Rankings Raised To ABOVE AVERAGE On Mount Street Loan Solutions As U.K. Primary And Special Servicer; Outlook Stable

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OVERVIEW

- We have raised from AVERAGE to ABOVE AVERAGE our overall 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 for primary and special servicing.
- 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) Aug. 1, 2016--S&P Global Ratings has today raised to ABOVE AVERAGE from AVERAGE its overall 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 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.

Currently, MSLS manages a pan-European portfolio of performing and nonperforming commercial loans as a primary and special servicer from two servicer centers: its head office in London and a second office in Frankfurt. Since 2015, the servicer has externalized some back office and administrative tasks to an Irish provider, which supports MSLS through a ringfenced team of five located in Belfast.

In 2015, MSLS' European portfolio almost doubled, peaking to over £15.6 billion at the end of the year from £8.5 billion in December 2014 and £1.09 in December 2013. In 2015, the overall U.K. portfolio also increased to £7.0 billion from £4.4 billion, representing 52% of the primary servicing business and 29% of the special servicing business at the end of 2015.

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

Our ABOVE AVERAGE ranking 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 expanded significantly since its inception, driven by the servicer's ability to adapt to current market conditions. It has attracted new servicing mandates on syndicated and balance-sheet loans, while diversifying its client base. The servicer has achieved further growth also through the merger and acquisition of two other servicing businesses, Crown Credit Services in 2013, and Morgan Stanley Mortgage Servicing (MS) in 2014. As a result of this latter integration, MSLS also incorporated most of the former MS staff. This guarantees loan-management continuity for a significant portion of the portfolio. Thus, we acknowledge a longer track record than the company tenure would suggest. The servicer is expecting further growth by the end of 2016, having a busy pipeline in place.
- To accommodate its growing business, MSLS' staff increased to 35 at the end of 2015 from 31 at the end of the previous year. New hires are planned by the end of this year to absorb expected growth. The 2015 figure includes an external data entry team based in Belfast. While a period of sustained growth and externalization can increase operational risk, MSLS benefits from several factors that mitigate this risk, in our opinion: the leadership team's experience, recently introduced quality controls, and robust processes to ensure a smooth performance. To better manage its growing staff, the servicer also hired a part-time human resources (HR) consultant in 2015 and has a legal counsel available on retainer for any HR related issues.
- Although MSLS already had clear finance risk and compliance oversight in place in our previous review, in 2015 the company strengthened its governance framework by creating a finance and operations department to coordinate all of these functions. This is an expected evolution for a growing company. We will closely monitor the impact of these recent changes.
- MSLS' training framework relies on conference attendance more than formal training, yet the average staff experience exceeds the industry average. Therefore, we consider MSLS' people development set-up as adequate, given the company's current size and composition.

- In 2015, the company invested in a customized interface to simplify the use of the loan servicing system, freeing-up asset managers' time and thus raising efficiency.
- The outstanding balance of the special serviced portfolio in Europe and in the U.K.--the latter mainly comprises a former MS deal--has decreased as a result of positive resolutions and a general reduction in U.K. special servicing opportunities. MSLS has demonstrated a satisfactory recovery performance, increasing the number of deals resolved per year to 19 in 2015 from 12 in 2014. At the same time, the company seized opportunities in the market by replacing special servicers for 13 loans in existing commercial mortgage-backed securities (CMBS) transactions in 2015.

OUTLOOK

The outlook is stable on our rankings as a primary and special servicer of commercial mortgages in the U.K. We expect the servicer to consolidate the changes implemented in 2015 and perform in line with our current ranking level.

MANAGEMENT AND ORGANIZATION

We have raised to ABOVE AVERAGE from AVERAGE our subrankings on MSLS for management and organization as a primary and special servicer of commercial loans in the U.K. The servicer relies on an experienced senior management team, which has successfully attracted new business. The company has shifted away from its initial focus on CMBS, in response to a decline in the securitized market and has diversified its client base, yet became a primary servicer for four new CMBS deals in 2015. Moreover, the leadership team has created a new department overseeing finance, risk, and compliance. This has effectively created a more rigorous governance framework. We foresee the leadership team to sustain the company's development and to transition to larger scale operations.

LOAN ADMINISTRATION

We have raised to ABOVE AVERAGE from AVERAGE our subrankings on MSLS for loan administration as a primary and special servicer of commercial loans in the U.K. While most of the company's procedures have remained unchanged since our previous review, MSLS has gained efficiency, introducing a customized IT interface, which has increased automation and externalized data entry tasks, thus increasing specialization. The overall workflow and supporting system have proved to be scalable to absorb a substantial growth of the primary servicing portfolio. Notwithstanding a decreasing special servicing portfolio, MSLS has boarded new defaulted CMBS transactions, replacing outstanding special servicers. It has successfully worked out loans, reporting a consistent performance in its loss resolution level. The leadership team is also leveraging the expertise of the special servicing team to perform due diligence on prospective mandates. This has expanded the special servicing staff skills and has helped the company to retain talent. Finally, the company has further enhanced the quality of its reports incorporating investor feedback, and has remodeled its website.

FINANCIAL POSITION

We consider MSLS' financial position to be SUFFICIENT. We have based this outcome on our assessment of the company's financial statements for 2013, 2014, and 2015, as well as its management accounts, profit and loss, and cash flow projections for 2016.

RELATED CRITERIA AND RESEARCH

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

- Select Servicer List, published monthly
- Servicer Evaluation: Mount Street Loan Solutions LLP, Feb. 4, 2015

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