

Servicer Evaluation: Finsolutia S.A.

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Ranking Overview

Servicing category	Ranking	Subranking		
		Management and organization	Loan administration	Outlook
Residential mortgage special servicer in Spain	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Residential mortgage special servicer in Portugal	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Financial position				
Sufficient				

Rationale

S&P Global Ratings' rankings on Finsolutia S.A. (FS) are ABOVE AVERAGE as a residential mortgage special servicer in Spain and Portugal. On March 4, 2020, we affirmed the rankings (please see "Finsolutia ABOVE AVERAGE Rankings Affirmed As Special Servicer Of Residential Mortgages In Spain And Portugal," published on March 4, 2020.) The outlook for all rankings is stable.

Our rankings reflect:

- The company's solid and stable leadership team, further strengthened by the recruitment of staff, which has delivered consistent results in respect to its objectives;
- The company's long track record and consistent results with a growing portfolio. In our view, the company is well-positioned to attract new business;
- The company's strong internal controls, based on the three lines of defense model;
- Solid information technology system supporting a well-automated workflow embedded in its proprietary loan management platform; and
- The well-established residential mortgage servicing workflows, which have been further improved since our last review.

We have ranked FS as a special servicer in Portugal since 2012 and in Spain since 2013. Our rankings relate exclusively to the company's special servicing activity for residential mortgages. However, we do consider other business lines if they share synergies or have an effect on the activity under assessment.

Since our previous review (see "Servicer Evaluation: Finsolutia S.A.," published on Jan. 25, 2018) the following changes and/or developments have occurred:

- The previous Spain country manager was promoted to CEO while the previous CEO and founder of the company became chairman with a more strategic role.
- The previous head of retail servicing for Spain was promoted to chief servicing officer (CSO) for the entire Iberian perimeter. Moreover, the CSO position was added as a new member of the executive committee.
- FS established a new formal digital marketing department with the goal of enhancing monetization of assets.

- FS enhanced its cybersecurity protection measures, including General Data Protection Regulation (GDPR) controls, multifactor authentication, geographical conditional access, and Microsoft Office upgrades, in line with what we observe for peers ranked ABOVE AVERAGE.
- FS further updated its proprietary court management system used to control the activities and steps associated with legal activities throughout the process.
- The company split the former real estate team into two sub teams: real estate sales management and real estate property management. The goal of the split was to foster specialization and create a net distinction between sales activities and administrative activities on properties.

Outlook

The outlook for all rankings is stable.

Profile

Servicer Profile	
Date formed and name at incorporation	Finsolutia S.A.
Assets under management (overall) (€billion)	€3.907
Assets under assessment (€billion)	€1.258
Assets under assessment – residential mortgages in Spain (€billion)	€0.604
Assets under assessment - residential mortgages in Portugal (€billion)	€0.654
Total staff	221
Spanish staff	105
Spanish servicing staff (working on Spanish business)	56
Portuguese staff	116
Portuguese servicing staff (working on Portuguese business)	49
Servicing staff	105
Servicing centers	Lisbon, Madrid, and Oporto (opened in December 2018)
Client types	Investment banks, high street banks, institutional investors, residential lenders, and commercial lenders.

All numbers are as of June 2019.

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 buyout. The senior management team, including the founding manager, currently have significant equity stakes in the company.

In 2007, the company opened its first office in Lisbon, and in 2009, it opened a second office in Madrid, followed by a

third center in Barcelona in 2015, which was in line with its growing Spanish portfolio. In November 2017, following the political instability taking place in the Catalonia region, and portfolio rotation with a reduction of assets under management exposure to the region, FS decided to close the Barcelona office. Finally, at the end of 2018, FS opened a new office in Porto to support its increasing portfolio in Portugal. FS's three servicing centers share senior management, supporting functions, and IT platforms, but have jurisdiction-specific workflows.

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

Our rankings are 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 primary and special servicing of corporate loans, advisory, real estate management, mortgage origination, and management of unsecured loans in Portugal.

As of June 2019, FS's overall Spanish portfolio accounted for €2.125 billion of gross book value, including €0.604 billion as part of special servicing of residential loans and repossessed properties, down from €2.241 billion as of December 2018 and €2.314 billion as of December 2017.

The overall Portuguese portfolio increased over the same period to €1.783 billion from €1.108 as of December 2018 and €0.379 as of December 2017. The total Portuguese residential special servicing business increased to €0.654 billion from €0.431 billion as of December 2018 and €0.146 as of December 2017.

The special servicing business accounts for about 53% of FS's overall activity in terms of revenues and, as a result, the company considers special servicing pivotal.

Portfolio Evolution

Table 1

Residential Mortgages - Spain And Portugal Combined					
	2015	2016	2017	2018	June 2019
Portfolio under assessment (€mil GBV)					
Residential mortgages - NPL special portfolio	449	595	587	496	702
Residential mortgages - REO special portfolio	157	189	183	543	556
Total portfolio under assessment combined	607	784	770	1,039	1,258
Portfolio under assessment (no. of cases)					
Residential mortgages - NPL special portfolio	5,210	5,139	5,227	4,612	8,000
Residential mortgages- REO special portfolio	1,693	1,684	2,446	7,325	8,101
Total portfolio under assessment combined	6,903	6,823	7,673	11,937	16,101
Clients by ranking					
Residential mortgages - clients	7	8	13	17	18

GBV--Gross book value. NPL--Nonperforming loans. REO--Real estate owned.

Table 2

Residential Mortgages - Spain					
	2015	2016	2017	2018	June 2019
Portfolio under assessment (€mil GBV)					
Residential mortgages - NPL special portfolio	352	431	506	436	403
Residential mortgages - REO special portfolio	22	30	118	171	202
Total portfolio under assessment	374	461	624	607	604
Portfolio under assessment (no. of cases)					
Residential mortgages - NPL special portfolio	3,051	3,098	3,453	3,319	3,147
Residential mortgages - REO special portfolio	609	582	1,791	2,700	3,490
Total portfolio under assessment	3,660	3,680	5,244	6,019	6,637
Clients by ranking					
Residential mortgages - clients	6	6	10	12	12

GBV--Gross book value. NPL--Nonperforming loans. REO--Real estate owned.

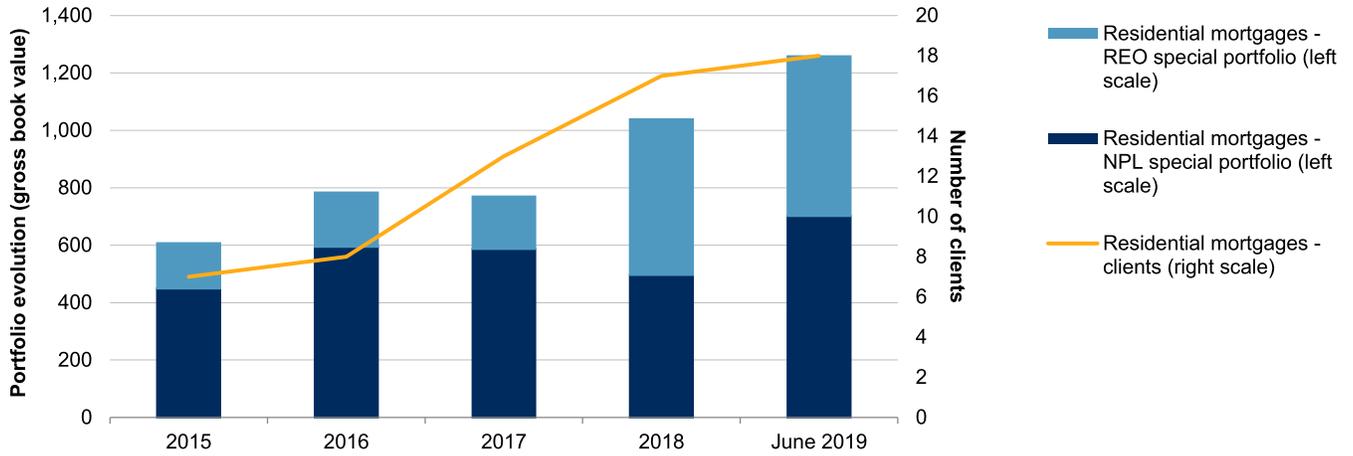
Table 3

Residential Mortgages - Portugal					
	2015	2016	2017	2018	June 2019
Portfolio under assessment (€mil GBV)					
Residential mortgages - NPL special portfolio	97	164	81	60	300
Residential mortgages - REO special portfolio	135	159	65	372	354
Total portfolio under assessment	233	323	146	432	654
Portfolio under assessment (no. of cases)					
Residential mortgages - NPL special portfolio	2,159	2,041	1,774	1,293	4,853
Residential mortgages - REO special portfolio	1,084	1,102	655	4,625	4,611
Total portfolio under assessment	3,243	3,143	2,429	5,918	9,464
Clients by ranking					
Residential mortgages - clients	1	2	3	5	6

GBV--Gross book value. NPL--Nonperforming loan. REO--Real estate owned.

Chart 1

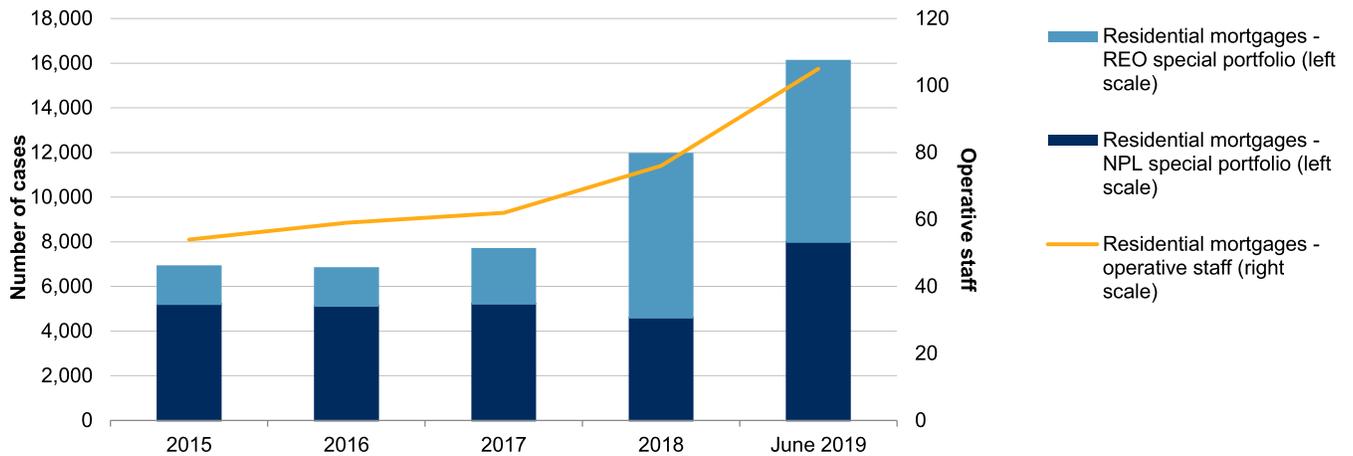
Portfolio Evolution Vs. Number Of Clients
Spain And Portugal Combined



NPL--Nonperforming loans. REO--Real estate owned.
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Chart 2

Portfolio Evolution (No. Of Cases) Vs. Operative Staff
Spain And Portugal Combined



NPL--Nonperforming loans. REO--Real estate owned.
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Management And Organization

Organizational structure, staff, and turnover

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

There are six different business lines, each one led by a different manager:

- Client solutions, which includes advisory, portfolio management, and valuations;
- Servicing, which includes retail, corporate, and unsecured servicing; real estate sales management; and legal;
- Operations;
- Business intelligence;
- IT; and
- Support functions, including HR and finance.

Since our last review, the following changes occurred:

- The previous Spain country manager was promoted to CEO while the previous CEO and founder of the company became chairman with a more strategic role.
- The previous head of retail servicing for Spain was promoted to CSO for the entire Iberian perimeter. Moreover, the CSO position was added as a new member of the executive committee.
- FS established a new formal digital marketing department with the goal of enhancing monetization of assets.
- FS enhanced its cybersecurity protection measures, including GDPR controls, multifactor authentication, geographical conditional access, and Microsoft Office upgrades, in line with what we observe for peers ranked ABOVE AVERAGE.
- FS further updated its proprietary court management system used to control the activities and steps associated with legal activities throughout the process.
- The company split the former real estate team into two sub teams: real estate sales management and real estate property management. The goal of the split was to foster specialization and create a net distinction between sales activities and administrative activities on properties.

As of June 2019, FS had 105 Spanish staff, up from 81 in 2017, and 116 Portuguese staff, up from 62 as of the end of 2017. The company expects its workforce to continue to grow in line with its business plan.

There were 30 departures across the two regions in the first half of 2019, and 45 in the full-year 2018, representing turnover rates of 14% and 31%, respectively. At the same time, the company hired 36 new employees in Spain and 43 in Portugal. Turnover rates in Spain and Portugal remain mixed since our last review, but largely have remained relatively high through the first half of 2019. As a result of this high turnover, FS has implemented several initiatives to retain talent, and forecasts less turnover during the upcoming years. High turnover rates are not unexpected during periods of expansion, as competition for talent increases across the market; however, we anticipate more normalized

turnover rates as the portfolio stabilizes.

Table 4

	Spain					Portugal				
	2015	2016	2017	2018	June 2019	2015	2016	2017	2018	June 2019
Staff at beginning of period	46	71	82	81	87	34	43	47	62	85
Number of joiners	43	23	34	38	36	19	17	36	36	43
Number of staff leaving voluntarily	14	8	17	21	9	1	8	16	9	5
Number of staff leaving not voluntarily	4	6	9	9	9	9	5	0	3	1
Number of Staff leaving for other reasons	0	0	1	N/A	N/A	N/A	N/A	N/A	N/A	6
Number of expired contracts	0	0	0	1	N/A	0	0	5	1	N/A
Number of staff redundant	0	0	8	1	N/A	0	0	0	0	N/A
Staff at end of period	71	80	81	87	105	43	47	62	85	116
Turnover rate (%)	39.00	20.00	43.00	40.00	21.00	29.00	30.00	45.00	21.00	7.00
N/A--Not applicable.										

Experience metrics are robust across management and staff, while the company reported lower operative staff tenure rates due to the recent appointments in line with their growing portfolio. However, we believe the solid and tenured management team offsets the lower staff tenure rates.

Since our last review, FS introduced a semi-annual ethics committee where senior management meet to discuss any matters related to ethical issues or any other topic related to the internal code of conduct.

Training

The HR department is composed of four full-time equivalents, including the head of department based in Madrid and a second manager at the Lisbon office who 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 specific topics. Finally, he can also leverage the information on core competencies and professional results stored in the web-based HR portal to identify training needs. FS emphasizes the importance of continuous training for all departments, which consists of both training administered by third parties and ongoing coaching. For this purpose, FS makes use of an FS Academy, which consists of training for employees held by internal and external experts covering a large amount of material and tutorials that are updated and released periodically. In addition, FS has video tutorials embedded within its servicing platform, which staff members use for on-demand training.

In 2017, 2018, and in the first six months of 2019, FS reported adequate levels of general training hours per employee. In accordance with the current legislation, FS provides training in different subjects to comply with mandatory training requirements such as anti-money laundering, data protection, credit mortgage brokerage debt restructuring measures, and negotiation, among others. Moreover, FS has supported professional training programs such as CFA, MBA, graduate and post-graduate studies in real estate management and valuation, impact sales, and similar topics, as a good practice to retain talent within the company.

FS has three and seven mentors in Spain and Portugal, respectively, who provide training on the above matters. FS also makes use of external trainers as needed for specific topics.

There have been no major changes to the servicer induction program, which includes 40 hours of class-based coaching carried out by the manager and 40 hours of on-the-job training from a team member chosen by the manager. Almost half of the induction training hours are dedicated to explaining the company's corporate values and processes. This is because FS 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 reasonable because it helps new joiners to quickly get up to speed in their role.

FS has a double bonus scheme: one is paid to employees based on company performance, and the other is paid exclusively to the loan and real estate asset management team based on success fees. The annual review takes place in two stages: once in July and once in January. The performance review that each employee has with their line manager 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's assessment of performance feeds into the remuneration/bonus award to the employee. FS believes that the performance assessment is a positive motivational tool.

Finally, FS maintains a timesheet tool to track where staff invests its time, and thus highlights where the company can gain profitability. Moreover, under the current Portuguese legislation, it is mandatory for employers to keep a record of the hours worked by their employees. To accomplish this requirement, FS has implemented a time recording system, through a cloud-based application, which is also useful to monitor absenteeism and vacations.

Systems and technology

A team of 19 staff make up the infrastructure department, including two based in Spain and 16 in Portugal, together with the head of the department who is part of the executive team and has been in the company since its formation. The overall team has increased by ten since our last review because FS added two teams: business analysis and digital marketing. Moreover, the IT team is also responsible for systems development, systems administration, and the data warehouse.

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

Moreover, the servicer implemented a number of additional security measures to increase protection, including GDPR controls, multi-factor authentication, and Microsoft Office upgrades, which we view as favorable.

Servicing system applications

The company uses its own developed 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 Server 2014 (see table 5). The company has been awarded a Microsoft gold certification for application development.

Table 5

IT Application List And Description

IT application	Description
4Sight origination	Supports the mortgage loan origination business, and includes online mortgage simulators, credit risk algorithms for borrower scoring, and credit workflow approval. It is fully integrated with the 4S platform for real estate appraisals and loan management.
4Sight 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, 4Sight loan manager facilitates restricted access to loan portfolios for stakeholders and investors. In 2018, Finsolutia further developed this application to support its legal activities through a new court management system, completely built from scratch, adapted to new legislation and allowed full control over the activities and step of each process.
4Sight 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 4Sight loan manager. 4Sight property manager incorporates geographic detail, property photos, and market data.
4Sight vendor portal	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 4Sight vendor.

FS's clients can access information on their portfolio through secure access to the web-based platform. Additionally, FS publishes information on repossessed property on a real estate public website, to market them more easily.

Since our previous review, FS introduced a mobile app to follow the approval process for each mortgage loan origination that is created on the 4Sight platform. In addition, FS rolled out a new GDPR control process to comply with the new regulation.

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.

Finally, in line with its innovative approach, FS has introduced a number of robotic solutions in payment processing for automated activities in line with best market practices. The company is planning to introduce new tools in the future. Automation also eliminates the risk of wrong manual input, increasing efficiency further.

Business continuity and disaster recovery

The 4Sight Loan Manager systems run on SQL servers, as do all of their databases. No confidential data are held in the cloud. FS has more than 25 physical servers (nine dedicated to 4S) 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. The latest BC and DRP tests were executed in February 2019 and reported positive outcomes.

FS maintains a disaster recovery and business continuity plan, including response procedures to address operational disruption as a result of a pandemic event. Indeed, the servicer recently implemented its plan due to the coronavirus:

COVID-19. Management reported that there were no disruptions to the company's operations or data facilities.

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.

Cybersecurity

The 4Sight Loan Manager systems include antivirus software, firewalls and other mechanisms in place to avoid external or internal intrusion into the systems. There is a defined password policy and access to systems is withdrawn once the user leaves.

In November 2018, FS upgraded its Microsoft Office 365 license to E5, which grants the highest level of security.

Moreover, in 2019, FS introduced a two-factor authentication system on all applications to enhance security even more. In addition, there is a conditional access system for applications, which is tailor-made based on the geographical location of the user.

Training courses are available on security issues and cybersecurity with new trainings every quarter in an effort to stay on top of trends.

Internal controls

FS has sound internal controls in place and it applies the "three lines of control" model, as follows: the first line of defence is at the operations level, where owners within each function are in charge of identifying process and procedure issues that need updating; the second line is comprised of compliance and risk management; while the third is the internal audit department.

Staff must follow processes and procedures designed to minimize operational risks. Finally, FS has an appropriate governance model supported by an adequate number of committees.

Policies and procedures

Policies and procedures are available to all staff in a centralized location on the company intranet and cover core business operations, including special servicing, real estate advisory, and supporting operations including HR and financial services. Each department manages 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 the procedure. The company creates version tracking by formally documenting all amendments for future reference.

Compliance and quality control

The internal audit and compliance teams are comprised of five employees; two of them, with assistance from the legal

department, are responsible for compliance matters, while the remaining three are dedicated to internal audit.

Compliance mainly focuses on data protection, know your customer (KYC), AML, treating customers fairly, and ethics.

FS relies on the Lexis Nexis WorldCompliance application, which is an integrated tool for KYC processes that provides a variety of identity verification services for AML, counterterrorist financing, and politically exposed persons detection.

Since our last review, FS also introduced a whistle-blower channel that is available to internal and external stakeholders to help identify conducts that violate the law, ethical principles, and standards of FS's governance regulations.

In addition, FS is part of the World Compliance Association (WCA), the Spanish Compliance Association's (ASCOM) AML Group, and The National Accreditation Entity, where its role consists of accreditation to entities that perform the external exam regarding AML and terrorist financing.

Finally, since our last review, FS completed its identification of processes related to risks around GDPR, which went into effect May 2018. As a result, applicable policies and procedures were updated to mitigate risk around the new regulation.

Risk management

FS maintains a risk committee to discuss operational, strategic, credit, regulatory, and reputational risks. The risk officer is responsible for the company risk assessment, which lists risks according to their likely occurrence and impact. These are then assessed based on a level from one to five, one being irrelevant or having no impact and five being extremely severe. This analysis feeds the yearly internal audit plan so areas perceived as exposed to a higher potential risk are assessed first.

In 2019, a total of 34 risks were identified and mapped into the risk folder. As part of the procedure, these were validated by compliance and an internal audit, and then entered into the follow-up risk register.

Internal and external audits

FS's internal audit function monitors both Spanish and Portuguese operations. The internal auditor reports directly to the board of directors, which provides the necessary independence from operations, in our view.

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.

The head of the internal audit department, 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 servicer applies the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Audit. The plan is driven by the level of risk exposure to ensure that internal audit resources are directed toward departments or activities with risks that are more likely to affect FS's business objectives.

The internal audit department creates an individual plan for each area of operations before commencing their audits. These audits are carried out onsite and are not announced to the staff in advance of their arrival. The internal auditor then prepares and submits a report to the operational area involved, senior management, and the board. 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, FS introduced the "Combined Assurance" approach for the second and third lines of defence, which implies a coordinated effort by multiple internal control functions (internal audit, compliance, and risk management). This combined assurance reduces the nature, frequency, and redundancy of internal audits, resulting in more effective governance, risk, and control oversight. As part of this approach, FS's audit function now produces a single final consolidated audit report for all areas, which it then submits to all operational areas, to senior management, and to the board of directors, instead of having several reports produced for different areas and shared with different functions. FS believes it will lead to a higher level of efficiency. We see this approach as favorable.

The internal audit 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 the user's supervisor receive alerts of any exception.

The latest audit performed in April 2019 reported a positive outcome, with three high-risk findings, which were duly addressed and closed in 2019.

Complaints management

Complaints management follow a well-defined process. All complaints received are registered in an internal tracker and sent to the risk department. The complaints are then uploaded directly to corresponding folders in the 4S system where they are catalogued and sent to the legal team, which in turn analyzes them and notifies the related department.

After receiving the response from the department involved, the legal team prepares a formal response letter and sends it back to the person who submitted the complaint.

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

Vendor management

FS makes use of external legal firms, brokers, valuation companies, archive providers, and accounting firms both in Portugal and Spain. The servicer monitors the performance for every panel of approved providers through the vendor module included in the 4S platform. Within 4S, vendors are ranked on a scale from one to five (one being the lowest score). Based on their score, management of FS decides whether to continue the relationship with vendors or dismiss them. Finally, the company structures the panels to enable them to have geographical coverage across Portugal and Spain.

Insurance and legal proceedings

FS has represented that its directors and officers as well as its errors and omissions insurance coverage is in line with the requirements of its portfolio size. As of the date of this report, management states that there were no material servicing-related pending litigation items.

Loan Administration– Special Servicing

We have affirmed our ABOVE AVERAGE subrankings for loan administration as a special servicer of residential mortgages in Spain and Portugal.

New-loan boarding

Since our last review, the company boarded 14 portfolios for a total of around 21,400 loans across Spain and Portugal, with a face value of approximately €1.7 billion. FS 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 any information collected and prioritizes 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 receives original documentation at its premises upon which a team of loan managers reviews these documents against what is input in the system. The servicer can hire external support if the workload requires it. The goal is also to verify the presence of the minimum set of documents for each case--eventually chasing missing information--and uploading electronic images to the system if not yet available.

To this end, all documents are uploaded and stored electronically in a document service manager. All documents that were missing from the system during initial boarding are sent for scanning to an external provider. FS has developed a template with the provider whereby they can check documents to make sure all documents are received. 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. Moreover, FS uses an external archive provider to store original documents.

The company confirmed that all the loans boarded took place within the agreed timeframe.

Payment processing

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

Five operational unit staff in Spain and four in Portugal, both led by the same department head, look after payment processing and reconciliation.

The payments department extracts from FS application all cash flow allocations made during the week (both collections and expenses) and extracts the bank account statements from the banks' websites. FS uses a template to help the team allocate cash flows, until bank balances and FS cash flow allocations are reconciled. The special servicing and real estate departments then check and approve the allocation.

FS uses a delegation authority matrix to approve invoices above specific thresholds. All payments executed need to have the signatures of two different people.

Any payments that cannot be allocated are reconciled weekly against investor bank accounts, with some reconciled on a monthly basis due to low activity.

While other servicers reconcile on a daily basis as best practice, FS did not report any issue with payment processing since inception and feels comfortable that a weekly reconciliation is sufficient.

Client management and investor reporting

The client solutions unit in each jurisdiction handles client account responsibility. FS usually appoints an investor relationship manager within the client solutions unit who arranges regular meetings and events with key clients and, together with the country managers, ensures client management since boarding.

Reporting is performed by the business intelligence team. Currently there are four employees working on third-party reporting in both Spain and Portugal.

KPIs on collections, proposals, stage evolution, among others, are produced through information available in the data warehouse 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 and can prepare their own customized reports using their permitted secure access.

The risk management department also reviews and approves every proposal before an asset manager (AM) sends it to their clients as part of the "four eyes principle," 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.

Finally, investors speak with FS representatives on weekly or biweekly calls and also have the opportunity to meet in person to discuss servicing results. The portfolio performance is compared to the portfolio business plan every month to identify proficiency or possible gaps.

Special servicing

FS has been a special servicer in Portugal since 2011 and in Spain since late 2012 with 100% of their portfolios being serviced for third parties. They have not been active in the securitization market. The servicer works on defaulted loans ranging from residential mortgages to small and medium enterprises.

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. The staff are well-trained and the results are aligned to client expectations and service-level agreement (SLAs) in both countries.

In addition to defaulted loans, the company also services a limited portfolio of performing and sub-performing loans

(SPL), which are outside the scope of our review. FS 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.

Spanish and Portuguese servicing operations work separately, despite replicating the same 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.

Special servicing units in each country are specialized by function and asset class in the following departments:

- Residential mortgages special servicing;
- Corporate mortgages special servicing;
- Real estate sales management;
- Legal; and
- Unsecured special servicing.

The legal and the real estate sales management departments supervise the external networks of law firms and brokers, respectively.

As of June 30, 2019, there were 105 Spanish staff, ten are exclusively dedicated to residential mortgage servicing, assisted by nine legal, and 24 real estate sales and property managers. In Portugal, ten employees out of a total of 116 work on residential mortgage servicing supported by three legal, and 32 real estate sales and property managers.

The organization of each department includes the following:

- Asset managers who have varied experience and are allocated loans according to their complexity and matched against their individual experience. Their role includes internal skip tracing skills, 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, and reviewing the proposals from the AMs and making recommendations to the heads of each department (HDs) on external skip tracing campaigns, only after internal skip tracing is concluded by each asset manager. Every TL manages a maximum of 10 AMs.
- The HDs can accept proposals and resolutions following delegation authorities set up in each SLA and, if applicable, make recommendations to the investors.

Thus, there is a clear distinction between the AMs who propose resolutions and the TLs and 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 each 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, exceptions may apply if approved and registered within the system. The IT system records each step of the workflow including asset managers' decisions, sales price, and external providers' activity. As a result, the company can produce several KPIs that feed internal and external reports as well as strategy decisions. Power BI, an effective reporting tool, is used to produce portfolio-level performance data reports that can be easily filtered for detail and exported to MS Excel.

FS sends a standard welcome letter to all new debtors within 15 days from boarding, according to each servicing agreement, while subsequent contacts can come through a variety of mediums. The company initiates 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.

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 pay. To maximize returns, the AMs consider alternatives to foreclosure and repossession, such as loan modification, voluntary collateral surrender, discounted payoff, or sale under power of attorney. Often negotiations run concurrently with any foreclosure proceedings in case the negotiations do not reach a satisfactory conclusion.

The real estate department, composed of 24 employees in Spain and 32 in Portugal, supports the special servicing teams. As of June 2019, the Spanish sales team managed a total amount of 3,806 properties including 3,490 residential properties. During the same period, the Portuguese sales team managed a total amount of 6,832 properties including 4,611 residential properties.

The real estate 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. FS works with almost 120 real estate brokers in Spain and 100 in Portugal and provides them training to improve their understanding of its requirements.

Five and six employees make up the Spanish and Portuguese teams, respectively, that are responsible for the administrative work required to finalize payment agreements and sales negotiated by the operations department. The servicer utilizes a specific section in the loan application to manage the entire process.

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.

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 Portugal's economic recovery, which has supported debtors' abilities to repay, and revised expectations in Spain.

Financial Position

The financial position is SUFFICIENT.

Related Research

- Select Servicer List, Feb. 6, 2020
- Analytical Approach: Global Servicer Evaluations Rankings, Jan. 7, 2019
- Servicer Evaluation: Finsolutia S.A., Jan. 25, 2018

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