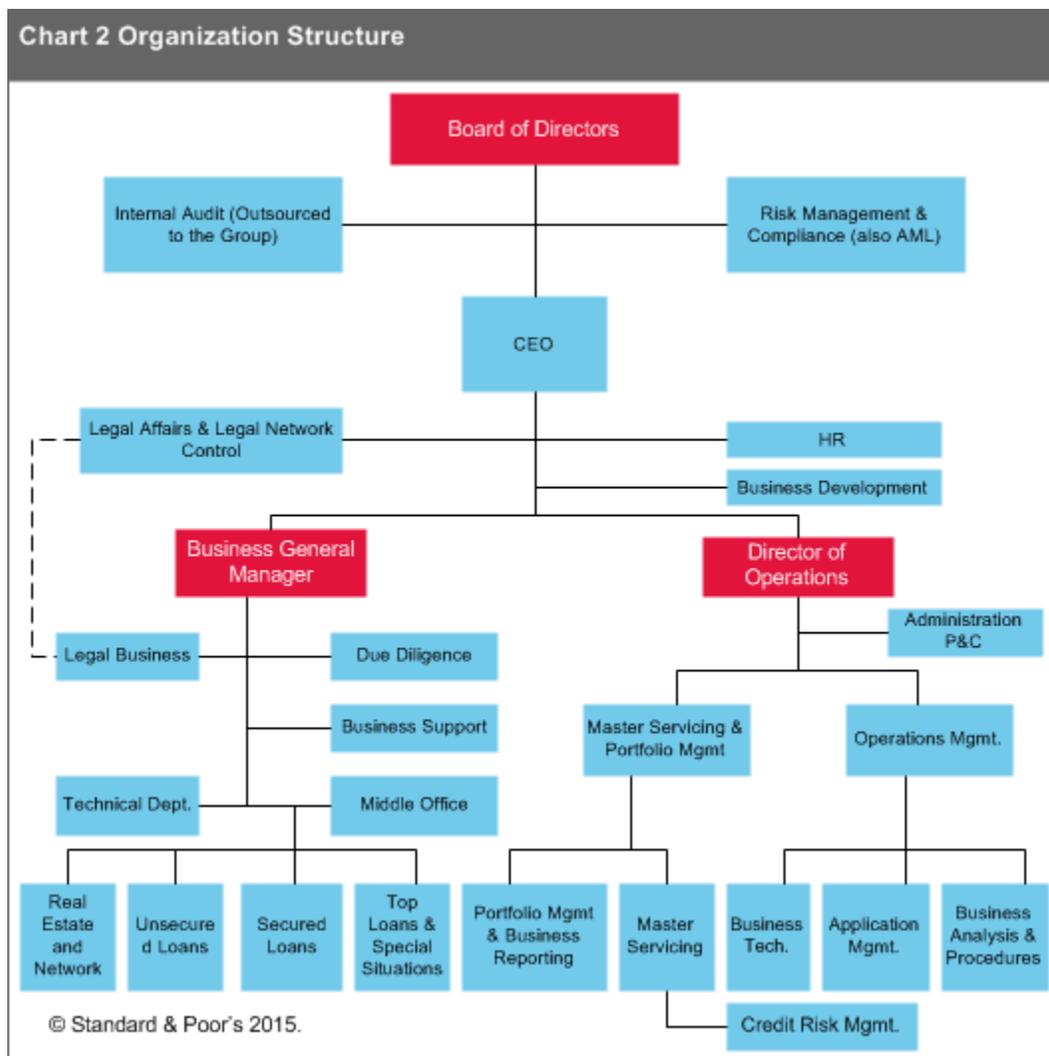
As with other servicers we rank in Italy, PCS includes its business plan in its Internal Capital Adequacy Assessment Process (ICAAP), which it then submits to the Bank of Italy (BOI).

PCS booked six new special servicing deals in 2014 (GBV €369.5 million), mainly concentrated in unsecured loans. It expects to board new commercial loans, and to register portfolio growth in special and master servicing by the end of this year.

PCS undertook a number of due diligences, mainly for pools of secured credits, and has provided advisory services to banks; it hopes these relationships might lead to new servicing opportunities in the future. Our rankings are limited to the special and master servicing operations.

Organizational structure, management, and staff

PCS had 60 employees as of June 2015 (15 less since our last review). PCS' control functions--audit, risk management, compliance, and AML--report directly to the board. At the time of our last review the risk management function reported to the director of operations. In our view, this enhanced internal control function enables independency from operations. Furthermore, PCS reviewed the structure of its collection department previously arranged by branch and now arranged by size and type of assets. PCS also appointed two external hires: one as head of the newly established application management department and one as head of business development, now reporting to the CEO (see chart 2).



In 2014, PCS finalized its restructuring (after Prelios became PCS' majority shareholder). This resulted in 24 departures, including transfers to other Prelios Group's companies, nine new hires, and the closure of the Palermo branch. Staff turnover was 32%, slightly lower than the previous year, but still high (see table 1). The company forecasts a level closer to the market average for 2015: We believe PCS can benefit from a more stable workforce.

Table 1

Staff Turnover				
	2012	2013	2014	H1, 2015
Staff at beginning of period	170	120	75	60
Number of joiners	7	4	9	5
Number of staff leaving voluntarily	(13)	(26)	(21)	(3)
Number of staff leaving involuntarily	(44)	(15)	(3)	(2)
Number of expired contracts	0	(7)	0	0
Number of staff redundant	0	(1)	0	0
Staff at end of period	120	75	60	60

Despite staff adjustment, we believe experience levels are good across management and servicing staff, and that they are commensurate with an ABOVE AVERAGE ranking (see table 2).

Table 2

Average Years Of Industry Experience/Company Tenure

Experience	
Senior managers	18.6
Middle managers	17.6
Staff	16.5
Tenure in current position	
Senior managers	7.8
Middle managers	10.6
Staff	10.2

PCS maintains a good level of communication with staff, organizing regular town hall meetings and enhanced communication, using its intranet to increase staff engagement.

Training

In 2014, PCS continued its training and development programs, delivering over 1,900 training hours to staff in special and master servicing. This averages out to 35 hours per employee, which is in line with the assigned subranking.

During 2014, PCS has developed a performance management model, setting skills and abilities for each role, and defining ways to identify gaps of skills for every employee against those targets; the company will now set annual training and development programs for employees, filling potential skill gaps, and revised its performance and incentive program: PCS considers this new model a transparent mean of managing individual performance against pre-set objectives and to determine training needs. We will closely monitor the outcomes of this innovation by the time of our next review after it will be tested in full.

In addition to training identified from the evaluation process PCS core training modules remain focused on loan management (including real state notion) and IT. By 2015, PCS will expand this basic set of training introducing legal-issues related classes in collaboration with an external law firm. We retain a positive view of PCS' training and development offerings and note the implemented and planned improvements.

Audit

Internal audit is the third line in the company's three lines of defense model, established in its current format in 2007. The other two lines of defense are the risk management function, (mapping and working to minimize risks) and operative staff (to reduce any operative failure). PCS' CEO and senior managers regularly discuss its internal-control-related findings.

In 2014, PCS' internal audit department had one person, down from two at our last review, in line with staff reduction. The internal auditor reports directly to the board of directors. In our opinion, this reporting line has created sufficient independence from operations and maintains the discipline's integrity. Internal audit's principal roles include auditing special and master servicing and assisting in evaluating the company's ICAAP.

PCS' internal audit function works closely with the Group's internal audit department in planning and implementing audit tasks. PCS' internal audit function drafts the internal audit plan that will be subsequently reviewed by the group's internal audit department before being submitted to the board for annual approval at the beginning of each year.

PCS runs audit reviews, reviewed semiannually with the board. If an action plan is required, internal audit and the relevant department identify the remedial actions needed to resolve any issue. Since 2013, PCS tracks audit tasks directly on GAIA, a software tool which helps to record audit findings and process the plan as due. This should allow for enhanced process management and provides senior management and the board of directors with greater transparency and oversight.

PCS' 2014 audit plan focused on ICAAP production process, mandatory reports production as required by central authorities, anti-money laundering (AML) activities, and reporting activity to Centrale dei Rischi, also covering operational controls and adherence to contractual obligations.

The 2014 audit was completed in February 2015: Of the 21 findings, none were classified as high risk; nine are open, but this is understandable, considering that the audit was only recently finalized. PCS says remediation plans are in progress and expects resolutions in the near future.

Risk management and compliance

PCS' risk management and compliance department is in charge of risk management, compliance, and anti-money laundering. Those functions represent PCS' second line of defense. The risk management function maps operational, strategic, and financial risks and, when possible, quantifies potential cash flow loss related to those risks, and may suggest solutions to avoid, mitigate, or manage them if they occur. Two resources compose risk management and compliance.

The senior risk manager submits reports to the group board twice annually. The risk managers are responsible for the following duties:

- Working with internal audit, risk management and the compliance department to identify and manage all risks to which the company could be exposed;
- Working with Group risk to coordinate risk management related issues with the mother company;
- Undertaking analyses on recovery cycles to provide overview on potential losses on cash flows after occurrence of mapped risk;
- Producing a semiannual report to the board of directors and to the senior management;
- Monitoring loan management activities through constant reviews of agreed key performance indicators and reporting any significant variances from business plans to the CEO and board of directors, and pro-actively proposing remedies;
- Performing a two-tier control on the accuracy of debtor information sent to the BOI; and
- Contributing to the preparation of the company's ICAAP.

The risk management department uses three software tools to monitor operational performance against the risk framework. We believe IT software helps automation and controls.

The compliance function has been operational since 2008. It comprises one member of staff who performs the following duties:

- Monitoring the effectiveness of the organizational structure, processes and procedures in respect to potential non-compliance;
- Making recommendations to senior management in relation to potential non-compliance within each operational area;
- Verifying proper handling complaints, focusing on those received from the BOI;
- Verifying supervisory authority disclosure obligations;
- Managing the company's Law 231/01 obligations; and
- Supporting employee compliance training, including Law 231/01.

Different sections of the Prelios Group manage external service suppliers (see table 3).

Table 3

External Service Providers		Section responsible
S.A.R.E.	Prelios Group--administrative service--cash allocation; payment invoices; information technology services	
Prelios Group		Audit, communication, human resources, corporate affairs, quality
Delf		Collection operator for the management of unsecure small loans--out of Cour collection

The head of risk management and compliance reports annually to the board of directors on the risk management and compliance activities undertaken over the last year. It also provides a detailed progress report every six months to the board of directors and the company's statutory auditors.

Since 2011, in line with BOI directives, PCS appointed the head of anti-money laundering (AML), part of the compliance department. The AML function reviews processes and procedures to minimize the risk of money laundering; one employee carries out all relevant tasks, helped by operating staff and business functions.

PCS' AML vigilance covers all aspects of the business. The responsibilities include:

- Identifying the AML-relevant regulation in force;
- Monitoring and regularly testing AML-related internal controls, proposing necessary changes and ensuring they are implemented;
- Checking servicing IT platforms to ensure they are AML compliant;
- Sending aggregate data monthly to the BOI's Financial Intelligence Unit;
- Working with HR to develop appropriate staff training on AML; and
- Advising and assisting corporate departments and senior management on AML.

The head of AML prepares an annual plan of activities and tests and submits it to the board of directors for approval. The statutory auditors and the board of directors also receive a semiannual report detailing the outcomes from all operational inspections.

During 2014, PCS received 11 complaints regarding servicing, down from 41 (in line with the special servicing portfolio decrease); these were resolved in the appropriate time frame (15 days) without external involvement. PCS says the majority of complaints received relate to debtors having been reported to Centrale dei Rischi.

Policies and procedures

The process and procedures support unit controls and maintains the policies and procedures manual, reviewed annually. Similarly, the compliance function can propose updates as result of changes to legal framework and/or changes to group's policies and procedures. In 2014, PCS aligned policies and procedures to capture organizational changes, and amended the manual for regulatory changes to come in force by the end of 2015.

The business process department drafts new policies and procedures, ensuring (with the managing director) that they are circulated to the staff. It tracks any changes for future reference, and all staff can access all policies and procedures through the company intranet. A comprehensive review of the set of policies and procedures is carried out annually, in line with industry norms.

Systems and servicing platform

IT remains centralized within the Prelios Group; the corporate department and business technology teams manage all activities, to create an integrated approach. In 2014, PCS created a new internal department appointing an external recruited resource as its head who directly reports to operations director. This department is responsible for:

- Managing and prioritizing IT requests with Business Technology;
- Checking if requests are compliant with relevant legal framework with the compliance officer; and
- Assessing the IT systems of PCS' clients to propose the best solution for portfolios boarding and to enhance the communication between PCS' IT system and clients' ones.

In 2013, PCS embarked on an ongoing Prelios Group project called "Check-point" (total group budget: €3 million) to improve its operating processes. The group has engaged an external business integration partner to assist with this plan to add industry relevant objectivity to the project.

PCS' core servicing platform, Phoenix, was built in house: It automatically interacts with other components of the system (supported by Data Warehouse).

Phoenix allows several real-time checks at loan, loan manager, or team levels, including monitoring each loan by measuring current recovery against targets, and produces metrics comparing current results with previous month, quarter, or year data.

Phoenix interfaces with Data Warehouse to migrate information daily; it allows customized and standard analysis, and secure benchmarking with version control in place. Features include:

- Business analysis and reporting: A user can extract pre-defined reports with real-time data to perform business analysis with different levels of detail.
- Self-made business analysis: Advanced profile users can also produce customized business analysis reports.
- Data quality: Users can perform data quality analysis on information coming from the Phoenix database system using preset or ad hoc reports.
- Custom data views: Users can access data; e.g. team leaders can only access the data of loan managers assigned to them.
- Data versioning: This allows PCS to obtain static data cut off and frozen at a specific date.

PCS says Data Warehouse provides uniformity in the analysis and reading of data, approval process for business plans, distribution of information, flexibility of analysis, and checking of data in Phoenix. It outsources infrastructure services

such as the data center, network, and the service desk to Ingegneria Informatica SpA (Engineering), an external third party provider that is listed on the Milan stock exchange. PCS' applications are managed by fully dedicated Prelios IT resources. It has anti-virus software, and monitors physical or electronic system intrusion. PCS has a password policy in place requiring renewal every 90 days. If a user no longer has partial or full systems access, IT removes their permissions. Employees can recommend system upgrades, which require management support prior to a request being passed to the IT team for development.

Disaster recovery/business continuity

PCS outsources disaster recovery to a third-party provider.

Engineering manages the data center. Applications are backed up by a third-party provider, SAP, which also supplies the general ledger software. Data is backed up daily and retained for three weeks. There is also a daily and weekly full file back up. Data is stored in backup libraries at another site in Milan, and Oracle archive logs are stored on a backup disk held at a separate site in Bologna. The backup data is not encrypted. A generator provides power for up to 30 hours in the event of a power cut.

The disaster recovery site is 600 kilometers from the Milan office--further than we expect for a company of this type, making it onerous for staff to be so far from home, were it necessary. A specific procedure (revised in 2014) defines roles and responsibilities for the disaster recovery activity. The last disaster recovery test was in November 2014. Critical data were restored in less than one hour.

In 2014, PCS developed its Business Continuity plan, which defines processes and procedures to manage critical events. It also requires periodical tests and trainings. Employees can work securely from remote locations via web access using either a corporate laptop (available for 55% of all staff) or a personal PC. PCS has not rigorously tested the remote access process.

Loan Administration

We affirmed our ABOVE AVERAGE subranking on PCS for loan administration as a special servicer of residential and commercial mortgages, and master servicer of residential, commercial, and unsecured loans. PCS has an established loan boarding process as a special and master servicer.

Special servicing operations follow a well-tested work flow and generate positive results against targets; PCS plans to strengthen its master servicing operations with mandatory and periodic on-site visits to subservicers.

Loan boarding

PCS has an established process for new portfolio boarding, whether it is acting as special or master servicer. The company has developed an Oracle-based software tool and uses it for new loan boarding. Clients provide excel files which include predefined data automatically imported in Phoenix through the Oracle-based application.

Each loan is uploaded with a minimum set of mandatory data duly reviewed before the loan becomes live in the system.

For due diligence on a new portfolio, PCS appoints a project manager responsible for coordinating across all relevant departments within PCS and relevant providers, including Prelios Group. Generally, two employees—one from legal and one from commercial—support the project manager. In 2014, the Company developed 'Phoenix Light', to better support the Due Diligence process reducing the uploading time and giving back a complete set of information to elaborate a business plan on recoveries.

In most cases, the loan originator sends the relevant documents electronically. If no electronic copies are available, external parties scan the documents using a checklist template that PCS created. Originators sometimes provide representations and warranties where documentation is not supplied.

Servicing platform and workflow management

PCS upgraded Phoenix to meet business needs; it interfaces with the accounting system (SAP). Phoenix provides a number of capabilities in support of PCS operations:

- The dynamic management of business plans;
- Borrower management;
- Management of judicial and extrajudicial collections;
- Management of Centrale Dei Rischi reporting;
- Management of revenues and collection costs;
- Linking to the DWH; and
- Recognition of debtors that may have more than one liability across different portfolios or even different asset classes and the ability to combine their details for the purposes of reporting to Centrale dei Rischi.

Through the business plan function, Phoenix produces real-time information and data, including collected and expected cash flows, the type of flow (i.e., cash from procedure or discounted pay-off). The system does not permit an automatic strategy evaluation if the loan's status is not consistent; if so, it sends an alert to the loan manager.

PCS can grant external parties (i.e., the legal network) access to Phoenix through a restricted access user profile; it segregates information so that external parties can only access their own data. PCS developed PMS as a real estate management tool, allowing it to manage its broker network. Agents are able to access PMS and extract data via a secure web link. A detailed user manual for Phoenix is available to all staff online.

Special servicing

Principal activities of the special servicing team cover the NPL's life, from the initial due diligence through portfolio management, real estate-owned companies (REOCOs), and marketing/sales. PCS receives input on due diligence from Prelios Valuations, Prelios Integra on REOCO, and from Prelios Agency on marketing/sales.

The special servicing team currently has 23 staff, specialized by size and type of assets, so the Loan Management is now structured in three different units, directly reporting to the Business General Manager.

- The unsecured loans unit is in charge of arrears and collection of credits not backed up by any collateral. Each loan manager is responsible for an average of 800 positions.
- The secured loans unit is in charge of collection of secured loans with an amount lower than €900,000; each loan manager is responsible on average for 300 positions and relies on the Real Estate Network to support auction sale and out-of-court strategy.

- The Top loans and special situations unit is responsible for recoveries on secured loans with an amount higher than €900.000 and for corporate unsecured loans. There are five experienced employees based in Milan (including the manager) who focus on larger, more complex loans that require a specific approach. PCS expects each team member to manage on average 80 loans.

The allocation of the loan is based on specialization and each manager's current workload. The Business General Manager approves any diversion from general allocation criteria. PCS has a prescribed workflow for special servicing to create a consistent approach to loan management. The entire special servicing team follows the same workflow. Where possible (in common with other servicers we rank), the team's emphasis is biased toward negotiating nonjudicial (out of court) settlements with debtors. This generally speeds up resolutions, as in Italy the legal process can be protracted. The team has a defined approval process for nonjudicial settlements so that it can efficiently deal with debtor proposals. A loan manager (or external lawyer) negotiates a proposal with a debtor and inputs the details into Phoenix. The system then undertakes an analysis using net present value and discounted cash flow calculations. The negotiated proposal is then submitted to and considered by the "top committee". Finally, the portfolio manager checks everything and sends a resolution to investors for their approval. A response confirming the decision is then sent to the debtor.

Upon loan allocation, the loan manager is responsible to achieve the recovery target for each loan and to maintain the quality of the data input into the company's systems, even if the management of the loan is outsourced to external service providers.

Several external service providers support PCS special servicing team:

- A PCS Milan-based team, with a qualified lawyer as head, coordinates the network of approximately 400 lawyers. PCS uses a performance grid to measure the lawyers' effectiveness. It includes quality of IT, quality of invoicing, and the capacity to achieve discounted pay-offs. The panel of lawyers is also incentivized to try and extract monies from courts as quickly as possible. PCS has set up a test environment to enable invoices from lawyers to be processed through an internet application to reduce time, errors, and costs. Some lawyers can update Phoenix directly.
- The company also manages a network of real estate brokers who support the management of properties that secure some of the loan positions.
- Prelios Valuations is an independent entity that appraises and values portfolios and individual properties. Its network provides national coverage across Italy. Valuations developed Casaclick, a real estate trading portfolio website, which a number of external parties use, including real estate advisers.
- Special servicing also works closely with Prelios Integra, a property management company with over 5.4 million square meters under its control as at December 2014. Integra reports a long-standing track record in development and renovation projects. PCS uses Integra for REOCO transactions, although in more recent times this has been minimal due to market conditions.
- Prelios Agency is an estate agency subsidiary that employs a network of about 450 local agents who provide coverage across Italy for both commercial and residential properties. Servicer operations works closely with the Agency team as and when required.

As of June 2015, PCS managed a total portfolio of loans in special servicing equivalent to €1.96 billion from €2.05 billion at the end of 2014 (see table 4). This decrease followed the end of its joint venture with Credit Agricole and the

transfer of the Credit Agricole portfolio. The special servicing portfolios consist of a mixture of secured and unsecured positions, with about 67% (€1.33 billion) of the total balance of loans being secured. The company has reported a busy pipeline and it is confident that it can increase its special servicing business by the end of 2015.

Table 4

Special Servicing Portfolio Evolution								
	--2012--		--2013--		--2014--		--H1, 2015--	
	Amount (Mil. €)	No. of units						
Type of credit								
Partially secured	1,200	6,893	800	5,271	41	71	41	70
Secured	4,300	10,980	2,230	6,665	1,368	3,255	1,330	3,200
Unsecured	2,300	48,175	1,130	12,013	637	10,295	614	10,130
Total	7,800	66,048	4,160	23,949	2,046	13,621	1,985	13,400
Geographic distribution								
South and the islands	3,600	27,502	1,670	7,052	846	5,700	822	5,600
North	2,400	24,666	1,440	6,432	733	5,321	719	5,250
Center	1,800	13,880	1,050	10,465	467	2,600	444	2,550
Total	7,800	66,048	4,160	23,949	2,046	13,621	1,985	13,400

Master servicing

The following roles are fulfilled within master servicing:

- Loan administration, aimed at fully complying with all existing regulations;
- Regulatory reporting to the BOI and to all other relevant Italian authorities;
- Management of cash collections and bank accounts reconciliation;
- SPE debt cycle management (expenses reporting and invoices payment);
- Subservicer monitoring; and
- Arrangement of the payment report, including instructions on how to allocate the SPE's available funds and payment waterfall.

The master servicing department has 10 staff monitoring seven subservicers, and 14 portfolios. It has:

- The operation management team, carrying three activities, cash collections management, cash reporting, and BOI reporting. There are about 80 separate bank accounts. Cash reporting unit oversees the preparation of weekly/monthly reports for management, special servicers, and investors. The team also manages Law 130 securitization results, and notifies senior management, the board of directors, and the BOI as required.
- The SPE debt cycle management team is responsible for invoice recording and payment and expense reporting.
- The calculation and computation team in charge of checking bank account movements, arranging the payment waterfalls, calculating note interest/principal repayments, and preparing the payment reports.
- The central credit register department is responsible for reporting data to the BOI.
- The total loan outstanding (TLO) department analyzes calculation requests against legal documents.

As of June 2015, PCS managed a master servicing portfolio accounting for €7.96 billion. The volume of assets under management by GBV is marginally higher (+5.22%) than last year. PCS works as special servicer on 7% of the overall

master serviced portfolio and other six servicers work on the remaining portion, mainly composed by small unsecured positions. PCS remotely processes most of its master servicing tasks including sub-servicer using Phoenix (see table 5).

Table 5

Master Servicing Portfolio Evolution												
	--2012--			--2013--			--2014--			--H1, 2015--		
Type of credit	Amount (Mil. €)	No. of borrowers	No. of credit lines	Amount (Mil. €)	No. of borrowers	No. of credit lines	Amount (Mil. €)	No. of borrowers	No. of credit lines	Amount (Mil. €)	No. of borrowers	No. of credit lines
Partially secured	1,277	7,268	15,447	1,280	7,100	15,200	1,233	7,100	15,200	1,227	6,900	14,800
Secured	4,422	16,202	44,842	4,250	15,750	43,200	4,220	15,600	42,900	4,468	15,800	42,700
Unsecured	2,226	51,410	67,361	2,170	48,900	65,800	2,107	50,900	67,700	2,260	54,700	78,000
Master servicer	7,925	74,880	127,650	7,700	71,750	124,200	7,560	73,600	125,800	7,955	77,400	135,500
Geographic distribution												
South and the islands	4,130	32,788	60,478	4,010	31,300	58,900	4,000	32,400	60,000	3,994	32,300	59,450
North	2,013	26,507	38,702	1,940	25,500	37,500	1,860	25,900	37,800	1,902	25,750	37,650
Center	1,782	15,585	28,470	1,750	14,950	27,800	1,700	15,300	28,000	2,059	19,350	38,400
Total	7,925	74,880	127,650	7,700	71,750	124,200	7,560	73,600	125,800	7,955	77,400	135,500

Payment processing

PCS is responsible for payment processing. The process is automated across most areas, using Phoenix and Data Warehouse, but there is some manual input. Because of the portfolio's nature (mostly NPLs), money is collected through credit transfers or checks/bank drafts, rather than through direct debits. It is applied to debtors manually.

Bank accounts are reconciled weekly, and payments that cannot be applied immediately are held on suspense to allow the staff the opportunity to resolve suspense items. Internal audit provides a high level of oversight to payment processing, and we do not know of any significant risks: We believe adequate controls and segregation of duties maintain the integrity of the process.

Investor reporting

Reporting is automated through Phoenix. PCS expects it can create executive management reports with versioned data and managerial reports with actual data. PCS gave us a sample report issued in 2014; we found it to be detailed and informative, highlighting key aspects of the portfolio including graphs that illustrate collection levels against the target business plan at acquisition. Some recipients receive summary reports by encrypted e-mail.

PCS has trained staff in investor reporting; four are now working on report production and related communication. Investor reports take 10 to 15 days to produce. PCS sends them by mail in PDF format. PCS has not reported any errors or queries since our previous review. The reporting system does not interface with the ledger accounting system.

We believe PCS can improve its reporting process through more automation, which could save resources and reduce

the potential for error; we also expect servicers rated ABOVE AVERAGE to have a website portal for investor reports.

Financial Position

We affirmed our opinion of PCS' financial position as INSUFFICIENT in the medium term based on our assessment of audited 2012, 2013, and 2014 financial statements of the parent company (Prelios SpA). We understand that Prelios SpA continues to receive full support from its shareholders.

This opinion does not replace that of a senior debt or counterparty credit rating.

Related Criteria And Research

Related Criteria

- Revised Criteria For Including RMBS, CMBS, And ABS Servicers On Standard & Poor's Select Servicer List, April 16, 2009
- Servicer Evaluation Ranking Criteria: U.S., Sept. 21, 2004

Related Research

- ABOVE AVERAGE Rankings Affirmed On Prelios Credit Servicing As A Special And Master Servicer In Italy; Outlook Stable, Aug. 6, 2015
- ABOVE AVERAGE Ranking Affirmed On Prelios Credit Servicing As Residential And Commercial Special Servicer In Italy, May 29, 2014
- Servicer Evaluation: Prelios Credit Servicing SpA, Aug. 1, 2014
- Select Servicer List, published monthly

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