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## Servicer Evaluation: AMAL Asset Management Ltd.

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# Servicer Evaluation: AMAL Asset Management Ltd.

## Opinion

### Ranking: Strong

The overall commercial loan servicer ranking on AMAL Asset Management Ltd. (AMAL) reflects the company's following key strengths:

- Its highly qualified and skilled workforce, including an experienced and qualified senior management team;
- Sound risk management and compliance practices, underpinned by a risk management tool that meets industry best practices;
- Effective processing and servicing policies and procedures; and
- Work-flow improvements and increased servicing efficiencies through continual investments in technology.

In addition, Standard & Poor's Ratings Services considers that AMAL has proactively improved its processes and technology architecture, leading to further alignment of its servicing standards with industry best practices. A competent servicer of commercial loan, residential, and consumer receivable portfolios in Australia and New Zealand, AMAL has more than A\$7 billion funds under administration as at November 2013.

A servicer ranking is a statement of opinion and not a statement of fact. A ranking is not and should not be represented as a credit rating.

## Outlook

The outlook for the ranking is 'stable'. Given AMAL's experienced management team and continued advancement of its servicing operations, Standard & Poor's believes that AMAL would continue to competently manage its servicing business in the medium term.

## Profile

AMAL is an unlisted public company headquartered in Sydney, New South Wales. All servicing functions are run out of Sydney. Although originally established to service commercial property loans from lending institutions, AMAL expanded to servicing residential loans in 2004, consumer loan portfolios in 2005, and an equipment lease portfolio in 2009. As a result, the servicing operations span a diversified network of asset classes. AMAL's acquisition in early 2013 of the business assets of Perpetual Corporate Trust's loan-servicing business added primary servicing of more than 10,000 contracts, including residential mortgage loans, reverse mortgage loans, leases, and strata loans. The company has also secured further back-up servicing and special servicing roles for commercial, residential, equipment finance and auto receivable portfolios. In addition to providing a full suite of loan-servicing options, AMAL customizes its services for individual clients. The clients usually retain responsibility for their in-house credit processes.

Since its formation in 1994, AMAL has concentrated on being a fee-for-service third-party service provider rather than a direct lender. As such, the economic volatility in 2008-2009 had had a less direct impact on the company, and instead provided additional opportunities for servicing, special servicing, and back-up servicing. Business has grown through new contracts to service problem portfolios from an increasing number of investor clients. AMAL's expertise in ARM.net has seen it add professional IT services to its fee-for-service offering.

## **Business Strategy And Growth**

The business strategy encompasses expanding into the Asia-Pacific and broadening AMAL's loan-management product base to attract lenders from all asset classes across the region. AMAL aims to be the largest and most efficient loan servicer in Australia.

In addition to the acquisition of the Perpetual servicing contracts, since our previous review AMAL has been appointed the primary servicer for three commercial loan portfolios, special servicer for one consumer portfolio, and back-up servicer for nine portfolios across diversified asset classes.

The majority of AMAL's revenue comes from recurring income fees with large corporate clients and Australian lending institutions. The company has around 40 clients and expects to further penetrate the market with additional advertising campaigns to attract new clients and maintain client outreach initiatives.

Standard & Poor's recognizes that AMAL has highly proficient servicing abilities, an experienced management and staff, and a sound servicing platform, which provides a solid foundation for sustaining quality servicing standards and practices.

## **Management And Organization**

### **Subranking: STRONG**

The STRONG subranking reflects our opinion that AMAL possesses the following key strengths:

- A highly experienced management team leading a qualified servicing workforce;
- Commitment to ongoing investment in technology, including the recent introduction of PROMAPP (process mapping software) and Cognology (staff performance management software) and enhancements to and greater use of ARM.net;
- Well-designed and thorough operating and servicing policies and procedures that incorporate best practices concerning process and controls;
- An effective risk management and compliance framework--which is underpinned by risk management software--to identify, manage, and report risk processes and issues, and compliance manuals and controls;
- Flexibility and ability to tailor its loan servicing platform and business processes to meet the performance standards and servicing requirements of its clients; and
- Its good corporate governance structure, encompassing regulatory compliance in connection with its Australian Financial Services Licence (AFSL) and Australian Credit Licence (ACL).

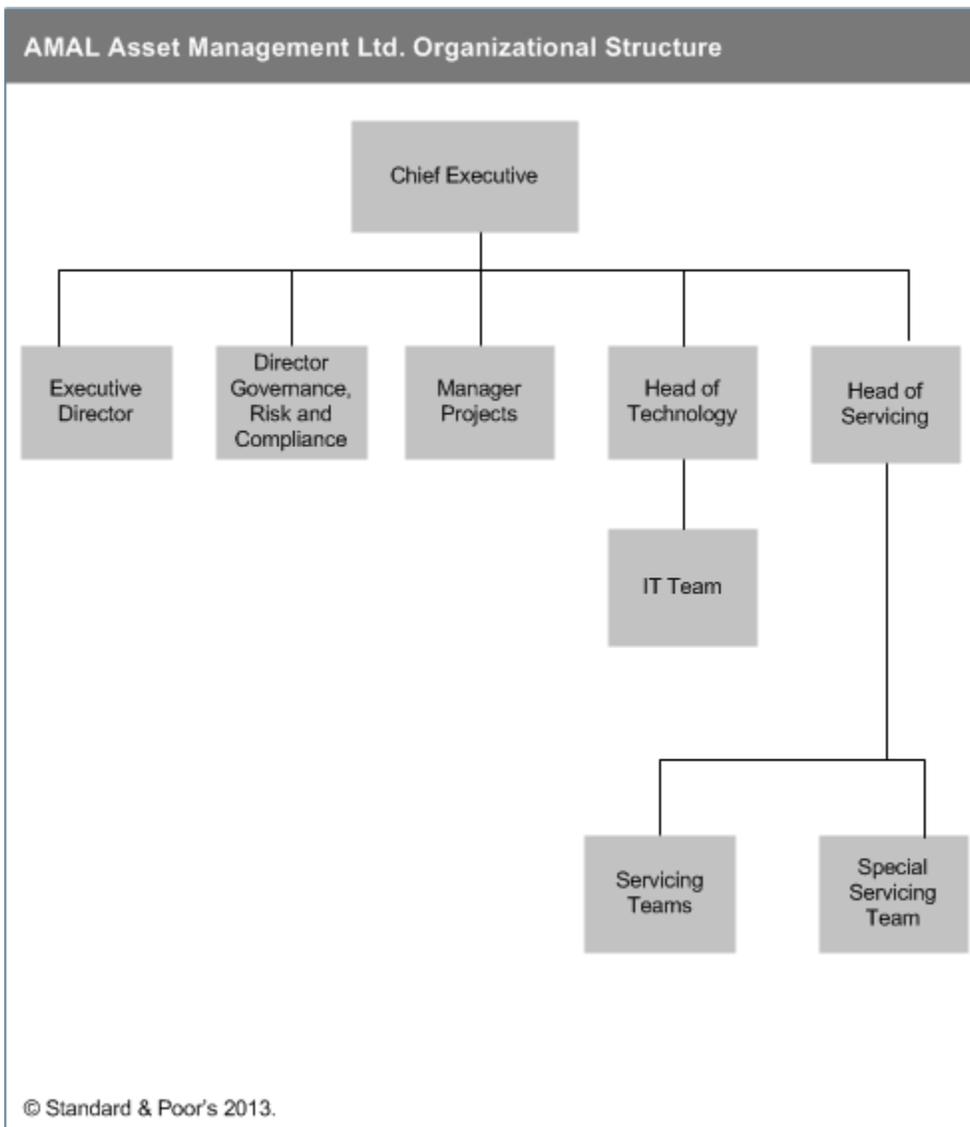
## Management structure

In our view, AMAL has maintained a stable operating and servicing environment that has been developed by a well-tenured and experienced senior management team. The company also has an effective communication strategy to promote servicing quality and standards.

Since our last review, AMAL's management structure has flattened, however the company's workforce has remained relatively stable. Staff levels, which had reduced over time, were increased in relation to the acquisition of the Perpetual servicing contracts. There is currently around 35 staff. Additional collections specialists have been recruited when required to service specific portfolios. We consider that the organizational structure has evolved soundly, enabling the company to address all key functions and manage business growth effectively (see chart 1).

The overall staff turnover rate remains low, and in our view, reflects the company's effective staff retention strategies and people-focused culture.

Chart 1

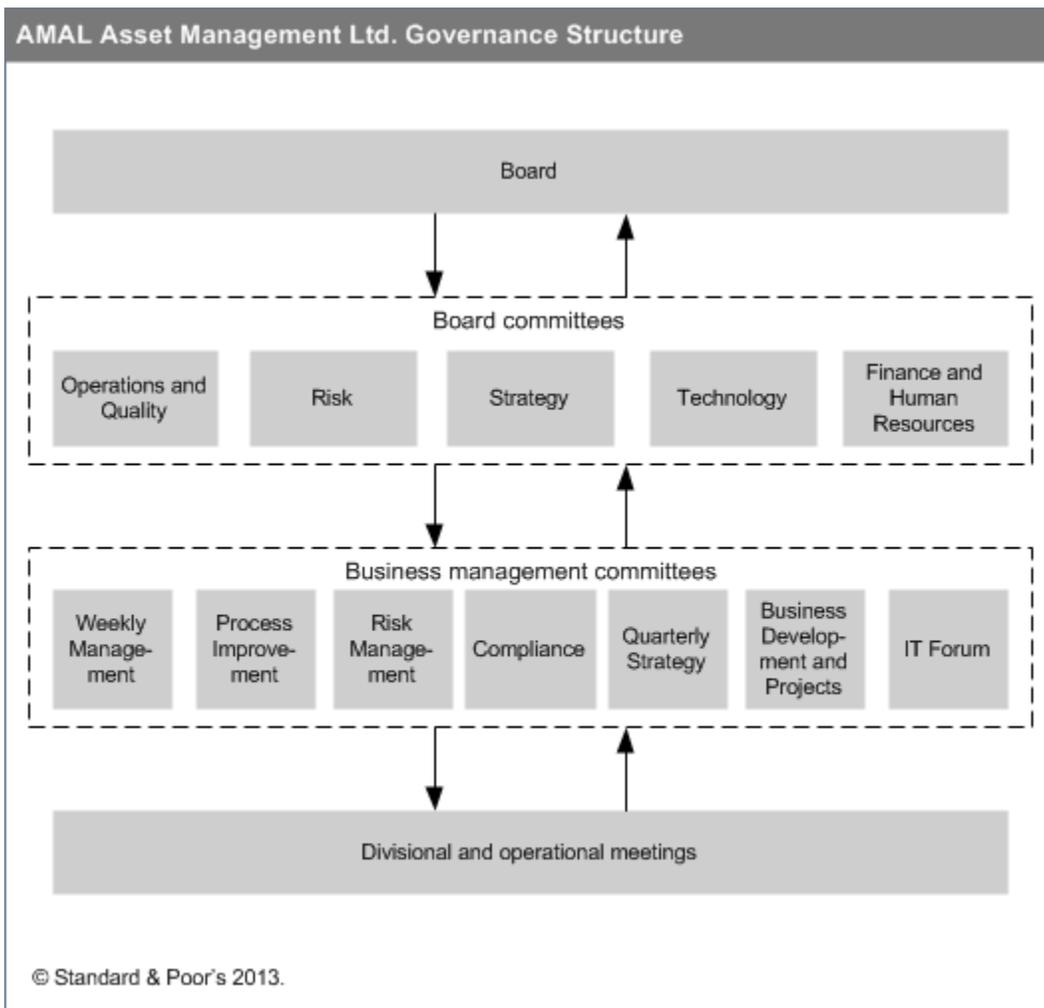


**Risk management and compliance framework**

AMAL has maintained a comprehensive risk management and compliance framework, which compares favorably with industry standards and includes fully documented risk policies and the use of risk management software. Additional compliance manuals and controls are in place in connection with its AFSL and ACL. We consider AMAL's approach to be proactive in ensuring that effective risk practices are adopted.

A governance structure that has documented charters at Board level manages the risk and compliance framework (see chart 2). In particular, the risk committee, which is an ongoing formal forum, meets quarterly to discuss specific risk and compliance issues.

**Chart 2**



In our view, AMAL maintains a sound risk management and compliance program and risk identification, assessment, monitoring, and reporting practices, which are in line with industry standards.

**Internal audit and quality assurance**

We consider that AMAL has maintained solid internal audit practices across its servicing operations, as qualified

external specialists perform audits and quality assurance on the company's activities:

- AMAL has been accredited by SAI Global under the international standard for Quality Management Systems (ISO 9001:2008) in Australia and New Zealand since October 1996. SAI Global undertakes full recertification audits every three years and annual surveillance audits in the intervening years. This accreditation determines the capability and effectiveness of the organization's management system in ensuring continual compliance with its stated criteria and customer and statutory requirements, and with the company's specified objectives. SAI Global's most recent triennial (recertification) audit was completed in August 2011, when it recommended continuing AMAL's ISO9001:2008 certification for a further three years, until October 2014. Annual surveillance audits were undertaken by SAI Global in August 2012 and August 2013.
- Specialist external consultants from its auditor, Ernst & Young, conduct AMAL's annual internal controls audit prescribed in accordance with ASAE 3402 (Assurance Reports on Controls at a Service Organisation), which has replaced GS007.

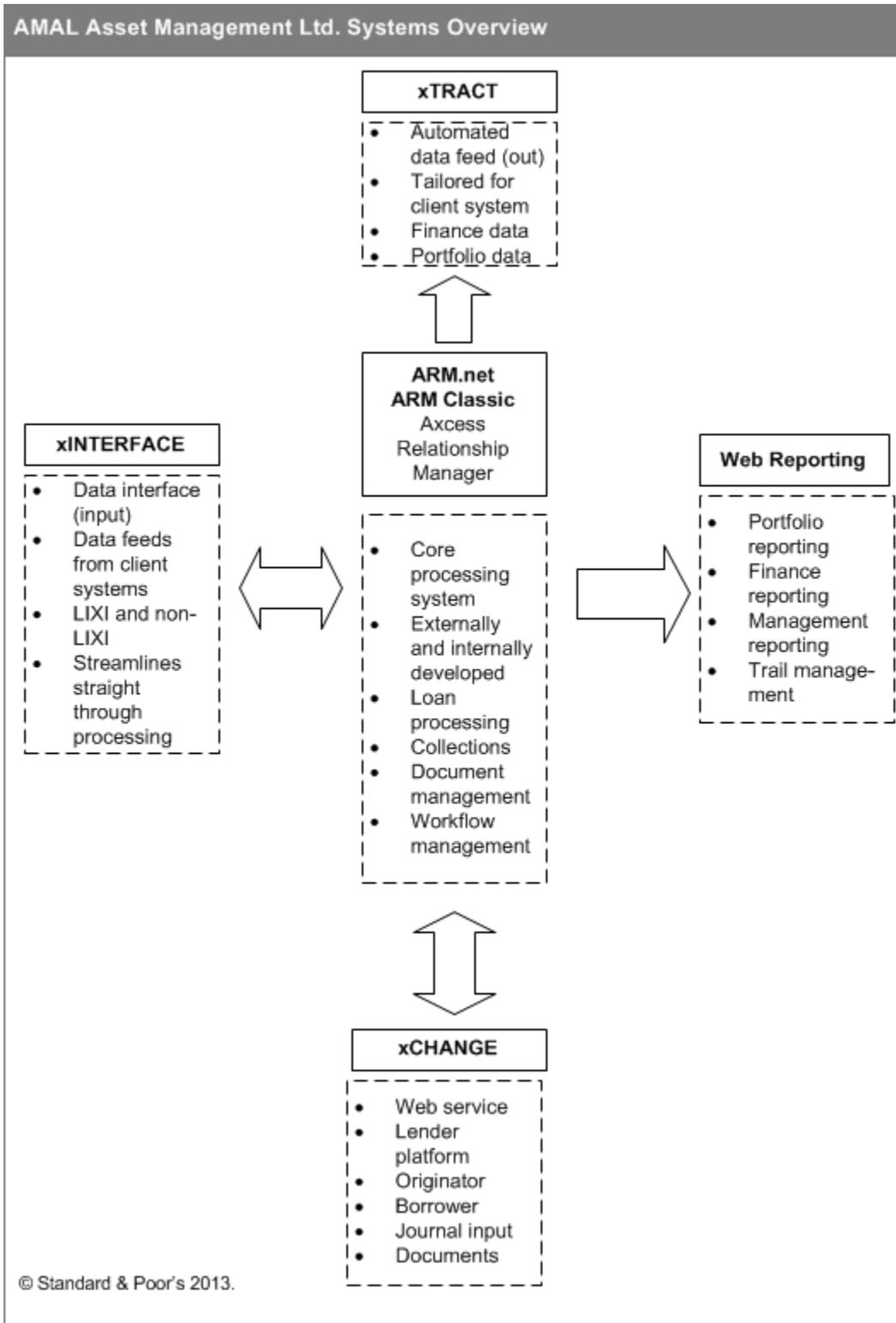
Although AMAL undergoes comprehensive, external, and quality-assurance program audits, the company lacks a dedicated team of internal audit specialists. In larger peer servicers, a dedicated internal audit team usually provides ongoing audit activities across all the processing and servicing areas of the business according to their risk profiles. However, AMAL conducts internal audits in accordance with an annually prepared schedule, which includes each business division. Audits are coordinated by the director – governance, risk, and compliance, and assisted by employees specifically trained in the internal audit process and independent of the division being audited. The director – governance, risk, and compliance is responsible for setting the scope, criteria, frequency, and methodology of internal audits. In addition, the company's external audit scope is expanded to include the internal audit function.

## **Technology**

In our view, AMAL continues to have well-automated systems and an effective servicing technology, supported by the following systems applications:

- ARM - An externally and internally developed tool used for core processing servicing and administration activities.
- xINTERFACE - An automated data interface (input) that allows an external system to interface with ARM.
- xTRACT - An interface to lenders for end-of-day processing i.e. accounting, reporting, dual interface files, daily loan movement reporting, and interest accounts;
- Web Reporting - An in-house developed Web reporting tool; and
- xCHANGE - A web portal that acts as a single portal for all databases and provides an interface to lenders, originators, and borrowers.

Chart 3



## **Training programs**

AMAL utilizes an E-Learning system, which allows staff to complete both in-house-created on-line training (such as policies and procedures) and external training modules. Training logs are included, such that the system maintains a register of training undertaken by each staff, upcoming scheduled training and other training-related activities. System-generated reminders for overdue training are sent both to the staff member and to the Director, Governance, Risk and Compliance. AMAL's induction manual requires managers to schedule specified E-Learning training modules for new employees at various stages within the first three months. Individual training plans are also developed for each new team member, and are formally discussed and reviewed at each six-monthly performance appraisal.

On-the-job training with either an experienced servicing staff member or the team leader is provided for a broad range of loan administration functions, including processes, work flows, and other tasks, such as client management. AMAL also supports the personal development of its employees through formal education programs provided by external industry specialists.

Since our previous review, AMAL has implemented Cognology, an online staff performance management system. In addition to ensuring standardization of competencies and objectives for similar job roles, Cognology assists AMAL in monitoring whether managers are up-to-date with performance reviews; identifying the key strengths of its staff (for example to select the most appropriate staff to train new hires); and logging staff achievements and feedback.

## **Policies and procedures**

We consider that AMAL has demonstrated solid controls in developing, drafting, and disseminating its loan processing and servicing policies and procedures. Since our previous review, AMAL has implemented PROMAPP process mapping software, which has increased functionalities and efficiencies in creating and amending the detailed process maps in which each client's policies and procedures are represented. Processes, which include the service level agreements (SLAs) and links to relevant templates, may be viewed either as a diagram or in list view. Clients also have log-on access to view the current versions of their process maps, and can click on any process and lodge questions or suggestions for process change. Although the implementation of PROMAPP has resulted in all staff having the ability to generate and update process maps, the establishment of new process maps remains the project manager's responsibility. In addition, all updates and changes to servicing procedures and process maps are subject to formal checks and change management processes, including the requirement that any changes and updates must have the client's formal approval and sign-off.

In our view, AMAL's policies and procedures documented in its comprehensive process maps are well written and concise. Each servicing team member must be fully conversant and up-to-date with changes to the terms and conditions of the service agreements, process maps, and checklists particular to the portfolio that he/she is assigned to. The centralization of this information in an interactive system has increased AMAL's servicing efficiencies.

## **Commercial Loan Administration**

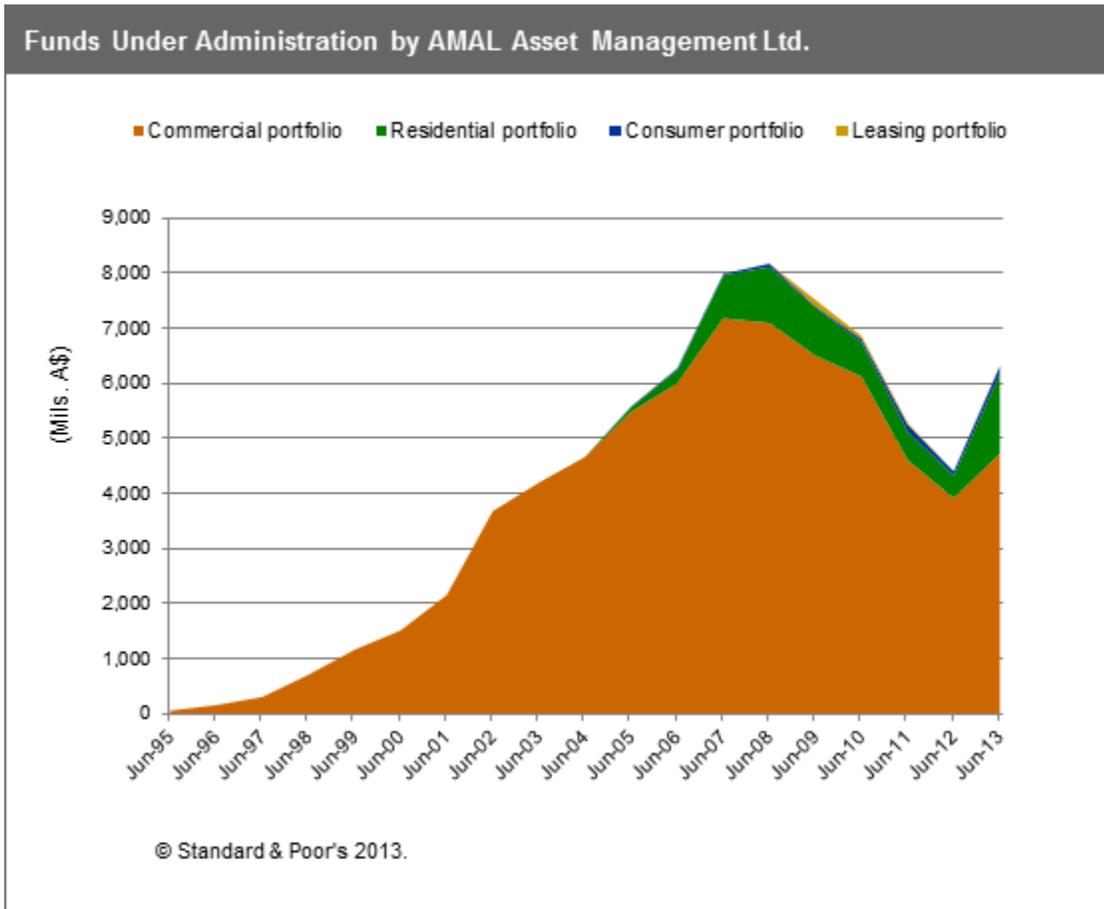
### **Subranking: STRONG**

AMAL services a diversified portfolio of commercial mortgage loans, residential mortgage loans, leases, and consumer loans, which are worth more than A\$7 billion, and are serviced on behalf around 40 lenders.

AMAL currently services over 1,400 commercial mortgage loans with a total balance of more than A\$4.7 billion. The size and nature of the commercial portfolios and loans vary from lender to lender, but are generally characterized as small-to-medium loans with interest-only terms of up to five years, secured over commercial properties.

The funds under AMAL's management are illustrated in chart 4.

**Chart 4**



**Processing and servicing technology development**

In our opinion, AMAL has continued to operate in an automated environment, with effective systems architecture and a team of qualified technology specialists to support its technology infrastructure development. Since our previous review, there have been platform enhancements to support processing and servicing efficiencies, including: a major upgrade to ARM.net; the migration of additional portfolios to ARM.net; the upgrade of xCHANGE, which acts as a single portal for all databases; and the implementation of PROMAPP process mapping software.

AMAL's systems change-management process is well documented and comprehensive, supported by a vendor-supported system Gemini. The process enables the staff to log work requests, and enables team leaders and managers to input systems issues, with an audit trail of any updates made. The systems architecture is flexible and scalable to accommodate new features from client requests.

In our opinion, AMAL has been proactive in retaining a well-developed business continuity plan and testing regime. The company's disaster recovery capabilities, in our view, remain sound, with periodic business continuity and disaster recovery testing of the company's main systems. Further, external specialists conduct weekly network penetration testing to identify any gaps in the security of the networks. Data replication of all transaction information is conducted every minute, ensuring minimal data loss if a disaster were to occur.

### **Data processing and integrity**

A prudent data checking and compliance verification process underpins AMAL's processing and servicing activities. Each servicing activity has been tailored to the customer's needs, with appropriate controls embedded within the process. In addition, the ARM system contains certain protocols that prevent a loan from progressing to completion until certain controls are checked off and verified.

### **Client reporting**

We believe AMAL has maintained relatively strong and extensive reporting capabilities. Web Reporting is used to generate various client reports including portfolio, finance, and trail management. The reports are distributed to clients via a direct systems interface or data uploads, which clients may integrate with their own reporting platforms or feed directly into their general ledger systems.

### **Document production and custody**

AMAL continues to effectively use an electronic document imaging, storage, and retrieval system to track and retrieve documents. Imaged loan documents are indexed and filed within the ARM document management system as electronic files for a loan, with the client's documents.

In addition, xCHANGE enables clients to access all loan documents stored in ARM. Copies of all security documents, system-generated template documents, notices, e-mails, spreadsheets, faxes, and correspondence are imaged and held in the loan-servicing system.

### **Client relationship management**

In our view, AMAL has maintained an interactive client service model. Clients have the option to either communicate directly to qualified AMAL staff, or use readily available technology to manage their interaction with AMAL.

Further, AMAL continues to provide superior third-party servicing to originators, with a fully integrated "white-labeling" program that incorporates:

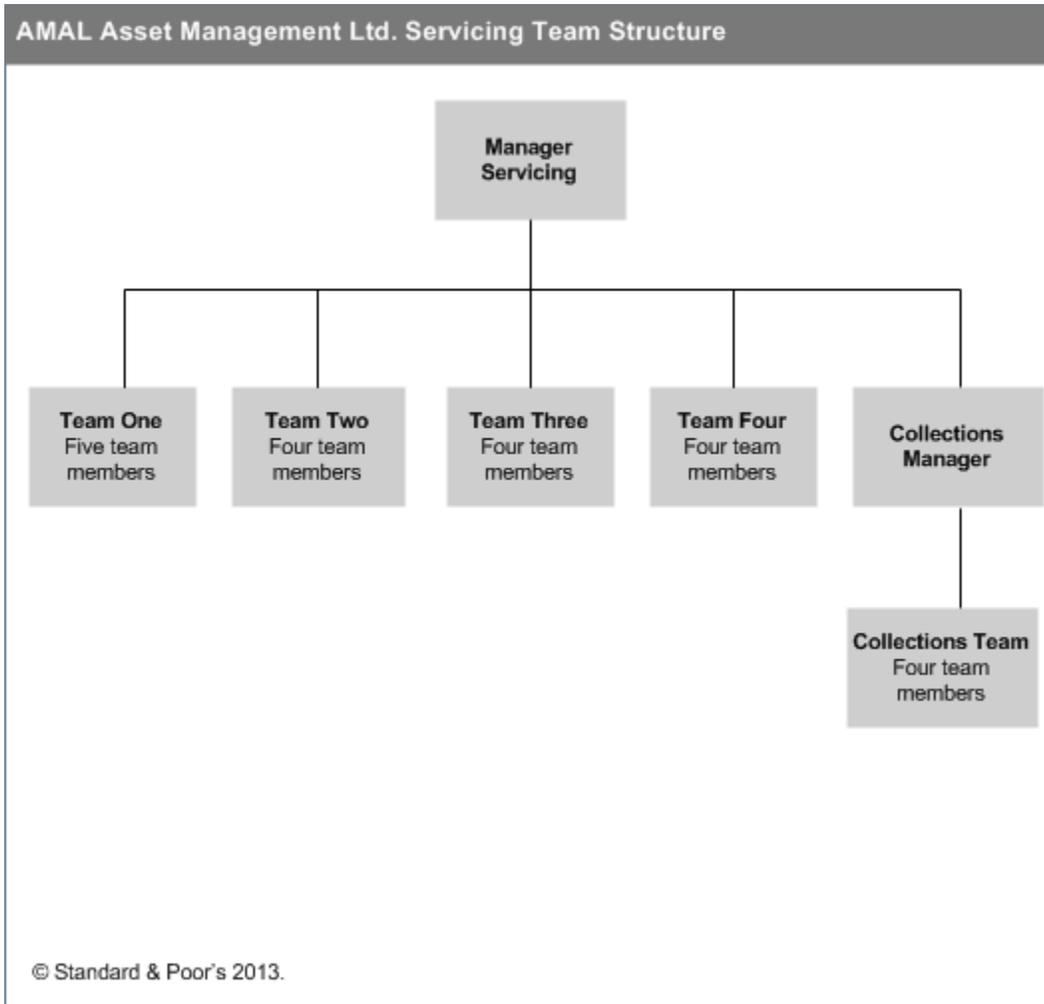
- Branded communications;
- Branded templates that are developed and embedded in the loan management system;
- Dedicated phone lines; and
- Dedicated account managers and client service staff.

### **Arrears management**

In early 2013 AMAL reorganized its servicing teams, combining its leasing and non-leasing teams and allocating portfolios to each team which are complementary based on their SLAs, to ensure there are no competing deadlines. Each team comprises a team leader and account managers, who provide a single point of contact and responsibility for each of their allocated clients. Extensive cross-training exists within the teams, and the workflow is structured such

that all team members perform an activity of some type for all clients each week, so they are fully up-to-date. AMAL's servicing structure is illustrated in Chart 5.

**Chart 5**



Arrears management procedures are clearly documented in every loan-servicing agreement, process map, and checklist, with AMAL's systems and processes tailored to each client accordingly. In addition, AMAL maintains its key strength of providing comprehensive reports to clients. The well-automated ARM servicing module aims to minimize errors, and existing checks are conducted to identify arrears in a timely manner as clients are contacted and informed when payments have been missed. In addition, any nonstandard arrangements for payment must be approved by the client.

Loan arrears are initially administered by the servicing team, and managed by the collections team when a higher level of servicing activity is required. The ARM core servicing system, in conjunction with Web Reporting, provides accurate and timely reports to clients.

## **Financial Position**

### **Subranking: SUFFICIENT**

In our opinion, AMAL's financial position is sufficient to sustain its commercial loan servicing operations at the current level for the next 12–18 months.

## **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 Criteria: Australia and New Zealand, Aug. 7, 2008

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