KEYNOTE INTERVIEW

New lease of life for loan servicers

Today's real estate market is transforming the role of loan servicers, says Mount Street's Serenity Morley

The responsibility of a loan servicer is changing in Europe, in response to a number of factors including a more diverse real estate lending market, the globalisation of business and the impact of technology, as well as a requirement for broader services from clients.

Serenity Morley, global chief operating officer at Mount Street, discusses how these factors are driving an evolution in the loan servicing industry, and what clients need to consider to truly thrive in this fluid environment.

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Q How do you view the changing role of loan servicing and clients' expectations?

When I first started out, nearly 20 years ago, loan servicing in Europe was really focused on the CMBS market. There was a huge amount of CMBS issuance and loan conduits churning out regular issuances. Since the global financial crisis, the European CMBS market has become much smaller and driven by a more modest number of sponsors.

On the flipside, the diversity of lenders is greater and so loan servicers have had to go with the market and find new clients. Today's clients could be private equity funds, alternative lenders, debt funds or even insurance companies, although we still work for investment banks on CMBS transactions. Each client has different servicing requirements and part of the on-boarding process of a new client is working out what these needs are and how the servicer fits into their operating model.

There has also been something of an outsourcing trend, where organisations have taken in-house loan servicing functions and outsourced them to reduce their administrative burden, enabling them to focus on investment performance. As an example, Aviva Investors outsourced asset servicing, including loan administration, for its real assets business to HSBC and Mount Street in 2022.

Our work with debt funds is also now rather different. We act as an extension of their teams, providing a broader range of services than would have typically been the case pre-GFC.

As well as the traditional loan servicing role, we also provide ancillary services such as asset or portfolio level reporting and produce credit papers and annual reviews. Some of our clients also want help with structuring new products, pre-screening deal pipeline and underwriting.

There has been an evolution in the range of services a loan servicer provides, with our team playing an important role in the strategy, development and thinking around the future of a loan. For example, factors which might change its performance. Whilst our focus is on protecting and managing risk for the lenders we also have to ensure that our people think about their client's clients, the borrowers and sponsors. It's a balancing act.

In order to deliver to our clients, it's also important for us to have a wide range of people and skills in-house. We have people in construction finance who used to work for a development finance originator, for example, or a trained engineer who can assist with asset due diligence. Another key thing clients demand of a loan servicer is experience of working through real estate cycles and, having a management team that has been through the GFC, that's something we have.

Q What is the value of the loan servicer relationship?

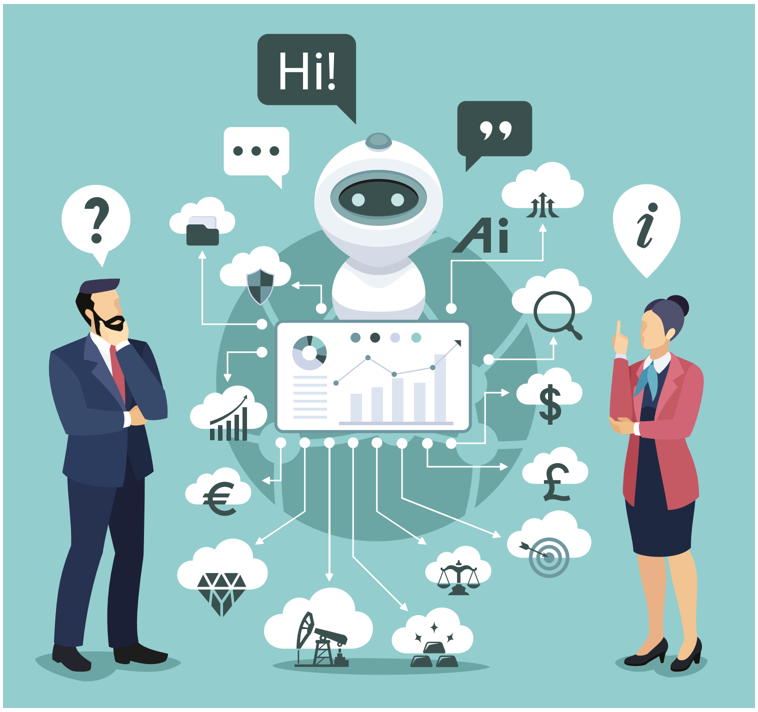
A key benefit for clients who use loan servicers, especially for a broader range of services, is that it enables them to focus on origination and growing their businesses. For example, if you look back 12-18 months, there was a significant move of real estate debt capital to Europe. Various US alternative lenders came into the market, often with considerable dry powder.

If lenders appoint a loan servicer to look after credit papers, annual reviews and reporting, then it means they can focus on hiring originators and growing the business (while the servicers set up the appropriate back and middle office teams). It also means their fees move in line with the amount they are lending, rather than facing the costs associated with setting up a team from scratch, which can be very expensive until the business hits a certain size. By using a loan servicer, lenders can also instantly access the servicer's operational and asset class expertise straight away.

Q How do you see the role for AI in loan servicing developing?

There is definitely a role for AI in streamlining certain parts of our service, because of the huge amount of data we manage. For example, if you think about tenancy schedules, the amount of data in a tenancy schedule that we're processing and analysing is huge.

Having said that, from my personal perspective, as someone who runs a team of asset managers, there is no substitution for someone sitting down and reading a loan agreement.



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Q Is loan servicing becoming a global business? Where do servicers need to be and what do they need to consider?

Mount Street operates in both the US and Europe, and in my new role as global COO I have become much more involved in our US platform. That reflects the fact that the business is much more global than it used to be. We have seen a lot of new capital coming from the US into Europe, but it has also been flowing the other way too.

The sector can operate differently in the two regions, for example, loan servicers might be appointed on a deal-by-deal basis in Europe, whereas in the US you might see clients move entire portfolios from one servicer to another. Operating in Europe means a loan servicer needs jurisdictional knowledge. You need to be as comfortable with Belgian office assets as you are with Welsh retail warehouses, and language skills within the team can be important.

However, if you have clients in both regions, you need to ensure consistency in the delivery of servicing standards. Of course, there will be some nuances but ultimately the service should be the same. We are not Mount Street US and Mount Street Europe but Mount Street. The key aspects to us are responsiveness, diligence and customer service. I do expect us to have more global clients in the future, as US and European lenders look to expand their businesses across the Atlantic, which is an exciting trend.

Q How is technology changing or impacting loan servicers? What new tools can they use?

Technology is a really important part of our global offering at Mount Street. It helps ensure clients receive the same service levels wherever they are. It is an increasingly important part of our business and it's an area where we have made a lot of new hires in recent years.

There are various platforms out there, but we have been developing our own in-house, entirely bespoke platform. It's called Credit Hub and all of our loans and collateral data are housed in there. When we were building out the system, the key question for us was, can we put everything in there? What we didn't want was a loan system here, a collateral system there or another system which houses derivatives because of the work involved in bringing it all together for reporting. That's just not efficient, so our system houses every piece of relevant data which in turn streamlines our reporting and improves accuracy. We can also "push" this data to our clients systems or the system of their fund administrator.

The platform is continually updated, because real estate, even if it's sometimes viewed as being behind the times when it comes to technology, can also be quite innovative, so we need to be able to respond to change and the nuances of each and every real estate finance deal. It's also incredibly important to be able to provide data to your clients. If you consider where we were a few years ago, sending out loan notices by e-mail or PDFs, you can see how far we have come.

There are also areas where we want to use technology more and better. I would like to get to the stage where borrowers can 'self-serve' through the loan servicing system: uploading their financials, uploading their documents, pulling down notices, etc. At the moment, that doesn't really happen, definitely not in Europe, although it is a bit more commonplace in the US.

Q Real estate markets have been volatile in recent years, and this looks set to continue. What does this mean for loan servicers?

I'm certainly hoping for and expecting a little more stability in the near future, although if you compare the current market with the GFC, it has actually been far more stable than you might have expected. Of course, there has been distress and loan defaults, as well as a lot of loan extensions, but we have come through that and are seeing the market pick up in terms of investments and refinancings.

We are looking forward to continuing to help our clients develop their businesses, whether they are in the start-up phase or looking to break into new markets. I also suspect the European market will become a little more like the US, with portfolios moving. From a servicing perspective, this will really keep us on our toes. As a loan servicer, you need to make sure that you are providing excellent service to your clients, because you do not want them to look elsewhere, and of course that can only be good for the industry. ■