

## **ABOVE AVERAGE Rankings Affirmed On Mount Street Loan Solutions As U.K. Primary And Special Servicer Following Review**

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### OVERVIEW

- We have affirmed our overall ABOVE AVERAGE rankings on Mount Street Loan Solutions as a primary and special servicer of commercial loans in the U.K.
- The outlook is stable on both rankings.
- The financial position is SUFFICIENT.
- Mount Street Loan Solutions is an independent provider of loan servicing and related loan management services to the European commercial real estate sector.

LONDON (S&P Global Ratings) Jan. 29, 2018--S&P Global Ratings has today affirmed its overall ABOVE AVERAGE rankings on Mount Street Loan Solutions LLP (MSLS) as a primary and special servicer of commercial loans in the U.K. The outlook is stable.

MSLS is part of Mount Street Group Ltd. (MS Group), which via its network of subsidiaries, manages several asset classes, including performing and nonperforming commercial loans, as both a primary and a special servicer. The group is headquartered in London and has several servicing centers across Europe and the U.S.

MSLS was established in 2012 as a joint venture (JV) between the three managing partners and U.S.-based Clayton Holdings LLC (Clayton). Clayton's owner, Greenfield Acquisition Partners LLC, sold Clayton in 2013 and Cobra Green, a group entity, took over the share of the JV ownership. MSLS acquired and absorbed Crown Credit Services GmbH and Morgan Stanley Mortgage Servicing Ltd. in 2013 and 2014, respectively. At the end of 2016, MSLS completed a JV with Gresham Technologies PLC to develop its new loan management system, which is fully operational as of November 2017. In February 2017, MSLS' executive team completed a management buy-out, establishing MS Group as a legal entity, with two strategic partners who hold a minority stake. The group continues to grow following the acquisition of Erste Abwicklungsanstalt Portfolio Advisers GmbH (EPA) in October 2017, renamed Mount Street Portfolio Advisers GmbH (MSPA), which brings with it 75 employees and a €22 billion diversified portfolio. MSLS and MSPA are separate legal entities that sit under the MS Group structure. While they share executive management and certain support functions at group level, their operations remain segregated and there is no plan to integrate IT systems.

As of June 2017, MSLS' European portfolio decreased to just under £13 billion from £16.5 billion in June 2016, due to decreasing opportunities in the market, which is in line with what we have seen with its peers. Additionally, MSLS' U.K. special servicing book has wound down almost in full, to £9 million from £544 million over the same period. That said, the overall U.K. portfolio increased to £8.3 billion from £7.4 billion as a result of the increased U.K. primary servicing portfolio (to £8.3 billion from £6.8 billion). Furthermore, MSLS has secured £8.4 billion of European servicing contracts by the end of 2017, the majority of which correspond to U.K. primary servicing contracts, representing approximately 45% year-on-year growth.

Our rankings are limited to the company's activity as a primary and special servicer of commercial mortgages in the U.K.

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

#### MAJOR RANKING FACTORS

- MSLS has continued to grow since its inception as a result of new boarding and growth through acquisition. The new strategic partnerships have allowed the company to attract a greater volume of new servicing mandates while diversifying its client base. The servicer is expecting further growth by the end of 2018, having a substantial and busy pipeline in place across regions.
- The company has streamlined its organizational structure in light of its ongoing development and expansion. The company created a Group Chief Operations Officer position at the end of 2016 to monitor key business support functions and oversee strategic special projects. The role's oversight extends to both MSLS and MSPA, which share support functions. Likewise, MSLS appointed a Group Chief Technology Officer to drive IT

strategy across the group in December 2017.

- Seasoned professionals joined MSLS to oversee primary servicing and special servicing in March and October 2017, respectively. Adapting to prevailing market conditions, the company announced the formation of a new Commercial Real Estate Financial Solutions (CREFS) team in December 2017, pooling its nonperforming loan management and special servicing offering under the head of special servicing. Other key appointments include a new head of business development in September 2016, whose role focuses on sourcing opportunities in the market. Finally, in November 2017, the company appointed dedicated heads for both compliance and HR to address the business' growing needs.
- A new, robust IT system was introduced in parallel to existing systems in March 2017, and was fully deployed as of November 2017. We believe that it will likely improve operational efficiencies for loan boarding, payment processing, and servicing of the loans, by automating calculations and workflows further. We will closely monitor its development and effect on the company's processes.
- Operations have been reinforced. The loan administration team, previously outsourced to a company based in Belfast, has been brought in-house as of October 2017 under the supervision of the former Head of Primary Servicing who was newly appointed as Head of Client Infrastructure and Risk in March 2017. Likewise, the relevant policies and procedures were reviewed to improve efficiencies, and workshops are run across jurisdictions to ensure the sharing of best practices.
- MSLS has increased its client focus. To this end, it has introduced the option of dedicated, ring-fenced teams for clients, who have the option to have MSLS asset managers work onsite at their offices on a part-time basis. This indicates flexibility and innovation in addressing client needs, in our view. Finally, the company offers customized and thorough reports to clients and investors through its coherent and user-friendly website. We believe these are constructive client management practices, which will enable the business to successfully compete in the marketplace.

#### OUTLOOK

The outlook on MSLS is stable on our rankings as a primary and a special servicer of commercial mortgages in the U.K. The servicer has strengthened its management team and is improving its activities across the business. The company's consolidation will continue to support the servicer's operations to maintain a reliable service, in our opinion. Moreover, the servicer has a substantial primary pipeline in place and we will monitor its ability to maintain momentum once this new business is boarded. Conversely, given current market conditions, there are fewer opportunities to grow the special servicing portfolio, but despite this, the servicer has achieved positive performance results in the past.

#### MANAGEMENT AND ORGANIZATION

We have affirmed our ABOVE AVERAGE subrankings on MSLS for management and organization as a primary and special servicer of commercial loans in the U.K. The servicer has bolstered its senior management team and continues to successfully attract new business. In our view, the company is working extensively to diversify its product range at the group level, in large part through its latest acquisition, to include a wider range of asset classes (such as aviation, infrastructure, energy, and shipping), including commercial real estate. Staff is experienced and in recent years, the company has demonstrated a low turnover rate, excluding new joiners. The internal audit function has been outsourced as of November 2017, and compliance has been segregated from risk management. The new IT system appears to be robust and we expect it to create further efficiencies to the servicing teams. We will monitor its development closely.

#### LOAN ADMINISTRATION

We have affirmed our ABOVE AVERAGE subrankings on MSLS for loan administration as a primary and special servicer of commercial loans in the U.K. The company has updated its procedures since our previous review to allow greater efficiency, which has been rendered primarily through the prudent implementation of its new IT system and the organization's adoption of a culture of continuous improvement, the latter being spearheaded by the head of client infrastructure and risk. All loan boarding activity is now done using automated workflows in the new system, as are payment calculations, and we will closely monitor the system's scalability given the primary servicing loan growth anticipated over the next 12 months and beyond. Notwithstanding a decreasing special servicing portfolio, MSLS has boarded one new defaulted commercial mortgage-backed securities transaction by replacing the outstanding special servicer, and continues to successfully work out loans. Finally, the company provides high-quality reports to clients, which incorporate detailed commentary in a clear and concise manner. MSLS provides these reports to external parties through its website, which is easily accessible and user friendly.

#### FINANCIAL POSITION

We consider MSLS' financial position to be SUFFICIENT.

#### RELATED CRITERIA

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

#### RELATED RESEARCH

*ABOVE AVERAGE Rankings Affirmed On Mount Street Loan Solutions As U.K. Primary And Special Servicer  
Following Review*

- Select Servicer List, Dec. 14, 2017
- Servicer Evaluation: Mount Street Loan Solutions LLP, Sept 2, 2016

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