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Servicer Evaluation: FBS SpA

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Ranking Overview

Servicing category	Ranking	Management and organization subranking	Loan administration subranking	Outlook
Special servicer of residential mortgages	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Special servicer of commercial loans	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Special servicer of consumer credits	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Financial position	Sufficient	N/A	N/A	N/A
N/A--Not applicable				

Major Ranking Factors

- In 2015, FBS SpA (FBS) reviewed and strengthened its governance and internal controls system as a result of the updated Italian banking law regulation that will be enforced in 2016. Among other remedies, FBS has internalized its risk management function, created a separate compliance function, and applied a risk-based audit approach.
- In June 2015, FBS' portfolio increased to €5.03 billion from €4.24 billion at the end of 2014. FBS has reported a positive gross book value (GBV) growth in its residential and commercial portfolio over the past three years. During the first half of 2015, the company registered an increase in its volume of consumer loans after it dropped at the end of 2014. This was a direct consequence of the exit of a single portfolio originated by a consumer finance lender. In 2016, FBS expects to sign new mandates with banks and investors. In our view, the company is well positioned to attract further business and we will closely monitor its ability to guarantee positive constant growth for all asset classes under management.
- Since our previous review, the company has worked to reinforce the roles and responsibilities of each management team member. In 2015, FBS also introduced a new program to track and improve employee performance. The final goal is to increase the workforce's commitment and, thus, the collection results. The program will be applied to every employee by 2016 and the company expects it to have a positive impact on its key performance indicators.
- Since our previous review, FBS has implemented new applications to provide secured access to external providers, such as lawyers, brokers, and door-to-door collectors. We consider that this could streamline the communication between all different parties involved in the servicing process and reduce the risk of errors in the transfer of information.
- The current sluggish recovery of the Italian economy has not yet had any positive impact on recovery rates, which are lower than in the past, in line with what we have recorded for other Italian servicers. To improve collections, FBS has expanded the scope of its street collector network, assigning collectors the responsibility of some residential mortgages and smaller commercial loans, beyond the usual unsecured loans, as they are cost-effective and more resourceful in some cases.

Opinion

Standard & Poor's Ratings Services' has affirmed its overall ABOVE AVERAGE ranking on FBS as a special servicer of residential mortgages, commercial loans, and consumer credits in Italy.

Our rankings are limited to the company's activity as a special servicer of residential mortgages, commercial loans, and consumer finance credits in Italy and reflect our view of the company based on the major ranking factors in our criteria (see "Related Criteria").

Outlook

FBS has consolidated its position since our previous review. Our outlook on the ranking as a special servicer of commercial, residential, and consumer credits in Italy is stable.

Company Profile

FBS is an independent special servicer of residential mortgages, commercial loans, and consumer credits. It mainly works on behalf of third parties, despite owning a smaller portion of the overall portfolio (accounting for less than 5%). Beyond its core servicing business, it offers consulting during due diligence in the presale phase of portfolio acquisition.

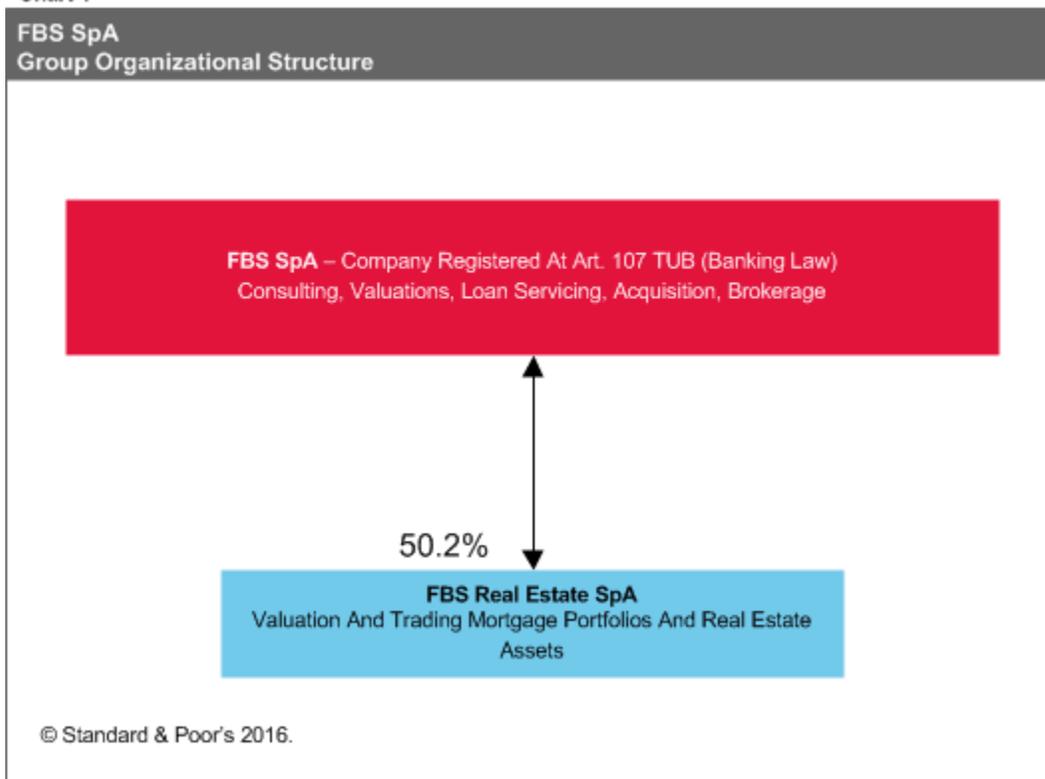
The current chairman, who is the majority shareholder, founded FBS in 1997, along with some other experienced finance executives, some of whom are still senior managers. Private investors hold FBS' remaining capital.

FBS has three offices. Headquartered in Milan, there are two other operative branches; the biggest is in Ravenna (Northern Italy), and the other is in Bari (Southern Italy).

Company Overview	
Servicer name	FBS SpA
Date formed and name at incorporation	1997, FBS SpA
Servicing staff	120
Servicing centers	2
Client types	Special-purpose entities, banks, and international investors

FBS also supplies real estate asset management through its subsidiary FBS RE, created in 2007 as a real estate advisory service provider. FBS outsources to FBS RE real estate advisory services, brokerage services, and the management of some cases whenever it is more efficient to leverage FBS RE's expertise. FBS RE has solid experience in managing real estate assets, thus adding value to FBS' loan management ability. FBS RE uses two networks: one to carry out portfolio due diligence, including valuation and discounted payoff (DPO) advisory services, and the second network focuses on agency business.

Chart 1



FBS' portfolio has grown since our previous review (see chart 2). As a result, the aggregate gross book value (GBV) of FBS' portfolio increased to €5.03 billion at the end of June 2015 from €4.24 billion as of our previous review. FBS boarded new loans for a total amount of €0.8 billion in the first half of 2015.

Since 2001, FBS was registered as a financial intermediary under article 107 of the Italian Banking Act and the servicer submitted its application as a financial intermediary under the new article 106 of the Italian banking act that will be implemented by the end of 2016. Consequently, it is subject to the Italian Central Bank's control. The company's most recent inspection in 2011 was successful.

Strategy and growth objectives

FBS has confirmed that it has achieved its past business plan objectives and provided us with the guidelines of its new three-year strategic plan, which sets the company's goals up to 2018. The board revises the annual objectives at the beginning of each year.

The company's main goal remains to gain more portfolios from both investors and banks. To this end, FBS has been working with several Italian banks to obtain short-term mandates (i.e., two years) to temporarily manage part of the banks' defaulted loans. The final goal is to cure this portion of defaulted assets and to raise the company's value.

The company boarded new loans during 2014 and in the first half of 2015, thus confirming its ability to attract new business from different clients, ranging from smaller Italian banks to international investors. In our opinion, FBS is in a good position to comply with its current business plan targets.

Management And Organization

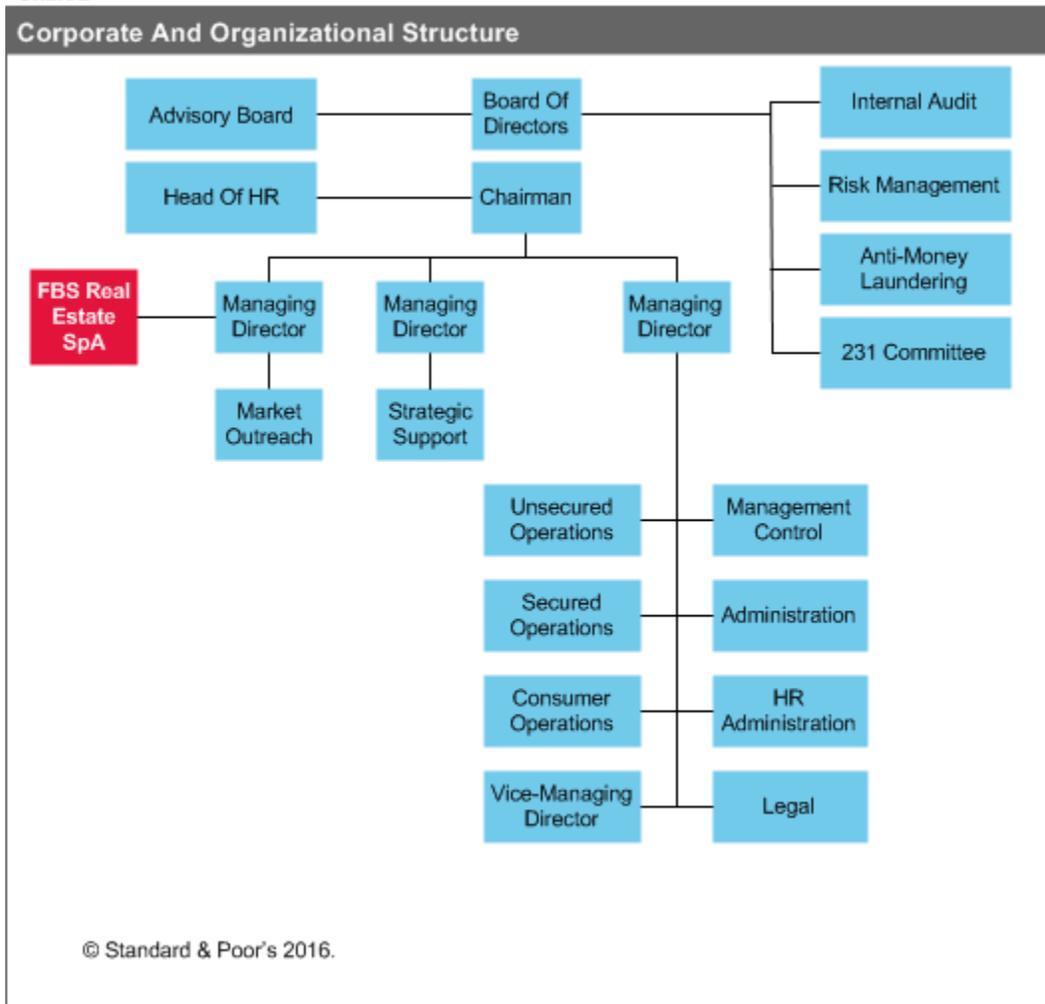
Our subranking on FBS for management and organization is ABOVE AVERAGE. The company has a stable structure, with a reliable governance and internal controls model. We expect to see a further increase in staff engagement and efficiency once the impact of IT development and HR improvements has fully materialized.

Structure

As of June 2015, FBS employed 120 staff, based across its Milan headquarters (where management and central functions, such as administration, IT, and investors reporting, are based), and in its offices in Ravenna and Bari where operations are based. The latter hosts the phone collection center that the company established to work exclusively on consumer loans.

FBS' structure has remained mainly unchanged since our last review. There are three managing directors reporting to FBS. The first managing director is one of the founding managers of the company in charge of leading operations. The second managing director is in charge of business development and managing the relationship with the servicer's subsidiary, FBS RE. The third managing director provides strategic support, such as monitoring the network of external providers and, since early 2015, leading the company's talent and people development efforts.

Chart 2



The internal control functions, including internal audit, risk management, and anti-money laundering (AML) are fully independent from operations and report to the board. (see chart 2).

Operations are organized according to the nature of the credits under management. There are therefore three units, one focused on consumer finance, one focused on bank-originated mortgages, and one focused on bank-originated unsecured loans.

The secured and unsecured units have a team managing the judicial and extrajudicial collection activity, another team responsible for bankruptcy procedures, and a skip tracing department. In addition, the secured department has a cash-in-court handling team, and the unsecured department has a loss mitigation team. Finally, FBS has an internal call center located in Bari, which supports the collection activity of relevant asset classes.

External providers

As of June 2015, FBS was working with 43 collection agencies, equivalent to 547 street collectors, mainly supporting consumer debt management. Each selected agency has to meet a minimum set of requirements and has to be part of

the Italian professional door-to-door collectors association (UNIREC). FBS believes that familiarity with the relevant region is the key to success. Consequently, every agency in their panel has a regional and strictly local coverage. Collectively, the network guarantees a full coverage of the national territory. FBS has expanded the scope of activity of the external providers, such as external street collectors, as they are more cost effective and resourceful during 2015.

FBS generally outsources legal work to a nationwide network of lawyers, which it centrally monitors. FBS uses two networks of lawyers: one for due diligence only, and another of 350 specialized legal consultants, who work in the courts. This division of responsibilities enables asset managers to focus on asset resolution and borrower negotiation, and the company considers it to be a cost-efficient arrangement. FBS also coordinates a further group of 3,000 lawyers, acquired when FBS boarded nonperforming loan positions with legal actions already in place. FBS duly registers all of them and requires them to complete an entry questionnaire to record their main characteristics.

Since 2015 external collectors and lawyers have uploaded and shared updates of their activity on FBS' loan management system through a web-based application. This streamlined and improved the communication between FBS and the different parties, which collaborate with the servicer. In our opinion, this is a relevant upgrade in line with market standards, and will help the servicer to improve efficiency and productivity.

Staff

In June 2015, FBS employed 120 staff, an increase from the 114 staff registered at the end of 2014. In 2015, FBS employed 13 senior managers and 28 middle managers, accounting for almost 34% of the overall staff, slightly higher than the market average. Turnover rate remained low around 13% in 2014 and almost 2.5% in the first half of 2015.

Table 1

Turnover						
	2015 (June 30, 2015)	2014	2013	2015 (June 30, 2015)	2014	2013
	Total staff			Full term employees		
Beginning of period	114	112	95	83	82	71
End of period	120	114	112	83	83	82

FBS has a relatively high level of experience and tenure. Top and middle managers have almost 20 years' industry-related experience, while staff have 12 years' experience, which is stable since our previous review due to a limited turnover rate.

Table 2

Average Experience And Tenure		
	Experience	Tenure
Senior management	20.69	8.75
Middle management	18.61	9.51
Staff	11.99	4.6

As of June 2015, on average, a single loan manager worked on 343 mortgages from 238 in 2013 and 1,254 unsecured loans from 1,781. As of today the company does not manage consumer loan originated by no-bank lender anymore.

Training/development

FBS has hired 14 new staff members since January 2014 and June 2015, mainly with a legal background. FBS' induction training program includes formal training and on-the-job training, based on employees' previous experience and current positions. On average, the number of induction training hours for new joiners was 64 in 2014. The induction program aims to provide new employees with loan administration skills, legal knowledge, and compliance understanding, as well as IT system understanding.

As of June 2015, each FBS employee had received an average of 41.5 reported training hours (excluding language courses), most of them as formal training focused on procedures and loan management. The head of HR identifies training needs and is responsible for implementing the training program as approved by the board. Senior FBS staff conduct most of the training, and there are 30 employees who can deliver training. FBS uses external trainers when required and encourages participation in external training for specific skill requirements. Since 2015, FBS has been creating training videos available on the company's website to all staff in line with the latest market standards. Furthermore, the company is now using conference calls more frequently to improve communications.

Table 3

Average Training Hours								
	Regulatory/compliance	Procedural	Management training	Soft skills	Professional qualifications	Total Trainings	Total Induction	
Internal formal training	0.00	13.79	8.67	1.59	8.14	32.19	54.36	
External formal training	4.80	1.50	0.00	0.00	0.49	6.79	0.68	
On the job/coaching	0.00	2.36	0.00	0.00	0.00	2.36	8.55	
Online training	0.26	0.00	0.00	0.00	0.00	0.26		
Total	5.06	17.65	8.67	1.59	8.63	41.60	63.59	

To incentivize staff, the company periodically distributes bonuses and benefits throughout the year. On average, almost 15% of staff compensation is variable. Since 2014, FBS introduced a new compensation scheme, which gauges several variables including resolution timings and cost control. Goals are specific for secured and unsecured loans and are role related.

FBS aims to keep its staff motivated to guarantee high productivity levels. To this end, in 2015, the company tested a new people management program which it will roll out to all staff by the end of 2016. The program will start with a kick-off meeting between the managing director leading this project and each employee who would have previously completed a survey to support this initiative. The goal is to identify strengths and weaknesses and to set up a tailor-made plan to improve them, with a general focus on time management. This information and relative plan will be a factor in the annual targets that employees set with their line managers. Finally, those targets will be tracked monthly against objective metrics and gap analysis will be discussed with the line managers to provide further guidelines on employees' personal development plans. FBS believes that providing specific support to each employee will boost their own productivity and the company's overall productivity. In our opinion, this is a positive and ambitious initiative and we will closely monitor its impact on the efficiency of the company's loan management ability once it is rolled out on a greater scale.

FBS conducted a staff survey to gauge staff morale and opinion during 2015.

Audit

In April 2015, Bank of Italy (BOI) and the Minister of Economy and Finance released guidelines to fully implement the changes to the Italian banking act (Testo Unico Bancario - TUB) approved back in 2010. At that point in time, FBS was a financial intermediary following the still outstanding article 107 of the TUB. To meet all the requirements to maintain this status under the new article 106 of the TUB, the company hired external advisers to carefully assess the implications of the new legal framework. As a result, the servicer reviewed its governance model and internal control systems, creating an independent compliance function and applying a risk-based audit approach.

The internal audit activity was not affected further as FBS already had its own audit function in line with the BOI's view that an internal audit function is more effective. FBS' audit function applies the enterprise risk management methods, defined by the Committee of Sponsoring Organizations Of The Treadway Commission (COSO), and the BOI.

FBS follows a three-year audit plan annually revised and approved by the Board of Directors. The audit plan prioritizes those business units whose disruption could have a greater negative impact on operations. The internal auditor conducts semi-annual meetings with the board of directors to review the output of audit reviews and shares any critical findings. Following board approval of any remedy action and the related calendar, the internal auditor oversees the implementation of corrective actions. The audit review aims to verify the adherence of the operational practices to internal policies and procedures. The audit functions also check the efficacy of actions and processes in place in order to reduce the risk of each function. The company carries out the audit through document collection, interviews, and controls.

We have seen the latest internal audit report and it did not identify structural deficiencies or substantial operational weaknesses.

Risk management and compliance

Following FBS' governance model, there is an internal employee fully dedicated to risk management and reporting to the board.

FBS currently complies with the Internal Capital Adequacy Assessment Process (ICAAP) requirement. The ICAAP method identifies all risks that FBS could face, and what the sufficient level of capital would be to overcome them. As a result, the company has mapped out strategic risks and aligned the audit plan to ensure that it prioritizes higher risk business units. FBS' main risks are: Strategic risk, which in our view, the company's business plan addresses; liquidity risk, which ICCAP analysis monitors and the company's financial situation minimizes; and operational risks.

The risk assessment procedure requires periodic reviews of risks under assessment, the annual approval of the updated risk map, and an ICAAP review every six months beyond the quarterly report on capital adequacy.

In 2015, the company set up an independent compliance function as required by the newly implemented TUB. As a result, an internal resource with an extensive experience and long tenure within the company is now working as ad-interim compliance officer. The company expects to hire a new external consultant by early 2016 to take over this responsibility. The function has to draft a compliance plan and a year-end review to the board of directors, including a report on complaints, although they are managed at operations level. The internal auditor, AML officer, and risk

management officer receive the annual compliance report for their information.

FBS also complies with BOI's Article 231 law as it has had an AML department reporting to the board since 2012.

The Italian legal framework has a non-legislative system of dispute resolution and requires that financial organizations have a complaints office. A qualified lawyer manages FBS' complaints and four more staff are able to handle complaints. In the first half of 2015, FBS received 12 complaints, much lower than the 348 complaints registered in 2013 (see table 4).

Table 4

Complaints (June 30, 2015)		
	Secured	Unsecured
Nonservicing complaints/on clients' behalf	12	233*
Servicer/servicing-related complaints	0	0
Total number of complaints handled	12	151
Complaints referred to Ombudsman	N/A	N/A
Complaints upheld by Ombudsman	N/A	N/A
Percentage of complaints administered within regulators timeline (%)	83	54
Average days to solve a complaint	21 days	30 days
Fines by regulator (€)	0	0
Redress awarded to borrowers (€)	0	0

N/A--Not applicable. *As of Dec. 31, 2014.

FBS manages all complaints on its clients' behalf, and so far it has not referred any complaints to the financial arbitrator (as the company resolved them all as required).

FBS' management states that there are no material servicing lawsuits outstanding against the company.

Policies and procedures

Despite no major changes since our last review, all manuals have been fully revised in 2015 as part of the above mentioned review of the internal control systems. Each FBS procedure identifies inputs, action steps, expected outputs, and responsibilities. The internal auditor has to sign off changes to procedures.

In our opinion, the procedures are well designed and documented, and are available to all staff on the intranet.

Systems and technology

The IT department has four employees and four external contractors, who are responsible for maintaining the technology systems.

Up to the end of 2014, FBS worked with two management systems, Gepraco and EgoCr. Since 2015, the company worked on AS/400 to create an integrated set of applications called REST to streamline the communication with external parties such as lawyers and field agents. As a result, FBS now applies three systems:

- Gepraco (built in-house) services bank-originated debt, which mainly includes residential mortgages and commercial loans. The proprietary software comprises modules used for daily credit recovery activities. This includes workflow, collateral and security values, expiry dates, transaction statements, and balances. There is also a

reporting system, a skip tracing module, and a module to integrate data with the BOI and tax office through add-on modules dealing with new portfolios' import interfaces. An external system, ACG provided by IBM, handles administration and accounting.

- EgoCr (licensed product) services consumer credits as it would have been inefficient to adapt the property software to service those kinds of loans. EgoCr has similar functionalities to Gepraco, and provides external access to field agents.
- REST (built in-house) facilitates a secured access to the loan management system to relevant external counterparties such as lawyers and field agents. Each party can log-in, using limited access to relevant cases, and update information on a specific loan that will be automatically uploaded into the loan management system. At the same time, REST show relevant information as reported in the loan management system to external parties. The application also tracks relevant phases of the workflow and thus increases the ability to produce relevant key performance indicators.

FBS also uses other third-party software, which is fully integrated with its loan servicing systems, such as FB (ALPINET—cash management), Globalcom (I.S.T.—software for sending letters and SMS), and ID.PROVE (RAUSOFT—software for scanning any incoming/outgoing payments on the special-purpose entity's bank accounts).

Furthermore, since our last review, the company introduced a CLOUD computing application, increasing data lines from 8 to 100 Mbit/s. Similarly, FBS worked on AS400 to convert existing applications into a web application that staff can access remotely from computer, tablets, or smartphones.

VMWare Inc. provides virtual server technology, and one physical IBM server holds four logical servers. This arrangement reduces interconnection needs and makes backup and restore services easier, but it does not provide redundant servers. The network connects the Milan, Ravenna, and Bari offices. Two Compaq servers enable e-mail and internet access.

The data room is physically secured with locked access, a fire alarm, and air conditioning, and locked racks house all servers. The system sends images of each virtual machine overnight to the backup server. If the main server were to crash, all services would be started on the backup server. FBS' daily and weekly backup tapes of all application data and file servers are stored offsite in a fireproof safe in the Milan office, and sent monthly to a bank security deposit box in Milan. The monthly backups are overwritten monthly. The December monthly backup is not overwritten, and remains in the deposit box for life. In addition, the servicer copies the Milan backup tape onto the Ravenna server weekly.

Antivirus and antispyware software, which update daily, protects all of the computers. FBS has intrusion-detection in place. However, it cannot stop data theft onto memory sticks or other devices, which, in our opinion, would improve data security.

User passwords for employees' internal computers must include numbers, and cannot be reused. Users have a maximum of three attempts to connect, and they must renew passwords every four weeks.

FBS uses three switchboards, one for each office. Each switchboard has multiple phone lines: 21 for Milan, 25 for Ravenna, and 15 for Bari.

As planned, FBS has invested and implemented several technology improvements that we consider to be positive

developments in line with the latest market standards. The introduction of REST improved the communication between the parties involved in loan management and reduced potential errors.

Disaster recovery/business continuity

FBS last tested its business continuity in April 2015. It took six hours to switch over the business continuity site, and aims for two hours by the time of the next test. The disaster recovery was successfully performed in March 2015 and again in December 2015 after the company expanded the data lines from 8 to 100Mbit/s.

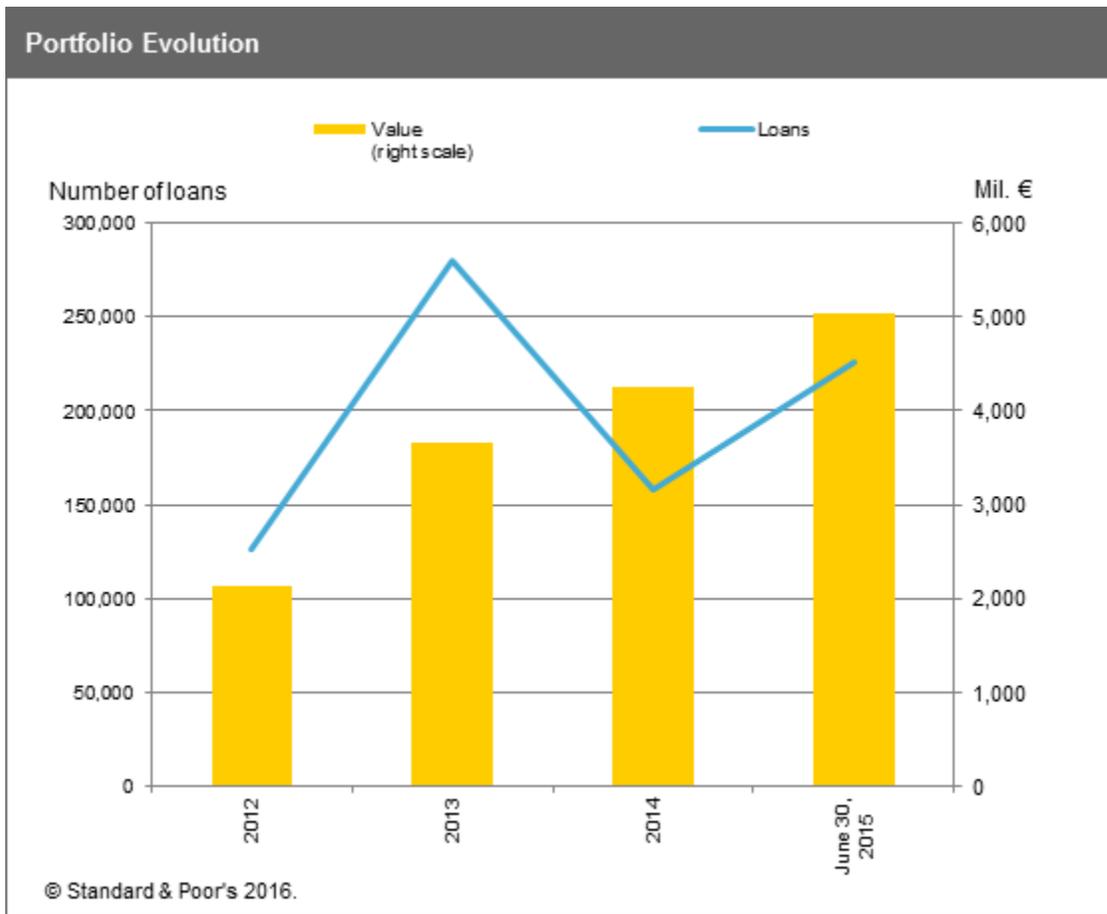
The business continuity site is Ravenna, with 50 physical locations, of which 20 already have fully equipped stations. It can be switched over in less than three and a half hours for staff in Milan, and six hours for those in Bari. There is no alternative site to relocate staff working in Ravenna, but they are able to work partially from Milan. In addition, there are 14 staff who could work from home and from some of the legal firms' offices in their network. Nevertheless, there is no dedicated area for disaster recovery, which could result in resource issues if the disaster scenario lasted for a prolonged period of time, and if a lot of staff needed to work at the other location.

Loan/Asset Administration

Our subranking on FBS for loan administration as a special servicer of residential mortgages, commercial loans, and consumer credits is ABOVE AVERAGE. The company has a clear workflow in place for each asset class, which the updated loan management system can better support and monitor than it has done previously. FBS has increased its use of external providers when it has considered it to be cost-effective to achieve higher collection levels. Currently, FBS RE manages approximately 9% of GBV, either assets or loans, and street collectors work on an average of 3% of the total portfolio.

In June 2015, FBS' portfolio reached a total GBV of €5,037 billion, comprising 225,808 cases. The current portfolio comprises almost 15% of residential mortgages, 57% of commercial loans, and 28% consumer credits. FBS owns 5% of the GBV portfolio it currently manages.

Chart 3



FBS' standard fees comprise a fixed part and a variable part--linked to collection results.

Loan boarding/new loan set-up

FBS boarded five new portfolios for a total of €1,093 billion since our last review.

The loan boarding activity is in line with our last review.

There are 15 employees who are able to work on the boarding process, in addition to four managers who are able to work temporarily on loan boarding.

As a standard procedure, the original bank provides scanned versions of the original documentation and sends FBS the paper files. FBS transfers an electronic version onto its management system and stores the files in its internal archives in Ravenna, after applying a unique code to each. FBS staff then scan and transfer all paper information that has not yet been scanned, and is relevant and should be online, onto the system. As a result, loan managers are able to find documentation in real time directly from the system. When the number of paper documents is too high, FBS uses an external scanner provider instead.

The system sends an automatic welcome letter within 30 days. FBS has an internal skip tracing department to track

down information on missing contacts. It established this to provide quicker and more cost-effective results than external skip tracing companies could, when searching for addresses and telephone numbers.

A due date for completion of tracing research is given to external companies when instructed by FBS. If they are unable to provide the details to FBS by that date, they are not paid for any work. FBS is collaborating with city councils to gain online access to their publicly available databases. It will enable them to see whether they have address data recorded for missing debtors.

FBS is flexible in adapting its boarding process to meet client needs. For example, FBS kept the same archive provider of the consumer portfolio boarded last year, a well-known provider working with several Italian banks, at the clients' request. FBS can access every document online and can easily obtain the hard copy by mail. For this portfolio, FBS reviewed every document related to each judicial procedure and every promissory note. It subsequently sent all promissory notes to an advisor, Linea5, used by other Italian entities. Linea5 assessed that the promissory notes were in line with legal and fiscal requirements and finally registered them. It therefore freed FBS of the burden of such a wide administrative task and allowed the company to focus exclusively on collection. FBS drafted and sent specific notification letters for this portfolio.

FBS didn't report any problems with the boarding activity.

Document tracking

The back office checks all files to find if any relevant information is missing, for which the sender is then chased. FBS verifies almost 100% of the loans during the boarding phase to check data accuracy. On average, FBS estimates 90 days to process this part of the boarding activity, but it can take up to 180 days for more complex and bigger portfolios.

Special servicing

FBS currently works on debt mainly originated by banks.

The servicer follows a well-tested recovery process for bank debt, which identifies two different work streams. One focuses on out-of-court solutions and the other works with lawyers for judicial resolution of the debt.

The system automatically assigns loans to a single asset manager, following predefined parameters: asset type (secured/unsecured); the proceeding stage (bankruptcy, foreclosure, loss mitigation); location (Milan, Ravenna, Bari); and the GBV range. Although asset managers are cross-trained to be able to work on different activities, they tend to specialize in specific assets, and they are assigned to portfolios according to their profile.

The portfolio leaders have different specializations (loss mitigation, timeline, bankruptcy, cash-in-court, and large loans) and coordinate asset managers' workout activity. The leaders check whether the overall resolution activity remains consistent across different portfolios.

The loan managers use various ways to contact the debtors to assess whether an extrajudicial resolution is possible. After the welcome letter, loan managers use phone calls, further letters, telegrams, and personal visits to the debtor's address. Whenever a debtor calls, the phone number is checked and recorded for future use. The loan managers focus on resolving loans and mitigating the loss of unsecured debt through out-of-court settlements. This is because court

action can be extremely long, both to obtain a judgment and then to recover money. Besides telephone contact aimed at making a payment arrangement, FBS will consider registering judicial liens on assets or properties, or an attachment to salary to encourage the debtor to settle when it is cost-effective. FBS agrees to a payment arrangement as a last resort for a nonjudicial resolution, as this is currently more expensive to administer than a single payment or a DPO with a small discount.

The portfolio leader can agree with the asset manager to start the judicial activity (if not already started). They assign the lawyer according to geographical criteria. There are 150 courts in Italy. When the asset manager requests judicial activity, the system alerts the portfolio leader, and automatically provides a list of available lawyers for the relative court. The portfolio managers choose the legal advisor based on the nature of the debt, the lawyer's specialization, and the current workload registered in the system. The system then notifies the asset manager of the assignment.

To limit recovery costs, asset managers can stop legal actions if they are proving unsuccessful.

Since our last review, FBS has expanded its use of door-to-door collectors and legal negotiators formerly working exclusively on unsecured loans and now assigned to secured loans as well. Those counterparties do not replace but integrate the traditional extra-judicial and judicial activity. FBS assigns the case to the appropriate external agent based on size, quality of contact details available, and complexity of the case. Thus, FBS exclusively uses the network of FBS RE to handle complex mortgages as it comprises experienced consultants with an extensive real estate background.

A further change since our last review is the implementation of REST, which allows external counterparties to update the loan management system and share information in real time. This has helped the company to meet its key performance indicators (KPIs). Indeed, FBS constantly checks the asset managers' and the external network's performance through KPIs, calculated based on data recorded on the system.

Despite the non-bank lender consumer credits decreasing substantially, the servicer has a specific recovery process tailored to those credits, which is more standardized than the recovery workflow applied to secured and other unsecured assets. Similar to the bank debt collection model, the consumer loan recovery process focuses on out-of-court solutions and prescribes legal actions as a last option. Loans can be automatically assigned to loan managers following a portfolio segmentation based on financial products, year of default, location, debtor type, employment status for individuals, and the GBV range. The internal phone collectors will work on the easiest cases, and if they are unsuccessful, they will forward the files to home collectors. Internal asset managers survey the home collectors' performance and can reassign the case to a second field agent if it is unsuccessful. Finally, the manager can send the case to the recovery intelligent unit, which can decide to open a legal case. The recovery intelligence unit investigates the collections strategy efficacy by constantly reviewing performance KPIs.

In June 2015, collections on secured loans as a percentage of total claims were 60% for the corporate sector and 79% for individual mortgages. FBS explained that lower collections registered for some start-up companies decreased overall corporate collections. Nevertheless, recovery rates for corporate closed positions have been stable at 71.4% since 2013 if we take into account loan sales, and that the recovery rates for individuals only slightly decreased to 87.08% from 89.37% over the same period. On unsecured loans, collections for closed cases, as a percentage of the

total amount of claims, were 31% and 52% for corporates and individuals, respectively. The figures are 48% and 56% if we exclude the loan sales.

Payment processing

FBS is connected to its clients' bank accounts online, and it completes cash reconciliations daily.

The loan accounting department, based in Milan and Ravenna, reconciles all amounts received on the general ledger/loan-servicing system, and performs daily and monthly reconciliations of collections and invoices.

The external collectors can receive promissory notes and cashiers' checks following the procedure, to comply with BOI requirements and the AML legislation. They need authorization to approve the DPO and repayment program as they are not working on FBS' behalf. FBS aims to increase the approval process' automation in the future.

FBS also has a collection office of three people, who check that expected payments are arriving for unsecured balances, and allocate unidentified sums to accounts. This team enables collectors to focus on their primary role rather than spending time monitoring payments. FBS has successfully set up automated text message reminders since 2011, and it is looking to further automate this process.

Investor reporting

We consider FBS' investor reporting to be comprehensive, flexible, and timely.

A dedicated unit, headed by the first deputy director, manages investor reporting. FBS produces monthly reports in a timely manner, and clients can get the net present value and related internal rate of return of their portfolios daily.

Investor reporting includes detailed information at the portfolio, loan, and property levels. It also provides information on auctions, cash-in-court, and other areas.

External providers

FBS outsources several services:

- It receives real estate advisory support by FBS Real Estate, its subsidiary;
- It uses Linea5 (a well-known Italian legal and fiscal advisor) to manage most of the administrative and legal work on promissory notes on its behalf;
- FBS works with 70 field agencies (totaling 600 collectors), and with an external network of lawyers;
- It works with scanner and external archive providers for bigger portfolios (and if required by the servicing agreements); and
- FBS also uses external skip tracing companies to collect debtors' contacts.

FBS has set up several controls to monitor and review external providers' performance and service. Asset managers check the quality of the support provided by external lawyers and collectors, and middle and senior managers also revise it.

The back office monitors skip tracing companies and archive providers. FBS also receives support from IT system providers. Finally, DDWAY is FBS' risk management advisor.

Financial Position

The financial position is SUFFICIENT. We have reviewed FBS' consolidated financial statements and management projections and consider that there is sufficient financial strength to sustain the company's servicing operations for the next 12 to 18 months.

This opinion does not take the place of a senior debt or counterparty credit rating.

Related Criteria And Research

Related criteria

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

Related research

- Ranking Affirmed As ABOVE AVERAGE On FBS As A Special Servicer In Italy Following Review, Dec. 16, 2015
- Servicer Evaluation: FBS SpA, June 14, 2013
- Select Servicer List, published monthly

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