

ABOVE AVERAGE Rankings Affirmed On FBS As A Special Servicer In Italy Following Review

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OVERVIEW

- We have affirmed our overall ABOVE AVERAGE rankings on FBS as a special servicer of residential mortgages, commercial loans, and consumer finance credits in Italy.
- Our outlook on our rankings on FBS as a special servicer is stable.
- FBS is an independent special servicer working on several asset classes in Italy.

LONDON (S&P Global Ratings) Aug. 7, 2017--S&P Global Ratings has affirmed its overall ABOVE AVERAGE rankings on FBS SpA as a special servicer of residential mortgages, commercial loans, and consumer finance credits in Italy. Our outlook on our rankings on FBS as a special servicer is stable.

FBS is an independent special servicer of residential mortgages, commercial loans, and consumer credits in Italy. As of June 2016 the company is registered under article 106 as a financial intermediary. It mainly works on behalf of third parties, despite owning a smaller portion of the overall portfolio (accounting for 13%). Beyond its core servicing business, it offers consulting during due diligence in the presale phase of portfolio acquisition. At the same time, FBS can offer real estate asset management through its subsidiary, FBS RE, which provides brokerage and appraisal services, as well as the loan management of specific cases through the support of its external networks.

Since our previous review, the servicer registered significant growth and its overall portfolio has grown to €8 billion as of December 2016 (from €5.2 billion at the end of 2015). In December 2016, the outstanding portfolio included €1.9 billion of residential mortgages, €1.2 billion of commercial mortgages, and €4.9 billion of consumer loans. Staff numbers increased to 126 from 116 over the same period.

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").

MAJOR RANKING FACTORS

- In 2016, the company efficiently absorbed a sharp increase in the portfolio. Furthermore, the servicer reasonably expects to grow further. Opportunities for special servicing in the Italian market remain plentiful, particularly with regards to unlikely-to-pay loans. In our view, the company is well positioned to attract additional business and generate growth for all asset classes under management.
- FBS reorganized its structure to meet the regulatory requirements as a financial institution registered under article 106. Since 2016, the former managing director in charge of business development is now chairman with no executive responsibility, and the founder and former chairman has taken over the CEO's responsibilities. The company also appointed a new head of risk management and compliance, and an associate director to oversee the marketing and business development functions. In our opinion, the evolution of the management team reduces the key-person dependency risk.
- FBS has a solid internal controls model compliant with current regulation. In 2016, the firm merged the risk and compliance functions under the leadership of new head and outsourced the internal audit function to Deloitte LLP. While we see more homogenous policies and procedures in the market, we consider FBS' manuals to be up-to-date and comprehensive.
- Staff training is a key focus. Since our previous review, the company fully rolled out to its main operative center in Ravenna a program they designed to track and improve employee performance, which includes rigorous on-the-job testing. We consider the attention placed on training as positive and we will monitor its effectiveness going forward. While the same program also helps to capture staff's sentiment, a staff survey is the best practice in the market to capture employee morale, in our view.
- FBS has improved its technology in line with current market trends. The firm is currently rolling out a new, more user-friendly loan management system, which will eventually also integrate payment processes, leading to greater automation. We believe that its full implementation will help streamline processes further. FBS has also implemented a new reporting system, which allows the company to better monitor key performance

indicators (KPIs) and create dashboards.

- Collection results remain positive and the company expects further growth. While the effect of recent reforms on legal procedures helped results, the company also gained efficiency through IT and HR initiatives. Moreover, in 2016, FBS reviewed its network of external providers, retaining only the top performers. FBS also relaunched the incentive scheme for internal staff, which is now mainly based on team results. We will closely monitor their effect on recoveries in due course.

OUTLOOK

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

MANAGEMENT AND ORGANIZATION

We have affirmed our ABOVE AVERAGE subranking on FBS for management and organization. FBS continues to achieve business plan results. The company has a solid management team, which it is expanding to accommodate business growth, and an adequate internal controls model in place. Turnover, tenure, and experience are at reasonable levels, and the company is proactive in training its staff and updating its IT system. The full materialization of latest initiatives will further support the company's operations.

LOAN ADMINISTRATION

We have affirmed our ABOVE AVERAGE subranking on FBS for loan administration as a special servicer of residential mortgages, commercial loans, and consumer credits. The company has a clear workflow in place for each asset class, which the new loan management system can more efficiently support and monitor. FBS has refined its pool of external providers according to performance. The company continues to meet its collection targets, which can be duly monitored through the use of newly implemented dashboards.

FINANCIAL POSITION

We consider the financial position to be 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.

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

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- Criteria - Structured Finance - Servicer Evaluations: Methodology For Evaluating And Ranking Small-Balance Commercial Mortgage Servicers, July 23, 2007
- Criteria - Structured Finance - Servicer Evaluations: Servicer Evaluation Ranking Criteria: U.S., Sept. 21, 2004

Related Research

- Servicer Evaluation: FBS SpA, April 6, 2016
- Select Servicer List, published monthly

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