FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades QQuant Master Servicer Single Member S.A.'s Special Servicer Ratings

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Fitch Ratings - London - 24 Jun 2021: Fitch Ratings has upgraded QQuant Master Servicer Single Member S.A.'s (QQuant) asset-backed and commercial special servicer ratings to 'ABSS2' and 'CSS2' from 'ABSS2-' and 'CSS2-', respectively.

The upgrades reflect QQuant's demonstrated ability to meet its objective of growing its corporate and retail assets under management (AUM), more mature business and enhanced portfolio performance reporting tools.

Feedback

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Qquant Master Servicer Single Member SA		

ENTITY/DEBT	RATING		PRIOR
• ABS Special Servicer	ABSS2	Upgrade	ABSS2-
• CMBS Special Servicer	CSS2	Upgrade	CSS2-

VIEW ADDITIONAL RATING DETAILS

KEY RATING DRIVERS

Since Fitch's previous review in 2019, QQuant has met its target of growing its AUM. As at end-March 2021, AUM, comprising retail and corporate non-performing loans, was EUR11.9 billion, up from EUR5.8 billion in July 2019. The portfolio growth was driven by mandates from existing clients, as well as new clients (banks) seeking servicing for their balance sheet loans. The servicer's plans include expanding into the residential non-performing loan (NPL) space.

QQuant's loan administration processes are highly automated (e.g. loan boarding, written communication with borrowers, etc.). During the review period, QQuant developed new tools for portfolio performance reporting and increased the headcount in the portfolio analytics and reporting department. Investors are given access to QQuant's Power Business Intelligence tool, where they can access their portfolio data daily. The servicer also produces monthly reports on various parts of its operations required for both internal and external stakeholders and continues to seek innovative data-driven solutions that will help its recovery strategies.

At the previous review, QQuant had only been actively servicing NPL loans for 13 months and the efficacy of processes and controls was yet to be fully demonstrated. At this review, we have evidence that the previously established processes around headcount management have been successfully implemented. As the business continues to grow, the servicer has increased headcount to manage the growing AUM and the operational staff turnover for the retail portfolio has reduced compared with the previous review. The servicer has also developed employee performance management processes and in the 12 months leading to the data cut-off date, nine people were promoted.

The senior management team has been reorganised since Fitch's previous review, with the introduction of a deputy CEO role to support business development. Furthermore, the number of middle managers has increased to 18 from nine to support the business growth, which somewhat reduces key-person risk. The company tenure of senior and

Feedback

middle managers has improved since previous review, but we note that in the 12 months to the cut-off date, four middle managers have left the business, leading to an increase in the Fitch-calculated turnover to 23.5% compared with 13.3% at previous review.

Since Fitch's previous review, QQuant has set up a training plan, offering its staff a broad range of training channels, such as online courses, formal training sessions (individual or corporate), on the job training and job shadowing. Training courses are prioritised according to key business needs and include regulatory, technical and soft skills. Priority is given to mandatory induction training for new hires, regulatory mandatory training for all staff (including compliance and information security) and technical product and processes training. The average number of training hours (excluding on the job training) remains lower than is commensurate with a '2' rating definition. However, average on the job training hours are high.

Fitch has also seen evidence of consistent risk governance controls. Quality assurance processes are advanced, with the quality assurance team having visibility over the servicing system fields used by call centre agents. Committees that had only just been established at previous review are frequently taking place and have regular input into and oversight of the servicer's risk exposures.

While there is no centralised function for vendor management, the level of controls over third parties is multi-layered and includes audits performed by the internal audit team, in addition to QQuant's daily presence at the vendor and weekly performance assessments. There is evidence of underperforming vendors being replaced, demonstrating the efficacy of QQuant's processes and controls over vendor management.

QQuant proactively manages defaulted loans. The initial business plans are developed by the portfolio management team relying on the analyses performed by the underwriting and modelling team. Thereafter, performance against the business plan is reviewed weekly internally (at portfolio performance meetings) and at portfolio committees with portfolio owners at an agreed frequency, e.g., biweekly for retail portfolios and monthly for corporate portfolios. Portfolio business plans are updated during the budget cycle (October - December) and annual projections are agreed with portfolio owners. However, significant deviations in performance compared with the business plan may lead to business plan revisions whenever required.

Business plans for retail loans are created automatically, while those for corporate loans are done manually by the relationship manager due to their complexity. As such we deem the processes and controls for defaulted loan management commensurate with the '1' and '2' rating category for asset-backed and commercial assets, respectively.

QQuant's servicing platform is highly automated and it is seeking to implement artificial intelligence and robotics tools to further increase efficiency of its processes. At the previous review, the business continuity plan had only just been created and testing was due to take place. Fitch understands that the test was performed, but that the pandemic, change of premises and revision of the plan to reflect the change in premises, had led to the next annual test being delayed, which is why Fitch was not able to give full credit to the regular testing in its scoring of this section of its scoring matrix. However, we note that at the onset of the pandemic, the servicer successfully transitioned to remote working with a limited impact on its daily operations of the servicer.

As the servicer continues to grow its business, Fitch will continue to monitor QQuant's progress in developing its infrastructure. The agency expects the servicer to demonstrate consistency in achieving its strategic objectives, which will drive any rating action.

This rating action commentary is based on information provided to Fitch as of end-March 2021, unless stated otherwise.

RATING SENSITIVITIES

Not applicable

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APPLICABLE CRITERIA

Criteria for Rating Loan Servicers (pub. 07 Feb 2020)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

QQuant Master Servicer Single Member S.A.	-

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