



RATING ACTION COMMENTARY

Fitch Rates FBS next S.p.A. 'ABSS3+'; Outlook Stable

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Fitch Ratings - Milan - 24 Nov 2022: Fitch Ratings has assigned FBS next S.p.A. (FBS next) an Asset-backed Special Servicer Rating of 'ABSS3+'. The Outlook is Stable.

The rating reflects a full review of the servicer's operations and the relatively recent set-up of operations as well as the extensive industry experience brought on by the senior management team.

RATING ACTIONS

ENTITY / DEBT ↕

RATING ↕

FBS next S.p.A.

ABS Special Servicer

ABSS3+ Rating Outlook Stable New Rating

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KEY RATING DRIVERS

FBS next was established in February 2020. The servicer boarded its first portfolio of non-performing unsecured loans in September 2020 and subsequent portfolios were boarded between March 2021 and July 2022. The company's length of servicing experience, volume and type of assets under management (AUM) remain limited, but Fitch acknowledges that the servicer's senior management has a long-standing servicing background dating back to 1997, as well as experience in unsecured credit, specialised banking and risk management.

The company is mostly owned by the Strocchi family (70%) through the Sun-Up Holding S.p.A. (55%), Pan Consulting S.r.l. (5%) and directly by Paolo Strocchi (10%). Tinexta S.p.A. owns the other 30% of shares. Despite the limited operating history, Fitch views the servicer's short to medium term financial condition as viable, as it is currently profitable and reports sound capitalisation and leverage.

Given the short company history, the tenure of the senior- and middle-management is also limited compared with other Italian servicers. The company's senior management team has good industry experience (around 19 years) and is supported by a middle management team with industry experience averaging 15 years. The day-to-day servicing activities are performed by a team of 40 operational staff, with relatively high average industry experience at 12 years.

FBS next is still scaling up its business, which is reflected in the absence of a defined hiring strategy for the additional portfolios expected to be onboarded. For the collection duties, the servicer relies mostly on external asset managers, allowing it more flexibility to manage resources, as AUM remain volatile. At present, the servicer does not have an HR function, so staff recruitment is performed by senior management. Given the low number of employees and multiple tasks each of them performs, key-person risk is high and elevated by the absence of a defined succession plan.

The number of reported trainings hours is higher than peers, with a good mix of training/courses delivered in person and online. However, Fitch notes that FBS next has yet to formalise its training programme for operational staff, define a training budget and develop a staff performance management programme.

In the first two years of operations, the company had no risk controls. However, in October 2022 (after the cut-off date) the company appointed an external company to perform compliance, risk management and internal audit functions. The appointment is very recent, with no record of performance. First-line controls are performed internally, but there is no dedicated team for quality assurance. For this reason, Fitch has scored FBS next's risk governance processes and controls as commensurate with the '3' rating category.

The servicing platform uses historical data and credit bureau business information to identify the most appropriate collection strategy for each loan. Furthermore, FBS next has internally developed a new software to manage unlikely-to-pay accounts. This software works with an algorithm that can generate a list of possible work-out solutions. Fitch understands that this tool will reduce the work-out timing and allow the servicer to react promptly to any changes in each of the loans, without having the necessary expertise in the particular segment of the portfolio. In its scoring of the defaulted loan management process and controls, Fitch categorised FBS next's protocols as commensurate with the '2' rating category.

The core servicing system is developed by a third-party vendor while other ancillary tools are provided by Microsoft. The core system controls are limited and not as advanced as at other servicers, who have system restrictions to stop inappropriate activity, alerts sent to managers, exception reports for any illogical entries or timelines breached and built-in system guidance on processes. The servicer has good business continuity and disaster-recovery planning and adequate cybersecurity procedures. Overall, Fitch scored FBS next's IT infrastructure as commensurate with the '3' rating category.

At end-September 2022, FBS next's portfolio had a gross book value of EUR1.0 billion, comprising 19,518 loans.

The rating action commentary is based on information provided to Fitch as of end-September 2022, unless stated otherwise.

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FBS next S.p.A. -

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