

RMBS Special Servicer
CMBS Special Servicer
Italy
Servicer Report

Guber S.p.A



Ratings

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

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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 16 September 2009, is being republished with the following change: wording regarding the internal audit on page 5 has been revised, as per the servicer's request.

Summary

Fitch Ratings has affirmed the Commercial and Residential Special Servicer Ratings of Guber S.p.A (Guber, or the company) at 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 increasing size of the portfolio under management, which still enables a centralised approach to operations and allows the servicer to achieve certain process efficiencies. Furthermore, the company has started utilising REO structures as part of its workout strategies, which appears to be an efficient way of revitalising the auction market in some Italian regions. An independent internal audit (IA) function and the development of a disaster recovery (DR) plan have also been introduced during the course of 2008.

As at 30 April 2009, Guber managed a total portfolio of approximately 13,800 loans, with a gross book value (GBV) of EUR680m. The secured portfolio equates to approximately 26% of Guber's entire portfolio, comprising mainly residential underlying assets (65%), with a geographic exposure to mainly the central and northern Italian regions (44% and 34% respectively).

Strengths

- Sound experience of senior management. Operational tenure in Italian NPL market compares favourably to rated peers. 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.
- The company seems to react well to the rapid growth of business and personnel. Internal procedures, codes of conduct, and organisational models have been introduced and are well disclosed internally. Overall, the necessity of a more organised structure does not seem to impact the required flexibility for the size of the portfolio under management.

Challenges

- Maintaining the recent financial trend in current market conditions and without the support of a rated or financially strong parent.
- The company relies on the two founders' industry experience and commitment. As a result, an increase in staff seasoning - in light of low industry and company tenure compared to higher rated peers - is an important medium-term objective.
- New functions - specifically around internal audit (IA) and improved procedures such as disaster recovery (DR) - still require more seasoning and testing. Ensuring that IA functions will progressively be conducted autonomously from external advisors should also be a medium-term objective.

- Ensuring that the opening of Spanish operations does not impact senior management's involvement in the workout of Italian NPLs.

Mitigants

- Guber's financials appear robust and reflect a continuous, medium-term positive trend. Also, the company does not rely on any borrowing; financial statements show a sound liquidity position and the profit retaining policy shows further commitment by the shareholders to business growth.
- Senior managers are experienced industry professionals. In the medium term, the growth of knowledgeable middle managers, together with an overall development of skilled internal resources, should mitigate succession risk. Fitch also notes that the group's youthful workforce, coupled with a sound training programme, offers certain advantages distinct from its Italian counterparts.
- An experienced internal resource has been appointed as head of IA. All 2008 priority findings have been successfully resolved and some medium priority findings are being addressed by the company. An external advisor still dedicates personnel to overlook Guber's IA, to ensure continuous improvement.
- The experience of the senior management and the synergies between headquarters and the subsidiaries should limit this challenge to the short-term horizon.

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 (22 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 13 years, as the two creators of Guber have sought to introduce younger members into higher rungs of management, thereby creating 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.

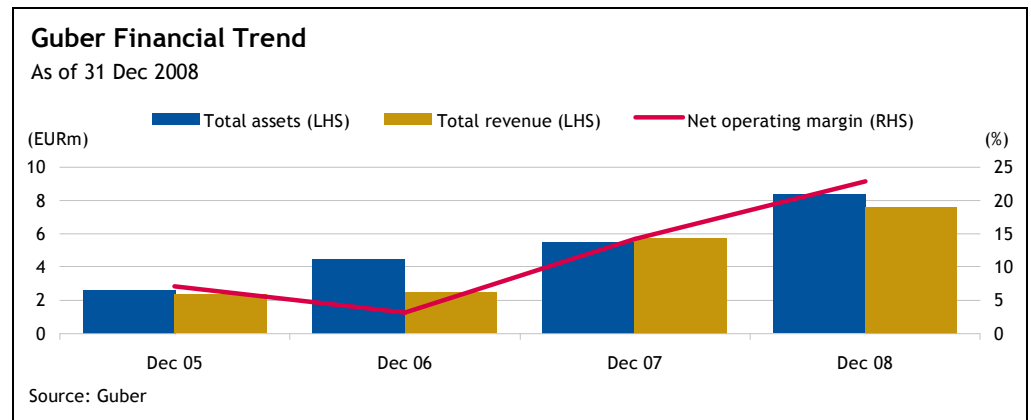
The group employs a fairly flat operating structure, split into teams that handle due diligence as well as judicial and extra-judicial recovery; they are headed by respective department heads. The corporate office is based in Brescia, approximately 40 minutes by train east of Milan, Italy. All activities, 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 - are adequately serviced from this office. However, the company has indicated that, should the asset makeup of Guber's portfolio change or expand, it would be prepared to open an additional satellite office in the south of the country. It is the senior management's opinion that the current size of the portfolio, albeit growing at a rapid pace, is still optimally manageable from the Brescia headquarters. As a further testimony to the company's growth, Guber has decided to start NPL operations in Spain; to that end, a subsidiary opened in January 2009 in Barcelona. As of this report's date, three people are currently employed and it is the company's objective to expand the workforce to 10 by the end of 2009. Guber Spain's Managing Director has been transferred from the Italian operations.

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.

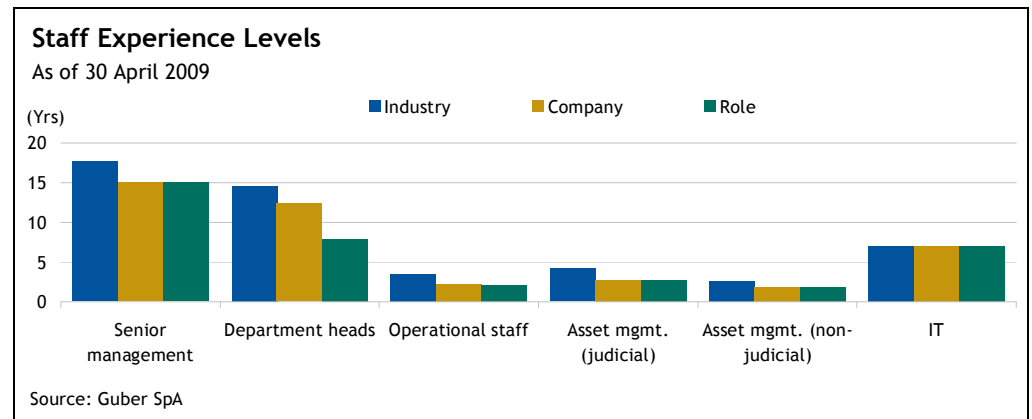
Financial statements have been provided to Fitch and reviewed by Fitch's Financial Institutions Group (FIG). FIG notes that Guber has demonstrated robust and continuous medium-term profitability, a sound liquidity position, and clear commitment to business expansion by the shareholders, as evidenced by the profit retaining policy applied over the past few years. The company also has a EUR800,000 credit line that had not been drawn as of end-December 2008.



Staffing and Training

As of April 2009, the company had increased its workforce to 66 individuals (from 50 employees recorded in April 2008) 17 of which make up the company's in-house legal team (12 as of April 2008). Full-time employees (FTE) represent 75% of total staff, while 21% are temporary workers and 4% are employed on a part-time basis. Although the agency recognises that the use of non-permanent staff on limited term contracts is common in the Italian market, the rate of temporary staff has increased from 12% as of April 2008 data. The agency still believes that these figures are manageable and has not observed any material impact on the performance of the NPLs serviced by Guber. However, the increased use of temporary staff creates challenges, such as the limited commitment of this workforce to the company's mission. Ideally, Fitch expects this type of employee to be used in a controlled manner. However, turnover is in line with peers, running at a rate of 11% as at April 2009 and somewhat mitigating the above-mentioned risk. Average company tenure of the operational staff is relatively low at 2.3 years (a result of a recruitment drive over the past 36 months as the portfolio has grown). The figure is mitigated by seasoned departmental managers - who possess an average 15 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, Fitch expects training to be geared towards filling gaps in and enhancing asset manager knowledge.



Unique to Guber is the quasi 'graduate programme' which allows Guber to select candidates from a pool of alumni from the local university. Guber has also been granted the opportunity to annually present the company and its specific operations to final-year students at Brescia University. This scheme has been in place for the past 24 months and 16 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 places 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. During 2009, a 30-hour Asset Manager Training programme has also been introduced. This is held by a senior external professional, providing relevant staff with the necessary legal background and with practical case studies. During 2009, Guber has also carried out all compulsory courses.

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 to be 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 (BP) 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 (ie percent of gross revenues). Performance appraisals are conducted annually and nine internal advancements have been made effective in the last 12 months.

Policies and Procedures

The emphasis a servicer places 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 BP expectations and cash flows). As of March 2008, Guber had outsourced IA to specialised consultants; three staff, with sound average industry experience, oversaw the Guber IA function.

In September 2008, Guber created a new independent IA function, headed by a senior professional, previously head of administration. Although the IA is now completely internalised, the cooperation with external consultants continues, as evidenced by a three-year agreement executed in September 2008; this cooperation is now aimed at providing ongoing training on IA issues to internal resources. Although all 2008 priority findings have been successfully resolved, and some medium priority findings are being addressed by the company in a timely fashion, it is Fitch's opinion that the IA function requires additional seasoning. However, the seniority of the current manager responsible for the function, together with the consultant's ongoing training, should help achieve the required skills and a complete autonomy in the short to medium term.

As anticipated in the last servicer report, Guber's intentions to move forward with a SAS70 audit, as requested by a client, were realised by YE08. The certification showed good levels of compliance as regards Guber's procedures, and all minor findings were rectified by Q109. The agency considers this a positive introduction to the business, further augmenting internal controls in line with highly rated servicers (not just in Italy).

During the last 12 months, Guber has introduced an intranet site, used as a repository for key documents and information to be shared - at different levels of disclosure - across the company. The system seems sufficiently user friendly and flexible and clearly enhances the previous archiving system of policies and procedures into a common network drive.

The IA function mapped all procedures and processes into a complete organisation model and also assumed a code of ethics, approved by the board in March 2009. Overall, given the recent growth, the company felt it necessary to improve its policies and procedures and assume a more structured organisational model. Fitch has taken these efforts into account in its rating analysis.

Servicing Methodology – Loan Administration

New Loan Setup

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

An operations director, with nine years' industry experience, coordinates and oversees the portfolio boarding process - which is fully automated - and retains control over data integrity. As of April 2009, Guber's portfolio had increased over the last year by 19% by number of loans and 69% by GBV. More recently, Guber has been appointed special servicer for a portfolio valued at approximately EUR500m, thus considerably increasing its portfolio under management.

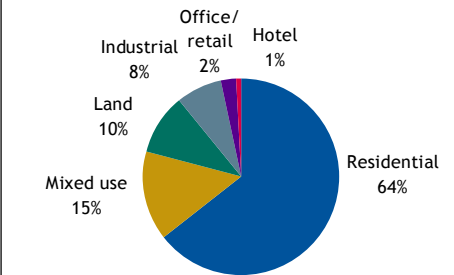
Data queries are run to check the accuracy of the data against loan documentation and information on the mortgage (including any guarantees); these are

subsequently transferred onto the system. Presently, 99% of documentation has fully populated fields and Guber requires any missing data to be integrated into 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.

Property Use Breakdown (By Value)

As of 30 April 2009



Source: Guber SpA

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 web site 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

Every three months Guber reviews its BPs to ensure collections are on target; they are measured against critical stages in the workout process, such as: 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 and 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 workout 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 2009, there were approximately 400 cases per AM (2008: 300 cases). The company has however

expressed its intention to increase the workforce during 2009, to better cope with the increasing size of the portfolio.

Guber uses numerous workout 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 61% of Guber's resolution strategy, followed by discounted pay-off (DPO, 19% by volume).

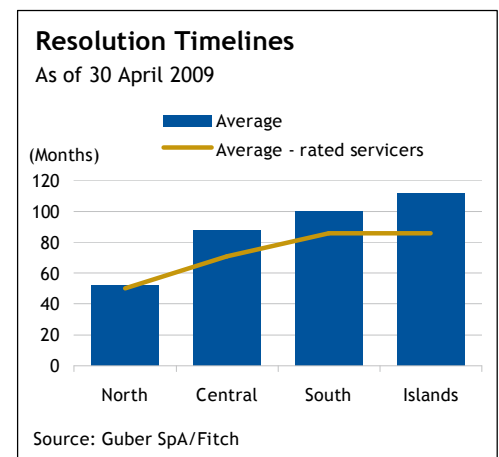
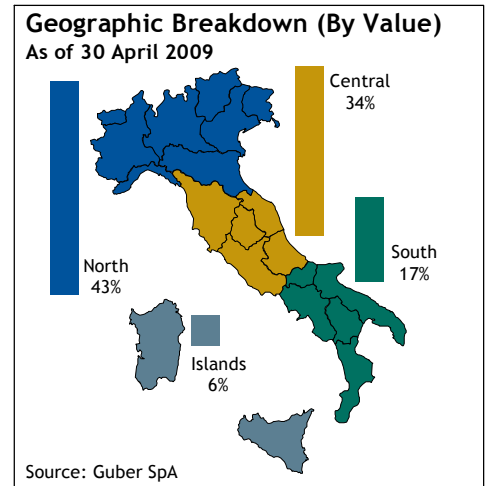
Guber engages the services of a pool of 17 in-house legal counsels (from 14 as of April 2008). These lawyers are not directly hired by Guber but are located in Guber's premises. Guber has exclusivity agreements with key law firms with which it has established relationships and lawyers receive an up-front 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 a 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 a unique structure to Guber compared to rated market participants and compensation is geared towards results-based targets. Moreover, the number of external lawyers is significantly below that used by Guber's peers, which grants Guber certain economies of scale, given its size.

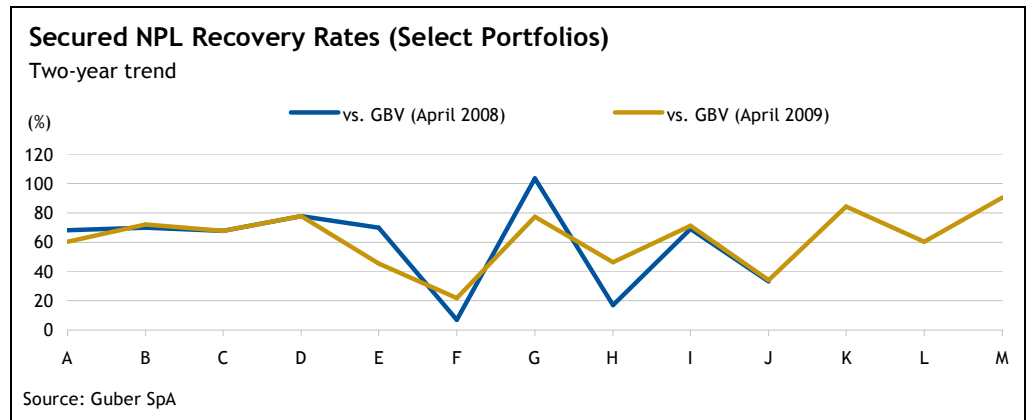
External lawyers have access to the company's network platform to record each stage of a legal procedure, their action plan with respect to a specific claim, and any other information they deem to be essential for the resolution of a claim. In this way, the contribution of external lawyers is monitored closely by asset management staff, to ensure that Guber's standards, and ultimately 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.

Real Estate Owned (REO)

Guber began acquiring real estate through an REO vehicle in the first quarter of 2009. This new procedure, albeit in its early stages, has already given some indication of good performance to senior management. Fitch has been made aware that operating through an REO vehicle - especially in some small local regions,

where access to the auction market is generally low - has stimulated investors and private individuals to participate at auctions, with a positive effect on settlement prices. Fitch expects the use of REO strategies by Guber to increase and will closely monitor the performance of the new procedure in the near future.





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 infrastructure 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 comprise 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. A skilled network administrator has been hired in the last 12 months, taking the overall number of IT employees to three, thus relieving the other two resources from the day-to-day management of IT.

To address the lack of a 'hotsite' facility, following Fitch's review in Q208, Guber engaged a third party to provide remote system server backup and performed testing of this engagement. A full DR test was conducted for the first time in March 2009: in the event of a disaster in Brescia, three computers, with full server access, would be available in a hotsite in Milan within 48 hours.

Fitch believes that further seasoning and testing of the DR plan would mitigate concerns surrounding Guber's ability to meet its obligations following a short-term disruption. A quicker recovery time in relation to the 'hotsite' (from the current 48 hours) would also be viewed favourably by the agency. Fitch notes that the company has demonstrated clear efforts to move towards standard IT market practice and is continually improving its IT infrastructure.

Surveillance

Servicer Ratings are long-term ratings with an annual review required to maintain the ratings. Servicer surveillance will work closely with transaction surveillance to enhance the active identification of issues that may affect the Servicer Ratings and/or performance of Fitch-rated transactions.

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