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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 and in-house information technology resources.

In addition, S&P Global Ratings considers that AMAL has proactively improved its processes and technology architecture, leading to further alignment of its servicing standards with industry best practices. As of February 2017, AMAL has more than A\$6 billion in funds under administration in Australia and New Zealand, comprising commercial and residential mortgages, consumer loans, and lease receivables.

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, S&P Global Ratings 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. AMAL's servicing functions have been undertaken by AMAL Management Services Pty Ltd. since a corporate restructure in 2015 to establish a trustee services business, and continue to be 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 Ltd.'s loan-servicing business added primary servicing of more than 10,000 contracts, including residential mortgage loans, reverse mortgage loans, leases, and strata loans. Since our previous review, the company has also secured additional primary and back-up servicing roles for commercial, residential, equipment finance, and consumer finance 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 a less-direct impact on the company, and instead provided additional opportunities for servicing, special servicing, and back-up servicing. Business grew through new contracts to service problem portfolios from an increasing number of investor clients. AMAL's expertise in ARM.net has added professional IT services to its fee-for-service offering.

## **Business Strategy And Growth**

The business strategy encompasses expanding into the Asia-Pacific region 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.

Since our previous review, AMAL has been appointed the primary servicer for one commercial loan portfolio, two residential mortgage loan portfolios, a leasing and asset finance portfolio, and a medical and dental procedure funding portfolio. It was also appointed as back-up servicer for six 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 60 clients and expects to further penetrate the market with additional advertising campaigns to attract new clients and maintain client outreach initiatives.

S&P Global Ratings recognizes that AMAL has proficient servicing abilities, experienced management and staff, and a sound servicing platform, which provide 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 a complete rebuild of its XCHANGE web portal to provide increased functionality for clients and borrowers, enhancements to the application programming interface for its loan servicing platform, and an increased ability to integrate AMAL's systems with a variety of client-origination platforms.
- 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.
- Its good corporate governance structure, encompassing regulatory compliance in connection with its Australian Financial Services Licence (AFSL) and Australian Credit Licence (ACL).

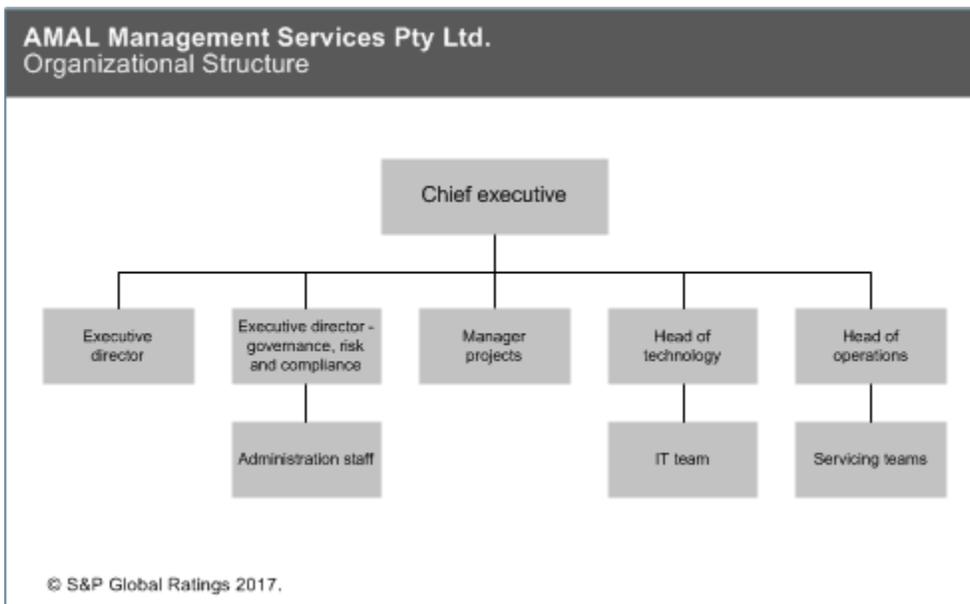
## Management structure

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.

AMAL's staff levels have remained steady since our last review, with about 26 staff, including eight in information technology. The doubling of the number of IT staff between 2013 and 2017 reflects AMAL's focus on technology and the increased automation and efficiencies in its servicing activities. The servicing teams are cross-skilled across clients and also perform collections and special servicing functions. We believe AMAL's organizational structure enables the company to address all key functions and manage business growth effectively (see chart 1).

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

Chart 1

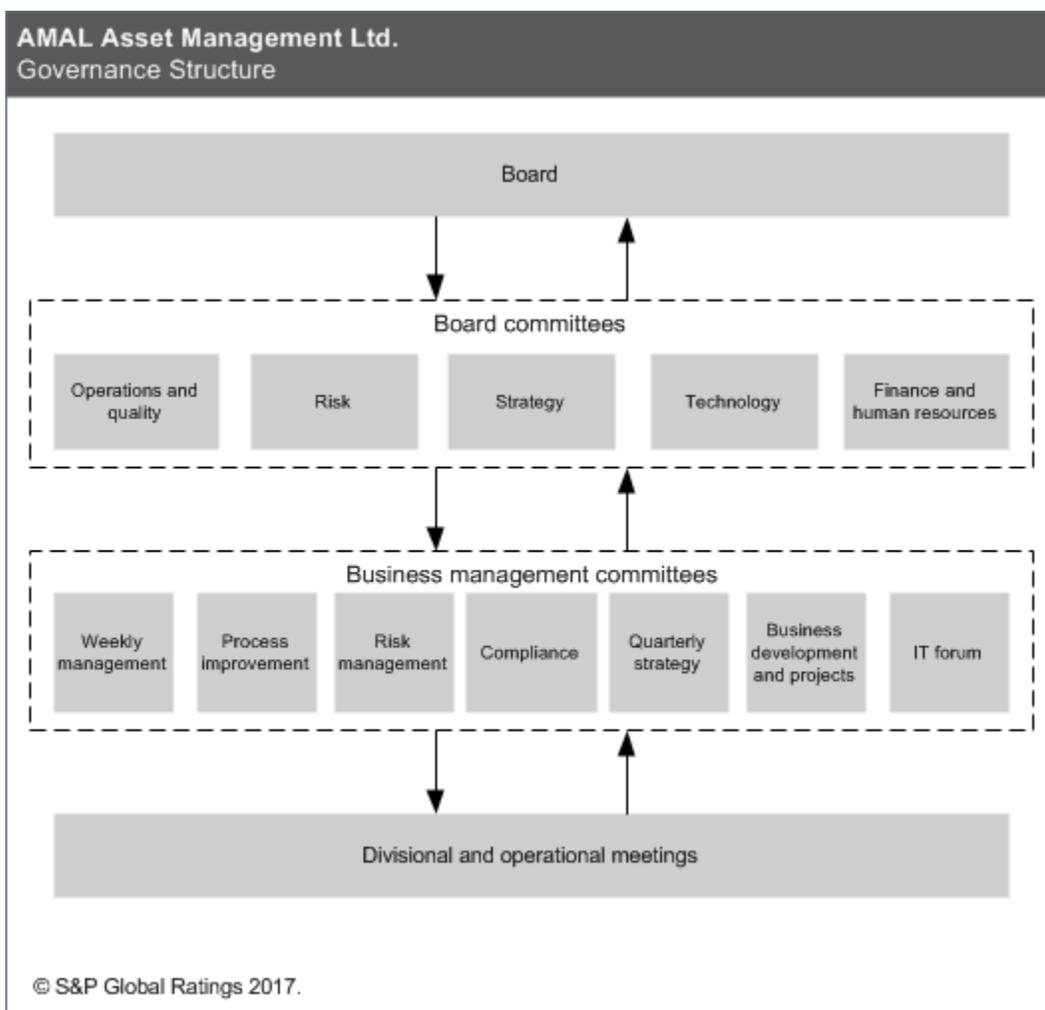


## Risk-management and compliance framework

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 PROMAPP 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 believe AMAL has maintained solid internal audit practices across its servicing operations; 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 July 2014, when it recommended continuing AMAL's ISO9001:2008 certification for a further three years. SAI Global carried out annual surveillance audits in July 2015 and August 2016.

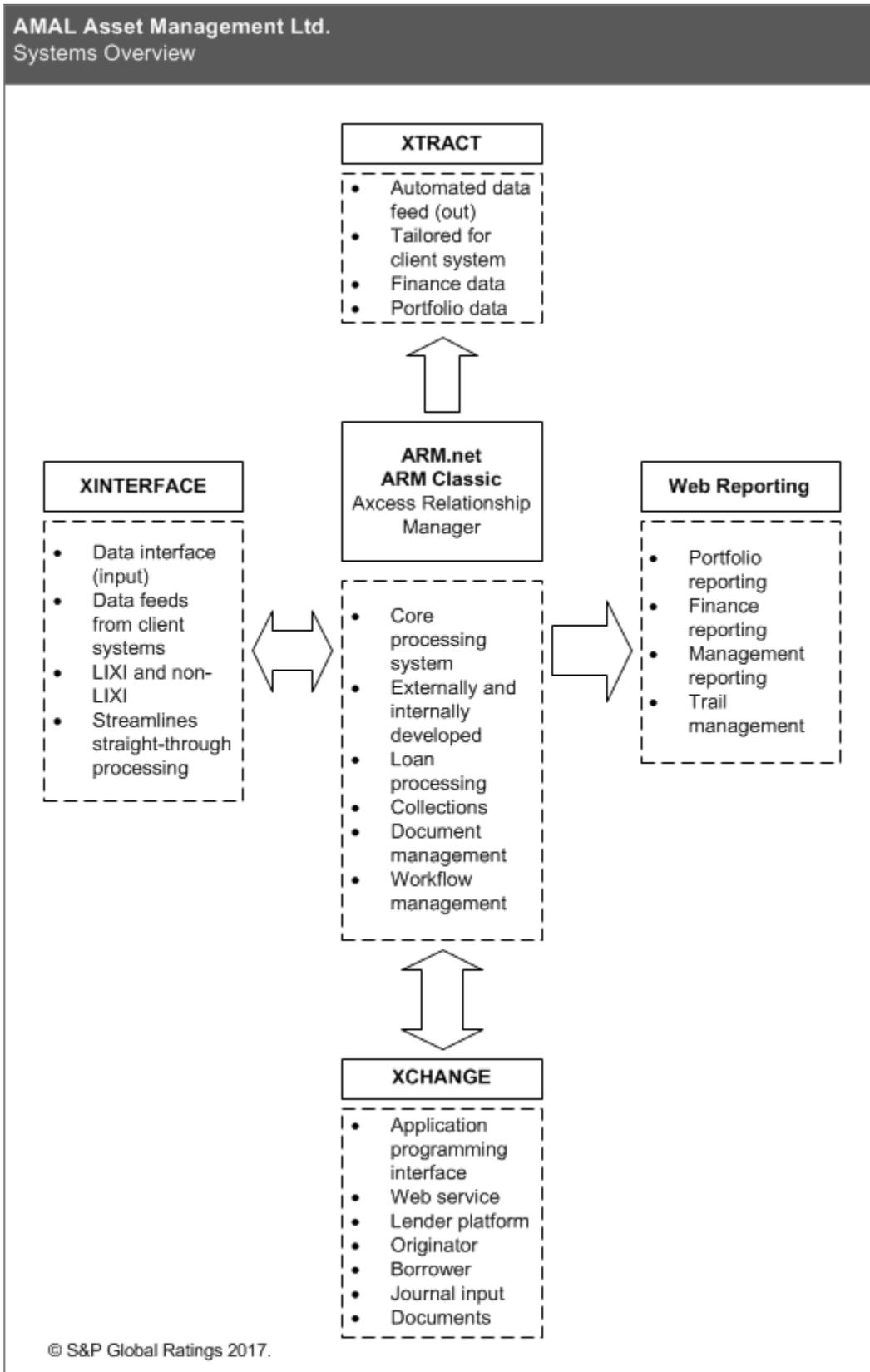
Although AMAL undergoes comprehensive, external, and quality-assurance program audits, the company lacks a dedicated team of internal audit specialists. In larger peer servicers, a dedicated internal audit team usually provides ongoing audit activities across all the processing and servicing areas of 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 executive director – governance, risk, and compliance, and assisted by employees trained in the internal audit process and independent of the division being audited. The executive 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.
- 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.
- XCHANGE Web Service: A service that provides an "off-the-shelf" Web portal for lenders, brokers, and internet banking to borrowers. The Web service also provides an application programming interface that enables access via mobile devices and allows clients to integrate their own Web systems and branded applications with AMAL's platform.
- XINTERFACE: An automated data interface (input) that allows an external system to interface with ARM. This is an alternative way of having AMAL systems integrate with client systems.

Chart 3



## **Training programs**

AMAL utilizes an e-learning system, which allows staff to complete in-house-created online training, such as policies and procedures, and external training modules. The system maintains a register of training undertaken by each staff member, upcoming scheduled training, and other training-related activities. System-generated reminders for overdue training are sent to each staff member and the executive director - governance, risk, and compliance. AMAL's induction manual requires managers to schedule e-learning training modules for new employees 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.

AMAL uses Cognology, an online staff-performance management system that ensures the competencies and objectives for similar job roles are standardized. Cognology helps AMAL to monitor whether managers are up to date with performance reviews, identifies the key strengths of its staff to help select the most appropriate staff to train new hires, for example, and logs staff achievements and feedback.

## **Policies and procedures**

We believe AMAL has demonstrated solid controls in developing, drafting, and disseminating its loan-processing and servicing policies and procedures. The use of PROMAPP process mapping software 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 as a diagram or in list form. 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. The use of PROMAPP means all staff can generate and update process maps; however, they can only be put into production by a senior staff member known as a Promaster. 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, the policies and procedures documented in AMAL's 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 or she is assigned to. The centralization of this information in an interactive system has increased AMAL's servicing efficiencies.

## **Commercial Loan Administration**

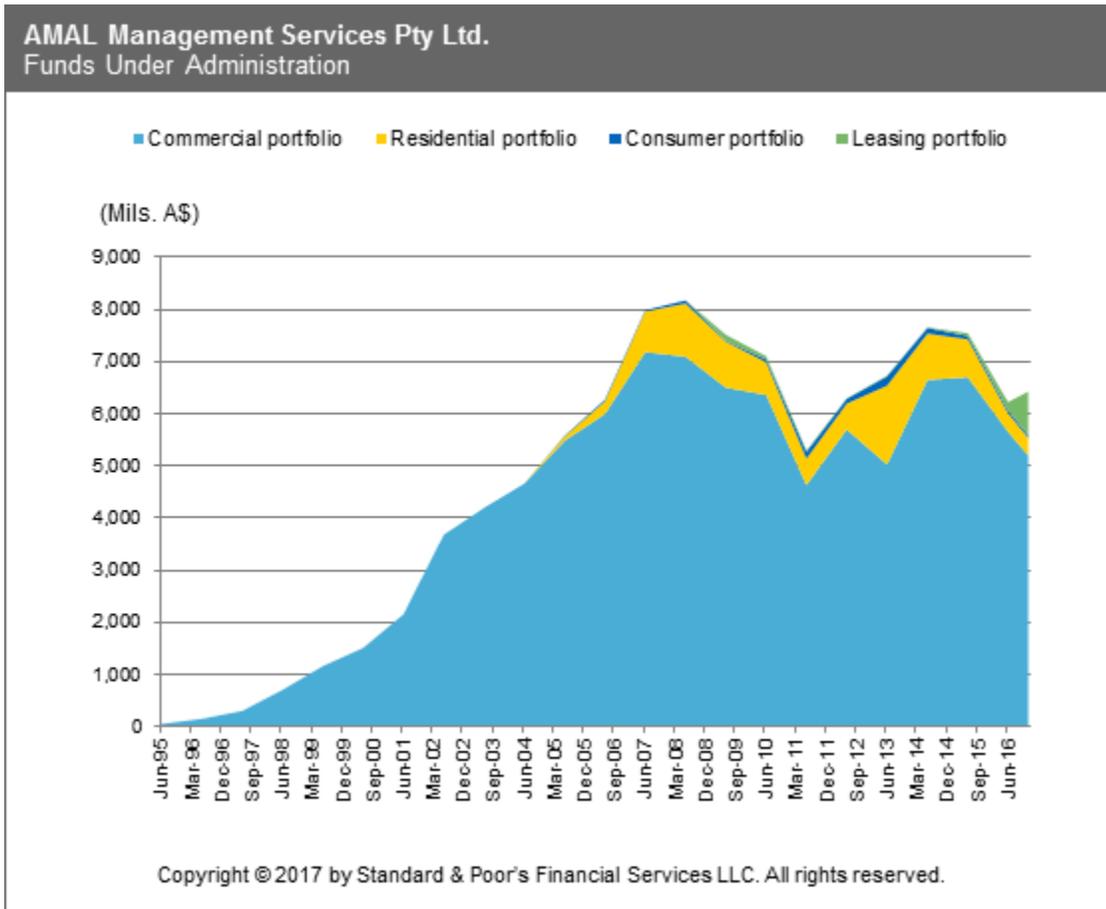
### **Subranking: STRONG**

AMAL services a diversified portfolio of commercial mortgage loans, residential mortgage loans, leases, and consumer loans, which are worth more than A\$6 billion, and are serviced on behalf around 30 lenders.

AMAL currently services nearly 2,000 commercial mortgage loans with a total balance of more than A\$5 billion. The size and nature of the commercial portfolios and loans vary from lender to lender, but are generally characterized as small to medium-size 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 increasingly 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. The enhancements include a full rebuild of XCHANGE, improvements to AMAL's application programming interface, increased use of straight-through processing, and an increased ability to integrate AMAL's systems with a variety of client origination platforms. AMAL's rebuild of XCHANGE, which acts as a single portal for all databases, now provides borrowers with functionality similar to an internet banking system, for example.

AMAL's systems change-management process is well documented and comprehensive, supported by vendor-supported system Gemini. The process enables 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. We believe AMAL's disaster-recovery capabilities remain sound, and the company conducts periodic business-continuity and disaster-recovery testing of its main systems. External specialists conduct penetration tests as required following system changes to identify any gaps in network security. AMAL's servers are replicated to the disaster-recovery site in real time and, once enabled, may be accessed by staff at all times via CITRIX. AMAL staff members also utilize a TIPT telephone system to remotely divert their office phone calls directly to their mobiles.

### **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. AMAL uses Web Reporting 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. AMAL has moved toward data more than reporting. While it still produces and provides reporting, it also feeds its clients' systems with data so they can produce their own reports and analyze the data in any way they choose.

### **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 communicate directly with qualified AMAL staff or use readily available technology to manage their interaction with AMAL.

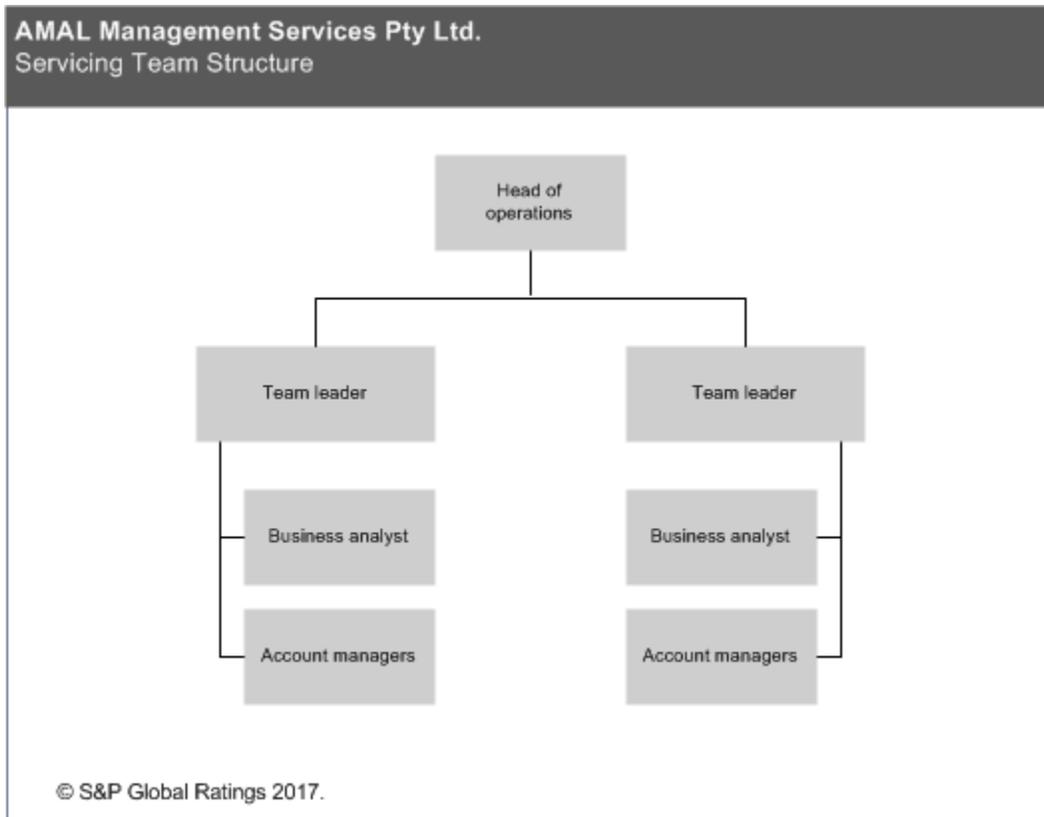
Further, AMAL continues to provide superior third-party servicing to originators, with a fully integrated white-label program that incorporates:

- 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

AMAL has two servicing teams, with portfolios allocated to each team to ensure there are no competing deadlines. The teams are complementary, based on their SLAs. Each team comprises a team leader, a business analyst, and account managers, who provide a single point of contact and responsibility for each of their allocated clients. The servicing teams undertake servicing, collections, and special servicing activities. Each team member is cross-trained, 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. AMAL has maintained its key strength of providing comprehensive reports and data to clients. The well-automated ARM servicing module aims to minimize errors. AMAL conducts checks to identify arrears in a timely manner. It contacts clients to inform them when they have missed payments. Each client must approve any nonstandard arrangements for payment.

The two loan-servicing teams manage loan arrears. 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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