

# Operational Risk Assessments

## Mount Street US (Georgia) LLP

January 2020

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<b>Operational Classifications:</b>	Commercial Mortgage Primary Servicer and Special Servicer
<b>Rankings:</b>	Primary Servicer: MOR CS3 (Affirmed) Special Servicer: MOR CS3 (Affirmed)
<b>Forecast:</b>	Positive – Primary-Servicer Ranking Stable – Special-Servicer Ranking
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### Rationale

Morningstar Credit Ratings, LLC (DBRS Morningstar) affirmed its MOR CS3 commercial mortgage primary-servicer and special-servicer rankings for Mount Street US (Georgia) LLP (MSUS), an indirect operating subsidiary of United Kingdom-based Mount Street Group Limited. DBRS Morningstar also revised the primary-servicer ranking forecast to Positive. MSUS began servicing in April 2018. Accordingly, DBRS Morningstar's assessment considers the servicer's still short but increasing performance history along with its many operating strengths. Although MSUS' mandates have not involved all servicing tasks, its scope of duties is expanding; MSUS has the procedures, technology, and expertise to execute all functions effectively. The affirmed rankings and revised primary-servicer ranking forecast further reflect these factors:

#### Primary Servicing

- **Organizational Structure and Depth:** Professional depth and average experience levels are solid and have increased through new hires to address portfolio growth. MSUS' organizational structure effectively addresses its focus on highly structured, large loans demanding attentive management and reporting for its lender clients. MSUS continues to refine its structure with more-functional specialization to boost efficiency. MSUS also benefits from expanded resource-sharing from its parent and affiliate-group companies (collectively referenced in this report as Mount Street) for integrated approaches to training, technology, and compliance. MSUS is not a servicer for any commercial mortgage-backed securitizations (CMBS), but personnel have experience in that sector. Employee turnover has been moderate with no manager departures to date. During 2019, MSUS expanded its training function as well.
- **Technology:** MSUS' technology platform is a core strength. The company uses purchased commercial-mortgage servicing and asset-management systems in tandem with an intranet-based workflow-management tool. This year, MSUS expects to transition to Mount Street's highly functional proprietary asset-management application, further enhance it, including plans for a treasury-management module, and integrate it with the servicing system. MSUS already leverages the application's borrower and client portals. A global technology team and vendor manage user support, data security, and disaster-recovery readiness.
- **Internal Audit and Compliance:** In 2019, MSUS established a compliance team, enhanced its policies and procedures, and expanded its internal-audit program, which centers on annual Service Organization Control 1 (SOC 1) Type II examinations plus quarterly

operational audits. The first two SOC 1 reports have listed no material findings, and the compliance team's first three quarterly audits of 2019 also had satisfactory results. MSUS' workflow and technology applications also have embedded compliance-monitoring elements. Should MSUS service publicly rated CMBS transactions, it will add Regulation AB attestations.

- Loan Administration and Portfolio Management: MSUS has proactive, controlled practices for asset surveillance, transaction processing, and other core functions. The company continues to implement automation and process refinements to address increased portfolio volume and geographic diversity. During 2019, MSUS contracted with nationally recognized vendors for real estate tax administration and UCC statement tracking and renewals. It added a forced-placed insurance policy and an onsite check-scanning capability and automated the process to initiate annual escrow account reviews. As a sound practice, MSUS' delegations of authority require committee approval for most credit decisions. The company has not yet managed borrower-consent requests but has the procedures and collective experience to handle that function effectively.

### Special Servicing

- Asset-Manager Experience and Professional Depth: MSUS is not a named special servicer and has not had the opportunity to manage any active assets. However, several managers have held senior positions at other special servicers or have other related experience. Affiliate Mount Street Portfolio Advisers LLC, which is completing its liquidation of the large U.S. portfolio of the former WestLB Bank, has senior managers to support special servicing as well.
- Technology: The technology platform provides centralized data management, detailed asset- and portfolio-level tracking, and workflow management to address CMBS and other specially serviced assets.
- Asset Analytics and Resolution Practices: Based on its practices for performing loans and its special-servicing procedures, MSUS has the foundation and ability to manage and resolve distressed assets in a proactive, controlled manner with sound analytics.
- Internal Audit and Compliance Controls: The company expects its internal-audit and compliance practices to cover special-servicing work. MSUS also plans to have control vendor oversight through approved lists, standardized agreements, and centralized status tracking.
- Conflicts-of-Interest Management: MSUS serves strictly as a third-party servicer. It intends to serve in a similar capacity for special servicing and operate without controlling classholder affiliations should it take on CMBS work.

As of June 30, 2019, MSUS' servicing portfolio consisted of 240 loan positions (232 underlying properties) with an aggregate unpaid principal balance (UPB) of approximately \$9.03 billion, compared with 243 loan positions with an aggregate UPB of \$8.92 billion as of Dec. 31, 2018, and 27 loans with a \$1.46 billion UPB as of June 30, 2018. While servicing for five balance-sheet clients, MSUS' portfolio included 94 syndicated loan positions involving 20 other lenders. To date, the portfolio has not contained any loans with past due payments, and MSUS has not managed any specially serviced assets.

### Forecast

DBRS Morningstar revised the forecast for MSUS' primary-servicer ranking to Positive from Stable. While MSUS is a smaller-scale operation, it demonstrates a favorable growth trajectory and ongoing success in building its performance track record. MSUS continues to strengthen through increased organizational depth, expanded training/staff-development, technology initiatives, process enhancements, and the implementation of a sound audit program. The forecast for the special-servicer ranking remains Stable. MSUS has the resources, technology, and procedures to serve competently as a special servicer for a range of asset and investor types, including CMBS transactions.

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## Company Profile and Business Overview

MSUS is an indirect subsidiary of Mount Street Group Limited, the parent company of Mount Street, a privately held group founded in 2013. Mount Street has continued to grow year-over-year in terms of portfolio volume and personnel. Mount Street has approximately 190 employees in ten offices: London (headquarters), Dublin, Athens, Düsseldorf, Frankfurt, Madrid, New York, Atlanta, Hamburg, and Sydney, which opened in late 2019. Mount Street opened the Atlanta office in October 2017 to serve as the hub for the MSUS operation to service loans in the United States. MSUS began servicing loans in April 2018.

Through its operating subsidiaries, Mount Street's core businesses are credit advisory and underwriting, asset and portfolio management, distressed debt resolutions (especially for "bad bank" portfolios), and loan servicing for third-party investor/lender clients participating in structured finance and other credit transactions. Global assignments and assets under management include not only commercial real estate positions (permanent and construction loans) and mortgage-backed securities transactions, but also corporate loans, project finance/infrastructure financings, and asset-backed transactions involving sectors such as shipping, aviation, and energy. Mount Street noted that it has become the largest servicer of shipping receivables in Europe. While most transactions have been U.K.-centric, the company has managed sizable deals in Ireland, Italy, The Netherlands, Germany, France, Greece, and Spain. Mount Street also has advised clients and handled assets in the Middle East, Asia, and the U.S. As of November 2019, the company's global managed portfolio totaled approximately \$90 billion, up from \$70 billion a year earlier.

The company services European and other non-U.S. loan portfolios primarily through its 110-person Mount Street Mortgage Servicing Ltd., which has become Europe's largest-volume third-party commercial real estate loan servicer. MSMS is an authorized credit servicing firm in Ireland and holds a debt collections license in Germany. The servicer also was recognized as European Servicer of the Year in 2016 and Servicer of the Year in 2017 and 2018 by trade publication Real Estate Capital. Propelling Mount Street's rapid growth were its acquisitions of Crown Credit Services GmbH in 2013 and Morgan Stanley Mortgage Servicing Ltd in 2014. In 2016, Mount Street launched a strategic partnership and associated management buyout with Aareal Bank, AG, which, along with other portfolio acquisitions, has further increased Mount Street's servicing book. In early 2017, Aareal Bank also acquired a 20% ownership stake in Mount Street.

In October 2017, Mount Street, through MSMS, acquired EAA Portfolio Advisers GmbH and rebranded it as Mount Street Portfolio Advisers GmbH. MSPA is licensed for investment advisory, portfolio management, investment brokerage, and other brokerage services across Europe and includes a U.S. affiliate, which became an SEC-registered investment adviser on December 11, 2018. MSPA's principal business has been completing EAA's original mandate: to liquidate the remaining distressed-debt portfolio of the former German state-controlled bank, WestLB, AG. As of November 2019, the remaining MSPA-managed WestLB pool balance was approximately €13.0 billion, down from €97 billion in 2011 when MSPA (through its predecessor entity) took on the assignment of liquidating a major part of the €150 billion WestLB pool balance. The WestLB portfolio represents a diverse mix of asset types and financing structures, with a concentration of complex asset-backed collateral and transactions in addition to some involving commercial real estate projects and project finance. The portfolio also has included a substantial volume of U.S.-based assets managed by an MSPA New York office. Mount Street intends to leverage MSPA's expertise in Europe and the U.S. for potential third-party assignments involving ABS and CMBS/CLO due diligence, portfolio acquisitions, asset surveillance, and distressed-debt resolutions, including special-servicing support for MSUS if needed. Recently, MSPA and MSUS have cobranded their services to bid on third-party work as well.

MSUS' first client was the U.S. subsidiary of Aareal Bank, Aareal Capital Corp., which transferred a large, seasoned balance-sheet portfolio to MSUS in 2018 and continues to have MSUS service its newly originated balance-sheet loans. While ACC remains MSUS' principal client, the

servicer has since added four other lender clients: two in 2018 and two more in 2019. The portfolio includes mostly large-scale, highly structured loans and many syndicated positions in which MSUS serves as lead servicer. Some of its servicing work involves construction loan asset management as well. More recently, MSUS added another client to provide underwriting/due-diligence service related to a REIT's real estate equity investments. As of September 30, 2019, the total servicing volume was \$9.64 billion (approximately \$10.5 billion in total loan commitments) consisting of 253 loan positions and 234 loans based on consolidated project relationships or properties.

**Table 1 – Historical Primary- and Special-Servicing Volume**

	June 30, 2019		December 31, 2018		June 30, 2018	
	UPB (\$ mil)	*Loans/Properties	UPB (\$ mil)	*Loans/Properties	UPB (\$ mil)	*Loans/Properties
Total Primary Servicing†	9,031.3	240/232	8,919.3	243/241	1,455.8	27/42
Total Active Special Servicing**	0	0	0	0	0	0
As a Named Special Servicer**	0	0	0	0	0	0

\*Loan counts reflect multiple note positions associated with a single project loan or relationship. \*\*Excludes affiliate Mount Street Portfolio Advisers' sizable U.S.-based asset-resolution work associated with its ongoing mandate to liquidate the holdings of the former WestLB Bank.

## Operational Infrastructure

### Organizational Structure

During 2019, through some additional hires and functional realignment, MSUS refined and expanded its organizational structure to encompass three operating units: asset management, servicing operations and treasury, and strategic projects and compliance. In conjunction with Mount Street's global information technology head, MSUS expects to hire a fulltime IT developer in early 2020. Notable staff additions since late 2018 include an executive director of operations, a servicing/treasury department manager, a tax/insurance specialist, and a loan servicing associate. As a result of these and some earlier hires, MSUS comprised 15 people as of November 2019, up from 10 people as of June 2018 and six people when it began operations.

**Asset Management** - The four-person asset-management team covers loan surveillance (financial performance and modeling, inspection reviews, and watchlist management), borrower consents, and reserve account/construction draw reviews. This team also assists with monthly investor reporting, which the servicing operation team coordinates and is handled mostly through an interactive and self-servicing client portal. The asset managers monitor cash-managed loan agreements and payment waterfalls in conjunction with the loan-servicing team and the treasury manager.

**Servicing and Treasury** - The six-person loan-servicing team administers all loan-level transaction processing and accounting, including investor-remittance and escrow-account disbursement requests in conjunction with the team's treasury manager. As an organizational realignment this year to boost function-driven efficiency, MSUS moved real estate tax, insurance, and UCC administration to the servicing operations team, which is the customary approach for most servicers.

Strategic Projects and Compliance - During 2019, MSUS also established this department to manage the company's policies and procedures, coordinate external audits, monitor servicing-agreement and other loan-compliance requirements, and conduct its own internal audits. The servicer's strategic-projects director, who helped launch the U.S. operation, manages compliance and audit in conjunction with a senior associate who originally joined MSUS as a temporary paralegal to assist with document reviews and compliance issues. MSUS' recently hired operations head provides additional management support for this team.

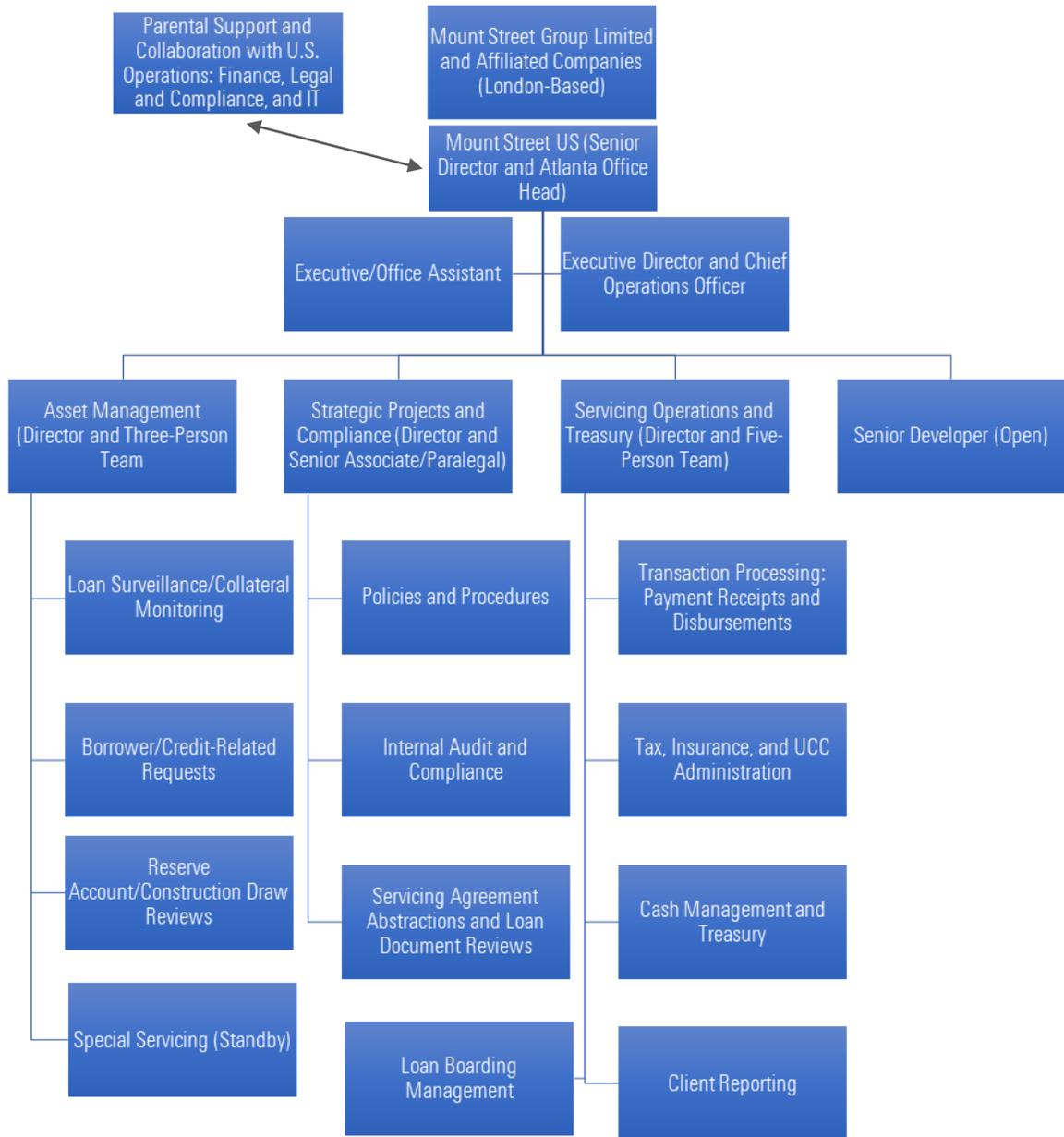
The organizational structure continues to follow a portfolio/client-centric team approach. However, MSUS plans to add more functional specialization for certain processes to raise efficiency levels as the portfolio grows. An assigned relationship manager (generally an asset manager) serves as the borrower's main point of contact and collaborates with others across the operation to address issues and requests.

Because MSUS' managed portfolio as of this report date contains no defaulted loans and the company does not yet manage any specially serviced assets, it does not have dedicated staff for special servicing. However, MSUS believes it can address any immediate needs through several senior staff members, including the Atlanta office head, who have the requisite backgrounds and skills to assume such work. Either before or in tandem with hiring staff, the company also can leverage MSPA's New York-based asset-management team to support special servicing as the MSPA legacy WestLB portfolio winds down and affords more excess capacity to handle new assets.

MSUS contracts with a national vendor for payroll, benefits, related human-resources needs, and certain elements of the MSUS training function. The vendor provides a dedicated human resources manager to MSUS as well. During 2019, MSUS engaged nationally recognized tax service and UCC vendors to support loan servicing.

Mount Street's London-based information-technology staff provides application programming, training, and technical support in collaboration with an international data-services vendor that serves Mount Street's offices.

**Chart 1 – Mount Street U.S. Organizational Structure (November 2019)**



## Management and Staff Experience

Through hiring in the past year, including the addition of a chief operating officer and a new servicing operations head, the management team's average industry experience has increased, with several managers having more than 20 years of experience. With two staff additions in servicing operations, average experience for staff also has increased. With the credit culture for the organization especially oriented around large-loan portfolio management, several managers, as noted, have solid special-servicing backgrounds as well. The MSPA team, which can support MSUS for special servicing if needed, averages more than 20 years of experience managing large, complex nonperforming assets.

**Table 2 – Management and Staff: Average Years of Experience**

	June 2019		September 2018	
	Industry	Tenure at MSUS or Affiliate	Industry	Tenure at MSUS or Affiliate
Primary Servicing				
Senior Management*	26	4	23	3
Middle Management	17	1	14	<1
Staff	8	1	6	<1
Portfolio Management Staff Only**	12	>1	12	<1
Special Servicing Resources				
MSUS- Asset Managers***	14	2	12	1
MSPA- New York Team	22	3	22	2

\*Includes MSUS' senior director who manages the Atlanta office, Mount Street's managing partner who oversees global servicing, and Mount Street's COO who is also closely involved in MSUS' operations. Excludes the recently hired MSUS operations director who has 25 years of experience.

\*\*Positions principally involving asset-performance monitoring and managing credit-related requests.

\*\*\*Includes MSUS' Atlanta office head, the operations director, the asset-management department manager, and two asset managers.

## Workload Ratios

Based on its staffing complement and servicing portfolio as of November 2019, the company had an approximate 17:1 loans-to-total employee ratio. On a borrower/project-relationship basis, the ratio was slightly lower. For special servicing, as noted, MSUS has available asset managers, including direct involvement from its management team and supplemented if needed by MSPA resources, to accommodate a low-to-modest volume of assets based on any prospective special-servicing assignments or from the existing servicing portfolio. MSUS could serve as the special servicer for its current servicing clients, although that has not been established.

## Management and Staff Turnover

Since inception, MSUS has not had any management turnover and three staff-level departures: two between January 2018 to June 2019 and another one later in 2019. Two of these departures were involuntary.

Including three people who joined after June, MSUS hired four people in 2019: an executive director of operations, a new servicing department manager, a new tax/insurance associate, and another servicing associate. At year-end 2019, MSUS had 15 total employees, up from 13 people at the end of 2018.

Mount Street's recently hired new global IT head expects to add a senior-level on-site technology developer for MSUS in early 2020. The company expects to incur lower turnover during 2020 as it continues to focus on portfolio growth, stringent hiring practices, and cultivating a collaborative work environment for team building and career-path development. MSUS noted that it recently enhanced its benefits package, which may have a positive impact on employee retention as well.

**Table 3 – MSUS Management and Staff Turnover Rates\***

	First-Half 2019		2018	
	Personnel (#)	Rate (%)	Personnel (#)	Rate (%)
Employees - Beginning of Period	13		6	
Voluntary Management Departures	0	0.0	0	0.0
Involuntary Management Departures	0	0.0	0	0
Total Management Departures	0	0.0	0	0.0
Voluntary Staff Departures	1	7.7	0	0.0
Involuntary Staff Departures	0	0.0	1	16.7
Total Staff Departures	1	7.7	1	16.7
Total Turnover	1	7.7	1	16.7
Total New Hires	1 (Manager)		8 (2 Managers)	
Employees - End of Period**	13		13	

\*Staff departures divided by number of staff at beginning of period. MSUS has no specially serviced assets under management; it intends to designate asset managers from primary servicing, leverage MSPA personnel, and/or add staff as needed. \*\*15 people as of November 30, 2019.

**Assessment:** Because of recent hiring and some organizational realignments, MSUS displays a strengthened operating structure with increased management and staffing depth. The scalable organizational structure effectively emphasizes cross training and relationship management to address the company's business niche catering to highly structured and syndicated loans and clients demanding attentive portfolio management and detailed reporting. The company's shift toward more functional specialization for certain loan admin processes should increase efficiency as well. Average experience for managers and staff is solid and has increased from 2018.

Based on its staffing, automation levels, and portfolio profile, MSUS noted that has some excess capacity to address a moderate amount of portfolio growth and counter any employee turnover, which has thus far been relatively low. The company also demonstrates an ability to recruit experienced personnel to stay ahead of growth. The support from Mount Street for resources, and especially for technology initiatives, further bolsters the operation.

## Training

The MSUS compliance team, in conjunction with other managers, provides formal training for all employees. MSUS uses its human resources vendor's web portal to track employee training activities and completed hours. During 2019, MSUS aligned its training function with Mount Street's global training platform and online learning resource vendor to increase the total course offerings. Through the combined vendor-supported portals, employees have access to sizable libraries of soft skills courses, including some required elements. MSUS noted that it has conducted training sessions covering CMBS and other servicing industry-specific topics as well.

To acclimate new employees, MSUS has a formalized and required 90-day launch program. During 2019, MSUS refined and enhanced its new-employee training curriculum with more specific foundational coverage of each functional area and its processes. New-employee training also emphasizes MSUS' change-process culture, which encourages employees to openly communicate suggestions for workplace and operational improvement and collaborate on their implementation.

In late 2019, MSUS formed a training committee, with representatives from each organizational department, to monitor and champion the company's training efforts. Working with MSUS managers, the committee's objectives include developing an internship/university outreach program, building a mentor program, identifying training needs and creating new course offerings along with a curriculum tailored for managers and specific positions, hosting bimonthly sessions that may include invited external speakers, leading job-specific sessions on procedural/internal-control touch points, and producing servicing/asset management tutorial videos. For 2020, MSUS plans to formally track departmental and individual training goals to help meet these objectives.

MSUS targets 40 hours of training per year for each employee. During the first half of 2019, employees averaged 18 hours of formalized training. The company noted that it grants a maximum of three training-credit hours for every day of conference attendance.

**Assessment:** Although in operation for less than two years, MSUS has established a solid commitment to employee training and job-skills enrichment. The company's ability to effectively leverage its parent's training platform and other vendor-supported learning tools is an operational advantage. Based on the objectives of its recently formed training committee and other enhancements made during 2019, MSUS' training function should continue to strengthen during the coming year.

## Technology, Disaster Recovery, and Cybersecurity

Mount Street's London-based information-technology team supports application programming and hardware needs across all business lines including the MSUS operation. The IT staff oversees a SOC/ISO-compliant technology services vendor, which provides a cloud-based network infrastructure, data backup and data-center management, disaster-recovery testing, and 24/7 user support for all Mount Street offices. The vendor also helps MSUS manage its cloud-based telephone system and virtual private network. As noted, MSUS expects to soon have an onsite technology developer to support various initiatives in collaboration with the Mount Street team.

MSUS uses a current version of McCracken Financial Solutions' Strategy servicing system via a remote-hosted application service provider. Strategy, which is widely used by commercial mortgage and CMBS servicers, serves as the system of record and provides loan-level transaction processing and accounting for the entire serviced portfolio. Through its principal servicing client ACC, MSUS also uses the cloud-based ReallNSIGHT asset-management application specifically for asset-level surveillance and internal reporting for the ACC loan portfolio.

Aside from its purchased applications, MSUS leverages Mount Street's proprietary application, now branded as CreditHub, that receives servicing-system data through a bridging database to deliver investor reporting and manage information exchanges through a client web portal. MSMS and MSPA use this application to service and manage non-U.S. portfolios across different asset classes including European CMBS and other securitized transactions.

Mount Street continues to customize CreditHub and add functionality to support the U.S. portfolio and, prospectively, CMBS reporting. During 2020, MSUS plans to integrate the Strategy servicing system with CreditHub and make it the central tool for surveillance, portfolio management, and client reporting for both performing and specially serviced assets. Longer term, MSUS also may transition all loan administration to CreditHub as MSUS noted that the application already has the functionality to support most of that work.

MSUS noted that the current features of CreditHub include the following:

- Investor reporting for MSUS' current lender clients
- A self-service portal for lenders and borrowers with information respectively related to billings, rate-change and other notices, loan-level receipt and disbursement histories, banking transactions, loan documents, deal/loan data snapshots, insurance coverages, and reserve/escrow balances. Through the portal, borrowers can submit financial statements and documents to fulfill loan-draw and other credit-related requests.
- Asset- and data-level access rights enabling information exchanges with borrowers, servicing clients, and other external parties
- The ability to translate content into seven languages, convert currencies, and modify data formats for non-U.S. investors
- Relational database filtering to view and export data at the loan-level, debt/note-level, and property-level with customizable formats for reporting and analysis, including graphics capabilities
- Diary/tickler-management to issue alerts regarding performance threshold points such as loan covenants and trigger events
- Covenant-breach analysis and asset performance trending based on actual data and pro forma assumptions
- Workflow management with electronic credit decision and approval tracking for linear and committee-type delegations
- Two-step login authentication protocol

In the coming months, with the expected hiring of the onsite developer, MSUS plans to build and implement a cash-management and banking module within CreditHub to streamline funds transfers, bank account reconciliations, and other treasury-related tasks. MSUS' other in-process or 2020 initiatives for CreditHub include enhancements to loan-covenant calculation/monitoring, payment waterfall automation, expanded trending and predictive functionality for asset analytics, more automation for borrower notices, and improved document-exchange and reporting functions.

Until it transitions to CreditHub for such functions, MSUS continues to use an intranet-based workflow and diary-management application, which has reporting and audit-trail capabilities, to manage loan-level tasks, borrower requests, new-loan pipeline and boarding activity, and general internal communications and document sharing. The workflow tool includes a voucher-template module for servicing staff to initiate

online requests for the treasury manager to approve and process remittances and set up new custodial bank accounts for investors and cash-managed loans.

In October 2019, MSUS updated its disaster-recovery/business-continuity plan, which details communication procedures for event declarations, cascading emergency information, and employees' access to all required technology applications. Through its parent and vendor, MSUS replicates data from its primary data center in Connecticut to servers at a Chicago data center on a real-time mirrored basis. The company also has dedicated desktop computers at the backup site to ensure all employees with appropriate access rights can use their VPN connections to continue working on the servicing system, which is not directly web accessible.

MSUS conducts formal disaster-recovery testing annually, with other testing exercises performed quarterly. MSUS successfully completed its first formal test in September 2018 followed by another successful test of failover servers in August 2019. The company also successfully tested employees' remote connectivity in December 2019.

The company stated that its disaster-recovery capabilities support the restoration of files from any access point within the past five years and the resumption of applications and core servicing processes within one hour, or more likely, within a few minutes. MSUS stated that all employees have capabilities enabling them to execute remotely all tasks that they perform in the office. Security protocols include a network-based intrusion-detection system and two-factor authentication for VPN access. Additionally, the cloud-based telephone system, through failover servers, can forward employees' company landlines to their mobile devices.

**Assessment:** MSUS' technology platform contains automation and other data-management elements not necessarily found at some long-established and larger-volume mortgage servicers. The company's technology capabilities and resources address the complex loan structures of the portfolio and should be scalable to accommodate a significantly larger servicing portfolio and any special-servicing work. We expect MSUS will continue to realize higher efficiency levels across servicing functions from its ongoing automation and application consolidation initiatives. Based on its data backup protocols, testing regimen, and vendor support, MSUS demonstrates sound disaster-recovery and business-continuity preparedness. However, some servicers back up their data to a tertiary facility and may also rotate data to an offsite storage provider, to reduce risk further.

### Audit, Compliance, and Procedural Completeness

In January 2019, MSUS established its strategic projects and compliance team consisting of a director and paralegal senior associate. The team operates under the purview of MSUS' recently hired operating officer and Mount Street's legal and compliance department. In February 2019, Mount Street's legal and compliance department established an independent global audit committee to plan and oversee all audit activities and provide standard practices for monitoring and measuring operational risk.

For the U.S. platform, the MSUS compliance team directly oversees externally conducted audits and executes an internally conducted risk-prioritized audit process. It also administers policy and procedural updates, oversees corporate governance, monitors servicing compliance, and coordinates and promotes process improvement initiatives.

MSUS's expanded audit and compliance regimen consists of the following:

- An annual SOC 1 Type II examination conducted by an external accounting firm
- Internal audits conducted by the MSUS compliance team that focus on different aspects of servicing each quarter

- Audits conducted by MSUS' principal client

To date, MSUS has undergone two SOC 1 examinations, including one completed in December 2019. Additionally, the compliance team conducted audits covering each of the first three quarters of 2019. MSUS' principal client completed an audit of selected processes in October 2019 as well. MSUS tracks open and resolved audit items through a risk register report. All completed audits have had satisfactory results with no material findings.

To supplement these formal audits, the compliance team abstracts servicing agreements to monitor a range of quality-control/performance metrics and required items, with the tracking handled through intranet-accessible reports. The team also reports any exceptions to a management committee that meets twice per month.

The MSUS' compliance team, in conjunction with other managers, manages the company's policy and procedures and any updates. Employees have access to all approved policies and procedures through the company's intranet site. While the procedures center on core primary-servicing functions, they include loan default management and elements of special servicing.

During the past year, MSUS has revised and enhanced its policies and procedures, including the addition of desktop manuals and expanded instructional references and templates for external notices, tracking forms, and reports. In 2020, MSUS plans to enhance its desktop manuals further for new and other selected positions.

MSUS' intranet contains audit control points, including the associated objectives, measurements, and examples of proper evidence to reduce the risk of exceptions. The company's interactive workflow/diary management application on its intranet, which includes audit trail functionality, also provides a first-line defensive tool in support of business controls.

**Assessment:** By establishing a U.S.-based compliance team and a global audit oversight committee and achieving its goals for an expanded audit program, MSUS demonstrates enhanced and well-designed internal-audit and quality-control functions. To the extent MSUS becomes a servicer or special servicer for a publicly rated CMBS, it will add annual Regulation AB attestations.

MSUS demonstrates enhanced policies and procedures to support staff training and operational consistency as the company builds its client base and completes more technology initiatives. MSUS' centralized compliance function also helps ensure policies, procedures, and embedded technology-based workflows adhere to servicing agreements and regulatory requirements.

## Legal Liability and Corporate Insurance

MSUS has global insurance coverage for directors and officers, civil liability (error and omissions), crime, and property loss through combined policies with a highly rated U.K.-based insurer for Mount Street. MSUS does not have a separate mortgage impairment policy but noted that its existing corporate policies essentially address this need. Additionally, the servicer is doubling its errors and omissions policy coverage effective in the first quarter of 2020. MSUS has not yet procured data-protection liability insurance, which is becoming more common among servicers. The company reported that it was not involved in any material pending litigation related to its servicing operations. Additionally, MSUS reported that it has not received any servicing-agreement default notices or citations related to performance deficiencies.

**Assessment:** MSUS' action, as part of Mount Street's global risk-management program, to double part of the corporate insurance coverage is a positive move. MSUS appears to have an adequate and strengthened level of corporate insurance. However, it may still be underinsured because it shares its insurance policies and their coverage limits with Mount Street's European servicing platforms.

### Primary-Servicing Portfolio Administration

As of June 30, 2019, the servicing portfolio contained 240 loan positions with a total UPB of \$9.03 billion for five core bank clients, up from 104 loan positions with a total UPB of \$5.05 billion for three core bank clients of September 30, 2018. MSUS serviced loans with collateral in 31 states. The portfolio had asset concentrations in Louisiana (56 properties), New York (33 properties), Alabama (22 properties), California (16 properties), Illinois (12 properties), and Texas (10 properties). MSUS serves as a noncashiering asset manager for several loans, including a large-scale (nearly \$100 million UPB) mixed-use development project in Costa Rica.

**Table 4 – Total Servicing Volume by Property Type (as of June 30, 2019)**

Property Type	UPB (\$ 000s)	Loan Positions	% (UPB)	% (Loans)	Average Size (\$ 000s)
Lodging	2,493,697	57	27.6	23.7	43,749
Mixed Use	526,184	15	5.8	6.3	35,079
Multifamily	213,422	9	2.4	3.8	23,714
Office	4,316,732	103	47.8	42.9	41,910
Retail	1,481,280	56	16.4	23.3	26,451
Total	9,031,315	240	100.0	100.0	37,630

### Loan Boarding, Hedge Agreements, Letters of Credit, and Uniform Commercial Code Renewals

MSUS handles loan boarding through a team approach principally involving servicing operations and compliance. To board loans onto the servicing system and monitor progress, the company uses its interactive workflow tool. For the 12-month period of July 2018 to June 2019, MSUS boarded 232 loans with a total UPB of approximately \$8.33 billion. MSUS received most of these loans in 2018 in stages as bulk transfers from another servicer with the remainder representing newly originated loans. During this period, MSUS boarded 42 modified loans as well.

MSUS targets three days to board new loans with data necessary to conduct payment processing and investor reporting. With most loans received as transfers, the company noted that actual time has averaged less than two days. During the boarding phase for primary-serviced and, prospectively, for any specially serviced loans, it creates and centrally maintains summaries of deal-specific and loan-level servicing and related PSA requirements. Loan-boarding procedures require staff to compare system inputs with source data and include a secondary level of review. The servicing system also provides data-input exception reporting. MSUS uses technology-mapping tools to facilitate the bulk-loan transfer process, which has involved a different outgoing servicing system. The company's quarterly audit program also checks for exceptions related to loan-boarding accuracy.

Through a semi-automated process, the company issues borrower welcome letters no later than three days after the effective date of a new servicing assignment or one day after boarding a loan. Beginning in 2020, welcome letters for transferred loans also will include borrowers' compliance requirements. MSUS also plans to build more automation in 2020 around the creation and issuance of borrower welcome packages.

As noted in the summary of MSUS' technology, the company inputs borrower compliance items and covenant triggers during the boarding phase for ongoing tracking.

Within its current scope of duties, MSUS does not monitor any letters of credit (LOCs) as supporting collateral. However, MSUS noted that it has the compliance-tracking capabilities and vault storage to do so. The company does monitor interest-rate cap agreements. It abstracts the key terms of the hedging agreements to track borrower compliance and counterparty credit ratings.

The servicer noted that all loans have UCC filings, as applicable, and it tracks upcoming expirations through the servicing system. As an operational enhancement in 2019, MSUS contracted with a third-party vendor to assist with tracking and filing UCC continuation statements. Thus far, it has not had any filings in need of renewal.

**Assessment:** From its initial client mandate, MSUS has gained considerable experience with loan boarding and especially systems mapping, external servicer coordination, and abstracting complex loan agreements to establish compliance tracking and servicing rules. The company's team approach to this work, procedures, technology support, and accomplishments thus far indicate that it has managed this function in a thorough, controlled, and expeditious manner. As a better practice, MSUS also revised its procedures to include loan compliance obligations in the welcome letters issued to borrowers on transferred as well as newly originated loans. The company also strengthened its tracking procedures for UCC filings by engaging a vendor specialist to assist with that function.

## Payment Processing

MSUS receives essentially all payments as wire transfers, with a growing portion of the portfolio involving cash-managed loans. However, MSUS does use dual-control and logging procedures to retrieve and open the daily postal mail in the unlikely event a borrower pays by check, which it will deposit the same day, if possible. As a process improvement, MSUS implemented an onsite deposit-scanning capability in 2019. The company segregates check-deposit preparation, system posting (using check copies), and bank activity reconciliations among staff.

As required by its servicing agreements, MSUS receives borrower payments directly into respective client-specific custodial accounts rather than through a central clearing account. It then wires funds to its investor clients from these accounts through established and repetitive remittance protocols controlled through a locked-down, treasury-managed Excel file. For cash-managed loans, MSUS monitors daily cash sweeps of tenant-level payments from local banks. MSUS provides paperless billing statements with borrowers alerted through emails and web portal notices.

Through a mostly manual process, the servicing team posts each payment to the servicing system, which will allocate funds to the loan's respective escrow account records. The asset-management staff provides guidance to revolve any nonmatching payments. With a segregation of tasks among staff, MSUS balances custodial bank account activity daily with system entries and records. MSUS uses an electronic voucher and approval process through its intranet that enables servicing staff to send escrow disbursement or new bank account requests to treasury staff. However, the voucher system is not connected with the servicing system. As noted, MSUS intends to automate more of its cash-management and treasury processes through CreditHub enhancements and integrating that application with the servicing system in 2020.

As of June 30, 2019, MSUS reported no unreconciled or unidentified items older than two days in its investor accounts or payments held in suspense that were older than 60 days.

For floating-rate loans, MSUS automatically updates indexes, and corresponding interest rates, daily through a technology-developed process, which extracts index changes from source files to an Excel format that uploads to the servicing system through its mapping tool. MSUS also routinely spot checks the accuracy of indexed rates.

**Table 5 – Primary-Servicing Floating-Rate and Cash-Managed Loans**

	June 30, 2019		June 30, 2018	
	UPB (\$ 000s)	Loans (#)	UPB (\$ 000s)	Loans (#)
Floating-Rate Loans	7,482,951	208	1,146,303	20
Component of Primary Servicing (%)	82.9	86.7	78.7	74.1
Cash-Managed Loans*	1,831,687	40	463,839	6
Component of Primary Servicing (%)	20.3	16.7	31.9	22.2
Noncashiering Loans**	102,216	7	98,668	4
Component of Primary Servicing (%)	1.1	2.9	6.8	14.8

\*Active hard lockbox agreements. \*\*Servicing duties exclude payment receipts/disbursements processing and related accounting.

**Assessment:** MSUS has a controlled payment-processing function based on its stated practices and procedures, lack of any aged suspense or unidentified items, and clear results from its SOC 1 and other audits. The company's plan to build an integrated treasury-management module in 2020 should likely improve transaction-processing efficiency especially for an increasing volume of cash-managed loans and underlying bank accounts. By consolidating its bank-account management and exploring services/products developed to support automated funds transfers and cash management, MSUS may be able to streamline its treasury processes further to realize increased operating efficiency. As is common among larger-volume servicers to achieve higher efficiency, exception-based processing and/or banking system interfaces could facilitate payment posting. The company's automated process of updating floating-rate loan index changes is effective. MSUS may consider adding rate index reviews as part of its quarterly audit program.

### Real Estate Tax and Insurance Administration

To address growing portfolio volume and geographic diversity, MSUS contracted with a tax service earlier this year. As noted, the company also realigned tax and insurance administration under the servicing-operations team and hired an associate to manage these functions.

As of June 30, 2019, MSUS had 86 loans, or 36% of its primary-serviced portfolio, escrowed for real estate taxes. Its policies call for remitting tax payments within early-pay discount periods. Through September 30, 2019, the servicer had not incurred any penalties because of late or missed payments. The company uses the servicing system to track tax payment due dates and the payment status for all loans, whether escrowed or not. For nonescrowed loans, MSUS confirms that taxes have been paid, including sending notices to borrowers requesting evidence. Rather than using the servicing system, MSUS generates and sends borrower notices manually through other applications. During 2020, the servicer plans to use the CreditHub application with the borrower portal to generate these and other reminder notices and other alerts.

As of June 30, 2019, MSUS had 43 loans, or 18% of its primary-serviced portfolio, escrowed for insurance premiums. It manages insurance administration, including policy reviews and renewal tracking, completely inhouse through the recently hired insurance specialist with support from other team members. The company tracks insurance requirements at the loan and property levels through the servicing system, although it may transition some of this work to the asset-management application as its functionality increases. MSUS validates insurance requirements, including carriers' credit ratings, annually at the time of policy renewal. Through the servicing system, the company issues its first policy-renewal reminder notice to borrowers at 30 days before expiration and again at seven days before expiration.

As an operational improvement, the company recently procured a forced-placed insurance policy underwritten through Lloyd's. The policy provides automatic coverage upon the expiration or cancellation of the borrower's policy and has a minimum 90-day retroactive provision. The forced-placed policy includes earthquake and flood coverages and general liability protection for real estate owned properties. Although the base coverage limit for a single property is \$20 million, MSUS noted that it can increase the limit at the time of placement.

**Assessment:** MSUS' tax and insurance administration practices are sound. MSUS has strengthened these functions by hiring an experienced staff member specifically for these areas, engaging a tax service, and adding a forced-placed insurance policy. These collective actions should increase operational efficiency to handle a growing and geographically diverse portfolio. The timeline to issue insurance policy renewal notices is sufficiently proactive, although some servicers begin to issue notices at an earlier point.

### Capital Expenditure Reserve Management

The asset-management team has responsibility for reviewing property-level capital expenditures and requesting the release of funds from reserve accounts tracked through the servicing system. The company re-analyzes reserve account adequacy annually. Prior to disbursement, management must approve all reserve-account disbursement requests. MSUS' reserve-account management may also involve budget approvals, interest-reserve analysis, and administering loan-draw requests for tenant space buildouts and larger-scale construction projects. MSUS' standard practices require lien waivers and engineering inspections to verify work progress. MSUS has staff with construction-loan servicing experience and currently serves as the asset manager on some development projects.

**Assessment:** MSUS has sound controls for capital-expenditure funding requests and reserve-account management for large and complex loan structures. Its policy to review reserve-account activity and adequacy annually also is a best practice. DBRS Morningstar also recognizes the added value of certain staff having construction-loan servicing experience.

### Investor Reporting and Accounting

Through its proprietary web portal, which receives data from the servicing system, MSUS provides its lender clients with access to detailed loan performance reports. All investor reports require manager approval prior to release.

As of June 30, 2019, MSUS executed approximately 56 separate investor-level remittances with accompanying reports each month, which included 94 lenders on 20 syndicated project loans. This is up from 21 monthly investor-level remittances as of September 30, 2018. Each remittance requires review and approval from the servicing-department head and treasury manager. Despite MSUS still being a lean organization, it segregates investor-report preparation, investor remittance, and account-reconciliation tasks. It also requires a secondary level of review and sign off for custodial-account reconciliations, which the treasury manager oversees through a mostly automated process. MSUS reconciles bank account activity daily and with each investor remittance, with more formal reconciliations performed at month-end. As of June

30, 2019, the company reported no unidentified items in custodial accounts older than 60 days. MSUS also tracks custodial banks' credit ratings for servicing-agreement compliance.

Between July 2018 and June 2019, MSUS incurred and promptly corrected a few minor reporting/remitting errors. The issues involved very small dollar amounts and several related to timing differences with fee calculations at loan boarding. In response, MSUS made some procedural and quality-control refinements. MSUS also noted that one corrected item involved the servicing system's programming for interest calculations on split loan positions; MSUS alerted the technology vendor to address the issue in a future application release.

**Assessment:** MSUS has overall sound investor reporting, remitting, and accounting as demonstrated by a solid degree of automation and an appropriate segregation of duties. MSUS also has taken steps to prevent recurrences of its reporting/remitting errors, which were all generally minor. Based on managers' experience and MSUS' demonstrated ability to handle complex loan reporting for its current clients, MSUS also should have the aptitude and technology capabilities for CMBS reporting and accounting.

## Portfolio Management and Surveillance

### Financial-Statement Analysis and Property Inspections

Asset managers, as part of their surveillance work, review property-level operating statements and inspection reports. MSUS tracks borrowers' requirements and submissions through its intranet workflow application in tandem with the purchased asset-management system, which also assists with the spreading and analysis process. MSUS intends to transition all this work to CreditHub in 2020.

While boarding a high volume of transferred loans through early 2019, MSUS noted that it has been especially focused on reviewing borrowers' financial compliance requirements to ensure enforcement, which may also require quarterly submissions of operating statements. The company received, analyzed, and reported on 88% of all required annual property operating statements by May 31, 2019, and 99% as of June 30, 2019.

Property inspection are not in the current scope of MSUS' required servicing duties. Rather, MSUS' lender clients prefer to order or conduct their own property inspections. However, MSUS receives such inspections as they become available and analyzes them as part of its surveillance activities, which will include tracking and resolving deferred maintenance issues. Mount Street centrally archives received inspection reports and links them to CreditHub. As may be required by future servicing agreements, MSUS expects to conduct property inspections through vetted and approved external vendors.

### Watchlist, Trigger Events, and Early-Stage Collections

As noted, MSUS centrally tracks all trigger-event and borrower-compliance requirements. Although its portfolio is fully performing, MSUS will establish a loan watchlist report when needed, with criteria based on trigger events, compliance covenant breaches, tenancy and property cash flow concerns, or other credit performance issues. MSUS' watchlist criteria will be inclusive of any investor-established requirements. The company noted that CreditHub provides for automatic watchlist report feeds based on property financial metrics and inspection results.

The servicing system provides real-time status and generates a daily loan delinquent report. MSUS' procedures call for asset managers to contact borrowers by telephone or email one day after applicable grace periods and within a three-day maximum time frame. Although not explicitly stated in its procedures, MSUS also stated it would issue the first formal written notice to borrowers no more than three days after a payment due date and again after 10 days. Based on a borrower's payment pattern, MSUS noted that it may contact a borrower during the

grace period as well. The company will maintain a chronology of collection efforts on its workflow or asset-management systems. For maturing loans, MSUS' procedures note that borrowers will receive notices at 60 and then 30 days in advance.

**Assessment:** MSUS has sound portfolio-management procedures to address large and complex credits. Assisted through its technology, the company's loan-boarding triage and surveillance work thus far indicates a proactive, thorough approach to financial-statement analysis, trigger-event monitoring, and potential watchlist inclusion. For any CMBS work, MSUS plans to integrate CREFC criteria and reporting guidelines for property operating statement analysis and watchlists. MSUS' delinquent-payment collection practices are overall sound, although the documented procedures could more clearly delineate the specific steps and timeline progression for issuing formal borrower notices. Most servicers also initiate borrower contact sooner than 60 days before scheduled loan maturity dates.

#### Borrower-Consent Requests (Primary and Special Servicing)

The asset-management team will handle borrower-consent requests for such items as loan assumptions, property releases, and SNDA/lease reviews related to MSUS' approval role as either a servicer or special servicer. MSUS expects to track work progress through its intranet-based workflow tool or through CreditHub and leverage the client/borrower portal for document requests and exchanges. MSUS' delegations of authority require management-team committee approval for most credit decisions, including consent requests.

**Assessment:** Although MSUS has not yet had the opportunity to work on borrower consents, several team members have experience analyzing and coordinating such requests. Its technology tools also should facilitate the analytics and processing controls to monitor timeliness. As MSUS completes its technology and procedural enhancements, it may gain efficiency by developing underwriting templates and information checklists for the most common consent types, with deference to CREFC's established guidelines.

### **Special-Servicing Administration**

#### **Asset-Review Process**

MSUS will require borrowers to sign standardized prenegotiation letters prior to workout discussions. Asset managers will conduct a full file review and prepare and obtain approval of initial loan resolution plans within 90 days of a transfer. They also will prepare and obtain approval of an REO asset resolution plan within 60 days of title transfer. Asset managers will submit an updated asset plan or status report, which includes a net present value analysis of alternative resolution strategies, to obtain approval for specific terms of negotiated resolutions. Asset managers can prepare their resolution plans directly in the purchased asset-management system. The company's delegations of authority require a formal committee process for the approval of initial asset plans and negotiated resolutions, including plans recommending foreclosure or calculation of a fair market value. For any CMBS work, MSUS plans to monitor master servicers' outstanding advances against property values and expected recovery amounts and consult with master servicers on advancing decisions.

**Assessment:** MSUS has proactive, controlled asset-recovery practices based on its stated policies and procedures. The company's proactive asset-management practices for performing loans and its experienced asset managers indicate that it should have equally effective special-servicing practices. The company's technology provides a sound platform to manage and report on specially serviced assets, including the prospective ability to handle CMBS transactions. We expect MSUS to employ rigorous asset-resolution analytics based on managers' discussion of their work and successes at other special servicers, and MSPA's record liquidating complex assets of the former WestLB Bank.

## REO Property Management

MSUS plans to use dual trust accounts to control rental income and disburse operating expenses. Asset managers will review property-level operating statements received from external property management companies and enter this information into the asset-management system for cash flow and budget-variance tracking. Apart from asset managers, accounting/treasury staff will independently reconcile the property-management REO bank accounts. Accounting staff also will establish the bank accounts and grant asset managers view-only access to them. Asset managers, with management and accounting approvals, will monitor and authorize the monthly funding of property managers' operating expenses based on approved budgets. Expenditures for larger or nonbudgeted items will also require management approval.

MSUS plans to develop its own standard engagement and operating agreements that will delineate property managers' responsibilities, compliance requirements, and reporting obligations. MSUS does not have or intend to use any affiliated companies for brokerage or property management. Based on volume, the company also may perform audits of hired property management firms. Through its new forced-placed policy, MSUS now has its own property and liability insurance coverage available for REO assets.

**Assessment:** MSUS has sound plans for proactive and controlled REO property-management oversight based on its stated approach and procedures. Although the company has not yet had the opportunity to acquire and managed REO assets, its managers have the requisite knowledge and experience. MSUS' technology tools also should effectively support this function.

## Legal and Vendor Oversight

In conjunction with other managers, the operations director oversees vendor engagements and their performance, including vendors for special servicing. MSUS expects to use a request-for-proposal bidding process to qualify and engage vendors for most services such as appraisals, environmental and engineering assessments, legal, property management, and property brokerage. As MSUS adds special-servicing work, it expects to track vendor performance and build centralized approved-vendor lists. The company also plans to develop its own form agreements for various service providers. MSUS' intranet workflow/diary manager tool tracks pending engagements and the review of submitted work. The company noted that technology enhancements for its proprietary asset-management application will address vendor management.

Although MSUS does not have its own legal unit, it works with external counsel and Mount Street's London-based legal team provides additional support as needed. The compliance team's senior associate, who has a law background, also can assist with asset-resolution deliberations and document reviews. Payment of law firm billings will require asset manager and team leader approvals.

**Assessment:** MSUS has acceptable control practices to qualify, engage, and track vendors. DBRS Morningstar also recognizes the company's plans to expand its vendor-oversight function through technology and procedural enhancements as it gains special-servicing work.

## Investor and Master-Servicer Reporting

Prospectively as a special servicer for CMBS or other clients, MSUS intends to expand its policies and procedures to address the reporting requirements with respect to property-protection advancing, realized losses, updated appraisals, and communication with master servicers on advancing decisions.

**Assessment:** Through their work at other special servicers, MSUS' managers are experienced with detailed reporting for CMBS transactions, syndicated loans, and other types of investors. MSUS' client reporting and technology abilities as a primary servicer also infer that it should be suitably positioned to provide detailed and timely reporting as a special servicer.

## Ranking Definitions

The numerical scale of MOR CS1 to MOR CS4 is defined as follows:

1. Exceeds prudent loan servicing standards in key areas of risk
2. Demonstrates proficiency in key areas of risk
3. Demonstrates compliance in key areas of risk
4. Demonstrates lack of compliance in one or more key areas of risk

A servicer assigned a ranking of at least MOR CS3 is deemed to comply with what we view as the minimum prudent loan servicing standards and requirements for the servicer's operational category and role. For access to DBRS Morningstar's Operational Risk Assessments of Commercial Servicers: Methodology and Process and other published reports, please visit [www.morningstarcreditratings.com](http://www.morningstarcreditratings.com)

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