

RMBS/CMBS Special
Servicer
Italy
Servicer Report

Guber S.p.A.



Ratings

Residential Special Servicer
Italy RSS2-

Commercial Special Servicer
Italy CSS2-

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Related Research

- *Global Rating Criteria for Structured Finance Servicers* (August 2010)
- *Rating Criteria for European Mortgage Loan Servicers - Italian Market Addendum* (November 2007)

Summary

Fitch Ratings upgraded the Italian Commercial and Residential Special Servicer Ratings of Guber S.p.A to 'CSS2-' and 'RSS2-' from 'CSS3+' and 'RSS3+', respectively, on 29 September 2010. The ratings are based on the company's ability to manage the workout process for defaulted secured loans.

The upgrades reflect Guber's continued enhancements to its IT platform, improved risk management regime and ongoing investment in best practice for policies and procedures, such as validating its organisational model and a complete skill-mapping and training plan.

As at 30 April 2010, Guber managed an increasing portfolio of approximately 38,000 loans, with a gross book value (GBV) of EUR1.7bn. Secured loans make up approximately 15% of its entire portfolio with residential assets comprising 78% of the secured book. Assets located in central and northern Italy represent the bulk of the portfolio at 57% and 29%, respectively.

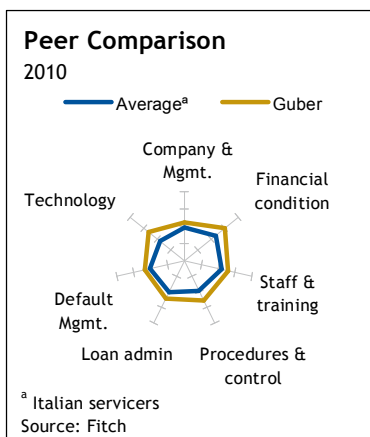
This report summarises the rating rationale and describes Guber's special servicing capabilities. The rating actions are based on information provided to Fitch by the company.

Strengths

- The time Guber has operated in the Italian non-performing loan (NPL) market compares favourably to rated peers and senior management have very good experience. Centralised operations create further efficiencies. Fitch believes that asset management may be decentralised as the portfolio grows and/or the proportion of secured assets located in southern Italy or the islands increases.
- An in-house legal team and lawyer incentive structure has led to less reliance on a broad network of external counsel and allowed it to control external lawyers' actions centrally. This has helped Guber to achieve sound recovery levels and shorter recovery times appropriate to the size of the portfolio under management. Portfolio management is also made more efficient by the detailed and shared system in which all actions are recorded.
- The company continues to react well to the rapid growth in business and personnel. Internal procedures, codes of conduct, and organisational models have been introduced and are well disclosed internally. Overall, Guber appears to retain the flexibility required for the size of the portfolio under management despite such growth signalling a need for a more organised structure.

Challenges

- The transitional phase from a small family-owned business to a recognised medium-sized local competitor involves organisational and cultural changes that may create staffing and operational challenges in the short term.
- Some functions such as internal audit (IA) and procedures such as disaster recovery (DR) still require more seasoning and testing. Ensuring that IA functions are progressively conducted autonomously from external advisors should also be a medium-term objective.



- It will be a challenge for Guber to maintain its recent financial performance in current market conditions without the support of a rated or financially strong parent.

Mitigants

- An internal organisational model reviewed by an external advisor has recently been validated. In the medium term, training and retaining more existing staff should mitigate succession risk. Guber's innovative recruitment process and the training programme should ensure that highly-qualified, motivated staff will be the company's core asset.
- An experienced employee is in charge of IA. All high and medium priority findings from previous audits have been successfully resolved. An external advisor has dedicated personnel overlooking Guber's IA and outstanding issues are periodically revisited to ensure improvement. Fitch also recognises noticeable improvements to the company's IT operations.
- Guber's financials appear robust and reflect a continuing, long-term positive trend. The company has limited debt, reports a sound liquidity position and retains the vast majority of profits.

Company History and Management Experience

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

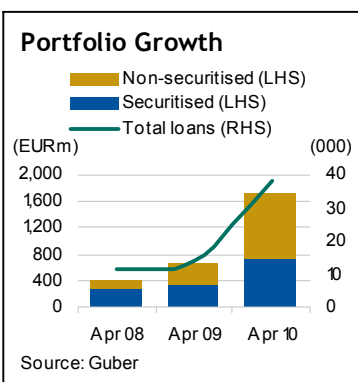
The company was created by two individuals who each retain ultimate ownership. Both have considerable experience (23 years) in various Italian financial institutions, as well as in the management and workout of distressed debt in Italy. Average tenure among the senior management team is 14 years, as the two founders have sought to promote younger staff to higher management, thereby 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 and it shows that Guber recognises the limitations of solely being a "two-man" operation. The company's key aims include business longevity and a commitment to the Italian NPL market.

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 (AML) 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. All servicing and asset management activities are centralised in the company's Brescia headquarters. Fitch believes the current portfolio is adequately serviced from this office given its size and predominant location (northern and central Italy).

The portfolio's value increased by 152% in the year to April 2010 and the number of loans serviced nearly tripled. While management is prepared to open offices around Italy to handle the growing portfolio should the need arise, senior management believes that, given the current size of the portfolio, it is still best managed from Brescia. Fitch is satisfied that this growth is being effectively managed. More office space has been let to accommodate new recruits, the IA programme continues to



be enhanced and operational performance has not deteriorated in recent years. NPL recovery performance has also remained fairly flat.

Guber continues to develop its Spanish NPL operation, Guber Division Espana S.L., launched in January 2009 with the opening of an office in Barcelona, which has grown from just three people to nearly 10 as of April 2010. 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.

In addition to gaining new servicing mandates and expanding the Spanish operation, Guber launched several new initiatives in the year to April 2010, including the following.

- It set up a team dedicated to collections on “small ticket”, generally unsecured loans. The team currently comprises nine employees and is already generating a profit. A separate Guber company called Helpy Finance srl was also created to promote loans guaranteed by a fifth of the borrower’s salary and manage small-size debtor credit restructurings.
- It has expanded its servicing offering to manage leases, including for cars, boats, equipment and other miscellaneous items. Guber has an agreement with an external party specialised in the leasing business, and can now collect, store and sell a variety of assets.

Financial Condition

Fitch does not publicly 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, as well as its ability to meet its stated revenue and profit targets.

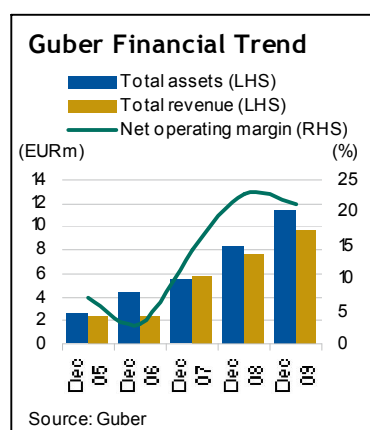
Financial statements have been provided to Fitch and reviewed by its Financial Institutions Group (FIG), which notes that Guber has demonstrated robust and continued long-term profitability, a sound liquidity position, and a clear commitment to business expansion by the shareholders, as evidenced by the profit retention policy applied over the past few years. The company also has an EUR800,000 credit line that had not been drawn as of end-December 2009.

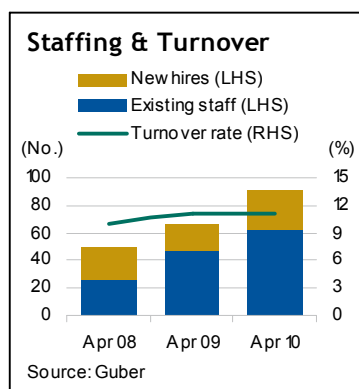
Staffing and Training

As of April 2010, Guber’s total headcount approached 100, up from 66 the previous year and 50 employees in April 2008. Approximately 26% of the staff are in the in-house legal team, which has doubled since April 2008. While the majority of staff are classified as full-time, temporary workers still comprise a sizable 20%. Although Fitch recognises that use of non-permanent staff on limited term contracts is common in Italy, this rate is above that of Guber’s Italian rated peers and is higher than the 12% reported in April 2008.

The agency believes staffing levels are satisfactory and has not observed any material impact on the performance of the NPLs being serviced. 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.

Staff turnover is in line with peers and consistent with previous years at 11% as at April 2010 and helps mitigate the abovementioned risk. Average company tenure of operational staff is relatively low compared to rated peers at two years due to Guber’s active recruitment programme in recent years. This is offset by seasoned departmental managers – who average 16 and 13 years of industry and company experience, respectively – and robust and ongoing training.





Training at Guber largely takes the form of internal and mentoring-style offerings, with ongoing refresher training as required. All new staff join a one-month induction programme to ensure they fully understand their new role and its requirements. This has enabled Guber to record 40 hours of training per employee per annum, which is 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.

In April 2010, Guber’s board of directors approved the 2010 training plan and the company instituted a new automatic training system to monitor all training activities for the entire company. The system includes all historical training data from January 2009 as well as “skill mapping” for all professional profiles within Guber developed with an external consultant. The skill mapping functionality 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 for the past three years and approximately 20 existing employees have been hired this way. 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. 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 the company.

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 company’s 30-hour asset manager training programme has also been in place since 2009, and provides the relevant staff with the necessary legal background to effectively manage the workout process for secured and unsecured NPLs. 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 revenues. Performance appraisals are conducted annually and nine staff have been promoted in the past 12 months.

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 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 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 IA is now completely internalised, cooperation with external consultants continues, with a new advisor engaged. This cooperation now aims to provide ongoing training on IA

issues to internal staff. All 2008 and 2009 high and medium priority audit findings have been successfully resolved. While Fitch believes the IA function requires additional seasoning, the seniority of the current manager responsible for the function, together with ongoing training, has been instrumental in helping Guber continue to enhance its audit and control environment.

Guber completed its first SAS70 audit at the end of 2008. The certification showed good levels of compliance with procedures, and all minor findings were rectified by end-March 2009. The agency considers this a positive introduction to the business, further augmenting internal controls in line with highly rated servicers (not just in Italy).

Over the past year, Guber has enhanced 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 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.

Servicing Methodology – Loan Administration

New Loan Set-Up

Guber places significant emphasis on due diligence prior to boarding a new portfolio, and uses a proprietary statistical model. Fitch considers this a positive 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. As such, the agency 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 nine years' industry experience, coordinates and oversees the portfolio boarding process – which is fully automated – and retains control over data integrity.

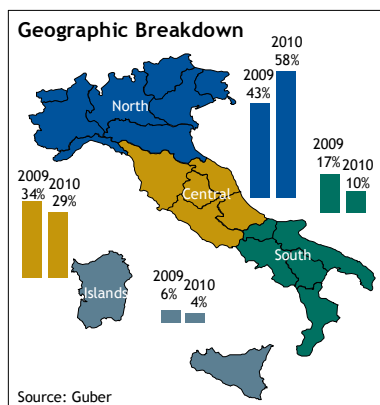
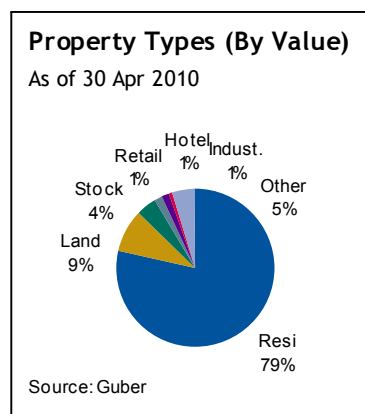
Data queries are run to check the accuracy of the data against loan documentation and information on the mortgage (including any guarantees); these are subsequently transferred onto the system. Presently, 99% of documentation has fully populated fields and Guber requires any missing data to be integrated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

The company currently uses 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 for three years.

As of April 2010, Guber administered 35 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.



Investor Reporting and Remittance

The investor reporting function is robust, thanks to the implementation of cross-checks and staff dedicated 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

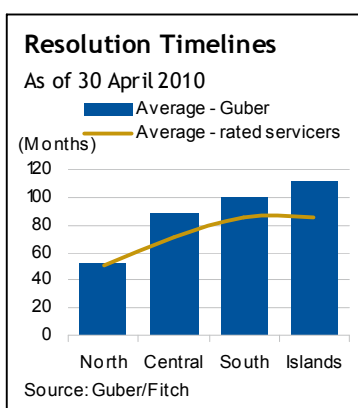
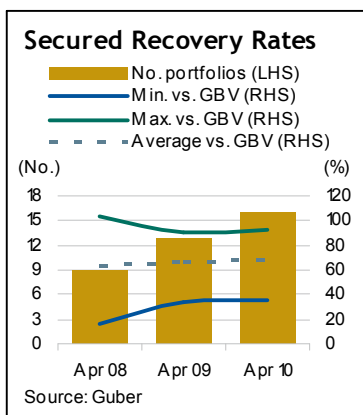
Every three months, Guber reviews its business plans to ensure collections are on target; they are measured against critical stages in the workout process, such as: court-appointed expert valuations; scheduling of the auction dates; and at the point when the borrower accepts a repayment plan or negotiated 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 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 to supervise workout. 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. This is reduced to three months for those asset managers charged with judicial workout. As of April 2010, Guber averaged approximately 400-450 cases per asset manager, up from 300 cases as of April 2008.

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 approximately 48% of overall collections, followed by discounted pay-off (DPO) at 17%.

Guber engages the services of a pool of 24 in-house legal counsels (up from 17 and 14 in the previous two years). These lawyers are not employed directly but are located in 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 approximately 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, 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 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 (REO)

Guber instituted a process to acquire real estate through an REO vehicle in the first quarter of 2009. 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. However, As of April 2010, the workout activity through the REO vehicle remains marginal when compared to the main recovery strategies utilised by the company.

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, the company has not experienced any capacity issues with its technology platform. The group's IT department is headed by an IT manager with 19 years' industry experience. A new software developer with significant programming experience was hired in 2009, increasing the team to four. Average industry experience and company tenure among IT staff (excluding the manager) has increased to nearly six years and two years, respectively.

Guber's proprietary asset management system is flexible, user-friendly and scalable. It was developed internally, leveraging 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. Over the past year and in response to Guber's increasing portfolio and IT needs, the company is upgrading and enhancing its network. 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 "hotsite" facility, following Fitch's review in Q208, Guber engaged a third party to provide remote system server back-up and performed testing of this engagement. DR tests are run annually since the first test in March 2009. The most recent test was completed in May 2010. Guber can be fully functional at the hotsite in Milan within nine hours of a disaster, which is a significant improvement from the 48 hours reported in 2009.

Surveillance

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