

Servicer Evaluation: AMAL Asset Management Ltd.

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Servicer Evaluation: AMAL Asset Management Ltd.

Opinion

Ranking: ABOVE AVERAGE

Standard & Poor's Ratings Services has affirmed its 'ABOVE AVERAGE' overall ranking on AMAL Asset Management Ltd. (AMAL) as a commercial loan servicer in Australia. At the same time, the sub-ranking for AMAL's Management and Organization has been raised to 'STRONG' from 'ABOVE AVERAGE'. A competent servicer of commercial loan, residential, and consumer receivables portfolios in Australia and New Zealand, AMAL has more than A\$7.5 billion funds under administration as at October 2009.

The affirmation of the overall ranking and the raising of the sub-ranking are based on the company's following key strengths:

- A highly qualified and skilled workforce, including an experienced and qualified senior management team;
- Strengthened 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 investments in technology.

In addition, we consider that AMAL has proactively improved its organizational infrastructure, internal controls mechanisms, and underlying technology architecture, leading to further alignment of its servicing standards with industry best practices.

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 should continue to competently manage its servicing business in the medium term.

Profile

Headquartered in Sydney, New South Wales, AMAL is a private company with a presence in the New Zealand city of Auckland. Although originally established to service commercial property loans from lending institutions, AMAL expanded to servicing residential loans in 2004, a number of consumer loan portfolios in 2005, and a lease portfolio in 2009. The company's servicing operations currently span across a diversified network of asset classes, including commercial, residential, and lease receivables. It also caters to companies that need a standby servicer in these asset classes.

In addition to providing a full suite of loan-servicing options, AMAL customizes its services for individual clients. The clients usually retain responsibility for the 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 downturn has had a less direct impact on the company, and has instead provided additional opportunities for servicing, standby servicing, and successfully tendering for the servicing of problem portfolios gained from an increasing number of investor clients and due diligence assignments that are performed by external specialist consultants.

Business Strategy And Growth

The business strategy encompasses expanding into the Asia-Pacific and broadening its loan-management product base to attract lenders from all asset classes across the region.

AMAL's management believes that there will be limited organic growth over the short term from its existing non-bank commercial customers. This has led to the company pursuing growth opportunities with new clients over the past five years by venturing into servicing residential loan, consumer receivables, and more recently, leasing.

Over 95% of AMAL's revenue comes from recurring income fees with large corporate clients and Australian lending institutions. The company 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

Ranking: STRONG

The ranking has been raised to STRONG from ABOVE AVERAGE, reflecting our opinion that AMAL possesses the following key strengths:

- A highly experienced management team leading a qualified servicing workforce;
- Well-designed and thorough operating and servicing policies and procedures that incorporate best practices surrounding process and controls;
- An effective risk management and compliance framework, which is underpinned by a newly implemented risk management tool to identify, manage, and report risk processes and issues; and
- A strengthened corporate governance structure.

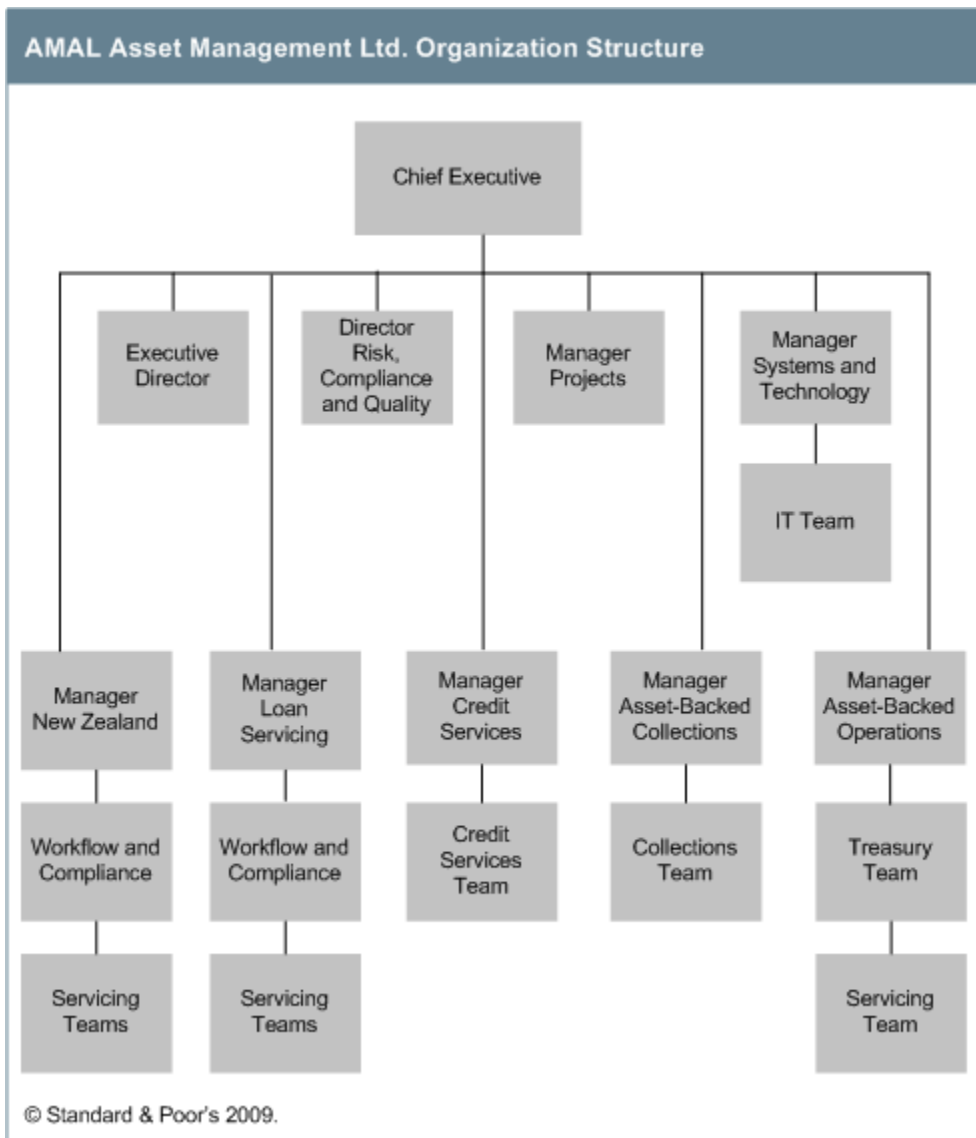
Management structure

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, the company's workforce, although still small, has increased to 45 people, including four staff in the Auckland office. AMAL has recently been servicing a lease receivables portfolio and also gained a team of well-experienced servicing staff, which has provided the company with additional servicing skills on nonperforming lease 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

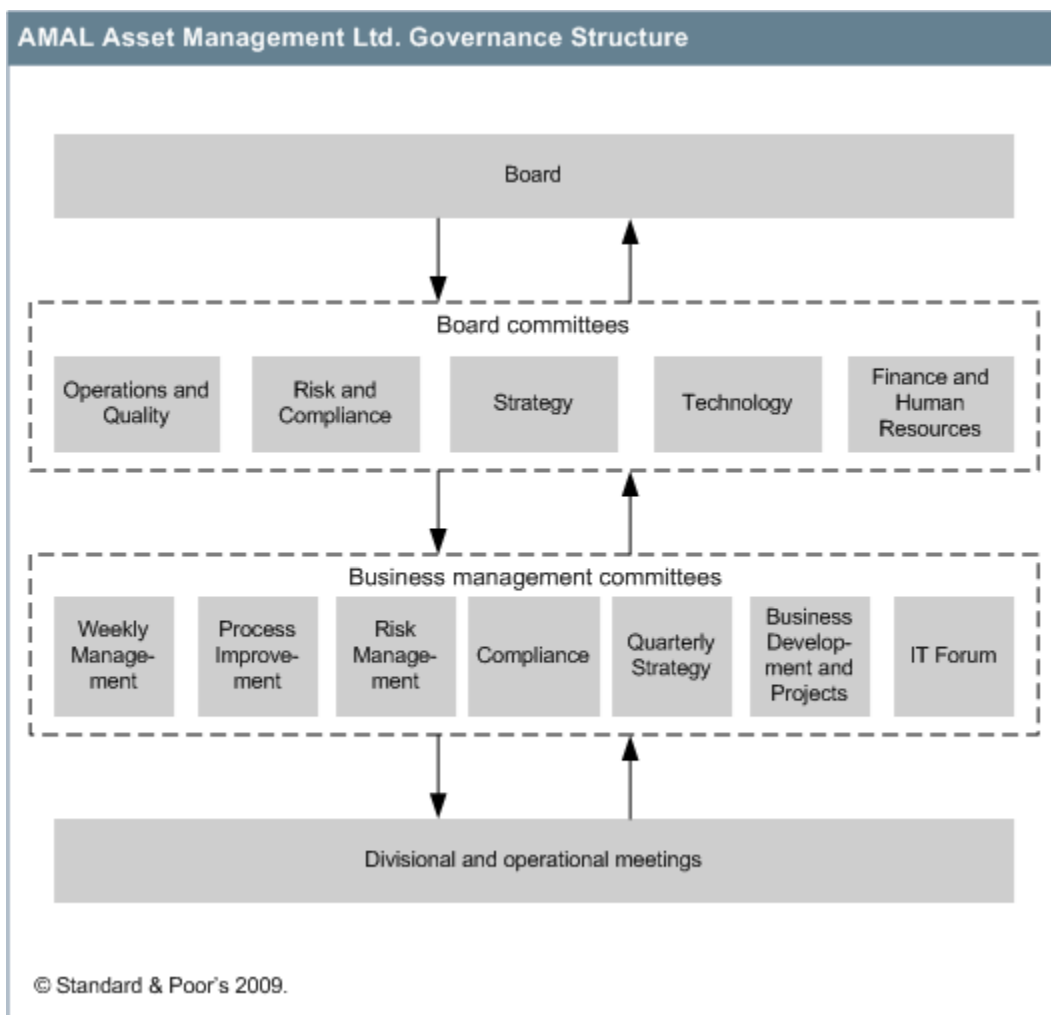


Risk management and compliance framework

In our opinion, AMAL has significantly enhanced its risk management and compliance framework, which compares favorably to industry standards. Since the last review, the company has complemented the framework with fully documented risk policies and the implementation of a risk management tool. We consider this to be a proactive approach in ensuring that effective risk practices are adopted.

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

Chart 2



In our view, AMAL has continued to develop its risk management and compliance program, and has strengthened the company's risk identification, assessment, monitoring, and reporting practices, in line with industry standards.

Internal audit and quality assurance

We consider that AMAL has maintained sound 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. This annual 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 did not find any major issues in the annual audit in June 2009, and has recommended to continue AMAL's ISO 9001:2008 certification.
- Specialist external consultants from its auditor, Ernst & Young, conducts AMAL's annual internal controls audit prescribed in accordance with GS007, a new standard that has replaced AGS1042: Reporting on Control Procedures at Outsourcing Entities.

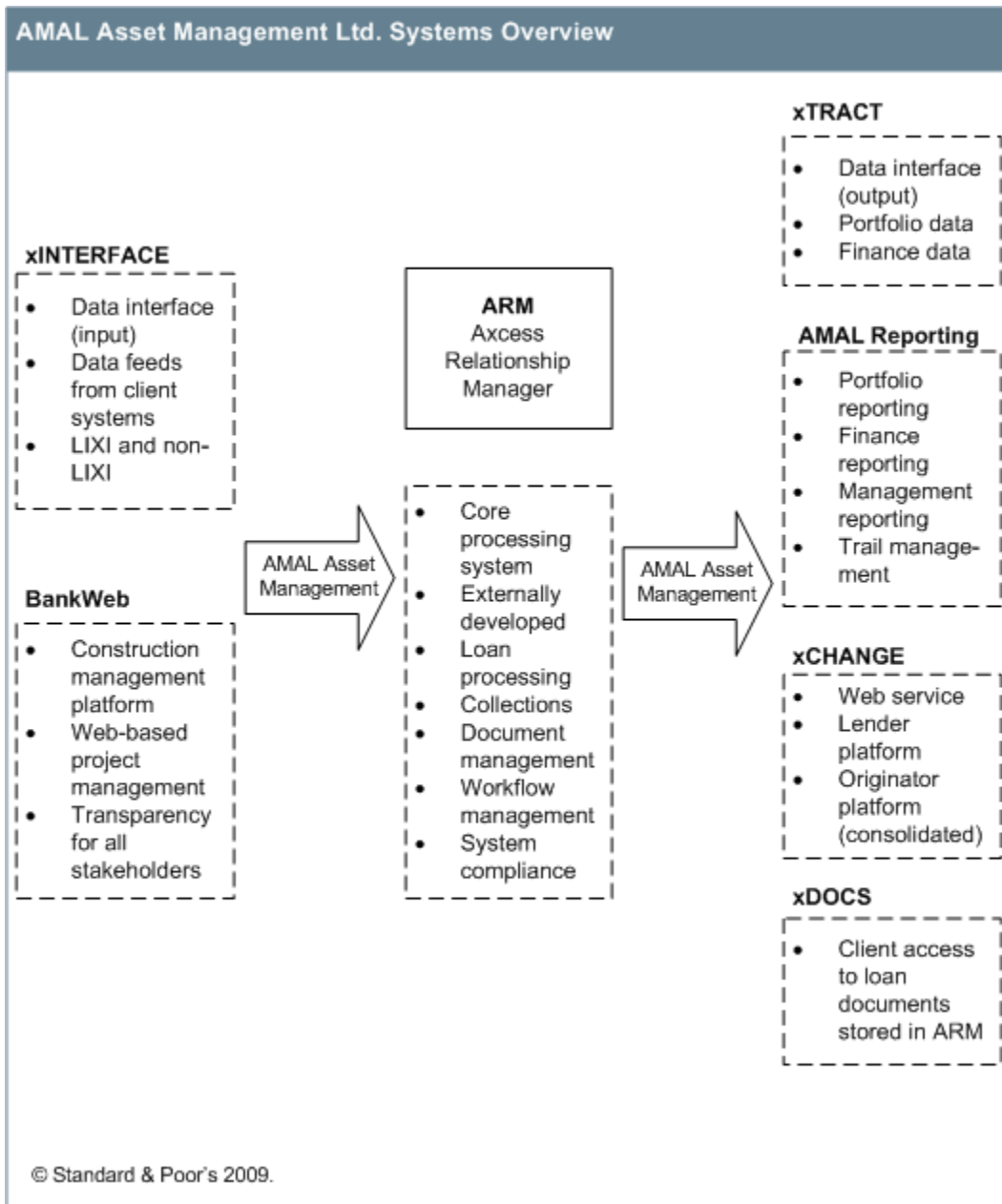
- Although AMAL undergoes a comprehensive, external and quality assurance program audit, the company lacks a dedicated team of internal audit specialists. In larger peer servicers, a dedicated internal audit team usually provides ongoing audit activities across all the processing and servicing areas of the business according to their risk profiles.

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 developed tool used for core processing servicing and administrative 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;
- AMAL reporting – An in-house developed Web reporting tool;
- xCHANGE – A graphical interface to lenders, originators, and borrowers. Further advancements have been made, enabling clients to enter journal notes; and
- xDOCS – A newly upgraded application to set up a Web interface for clients to access loan documents that are stored in ARM.

Chart 3



Training programs (Recruitment)

In our view, AMAL has retained a recruitment, training, and development program that is suitable for its size of 45 employees. The training and induction programs include on-the-job training with either an experienced servicing staff member or the team leader of the team. A training plan is developed for each new team member, and forms part of his/her induction and ongoing training plan, which is formally discussed during the employee's six-monthly performance appraisal.

AMAL supports the personal development of its employees through formal education programs provided by external industry specialists. Given the small size of the team, ongoing training is generally provided in a hands-on

manner, with close supervision from team leaders. This allows staff to be trained in a broad range of loan administration functions, including processes, work flows, and other tasks, such as client management.

As a relatively small team, AMAL have not yet implemented a more structured and formalized approach to the training and ongoing development program.

Policies and procedures

We consider that AMAL has demonstrated solid controls in developing, drafting, and disseminating its loan processing and servicing policies and procedures. The team reporting into Risk, Compliance and Quality administers the policies and client-specific procedures, which are represented in the form of process maps for each client. All updates, changes, and establishment of new processes are the project manager's responsibility. The company uses a standardized template for its servicing procedures, and continues to have effective methodologies for reviewing and updating them, including the following:

- Initial documentation and capturing of details within a client's servicing agreement;
- Development of extensive process maps, servicing checklists, and reports; and
- Any changes and updates require 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. These are stored on-line and are always available to the portfolio team members.

Commercial Loan Administration

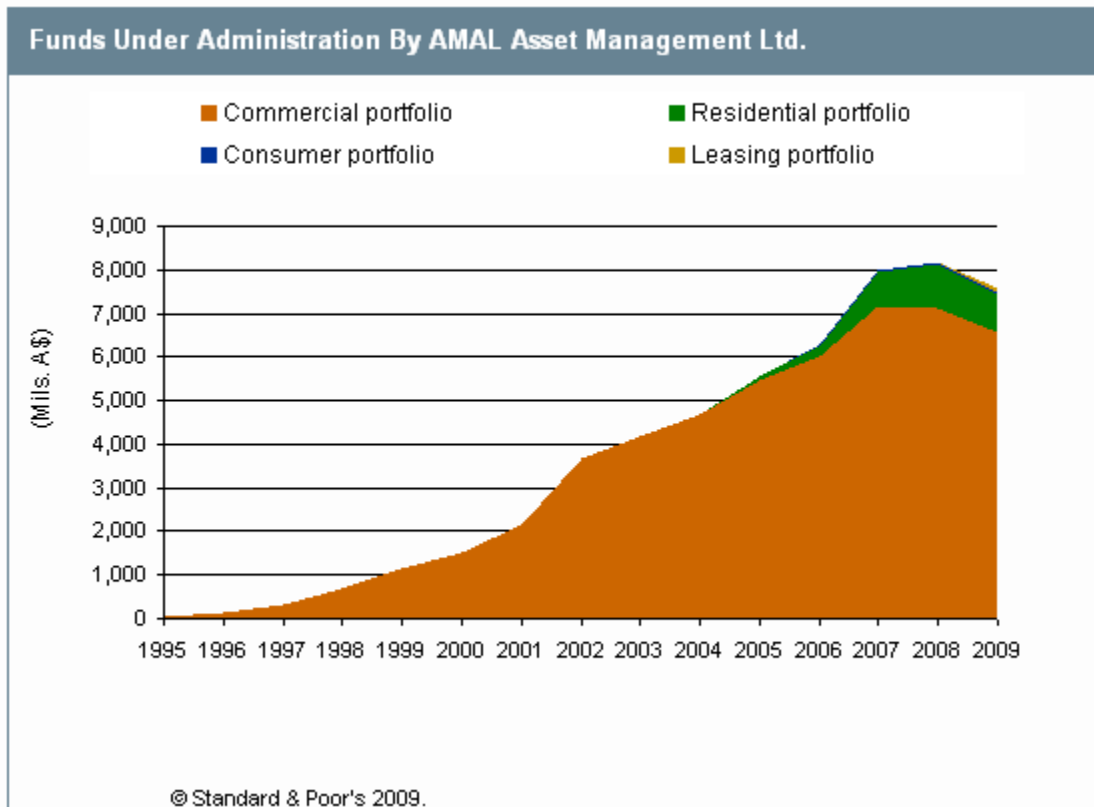
Ranking: ABOVE AVERAGE

AMAL services a diversified portfolio of commercial mortgage, residential mortgage, leases, and consumer loans, which are worth more than A\$7.5 billion, and are serviced on behalf of 30 lenders.

AMAL currently services over 3,000 commercial mortgage loans with a total balance of over A\$6.4 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 significant platform enhancements to support processing and servicing efficiencies, including the following:

- Upgrade of the xCHANGE web interface, which has enhanced servicing performance, allowing clients to enter journal notes for the company's action;
- Implementation of xDOCS, which provides clients with access to documents in ARM;
- Further development of xINTERFACE to allow two-way interface capability;
- Implementation of a virtual platform and an upgrade to SQL2008; and
- Migration of the first residential portfolio to ARM.net.

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 the introduction of 'Bulletproof Networks' at the recovery site covering penetration testing and disaster recovery testing of the company's main

systems. Further, weekly network penetration testing is conducted by external specialists 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 there was a disaster event scenario.

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. The ARM system is used as a data warehouse to extract data into a reporting module to generate various client reports: portfolio, finance, and trail management. The reports are usually distributed to clients through a direct systems interface or via data uploads for clients to integrate onto their own reporting platforms.

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 documents.

In addition, AMAL has increased servicing efficiencies with the successful implementation of xDOCS, where clients are able to access 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 options 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 divisional managers and client service staff.

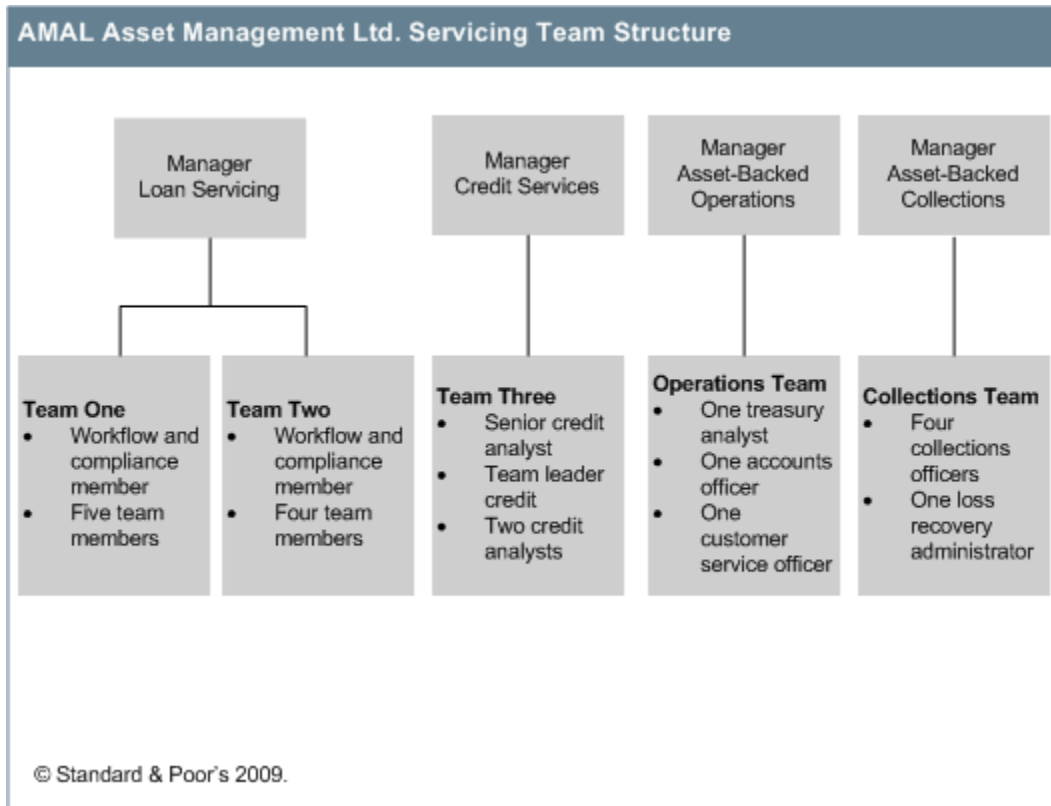
For commercial construction portfolios, much more detail and interaction are provided via the BankWeb system interface with ARM. The BankWeb platform significantly increases the efficiency of the commercial construction management process, and ensures that all stakeholders of the construction project are up-to-date through real-time Web-based upload of information and transactions.

Arrears management

AMAL has realigned its servicing structure to maximize performance and service excellence in each asset class under its management (see chart 5). Arrears management, collections and recovery strategies, workout strategies, and

procedures are based on client requirements and the asset class serviced.

Chart 5



AMAL has retained a qualified credit services team to undertake specific servicing activities in the commercial loan portfolios under its management. Each team member has specialist commercial credit experience. The company incorporates client advice to provide proficient third-party servicing through sound collections methodologies, which are aimed at minimizing default rates and accelerating cash collections on the respective portfolios.

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.

The portfolios managed by AMAL continue to report low levels of arrears. Loan arrears are initially administered by the loan-servicing team, and managed by the credit services team when a higher level of servicing activity is required. The ARM core servicing system, in conjunction with the data warehouse, provides accurate and timely reports to clients.

Financial Position

Ranking: 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.

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Related Research

This article is based in part on the following criteria article: *Servicer Evaluation Criteria: Australia and New Zealand* published Aug. 7, 2008.

Description Of Ranking Method

Standard & Poor's assigns rankings of STRONG, ABOVE AVERAGE, AVERAGE, BELOW AVERAGE, or WEAK, to the two key areas of: Management and Organization, and Loan Administration. The company's financial position is graded as either SUFFICIENT or INSUFFICIENT.

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