

ISSUER COMMENT

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SOLUTUS

Servicer Update - Quality of services in line with our expectations of a medium-sized third party servicer

Executive Summary

- » Based on our review, the quality of services provided by Solutus is in line with our expectations of a medium-sized third party servicer;
- » The company went through a process of meaningful changes over the last year broadening its business activities and staffing, changing the ownership and management structure as well as rebranding;
- » Solutus benefits from an experienced directors team with on average more than 12 years of commercial real estate (CRE) industry experience;
- » The company manages currently around €900 million loans in primary servicing and €470 million in special servicing in two CMBS transactions;
- » The servicer is currently in the process of developing its own IT systems, which should help increasing its loan servicing efficiency.

Meeting Summary

We met with representatives of Solutus for a servicer review in January this year. Whilst we do not officially rate servicers, as part of our on-going surveillance process, we aim to regularly meet with servicers to discuss any changes in their business strategy and responsibilities, staff turnover, potential modifications in internal procedures as well as any reporting issues. During the meeting, Solutus' management team provided us with an update on their business development over the last two years, team composition, internal processes and IT systems.

The conclusion of the review is that the quality of services provided is in line with our expectations for a medium-sized third party servicer.

Strengths & Challenges

Key Strengths of Solutus include:

- » Broad industry experience of the company's directors with on average more than 12 years of industry experience;
- » Meaningful growth of business with a number of new mandates over the last financial year, which supports both income and risk diversification;

- » The team is managing loans that are secured by various property types across various European jurisdictions;
- » Robust operational procedures and risk management;
- » Broader financial and manpower support resulting from a change of the ownership structure in Q1 2016.

The challenging areas include:

- » Maintaining a stable management structure after one of two co-managing directors left the company end of 2015. This is mitigated by the recent appointment of a new head of business development to support further growth of the company in the UK;
- » The currently used IT system does not allow to efficiently administer more complex loans. However, the company is currently focusing on the development of a new in-house loan management system.

Company's History

Solutus Advisors Limited was established in 2010 by two former co-heads of Deutsche Bank's loan servicing team, James Bannister and Darren Davey, to provide special servicing services for European CMBS transactions. In 2012, Solutus established its servicing operations in Germany, via Solutus Advisors GmbH, focusing on servicing of CRE loans secured by German properties.

Since 2014, Solutus has further extended its activities to primary servicing of CRE loans. Moreover, real estate advisory services offered include underwriting, administration, restructuring and refinancing of CRE loans. Recently, the company has taken over various additional roles including facility and security agent as well as trustee roles. Solutus is active as back-up servicer covering over 7,000 European investors in various sectors in small and medium sized enterprises' (SME) loans. Through its SME Brokerage division, the company provides loan advisory services to SME clients.

In Q1 2016, the company went through a process of changing the ownership structure as well as rebranding. Solutus is currently part of The Acepark Group, which comprises a wide number of companies operating in the real estate sector and employs around 300 staff members. Solutus receives support in asset and property management from FI Real Estate Management (FIREM) belonging to the same group. The company's name was recently rebranded from Solutus Advisory Limited to Solutus, the logo and website were redesigned.

Management Structure & Staffing

The company is headed by James Bannister, Managing Director and Head of Special Servicing. After the second Managing Director left the company end of last year, Solutus has recently recruited Gareck Wilson as Head of Business Development to support further growth of its UK business. Four directors cover different sections of Solutus' activities including Primary and Special Servicing, SME Loan Advisory and European Servicing.

Solutus has undergone significant growth over the last financial year with 22 employees and consultants working for the company as of March 2016. While the client relationship management, business development and loan on-boarding activities are managed by the London office, the newly established back-up office team in North-West, where FIREM is located, is responsible for cash management, accounting, property inspections and investor queries.

Serviced Portfolio

In its role as primary servicer, Solutus currently manages and administrates 24 CRE loans (both on- and off-balance sheet) with a total balance of around €900 million, spread across the UK, Germany, France and the Netherlands. In this role, the company is responsible for the CRE loans, payment collections and performance monitoring of loans and underlying property portfolios. The client group comprises of a broad group of market players including investment and commercial banks, debt, equity and hedge funds as well as CMBS issuers.

Solutus is currently appointed special servicer for a portfolio of nine loans amounting to around £470 million spread between two CMBS 1.0 transactions.

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The SME loan advisory business covers around 70 deals with an average size of around £22 million.

Reporting

Solutus publishes quarterly investor reports for loans in primary and in special servicing. The information includes i.a. portfolio stratifications, loan level performance information and tenancy details for primary serviced loans. For the loans in special servicing, the reports provide also details on the work-out history and strategy as well as next steps planned.

Procedure & Control

Solutus is externally audited on an annual basis by Grant Thornton (GT) in respect of procedural practices, IT security and auditing policies. The last audit took place in June 2015 with no major issues identified. Moody's has not been provided with the audit report. Going forward, GT will also provide internal audit and assume a compliance role.

We have been provided with Solutus' procedures manuals for both primary and the special servicing, which describe in detail loan management and administration processes including loan on-boarding, investor reporting and payment procedures, the decision making process through servicing committees and special servicing procedures.

Solutus has three layers of compliance controls including the management team, operational risk adviser and the Servicing Committee. The management team and operational risk adviser are responsible for supervision of all operational activities of the company.

Decision making processes for primary and special servicing activities is undertaken by an independent servicing committee (Servicing Committee) composed generally of three directors, an independent senior servicing advisor, a legal representation and a property advisor. The senior servicing advisor has access to all information available to committee members, his presence is mandatory in all committees. The number of participants varies between primary and special servicing committees as well as complexity of topics discussed. The Servicing Committee reviews all decisions taken by servicing staff ensuring alignment with servicing standards and the quality of the decision making process.

IT Systems

Solutus is using two IT systems, Argus, a cash flow and valuation system, and Cassiopae, a loan servicing and task management system. Significant investment into the IT system has been made over the last three years. However, the currently used loan management system does not allow to reflect more complex loan structures. To avoid the usage of additional manual calculations going forward, Solutus decided to create its own IT system for loan servicing. Currently, the company is in the process of preparing system requirements for the new application.

All staff members have the ability to work remotely from any location. The office servers in London are continually backed up off-site by MMR offices in Kent. System integrity is ensured via periodic penetration and disaster recovery tests as well as system back-ups.

Moody's Related Research

- » [Moody's Approach to Rating EMEA CMBS Transactions](#)

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