

Guber S.p.A.

Servicer Report



Ratings

Residential Special Servicer
Italy RSS2-

Commercial Special Servicer
Italy CSS2-

Servicer Summary

Rating Affirmation: Fitch Ratings affirmed Guber S.p.A.'s Italian Residential Special Servicer Rating at 'RSS2-' and its Commercial Special Servicer Rating at 'CSS2-' on 18 October 2011. The ratings are based on the company's ability to manage the workout process for defaulted secured loans.

High Portfolio Value: At end-June 2011 Guber's servicing portfolio totalled EUR2.62bn, up from EUR1.7bn in April 2010. The secured portfolio equates to about 20% of the total by value. Since May 2010 Guber has successfully boarded 17 new portfolios, totalling EUR930m, and equating to 144,593 new loans – most of which were unsecured positions.

Key Rating Drivers

Growing Assets Under Management: Guber's portfolio of loans has grown since Fitch's previous review. Although this has been driven by a significant increase in unsecured loans, the company continues to have a strong focus on the management of its secured book.

Strong Loss Mitigation: Guber has robust governance of its management of defaulted loans. The company puts significant emphasis on due diligence when loan portfolios are boarded and has strong procedural guidelines regarding business plan (BP) creation, sign-off and monitoring. Advanced IT systems allow for real-time updates of the BP and effective timeline management of defaulted loans. This has allowed it to retain a good performance over its secured portfolio.

Developing Risk Management Framework: Guber continues to develop its risk management framework. Internal audit (IA), previously outsourced, is now operated from within and headed by an IA professional with seven years' experience. A compliance function provides additional support. Guber has SAS70 Type II accreditation, providing "reasonable assurance" of its control environment. Fitch would expect the risk management framework to continue to embed itself within the company and demonstrate its effectiveness.

Financial Support: Guber is not a rated financial institution, nor is it part of a rated financial institution. However, as a standalone entity it continues to have robust and continued long-term profitability, a sound liquidity position, and a clear commitment to business expansion by the shareholders, as indicated by the profit retention policy applied over recent years.

Strong Management: The senior management group has extensive experience in the Italian NPL sector, with the two founding partners leading the company through a period of rapid growth. Recruitment of senior staff has been made to re-invigorate the team, and expanded management's breadth of experience.

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Company History and Management Experience

Guber has been in the Italian market since 1991. It was initially founded to manage debt collections for bankrupt companies. In 1999 it added third-party servicing of Italian NPLs and due diligence valuations, and purchasing and servicing unsecured NPLs from Italian banks. After more than 10 years in the Italian NPL sector, Guber is one of the oldest among Fitch's rated Italian special servicers, which the agency regards as a strength.

The company was created by two individuals who each retain equal ultimate ownership. Both have considerable experience (over 20 years) in various Italian financial institutions, as well as in the management and workout of distressed debt in Italy. Average company tenure among the senior management team is 10 years, slightly down on 2010 due to the recent hiring of two new senior managers. However, Fitch believes these new staff members have added breadth and depth of experience to the management team. In the past, Guber has sought to promote younger staff to higher management, creating opportunities for succession planning.

The two founders retain ultimate control and remain heavily involved in day-to-day management. However, Fitch considers efforts to enhance the senior team as positive, as Guber is no longer a "two-man" operation.

The company's key aims include business longevity and a commitment to the Italian NPL market. It has plans to develop improved client diversity that places less reliance on its historical key contracts, while the winning of recent servicing mandates has required the opening of an office in Milan. The Milan office presents significant opportunities for Guber, placing the company at the heart of Italy's financial services district and providing enhanced recruitment opportunities.

Guber is a servicing company registered with the Bank of Italy (BoI) under article 106 and as such is obliged to report according to certain BoI regulatory requirements. A dedicated team in the finance group manages BoI reporting and performs regular standard checks, such as anti-terrorist and anti-money laundering checks, accordingly. The company uses dedicated software for reporting.

Guber has a fairly flat operating structure, split into teams that handle due diligence and judicial and extra-judicial recovery, each with a department head. Most servicing and asset management activities are centralised at the company's Brescia headquarters, while the new Milan office focuses on one distinct portfolio of performing unsecured personal loans. Milan has 26 staff, and the company has appointed an office manager to oversee the operation.

Assets under management increased by 154% between April 2010 and June 2011 (by value), similar to the growth in the preceding year. Ordinarily, this would cause Fitch concerns about the capability of a servicer to handle such growth. However, much of this growth has been via small, unsecured loans and has been mitigated by the opening of the Milan office and transfer of staff from the previous portfolio owner to Guber. Fitch is satisfied that this growth is being effectively managed – operational performance has not deteriorated in recent years and NPL recovery performance remains good – while more robust internal controls and compliance activities provide improved monitoring of the company and its activities.

Although management is prepared to open offices around Italy to handle the growing portfolio should the need arise, as demonstrated by the opening of a branch in Milan, senior management believes that, due to the size of the portfolio, it is still best to manage most operations centrally from Brescia.

Guber has a small Spanish NPL operation launched in January 2009, Guber Division Espana S.L. The Spanish portfolio comprises small, unsecured claims, although Guber is talking to banks and financial institutions about managing secured NPLs, including those backed by mortgage assets.

Figure 1

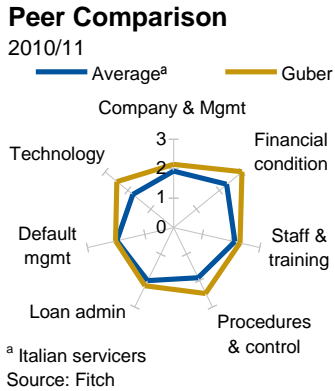
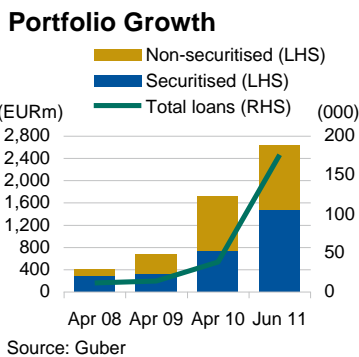


Figure 2



Related Criteria

[Global Rating Criteria for Structured Finance Servicers \(August 2010\)](#)

Financial Condition

Fitch does not rate Guber’s credit and financial strength but understands that earnings are entirely reliant on transaction-based income. The agency will continue to monitor the group’s financial performance closely, and its ability to meet its stated revenue and profit targets.

The company provided Fitch with financial statements that confirm that it has robust and continued long-term profitability, sound liquidity, and a clear commitment to business expansion by the shareholders, as indicated by the profit retention policy of recent years.

Staffing and Training

At end-June 2011 Guber’s total headcount was 139, up from 100 the previous year and 50 in April 2008. This number includes the 33 in-house lawyers. Most of the increase is due to the opening of the Milan office and its 26 new employees. Although most employees are classified as full time, temporary workers make up 13% of the workforce. Positively, this figure has reduced from 20% in 2010 and is now more in line with the company’s rated peers. The agency also recognises that use of non-permanent staff on limited term contracts is common in Italy.

Staff turnover is slightly higher than for peers at 16%, and has worsened slightly since April 2010, when it was 11%. Although this is not a major concern at present, Fitch would like to see this figure at least stabilise, and ideally fall during 2011-2012. The average company tenure of operational staff is just over five years, comparable with rated peers. Guber also benefits from employing seasoned departmental managers — who average 14 years of industry experience and 12 years of company experience.

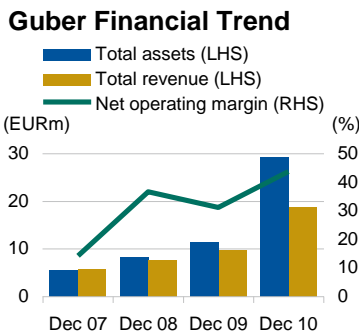
Guber has a robust and ongoing training programme. It is largely internal and has a mentoring-style, with ongoing refresher training as required. All new asset management staff join a one-month induction programme (known as the “Guber Academy”) to ensure they fully understand their new role and its requirements. Two “Academy” events have taken place since Fitch’s previous review, in October 2010 and April 2011. These courses have enabled Guber to record well over 40 hours of training per employee a year, above Fitch’s benchmark. The head of human resources (HR) was a former asset manager at Guber and, using this previous role as a guide, the agency expects training to be geared towards filling gaps in and enhancing asset manager knowledge.

Guber increased its use of external courses over the 12 months to June 2011 – which Fitch believes has added considerable value to the training programme. Examples of such training delivered by specialised, external companies include courses on anti-money laundering, leasing and insurance, and advanced English. These courses have been supplemented by various health and safety lectures given by external expert providers.

In April 2010 Guber instituted a new automatic system to monitor all the company’s training activities. The system retains all historical training data from January 2009 and “skill mapping” for all professional profiles within Guber, developed with an external consultant. The skill mapping links with the company’s IA programme, ensuring that training is developed in conjunction with audit recommendations, which Fitch views positively.

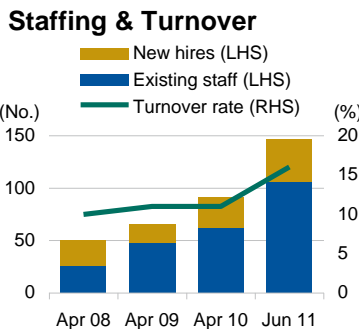
Unique to Guber is a quasi “graduate programme”, which allows the company to select candidates from a pool of alumni from the local university. It has also been granted the opportunity to present the company and its specific operations to final-year students at Brescia University each year. This scheme has been in place since 2007 and about 20 existing employees have been hired this way. These graduates are employed for a fixed period, with the incentive of the offer of a permanent role (typically as an asset manager) within Guber at the end of the term. Candidates are guided through a period of training by a senior staff member. In addition to an interview with HR and senior members of asset management,

Figure 3



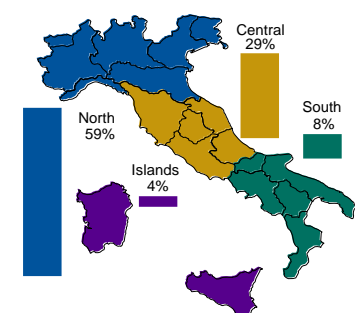
Source: Guber

Figure 4



Source: Guber

Figure 5
Geographic Breakdown (By Value)
 As of 30 June 2011



Source: Guber

applicants also sit industry-recognised psychometric tests at the outset to determine their ability to adapt to working life within the company.

In addition, once an individual is in a role, 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 company has also had a 30-hour asset manager training programme since 2009, which provides the relevant staff with the necessary legal background to manage the workout process for secured and unsecured NPLs effectively. The course also includes practical case studies.

Guber compensates its asset management staff semi-annually, linked to the percentage of collections 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 on the percentage of gross revenue. The company conducts performance appraisals annually and eight staff members have been promoted in the 12 months to June 2011.

Policies and Procedures

The emphasis a servicer places on instituting a formal IA regime and administering appropriate internal risk management and controls is weighted heavily in Fitch’s servicer rating analysis. Before 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). In March 2008 Guber 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 this IA function was set up, there was extensive support from external consultants. This external cooperation continues, but has been reduced, and Guber now has an enhanced IA function. The IA function at Guber comprises one manager, supported by the compliance function.

The IA manager has been in the current role for less than a year, although he is an audit professional with over seven years’ experience. The previous incumbent remains at Guber and provides help and advice when necessary. Although Fitch believes the IA function requires additional seasoning, the seniority of the manager responsible for the function, together with ongoing training, has been instrumental in helping Guber enhance its audit and control environment.

Guber has a three-year audit plan, and a more detailed plan for 2011. Reflecting a robust and comprehensive plan, 29 audits were scheduled for the whole of 2011, while 14 were completed during the first half of the year. Guber is therefore on track to complete its target audits by year-end. During 2011 to June 2011, only nine issues requiring attention have been identified. Of these, two were considered of high importance, and both have been addressed.

All identified issues require the successful completion of a formal remediation plan – identifying the deadline date for resolution of an issue along with the individual who has responsibility. If any deadline is missed, notification is sent to the board, while the IA manager also has responsibility to ensure resolution and satisfactory closure of identified actions. The board also receives bi-annual status reports on audit recommendations.

Guber completed a SAS70 audit at end-2008 and confirmed “reasonable assurance” regarding the company’s internal control environment. Fitch considers such external audits as augmentation of internal controls in line with highly rated servicers internationally.

Guber continues to enhance its intranet site, used as a repository for key documents and information to be shared across the company at different levels of disclosure. The system is sufficiently user friendly and flexible and clearly improves on the previous archiving of policies and procedures onto a common network drive. Overall, in light of its recent growth, the company felt it necessary to improve its policies and procedures and assume a more structured organisational model.

Servicing Methodology – Loan Administration

New Loan Set-Up

Guber places significant emphasis on due diligence before boarding a new portfolio, and uses a proprietary statistical model. Fitch considers this positively, as it allows the company to use its track record in NPL servicing to gain a greater understanding of the underlying assets to be serviced. The agency therefore believes 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 and manage collection expectations.

An operations director, with 10 years’ industry experience, coordinates and oversees the portfolio boarding process — which is fully automated — and retains control over data integrity.

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 uses a storage facility in Brescia and another off site. Documents are scanned in-house for better internal oversight, while the company logs and tracks movements of paper-based documents 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 for three years.

At end-June 2011, Guber administered 34 bank accounts. Bank cash reconciliations are done for each account monthly, as are investor cash reports. Some client reports can be accessed via a protected area on the company’s website and are uploaded daily. All reports and positions must be approved and are reviewed for accuracy, both internally and externally by the relevant mandate bank.

Reporting

The investor reporting function, led by two senior managers with over 20 years of financial services experience between them, is robust, thanks to the implementation of cross-checks and staff dedicated to quality checking of reports before 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.

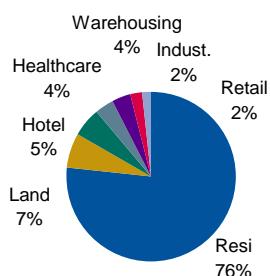
Servicing Methodology – Defaulted Loans

Guber reviews its business plans every three months to ensure collections are on target; they are measured against critical stages in the workout process, such as: court-appointed expert valuations; 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 business plan in real time, classifying the legal procedures according to certain stages (with each procedure assigned a maximum period in which to be completed and benchmarked

Figure 6

Property Types (By Value)

As of 30 June 2011



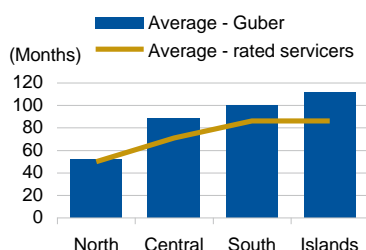
Source: Guber

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.

Figure 7

Resolution Timelines

As of 30 June 2011



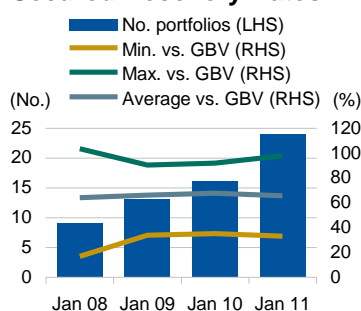
Source: Guber/Fitch

Due to its size, the company relies on the experience and expertise of key senior managers to supervise workout. Senior management therefore has a “hands-on” 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. This is reduced to three months for those charged with judicial workout. At end-June 2011 Guber averaged about 163 secured loans per asset manager. This number compares favourably with rated peers.

Guber uses numerous workout strategies for secured loans, the favoured one being judicial distribution, for which it relies extensively on the experienced in-house legal team. Judicial distribution represents about 46% of overall collections, followed by discounted pay-off at 18%. Guber has been able to realise full pay-off in 7% of cases.

Figure 8

Secured Recovery Rates



Source: Guber

Guber has 33 in-house legal counsel (up from 24 in 2010 and 17 in 2009). These lawyers are not employed directly but are located on the company’s premises. Guber has exclusivity agreements with key law firms with which it has established relationships, and lawyers receive an upfront 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 about 100 external lawyers based across Italy, who are paid according to the minimum legal tariff agreed in advance with the company. This structure is unique to Guber among Italian rated servicers and compensation is geared towards results-based targets. Moreover, the number of external lawyers is significantly below that used by Guber’s peers, which gives it certain economies of scale, in light of 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 consider essential to resolve 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 can highlight where timing is overdue, alerting management of any deviation from expected positions.

Real Estate Owned

Guber instituted a process for acquiring real estate through a real estate ownership (REO) vehicle in Q109. The company informed Fitch 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 in auctions, with a positive effect on settlement prices. However, at end-June 2011 the workout activity through the REO vehicle remained nil. Guber hopes to purchase a small number of assets via its REO vehicle in 2012.

Technology

Guber continues to invest in technology to maximise the potential of its operating systems and procedures; its systems demonstrate effective and fully integrated workflow management. As a result, the company has not experienced any capacity issues with its technology platform. The group’s IT department is headed by a manager with 20 years’ industry experience. A new software developer with significant programming experience was hired in 2009, with the team now three full-time equivalents. Average industry experience and company tenure among IT staff (excluding the manager) are both at a relatively low one and a half years.

Guber's proprietary asset management system is flexible, user friendly and scalable. It was developed internally, exploiting senior management's past experience in the NPL field and can manage multiple positions. Access is based on a hierarchy and individual passwords, which are updated monthly and overseen by the head of IT. Since 2009 and in response to its increasing portfolio and IT needs, the company has been upgrading and enhancing its network. It expects new software architecture to be delivered before end-2011, while 80% of server machines had been replaced within the 12 months to June 2011. The group has drafted a new IT procedures manual, updated its network hardware and enhanced its system control environment, resulting in improved network security.

To address the lack of a "hot site" facility, following Fitch's review in Q208 Guber engaged a third party to provide remote system server back-up and carry out testing – this arrangement continues. Guber can be fully functional at the hot site in Milan within nine hours of a disaster, which is a significant improvement on the 48 hours reported in 2009.

Disaster recovery tests have been run annually since the first test in March 2009. The most recent of these was completed in May 2011, with no major issues identified. Data is backed up daily on site, and replicated every four hours at a remote server location in the US. In the event of power failure in Brescia, an "uninterruptable power supply" would provide three hours of power supply.

Surveillance

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

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