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## Servicer Evaluation: FinSolutia S.A.

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# Servicer Evaluation: FinSolutia S.A.

## Ranking Overview

Servicing category	Ranking	Management and organization subranking	Loan administration subranking	Outlook
Residential mortgages special servicer in Spain	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Residential mortgages special servicer in Portugal	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Financial position	Sufficient	N/A	N/A	N/A

N/A--Not applicable.

## Major Ranking Factors

- As of December 2015, FinSolutia S.A.'s overall Spanish portfolio, comprising residential and corporate assets, accounts for €1.16 billion of the gross book value, up from €0.507 billion at the end of 2014. The total amount of Spanish residential loans and repossessed residential properties increased to €0.374 billion from €0.191 billion over the same period. The servicer expects further growth in the coming months. Similarly, the overall Portuguese portfolio, which also comprises residential and corporate assets, increased to €0.396 billion at the end of 2015 from €0.170 billion at the end of 2014. The total Portuguese residential portfolio increased to €0.233 billion from €0.137 billion at the end of 2014.
- To accommodate the growing business, in 2015 the company expanded its office in Madrid, which now has 65 employees, including 10 fully focused on residential special servicing. These 10 are supported by four sales asset managers, three employees in the closing department, and two administrative assistants. It also opened a new office in Barcelona, with three of its six employees focused on residential special servicing. These three are also supported by sales and closing department in the Madrid headquarters. The servicer's Lisbon office has 43 employees, with three employees focused on residential special servicing. These three are supported by six sales managers, two employees in the closing department, and two administrative assistants.
- Similarly, FinSolutia updated its organizational structure, creating a new layer of middle managers between the executive management team and the operative staff. As a result, four internal managers were promoted to the newly created role of team leader. Furthermore, the servicer set up a new closing department, which is separate from the collection team, with the aim of improving workflow efficiency through specialization. Finally, the servicer appointed the Spanish head of the advisory team (formerly led by the Spanish country manager) and the Iberia head of human resources (HR) department (formerly led by the chief financial officer). In our opinion, the updated structure will help the company to effectively manage the current and expected growth, and the appointment of the new managers further reduced the key man dependency risk.
- In 2015, the servicer experienced higher turnover rates, both in Spain and Portugal, than reported by other European servicers, but in line with its peers in Spain. While we understand that the competition to attract experienced asset managers in the Iberia market can undermine a servicer's ability to retain staff, FinSolutia will benefit from a more stable team, in our view. Therefore, we view as favorable the appointment of an external professional as head of HR, as well as a wider offer of training and the increased career opportunities under the new organizational structure. These elements could have a positive impact in FinSolutia's turnover rate, in our opinion, and we will closely monitor them.
- In early 2015, FinSolutia finalized a full internal audit cycle and the company successfully updated its risk assessment with no major issues. Currently, there is a single manager looking after audit, risk, and compliance. This

arrangement is adequate for the company's size, in our view.

- FinSolutia has continued to invest in the enhancement of its IT system capabilities. In our opinion, the IT system is a real strength of the company. Continuous IT improvements have increased staff productivity and the Portuguese team is now able to manage a higher volume of loans with fewer staff. Furthermore, FinSolutia's system is cloud-based, which allows staff to work on it through web access available from their home under the same security standards offered when working in the office. This benefits business continuity and disaster recovery planning.
- FinSolutia relies on an operations workflow to work on loans and real estate assets, which led to the company achieving positive collection results on most portfolios in both Spain and Portugal. In 2015, as part of its attempt to continuously improve processes, the servicer decided to reinforce its early collection team by increasing the headcount to seven from five in Spain and to two from one in Portugal. The early collection teams apply loss mitigations policies as an alternative to foreclosure. They aim to maintain the borrower's commitment to repayment plan and reduce expenses by avoiding judicial cost. In our opinion, this could increase collections and we will closely monitor the future recovery rate trend.

## Opinion

S&P Global Ratings' overall ranking on FinSolutia is ABOVE AVERAGE as a special servicer of residential mortgages in Spain. Our ranking on the company as a special servicer of residential mortgages in Portugal is ABOVE AVERAGE. The outlook is stable for both rankings (see "Various Ranking Actions Taken On FinSolutia As A Special Servicer Of Residential Mortgages In Portugal And Spain," published on April 20, 2016). Our ranking is limited to the company's activity as a special servicer of residential mortgages in Spain and Portugal, although it factors other servicer activities that could represent either a benefit or a risk for the company's residential special activity. Our overall rankings reflect our view of the company based on the major ranking factors in our criteria (see "Related criteria").

## Outlook

The outlook is stable on our rankings on FinSolutia as a special servicer of residential mortgages in Portugal and in Spain. The servicer has reliable operations supported by a solid IT system.

## Company Profile

FinSolutia is an independent multi-business company supplying a variety of services to support asset management, from portfolio due diligence to repossessed properties management. The company offers an end to end service from advisory support during the due diligence phase till closing, including asset sales, but its core business remains the special servicing activity of residential mortgages and corporate loans in Iberia.

In 2007, the company opened its first office in Lisbon; in 2009, it opened a second office in Madrid, and in 2015 the servicer opened its third center in Barcelona in line with its growing Spanish portfolio. FinSolutia's managing director and founding partner owns most of the company's capital, while some senior managers hold minority stakes.

### Company Overview

Servicer name

FinSolutia S.A.

Company Overview (cont.)	
Date formed	2007
Total Staff (as of Dec. 31, 2015)	114
Servicing staff (as of Dec. 31, 2015)	54
Servicing centers	Lisbon, Madrid, and Barcelona (opened in 2015)
Client types	Investment banks, high street banks, institutional investors, residential lenders, commercial lenders.

The executive committee is responsible for the preparation of the company's business plan (BP) and thereafter the regular monitoring of it. The board of directors still approves the BP and therefore, in our opinion, it remains independent of operations.

FinSolutia continues to have an ambitious plan based on its expansion. As we saw during our previous review, the executive committee who prepares and monitors the business plan (BP) and presents it to the board of directors for approval. This process guarantees independency from operations, in our view. Through its advisory team, the company has been involved in due diligence and similar activities for a number of transactions in both Portugal and Spain. This team regularly reports up-to-date market conditions to the executive committee, which can assist strategic planning. We noted that for the last two years the advisory function became a relevant source of incomes for the company. While this is not under the scope of our ranking, the company reported that it has become an essential source of new servicing mandates.

**Table 1**

Portfolio Evolution										
	2011		2012		2013		2014		2015	
	Amount (mil. €)	No. of cases	Amount (mil. €)	No. of cases	Amount (mil. €)	No. of cases	Amount (mil. €)	No. of cases	Amount (mil. €)	No. of cases
<b>Portugal</b>										
Residential Mortgages	73.11	1,120	100.95	1,844	86.42	1,716	72.87	1,643	97.47	2,159
Residential REO	-	-	3.98	105	2.73	59	135.17	1,094	135.39	1,084
Corporate < 1 M	-	-	178.41	2,237	93.03	2,123	70.60	1,938	103.19	2,251
Corporate >1M	-	-	12.37	8	11.22	7	28.81	16	29.68	15
Corporate REO	-	-	-	-	-	-	35.56	54	30.43	55
Total	73.11	1,120	295.71	4,194	193.41	3,905	343.00	4,745	396.16	5,564
<b>Spain</b>										
Residential Mortgages	40.89	346	43.20	346	53.98	579	168.72	2,214	351.89	3,051
Residential REO	0.92	27	9.09	199	9.63	399	22.16	689	22.07	609
Corporate < 1 M	-	-	-	-	-	-	158.74	745	300.65	1,316
Corporate >1M	-	-	-	-	-	-	151.91	63	480.03	183
Corporate REO	-	-	-	-	-	-	5.53	41	5.03	23
Total	41.81	373	52.29	545	63.61	978	507.07	3,752	1,159.67	5,182

Chart 1a

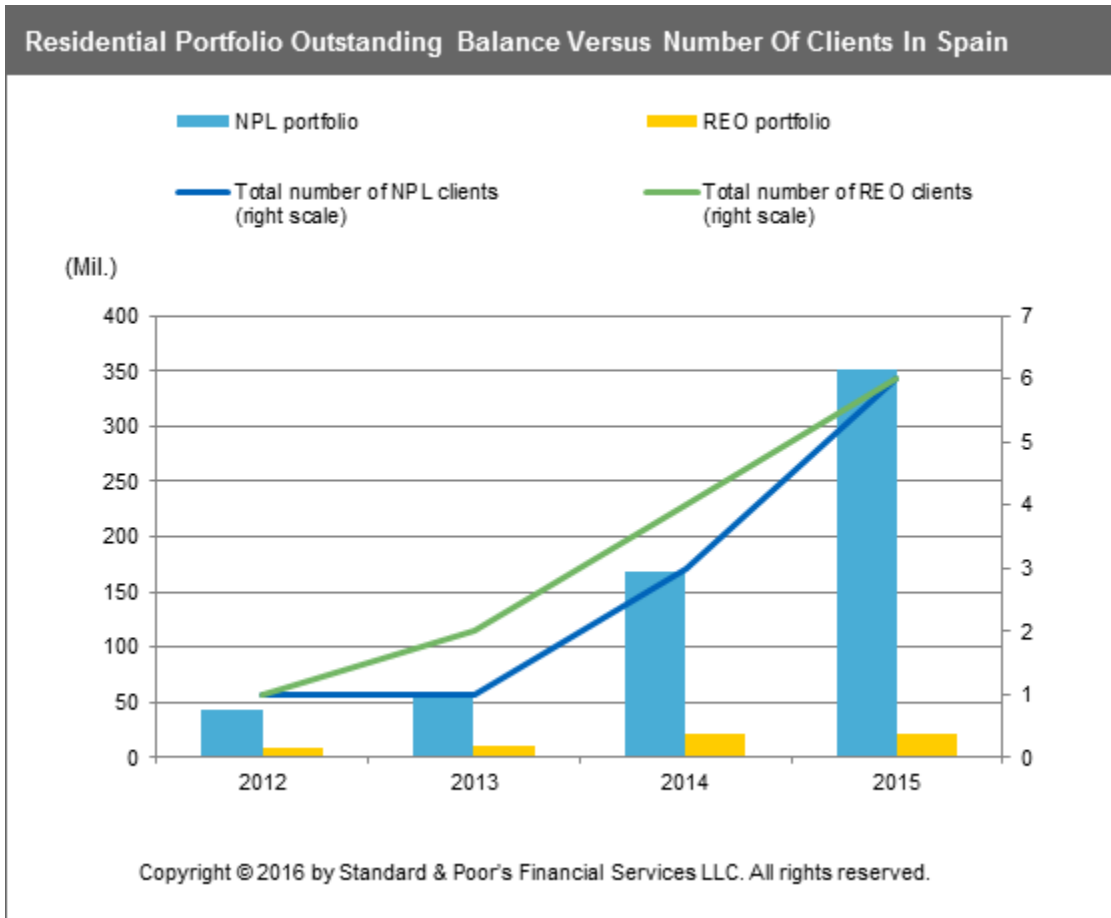


Chart 1b

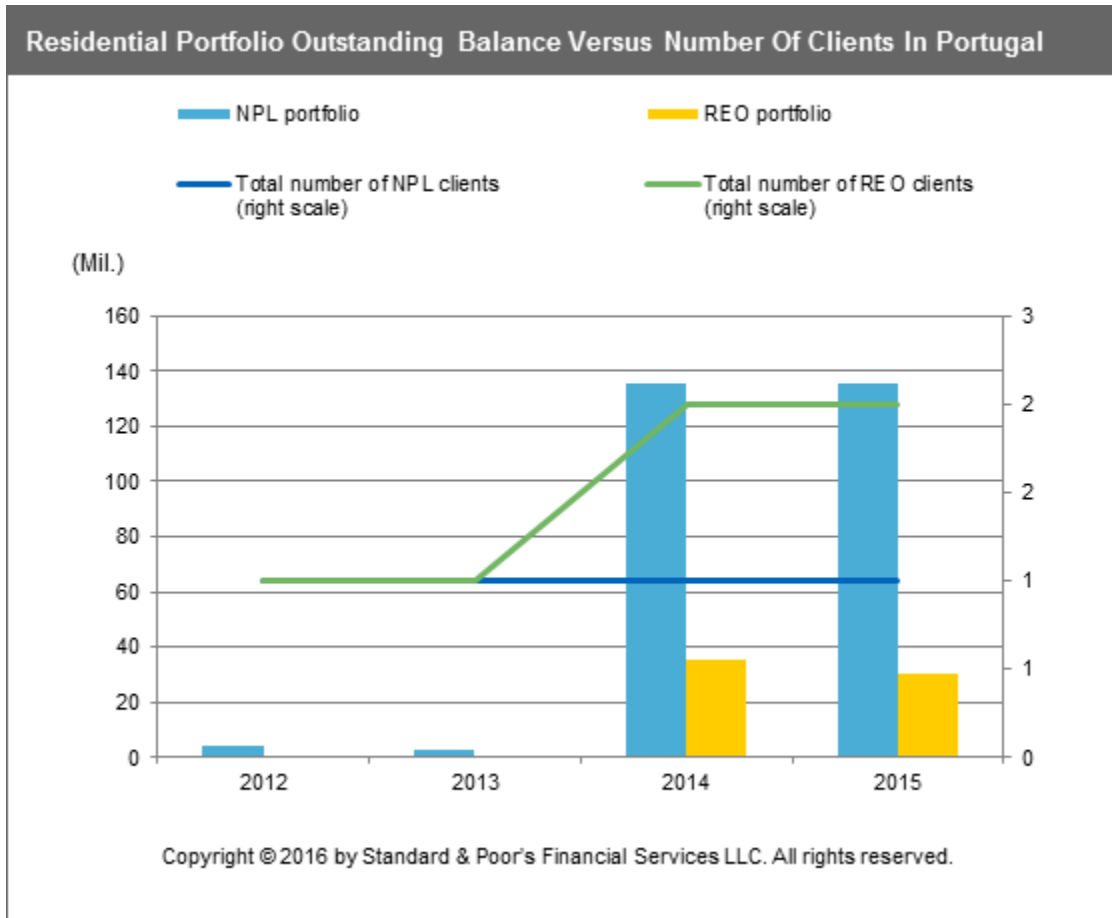


Chart 2a

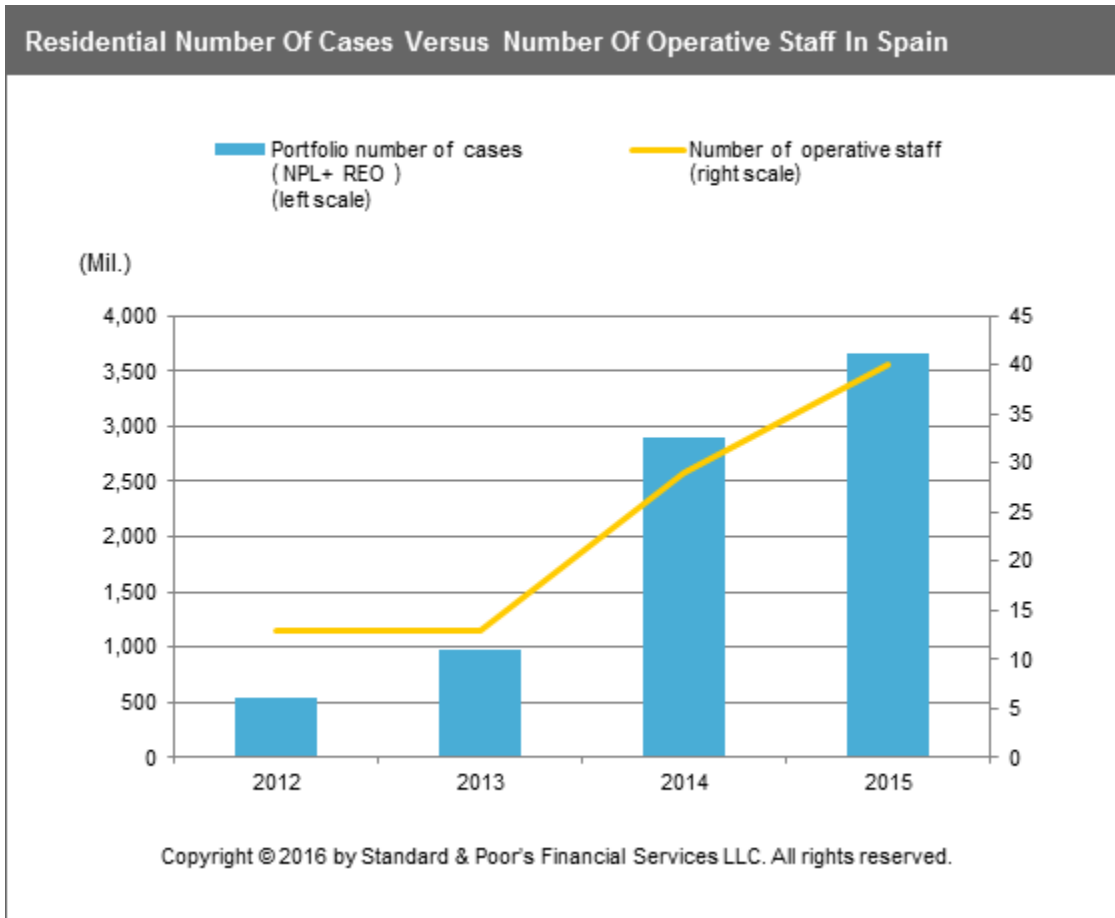
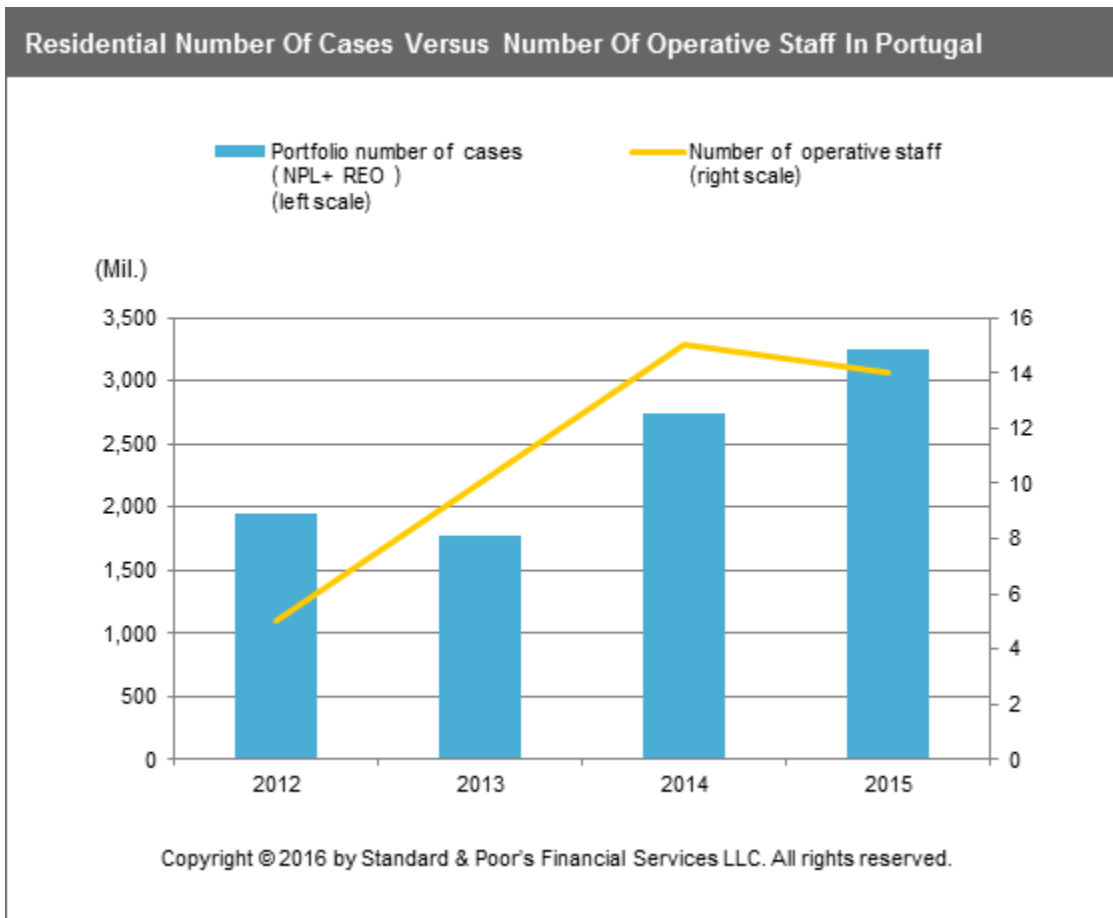


Chart 2b



## Management And Organization

We have affirmed at ABOVE AVERAGE our subranking for management and organization on FinSolutia as a special servicer of residential mortgages in Portugal and Spain. In our opinion, the servicer has an experienced senior management team, a well-designed and scalable structure that clearly defines roles and responsibilities, and can absorb further growth. While the residential portfolio under management is smaller than those of its peers, it almost doubled in both jurisdictions in 2015. The servicer is expecting further growth, having reported a busy pipeline. We will closely monitor the servicer's ability to attract new mandates. The servicer continues investing in its IT systems, which remain one of its strengths.

We have based our subrankings on our view of the following factors:

### Structure

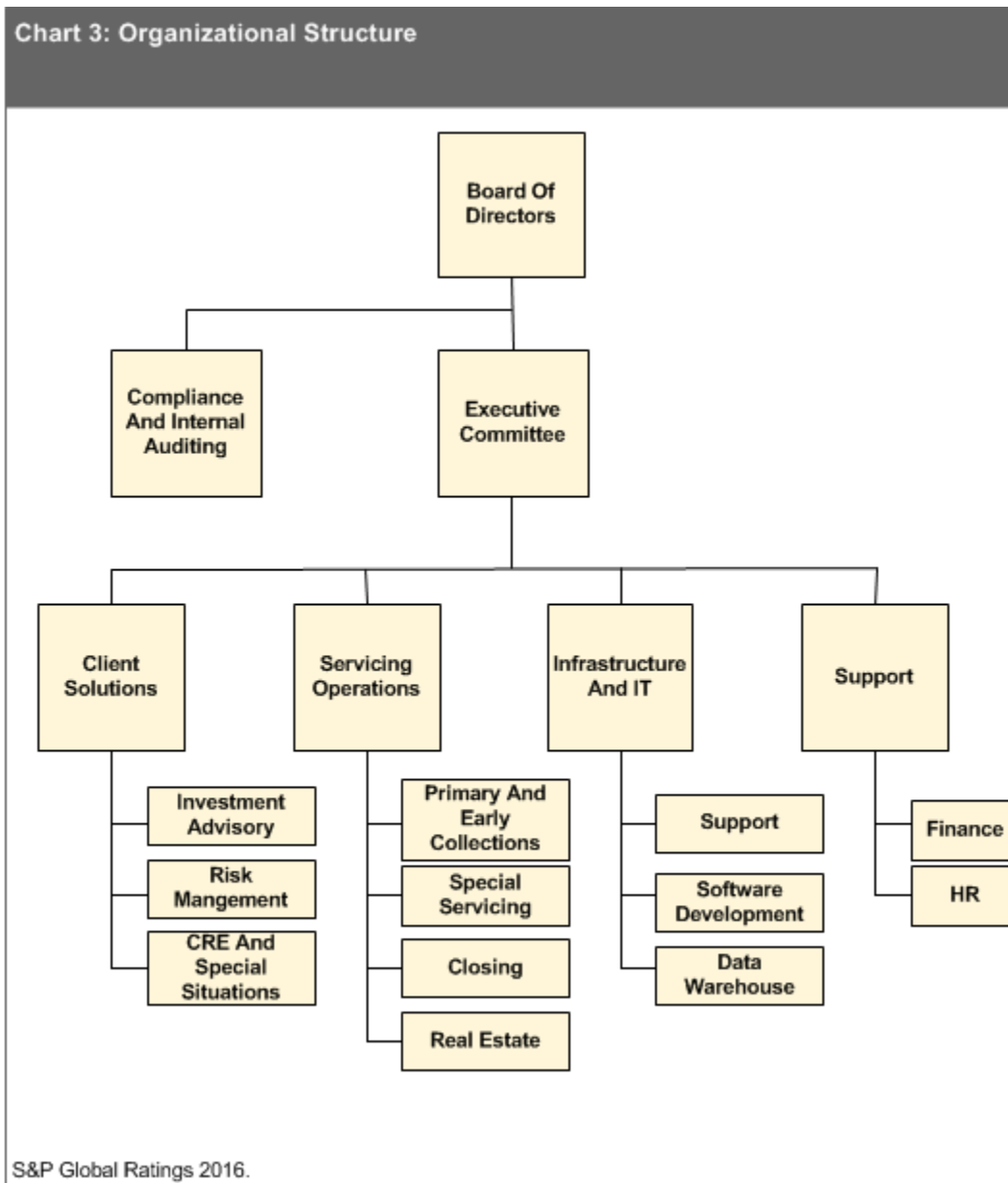
The Portuguese and Spanish branches manage assets independently within their own jurisdictions through separate operations departments. Nonetheless, they share supporting functions such as HR, and apply the same best practices and procedures, as well as the same IT platform.



In 2015, FinSolutia undertook the following structural changes:

- As the business grows, it created and appointed the head of HR, the head of the closing department in Spain, and the head of the Spanish advisory function.
- Expanded its headquarters in Madrid and opened a new servicer center in Barcelona to accommodate Spanish portfolio growth.
- Hired two more staff within the internal audit team, now comprised of one manager and two analysts, and appointed a new chief risk officer after the publication of our press release (see "Various Ranking Actions Taken On FinSolutia As A Special Servicer Of Residential Mortgages In Portugal And Spain," published on April 20, 2016 on RatingsDirect).
- Created middle manager roles within the special servicing team in Spain as the growth of assets under management justified the investment and this increases career opportunities which can help to retain pivotal staff.
- Segregated the closing department from the special servicing team to further improve efficiency through specialization.
- Reinforced its early collections function to help the borrower to become "performing" as soon as possible and improve collections.
- Set up an inhouse skip tracing team in Spain.

All of these structural changes support the servicer's goal to continue improving its processes. We consider the changes to be positive and we will monitor impact that the changes have on the company's results. Furthermore, the growth of the senior management team has reduced key man dependency risk further, in our opinion.



In each jurisdiction, FinSolutia has a client solutions area and servicing operations. Each operations team includes the special servicing department, the real estate (RE) department, and the closing department. In Spain, the operations team also includes the legal department. The legal function in Portugal is outsourced. The Client Solutions teams in Portugal and Spain oversee several tasks such as pricing new portfolios, monitoring the overall servicing activity, and dealing with clients as well as providing solutions to more complex commercial RE cases in the respective jurisdictions. In our opinion, FinSolutia has assembled a workforce with appropriate and complementary skills relative to its operations. Senior management has good levels of experience within the Portuguese and Spanish markets.

The servicer has developed an adequate governance model supported by several committees (see table 2). This guarantees a reporting and monitoring activity on every function, in our view.

**Table 2**

<b>Committee Governance</b>			
<b>Committee</b>	<b>Purpose</b>	<b>Members</b>	<b>Frequency</b>
AGM	shareholder meeting		Annual
Criminal CMT	The scope is to review and monitor possible criminal findings as well as coordinate disciplinary actions.	Country managers, CFO, risk management manager, special servicing manager, internal auditor etc	Twice a year
Board meetings		Board members and EXCO	Quarterly
Risk CMT (set up April 2016 )	The scope will be discussing operational, strategic, credit, regulatory, and reputational risk.	EXCO, head of risk management etc.	Monthly
EXCO (Executive CMT)	The scope is to address all the strategic and business related issues (annual budget approval, annual appraisal report), monthly budget review, and weekly project reviews.	CEO, country managers, CFO, and CTO (IT head). The internal auditor acts as secretary.	Weekly
Managers meetings	The scope is to discuss interdepartmental issues.	Head of departments	Weekly
Department meetings	The scope is to discuss departmental issues.	Head of department with his/her team	Weekly
Credit CMT	The scope is to discuss proposals above €300,000 to assure a quality information process with clients.	CEO, country manager, CFO, head of real estate, head of servicing and early collection, head of special servicing, and head of risk management (secretary)	Ad hoc

### Staff and staff turnover

FinSolutia has a workforce with appropriate and complementary skills relative to its operations, in our view. The total Spanish staff number was 71 as of December 2015, up from 46 at the end of 2014 despite 14 leavers. The total Portuguese staff increased to 43 from 34 over the same period. The company expects its staff numbers to continue to expand as business increases. There were 15 departures across the two regions, 14 in Spain and one in Portugal, representing turnover rates of 39% and 29%, respectively.

FinSolutia's Spanish turnover rate is higher than the European average, but it is in line with other Spanish peers because the Spanish servicing market is growing rapidly and there is high competition to attract skilled resources. While we understand that this figure might have been affected by market dynamics, a high turnover rate is a risk because it might have a negative impact on productivity levels due to inexperienced staff and increased recruitment costs. FinSolutia invested in strengthening its HR function, appointing a HR head in the newly created role. The new organizational team structure in Spain has created further career opportunities. Moreover, the servicer redefined the description of each role to help staff to have a better understanding of the required steps for career improvement. In our view, this new HR management system could help the servicer to attract and retain talent and we will closely monitor its effectiveness.

**Table 3**

<b>Staff Evolution And Turnover Rate</b>				
<b>Spain</b>				
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Staff at beginning of period (E)	16	19	22	46
Number of joiners	11	11	32	43
Number of staff leaving voluntarily (A)	4	7	7	14

**Table 3**

**Staff Evolution And Turnover Rate (cont.)**

<b>Spain</b>				
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Number of staff leaving not voluntarily (B)	4	1	1	4
Number of expired contracts (C)	0	0	0	0
Number of staff redundant (D)	0	0	0	0
Staff at end of period	19	22	46	71
Turnover rate [A+B+C+D]/E (%)	50.00	42.10	36.40	39.10
<b>Portugal</b>				
Staff at beginning of period (E)	17	19	22	34
Number of joiners	4	10	15	19
Number of staff leaving voluntarily (A)	2	6	2	1
Number of staff leaving not voluntarily (B)	0	1	1	9
Number of expired contracts (C)	0	0	0	0
Number of staff redundant (D)	0	0	0	0
Staff at end of period	19	22	34	43
Turnover rate [A+B+C+D]/E (%)	11.76	36.80	13.60	29.40

**Table 4**

**Average Years Industry Experience Versus Company Tenure**

<b>Experience</b>						
	<b>Senior management</b>	<b>Middle management</b>	<b>Staff primary/master servicing</b>	<b>Staff early arrears</b>	<b>Staff late arrears /litigation</b>	<b>Staff property sales</b>
Dec-15	20.14	12.80	N.A.	11.38	9.70	9.91
Jun-15	19.57	15.71	N.A.	13.86	10.73	16.62
Dec-14	16.00	19.00	6.00	14.00	12.00	13.00
<b>Tenure</b>						
	<b>Senior management</b>	<b>Middle management</b>	<b>Staff primary/master servicing</b>	<b>Staff early arrears</b>	<b>Staff late arrears /litigation</b>	<b>Staff property sales</b>
Dec-15	4.71	3.20	N.A.	0.75	1.13	2.09
Jun-15	4.14	4.86	N.A.	1.71	1.36	1.36
Dec-14	5.00	4.00	2.00	1.00	2.00	2.00

N.A.--Not available.

The servicer organizes two yearly off-sites, one for the senior management team and one for all staff across the two jurisdictions. While the senior management team regularly meets over the year, they gather for an off-site focused on business and strategic planning discussions annually. The staff, senior management included, meets annually either in the Spanish or Portuguese office to promote team spirit and to improve both communication and motivation.

The company aims to measure staff morale through an annual employee survey, but the servicer pushed back the 2015 survey to run it later in 2016 and to capture the new HR management system's impact.

## Training/development

At the time of our last review, senior management approved all training, which HR coordinates. Currently, the newly appointed HR head is in charge of planning training once they have the managers' and team leaders' inputs on the topic. In our view, the servicer is aware of the importance of maintaining staff training, not only to increase efficiency, but also to retain talent.

In 2015, each employee completed an average of almost 33 training hours, excluding language courses and induction training, slightly less than the 40 hours registered at the end of 2014, but still in line with our 20 hours of training criteria.

No major changes apply to the servicer induction training, which includes 40 hours of class-based and 40 hours of on-the-job training. Almost 20 of the induction training hours are dedicated to explaining the company's corporate values and processes. This is because FinSolutia aims to develop a strong corporate identity by transferring its culture to all staff as soon as possible. The company tailors its induction technical training to each department and can vary depending on the new hires' experience. In our opinion, this is a reasonable training that helps new joiners to quickly become up to speed in their role.

**Table 5**

Average Training Hours							
Information as of December 2015	Regulatory/compliance	Procedural	Management training	Soft skills	Other	Total	
Internal formal training	N.A.	0.49	N.A.	N.A.	0.04	0.53	
External formal training	3.29	1.38	6.05	0.07	1.94	12.73	
On the job/coaching	N.A.	18.08	N.A.	N.A.	0.66	18.74	
Online training	N.A.	0.04	N.A.	N.A.	N.A.	0.04	
Total	3.29	19.99	6.05	0.07	2.64	32.04	

N.A.--Not available.

FinSolutia has a double bonus scheme; one paid annually to all the employees based on company performance, and the other paid exclusively to the operations team and based on success fees. The annual performance review that each employee has with their line managers comprises the self-assessment, manager's assessment, and next year's objectives.

In early 2015, FinSolutia updated its structure, which now includes six categories, from the junior to the most senior role and a description for each role. The company aims to promote career opportunities by a clear definition of the career development options and competencies associated with each role. The company communicated the new organization to staff and each manager informed his/her team members on their current category, associated responsibilities, and career opportunities. The company expects more transparent career paths to improve its ability to attract talent and better appraise its outstanding staff.

## Systems and technology

The IT department comprises 12 staff (unchanged since our previous review). The IT team is split into four areas: Development, systems administration, business intelligence, and product management. The head of the IT department is part of the executive team and has been in the company since its foundation.

The company has developed its own IT platform, 4Sight MS platform (4S), which supports all servicing activity and it based on three fully integrated in-house applications, which use Microsoft technology (see table 6).

**Table 6**

<b>IT Applications List and description</b>	
<b>IT application</b>	<b>Description</b>
4 Sight Loan manager	Supports the special servicing business. It has four main sections. The first summarizes the debt of a single borrower within the same portfolio, the second supports the recovery activity, and the remaining two components support reporting and administrative tasks. In addition to its management and reporting capabilities, 4S loan manager facilitates restricted access to loan portfolios for stakeholders and investors. In 2015, FinSolutia further developed this application to support the its advisory and closing activities.
4 Sight Property manager	Real estate (RE) management system which is mainly used by the RE department. It helps to process information on the properties backing the loans under management and feeds 4S Loan Manager. 4S Property Manager incorporates geographic detail, property photos, and market data.
4 Sight Vendor	Used by external providers, such as appraisal companies and brokers, to feed the system with their updates. Since 2012, information on real estate prices extracted from main estate agent portals has automatically fed 4S Vendor.

FinSolutia's clients can access information on their portfolio through the web-based platform, 4Sight MS. Additionally, FinSolutia publishes information on repossessed property on a real estate public website, 4Sight Real Estate, to market them more easily.

Since our previous review, the company:

- Developed "FinSolutia's academy"--educational videos available directly on the management system to learn how to use each specific section. In our view, this is a useful tool that helps users to learn how to navigate the system faster and better without looking for assistance.
- Expanded the content of its dashboard to measure performance with a greater level of detail.
- Launched a mobile version of the management application that allows asset managers to work from their smartphone through secured access to fix last minute emergencies when out of the office or travelling
- Created a number of statistics to monitor the skip tracing activity internally managed since 2015.

In our opinion, the IT platform is robust, reliable, and continues to be one of the servicer's strengths. We believe these enhancements will continue to improve the efficiency of FinSolutia's operations.

The IT department prioritizes system development requests mostly in order of importance and depending on how urgent these requests are for business needs. An internal committee (comprising the head of IT, the MD, the heads of Client Solutions, and operations departments), decides the priority of the improvements. The committee meets periodically to assess a project's progress and plan its next steps. This allows the company to adjust or re-orient a project's direction, based on the completed work to date.

The IT team holds a daily meeting, at which it undertakes a review of any issues arising as well as reprioritizing/readjusting the tasks for each day of the project calendar. The team provides weekly IT infrastructure reports to senior management.

FinSolutia advises us that systems include antivirus software and that there are mechanisms in place to avoid external or internal intrusion into the systems. The company monitors critical elements of the systems for possible intrusion. There are firewalls in place at appropriate points within the system architecture. There is a defined password policy and access to systems is withdrawn if the user leaves. FinSolutia stores legal documents as electronic images.

The servicer continued to invest in server infrastructure moving from four virtual servers to three physical ones.

In our opinion, the servicer has a robust cloud based disaster recovery plan (DRP) which can now activate from either website or smartphone.

The company last tested its DRP in November 2015. We understand that the company tests data recovery daily and that on average, it takes less than an hour to restore data. A backup system in a Lisbon-based data center backs up critical data every 60 minutes and copies this daily to a site in Madrid.

The servicer also updated its BC plan . FinSolutia confirmed that its IT web-based platform enables all workers to work from any external location, with internet access either a computer or a smart device. As a result, the servicer no longer maintains two formal business continuity sites in Lisbon and Madrid as it considered that staff can easily work from home. Moreover, Lisbon and Madrid headquarters can host eight and 15 key employees respectively if necessary. While this is not in line with market standard, we understand FinSolutia considers this to be an appropriate solution.

### Internal controls

In March 2014, FinSolutia created an internal audit function in to monitor both Spanish and Portuguese operations. The internal auditor reports directly to the board of directors, which provides the necessary independency from operations, in our view.

The internal auditor, working with two new staff hired during 2015 and supported by senior management, is responsible for the development of a risk-based audit plan, set against the company's risk framework, which incorporates the business' risk appetite. The company has set out a methodology to create transparency and consistency for the discipline.

Internal audit creates an individual plan for each area of operations before commencing the audit. Audits are carried out on site. Staff receives no prior notification of an audit.

The internal auditor then prepares and submits a report to the operational area involved, senior management, and the board. There are defined criteria and quality for the communication of the report. There are also defined follow-up processes and timeframes for the resolution of findings. High priority findings must be resolved satisfactorily within a maximum of one month, medium within three months, and low within six months.

Since our last review, FinSolutia developed inhouse software to support the management of internal audit. In our opinion, FinSolutia's internal controls will benefit from this new software as it should facilitate the audit process, reduce the human mistakes, allow audit track records, and ensure regular back-up of audit reviews.

At the time of our review, the company confirmed that the audit team had reviewed every function at least once with no major issues.

**Table 7**

<b>Audit Results</b>		
<b>Date of last audit</b>	<b>June-15</b>	<b>Dec-15</b>
Number of highest risk findings	2	2
Number of other findings	6	3

**Table 7**

<b>Audit Results (cont.)</b>		
<b>Date of last audit</b>	<b>June-15</b>	<b>Dec-15</b>
Number of resolved other findings	4	5
Number of open findings	4	0

As was the case last year, in our last management meeting, the internal auditor was also responsible for risk management. In 2015, the internal auditor completed the Company Risk Assessment (CRA), areas perceived by the senior management as exposed to a higher potential risk were assessed first. FinSolutia considers risks according to their likely occurrence and impact. It then applies a grading of high, medium, or low. This analysis feeds the yearly internal audit plan as described above. In early 2016, the servicer set up a new risk committee to discuss operational, strategic, credit, regulatory and reputational risk. The committee met in May for the first time. Furthermore, FinSolutia appointed a new chief risk officer. We will monitor the effectiveness of this new risk committee and the chief risk officer's activity during our next review, although initially we consider that it will benefit the risk function.

The internal auditor is also responsible for compliance-related matters, with assistance from the legal department. Compliance mainly focuses on:

Code of Ethics;

- Treating Customers Fairly (TCF);
- Know Your Customer (KYC) verifying borrowers' identities to prevent crimes such as financing terroristic activities;
- Anti-money laundering (AML) to prevent fraud; and
- Data protection.

The function also monitors invoices, physical access to the premises, user application permissions, and AML training among others.

As key compliance advances, since our previous review FinSolutia:

- Implemented quarterly compliance AML reviews to the sales function.
- Developed a section in the sales application to manage KYC information.
- Improved the level of criminal control by setting up a criminal committee and developing a code of conduct with specific policies, process and internal procedures on the subject.

The internal control manager gathers inputs to perform his work, not only from the IT application but also from the risk committee, EXco, Board of Directors, and middle management.

The servicer equipped the system with automatic controls on quality so the user and his/her supervisor receive alerts of any exception. The servicer is planning to launch a survey to measure its clients' perceptions on its internal controls management. This initiative proves the servicer's willingness to continue improving this function, in our view.

The policy and procedures are available to all staff in a centralized location on the company intranet and cover core business operations, including special servicing, RE advisory, and supporting operations including HR and financial services. Each department is required to manage its own policies and procedures. The internal audit department has a monitoring role and may recommend that departments update existing or implement new policies and procedures



whenever necessary. The company communicates all changes or new policies to staff by email, and are available on the company intranet. We have received a copy of the current manuals. The manuals clearly describe each procedure, any necessary input, the expected output, and who is responsible for it. In addition, the manuals report risk analysis. The company creates version tracking by formally documenting all amendments for future reference. In 2015 the servicer gathered every policy and procedure on collection into a single manual. We consider this unique source of information on collection as a user-friendly tool to support the application of the related policies and procedures.

FinSolutia has not received substantial complaints related to its servicing activity since our previous review.

**Table 8**

Complaints Management		
	June-15	Dec-15
Nonservicing complaints handled on behalf of clients	14	23
Servicer/servicing related complaints	0	2
Total number of complaints handled	14	23
Complaints referred to Ombudsman	2	2
Complaints upheld by Ombudsman	0	2
% of complaints administered within regulators timeline	100	100
Average days to solve a complaint	10	7
£/€ fines by regulator	0	0
£/€ redress awarded to borrowers	0	0
No. of litigation cases currently pending against you	0	0

## Loan/Asset Administration

Our subbanking for loan administration as a special servicer of residential mortgages in Spain is ABOVE AVERAGE. Our subbanking for loan administration as a special servicer of residential mortgages in Portugal is ABOVE AVERAGE. In 2015, the servicer created a closing department, which freed the asset manager from administrative tasks. At the same time, the company increased the number of staff in the early arrears department, in line with the growth of this kind of asset class. The company's workflow to manage nonperforming loans allowed the servicer to report positive collection results. Finally, the company has a user-friendly reporting system and is proactive in terms of client communication.

We reviewed all aspects of loan servicing, including loan boarding, payment processing, investor reporting, customer service, collections, litigation, and asset recovery functions.

**Table 9a**

Portfolio Distribution In Spain										
	Performing*		Early arrears*		Late arrears		Possession/REO		Total	
	Amount in Mil €	No. of units	Amount in Mil €	No. of units	Amount in Mil €	No. of units	Amount in Mil €	No. of units	Amount in Mil €	No. of units
<b>Residential portfolio</b>										
Residential mortgages NPL	29.65	506	23.95	362	298.28	2,183	-	-	351.89	3,051

Table 9a

Portfolio Distribution In Spain (cont.)										
	Performing*		Early arrears*		Late arrears		Possession/REO		Total	
	Amount in Mil €	No. of units	Amount in Mil €	No. of units	Amount in Mil €	No. of units	Amount in Mil €	No. of units	Amount in Mil €	No. of units
Residential REO	-	-	-	-	-	-	22.07	609	22.07	609
Total residential portfolio	29.65	506	23.95	362	298.28	2,183	22.07	609	373.96	3,660
<b>Top 3 regions (NPL + REO)</b>										
Largest region (Comunidad Valenciana)	2.34	38	3.78	47	78.29	416	5.65	161	90.07	662
2nd largest region (Cataluña)	5.51	60	5.95	52	64.86	325	3.93	96	80.25	533
3rd largest region (Comunidad de Madrid)	6.36	142	4.12	79	58.82	509	3.64	111	72.94	841
<b>Top 3 clients (NPL + REO)</b>										
Largest client	0.08	6	0.58	35	18.37	908	1.38	276	20.40	1,225
2nd largest client	2.89	500	1.77	318	4.97	688	0.44	186	10.07	1,692
3rd largest client	-	-	0.05	9	5.10	540	0.22	95	5.37	644

\*Only present in the Spanish residential portfolio.

Table 9b

Portfolio Distribution In Portugal						
	Late arrears		Possession/REO		Total	
	Amount in Mil. €	No. of units	Amount in Mil. €	No. of units	Amount in Mil. €	No. of units
<b>Residential Portfolio</b>						
Residential mortgages NPL	96	2,078	1.47	81	97.47	2,159
Residential REO	-	-	135.39	1,084	135.39	1,084
Total residential portfolio	96	2,078	136.86	1,165	233.00	3,243
<b>Geographic Concentration (NPL)</b>						
Top 3 largest regions (Lisboa, Setubal Porto)	32.33	743	1.19	54	33.52	797
<b>Geographic Concentration (REO)</b>						
Top 3 largest regions (Faro, Porto, Lisboa)	-	-	73.54	540	73.54	540
<b>Top 3 Clients (NPL + REO)</b>						
Largest client	96	2,078	111.65	962	207.65	3,040
2nd largest client	-	-	25.21	203	25.21	203
3rd largest client	-	-	-	-	-	-

### New loan set-up

In 2015, the company boarded a total of 4,550 loans and 632 properties in Spain, including 3,051 residential loans and 609 residential properties. Similarly, FinSolutia boarded a total of 4,425 loans and 1,139 properties in Portugal over the

same period, including 2,159 residential loans and 1,084 residential properties.

We believe that this has provided an adequate test of the company's boarding capabilities.

The boarding of a portfolio is automated with data transferred using an extract, transform and load methodology. Extraction can be made from a variety of sources including excel, access, and XML.

FinSolutia sends a standard welcome letter to all new debtors within 15 days from boarding.

### **Document tracking**

Upon receiving original documentation, a team of loan managers reviews the information.

All documents are uploaded and stored electronically to a document service manager. All documents are sent for scanning to Normadat, an external company. FinSolutia has developed a template for checking documents received or not received with this company. The template also allows FinSolutia to prioritize loans that may require more urgent attention.

Each document is allocated a bar code, identifying where the paper documents are stored and this helps to retrieve them if necessary. FinSolutia uses an external archive provider to store documents.

### **Skip tracking**

In March 2015, the servicer reinforced its skip tracing function setting up an internal team of two full time employees that work on each case for at least three months before outsourcing further investigation. The company considers that the current number of loans under management justifies such an investment.

### **Payment processing**

The finance department and the risk management function share the responsibility of the payment process. The latter is part of the client solutions unit and it supervises all servicing activity to monitor compliance with policies and procedures. In this case, it is in charge of payment reconciliation. The head of finance department leads a team of five employees which support both the Spanish and Portuguese operations. A team of seven staff comprise the Spanish risk management function, including the function head, and a team of four comprise the equivalent Portuguese team.

FinSolutia is responsible as a special servicer for collecting monies from debtors. Customers can make payments to the clients' accounts via a variety of methods including bank transfer or direct debit, and ATM payment which is a quite popular payment method in Portugal.

In Spain there is an administrative challenge for managing customers who pay by direct debit. The banking system allows a debtor to recall a direct debit taken from his/her bank account for a period of up to 56 days after the due date. This can create uncertainty over whether a mortgage payment has been made or not on time and FinSolutia reports that, on average, about 25%-30% of all direct debits are recalled. This means that it has to contact the borrower for funds, which can be inefficient and costly. Since 2014, FinSolutia agreed with the Spanish post office a system to accept over-the-counter cash payments, using a unique reference. Therefore, monies are transferred directly into the relevant mortgage account. Once a borrower has paid the cash, it cannot be recalled. Moreover, FinSolutia believes that borrowers like the flexibility of this system.

Any payments that cannot be allocated are reconciled weekly against investor bank accounts with few accounts which are reconciled only on a monthly basis, given the related low activity. Special servicing and RE departments then check the allocation.

In 2015, FinSolutia updated its delegated authority levels for approval on expenditures, such that all invoices greater than €10,000 must be approved by the country managers.

### **Special servicing**

FinSolutia has been a special servicer in Portugal since 2011 and in Spain since late 2012. The total gross book value for both Spain and Portugal is 100% third-party portfolio and is not securitized. The servicer works on defaulted loans of a different nature from residential mortgages to small and medium enterprises and corporate loans. Our rankings are limited to the company's ability to service residential mortgages in Spain and Portugal.

Spanish and Portuguese servicing operations work separately, despite replicating a similar structure. Four departments comprise FinSolutia's servicing operations in Spain and four departments in Portugal: Primary and early collections, special servicing, closing and RE. The Spanish servicing operations also include six internal lawyers who coordinate four external law firms which represent FinSolutia's external network. In Portugal, the servicer outsources its legal services, although the four fully-dedicated external lawyers sit at FinSolutia's office in Lisbon to gain further efficiency.

Up until 2015, the special servicing teams comprised team leaders (TLs)-who manage between three to five asset managers- reporting to the head of each department. In 2015, FinSolutia created a new role of deputy head in between the TL and the head of each department to accommodate growth.

The team organization is now as follows:

- Deputies to the head of departments (DHs) who have authority to accept proposals and resolutions following delegation authorities set up in each SLA and make recommendations to the heads of departments on proposals accordingly.
- TLs, whose duties also involve team management, coaching, and making recommendations to the deputy of the Heads of Department on proposals and resolutions. Every TL manages a maximum of three asset managers.
- Assets managers (AMs) have varied experience and are allocated loans according to their complexity and matched against their individual experience. Their role includes debtor contact, loan analysis, and establishing debtor ability and willingness to pay.

Thus, there is a clear distinction between the AMs who propose resolutions and the DMs who approve them.

Both Spain and Portugal use the same systems, policies, and procedures and follow a similar workflow adjusted to comply with the specific jurisdiction's legislation and regulation.

The company instigates debtor contact—usually by letter, telephone, or text messages according to the servicing agreement. FinSolutia has prepared a suite of letters to enable it to maintain consistent communication in line with individual country regulations and practices. It sends all letters by registered post and records all communication on the loan management system.

**Table 10**

Average Loans Per Employee And Servicing Function			
	Dec-14	Jun-15	Dec-15
<b>Spain</b>			
Primary servicing*	400	39	182
Early arrears management*	270	37	175
Long-term arrears management	150	97	161
Litigation	100	256	348
Property sales	150	124	70
<b>Portugal</b>			
Long-term arrears management	6	124	66
Litigation	487	175	1008
Property sales	13	19	14

\*Only present in the Spanish residential portfolio.

### Early Arrears

In addition to defaulted loans, the company also services performing and sub-performing loans (SPLs). It aims to maintain the status of the performing loans and manage the SPLs to return them to a performing status, where possible. If an SPL goes beyond 90 days in arrears, it becomes a nonperforming loan (NPL) and enters special servicing. In 2015, FinSolutia reinforced its early collections team that now comprises seven employees in Spain. The Spanish early collections portfolio totaled €0.117 billion (1,353 SPLs). The Spanish residential early arrears portfolio amounted to €0.045 billion (868 SPLs) in 2015.

### Late Arrears

At the end of 2015, 10 staff--working in three teams--managed a total portfolio of residential NPLs (excluding repossessed properties) accounting for €0.351 and three staff managed €0.097 billion in Portugal.

There are three phases of the NPLs workflow: workout, foreclosure, and RE-owned services. Asset managers start the workout initially assessing the borrower's ability (by obtaining detailed financial information) and willingness to make payments. To maximize returns, the asset managers consider alternatives to foreclosure and possession, such as loan modification, voluntary collateral surrender, discounted pay-off (DPO), or sale under power of attorney. Often negotiations run concurrently with the commencement or continuance of foreclosure proceedings in case the negotiations do not reach a satisfactory conclusion. Analytics developed by FinSolutia support strategy.

The IT system records each step of the workflow including asset managers' decisions, sales price, etc. so the company can produce several key performance indicators (KPIs) The system also automatically flag any new assignment so the asset managers have a clear understanding of their responsibilities.

### RE management

RE departments, composed by six employees in Spain and 10 in Portugal, support the special servicing teams. . In 2015, the Spanish sales team managed a total amount of 632 properties including 609 residential properties. During the same period, the Portuguese sales team managed a total amount of 1,109 properties including 1,084 residential properties.

The RE asset manager's first responsibility is to secure every new property boarded, i.e., locks changed and ready for marketing. FinSolutia has contracts with four national companies in Spain and three in Portugal, which attend to this on its behalf.

Under procedure, FinSolutia requires two formal valuations for each property, one based on a formal broker's appraisal to be received within three days from assignment and one automatically generated by the system based on market information that the system itself extracts from different external sources.

External brokers work directly on FinSolutia's loan management system through a secured access, therefore, the RE asset managers and external brokers share information via the system. FinSolutia works with almost 150 RE brokers in Spain and 96 in Portugal and provides them training to guarantee their understanding of its requirements.

While generally each broker has a four-month exclusivity period, the servicer can approve exceptions and may use more than one broker if it considers it to be beneficial. FinSolutia requires a broker to submit an asset report to the asset manager for evaluation within three days of instruction. The company monitors broker performance closely.

### Closing

In 2015, FinSolutia segregated the closing activity within ringfenced departments from the special servicing activity. Four and three employees comprise the Spanish and Portuguese teams, respectively. The teams are responsible for the administrative work required to finalize payment agreements and sales negotiated by the operations. The servicer developed a new section in the loan application to manage the entire process.

### Legal team

In Spain, there is a team of six internal lawyers supported by a panel of four external firms. In 2015, the Spanish legal team managed 1,114 cases. In Portugal, the company outsources the foreclosure process to third-party judicial service suppliers which managed an amount of 2,025 residential cases.

FinSolutia has provided evidence that collections activity has been producing positive results in most of the portfolios for both Portugal and Spain. From what we have observed, we believe that the company has good processes, with appropriate levels of oversight and control so that servicing staff work efficiently and effectively in achieving work-out solutions.

### Outsourcing

FinSolutia uses several service providers (see table 11).

**Table 11**

External Providers		
	Spain	Portugal
Brokers	150 active	96 portugal
Lawyers	Four external firms and six internal lawyers	Four external firms
Solicitors	One per court	External law firms select and manage them, usually they work with preferred solicitors
Archive provider	Norma Dat	Keep it Simple
Skip tracing	None (In house)	Four companies working with specific compliance guidelines
Appraisal companies	5	3

**Table 11**

<b>External Providers (cont.)</b>		
	<b>Spain</b>	<b>Portugal</b>
Securing companies	4	3

The servicer monitors every panel of approved providers. The suppliers have service level agreements and key performance indicators to observe and FinSolutia closely monitors their performance. The company structures the panels to enable it to have geographical coverage across Portugal and Spain.

### **Investor reporting and client relationship**

The advisory departments and risk management departments, which are part of the client solution unit in each jurisdiction, handle all reporting and client account responsibility.

The company's goal is to provide bespoke reporting within a basic template that it has devised. Reports are automatically produced monthly or quarterly, depending on investor and client requirements. Currently there are seven and four employees working on third party reporting in Spain and Portugal, respectively.

At the same time, clients can access their portfolio data directly; they can prepare their own customized reports using their permitted secure access.

The risk management function together with the country managers ensures client management since boarding or due diligence, if applicable. The risk management department is also in charge of reviewing every proposal that asset manager sends to clients for their approval because FinSolutia applies a four eyes discipline, whereby at least two people "sign off" on any acceptances of proposals or recommendations sent to investors.

In addition, the servicer has confirmed that the asset managers regularly contact investors to provide updates about their portfolios. As part of FinSolutia's client relationship, there is an investor relations manager that arranges regular meeting and events with key clients.

The servicer has a user-friendly reporting system that allows clients to customize reports. The company is also proactive and transparent in terms of client communication, in our view.

## **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**

- Various Ranking Actions Taken On FinSolutia As A Special Servicer Of Residential Mortgages In Portugal And Spain, April 20, 2016
- Servicer Evaluation: FinSolutia S.A., March 5, 2015
- Select Servicer List, published monthly.

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