"The loan servicing landscape has always been competitive"

Winner of the Loan Servicer of the Year: Europe category at the *Real Estate Capital* Awards 2019, Mount Street grew its portfolio of loans under management from €50 billion to €62.5 billion last year, including a €7 billion book of development loans.

Last year also saw the London-based debt management firm capitalise on the revival of Europe's commercial mortgage-backed securities market, winning six new servicing mandates. Its Greek office was granted a credit servicing licence and was part of the winning consortia for non-performing loan portfolios sold by the Bank of Greece and Piraeus Bank.

Co-founder and global head of servicing, Paul Lloyd, spoke to *Real Estate Capital* about Europe's increasingly competitive third-party servicing market.

Q How did you go about growing your portfolio of loans under management in 2019?

A Servicing is, and always will be, a relationship business. Many members of our debt management team have in-house experience within financial institutions including Morgan Stanley, Deutsche Bank and Lloyds, so we are trusted to deliver the level of service such lenders expect. Loan servicers need that sort of experience in order to win business, because we are the first line of defence for clients' loan portfolios. When banks, debt funds or insurance companies outsource the management of their loan portfolios to a third party, they need to be able to trust it, because they are allowing the servicer to handle a borrower relationship daily.

We have built a reputation that has enabled us to win a lot of repeat business from clients. This is important, because clients are facing additional scrutiny from regulators and the demands of an ever-changing debt market. For example, servicers need to understand where European Securities and Markets Authority reporting is needed, and what the effects of changing environmen-

Q&A

Paul Lloyd

Managing partner and global head of servicing, Mount Street tal, social and governance standards mean for their portfolios. The issue of replacing LIBOR as the reference rate in loan transactions is another important factor we have discussed with clients. Many want help understanding the implications and implementing necessary changes.

Lenders are more inclined to use third-party servicers, because they recognise that if you work on a book of loans covering more than 50 lenders, you have a good feel for the market across sectors and jurisdictions.

Q You are managing €7 billion of construction loans. What expertise does that require?

A Most importantly, it requires experience and knowledge of the sector. We have hired several senior experts from the construction and development market who have for many years worked on the debt and equity side of these transactions.

The key to providing good service on a development loan is the timely management of the drawdown process. The turnaround time is especially important in multi-lender transactions where all the parties need to fund simultaneously. It is important for the servicer to work closely with the project manager and constantly track milestones on the road to practical completion, in order to pre-empt any potential issues during the construction phase. We never underestimate the value of a site visit and having offices across Europe means we can be on-hand to conduct emergency inspections.

Q How competitive is Europe's loan-servicing landscape?

A I think the loan servicing landscape has always been competitive, even with the consolidation we have seen in recent years.

That said, we would choose not to compete if someone wants our services, but at the lower end of the fee scale. Considerably reducing fees means you cannot invest back into your business, be that new technology or people, and so the level of service suffers. We have recently set up an asset surveillance team to help clients understand inherent risks within their portfolios and to help them take steps to reduce that risk, either on the debt or equity side of a transaction.

We have further de-risked our business by diversifying our product range as well as our services, so we now service debt in areas other than commercial real estate, including shipping, aviation and infrastructure.

The global head of servicing at debt management business Mount Street discusses the role of servicers in today's European real estate sector

SPONSOR
MOUNT STREET

Q Has the revival of the European CMBS market generated new opportunities for the servicing community?

A The rise in CMBS issuance – in which servicers are required to protect and advise noteholders – has helped to highlight the servicers' roles. It provides companies like ours with an incentive to demonstrate to noteholders the real value of having a servicing company involved in their transactions. The servicer is afforded certain discretions, and it is important for servicers to use them to make sure noteholders are protected and that maximisation of recoveries is always achieved.

We talk with a lot of banks that issue CMBS about the reinvigoration of the market, and their view is 'long may it continue'. We share that view.

Obviously, a lot of legacy CMBS investors believe things could have been done better with regard to the last cycle's generation of transactions. But we enjoy the ability to actually control these deals, make decisions and have opinions about how things can get done.

The new 'CMBS 2.0' generation of deals provides the opportunity to build a legacy loan book, but servicers need to convince noteholders and issuer banks that they actually add value. With CMBS, servicers need to be leaders and challenge the status quo.

Q Which European markets are most interesting from a non-performing loans perspective?

A Although a lot of people appear to have shied away from Greece, we have actually been very active in helping our clients there over the last couple of years. Last year, we became one of the few companies to acquire a servicing licence in Greece. Low property prices in Greece during the last 10 years, and the positive economic outlook, have created positive momentum in the Greek investment market, with investors including high-net-worth individuals and private equity funds.

We also expect to see further opportunities in Italy and Spain. The number one rule for a servicer in the NPL markets is to prove they are credible, and they need to show transaction history in a market. Credibility also comes through being regulated and rated by external bodies.

For instance, we are regulated in Germany, Ireland and Greece, as well as by the Securities and Exchange Commission in the US.

Q How has the fall in retail values affected your business?

A We haven't been required to restructure any retail loans. However, we have given clients our view of the market, looked at their retail books and portfolios, and asked whether they should look at deleveraging a bit more, or for more equity from a sponsor.

Our asset surveillance team can go in, look at clients' deals and identify where there could be problems.

For example, if there is a continuing decrease in their covenants, we will look at it – while factoring in trends in different sectors and jurisdictions – and provide a view as to what they should start doing by way of a solution. ■