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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

- In 2016 and 2017, FinSolutia S.A. (FS) participated in some of the major deals in both markets as advisor supporting to most active international investors. The servicer considers that their outstanding partners have greater probability to obtain the on-going deals in the pipeline and this will guarantee future growth in both jurisdictions.
- In late 2016 and early 2017, FS restructured its Spanish and Portuguese operations, respectively. The company established a portfolio management unit in each country, including supporting functions to the special servicing business. Consequently, FS appointed a new chief operating officer who also joined the executive team. Similarly, the country-specific special servicing teams have been split by asset classes. In our opinion, specialization can help increase efficiency and scalability, so we will closely monitor the consolidation of these changes and their impact in productivity.
- The company had a relatively high turnover rate in 2016 because FS hired 23 employees in Spain and 17 in Portugal. Additionally, this resulted in lower staff tenure than that of its similarly ranked peers in Europe, and an exceptionally low level of general training hours per employee over the same period, as HR focused primarily on training new joiners and people who moved internally. FS considers that the restructuring's impact has been fully absorbed and implemented several initiatives to retain talent. The servicer has already reported a higher level of training hours and lower level of turnover rate in the first half of 2017. Moreover, the company forecasts a lower turnover rate by the end of 2017 and 2018 and increased training hours in the short term. In our view, 2016's training figure will remain an outlier, and the company is well equipped to achieve its targets and to report higher level of staff tenure in the future.
- Since 2016, the company runs periodic risk committees and applies a three line of defense model to its internal control system, in line with market standards. In 2017, it began to handover the risk management responsibility from the internal auditor to another internal manager, increasing the resources devoted to this function.
- Notwithstanding the restructuring, which required some process updates, FS's workflows in both jurisdictions remain unchanged and fully embedded in its state-of-the-art IT system. The company reported recoveries on residential mortgages and residential real estate owned properties in line with clients' expectations.

Opinion

S&P Global Ratings has affirmed its overall ABOVE AVERAGE rankings on FinSolutia S.A. as a special servicer of residential mortgages in Spain and Portugal. The outlook is stable for both rankings. (see "Rankings Affirmed On FinSolutia As A Special Servicer Of Residential Mortgages In Spain And Portugal," published on Dec. 5, 2017). Our ranking is limited to the company's activity as a residential mortgage special servicer in Spain and Portugal, although it factors in other business lines that could benefit or be a risk for the company's servicing activity. Our overall rankings are 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 Spain. The servicer's operations are well designed and supported by a solid IT system. The consolidation of implemented changes will further increase efficiency, in our view.

Company Profile

FS is an independent company that provides a variety of loan management and real estate services in Portugal and Spain, including an end-to-end suite of options from advisory support during the due diligence phase until closing, including asset sales. Its core business is the special servicing of residential mortgages and corporate loans in Iberia.

Established in 2007 as a joint venture between the founding partner and two international financial institutions that provided the equity support, FS became an independent servicer in early 2012 through a management buy-out. The senior management team, including the founding manager (who is also the company's CEO), currently have significant equity stakes in the company.

In 2007, the company opened its first office in Lisbon. In 2009, it opened a second office in Madrid, followed by a third center in Barcelona in 2015 in line with its growing Spanish portfolio. FS's three servicer centers share senior management, supporting functions, and IT platforms, but have jurisdiction-specific workflows.

Company Overview	
Servicer name	FinSolutia S.A.
Date formed	2007
Total staff (as of June 30, 2017)	138
Servicing staff (as of June 30, 2017)	70
Servicing centers	Lisbon, Madrid, and Barcelona
Client types	Investment banks, high street banks, institutional investors, residential lenders, and commercial lenders.

The executive committee prepares the company's business plan (BP) and regularly monitors it. The board of directors approves the BP. The CEO, the chief technology officer (CTO), the chief financial officer (CFO), the chief operating officer (COO), and the Spanish country manager make up the executive committee.

Between early 2016 and June 2017, FS increased its overall portfolio, boarding three deals in Spain and two in Portugal. As of June 2017, the company was working on 26 residential mortgage portfolios corresponding to six residential clients in Spain and two in Portugal. As a result, since our last review, FS has successfully replenished its assets under management and even grew moderately. 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 current market conditions to the executive committee to help strategic planning. In addition, the advisory function remains a relevant source of income for the company and, while this is not under the scope of our ranking, the company confirmed that it has become an essential source of new servicing mandates.

As of June 2017, FinSolutia's overall Spanish portfolio accounted for €1.458 billion of gross book value, including €0.498 billion in residential loans and repossessed properties, up from €1.159 billion and €0.373 billion, respectively, in December 2015. The overall Portuguese portfolio slightly decreased over the same period to €0.347 billion from €0.396 at the end of 2015. The total Portuguese residential business increased to €0.264 billion from €0.232 billion during the same period after reporting a peak of €0.322 billion in December 2016.

Our ranking is limited to the company's activity as a special servicer of residential mortgages in Spain and Portugal; however the company offers other services such as the special servicing of corporate loans, and more recently the mortgage origination and management of unsecured loans in Portugal.

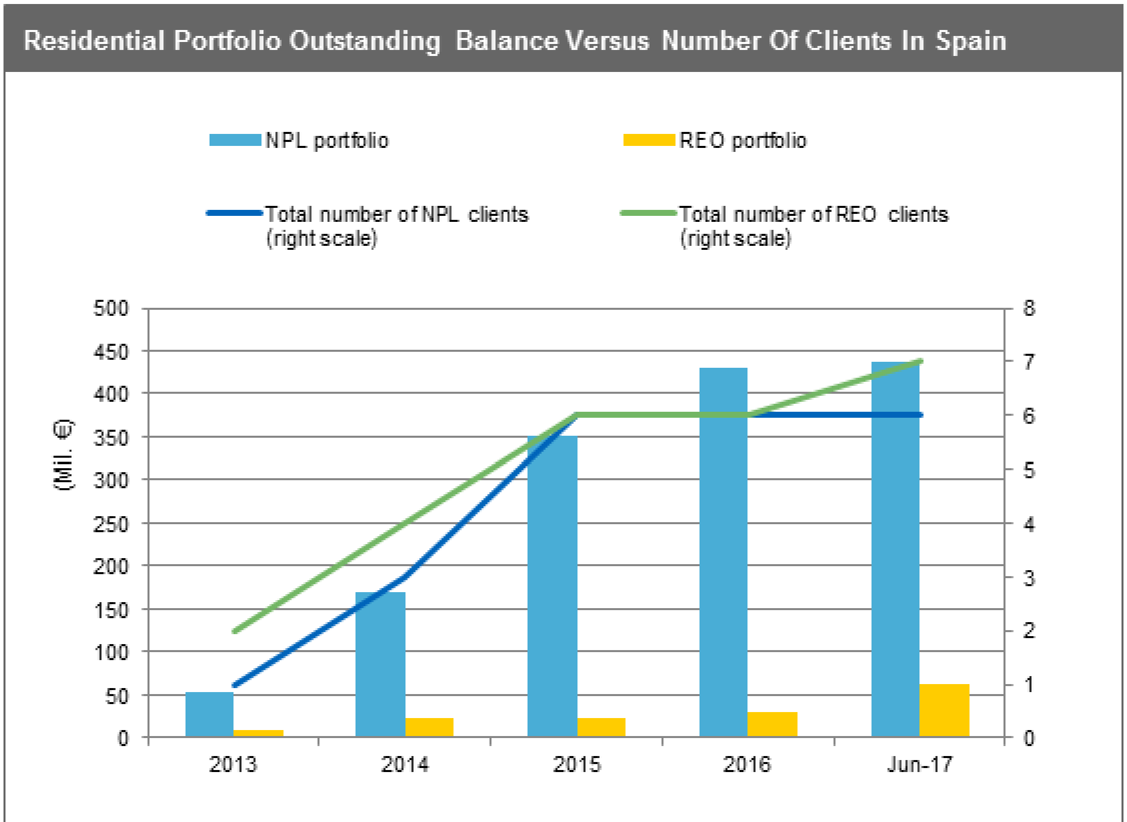
Table 1

Portfolio Evolution

	2013		2014		2015		2016		Jun-17	
	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**
Portugal										
Residential mortgages	86.42	1,716	72.87	1,643	97.47	2,159	164.06	2,041	120.17	1,939
Residential REO	2.73	59	135.17	1,094	135.39	1,084	158.64	1,102	144.27	1,024
Corporate mortgages	104.25	2,130	99.41	1,954	132.87	2,266	90.52	929	78.78	906
Corporate REO	-	-	35.56	54	30.43	55	3.76	56	3.79	59
Total	193.41	3,905	343.00	4,745	396.16	5,564	416.98	4,128	347.00	3,928
Spain										
Residential mortgages	53.98	579	168.72	2,214	351.89	3,051	430.79	3,098	436.78	3,176
Residential REO	9.63	399	22.16	689	22.07	609	30.90	582	62.17	1,153
Corporate mortgages	-	-	310.65	808.00	780.68	1,499.00	800.42	1,859	935.54	2,590
Corporate REO	-		5.53	41	5.03	23	52.81	646	24.29	867
Total	63.61	978	507.07	3,752	1,159.67	5,182	1,314.93	6,185	1,458.78	7,786

REO--Real estate owned.

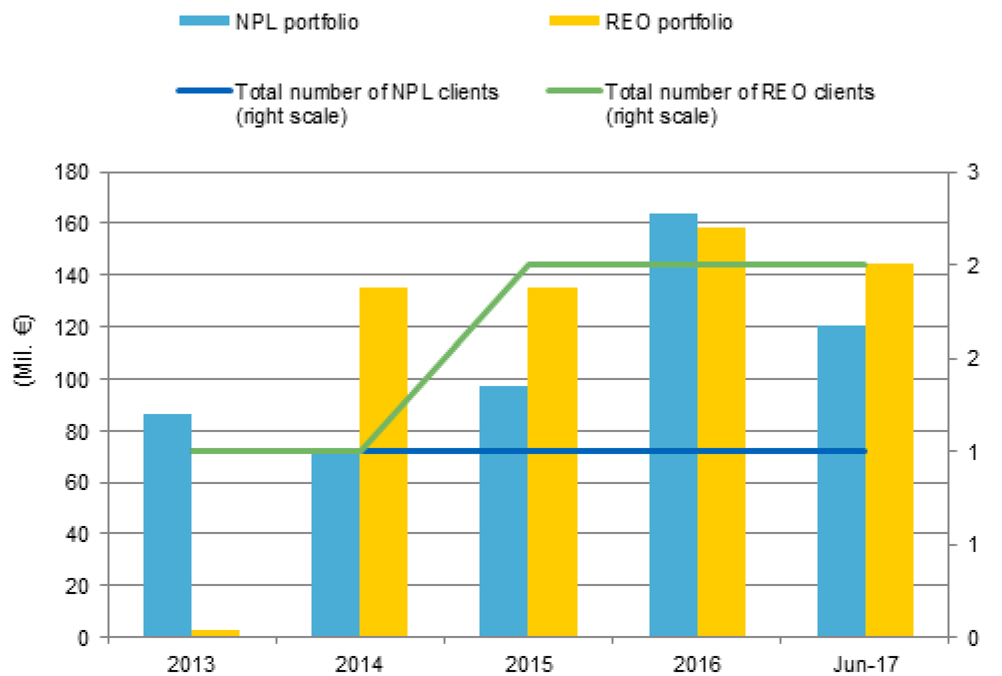
Chart 1a



NPL--Nonperforming loan. REO--Real estate owned.

Chart 1b

Residential Portfolio Outstanding Balance Versus Number Of Clients In Portugal



NPL--Nonperforming loans. REO--Real estate owned.

Chart 2a

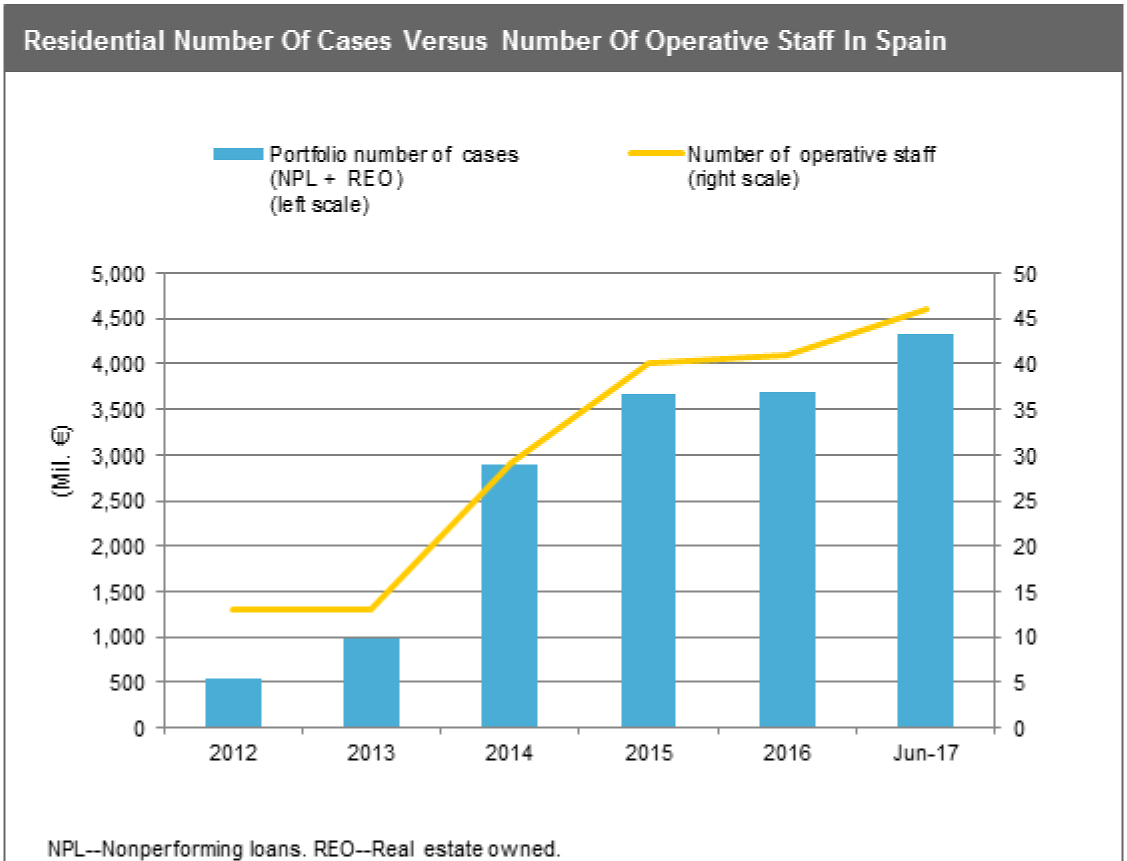
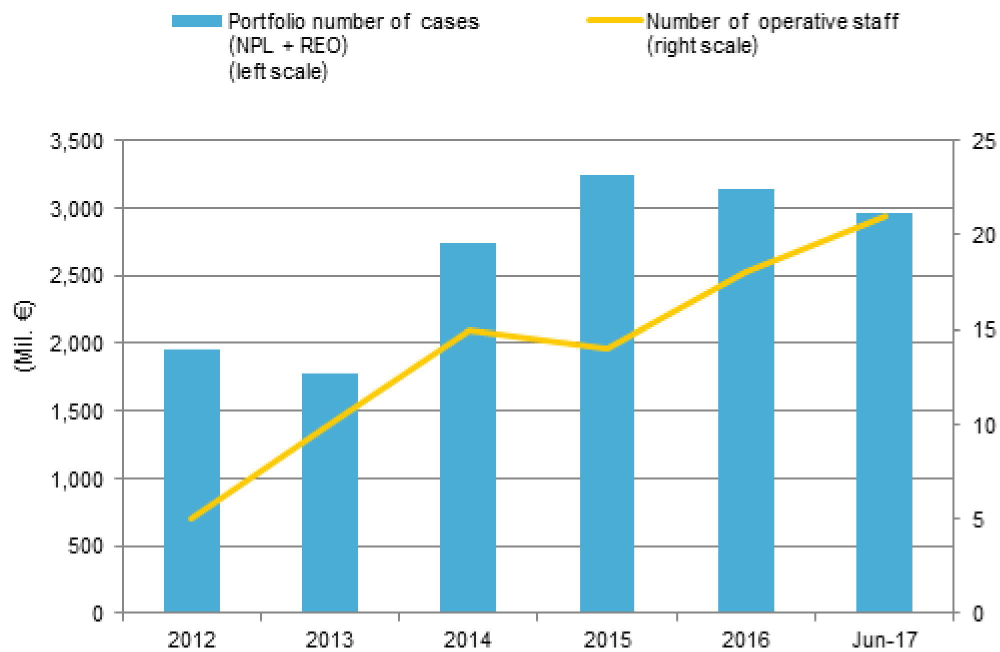

Residential Number Of Cases Versus Number Of Operative Staff In Spain
Portfolio number of cases (NPL + REO) (left scale)
Number of operative staff (right scale)
(Mil. €)
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
50
45
40
35
30
25
20
15
10
5
0
2012
2013
2014
2015
2016
Jun-17
NPL--Nonperforming loans. REO--Real estate owned.

Chart 2b

Residential Number Of Cases Versus Number Of Operative Staff In Portugal



NPL--Nonperforming loan. REO--Real estate owned.

Management And Organization

We have affirmed our ABOVE AVERAGE subrankings for management and organization on FS as a special servicer of residential mortgages in Portugal and Spain. In our opinion, the servicer has an experienced senior management team, which further expanded, reducing the risk of key man dependency. The company has an efficient and scalable structure that can absorb further growth once it fully consolidates the recent changes. A higher level of staff tenure and continuous training will benefit FS, and we consider the company well positioned to achieve these targets. The servicer continues investing in the IT systems, which remains one of its strengths.

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

Structure

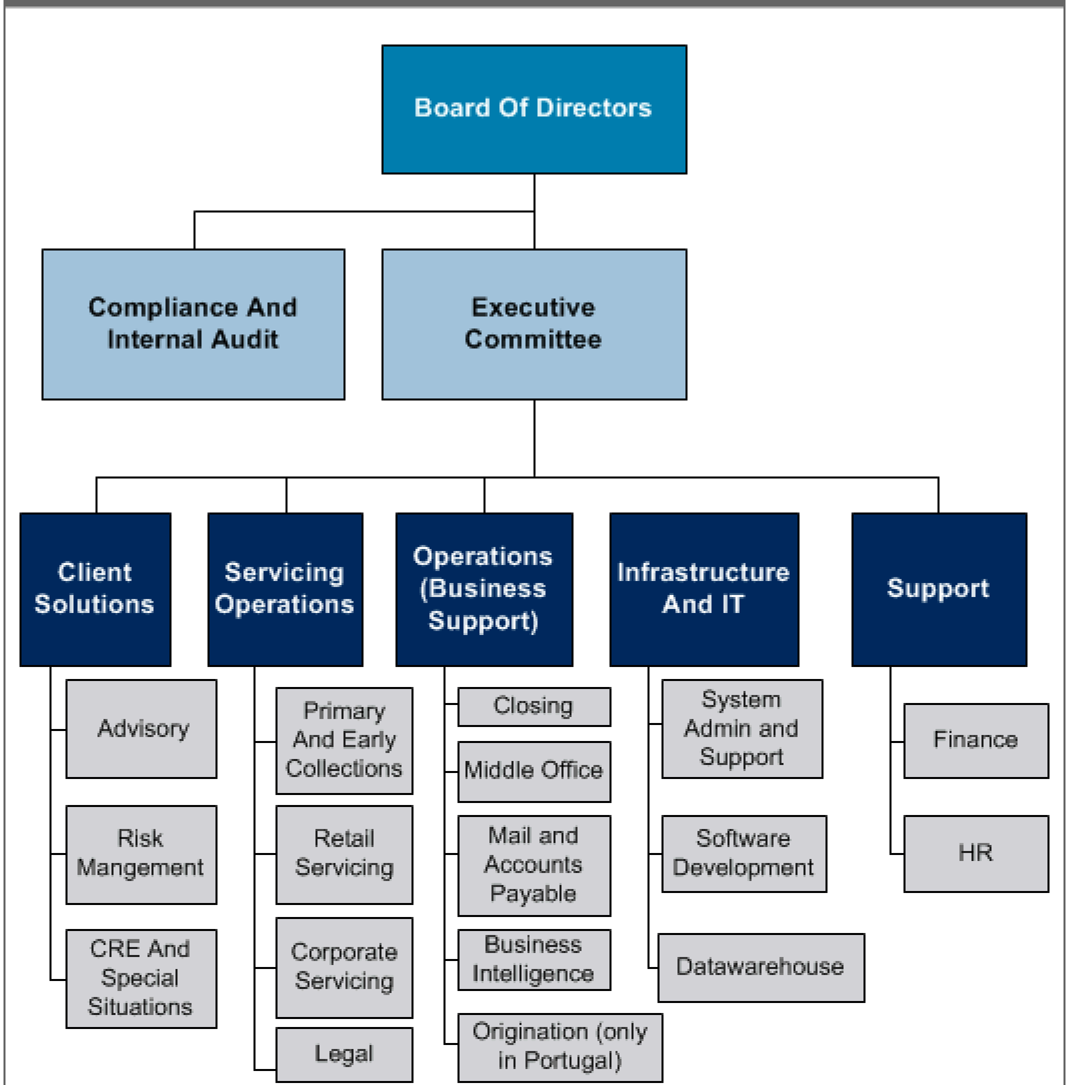
The Portuguese and Spanish branches manage assets independently through separate servicing and operations departments. Nonetheless, they share functions such as HR, IT, and finance.

Since our last review, in early 2016 the firm established the operations unit, which includes closing, middle office, mail/accounts payable, and skip tracing--functions previously managed within other units. Operations also does document checks of the underwriting activity and business intelligence in Portugal. The company created and appointed the COO to lead this unit. In addition, FS has fostered specialization within the country-specific servicing units, creating different teams to manage residential, corporate, and real estate (RE) cases in both countries. The company created a separate legal team in Portugal, where the service was formerly externalized. These developments could increase productivity, and we will monitor their impact on the company's results.

In addition, the servicer replaced the head of RE valuation and the head of advisory in Spain and appointed a new chief risk officer.

Chart 3

Organizational Structure



Note: Executive committee consists of the CEO, CTO, Spain country manager, CFO, and COO.

The servicer governance model has remained unchanged and is supported by several committees (see table 2). This guarantees adequate reporting and monitoring of every function, in our view.

Table 2

Committee Governance

Committee	Purpose	Members	Frequency
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	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

CMT--Committee. EXCO--Executive committee.

Staff and staff turnover

As of June 2017, FS's had 82 Spanish staff, up from 71 at the end of 2015, and 47 Portuguese staff, up from 34. The company expects its workforce to continue to grow as business increases.

There were 29 departures across the two regions over the same period, 13 in Spain and 16 in Portugal, representing turnover rates of 20% and 30% in 2016 and 15% and 23% during first half of 2017, respectively. At the same time, the company hired 23 new employees in Spain and 17 in Portugal. While FS's turnover rates in Spain and Portugal have decreased since our last review, they remained relatively high up until June 2017. As a result, FS has implemented several initiatives to retain talent, and forecasts less turnover by the end of 2017 and 2018. This will bring up the overall level of tenure, which has remained lower than other similarly ranked servicers in Europe (though in line with other Spanish peers).

Table 3

Staff Evolution And Turnover Rate

	2012	2013	2014	2015	2016	Jun-17
Spain						
Staff at beginning of period (E)	16	19	22	46	71	82
Number of joiners	11	11	32	43	23	16
Number of staff leaving voluntarily (A)	4	7	7	14	8	5
Number of staff leaving not voluntarily (B)	4	1	1	4	6	7
Number of expired contracts (C)	0	0	0	0	0	
Number of staff redundant (D)	0	0	0	0	0	

Table 3

Staff Evolution And Turnover Rate (cont.)

	2012	2013	2014	2015	2016	Jun-17
Staff at end of period	19	22	46	71	82	86
Turnover rate [A+B+C+D]/E (%)	50.00	42.10	36.40	39.10	19.71	14.63
Portugal						
Staff at beginning of period (E)	17	19	22	34	43	47
Number of joiners	4	10	15	19	17	16
Number of staff leaving voluntarily (A)	2	6	2	1	8	8
Number of staff leaving not voluntarily (B)	0	1	1	9	5	3
Number of expired contracts (C)	0	0	0	0	0	
Number of staff redundant (D)	0	0	0	0	0	
Staff at end of period	19	22	34	43	47	52
Turnover rate [A+B+C+D]/E (%)	11.76	36.80	13.60	29.40	30.23	23.4

Table 4

Average Years Industry Experience Versus Company Tenure

Experience	Senior management	Middle management	Staff early arrears	Staff late arrears/litigation	Staff property sales
Jun-17 (Portugal)	19	15	13	9	7
Jun-17 (Spain)	21	13	5	12	14
Dec-2016 (Portugal)	19	16	16	9	10
Dec-2016 (Spain)	21	31	15	12	14
Dec-15	20.14	12.80	11.38	9.70	9.91

Tenure	Senior management	Middle management	Staff early arrears	Staff late arrears/litigation	Staff property sales
Jun-17 (Portugal)	7	4	2	2	3
Jun-17 (Spain)	5	3	2	2	1
Dec-2016 (Portugal)	7	4	6	2	3
Dec-2016 (Spain)	5	3	1	2	2
Dec-15	4.71	3.20	0.75	1.13	2.09

The servicer organizes two yearly off-sites, one for the senior management team focused on business and strategic planning discussions and one for all staff within each jurisdiction to foster team spirit and communication.

Training/development

The head of HR and a second manager make up the HR team and are in charge of recruitment, training, and people management across Spain and Portugal. The HR head coordinates the recruitment activity with the help of external agencies, if required. The HR head is also in charge of planning trainings after receiving the managers' and team leaders' inputs on the topic. Finally, she can also leverage the information on core competencies and professional results stored in the web-based HR portal to identify training needs.

In 2016, FS reported a low level of general training hours per employee because the structural changes absorbed much of the people management effort over this period. The company highlighted that these implementations required sizing the new teams and redefining processes across the units. Moreover, HR was focused on training new joiners and people who moved internally due to the restructuring. The company plans to provide an average amount of annual trainings per employee by the end of 2017 that is closer to market standards and those provided in the past. In our view, the servicer is aware of the importance of ongoing education, and we believe that 2016's training figures will remain an outlier.

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 it depending on the new hires' experience. In our opinion, this is a reasonable training that helps new joiners quickly get up-to-speed in their role.

Table 5

Average Training Hours

	2015	2016	Jun-17
Spain			
Internal formal training	0.53	0	0
External formal training	12.73	5.25	4.64
On the job/coaching	18.74	0.61	5.58
Online training	0.04	0	0
Total	32.04	5.9	10.22
Portugal			
Internal formal training	0.53	11.2	0.71
External formal training	12.73	4.9	0.36
On the job/coaching	18.74	0.3	12.07
Online training	0.04	0.3	0
Total	32.04	16.8	13.14

FinSolutia has a double bonus scheme: one is paid to all employees based on company performance, and the other is paid exclusively to the loan and real estate asset management team and based on success fees. Since 2016 the annual review has taken place in two stages: once in July and once in January. The performance review that each employee has with their line managers comprises the self-assessment, manager's assessment, and next year's objectives. During these meetings, each staff can put forward career ambitions and agree on required steps to achieve them. During the process, individual and team objectives are set in line with company goals. The manager assessment of performance feeds into the remuneration/bonus award to the employee. Finsolutia believes that the performance assessment is a positive motivational tool.

Since 2015, FS structure has included six categories, from the junior to the most senior role and a description for each role.

Finally, in 2016, FS implemented a timesheet tool to track where staff invests its time and thus to highlight where the company can gain profitability. We will closely monitor the impact of this new tool on efficiency.

Systems and technology

A team of nine staff make up the IT department, including two based in Spain and seven in Portugal, together with the head of the department. The overall team had decreased from from 12 by the time of our last review because the business intelligence function is now part of the newly established operations unit. As a result, the IT team is now in charge of three areas: development, systems administration, and product management. The head of the IT department is part of the executive team and has been at the company since its foundation.

The company has developed its own IT platform, 4Sight MS platform (4S), which supports all servicing activity and is based on three fully integrated in-house applications. They use Microsoft technology and are supported by an SQL Servicer 2014 (see table 6). The company has been awarded of Microsoft gold certification for application development.

Table 6

IT Applications List And Description

IT application	Description
4 Sight Origination	Supports the mortgage loan origination business, includes online mortgage simulators, credit risk algorithms for borrower scoring and credit workflow approval, fully integrate with 4S platform for real estate appraisals and loan management.
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, FinSsolutia further developed this application to support the its advisory and closing activities.
4 Sight Property manager	Real estate management system which is mainly used by the real estate 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 secure access to the web-based platform. Additionally, FinSolutia publishes information on repossessed property on a real estate public website, with Spanish and Portuguese domains Nolon, to market them more easily.

Since our previous review, the company:

- Developed a module to support the new origination business line in Portugal.
- Increased staff productivity by allowing them to dial and contact borrowers directly from the system. In addition, call recordings and audit of calls are now available.
- Launched a new module to manage loans backed by collateral composed by multiple units. Similarly, the vendor application has been updated to receive reports on valuations for multiple properties.
- Created the ability to personalize the user interface with "to dos" and alerts.
- Finalized a series of video tutorials that offer step-by-step support to understand the applications features.
- In 2017, FS also started a project to implement a new suite of business intelligence reports in line with the actions taken by most proactive servicers around Europe.

In our opinion, the IT platform remains robust, reliable, and continues to be one of the servicer's strengths. We believe that FS continuously and adequately updates the platform .

The IT department prioritizes system development requests mostly in order of importance and based on urgency. An internal committee comprising relevant executive managers 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 4Sight Loan Manager systems include antivirus software and there are mechanisms in place to avoid external or internal intrusion into the systems. 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.

The 4Sight Loan Manager runs on SQL servers, as do all databases, while no confidential data are held in the cloud. FS has three physical servers that provide 24/7 availability with automatic failover and real-time replication. 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. We understand that, on average, it takes less than an hour to restore data.

The business continuity (BC) and disaster recovery plan (DRP) are tested annually and authorized users can activate the DRP from either a website or smartphone.

FS workers can access its IT web-based platform from any external location, with internet access from either a computer or a smart device. Moreover, the Lisbon and Madrid headquarters can host 30 and 15 key employees, respectively, if necessary.

Internal controls

Since our last review, FS has introduced the three-lines-of-defence model, as follows:

- At operations level, the first line of defence, there are owners within each function in charge to identify issues with processes and procedures that need updates. Similarly, staff must follow processes and procedures designed to minimize operational risks.
- Since April 2016, the company organizes monthly risk committees, which are the second line of defence. Moreover, in 2017 FS transferred the responsibility of risk management from the auditor to a different manager
- Finally, the internal audit, the third line of defence, has been reinforced with new staff appointments.

FS has an internal audit function that monitors 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 dedicated staff 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 a methodology to create transparency and consistency for the discipline. Moreover, the servicer applies the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Audit (IIA). The plan is driven by the level of risk exposure to ensure that internal audit resources are directed towards departments or activities with risks that are more likely to affect FS's business objectives.

Internal audit creates an individual plan for each area of operations before commencing the audit. Audits are carried out onsite. 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 qualities 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.

The company benefits from in-house software that facilitates the audit process, reduces human mistakes, creates audit track records, and ensures the regular back-up of audit reviews.

Table 7

Audit Results

Date of last audit	Dec-15	Dec-16	Jun-17
Number of highest risk findings	2	3	0
Number of other findings	3	3	1
Number of resolved other findings	5	6	1
Number of open findings	0	0	0

In early 2016, the servicer set up a new risk committee to discuss operational, strategic, credit, regulatory, and reputational risk. Furthermore, in 2017, FinSolutia appointed a new chief risk officer--a function that the internal auditor had previously covered. The new risk officer took over the responsibility of the company risk assessment (CRA), which lists risks according to their likely occurrence and impact. The company grades every risk as high, medium, or low. This analysis feeds the yearly internal audit plan so areas perceived as exposed to a higher potential risk are assessed first as described above. In 2017 the company updated the risk register, which has nine categories including financial, legal, IT, HR, accounting, and servicing activity, among others.

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;
- Know your customer, verifying borrowers' identities to prevent crimes such as financing terroristic activities;
- Anti-money laundering (AML) to prevent fraud; and
- Data protection.

Since early 2017, the internal auditor in his compliance officer role has been focused on meeting the new European regulation on data protection, which will come into force on May 2018. As a result ,with the help of an external professional, FS identified all the processes to be updated and the associated risks, and set up a remedy actions plan that will be delivered following the servicer's forecast.

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

The internal control manager gathers inputs to perform his work, not only from the IT application but also from the risk committee, executive committee, board of directors, and middle management. The servicer equipped the system with automatic quality controls so the user and his/her supervisor receive alerts of any exception. In 2017 the servicer launched an annual survey to measure its clients' perceptions on its internal controls management. This initiative proves its willingness to continue improving this function, in our view.

The policies 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 must 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 they are also available on the company intranet. We have received a copy of the current manuals, which 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. Since 2015, the servicer has consolidated every policy and procedure on collection into a single manual. We consider this unique source of information on collection a user-friendly tool to support the application of the related policies and procedures.

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

Table 8

Complaints Management

	Dec-15	Dec-16	Jun-17
Nonservicing complaints handled on behalf of clients	23	17	6
Servicer/servicing related complaints	2	2	3
Total number of complaints handled	23	19	9
Complaints referred to Ombudsman	2	2	1
Complaints upheld by Ombudsman	2	2	1
% of complaints administered within regulators timeline	100	0	1
Average days to solve a complaint	7	20	34
£/€ fines by regulator	0	0	0
£/€ redress awarded to borrowers	0	0	0
No. of litigation cases currently pending against you	0	0	0

Loan/Asset Administration

We have affirmed our ABOVE AVERAGE subrankings for loan administration as a special servicer of residential mortgages in Spain and Portugal. Since our previous review, the servicer has created a separate operations unit, which freed the special servicing department from administrative tasks. The company's workflow to manage nonperforming loans allows the servicer to report collection results in line with servicing agreements. Finally, the company has a user-friendly reporting system and remains 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 9

Portfolio Distribution				
	Spain (%)		Portugal (%)	
	Amount	**No. of units**	**Amount**	**No. of units**
Performing loans	4.90	8.90	-	-
NPL (including sub-performing)	32.60	32.90	4.90	10.39
Litigations	47.70	31.00	51.68	58.63
REOs	14.70	27.30	44.03	30.98
Top largest clients	33.50	22.70	81.00	83.00
Top three largest clients	79.40	73.30	100.00	100.00
Top three largest regions	23.30	18.30	19.00	21.00
Top three largest regions	56.50	49.30	47.00	43.00

NPL--Nonperforming loan. REO--Real estate owned.

New loan set-up

Since early 2016, the company has boarded a total of around 4,500 loans and 1,500 properties across Spain and Portugal. FS had mainly boarded portfolios acquired by investors that the firm supported as an advisor during the due diligence phase. Consequently, at boarding, the servicer can leverage the any information collected and prioritize each case based on the nature of the asset and the status of the judicial phase. Cases in foreclosure are processed before others.

At boarding, FS receives a data template in an electronic file, including electronic versions of the most important documents. 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. The system then runs automatic checks on data quality and flags related issues.

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

Document tracking

FS receives original documentation at its premises. Upon receiving original documentation, a team of loan managers reviews the information. The servicer can hire external support if the workload requires it. The goal is to verify the presence of the minimum set of documents for each case--eventually chasing missing information--and upload electronic images to the system if they are not yet available.

To this end, all documents are uploaded and stored electronically to a document service manager. All documents are sent for scanning to Normadat, an external company. FS has developed a template for checking documents received or not received with this company. The template also allows FS 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. FS uses an external archive provider to store documents.

Skip tracking

The servicer has an internal skip tracing function, which is now part of the newly established operations unit. Two full-time employees work on each case for at least three months before outsourcing for further investigation. The company believes that the current number of loans under management justifies such an investment. The company confirmed that every boarding took place within the agreed timeframe, and it considers that the procedure is scalable even though it has not yet been tested over a portfolio of wide scale.

Payment processing

Borrowers can make payments to the clients' accounts via a variety of methods including bank transfer or direct debit, and ATM payment method that is popular in Portugal.

Five staff in Spain and three in Portugal, both led by the same head, look after the payment process and payment reconciliation, which were formerly done by the finance department and the risk function, respectively, and are now part of the operations unit.

In Spain there is an administrative challenge for managing borrowers 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 on time or not and FS 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. FS made an agreement with the Spanish post office 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, FS believes that borrowers like the flexibility of this system.

Any payments that cannot be allocated are reconciled weekly against investor bank accounts, with some reconciled on a monthly basis due to low activity. The special servicing and RE departments then check and approve the allocation. While other servicers reconcile on a daily basis as best practice, FS did not report any issue with payment processes since inception and it is not planning to review this practice.

Following the delegation authority matrix, country managers have to approve all invoices greater than €10,000.

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 a 100% third-party portfolio and is not securitized. The servicer works on defaulted loans ranging from residential mortgages to small and medium enterprises.

Spanish and Portuguese servicing operations work separately, despite replicating a similar structure. 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. Thus the following description applies to both jurisdictions, if not otherwise specified.

Since late 2016 in Spain and early 2017 in Portugal, the special servicing units in each country are specialized by function and asset class in the following departments:

- Primary and early collections;
- Residential mortgages special servicing;
- Corporate mortgages special servicing;
- Legal; and
- RE valuation.

The legal and the RE valuation departments supervise the external networks of law firms and brokers, respectively. The country-specific closing departments--part of the servicing units at the time of our last review--are now part of the operations unit.

Over 86 Spanish staff, 15 are exclusively dedicated to residential mortgage servicing, helped by 12 supporting, 11 legal, and seven RE employees,. In Portugal, six employees out of a total of 52 work on residential mortgage servicing supported by six supporting, two legal, and six RE employees.

The organization of each department includes:

- Asset 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. AMs generate the proposals to debtors.
- Team leaders (TLs) are involved in team management, coaching, reviewing the proposals from the AMs and making recommendations to the head of departments (HDs) on proposals and resolutions. Every TL manages a maximum of three AMs.
- The HDs can accept proposals and resolutions following delegation authorities set up in each service-level agreement (SLA) and, if applicable, make recommendations to the investors.

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

All servicing activity is highly automated. The system embeds workflows to guide the case managers through the various potential strategies that can be applied to resolve residential mortgages in both countries.

Upon boarding, the system automatically flags new assignments to the related AMs, who have a clear understanding of their responsibilities. During the resolution of the case, the system prompts users to monitor loans on specific deadlines--automatically or manually set up--and/or if the case has been within a certain stage longer than defined by the workflow. In some cases, exception may apply if approved and registered within the system. The IT system records each step of the workflow including asset managers' decisions, sales price, etc. and external providers' activity. As a result, the company can produce several key performance indicators (KPIs) that feed internal and external reports as well as strategy decisions. Finally, the system produces a dashboard on each portfolio's performance, representing a single source of major information updated in real time.

FS sends the welcome letter according to the servicing agreement while subsequent contacts can come through a variety of mediums. The company instigates debtor contact--usually by letter, telephone, or text messages. FS has prepared a suite of letters to maintain consistent communication in line with individual country regulations and practices. It sends all letters by registered post and records all communication in the loan management system. FS staff is well-trained to pick and choose the most appropriate tool, if not mandatory, following the SLAs.

Table 10

Average Loans Per Employee And Servicing Function

	Dec-15	Dec-16	Jun-17
Spain			
Early arrears management*	175	226	168
Long-term arrears management	161	122	255

Table 10

Average Loans Per Employee And Servicing Function (cont.)	Dec-15	Dec-16	Jun-17
Litigation	348	246	331
Property sales	70	36	168
Portugal			
Long-term arrears management	66	43	58
Litigation	1008	241	329
Property sales	14	8	38

*Only present in the Spanish residential portfolio.

Early arrears

In addition to defaulted loans, the company also services a limited portfolio of 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.

Late arrears

Ten staff--working in three teams--managed a total portfolio of residential NPLs (excluding repossessed properties) accounting for €0.351 in Spain and three staff managed €0.097 billion in Portugal.

There are three phases of the NPL workflow: workout, foreclosure, and real estate owned (REO) services. AMs start the workout initially assessing the borrower's ability (by obtaining detailed financial information) and willingness to make payments. To maximize returns, the AMs consider alternatives to foreclosure and possession, such as loan modification, voluntary collateral surrender, discounted pay-off, or sale under power of attorney. Often negotiations run concurrently with any foreclosure proceedings in case the negotiations do not reach a satisfactory conclusion.

RE management

The RE department, composed of six employees in Spain and 10 in Portugal, support the special servicing teams. As of June 2017, 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 AM's first responsibility is to secure every new property boarded, i.e., locks changed and ready for marketing. FS has contracts with four national companies in Spain and three in Portugal, which attend to this on its behalf.

FS 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 FS's loan management system through a secured access, therefore, the RE AMs 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. FS 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 2016, FS transferred the closing ring-fenced departments within the operations unit. Four and three employees make up 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.

FS 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

FS uses several service providers (see table 11).

Table 11

External Providers

	Spain	**Portugal**
Brokers	~120 active	~100 active
Lawyers	Eigth external firms and six internal lawyers	Three external firms and two internal lawyers
Solicitors	One per court	External law firms select and manage them, usually they work with preferred solicitors
Archive provider	Norma Dat	TB file & Grupo BC
Skip tracing	None (in-house)	None (in-house)
Appraisal companies	5	~7
Securing companies	4	3

The servicer monitors every panel of approved providers. The suppliers have SLAs and KPIs to observe and FS closely monitors their performance. The company structures the panels to enable it to have geographical coverage across Portugal and Spain.

The production of loan-by-loan business plans--including strategy, collection level and timing--is generally the investor's responsibility and may or may not take into account FS's inputs. Since our last review, in both countries FS reported collections that were, on average, higher than business plans--mainly due to Portugul's economic recovery, which has supported debtors' abilities to repay and revised expectations in Spain.

FS's system supports servicing activity from boarding to closing--including asset management--through embedded workflows. The structure of the servicing unit is in line with the complexity of the portfolio under management, and the staff is well-trained and the results aligned to client expectations and SLAs in both countries.

Investor reporting and client relationship

The client solution unit in each jurisdiction handle all reporting and client account responsibility. Currently there are seven and four employees working on third-party reporting in Spain and Portugal, respectively. FS usually appoints an investor relationship manager within the client solution unit who arranges regular meeting and events with key clients and, together with the country managers, ensures client management since boarding.

KPIs on collections, proposals, stage evolution etc. are produced through information available in the DataWharehouse and SQL server. The company's goal is to provide bespoke reporting within a basic template that it has devised. To this end, FS automatically produces monthly or quarterly reports, depending on investor and client requirements. 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 department is also in charge of reviewing every proposal that an AM sends to clients for their approval because FS applies "four eyes of 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 AMs regularly contact investors to provide updates about their portfolios. As part of FS's client relationship, there is an investor relations manager that arranges regular meetings and events with key clients.

In addition, the servicer has a user-friendly reporting system that allows clients to customize reports and access portfolio data.

Finally, investors meet FS representatives on a weekly and biweekly call or meeting to discuss servicing results. The portfolio performance is compared to the portfolio business plan every month to identify proficiency or possible gaps.

The company has a well-designed reporting system that allows clients to access information in many different ways. Similarly, clients receive updated information through regular meetings and have access to asset managers if they prefer.

Financial Position

We consider FinSolutia's financial position to be SUFFICIENT.

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

- 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.