

FITCH UPGRADES SOLUTUS' UK COMMERCIAL PRIMARY SERVICER RATING TO 'CPS3+'

Fitch Ratings-London-28 December 2017: Fitch Ratings has upgraded Solutus Advisors Limited's (Solutus) UK Commercial Primary Servicer Rating to 'CPS3+' from 'CPS3'.

The upgrade reflects Solutus' wider servicing capabilities following the growth of the primary servicing portfolio. Solutus boarded a number of new loans onto its platform over the past 18 months, and in Fitch's view, the transfers were completed efficiently with sound quality control. The timeliness of primary servicing activities, such as loan administration, cash management, investor reporting, and asset administration are in line with rated peers. The '3+' rating takes into account that overall servicing experience remains limited compared with many rated peers', and lower automation around activities and controls than seen at other UK commercial loan servicers.

The average industry experience across the three senior managers of around 16 years at Solutus is deemed to be appropriate, but remains lower than that of many rated peers. Average company and role tenure is short compared with the same peers'. During the review period, the company has been restructured, leading to some changes in senior management. In Fitch's view, these changes have not had a material impact on servicing operations. In its rating, the agency also takes into account the management support provided by Solutus' parent - the Acepark Group (the group) - which is stable. Over the past 12 months Solutus has demonstrated its ability to meet key corporate objectives. The business has been restructured to focus on key market segments, and the servicing portfolio has grown through existing and new client relationships. In addition, technology infrastructure concerns - previously highlighted by external audit - have been addressed.

Solutus has implemented a number of the group's training and development frameworks over the past 18 months, which Fitch views as being in line with what is seen at rated peers. The average training hours have increased year on year and are in line with other rated servicers'. The '3+' rating takes into account that the frameworks have been through only one cycle, and Solutus is yet to demonstrate consistent training levels.

Fitch views the governance framework at Solutus as appropriate for the current size of the company, but not as advanced as peers'. Control of activities is exercised through "four-eye" checks, manager oversight at portfolio level, and regular quality reviews. The upgrade takes into account that the business has been through additional audits, and has demonstrated regular review of key areas. The recording and resolution of findings is deemed to be appropriate.

At the time of review Solutus was using Microsoft Excel-based models to track and process loan activities, which Fitch views as adequate given the size of the servicer; however, in the agency's view the system does not provide the automated controls and timeline management seen across rated peers. This limitation has been taken into consideration in the current rating. The servicer plans to roll out a new third-party supported platform in 2018 but this was not taken into account by Fitch as its impact on operations cannot be assessed as yet.

The upgrade takes into account that IT security has been strengthened over the past 18 months with robust backup procedures and no adverse findings from the annual disaster recovery test.

Fitch views Solutus's financial condition as adequate, taking into account the change to the business model and a number of extraordinary costs incurred over 2017. The agency takes into account the support provided by the group, whose financial condition is assessed as stable. Fitch

also takes into consideration in its rating analysis the operational support provided by the group in the areas of HR, training, IT, and finance, as these resources largely offset key person risk at servicer level and imply a wider range of knowledge and expertise than are available to the servicer.

Solutus's UK primary servicing portfolio consists of 22 loans (2016: 15 loans), with 74 associated properties (2016: 41) and a value of GBP1.1 billion (2016: GBP502 million). Two loans within the portfolio are securitised by 14 associated properties at a value of GBP283 million.

The rating action commentary is based on information provided to Fitch as of 15 September 2017, unless stated otherwise.

The servicer rating is based on the methodology described in 'Rating Criteria for Rating Loan Servicers' dated 23 February 2017, which included a comparison of similar UK servicers as part of the review process.

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