

The secret to successful back-up servicing



Concent Forderungsmanagement GmbH, a subsidiary of **Universum Group**, has more than ten back-up servicing contracts underway, with the largest having an ABS volume of more than €2 billion. Dr Karl-Heinz Pitz, managing director, outlines some of the challenges of multinational back-up servicing projects.

Standard back-up services include debt management, call centre and printing services, and medium-sized projects of up to €100 million. Large multinational back-up servicing projects require sophisticated debt management systems to deal with different currencies and tremendous figures of bookings and payments. This short-notice capacity must be maintained throughout the standby period. Concent's SAP software and licence contracts allow ten million bookings per hour, enabling the company to migrate the servicer data of such ABS projects within less than one hour. In order to be able to send off millions of letters and perform thousands of calls within the first 48 hours, the back-up servicer has to refer to cooperation partners.

Services such as floor checking, repossession and disposal of tens of thousands of car fleets in local markets are also required. Printing and call centre services are available in the home market for international projects, while the other services must be contracted with servicing companies in the foreign markets.

In order to meet the requirements of the SPVs, the back-up servicer has to build up a network of cooperation partners with skills in all asset classes served, which requires years of market analysis and negotiations. It is vital to maintain this network to keep it readily available and conduct regular audits. The network must be upheld through cooperation agreements, which in the case of such a contract, is legally guaranteed in the long run over the course of the standby period.

Legal requirements

The requirements to the back-up servicer can result in time-consuming negotiations, particularly in the automotive sector, with regard to the special services to be rendered (e.g. floor checks, repossession, realisation). The number of investors to be considered in addition to the arranger and originator may further complicate negotiations. Comprehensive legal advice is required by the back-up servicer to protect its interests, define the scope of works and to limit excessive legal risks. Multinational projects call for legal counsel of an internationally focused law firm capable of negotiating with attorneys of other parties and local legal counsel. Sizeable legal costs are included in a project for negotiations up to one year.

In addition, it is crucial to take into account the legal framework in each country. In Germany, for instance, a bank licence is required for debt-financed assets. As a result, the back-up servicer has to contract a bank, unless the back-up servicer holds a banking licence itself. In the case of a domestic bank, the back-up servicer might have to apply passporting in each country to comply with any special requirements abroad. Therefore, the

back-up servicing agreement is complex and cost-intensive. Besides the contractual agreements between the SPV and the bank, a congruent contract between the bank and the back-up servicer is needed.

Also, national regulations regarding vehicle repossession and realisation, or the obligation to take over employees of the existing servicer must be taken into account. These differences lead to heterogeneous processes in each country and require an appropriate contractual arrangement in the back-up servicing agreement, as well as in the service-level agreements with the various service providers.

Company size

The back-up servicer must have exceptionally qualified project staff and experienced business consultants in order to carry out contract negotiations. During the standby period, a team that performs ongoing training, data testing and monitoring of service providers can maintain the quality of several projects.

When activating the back-up servicer of a major portfolio or several back-up servicing portfolios simultaneously, team leaders and members need to perform all legally agreed upon duties immediately, such as internal tasks (debtor management, data migration), as well as managing the contracted and trained service providers (printing service, call centre, etc).

Since the availability of such kick-off teams is generally economically unfeasible to cover with standby charges, major projects require a company or corporate group with the necessary manpower to draw from already existing resources.

Frequently used ratings agencies often evaluate whether the back-up servicer as well as the process is configured appropriately prior to the signing of the final agreement. In addition, professionalism, experience and financial strength draw special attention. This also includes the integration into a previously mentioned overall organisational structure.

As of 25 August 2010, internationally-renowned ratings agency FitchRatings has assigned Concent Forderungsmanagement GmbH a primary servicer rating of ABPS3. This is the first such rating assigned to a European ABS servicer, and further proof of the company's proficiency in servicing complex receivables portfolios in today's volatile economic environment. ■

Further information

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