




## Research:

### Servicer Evaluation: Hipotecaria su Casita S.A de C.V.

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#### ■ Opinion

The ranking of ABOVE AVERAGE is assigned to Hipotecaria Su Casita (Su Casita) as a Residential Loan Servicer for the Mexican mortgage market.

The ranking is based on the company's experienced management and staff, well-automated operations, and detailed procedures for key servicing activities.

The company has sound processes in place for covering collections and foreclosure functions, resulting in very low delinquency ratios and good performing statistics. Su Casita focuses its efforts on attention to clients and innovation. Management is committed to continually improving operations. Additionally, the function of the internal audit department has contributed to improve the operations. Su Casita has identified necessary improvements in collection procedures, and has increased staff to fulfill those goals. Standard & Poor's has made recommendations in selected areas for increased efficiencies and controls, and believes the company has a stable foundation for mortgage servicing.

#### ■ Outlook

Positive. The company has increased its mortgage-servicing portfolio through continued participation in, and expansion of, low-income housing programs offered by Sociedad Hipotecaria Federal (SHF), together with the implementation of a strategy based on the diversification and creation of new products and funding sources. Its risk measurement policies have played a key role for the origination and management of its portfolio. As part of Su Casita's strategy to diversify funding sources, it conducted a successful transaction to securitize MxP715 million in the Mexican capital market. Su Casita is interested in maintaining its growing trend. In order to accomplish this, the company is working on a re-engineering project. Standard & Poor's believes that if the company increases its portfolio levels, this project will be needed in order to continue operating as a capable mortgage servicer. Also, Standard & Poor's will verify that the re-engineering process is adequate and the results are satisfactory before raising the company's ranking.

Key Statistics - Portfolio in Mexican Pesos		
	Outstanding Portfolio	Net Portfolio*
2002¶	11,776,296	11,799,393
2001	8,001,753	8,001,753
2000	5,126,891	5,127,035
1999	2,975,531	2,997,865
1998	1,657,452	1,660,161

\*Net Portfolio = Outstanding Portfolio + Past-Due Loans – Estimated Preventive Reserves for Credit Risks. ¶As of September 2002.

#### ■ Profile

Su Casita was founded in October 1994 as a Sociedad Financiera de Objeto Limitado (Sofol), a nondepository bank. The company's portfolio has a very good geographic diversification, with 102 representation offices in 58 cities. The offices are divided in 36 regional offices and 66 service offices for clients in real estate developments. The company is headquartered in Mexico City.

## ■ Management and Organization

The ranking of STRONG is assigned for Management and Organization.

Su Casita has an experienced management team, detailed procedures, and a well-automated environment for residential loan servicing.

- The company operates in a detailed organizational structure that employs dedicated personnel for all critical servicing functions.
- Su Casita's senior managers average 19 years of experience in banking and real estate services, and five years with the company.
- Middle managers average 13 years of industry experience and three years with the company. All of the countable, legal and financial consultant services are provided by Corporación Activa de Servicios de Administración, S.A. of C.V. (CASA), related part.

The management is centralized in Mexico City, and is divided into four functional areas, two of which are dedicated to residential servicing.

At the moment, Su Casita is implementing a re-engineering project focused, among other things, on reorganizing the management and operational structure. Several processes will be eliminated during the re-engineering. Once this project it's concluded, Su Casita will have reached an adequate organizational structure to obtain an optimal efficiency. This project will also foster an automated work environment that will introduce specialized software, which will facilitate the implementation of new mortgage products.

## Training

Su Casita has structured and informal training programs for its employees. Training includes:

- One week of corporate orientation and a basic introduction to mortgage banking, followed by two weeks of classroom computer systems competence.
- Computer training covers the mortgage servicing system and general office automation tools.
- Employees in customer service and collection areas receive an additional two-week program covering teamwork and negotiation skills.
- Various computer, customer service, and mortgage banking topics are available on CD-ROM-based self-instruction programs.
- Managers participate in specialized classroom courses in administration, finance, and marketing, which were developed in conjunction with the Tecnológico de Monterrey.
- Departmental management and supervisors provide on-the-job training. Regional managers conduct field office reviews and training sessions on a rotational bimonthly basis.
- Central call center personnel participate in quarterly meetings with senior management to focus on customer service and early-stage delinquency issues.

The human resource manager maintains individual training calendars for each employee, which are incorporated into annual performance reviews. In addition, Su Casita is ready to start a new project called "Instituto Su Casita," which Standard & Poor's believes is an innovative project that will allow the company to improve the quality of the training and, at the same time, focus the training in a more effective way and to do a follow-up and control of this training.

## Technology

Su Casita's servicing functions are well automated. The systems are adequate for handling the company's current portfolio. The company has showed that due to the growth in its portfolio, it is developing a new integral system with a unique database that will allow improving the efficiency in the management of its portfolio and in the handling of new products.

The systems department is responsible for all hardware, software, and password authorization.

Nightly backup tapes are created and stored on site, and the company stores a weekly backup tape off site at a local bank vault. At the suggestion of Standard & Poor's suggestion, Su Casita now uses fireproof cabinets to store the nightly system backup tapes, though it is preferable to store nightly tapes off site as well.

Standard & Poor's requires a complete revision after the implementation of the new system in order that the company can be considered for a raised ranking.

The company has a written disaster recovery and business resumption plan, which is tested twice a year in facilities located in the city of Toluca, approximately 80 kilometers outside Mexico City. The testing has showed acceptable results. The contingency plan is distributed only to critical staff. Standard & Poor's recommends that the contingency manual be circulated among all of the staff and be made available electronically. Su Casita must update the plan at least every year to maintain this level of classification.

Standard & Poor's believes that Su Casita counts on very good procedures for the storage and pursuit of the legal documentation for the credits. The files are located in the warehouses against fire of GCH in Toluca.

### **Internal Controls**

Servicing policies and procedures are well documented, and are available online, which improves training and ensures that all employees have access to the most recent procedures. The systems department is responsible for maintaining and updating the manuals. Each functional area is responsible for reviewing its sections and providing suggested changes. A committee, comprising senior management, reviews the changes for approval. The internal audit department performs a final review to ensure changes are coordinated across all departments. Once approved, the internal audit department monitors implementation. The manuals are revised annually, but some areas have not implemented the last revision yet. Su Casita is currently working on a re-engineering project. Once it's concluded, all of the manuals will be updated. Standard & Poor's believes that, overall, Su Casita has an acceptable process for reviewing changes to its policy and procedure manuals. However, Standard & Poor's will need to evaluate the changes in the manuals after the re-engineering project is completed to assess if they are adequate for the portfolio level of the company.

The company has an internal audit department, which makes at least one revision to all the departments per year. The audit department files a report after the revision and all of the departments are responsible to give pursuit to the corresponding observations. The audit department reports to the general manager. During 2003, the audit department plans to increase its ratings standards to improve the efficiency in the regional offices and the origination quality.

Audit department findings are tracked and are accessible online for updating exception items, and the reports are provided by auditing to the board of directors and the management committee. Standard & Poor's reviewed the internal audit calendar covering all servicing functions and found it acceptable.

Su Casita represents that it is not involved in any material lawsuits, and has appropriate insurance coverage.

### **■ Loan Administration**

The ranking of ABOVE AVERAGE is assigned for Loan Administration.

The ranking for Loan Administration is based on a well-automated operational structure supported by a flexible servicing system, defined collection and payment processing activities, and adequate internal controls. Standard & Poor's believes internal controls improved following the full implementation of the company's internal audit program.

### **Cash Administration and Investor Accounting**

Su Casita operates the majority of servicing activities from its headquarters in Mexico City. Early-stage collection activities are decentralized according to field office. The Mexico City facility includes:

- Customer service;
- Risk management;
- Foreclosure management;
- Systems; and
- The controller's area for all accounting and investor reporting activities.

Su Casita has 254 employees focused on collection activities, which are very labor intensive. Su Casita has achieved economies of scale in servicing costs and the number of loans per employee, due to the growth of its servicing portfolio. Standard & Poor's believes that management's dedication to improving operations and automation will generate additional efficiencies.

New loan setup is coordinated between origination and servicing areas, and all loans are electronically transferred from the origination system. The customer service section performs:

- A 100% document-to-system check to ensure information has been entered correctly;
- Issues a three-payment coupon strip with the welcome letter; and
- Notifies the insurance carrier of the newly closed loan.

Customer service staff contacts each borrower by telephone to confirm payment information, and instructs borrowers on making timely payments. This is a proactive step in stressing the importance of keeping loans current. The originations department is responsible for title recording through the use of outside notaries. A separate document control staff handles the closing file, which it maintains in a separate fireproof building.

Payment processing is highly automated through two banks and Su Casita field offices. The payment coupon includes the appropriate bank name and Su Casita's investor deposit account and loan numbers to credit for the payment.

Payments received at Su Casita field offices are handled in exactly the same manner as payments made at either of the banks, with a segregated teller, proof area and vault. The company's field payments are deposited daily through an armored car service, and require dual sign-off between the branch teller and the bank. On average, Su Casita receives 46% of payments through the two banks, and 54% at company field offices. The payment information is electronically linked from the banks and field offices to the servicing system, providing real-time updates to customer files. Su Casita has access to all the information on the banking accounts, which is imported to its system to make the conciliation of data and to create a report

The servicing system places an automatic stop code on in-process foreclosure accounts, and a collector must handle these delinquent payments. The customer receives a stamped paid receipt of their transactions to reconcile with the monthly loan statement. Su Casita's controller's area reconciles the servicing system daily payment report to the daily investor account deposits. Standard & Poor's believes the payment processing operation is well controlled and acceptable for its current portfolio levels.

The servicing system manages investor reporting. The system provides loan-level details associated with the required monthly reports, and can download to spreadsheet and database applications for additional management and investor reporting. The system handles the various dual index loans programs offered by Sociedad Hipotecaria Federal (SHF), and automatically calculates payment and amortization changes. Standard & Poor's recommends that the internal audit area test the monthly rate adjustments to provide a second level of review.

The controller's area is responsible for monthly investor reports, which are delivered electronically and in hard copy. The controller's department has sufficient segregated staff to ensure that different

personnel handle daily payment processing, investor reporting, remitting, and monthly bank statement reconciliations.

Management also indicates that the servicing system is sufficiently flexible to accommodate reporting requirements that would be required for securitizations. The system was programmed to track scheduled principal and interest payments to the trust, versus actual loan payments, and to maintain individual borrower advance and recovery records. Overall, Standard & Poor's believes that Su Casita has an adequate investor reporting operation, and that the recent internal audit department addition will provide appropriate controls to ensure that future monthly investor reconciliations are performed on a timely basis and agree with investor records.

Su Casita is working in a re-engineering project that includes all the areas of the company that will improve the processing of reports and information in order that the system generates intelligent reports in a single database. It is expected that this project will conclude in March 2003. Standard & Poor's considers that this system improvement will be necessary for the company to maintain its current ranking level if its portfolio growth continues. Also, Standard & Poor's will evaluate the conclusion of the project and believes that the results will be positive.

All loans have hazard and life insurances. Su Casita manages its risk coverage process in the following way:

- All policies are subscribed with an insurer with high financial strength;
- Borrower insurance premiums are included in monthly mortgage statements;
- The company sends system-generated notification letters to borrowers with monthly mortgage statements;
- Controller's area forwards the funds to the insurance company to cover the payments.

Standard & Poor's believes Su Casita should regularly review the financial position of the insurers that provide obligatory coverage through advance payments on past-due loans, which will aid in determining if it is adequate to maintain its current level of classification. As all the policies are subscribed with the same company, the process of rating administration of the agencies and the payment of the premiums are efficient.

Also, Standard & Poor's recommends that in the event of damages to the building, Su Casita must monitor the repair and certify its completion.

### **Customer Service**

Client service can be given in four different ways: by telephone, by mail, chat, and in person. Borrowers can also receive information at Su Casita's local field offices. The centralized customer service area makes the initial borrower contact after loan closing and is responsible for responding to written inquiries. The call center is staffed from 9:00 a.m. to 6:30 p.m., and field offices are open on weekends. The field offices record past-due loans and all changes in the information of client files. Standard & Poor's suggests that Su Casita establish a voice-mail service in order to allow customers to leave a message outside the regular schedule of attention to the client.

Borrower comments, either by telephone or in writing, are maintained on the servicing system. Management reviews the call center's on-line borrower's comment logs for complaint tracking and resolution, which are mainly associated with:

- New loans;
- Payment changes due to rate adjustments; and
- 30-day delinquents.

The servicing system automatically produces delinquent notices, and the call center telephones the borrower to bring the account current.

### **Collection Procedures**

Su Casita has effective procedures, dedicated staff, and well-defined automation for the collection function.

Collection administration is centralized in Mexico City, with regional supervisors assigned to each field office.

- Each field office has a team of collectors responsible for their regional accounts, and performs customer service activities in addition to collection responsibilities.
- Monthly statements are forwarded to the offices on the tenth of each prior month, and collectors visit borrowers in person to deliver the statements. This personal approach is common in Mexico, due to unreliability of the mail systems, and has worked very well in building customer relationships, providing impromptu inspections.
- Accounts remain in the field office network for up to three payments past due.

Field office collectors:

- Become involved in collection activity at one payment past due.
- Collectors monitor the system's collection logs inputted by the centralized customer service area for telephone conversations the borrower may have had with the call center, and are proactive in visiting the borrower to resolve problems. The primary goal is to obtain payment promises, which are closely tracked on the system.
- Collectors may arrange payment plans for up to three months for accounts less than 90 days past due, and up to five months for accounts 120 days past due. Plans beyond five months require managerial approval.

The system automatically provides weekly reports to collectors on the status of past due and broken-promise accounts.

Regional managers have on-site field office status meetings every other month to review progress on delinquent accounts. At five months past due, accounts are transferred to a specialized, more experienced collection staff in Mexico City. In the next phase, in-house legal department, and the use of outside attorneys as required, help the special collection staff. The attorneys perform file reviews for potential legal action, and record comments regarding documentation problems on the servicing system.

The special collection section is divided into judicial and non-judicial teams. The non-judicial collectors, for accounts between four to six months delinquent, continue to work with the borrower to effect a resolution either through payments or obtaining a deed-in-lieu. Once an account reaches six and seven months delinquent, it is forwarded to the judicial area, and, depending on workload and location, in-house attorneys or outside counsel begin the foreclosure process. Management states that approximately 88% of past due loans return to performing status, which is favorable.

Standard & Poor's believes the collector rotation between early-stage and more advanced delinquent accounts is an appropriate use of personnel that allows management to focus on the riskier accounts in the portfolio.

The company's in-house legal department oversees the foreclosure process, and is responsible for general corporate matters. Su Casita makes physical inspections during the foreclosure period as well as from the fifth month of delinquent account. The company uses a formal committee for approving all foreclosures.

Senior collection managers make recommendations to initiate foreclosure based on an updated appraisal, and evaluation of costs versus expected recovery. During the valuation process it's important to consider that:

- Values are based on existing development project information and broker price opinions.

- Su Casita uses its construction lending division to validate property values, which is a prudent internal control.
- A spreadsheet program calculates the net present value based on standard costs and holding times.

Standard & Poor's recommends that Su Casita obtain two independent valuations to determine the list price of the foreclosed assets. Also, Standard & Poor's believes it's positive that the company makes its valuations using three different methods.

Through initiation of legal action, the company has resolved problem accounts prior to actual foreclosure. Outside attorneys are chosen from an approved vendor list. Standard & Poor's considers that the company will have to analyze, on a regular basis, the capacity of the external legal advisers that are used for the portfolio in judicial process. The legal area oversees the actions of outside counsel. The servicing system provides for input on attorney performance tracking, and outside attorneys are required to provide monthly status reports. At the time of Standard & Poor's review, Su Casita had 423 loans in judicial process, 21 deed-in-lieu and 19 active foreclosure actions.

### ■ Financial Position

The ranking of AVERAGE is assigned for Financial Position.

The ranking is based on Standard & Poor's 'mxBBB+' local currency counter party credit rating and positive outlook for the company.

### ■ Company Contact Information

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