

Loan servicers forced by crisis to take a more active role in securitised loans

Because the crisis has altered the finance-institutional landscape and often eliminated firms originally involved in securitised debt, loan servicers are playing a growing role, says the Managing Director of European servicing group Hatfield Philips.

We've gone away from administration, and become loan managers now," Clarence Dixon told PIE in an interview. "Although the loans are still very clear-cut, the situation of the borrowers has changed, the situation of the lenders has changed, the situation of the facility agents has changed, the situation of the swap providers has changed – all the key parties have often changed, and the only party that's been involved in the transaction from start to finish has been the servicer. So there's really no-one else to blame - even though the servicer may or may not be at fault."

London-based Hatfield Philips, owned by US private equity group LNR Property, has serviced more than 359 commercial loans with a combined value of £29bn and acted as special servicer for over £31bn. Collateral locations included UK, Germany, Italy, Sweden, France Switzerland and Benelux. Dixon says the group, rated by S&P and Fitch as primary and special servicers in Europe, is currently active in some 250 loans in 18 different portfolios. Bondholders in a White Tower transaction of the giant Talisman portfolio chose recently to move from Hatfield to CBRE's new Special Servicing unit. But Dixon says such shifts come with the territory. "We don't comment on specific loans, but there are always instances where noteholders come to us and ask if we want to take over a loan – and there are other occasions where the noteholder has the option to switch elsewhere. That's fine, that's normal business; we don't have an opinion on that," he says.

Since the Commercial Mortgage Backed Securities sector came to a shuddering halt last year, a huge number of negotiations have been running to establish authority and responsibility within the loan. Dixon says it is imperative a servicer acts precisely according to documentation, though on occasion it is forced to make decisions where issues are not clear. "As the mar-

ket began heating up and loans just kept being originated, the job of the servicer was to take these things fast, get them set up, get the functionality in place to be able to service or administer it," he says. "But now in many cases, the originator's gone and you don't know who the bondholders are... We've become loan managers. We have even found in the middle of a transaction that the t's were not crossed at origination. In many cases there's nothing we can do about it so we have to go back and review all the transactions and find out where the issues are."

The main challenge with Special Servicing – managing distressed or delinquent portfolios of loans – is that it simply has not existed in Europe before, he says; Europe's only experience was in residential. "These transactions were not structured to become distressed so the documentation does not allow much flexibility... While from a primary service perspective it's pretty black and white, when it gets into special servicing it gets very muddy; you almost have to start all over again. For example, when you take these documents in front of a German lawyer, firstly you have to get them all translated; secondly, they're all under UK law which the German court really doesn't care about. Then the borrower throws the keys back and applies for insolvency. What is your strategy? Do you have one? You really have to look at each and every asset, each and every loan. You might have a loan in Germany, borrower in Belgium, property manager in the UK, and issuer or trustee on the Cayman Islands." The industry remains under high stress now handling loans from the boom years, he says. "Everything's being looked at, whether it's good or bad. Watch lists are getting longer, the number of loans going into special servicing is increasing. I expect that trend to continue for a while." ■ pie



Hatfield Philips
Managing Director
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facto changed from
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