

## Ranking Affirmed As AVERAGE On Solutus Advisors As U.K. Special Commercial Mortgages Servicer; Outlook Stable

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OVERVIEW

- We have affirmed our overall AVERAGE ranking on Solutus Advisors as a special servicer of commercial mortgages in the U.K.
- The outlook on the ranking is stable.

LONDON (S&P Global Ratings) July 4, 2017--S&P Global Ratings has affirmed its overall AVERAGE ranking on Solutus Advisors Ltd. as a special servicer of commercial mortgages in the U.K. The outlook on the ranking is stable.

Solutus Advisors was incorporated in late 2010 and it is part of the Acepark group. In May 2016, the company appointed a new managing director after the two founders left. The managing director leads an overall workforce comprising three senior managers and five asset managers, backed by four Acepark employees providing support functions such as IT and HR on a part-time basis.

The company covers a range of pan-European commercial loans and real estate. As of December 2016, the company managed a total portfolio of £1.45 billion commercial mortgages, up from £1.15 billion in 2015. Since our previous review, the servicer has diversified into the primary servicing business and performing commercial loans currently account for two-thirds of the total portfolio (see "Ranking Affirmed As AVERAGE On Solutus Advisors As U.K. Special Commercial Loans Servicer; Outlook Stable," published on Nov. 5, 2015). The portfolio of commercial mortgages in special servicing decreased to

£478 million from £581 million, over the same period, as a result of the resolution of three loans and despite the acquisition of a new special servicing transaction. Solutus Advisors also offer advisory and restructuring services.

Our AVERAGE ranking reflects our assessment of the company's operations as a special servicer of commercial mortgages in the U.K. based on the ranking factors in our criteria (see "Related Criteria").

#### MAJOR RANKING FACTORS

- Notwithstanding limited opportunities in the special servicing commercial mortgage market, because the sector is shrinking, the company won the contract for one transaction in 2016, which accounts for almost half of the current outstanding gross book value in special servicing. Moreover, despite the special servicing portfolio not being fully replenished, the overall portfolio (including performing loans) increased by 26% since 2015. Although it is outside of the scope of our analysis, a growing primary servicing business can in part offset the higher operational risk associated with a shrinking special servicing function.
- In our opinion, the new managing director has relevant experience and a clear mandate to position the company competitively, and we will closely monitor future results. Similarly, the company appointed a manager focused on business intelligence. The company plans to increase resources as the company grows, which will most likely and primarily be due to the expansion of its performing portfolio.
- Solutus Advisors continues to use Grant Thornton UK LLP for its annual internal controls audit. In our view, this ensures a reliable level of detective controls, given the servicer's size. The executive team looks after risk management and compliance as is typical for small- to medium-sized servicers.
- In 2016, in line with more recent market trends, Solutus Advisors ceased to use its third-party provided loan management system. The company is planning to introduce a new one that will enable increased efficiency in view of the expected growth by year end. While the absence of a single, functional system poses an operational risk, this is counterbalanced by the limited number of loans under management and the staff's knowledge of the special servicing portfolio. We will monitor closely developments in this regard.
- Finally, the servicer showed improvements in the content of investor reports including more details on the assets.

#### OUTLOOK

The outlook on the ranking is stable as a special servicer of commercial mortgages in the U.K. In our opinion, the company will sustain business at this standard.

#### MANAGEMENT AND ORGANIZATION

We have affirmed our AVERAGE subranking on Solutus Advisors for management and organization as a special servicer of U.K. commercial mortgages.

The portfolio grew through diversification, with expansion into the primary servicing business compensating for the reduced activity in the special servicing business. The current executive team, composed of a mix of new hires and long-time employees, has the experience and a clear vision of the company's future to continue supporting its development, in our view. There is an adequate level of controls and the ongoing project to update the IT system is in line with the trend we have observed in this market.

#### LOAN ADMINISTRATION

We have affirmed our AVERAGE subranking on Solutus Advisors for loan administration as a special servicer of U.K. commercial mortgages.

In 2016, the special servicing team worked out three loans in line with its business plan and gained one new transaction. In our opinion, Solutus Advisors has adequate procedures and knowledge in place to manage the special servicing portfolio, given the size of this business. While reporting is not automated, the servicer integrated its investor reports with a wider level of details on the recovery strategy.

#### FINANCIAL POSITION

We consider Solutus Advisors' financial position to be SUFFICIENT, based on our assessment of the company's financial statements over the past three years and its projections for the next year.

#### RELATED CRITERIA

- Criteria - Structured Finance - Servicer Evaluations: Revised Criteria For Including RMBS, CMBS, And ABS Servicers On Standard & Poor's Select Servicer List, April 16, 2009
- Criteria - Structured Finance - Servicer Evaluations: 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: Solutus Advisors Ltd., Nov. 19, 2015
- Ranking Affirmed As AVERAGE On Solutus Advisors As U.K. Special Commercial Loans Servicer; Outlook Stable, Nov. 5, 2015
- Select Servicer List, published monthly

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