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Servicer Evaluation: Hipoges Iberia S.L.

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Ranking Overview				
Servicing category	**Ranking**	**Management and organization subranking**	**Loan administration subranking**	**Outlook**
Special servicer of residential loans in Spain	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	STABLE
Special servicer of commercial loans in Spain	AVERAGE	ABOVE AVERAGE	AVERAGE	POSITIVE
Financial position	SUFFICIENT			

Major Ranking Factors

- Hipoges Iberia S.L. (Hipoges) has a solid leadership team and has reinforced its management group since our previous review. Following its growth plans, a number of changes have been implemented. The former chief executive officer (CEO) was appointed executive president responsible for defining the strategy of the group and leading the international expansion efforts. At the same time, the Portuguese general manager expanded his responsibility, taking over this role for the entire Iberia region. The servicer also created new middle management roles to support expected growth and create career opportunities.
- Since our previous review, the company has implemented several HR initiatives to recruit, train, and retain an adequate workforce. As a result, the company registered a lower turnover rate than in 2014 and 2015. We expect that the ongoing initiatives will help Hipoges maintain turnover rates within a safe range going ahead.
- There is a single manager looking after audit and risk management. Despite other servicers keeping the two functions separate, in our view, Hipoges ensures an appropriate level of control given its size and extensive governance model.
- Hipoges has a reliable and continuously updated loan management system, and it is planning to launch a new in-house built platform to leverage the latest technological advances and set up an even more flexible system.
- Hipoges has maintained a stable residential mortgages portfolio, replenishing its amortization with new boarding. Residential operations are resilient and, despite some legal changes and the critical nature of some portfolios, the servicer is satisfied with its collection results.
- The company was able to absorb a substantial growth in its commercial loans portfolio in the past two years, leveraging its IT system and hiring experienced staff. Similarly, the servicer reported positive performance in line with expectations and a busy pipeline. We will closely monitor Hipoges' ability to maintain the current standard of service and revise our assessment accordingly.

Opinion

On June 1, 2017, S&P Global Ratings assigned its overall AVERAGE ranking to Hipoges as a special servicer of commercial mortgages in Spain (see "Hipoges Iberia Assigned AVERAGE Ranking As A Commercial Special Servicer In Spain; Outlook Positive"). The outlook on this ranking is positive. At the same time, we affirmed our overall ABOVE AVERAGE ranking on Hipoges as a residential mortgages special servicer in Spain. The outlook on this ranking is stable.

Our rankings are limited to the company's activity as a special servicer of residential and commercial mortgages in

Spain and we have based our assessment on an analysis of the company's Spanish operations. We take into account other activities and its servicing business in different jurisdictions only if we believe that they pose a potential risk for the company's special servicing operations for residential and commercial Spanish mortgages.

Our ranking reflects our assessment of the company's operations based on the major ranking factors in our criteria (see "Related criteria").

Outlook

Our outlook on our ranking on Hipoges is stable as a special servicer of Spanish residential mortgages because we deem its operations to be solid and we expect it will achieve results in line with past performance.

The outlook on our ranking is positive as a special servicer of Spanish commercial mortgages because Hipoges leverages its similar operations on a diverse portfolio in terms of assets and size and we expect it to continue building a track record in this regard.

Company Profile

Company Overview

Servicer name	Hipoges Iberia S.L.
Date formed	2008
Assets under management (overall)*	€5.852 billion
Assets under management (under Assessment)§	€3.45 billion
Overall staff (as of December 2016)	159
Servicing staff (as of December 2016)	101
Servicing center (Spanish portfolio)	Madrid (two offices), Spain
Client types	Investment banks, international investors, and high street banks

*Overall portfolio managed in Spain. §Special servicing of residential and commercial mortgages in Spain.

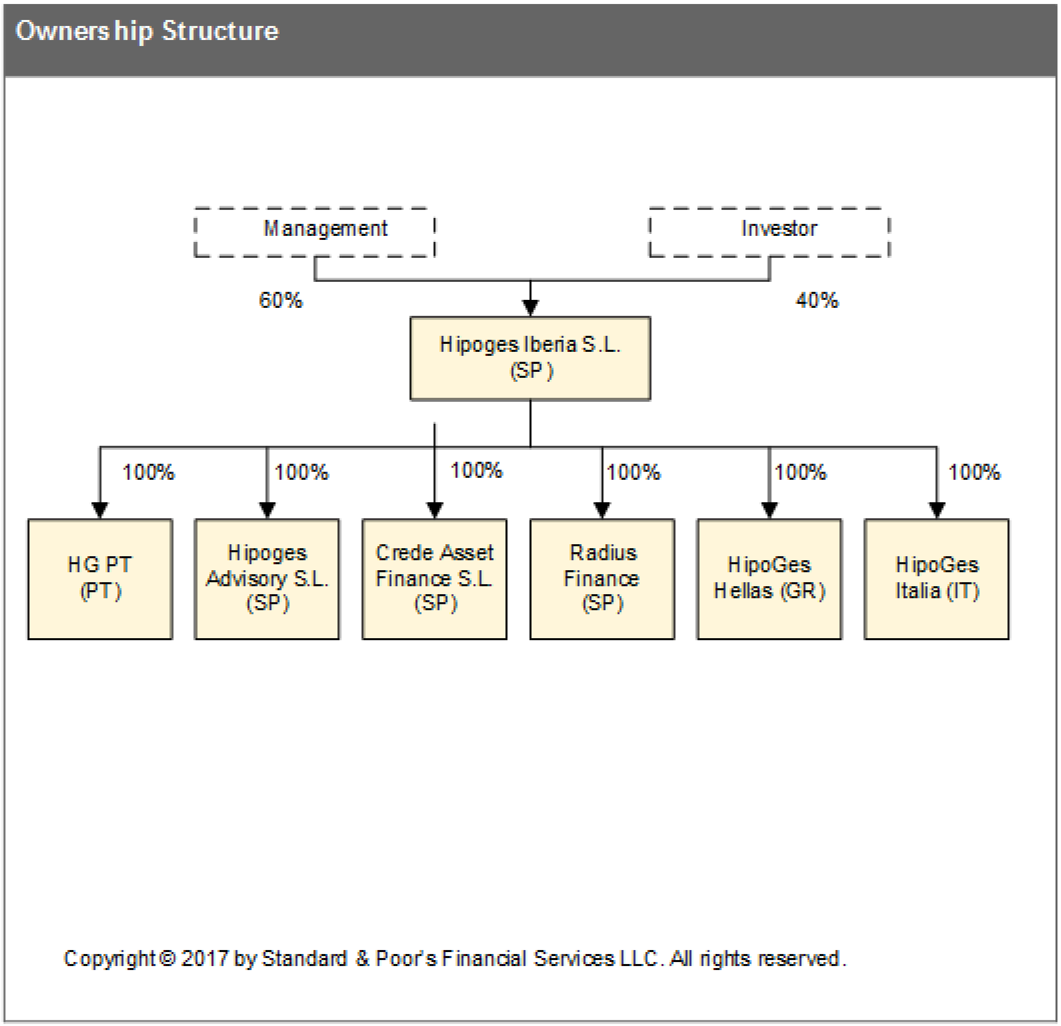
Hipoges is an asset management company providing a wide range of services.

The company was founded in 2008 in Spain and expanded to Portugal and Brazil in 2009 and 2010, respectively. Since our previous review, the servicer sold its operations in Brazil. It opened offices in Italy and Greece instead, where it is assessing opportunities for possible future expansion.

A stable executive team has led the company since inception and holds 60% of Hipoges' capital. Cerberus Capital Management, a client and asset investor, owns the remaining 40%.

Hipoges has four other subsidiaries including Hipoges Portugal, which provides servicing activities in Portugal, Hipoges Advisory SL, which provides advisory services in Spain, Radius Finance, which manages government receivables, and Crede Asset Finance SL, a leasing company (see chart 1).

Chart 1



The company provides services all along the investment cycle including: due diligence and pricing advisory, closing and structuring, active loan special servicing and legal enforcement, active real estate (RE) asset management, and reporting. Hipoges manages a very broad spectrum of assets including: residential mortgages, corporate and small and midsize enterprise (SME) loans, commercial RE, unsecured loans, government and corporate receivables, and RE owned (REO) portfolios. Since our previous review, the company also boarded new asset types: real estate developments, commercial assets, and single name secured corporate loans.

As of December 2016, Hipoges' overall Spanish portfolio accounted for €5.85 billion, including €1.07 billion of residential mortgages and €3.00 billion of commercial mortgages, both of which comprise mainly nonperforming loans. Over the past two years, the servicer boarded new portfolios and replenished the residential mortgages business, which had remained stable since December 2015. As a result, the servicer managed nine portfolios on behalf of eight clients at the end of 2016 from eight portfolios managed on behalf of seven clients in 2015. At the same time, it reported a spike in commercial servicing activity that increased to €3.000 billion from €1.940 billion in 2015 and €0.175 billion in 2014, boarding 11 new commercial mortgages portfolios. In line with the portfolio growth, the commercial mortgages client base increased to six in 2016 from five in 2015 and one in 2014.

Chart 2

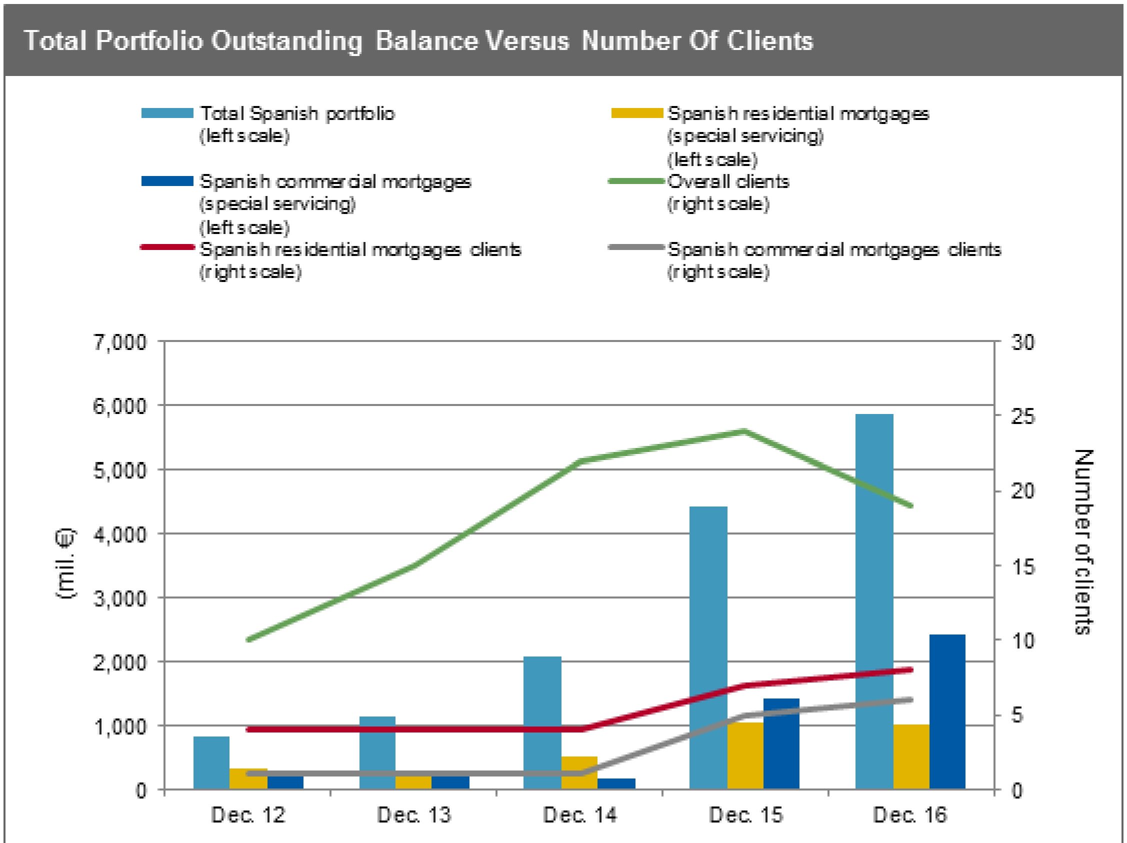
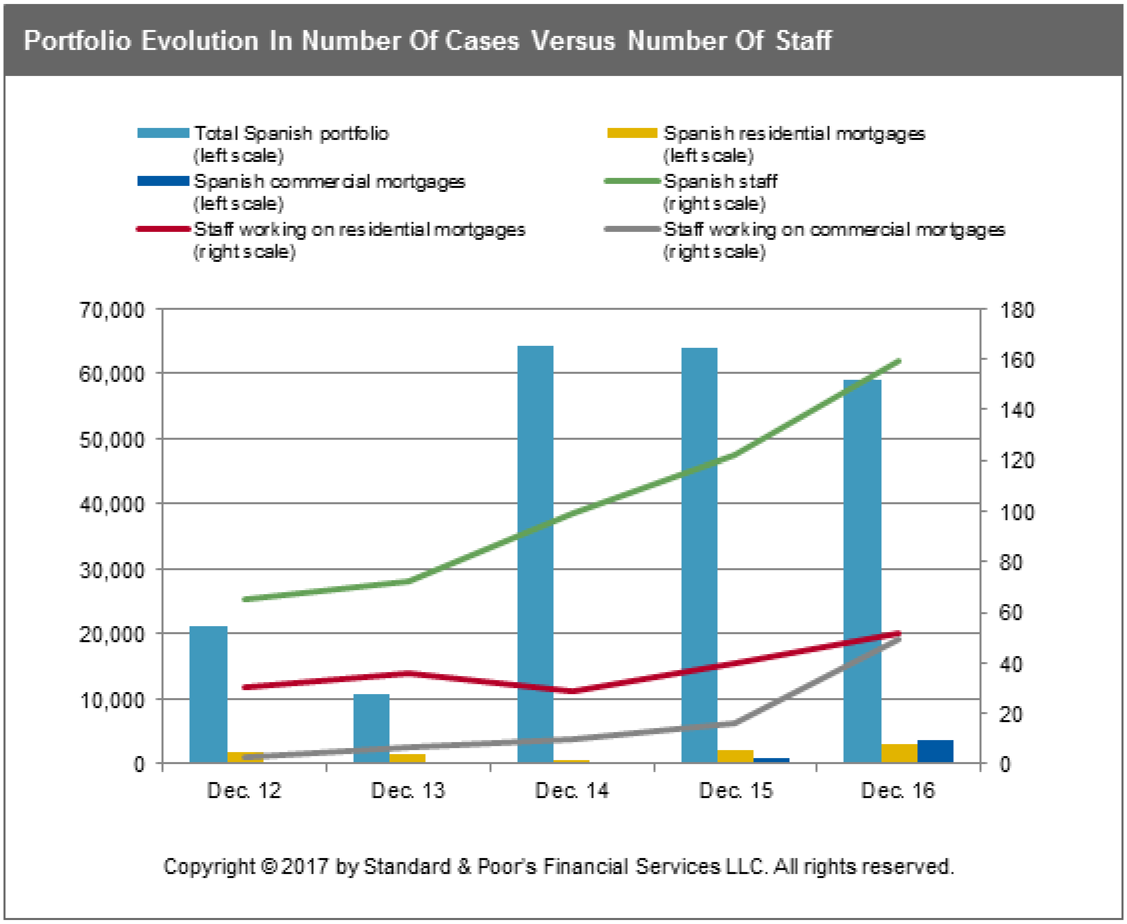


Chart 3



The company works on a three year business plan and annual objectives are drafted by senior management and presented to the board of directors for final approval during the first quarter. Hipoges has a busy pipeline for the rest of 2017 and it is expecting further growth in all asset classes.

Management And Organization

We have affirmed our ABOVE AVERAGE subranking on Hipoges for management and organization as a Spanish residential special servicer. We have assigned our ABOVE AVERAGE subranking to Hipoges for management and organization as a Spanish commercial special servicer.

Hipoges benefits from an experienced management team, a rational structure, and a good level of governance, in our opinion. It places great emphasis on attracting and retaining talent. While Hipoges has a well-tested IT system, it is planning to update it in a continuous effort to improve. Similarly, it aims to relaunch its business continuity and disaster recovery plan to align it to best market practice.

We based our subranking on our view of the following:

Organization, staff, and staff turnover

In line with the business, the Hipoges group's overall staff increased to 213 employees in 2016 located in the two offices in Madrid and Lisbon, from 186 staff in 2015. The Hipoges workforce in Spain increased to 159 from 122 over the same period. Most staff work in asset management i.e. servicing operations. As of the end of 2016, 52 employees manage residential mortgages from 40 in 2015, and the team managing commercial mortgages also increased to 49 from 16 over the same period. To accommodate the growing activity, the company has two offices in Madrid, which are walking distance from one another.

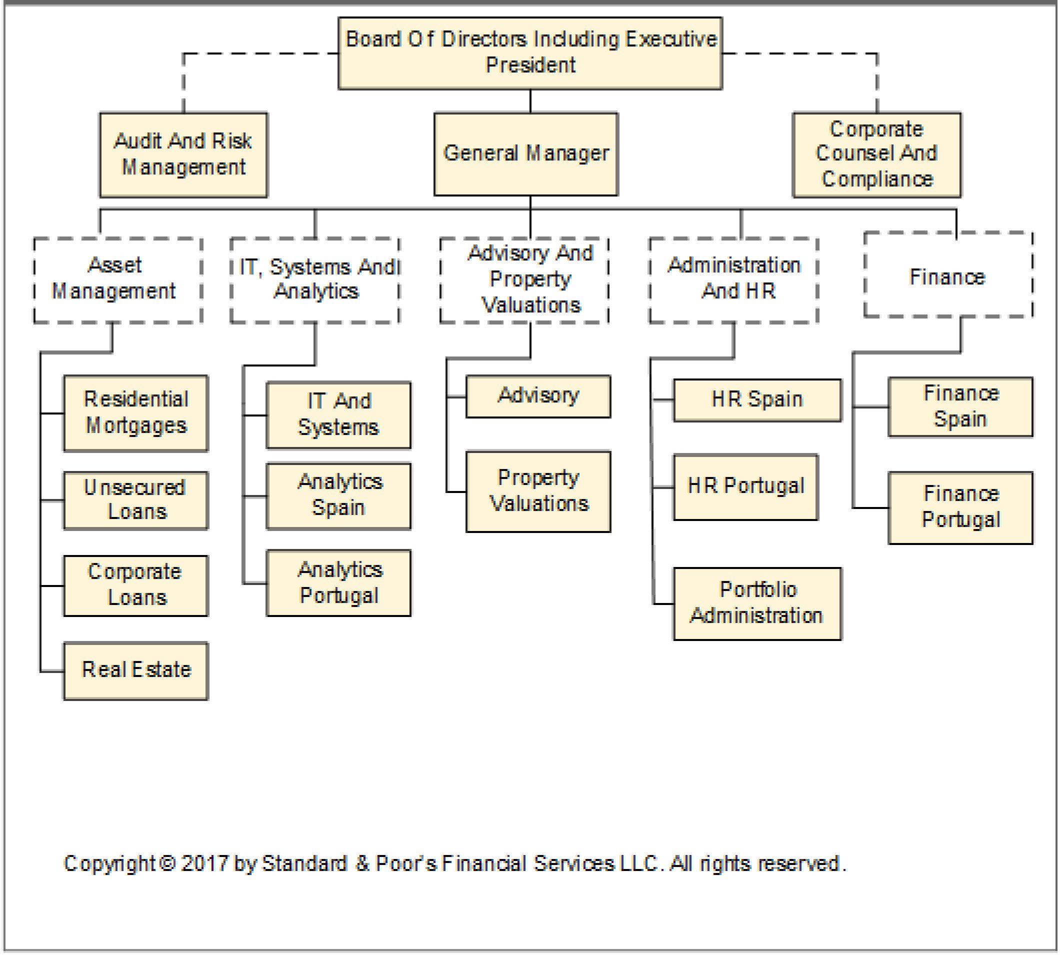
The organization is well designed and has clear reporting lines, in our view. Internal controls are independent from operations and report to the board of directors to guarantee their independence from operations.

Since our previous review Hipoges reinforced its organizational structure as follows:

- Internal controls now directly report to the board of directors;
- The former CEO is now executive president, and the Portuguese general manager leads the entire Iberia region;
- The corporate counsel is in charge of compliance;
- IT, systems, and analytics now reports to the head of analytics instead of the head of advisory;
- The company created new middle managers roles;
- The real estate team now comprises two units: the facility management unit and the marketing and sales unit; and
- The legal workforce, formerly a separate team within servicing operations, is now integrated with the servicing team.

Chart 4

Organizational Structure



The company structure is organized into three main areas: back office/supporting functions, analysis department, and the servicing unit. The back office and supporting functions include finance, IT, HR, administration, and internal controls. The advisory team supports the due diligence activity and provides property valuations. The analytics team produces reports for internal use and external distribution, and is involved with portfolio boarding, improving business analysis solutions, and desktop valuations. Operations include real estate and closing departments and one department per asset class under management: unsecured loans, residential loans, and corporate loans. The unsecured loans and residential mortgages departments share the same team head.

The head of asset management, the head of advisory, and the heads of supporting functions report to the general manager, who in turn reports to the board of directors.

The company's senior managers are partners and are fully aware of the company's history and current developments. Moreover, the HR department maintains an up-to-date succession plan to identify potential successors for pivotal roles which, in our view, further reduces single man dependency risk.

The company's governance model includes several committees. As a result, senior and middle managers meet regularly to discuss specific subjects, such as audit, risk and compliance management, IT systems, internal policies and procedures, and HR. This practice means that the company can constantly monitor its management activity in fundamental areas. Since our previous review, Hipoges has also implemented committees that discuss new business, legal matters, auctions and pricing.

The servicer has adopted several measures to address the high turnover rate since our last review, including updated salary bands, internal promotions, and movements within the company, as well as the introduction of perks and more career progression opportunities. Consequently, the turnover rate in Spain has decreased to 15% in 2016 from 31% in 2015 and 42% in 2014. No senior managers left in 2016. We expect that the ongoing initiatives will help Hipoges maintain a lower turnover rate in the medium term.

Table 1

Staff Turnover Rate

	2014	2015	2016
Staff at beginning of period	67	99	122
Number of joiners	60	54	55
Number of staff leaving voluntarily	(19)	(21)	(9)
Number of staff leaving involuntarily	0	0	0
Number of expired contracts	(1)	0	0
Number of staff redundant	(8)	(10)	(9)
Staff at end of period	99	122	159

Senior and middle management experience and tenure rates are at a good level. The tenure levels remain low due to the large number of new joiners and leavers over 2015 and 2016. The tenure rate of commercial mortgages operative staff is even lower due to team expansion over 2015 and 2016. We will closely monitor the company's ability to build up a higher tenure of this team.

Table 2

Experience And Tenure

	Experience (years)	Tenure (years)
Residential mortgages		
Senior management	19.75	5
Middle management	12.85	4.5
Late arrears staff/litigation	6.11	1.47
Property sales staff	11.44	1.38
Commercial mortgages		
Senior management	19.75	5
Middle management	12.85	2
Late arrears staff/litigation	5.32	1.21
Property sales staff	6.28	1.15

Training and development

The head of administration and HR leads the HR teams in Spain and Portugal. The Spanish HR team is composed of four employees. HR manages selection and recruiting, training and development, compensation and personnel administration. HR can appoint external recruitment agents for ad hoc assignments while the payroll service is outsourced, as we have observed for other servicers. The company has refined its hiring strategy since our last review.

The company clearly defines the HR department's mission and sets annual goals, which can help increase the department's effectiveness, in our view.

The company induction program includes one week of introductory courses on company culture and basic tools. New hires have to attend further training with the department heads and senior analysts during the first year of tenure. The initial training also includes mandatory courses on anti-money laundering (AML), data protection regulation, the bankruptcy process, and the foreclosure process, among others. The number of induction training hours (including on-the job training) increased to 37 in 2016 from 29 in 2015.

The managers and HR identify and draft a plan on ongoing training needs during the last quarter of every year taking employees suggestions into account. The board approves it during the following board meeting. HR provides internal and external courses to improve soft and job-related skills. The company also sponsors external graduate courses and offers certification opportunities for employees with high potential. Finally, in line with the growth of middle management roles, Hipoges organized management training. In 2016, 37 staff attended online leadership training and 18 middle managers attended classroom leadership training, which should contribute to a better-trained workforce. The average training hours per residential employee was 94 in 2016 compared to 63 in 2015. The servicer registered 81 hours on average for commercial staff in 2016.

In our opinion, Hipoges has an appropriate appraisal system in place, which incentivizes its staff to maximize results and collection. The company's staff compensation scheme comprises a fixed base salary and a variable base in line with performance and defined by role and category. Each employee in operations sets his or her own goals and growth plan with his or her line manager at the beginning of the year, based on a scorecard pre-defined by role and relaunched in 2016. Achievements toward those targets are assessed quarterly and determine the size of the variable annual compensation and the employee's career progression. Middle managers and specific roles (such as statisticians in the analytics department or due diligence team) do not follow the scorecard compensation scheme, but still receive annual bonuses proportional to their performance against annual goals. The four senior partners each receive a percentage of EBITDA as an annual bonus.

HR constantly works with senior and middle managers to identify key employees. HR aims to retain these employees by increasing their job satisfaction and commitment to the company. Similarly, HR identifies emerging talent to facilitate their professional development. In 2016, Hipoges implemented a number of HR initiatives including flexible benefits, employee value proposition, talent retention through internal promotion and rotation, and enhanced internship program.

To improve communication and encourage a positive working environment, the company has several initiatives, including an annual staff survey, semiannual breakfast with the CEO to foster relationships between staff and the management team, a quarterly town hall meeting, and a middle and top managers offsite, among others. In our opinion, these efforts help the company to have a productive team.

We received a full set of HR's goals for 2017 and the company has been working to achieve them.

Internal controls

The internal controls system consists of:

- Preventive functions such as compliance and risk management, and other controls such as mystery shopping;
- Internal audit; and
- External assessment of specific topics, including AML function, IT, and data protection among others.

The executive and senior management teams compose the audit, risk, and compliance committee, which monitors the internal controls system. It meets quarterly and revises internal audit results, risk management, and compliance activity, as well as the communication and effective understanding of any internal controls related changes.

The internal auditor, who has been with the company for several years, covers both the audit and risk management activity. The audit function verifies the company's adherence to internal policies and procedures, highlights any exceptions, and suggests remedies, including a follow-up calendar. The audit function follows the audit plan that the audit, risk and compliance committee and the board of directors approve. It prioritizes the review of areas associated with higher risks and, in principle, can be changed in due course if required. We received the 2016 audit report. As of December 2016, the audit function reported 98 higher risk and 67 lower risk findings. At the beginning of 2017, 22 findings remain open but are associated with a well-defined remedy action. The number of high risk findings is above the market average. We will closely monitor the evolution of the audit results.

The servicer introduced a new audit software tool in 2017. Complementary to the regular audits, the company has designed several controls for specific activities, events, and procedures for each department to be reviewed every six months. Each department is responsible for finalizing them on timely basis.

Hipoges has developed and continuously updates a risk matrix. Risks are categorized into four groups (strategic and corporate risk, HR related risks, systems, and operations) and described as high, medium, or low according to their potential impact on the company's activity.

Since our last review, the corporate counsel took over the Spanish compliance officer's responsibilities. Hipoges' compliance function covers five areas: data protection, AML, internal compliance, criminal liability for companies and managers, and "treat customers fairly" (TCF). There is an AML manual that all employees need to read and sign and there is a semiannual AML committee. An external expert audits Hipoges' AML procedures annually and staff receive regular AML training. The compliance officer verifies that policies and procedures are in line with the legal framework and suggests improvements, as well as training. Hipoges has a quality control program in place to guarantee TCF and conducts an annual survey to test its customers' satisfaction level. The servicer reported positive results. In addition, Hipoges is testing a mystery shopping activity aimed at detecting weaknesses in the property sales process.

Hipoges' employees are the first company representatives to handle complaints and can escalate them, if necessary. As of December 2016, the company reported that the level of complaints was minimal.

Since our last review, Hipoges hired an external consultant who assisted the company in implementing a new legal requirement regarding criminal liability for companies and managers.

Policies and procedures are summarized in manuals on the company intranet and changes to them are reviewed and approved by a specific committee that gathers every three months.

Systems and technology

The head of IT, systems and analysis leads an IT team of two developers, two helpdesk staff, and a team leader. This team collaborates closely with the analytics team, composed of 13 staff members. Furthermore, there is an external developer supporting the development of Hipoges' new loan management system, HAMS. Finally, the senior managers form the IT and systems committee, which approves IT development plans that fall beyond the daily IT tasks managed by the team itself.

Hipoges manages the entire lifecycle of a portfolio through an integrated platform, comprising a third-party loan management system, MIS, and two in-house business intelligence software (METAL and LETAL), which boost the automation of the processes and the exchange of data across internal and external systems. The loan management system, which Hipoges bought from an Italian servicer that we rank, is quite flexible and supports the management of different kinds of asset classes and products (mortgages and consumer finance credits, commercial loans, receivables, and RE assets). Workflows are fully embedded in the system. For example, MIS flags a loan status that must be advanced based on the company's criteria. To limit errors, loan managers work from dropdown menus as much as possible. LETAL supports the legal management activity while METAL provides a number of functionalities including reporting and auto synchronization with external RE advertising web portals. The IT team set up METAL and LETAL based on the input received from operations. Similarly, the IT team is in charge of implementing business intelligence developments that the analytics team may request. As of December 2016, the integrated system requires manual intervention in only 5% of overall managed activities. The system can support portfolio growth of up to 100%.

The system is now hosted with Acens in Madrid. Acens provides two web-servers that are 20 kilometers away from Hipoges' head office. Despite this being closer than what we have seen for other servicers, the company is comfortable with this solution. Hipoges runs an additional third database server internally for reporting purposes. All system data is also available in Lisbon. All company servers, except MIS, are virtualized. Hipoges considered virtualization as an option for MIS but decided against it as it would slow down the service. The servicer has implemented a virtualization failover cluster structure since our last review. METAL and LETAL are hosted by a server located in the Hipoges Madrid office.

MIS developments since our last review include duplicated database synchronized in real time, filesystem backups in same cloud database, secure transfers of database backups and project files, new real estate keys management module, security upgrades, and performing loans module. At the same time, Hipoges has launched a new project to create a loan management system, HAMS, in a new coding language that will make the system more flexible. The company expects to have HAMS live by end of 2017 and is currently testing the migration of portfolios. HAMS is more flexible and will include new features. For example, the system is going to have a data warehouse; and a document management system that is currently available as an integrated application.

The servicer is also working on introducing a broker portal that will be used as a communication tool between brokers and internal loan managers. Moreover, Hipoges has been developing an optical character program (OCR) to automate a first reading of incoming loan documentation.

The telephone system is centralized through an Asterisk PBX server that controls inbound and outbound calls. Every call's information is stored in the Asterisk server database. As a result, the company has full call information control and monitors call activity through a monthly report. Team leaders can also access audio files of every call made or received and can listen to live calls remotely, in line with the Spanish legal framework. Each portfolio is associated with a unique inbound number (issued in the initial notification letters and provided by the asset managers to the debtors in phone conversations) so the company can create specific inbound reception queues by portfolio. The company introduced a power dialer that is fully integrated with MIS since our last review.

Hipoges has a reliable system security level. The usual renewal cycle of IT hardware is 60 months, slightly longer than the average.

An external audit team has completed the following IT audits: business continuity (BC) and disaster recovery (DR) audits, configuration of servers and cloud network security. The audits did not flag any major issues.

In our opinion, the IT system is in line with our overall management and organization subranking.

The IT department is responsible for BC and DR. The company's BC procedure hasn't changed since our last review. The BC and DR plan was last reviewed in 2014 and will be updated in 2017. In our opinion, it might be beneficial to review it in line with staff growth. The latest BC test took place in January 2016. The test registered positive results, however, data recovery took eight hours compared to five hours as per our previous review. Hipoges has eight seats available in Lisbon (620 kilometers away from Madrid) as an alternative site, and 35 employees in Spain and eight in Lisbon could work from home because the integrated management system is web-based. The recovery site is further away than the standard distance but the company is satisfied that staff can easily work from home during a major disaster, avoiding any service disruption.

Loan/Asset Administration

We have affirmed our ABOVE AVERAGE subranking on Hipoges for loan administration as a Spanish residential special servicer. At the same time, we have assigned our AVERAGE subranking to Hipoges for loan administration as a Spanish commercial special servicer.

Hipoges has launched a number of operational enhancements since our previous review, such as the greater automation of the legal process and the implementation of a scorecard for the evaluation of external brokers. In addition, it introduced new data and reporting tools, which facilitate the creation of more interactive dashboards. Hipoges reported results in line with clients' expectations for both asset classes, but over a shorter period of time for the commercial mortgage business.

At the end of 2016, Hipoges managed nine residential mortgages portfolios, including two boarded since our last review. Similarly, the company managed 12 commercial mortgages, including two performing loans portfolios, with seven boarded in 2016 and four in 2015. Hipoges also works on unsecured loans, which are out of the scope of our analysis. The residential and commercial mortgages activity include both performing and non-performing credits, though we only asses Hipoges on its ability as special servicer. The Spanish residential portfolio is distributed in the largest Spanish regions (Community of Madrid, Catalonia, and Andalusia), while the Spanish commercial portfolio is mainly distributed in Community of Madrid, Valencia, and Catalonia.

Table 3

Residential Mortgages Portfolio Distribution*

	Gross book value (%)	Number of units (%)
Performing loans	5	8
180+ days arrears	29	13
Litigation	44	51
Possession/real estate owned	22	28
Total	100	100

*Please note that the percentages reported above are approximations based on the figures at boarding.

Table 4

Commercial Mortgages Portfolio Distribution*

	Gross book value (%)	Number of units (%)	Number of properties (%)
Performing loans	17	3	32
Arrears	19	33	15
Standstill agreements	14	6	14
Litigation	50	58	39
Total	100	100	100

*Please note that the percentages reported above are approximations based on the figures at boarding.

New loan set-up

In 2015, Hipoges boarded one residential portfolio with a gross book value (GBV) of €0.226 billion and 1,183 loans, and four commercial mortgage portfolios with a GBV of €1.865 billion and 794 loans. In 2016, Hipoges boarded one residential mortgages portfolio with a GBV of €136 million and 1,196 loans and seven commercial mortgages portfolios with a GBV of €1.422 billion and 2,871 loans.

Once Hipoges executes a servicing agreement, it receives electronic data of the portfolio, automatically uploaded into the system. On average, the process of boarding of electronic information takes between two to five days for residential and commercial mortgages. Once boarded, internal staff check the data for accuracy and loan managers chase missing data. Similarly, upon servicing agreement execution, the company receives documents associated with loans, borrowers, and collateral to review. The company scans, uploads, and registers documents that are not yet in electronic format and internal lawyers chase missing ones. The documents are subsequently transmitted to an external archive provider. The company only retains in-house documents related to loans not yet associated with judicial procedures until the legal department files for foreclosure. The full boarding process including file review, data validation and completion of initial business plans usually takes 90 days.

Eight employees are trained to board residential loans and all members of the corporate loans and analysis teams can board commercial loans. The company usually creates a dedicated loan boarding team, hiring contractors to support internal resources when required. To this end, the company has a list of contractors, which it has previously worked with, guaranteeing a high level of service. Once the company completes its data accuracy review, it begins its servicing activity.

Hipoges is also in charge of filling missing information through skip tracing activity. The internal skip tracing team conducts searches in publicly available information while this fails, external skip tracing firm could be appointed too.

Document tracking

Hipoges duly tracks inbound and outbound document transfers during the management period. The closing department manages every new document generated after boarding and scans, uploads, and archives it as required.

To avoid errors, each file has an ID code associated with the case.

Payment processing

Several portfolio accountants (PAs) comprise the administrative department, which tracks and pays servicing expenses and reconciles their collection.

The administrative department sorts invoices daily as they arrive. It associates the cost to the right case in the loan management system by attaching an electronic copy of the associated bill. The system automatically forwards it (following pre-defined criteria) either to the loan manager or directly to the portfolio manager for authorization.

The PA receives a weekly, automatically generated payment request list, which is portfolio specific and lists all authorized payments. The PA sets the bank transfer accordingly and the portfolio administration head, or the chief financial officer (CFO) in his/her absence, approves it.

Similarly, whenever a provisional fund is required, the loan manager advises the service provider to ask for the required amount to the PA working on the relative portfolio. The PA sets up the bank transfer to be approved by the department head and tracks the payment on a specific spreadsheet. The service provider then confirms the charge when the expense incurs and returns unspent funds. Subsequently, the PA updates the loan management system.

The PAs prepare a monthly cash reconciliation report, which includes opening and closing bank account balances and records of all payments and provisions made. This is sent to the client's accounting firm along with a copy of each invoice.

The legal manager notifies the PA by email when an auction payment is due. The PA then processes the request to the department head for approval before making the funds available.

PAs reconcile collections twice a week. They download the account records of every collections account and fill a spreadsheet, which associates each payment to the related case code as it appears in the loan management system. The system manager receives the file and uploads it to the system so that the loan managers are automatically notified of any new payments.

In our opinion, the company's payment system is well designed and requires a double authorization process whenever a payment is due to reduce errors. Some tasks are still manually processed, but this is because of issues outside Hipoges' control. For example, the account records cannot be directly uploaded into the system, but this is common for other servicers.

Special servicing of residential mortgages

The members of the residential mortgages team are specialized by portfolio. As of end of 2016, there was one head of residential mortgages, one team leader, three team coordinators, seven loan managers, 11 legal managers, 14 real estate employees, five closing employees, and one portfolio manager.

After boarding, the head of operations and the head of residential mortgages agree on the team that will look after the new portfolio. They assign a portfolio manager, who is in charge of maintaining the client relationship, and a team leader who takes overall responsibility of the portfolio's management. In turn, the team leader appoints a loan manager and legal manager to each borrower in the portfolio, taking into account the existing managers' workloads, expertise, claim size, case complexity, and borrower locations. Team coordinators monitor and support the day to day activity of legal and loan managers.

In the residential mortgage portfolio servicing in Spain, the principal loan manager's responsibilities are to establish and maintain contact with borrowers, propose and negotiate settlement agreements, and work with other departments to finalize and maximize loan recoveries.

The asset manager handles repossession and disposition of collateral assets or helps to market them. Finally, the lawyer executes legal strategies. Hipoges always works simultaneously on judicial and extrajudicial solutions to maximize collections.

The company first attempts to contact the borrower using an automatic certified mail sent on behalf of the portfolio owner and addressed to the debtor, co-borrowers, and guarantors. The communication summarizes the consolidated debt information and notifies Hipoges as the new servicer. All letters are associated with a unique barcode and if they are returned, the administrative department scans them so the related address is automatically flagged as incorrect in the system.

Beyond the initial mailing, the loan manager attempts to contact the borrower (or any guarantors) by phone. The contact center, initially created to support the unsecured part of the business, is now also in charge of making the first borrower contact to confirm borrower details.

The loan manager's objective is to interview the borrower using a pre-defined questionnaire, to understand his or her willingness, and ability to repay. Following the company strategy, the loan manager should encourage borrowers to provide a solution, assess it, and counteroffer a better strategy to maximize the return whenever possible.

Since our last review, Hipoges introduced several initiatives to improve the loan and legal management activity, including reengineering of internal protocols for new online judicial auctions, further automation of litigation, and emphasis on post foreclosure negotiations for friendly repossessions.

On the basis of the collected information, the loan manager submits the business plan to the team leader and portfolio manager and/or the head of operations for their approval. Once approved, the loan manager negotiates the business plan with the borrower and executes it. If the portfolio manager or head of operations rejects any loan manager's proposal, they include a clear explanation that can help to find a different solution. Critical positions are reviewed within an internal committee. The resolution proposal workflow is applied to both extra judicial and judicial resolutions such as auctions. Timings and approval rights are tracked and monitored on the system as well as investor decisions so the system produces alerts for different roles.

The legal managers process the legal effort and confirm the strategy to pursue and seek approval. The internal lawyers are supported by a network of external solicitors, law firms, advisors, and "gestorias". The legal department selects these parties and monitors their ongoing activity. Hipoges' legal managers have an internal blog to share information on ongoing cases. The company considers it a relevant tool to spread and retain valuable knowledge.

The RE management department assists the loan manager with both residential and commercial mortgages. The team has been split into facility management and marketing and sales in order to gain efficiency through specialization since our last review. It first verifies the collateral asset's status (e.g. if it is occupied or vacant). During the recovery period, the RE manager can help to market the property if it was already repossessed or if the borrower agrees to it. Additionally, the RE manager can help manage the property or assist the auction process to repossess it. As of December 2016, the RE department was working on 899 assets across Spain. The department worked out more than 6,868 since the company's incorporation. The RE management team works with external brokers and further external providers covering the all-Spanish market. A number of RE operational enhancements were introduced since our last review such as renegotiation of facility management contracts.

Loan manager's meet RE managers, legal managers, and line managers on a timely basis to review each case in their portfolio, coordinate their efforts, and reach the best solutions.

The servicer and clients consider 2016 collection results satisfactory taking into account several challenging factors, including legal changes and squatting issues, outside the company's control.

The closing department supports the loan management, legal, or RE teams with both residential and commercial mortgages to close the case when a judicial or extrajudicial solution is finalized. The closing team has expanded to five since our last review. It uses MIS records in order to formalize agreements.

In our opinion, the overall special servicing workflow, supporting IT platform, and the teams' organization is well-designed.

Special servicing of commercial mortgages

The corporate loans department looking after commercial mortgages is split in four sub-units and receives support from the RE and closing teams:

- Real estate development loans, which manages real estate developer loans.
- Corporate loans, which manages commercial loans where restructuring is often required.
- Hotels, focused on the management of hotel related loans.
- The special situations team, which manages a relatively small portfolio composed of complex single name loans.

Similar to the residential mortgages team, the corporate loans department is responsible for the management of both performing and non-performing loans. The head of operations and the department head create a team for each newly boarded portfolio, which includes a portfolio manager in charge of boarding, the overall portfolio management, and client contact, and loan managers, legal managers, and team coordinators as required.

Loan and legal managers work hand in hand throughout the workout process. The loan manager is responsible for strategy suggestion and implementation.

The loan manager establishes contact with the borrower, and negotiates with them and performs due diligence on the relevant loans, debtors, guarantees/collaterals according to agreed service level agreement. The loan manager relies on input from the legal and RE teams to establish the optimal recovery strategy. The legal manager provides legal advice on the negotiating position on the basis of loan and guarantee documentation as well as legal proceedings stage. The asset manager provides opinion on RE value and market liquidity.

Having identified potential workout strategies, the loan manager does strategy modelling while preparing detailed workout strategies with associated cash flows and business plans. The strategies are presented through an excel based tool. The optimal workout is selected based on comparison of variables such as net present value. Resolution proposals go through the following approvals: loan manager, portfolio manager (and department head if required), and client.

The resolution strategies undertaken by the four different sub-teams usually vary. For instance, consensual sale is a common strategy undertaken for real estate developer loans while discounted payoff and refinancing are implemented for corporate loans.

Once a resolution has been negotiated with the borrower, the loan manager uploads the proposal on MIS in order to record the recovery details.

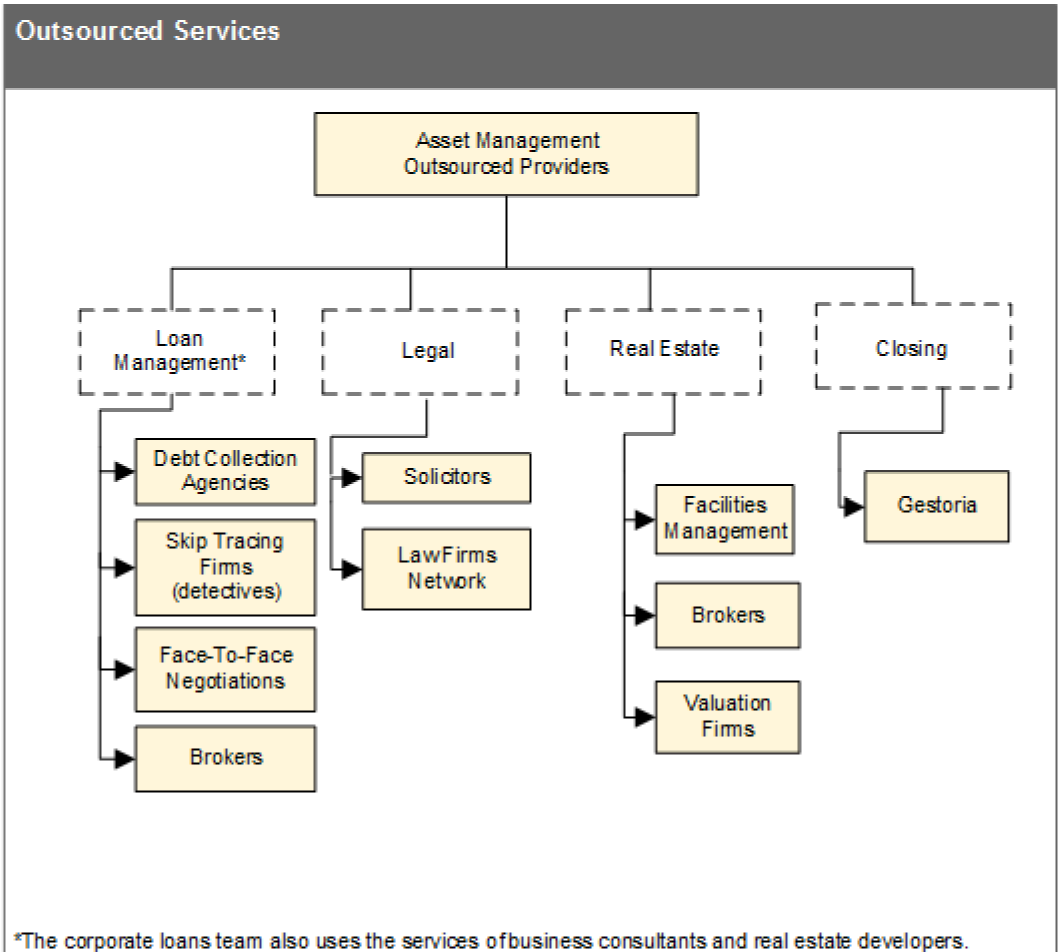
The servicer registered positive collection results for commercial mortgages.

Vendors management

The company works with an extensive network of external providers (see chart 5). Each department is in charge of selecting, monitoring, and dealing with the external providers while the portfolio administration team reviews outsourcers' applications in order to preserve independence. In 2014, the servicer implemented a methodology to rank the network of its brokers and it is currently producing a scorecard for solicitors and facility agents. In our opinion, this is a useful tool to monitor the effectiveness of external providers' support and we will monitor the implementation of the new scorecard.

Despite being web-based, as of December 2016, most external parties do not have access to the loan management system, except for one large solicitor firm. Therefore internal loan managers, lawyers, and RE managers exclusively update the system.

Chart 5



Customer service

Partners and senior managers maintain the relationships with outstanding and potential clients including international investors and financial institutions. There isn't a business development responsible anymore and the executive president covers the business development activity with the assistance of the head of operations and the head of advisory. In addition, the newly introduced portfolio manager position acts as a key point of client contact, meeting clients regularly.

Investor reporting

Hipoges has a well-sized analytics team in place that produces a number of standardized and tailor-made reports, most of them automatically generated by METAL including reports on key performance indicators (KPIs). The analytics team provides a number of other services including supporting the boarding activity and RE team. The team also supports the development of the new loan management system from a business perspective as it's the reference point for internal requests submitted by managers and staff.

Since our last review, the servicer has made more data available, and introduced new reporting tools and more interactive dashboards.

Hipoges uses Pentaho for extracting data for reporting purposes and Tableau for data visualization. In addition, the analytics team launched a report revision program for the optimization and redesign of the company's reports.

Financial Position

We consider the company's financial position to be SUFFICIENT, based on our assessment of the Hipoges' financial statements.

Related Criteria

- Revised Criteria For Including RMBS, CMBS, And ABS Servicers On Standard & Poor's Select Servicer List, April 16, 2009
- Servicer Evaluation Ranking Criteria: U.S., Sept. 21, 2004

Related Research

- Hipoges Iberia Assigned AVERAGE Ranking As A Commercial Special Servicer In Spain; Outlook Positive, June 1, 2017
- Servicer Evaluation: Hipoges Iberia S.L., April 20, 2015
- EMEA Servicer Evaluation Industry Report 2016, Jan. 31, 2017
- Select Servicer List