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## Servicer Evaluation: Fan Ya Tai Asset Management Co. (International) Ltd.

**Secondary Contact:**

Narelle Coneybeare, Sydney (61) 2-9255-9838; Narelle\_Coneybeare@standardandpoors.com

**Servicer Analyst:**

Jackson Chan, Hong Kong (852) 2533-3598; jackson\_chan@standardandpoors.com

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# Servicer Evaluation: Fan Ya Tai Asset Management Co. (International) Ltd.

## Opinion

### Ranking: ABOVE AVERAGE

The ABOVE AVERAGE commercial mortgage and commercial finance special servicer ranking on Fan Ya Tai Asset Management Co. (International) Ltd. (FYT), reflects Standard & Poor's Ratings Services' opinion of FYT's continued servicing quality. FYT's servicer strengths include:

- The experience of the senior management and asset management teams, and their sound understanding of the markets and legal systems in their servicing region;
- The analytical rigor applied to initial evaluations and the ongoing management of complex nonperforming loans (NPLs), real estate assets, and equity workouts;
- A demonstrated capacity to administer a range of assets and receivables;
- An integrated and tailored special servicing system that can report in Chinese and English;
- A sound risk-management and compliance framework; and
- A quality management framework, which is accredited under international standards, such as ISO9001: 2000 Quality Management System. FYT places an emphasis on maintaining comprehensive audit and quality-assurance programs that cover all special servicing functions. Policies, procedures, and workflows are well documented and accessible to staff.

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 'Stable' outlook reflects our expectation that FYT will maintain its servicing operations in the near to medium term. FYT expects the volume of NPLs in China to remain large, which suggests to us that in the medium to long term there could be significant opportunities in the region for a professional and independent special servicer with experience in managing a range of distressed assets. In the short term, however, the limited flow of NPLs into the market, due to the country's regulations, presents a challenge to FYT. FYT has responded by setting up a wholly owned asset-management company to take advantage of the full range of business permitted within its asset-management license.

## Profile

FYT was formed in 2004 to provide lenders, investors, and other parties based in China and the broader Southeast-Asian region with professional, specialist, and independent management of NPL portfolios, distressed real estate assets, and equity workouts. With a main focus on southern China, FYT has established its headquarters in Guangzhou and Hong Kong. It has smaller offices in Tianjin and Xiamen, and a representative office in Beijing (chart

1).

**Chart 1**



FYT has implemented a management structure and control framework to support the development of its business in the region. It has five offices or representative offices in southern and northern China. The Xiamen office reflects the company's commitment to establish asset-management teams with local market knowledge that are located near distressed assets. The offices in Tianjin and Beijing demonstrate the company's efforts to expand its services into northern China.

FYT's predecessor, Guangdong Assets Management Co. Ltd. (GDAMC), was established in 2001. Its clearly defined strategic objectives and business plan were based on a principle of establishing the company as the premier independent special servicer in the region. It was appointed special servicer of NPL and asset portfolios originated by its parent, a large state-owned enterprise (SOE). During this period, GDAMC established a sound record of recoveries on portfolios across southern China and other regions. In March 2004, the full GDAMC team was transferred to FYT, a

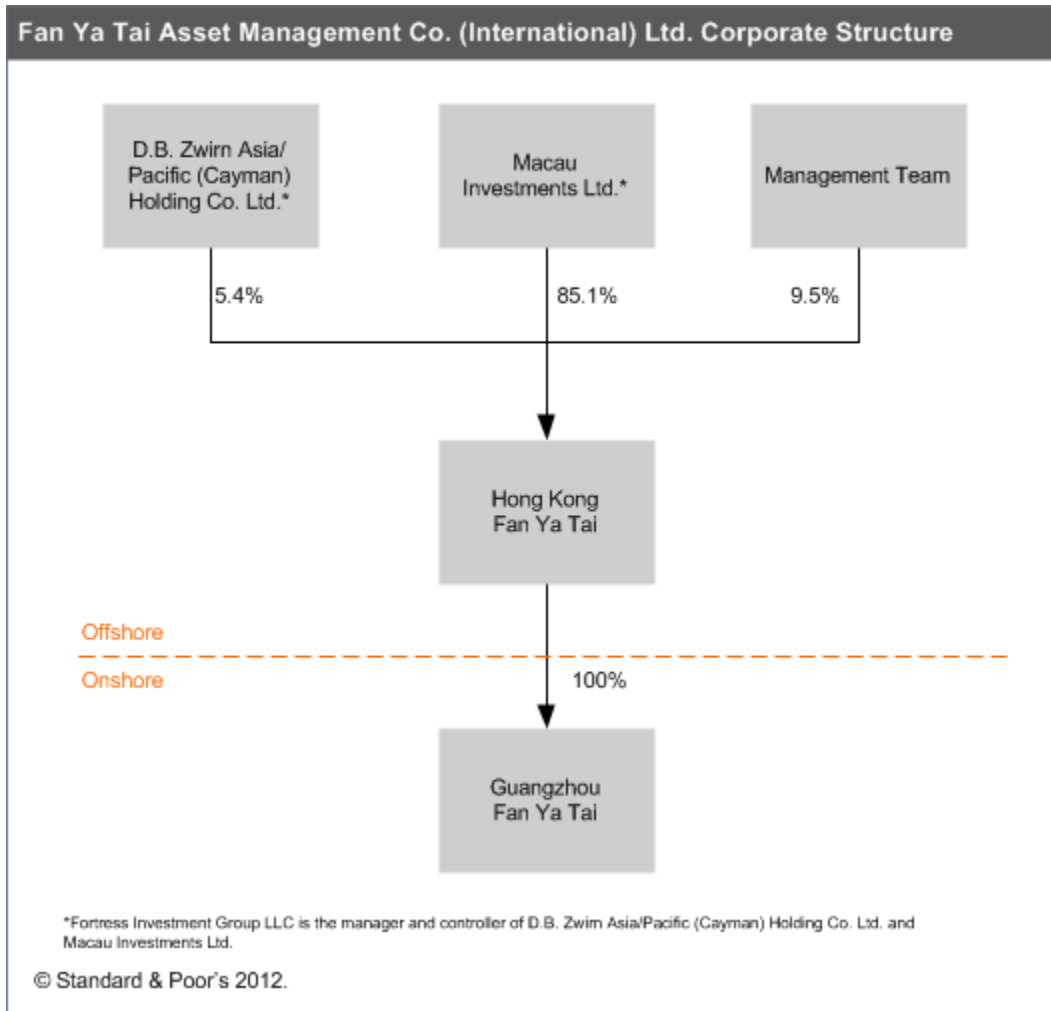
joint venture between GDH Ltd. (GDH) and AMRI Financial Group Hong Kong Ltd. (AMRI).

FYT had been organized as two independent entities--one offshore and one onshore--essentially owned by the same holders. FYT underwent an internal restructure in 2005 and the onshore entity is now wholly owned by the offshore entity, which facilitates share transfer and improves flexibility for client contracts. Standard & Poor's ranks the offshore Hong Kong entity, Fan Ya Tai Asset Management Co. (International) Ltd.

GDH exited its investment in FYT in 2006 after changing its strategy regarding the remaining income-producing real estate assets of GDAMC and GDH's senior management. D.B. Zwirn's & Co., L.P. became the majority shareholder of FYT in 2007. In June 2009, Fortress Investment Group LLC replaced D.B. Zwirn's & Co. as the manager of D.B. Zwirn's funds and accounts. Fortress is a global alternative asset manager. The company is headquartered in New York and has affiliates with offices in more than 10 major cities worldwide.

FYT's corporate structure is outlined in chart 2.

**Chart 2**



The FYT team has a stable history of special servicing in southern China. It offers services that cover all aspects of

special servicing, including sourcing and acquiring NPL portfolios, undertaking and managing the due diligence process, and asset management and coinvestment. Generally speaking, recoveries have exceeded clients' expectations, with resolutions completed well ahead of schedule.

Since its establishment, the majority of NPLs and distressed assets serviced by FYT have been distressed assets resulting from the restructuring of loans to Guangdong Enterprises (Holdings) Ltd. (GDE). The portfolios have included an extensive range of assets and receivables across a range of industries. However, FYT also has been expanding its provision of recovery services to other owners of distressed asset portfolios.

FYT has a sound historical performance of recoveries in the Chinese market. It has established the infrastructure, systems, and legal expertise to support the NPL markets in China and Hong Kong. Experienced asset managers with extensive knowledge of local markets and legal systems as well as proficient skills in dealing with foreign investors have helped FYT to establish a strong presence as a special servicer. The specialized asset-management teams are adequately resourced. They have professional and qualified practitioners who are equipped to support a range of impaired assets and receivables. FYT has developed comprehensive asset resolution plans and forecasts to maximize recoveries. Prudent approval and review procedures are in place to monitor and manage the resolution process. A tailored special servicing system with bilingual reporting capabilities underpins the company's efficient operations. The special servicing platform has the capacity to support growth in its target markets.

### **Business strategy and growth**

FYT aims to be the premier independent special servicer of NPLs, real estate assets, and equity workouts for lenders and third parties in China and the broader Southeast-Asian region. The company is positioning itself to play a leading and constructive role in the reform and growth of the Chinese economy by assisting with workouts on the high volume of NPLs and distressed assets in the region. FYT offers a full range of asset management and recovery services that cover a variety of assets and receivables.

FYT has continued to explore new business opportunities, including master servicing and support services to large financial institutions, and providing a full-scope NPL management service to foreign investors, well known international banks, and hedge funds. The company's current portfolio includes tail-end NPL, real estate developer, real estate trust, and mortgage NPLs. FYT also provides advice on distressed loan acquisitions in China.

## **Management And Organization**

The subranking for management and organization is ABOVE AVERAGE.

### **Management structure**

FYT's board of directors consists of the chief executive officer and three representatives from its major shareholder. The board is responsible for the company's strategic direction and performance. It also reviews operational results, financial performance, strategies, client relationships, new business development, and audit reports.

The senior management and asset-management teams have substantial experience in asset resolution and related areas. A senior management committee, comprising all members of the senior management team, is responsible for the ongoing management and development of the business. The committee meets regularly, and offers a sound

platform for monitoring and managing all aspects of the business, including strategic planning, financial performance, policy review, evaluating new business, risk management and compliance, and monitoring the due diligence and asset resolution processes. Specific committees are established, as required, to manage critical projects, while board approval is required for key issues.

The workout professionals and asset managers are grouped into various asset-management teams, according to asset or office location. The teams are responsible for assets and receivables, property, and equity. A key strength of the special servicing platform is the substantial knowledge and experience of the asset managers in the local market, court system, and bankruptcy, property, and tax laws. Most of FYT's staff members are Chinese nationals.

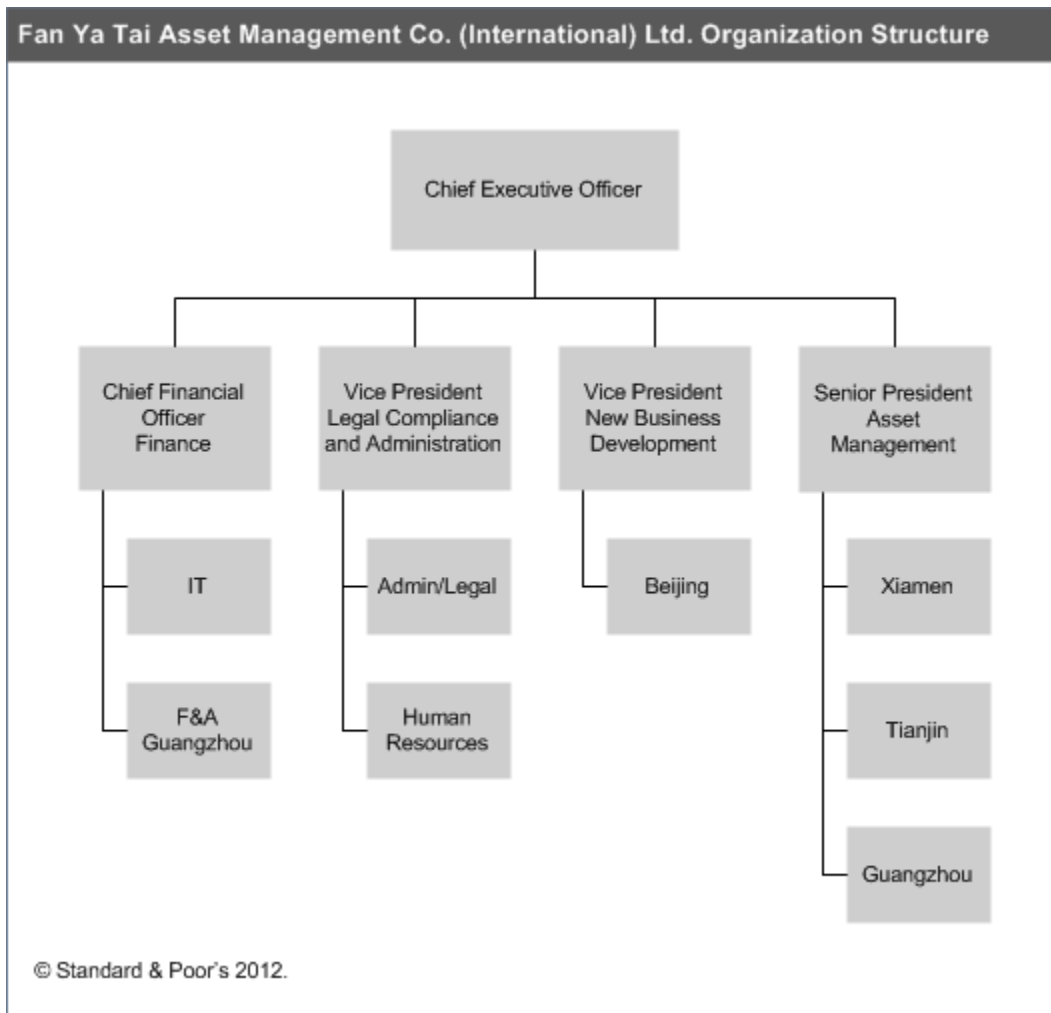
A majority of FYT's employees, particularly senior management and asset managers, have ample industry experience in the areas of real estate, finance, loan workouts, asset management, and banking. Many also have relevant formal qualifications.

FYT has demonstrated a capacity to recruit qualified and experienced personnel as the company grew and business opportunities arose. A chief financial officer oversees FYT's financial, accounting, and reporting functions. Additional asset managers also have been employed to establish an "on-the-ground" presence in new markets across China.

FYT's organization structure clearly defines the responsibilities, authority, and allocation of responsibilities of managers and business units, particularly in relation to asset management. The structure ensures that there is adequate segregation of duties among functional units. Prudent internal controls cover the entire special servicing platform.

The organization structure, business unit responsibilities, position descriptions and competencies, segregation of duties, and staff backup policies are fully documented. FYT's organization structure is outlined in chart 3.

Chart 3



As of September 2012, FYT has 21 employees, most of whom are Chinese nationals. The senior managers remain unchanged since our previous review, and the core of the asset-management team remains stable.

Comprehensive key performance measures have been established for each department and employee. The performance measures align with the company's strategic and financial objectives. Staff performance is regularly measured and monitored against defined outcomes. This is an important part of customizing personal development programs for staff. Incentive schemes reward staff for achieving defined performance measures. A code of conduct outlines the customer focus and service standards, confidentiality, ethics, and other standards of behavior that staff must follow.

In conjunction with human resources, management monitors and forecasts staff resourcing levels across the company, based on growth assumptions and maintenance of defined servicing standards. Current staff levels allow for business growth.

FYT has developed a sound management and organization structure to support growth in its special servicing

operations, with the flexibility to locate asset managers where business is sourced. An experienced and competent management team, a rigorous recruiting process, and coordinated training programs complement this strategy.

The company's vision and strategic direction is evident to Standard & Poor's, and appears to be very well understood across the company.

### **Risk management and compliance framework**

FYT has a prudent risk-management and compliance framework that recognizes the specific risks associated with sourcing, evaluating, and managing NPLs and distressed assets. Integral to the framework is a quality management philosophy that is accredited under international standards.

China's legal and regulatory system for the management and disposal of NPLs and assets is evolving. The primary risks in this market are establishing the creditor's claim to the assets and managing the disposal process in accordance with the law. FYT has a sound understanding of China's legal system and a demonstrated capacity to operate effectively within it.

The legal compliance department is responsible for monitoring compliance and has implemented procedures to monitor and manage change and convey details of any changes to staff. An extensive compliance audit program also has been established. A number of staff, including those in the asset-management teams, have legal backgrounds. Legal-training programs have been introduced for all staff to increase their awareness and understanding of the legal and regulatory requirements relating to special servicing in the region.

FYT engages external law firms to provide specialist support as required. The legal compliance officer manages external counsel engagements and the progress of legal action. Standardized legal documentation has been developed to minimize documentation risks. Guidelines to evaluate, select, and review outsourced service providers are adequate.

Compliance and operational risk awareness form an integral part of the training programs for all staff. FYT maintains adequate insurance cover over what it believes to be all material insurable risks.

The risk-management and compliance framework provides a reasonable platform to identify, assess, and manage the risks associated with special servicing in the company's target markets.

### **Audit and quality assurance**

FYT places particular emphasis on maintaining prudent internal controls and quality assurance, and establishing comprehensive review and audit processes. The controls are reflected in the procedure manuals and segregation of duties among functional departments.

The external and internal audit programs provide a comprehensive review of all aspects of the special servicing platform. An accredited third party is involved in preparing FYT for accreditation under international quality management standards and has been engaged to perform the internal audit role. The external auditor, Ernst & Young, is responsible for the company's accounting and financial audit. The scope of the internal audit program incorporates quality and compliance audits. It also covers compliance with service standards, procedures, relevant legal and regulatory requirements, and the special servicing system. Compliance audit procedures are formally documented.



An external certification body, Det Norske Veritas, performs an annual quality management audit as part of FYT's maintenance of its international accreditation under international standards. Comprehensive project audits are conducted by internal audit after the completion of an asset realization. The purpose of these audits is to confirm that an outcome is in accordance with the disposition plan, relevant approvals were obtained, and established procedures were followed. There are also regular audits and reviews that take place with potential new clients looking to understand the business and operating platforms of FYT.

The outcomes of the audits and reviews form part of the company's continual quality improvement process.

## **Systems**

A key strength of the special servicing platform is an end-to-end special servicing system specifically designed for the management of NPLs and distressed assets. A feature of the system is dual language reporting in Chinese and English. Details of workout plans and schedules, asset analysis and forecasting, asset management plans, the status of NPLs and assets, security details, valuations, lease payments, arrangements, and recoveries are maintained on the system for each client.

The workflows for each asset's disposal are entered into the system, together with the assigned tasks. The system provides asset managers with task-status monitoring and automated document production. The system includes electronic document storage and retrieval for scanned and system-generated documents, file notes, and emails. Documents are indexed and cross-referenced to the relevant loan facility or asset.

Enhancements have provided greater functionality and improved controls, and have supported growth. A general ledger is fully integrated into the special servicing system for implementation of new portfolios. FYT relies heavily on a software vendor for the ongoing maintenance and development of the special servicing system. The general ledger, which is maintained by SAP, includes provisions for development, backup, and disaster recovery.

The system incorporates adequate security features, including access and authority controls, and provides a full audit log of all correspondence, transactions, arrangements, and diary notes. A comprehensive reporting suite is available through the system.

The system architecture is server-based and fully scalable, with no capacity constraints. Fully operational offices are maintained in Guangzhou and Hong Kong. This allows FYT to maintain redundant systems and business-continuity plans with daily backups and data replication at both offices. The disaster-recovery and business-continuity plans are adequate for minimizing and managing any disruptions to normal business. The disaster recovery plans are tested at least once a year.

## **Training programs**

FYT has developed structured, proactive, and responsive training and personal development programs, which are formalized in a documented staff training and professional development policy. The company's objective is to maintain a workforce with technical and management skills that exceed the market standard. The human resources department is responsible for coordinating the recruitment, training, personal development, and performance management programs.

FYT provides a range of internal and external training programs for all staff, and these are incorporated into an annual

training plan. The topics, which are relevant to special servicing, include loan workout, financial analysis, legal issues, policies, the special servicing system, and English-language training. Staff members are required to complete minimum levels of training each year, with evaluations conducted on the effectiveness of the training courses. Such evaluations form an important part of each individual's personal development programs.

Details of the qualifications, training, and experience of each staff member are maintained by the human resources department. Training and personal development programs support the development of staff, and result in an efficient, well-informed, and professional workforce.

### **Policies and procedures**

FYT has an integrated, total quality-control framework that conforms to international quality-management standards. The policy and procedure manuals, which are well documented, comprehensive, and user-friendly, cover all aspects of FYT's special servicing platform. The framework is based on a commitment to continuous improvement and quality management.

A management manual forms the basis of the management framework, and encompasses strategic planning, customer relationships, resource management, operation management, internal controls, systems, partnership development, and financial management. The manual defines the core operational processes and supporting procedures.

Policies and procedures relating to the management and disposal of assets are documented in the asset management and disposal procedures manual as well as the asset management and disposal work guidelines. Flowcharts of the processes are contained in the manuals, together with the relationships among various workflows. The manuals also include procedures for managing caseloads. The procedures emphasize the importance of the controlled due diligence and approval process. The guidelines provide formalized and systematic control and monitoring procedures for asset management and disposal.

Other key procedures documented in the various manuals include a system user manual, process controls, delegation of authority guidelines, client and cash reporting, outsourcing controls, and document control. The formal process for reviewing and altering policies and procedures is available online. Updates and revised procedures and developments are issued to staff through the company's intranet.

## **Special Servicing**

The subranking for special servicing is ABOVE AVERAGE.

### **Special servicing philosophy**

FYT's special servicing philosophy is based on establishing itself as the premier, independent special servicer of NPLs, real estate assets, and equity workouts for lenders and third parties in China and the broader Southeast-Asian region. The company's approach is to vigorously evaluate a range of asset-disposal options to maximize recoveries within reasonable timeframes. The aim is also to provide a high level of customer service, with comprehensive and regular reporting to clients. Special emphasis is placed on maintaining an extensive quality-assurance and compliance framework.

The special servicing platform, business plans, and performance measures are clearly aligned with the company's special servicing philosophy.

### **Overview**

FYT has a relatively short, but impressive, record of recoveries on NPLs, distressed assets, and equity workouts in its target markets. It has qualified asset-management teams with an extensive knowledge of local markets, and experience in a broad range of assets, receivables, and loan facilities.

On the basis of its performance to date, other parties have mandated FYT to be the special servicer of NPLs and distressed assets. FYT is discussing with other parties the possibility of organizing a special loan servicing mandate.

### **Loan recovery and asset realization**

FYT has developed a comprehensive process to evaluate and implement new special servicing mandates. It commences with a preliminary due diligence of the NPL and asset portfolios, which forms the basis of defining the scope and terms of engagement. It reviews loan and other relevant documents, and assesses the basis of the legal claim over the assets. FYT then performs a more detailed due diligence, with senior management handling the approval and monitoring of plans. Each client's performance measures and service standards are agreed upon, and statutory and regulatory requirements are identified before a contract is finalized.

FYT develops and approves formal disposal plans after a servicing contract has been executed. Management plans for asset portfolios are typically completed within 60 days to 90 days. The plans include assessments of the assets, valuations, financial analysis of obligors, a review of company structures, cash flow forecasts, disposition and marketing strategies, legal issues, and resourcing. The plans may vary considerably on a case-by-case basis. A specific business plan for each asset is entered into the special servicing system. FYT has an online link to the Department of Industry and Trade, which facilitates company searches. The company also develops implementation, reporting, control, and review plans to manage the realization process. FYT considers a range of issues in the process, including strategic planning, resourcing, financial, reporting, training, and asset-management and disposition plans.

Asset managers are required to have proposed or amended recovery strategies approved in accordance with a defined hierarchy of authorization. FYT conducts an extensive project audit after each asset disposal is completed to ensure that actual recoveries have been performed in accordance with the disposal plan and timetable, and that relevant approvals have been obtained. The company also carries out customer satisfaction surveys. Prescriptive guidelines covering the process are well documented.

FYT has various specialized asset-management teams, allocated as per asset location, covering loans/receivables, equity, and property. Personnel with specialized skills can be assigned to different teams as required.

FYT utilizes third-party appraisers, real estate brokers, and solicitors to perform specialized roles. It has developed relationships with an extensive network of support providers to assist during the asset-management and recovery process. The company has significant experience and a demonstrated capacity to manage third-party support providers.

FYT has a well-structured, proactive, controlled, and adequately resourced special servicing platform. Comprehensive and regular management and client reporting support the strict approval and monitoring processes. FYT seeks client

consent, as required, in accordance with the terms of each engagement. It also monitors the caseloads of asset managers.

FYT has adequate reconciliation procedures and controls over the receipt and payment of funds. This includes a defined authorization and approval process that includes reference to clients, as required.

Procedures for the identification, storage, protection, retrieval, retention, and disposal of records are adequately documented.

### **Asset management, accounting, and investor reporting**

The integrated system architecture allows FYT to produce a range of management and investor reports, including those covering loan, asset, team, and portfolio status. The company can also produce customized reporting. The system adequately identifies the NPLs and assets relating to each funding portfolio.

FYT has implemented an integrated general ledger to strengthen controls and provide an automated interface with the special servicing system for client portfolios. The bilingual reporting capability embedded within the special servicing system is a key strength of the reporting platform. The chief financial officer is responsible for overseeing the financial, accounting, reporting, and IT functions.

## **Financial Position**

The ranking of SUFFICIENT is assigned for financial position.

Standard & Poor's is of the opinion that FYT's financial position is sufficient to sustain its servicing operations for the next 12-18 months.

## **Contact Information**

Craig Blomquist

Chief Executive Officer Fan Ya Tai Asset Management Co. (International) Ltd.

Suite 3807-3810 Riverside Business Complex Centre

298 Yanjiang Road

Guangzhou 510110, P.R. China

Tel: (86) 20 8328 2688

Email: [craig@fanyatai.com](mailto:craig@fanyatai.com)

## **Related Criteria And Research**

- 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. 6, 2008
- Servicer Evaluation Ranking Criteria: U.S., Sept. 21, 2004

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