

RMBS/CMBS
Italy
Servicer Report

Guber S.p.A



Ratings

Commercial Special Servicer Italy	CSS3+
Residential Special Servicer Italy	RSS3+

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Related Research

- *Global Rating Criteria for Structured Finance Servicers (September 2009)*
- *Rating Criteria for European Mortgage Loan Servicers - Italian Market Addendum (November 2007)*

Amended

This report, originally published on 8 September 2008, is being republished with the following change: wording regarding the internal audit on pages 1, 2 and 5 has been revised, as per the servicer's request.

Summary

Fitch Ratings has assigned Commercial and Residential Special Servicer Ratings to Guber S.p.A (Guber, or the company) of CSS3+IT and RSS3+IT respectively. The ratings are based on the company's ability to manage the workout process for defaulted loans.

The ratings reflect Guber's lengthy tenure in the Italian non-performing loan (NPL) space compared to its peers and the size of the portfolio under management, which enables a centralised approach to operations and allows the servicer to achieve certain process efficiencies. Furthermore, leveraging the in-house legal team has led to both less reliance on external counsel and better control over legal costs and recovery timings. The internal audit (IA) programme - instituted in March 2008 - coupled with measures surrounding disaster recovery (DR) planning, pose some of the more significant challenges for the servicer.

As at 15 April 2008, Guber managed a total portfolio of EUR402m comprising approximately 11,600 loans. The secured portfolio equates to approximately 25% of Guber's entire portfolio, comprising mainly residential underlying assets (56%), with a geographic exposure to mainly the central and northern Italian regions (53% and 33% respectively).

Strengths

- Sound experience of senior management. Operational tenure in Italian NPL market compares favourably to rated peers, with opportunities for succession planning found among middle management. Centralised operations create further efficiencies, albeit decentralised asset management may occur as portfolio grows.
- In-house legal team and lawyer incentive structure has led to less reliance on a broad network of external counsel and an ability to control external lawyers' actions centrally. The group has thereby achieved sound recovery levels and shorter recovery timings appropriate to the size of the portfolio under management.
- Good training programme and above market average training hours for new starters; recruitment process is innovative among rated Italian servicers.

Challenges

- Embedding a robust and effective internal audit (IA) programme as the relationship with external consultants is unseasoned (mandated since Q108); resolving issues identified by auditors.
- Instituting a formal disaster recovery (DR) plan and completing testing of hot site facility.
- Increasing operational seasoning of junior staff and asset managers (AM) in light of low industry and company tenure compared to higher rated peers.
- Guber is neither rated as a financial institution nor part of a rated entity.
- Developing real estate owned (REO) workout strategy in line with higher rated peers.

Mitigants

- Guber's first IA concluded in Q208 and some priority findings have already been resolved. A well-known external consultant company has dedicated three auditors to Guber and outstanding issues will be re-visited by them every six months to ensure improvement and action has been taken.
- Remote access to systems is possible and nightly backups are performed. Guber benefits from having multiple servers (albeit all in the same building). A contract is in place with a third party that provides adequate remote location storage and server backup, albeit this entity was only appointed in May 2008 and is dependent on in-house backups being provided to the company or data copied over by Guber. Some limited testing performed without issues.
- Senior managers are experienced industry professionals while staff training hours are above the Fitch benchmark of 40 hours. Documented policies and procedures are in place for all areas of the business.
- Financials of Guber appear robust and reflect long-term positive trend.
- Team have previous REO experience while current recoveries and recovery timings suggest adequate performance.

Company History and Management Experience

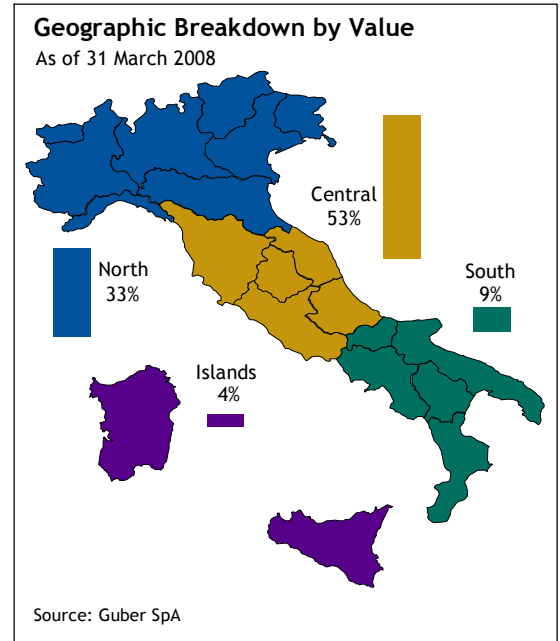
Guber has been in existence in the Italian market since 1991 initially founded to manage debt collection for bankrupt companies. In 1999, Guber's services were expanded to incorporate third-party servicing of Italian non-performing loans (NPL) and due diligence valuations, as well as purchasing and servicing unsecured NPLs from Italian banks. Guber's tenure of nine years in the Italian NPL sector means it is one of the longest serving among Fitch's rated Italian special servicers; Fitch considers its experience in the market as one of Guber's strengths.

Guber was created by two individuals who each retain ultimate ownership of the servicer. Both have considerable tenure (21 years) gathered in various Italian financial institutions as well as in the management and workout of distressed debt in Italy; both have a vested financial interest in the company. Average tenure among the entire senior management team is 12 years as the two creators of Guber have sought to introduce younger members into higher rungs of management and thereby create opportunities for succession planning. Although ultimate control rests with the founding members - as they remain heavily involved in day-to-day management - and industry tenure is lower than its peers, Fitch considers it a positive that Guber recognises the limitations imposed by being solely a 'two-man' operation and is actively enhancing the senior team. Guber also considers the longevity of the business and the commitment to the Italian NPL market as one of its key aims.

Guber is a servicing company registered with the Bank of Italy under article 106 and as such, is obliged to report to certain Bank of Italy (BoI) regulatory requirements. A dedicated team within the finance group manages the BoI reporting needs for the organisation and performs regular standard checks such as anti-terrorist and anti-money laundering (AML) accordingly. Reporting is facilitated by the use of dedicated software that interfaces with the BoI systems.

The group employs a fairly flat operating structure split into teams that handle due diligence as well as judicial and extra-judicial recovery; they are headed by respective department heads. The sole corporate office is based in Brescia, approximately 40 minutes by train east of Milan, Italy. All activities, including asset management, are performed in Brescia and the current size of the portfolio, as well as the concentration of the assets under management - largely in the central regions of Italy (54%) - are adequately serviced from this office. It is recognised in the industry that NPL trades have slowed somewhat due to the impact of the credit

crunch and should the asset makeup of Guber's portfolio change or expand, Guber has indicated it would be prepared to open an additional satellite office in the south of the country. A presence in southern Italy is seen as a positive step towards reducing time to recovery on assets in a challenging locality; Fitch considers early identification and an ability to address the requirements of an evolving portfolio as the key hallmarks of a proactive servicer. Nevertheless, Guber's current site has excess capacity and more than accommodates current - and potential future - staffing levels, thus mitigating any concerns surrounding capacity planning.



Financial Condition

Fitch does not publicly rate the credit and financial strength of Guber; therefore earnings are entirely reliant on transaction-based income. Fitch will continue to monitor the group's financial performance closely, as well as its ability to meet its stated revenue and profitability targets.

Financial statements have been provided to Fitch and, upon review of the company's financial accounts and budgets, Fitch finds that it has demonstrated adequate profitability and increasing revenue generation during the past five years. Net operating margin for Guber as of YE07 was low at 0.55% (YE06: 0.31%; YE05: 0.47%) and net assets for YE07 were EUR5.5m (YE06: EUR4.5m; YE05: EUR2.6m).

Staffing and Training

As of April 2008, the company employed 50 servicing employees, 12 of which make up the company's in-house legal team; 80% are full-time employees (FTE), 12% are temporary workers and 8% are employed on a part-time basis. This rate of temporary staff is in line with peers and the agency recognises that the use of non-permanent staff on limited term contracts is common in the Italian market. Moreover, the agency believes that these figures are manageable and has not observed any material impact on the performance of the NPLs serviced by Guber as a result of its use of temporary staff. Although the increased use of temporary staff creates challenges, Fitch expects this type of employee to be used in a controlled manner. Furthermore, turnover is in line with peers, running at a rate of 10% as at April 2008. However, should turnover continue to rise, the agency will monitor any underlying reasons for the increment and take appropriate rating action where necessary.

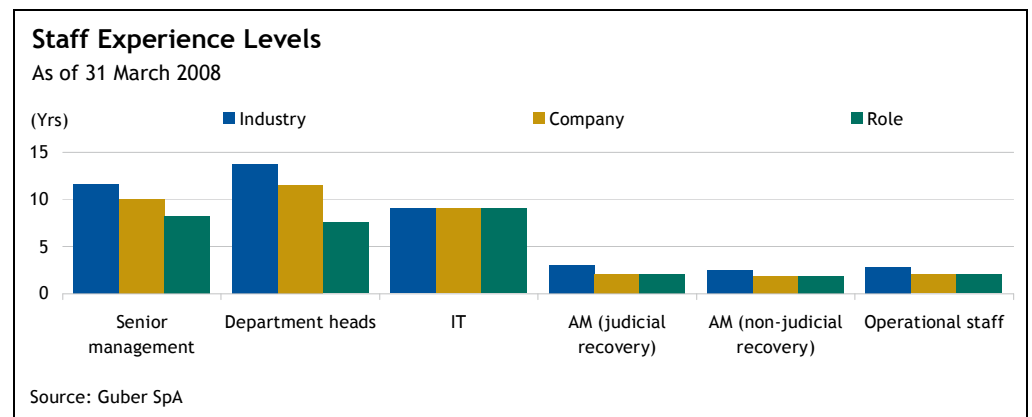
Average company tenure of the operational staff is low at two years, indicting a recruitment drive in the past 24 months as the portfolio has grown. The figure is mitigated by seasoned departmental managers - who possess an average 14 and 12 years of industry and company experience respectively - and the robust and ongoing training provided.

Training at Guber largely takes the form of internal and mentoring-style offerings, with ongoing refresher training as required. All staff receive a one month induction programme to ensure a comprehensive understanding of the incumbent's new role

and requirements. This has enabled Guber to record training hours above the Fitch benchmark of 40 hours training per employee, per annum. The head of human resources (HR) was a former asset manager at Guber and using this previous role as a guide, it is expected that training is geared to filling gaps in and enhancing asset manager knowledge appropriately.

Unique to Guber is the quasi ‘graduate programme’ which allows Guber to select candidates from a pool of alumni from the local university. This scheme has been in place for the past 12 months and ten members of the current staff have been hired through this avenue. These graduates are hired for a fixed period and incentivised by the offer of a permanent role (typically as an asset manager) within Guber at the end of the term. As a small company, Guber puts an emphasis on hiring employees with personality traits suited to the type of organisation and this type of recruitment does grant a certain amount of flexibility. Candidates are guided through a period of training by a senior staff member and besides an interview with HR and senior members of asset management, applicants also sit industry-recognised psychometric tests at the outset to determine their ability to adapt to working life within Guber. Further to these preliminary selection criteria, once an individual is in situ, progress is judged by their ability to work on live cases of increasing complexity, supplemented by regular reviews by the relevant line manager to determine which graduates would be a ‘good fit’ in the organisation.

The correlation between incentives and the ability to maximise recoveries is high; as such, Fitch views an understanding of the structure of a servicer’s remuneration scheme as an important driver to increase performance and productivity. Guber compensates its asset management staff on a semi-annual basis, linked to the percentage of collection levels achieved over the business plan and predetermined budget levels. These levels, set at the beginning of each year by the department managers in cooperation with the board, are based upon non-subjective criteria (i.e. percent of gross revenues). Performance appraisals are conducted annually and five internal advancements were made effective in 2008.



Policies and Procedures

The amount of emphasis a servicer puts on instituting a formal internal audit regime and administering appropriate internal risk management and controls is weighted heavily in Fitch’s Servicer Ratings’ analysis. Prior to 2008, Guber had no IA function and internal controls were monitored and controlled by senior management using system produced exception reports (such as details of actual timelines against business plan expectations and cash flows).

As of March 2008, Guber had outsourced IA to the specialised consultants; three staff, with sound average industry experience, oversee the Guber IA function. Given the current size of Guber, this is an adequate allocation and compares favourably with other market participants. Now it is in the hands of a third-party provider, IA

is expected to be conducted on a regular basis and provide a thorough review of all areas of the business. However, it is still too early to judge the effectiveness of the relationship between the consultants and Guber. Guber has indicated its intentions to move forward with a SAS70 audit by YE08 as per a client-sided request and Fitch will monitor this development closely, granting credit where appropriate. Nevertheless, the agency would consider this a positive introduction to the business, further augmenting internal controls in line with highly rated servicers (not just in Italy); however, it should by no means replace IA.

Guber maintains clearly documented policy and procedure manuals for all business functions, some of which include print screens of instructions. Manuals are updated as changes occur in processes or policies and are easily accessible to all staff via a common computer drive.

Servicing Methodology – Loan Administration

New Loan Setup

Guber places a significant emphasis on the due diligence process prior to boarding a new portfolio using a proprietary statistical model. Fitch considers this as a positive and allows Guber to use its track record in NPL servicing accumulated over time to gain a greater understanding of the underlying assets to be serviced. As such it is expected that Guber's involvement in the data room phase at the early stage of loan boarding aids its ability to create accurate and realistic business plans (BP) and manage collection expectations.

An operations director, with eight years' industry experience, coordinates and oversees the portfolio boarding process, which is fully automated, retaining control over data integrity. In the past 24 months, Guber has boarded 21 new portfolios, equating to approximately 9,700 loans.

Data queries are run to check the accuracy of the data against loan documentation and information on the mortgage (including any guarantees) and subsequently transferred onto the system. Presently 99% of documentation has fully populated fields and Guber requires any missing data to be integrated in the portfolio within 60 days.

The company currently utilises a storage facility in Brescia and another off-site. Documents are scanned in-house for better internal oversight and movements of paper-based documents are logged and tracked centrally. The scanning and electronic upload of documents will further aid business continuity planning.

Loan Accounting and Cash Management

All accounting and cash management functions are handled by the central accounting and finance team, the head of which has been with Guber since inception.

Bank cash reconciliations are done for each account on a monthly basis, as are investor cash reports. Some client reports can be accessed via a protected area on the company's website and are uploaded on a daily basis. All reports and positions must receive approval and are reviewed for accuracy both internally and externally by the relevant mandate bank.

Investor Reporting and Remitting

The investor reporting function is robust, thanks to the implementation of cross-checks and dedicated staff to quality check reports prior to external distribution to the relevant mandate banks.

Guber benefits from a flexible proprietary reporting system developed in-house and reports are reviewed by senior and portfolio management to validate the accuracy of the data.

Servicing Methodology – Defaulted Loans

Guber reviews its BPs are reviewed every three months to ensure collections are on target and against critical stages in the workout process - such as at court-appointed expert valuations, CTU, scheduling of the auction dates and at the point when the borrower accepts a repayment plan or negotiated settlement. The company's system enables staff to update the BP on a real-time basis, classifying the legal procedures according to certain stages (with each procedure being assigned a maximum timing in which to be completed, benchmarked against national averages). For each line of credit, the system shows expected recovery, the net present value of recovery, resolution strategy, recovery timing and value of the guarantees.

Given its size, the company relies on the experience and expertise of key senior managers for work-out supervision. Senior management thus has a 'hands-on' management style, taking direct responsibility for many of the most difficult assets and being actively involved in day-to-day operations for others. Senior management must approve all cases (asset managers have no final decision-making authority) and a senior asset manager will always accompany a more junior asset manager on borrower visits. All new asset managers must follow a six-month 'shadowing' period on top of the standard one month induction period. This is reduced to three months for those asset managers charged with judicial workout. As of April 2008, there were approximately 300 cases per AM.

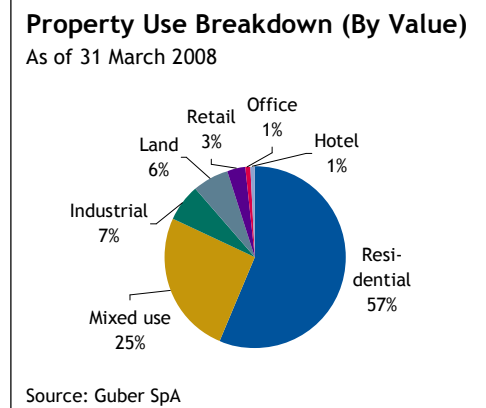
Guber uses numerous work-out strategies for secured loans, the favoured being judicial distribution, for which Guber relies extensively on its experienced in-house legal team. Judicial distribution accounts for 63% of Guber's resolution strategy, followed by discounted pay-off (DPO, 25%) by volume.

Guber's engages the services of a pool of 12 in-house legal counsel with nine dedicated to performing due diligence activities. These lawyers are not directly hired by Guber but are located in the Guber premises. Instead, Guber has exclusivity agreements with key law firms with which Guber have established relationships and lawyers receive an up front fixed fee for the cases they are assigned. An additional variable discretionary fee is awarded on successful closure of a position above the fixed fee. In turn, these internal lawyers monitor the network of approximately 100 external lawyers based across Italy who are remunerated according to the minimum legal tariff agreed in advance with the company. This is somewhat of a unique structure to Guber compared to rated market participants and compensation is geared towards being results-based. Moreover, the number of external lawyers is significantly below that used by Guber's peers and grants Guber certain economies of scale given its size.

External lawyers are also monitored closely by asset management staff to ensure that recovery timings are met.

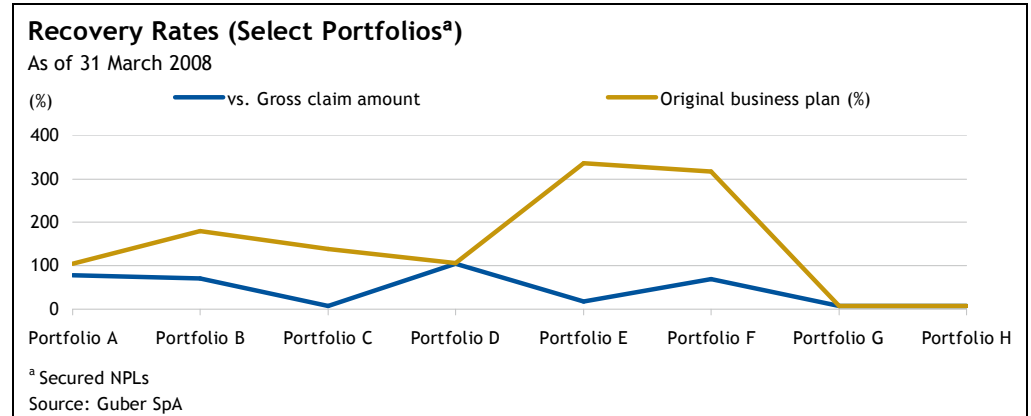
The status of legal proceedings on the cases allocated is reviewed regularly. The system also classifies legal procedures according to stages and Guber's reporting is able to highlight where timing is overdue, alerting management of any deviation from expected positions.

Through careful oversight of external lawyers, resolution timelines compare favourably to the timings seen among peers. Broken down by region, north, central, south and islands average 4.3 years, 7.3 years, 8.3 years and 9.3 years respectively, from commencement of the legal process through to distribution of proceeds.



Real Estate Owned (REO)

Guber's current strategy is not to acquire real estate through a REO vehicle. Nevertheless, Fitch would view favourably the move towards executing REO as a means of recovery, as its use is seen as a key component of highly rated special servicers to demonstrate their willingness to employ whatever strategy is necessary to achieve maximum recoveries.



Technology

Guber has invested in technology to maximise the potential of its operating systems and procedures; its systems demonstrate effective and fully-integrated workflow management. As a result, Guber has not experienced any capacity issues with its technology platform. The group's IT is fronted by an IT manager with 17 years' industry experience.

Guber's proprietary asset management system is flexible, user friendly and expandable. It was developed internally, leveraging senior management's past experience in the NPL field and is able to manage multiple positions. Currently, two members of staff make up the Guber IT development team, which is sufficient to provide in-house support at current levels. Access is based on hierarchy and individual passwords which are updated monthly and overseen by the head of IT.

While Guber has made considerable efforts to create a platform that supports its NPL activities, Fitch does have concerns surrounding the lack of embedded provisions for disaster recovery (DR). All three of Guber's servers are located at the Guber office in Brescia; subsequently, Guber does not benefit from a hot-site facility. However, following Fitch's review in Q208, Guber has begun to address this issue by engaging a third-party to provide remote system server backup and performing limited testing of this engagement. To date, a full DR test has not been conducted in sequence with the provider; therefore it is not known how long Guber would be unable to realise collections on its loans or to carry out even the minimum of operations in the event of a disaster. With this in mind, should an event occur, it is envisaged that it would take an extended amount of time to resume normal business operations under current constraints. Therefore, DR is considered sub-optimal and presents a clear operational risk to the organisation.

Fitch would consider it advantageous to see further seasoning of this agreement as well as rigorous testing of this mandate performed to ensure reliability of the backup arrangement, and a more structured DR plan put in place, in line with that seen at higher rated peers. The agency would take comfort if Guber instigated the following developments, among others: a business impact analysis, call trees, and formalised procedures surrounding business continuity planning. Nevertheless, interim backups are made nightly and copied to the remote server.

Surveillance

Servicer Ratings are valid for a period of 12 months from the date the rating is assigned. Servicers are subject to an annual review for the ratings to be maintained. Servicer surveillance will work closely with transaction surveillance to enhance the pro-active identification of issues that may affect the performance of Fitch-rated transactions.

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