

ABOVE AVERAGE Rankings Affirmed On Prelios Credit Servicing As A Special And Master Servicer In Italy; Outlook Stable

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OVERVIEW

- We have affirmed our overall ABOVE AVERAGE rankings on Prelios Credit Servicing as a special servicer of residential and commercial mortgages and master servicer of residential mortgages, commercial mortgages, and unsecured credits in Italy.
- The outlook on the rankings is stable.
- The servicer offers loan management services among others, and is a subsidiary of Prelios Group.

LONDON (S&P Global Ratings) Feb. 22, 2017--S&P Global Ratings today affirmed its ABOVE AVERAGE ranking on Prelios Credit Servicing SpA (PCS) as a special servicer of residential and commercial mortgages in Italy. At the same time, we have affirmed our ABOVE AVERAGE overall ranking on PCS as a master servicer of residential, commercial, and unsecured loans in Italy. The outlook on the rankings is stable.

PCS is the servicing subsidiary of Prelios SpA and part of the Prelios Group, which offers real estate services across Europe. PCS carries out a number of activities including special and master servicing, representative of noteholders, and paying agent among others. It has a workforce of 62 staff and can count on the support of the group. It operates its servicing platform through the Milan head office and a second branch in Rome. PCS serves banks,

investors, and special-purpose entities (SPEs).

The special servicing portfolio under our assessment increased to €1.883 billion as of September 2016 from €1.667 billion as of December 2015. The master servicing portfolio increased to €7.319 billion from €7.024 billion over the same period. The servicer also managed €1.367 billion of unsecured loans as a special servicer, which are out of the scope of our analysis.

Our rankings are limited to the company's activity as a special servicer of residential and commercial mortgages and as a master servicer of residential mortgages, commercial mortgages, and unsecured loans in Italy.

Our rankings reflect our assessment of the company's operations based on the major ranking factors in our criteria (see "Related Criteria").

MAJOR RANKING FACTORS

- Since our last review, PCS has expanded its business development team and attracted new business. It was appointed as servicer of the first deal sponsored by the Italian government guarantee (GACS) and is currently involved in other GACS transactions. In addition, PCS signed a number of other mandates, including a servicing agreement to manage the first multiseller portfolio of nonperforming loans (NPLs) originated by a number of Italian banks. As a result, the servicer was able to replenish its portfolio and achieve positive portfolio growth, as well as raise its presence in the market. We will closely monitor the servicer's ability to maintain this trend.
- PCS' management team has extensive experience in the secure NPL market and the servicer has further strengthened its organization, recruiting senior-level resources with relevant backgrounds. The company's overall turnover rate for 2015 had decreased since 2014, while the 2016 figure will be released soon. PCS' CEO was also appointed General Manager of the Prelios Group, which highlights the relevance of the servicing business within the group.
- In 2015 and 2016, PCS placed a great emphasis on training, focusing on leadership development and regulatory training, respectively. In addition, the company plans to expand the number of training courses provided in 2017 while creating a corporate academy.
- The company relies on an in-house servicing system, Phoenix, which has been used for many years. The servicer continuously updates the system in line with best practice among its peers. In 2015, PCS signed a strategic partnership with the provider of Syges, the NPL management system used by some Italian banks, to integrate the two platforms. This should guarantee a smoother loan set-up and lower the risk of data corruption when PCS manages loans from banks that use Syges.
- PCS recently reinforced its master servicing operations. It expanded the set of data required from subservicers, formalized the process of the onsite review, and introduced the assignment of subservicer rankings. We will closely monitor the effect of these changes.

OUTLOOK

The outlook on our rankings is stable. PCS provides a reliable service as a master and special servicer. The company has worked on several initiatives to increase its business under management and maintain the standard of its operations. We will observe the consolidation of these changes.

MANAGEMENT AND ORGANIZATION

We have 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 an experienced management team that successfully managed to attract new business, as well as raise the company's presence in the marketplace. Since our previous review, the servicer provided senior management training, and also focused on mandatory training related to new regulations for loan managers and for the external network. The servicer has effective internal controls in place, which support its servicing operations, and a reliable IT system, which is subject to continuous updates.

LOAN ADMINISTRATION

We have 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.

The servicer has a well-established loan boarding process. In our view, PCS has robust special servicing operations. The servicer has appropriate controls in place relating to the external network of professionals that support its servicing activity. As anticipated at the time of our previous review, the servicer has strengthened its controls on subservicer activity.

FINANCIAL POSITION

We consider PCS' financial position to be INSUFFICIENT based on our assessment of the audited 2013, 2014, 2015, and half-yearly 2016 financial statements of PCS and Prelios Group. PCS reported improved profitability results and registered a loss that was lower than it expected, but the servicer did not fully meet its 2015 targets. The group will approve its 2016 results and next three-year business plan by April, after which time we could reassess our view of PCS' financial position based on this wider set of information.

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

RELATED CRITERIA

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

RELATED RESEARCH

- EMEA Servicer Evaluation Industry Report 2016, Jan. 31, 2017
- Italian Servicers Could Be Part Of The Solution To The Nonperforming Loan Burden, Nov. 21, 2016
- Servicer Evaluation: Prelios Credit Servicing SpA, Oct. 26, 2015
- Select Servicer List, published monthly

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