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## Servicer Evaluation: Berkadia Commercial Mortgage LLC

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# Servicer Evaluation: Berkadia Commercial Mortgage LLC

Ranking Overview				
Servicing category	Overall ranking	Subrankings		
		Management and organization	Loan administration	Outlook
Commercial primary	STRONG	STRONG	STRONG	Stable
Commercial master	ABOVE AVERAGE	STRONG	ABOVE AVERAGE	Stable
Commercial special	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
<b>Financial position</b>				
SUFFICIENT				

## Rationale

S&P Global Ratings' rankings on Berkadia Commercial Mortgage LLC (Berkadia) are STRONG as a commercial mortgage primary servicer and ABOVE AVERAGE as a commercial mortgage master and special servicer. On May 20, 2020, we affirmed all three rankings (see "Berkadia Commercial Mortgage LLC Primary, Master, And Special Servicer Rankings Affirmed; Outlooks Stable," published May 20, 2020). The outlooks for all three rankings are stable.

Our rankings reflect Berkadia's:

- Senior management team's experience and tenure;
- Comprehensive and well-defined training program;
- Strong audit and quality control environment;
- Proactive and well-documented compliance/governance and internal controls;
- Efficient use of technology systems and offshoring operations;
- Demonstrated track record, which includes a servicing portfolio with a diverse geographic presence, diverse constituency of investor and property types, and a strong commitment to primary servicing; and
- Continued low levels of special servicing and declining subservicer oversight volume as a master servicer.

Since our prior review (see "Servicer Evaluation: Berkadia Commercial Mortgage LLC," published Dec. 13, 2018), the following changes and/or developments have occurred:

- Berkadia hired a senior vice president (SVP) with extensive off-shoring experience with financial institutions to be responsible for the overall management of the Hyderabad, India location (exclusive of servicing operations), replacing the executive who left the company in 2018.
- Berkadia created a portfolio surveillance group to proactively identify potential issues across the entire servicing platform and promoted a long-tenured special servicing asset manager (AM) to oversee the group as an SVP.
- Berkadia established a newly formed Servicing Compliance Group under the leadership of an experienced vice

president.

- The servicer realigned overall responsibility for loan boarding, data management, insurance administration and financial analysis functions under an SVP who is also responsible for strategic initiatives.
- The number of primary/master serviced loans increased by approximately 19%, driving a more than 29% increase in overall unpaid principal balance (UPB) that was also boosted by an increase in average loan size to \$15.1 million from \$13.9 million.
- Berkadia broadened its fee for service offerings, including the expansion of a limited-service mandate to include certain master servicing type duties on an insurance company portfolio that has 1,035 loans and an aggregate UPB of \$12.7 billion.
- Overall staffing levels declined 7.3% to a total full-time servicing employee count of 536, with 68.0% of staff located offshore.
- The disaster recovery/business continuity site in India was relocated to Bangalore.

Berkadia maintains a disaster recovery and business continuity plan, including pandemic response procedures to address operational disruption, which encompasses its substantial operations in India. The company implemented its plan in March due to the COVID-19 pandemic. Management reported that there were no disruptions to the company's operations or data facilities and that all of its employees have been working from home, absent a few select employees who perform a few weekly hours of certain essential services in the Ambler, Pa. office.

Our outlook for all three rankings is stable. We believe Berkadia, like most servicers, will face challenges in 2020 arising from increased workloads associated with relief requests from borrowers facing economic difficulties due to the COVID-19 pandemic, particularly following a prior existing benign default environment. Nonetheless, given Berkadia's track record of managing a substantial loan portfolio through multiple economic cycles, we expect it will remain a highly effective servicer for all of the portfolios it services.

In addition to conducting a meeting with servicing management, our review includes current and historical Servicer Evaluation Analytical Methodology data through Dec. 31, 2019, as well as other supporting documentation provided by the company.

## Profile

Servicer Profile	
Servicer name	Berkadia Commercial Mortgage LLC.
Primary servicing location	Ambler, Pa. and Hyderabad, India.
Parent holding company	Berkshire Hathaway Inc. and Jefferies Financial Group Inc.
Servicer affiliates	Berkadia Services India Private Ltd., Berkadia Commercial Mortgage Inc., Berkadia Capital Markets LLC, and Berkadia Real Estate Advisors Inc.
Loan servicing system	Strategy v.17.6.

Berkadia is a commercial real estate services company with integrated lines of business, including commercial loan servicing, mortgage banking, and investment sales. The company was formed in September 2009 as a joint venture

between Berkshire Hathaway Inc. and Leucadia National Corp. (now known as Jefferies Financial Group Inc.), which acquired the U.S. servicing and mortgage banking operations of Capmark Financial Group (Capmark) as part of Capmark's December 2009 bankruptcy reorganization.

In 2019, Berkadia, which is the largest private originator of commercial mortgage loans in the U.S., originated \$26.7 billion with a primary emphasis in government-sponsored enterprise (GSE) and U.S. Department of Housing and Urban Development (HUD) execution, along with to a lesser extent, correspondent life insurance companies, CMBS, and proprietary mortgages. In 2019, Berkadia was the second-largest Freddie Mac lender, the third-largest HUD lender, and the fourth-largest Fannie Mae lender. Additionally, in 2019, the investment sales division completed 405 transactions that totaled \$9 billion in volume.

In the U.S., primary and master servicing operations are mainly conducted in Ambler, Pa., with additional offices located in Scottsdale, Ariz.; Midvale, Utah; St. Louis; Irvine, Calif.; and New York. However, a significant portion of the firm's servicing employees and back-office operations are based in Hyderabad and conducted through Berkadia Services India Private Ltd. (BSIPL). The special servicing staff size is modest and operates out of Irvine, Calif. and Ambler, Pa.

Berkadia has been a market leader in leveraging its technology infrastructure and the cost advantages of offshore operations, allowing it to become a "servicer's servicer," providing servicers with both borrower-facing and non-borrower-facing outsourcing support. Its fee-for-service loan portfolio represents \$163.8 billion of its \$279.7 billion primary/master servicing portfolio as of Dec. 31, 2019. Specific initiatives are underway to leverage machine learning, robotic process automation, and optical character recognition to speed up turnaround times and heighten accuracy. The company's longer-term plans include building a single cloud-based database across the platform to improve processing times and access to data.

**Table 1**

<b>Total Servicing Portfolio</b>						
	<b>UPB (mil. \$)</b>	<b>YOY change (%)</b>	<b>No. of assets</b>	<b>YOY change (%)</b>	<b>No. of staff</b>	<b>YOY change (%)</b>
<b>Primary/master servicing</b>						
Dec. 31, 2019	279,733.4	25.2	18,559	19.8	531	2.7
Dec. 31, 2018	223,377.7	10.4	15,492	2.5	517	(9.9)
Dec. 31, 2017	202,309.3	(8.3)	15,109	(16.5)	574	(6.2)
Dec. 31, 2016	220,642.4	(1.5)	18,086	(9.8)	612	(12.9)
Dec. 31, 2015	224,025.0	--	20,059	--	703	--
<b>Special servicing</b>						
Dec. 31, 2019	17.4	(85.6)	12	(53.8)	5	0.0
Dec. 31, 2018	120.9	68.6	26	62.5	5	(16.7)
Dec. 31, 2017	71.7	33.6	16	(54.3)	6	(14.3)
Dec. 31, 2016	53.7	500.5	35	59.1	7	0.0
Dec. 31, 2015	8.9	--	22	--	7	--

YOY--Year-over-year. UPB---Unpaid principal balance.

**Table 2**

Portfolio Overview										
	Dec. 31, 2019		Dec. 31, 2018		Dec. 31, 2017		Dec. 31, 2016		Dec. 31, 2015	
	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.
Primary loans	266,456.1	17,477	222,744.7	15,423	201,584.0	15,017	217,710.3	17,840	219,446.7	19,658
Master (SBO) loans	13,277.3	1,082	633.0	69	725.4	92	2,932.0	246	4,578.3	401
Total servicing(i)	279,733.4	18,559	223,377.7	15,492	202,309.3	15,109	220,642.4	18,086	224,025.0	20,059
Average loan size	15.1	--	14.4	--	13.4	--	12.2	--	11.2	--
<b>Special servicing</b>										
Loans	17.4	12	120.9	26	71.6	15	53.0	33	8.1	19
REO properties	0.0	--	0.0	--	0.1	1	0.6	2	0.9	3
Total special servicing(i)	17.4	12	120.9	26	71.7	16	53.7	35	8.9	22

(i) Totals may not add due to rounding. SBO--Serviced by others. REO--Real estate-owned. UPB--Unpaid principal balance.

**Table 3**

Primary/Master Portfolio Breakdown By Property Type And State(i)				
	UPB (mil. \$)	UPB (%)	No. of properties	Properties (%)
<b>Type</b>				
Multifamily	126,813.1	45.3	10,736	29.9
Other/various(iii)	49,318.5	17.6	10,362	28.8
Office	30,399.1	10.9	1,025	2.9
Retail	27,887.4	10.0	1,792	5.0
Industrial	9,462.4	3.4	1,819	5.1
All other	35,852.8	12.8	10,229	28.4
Total(ii)	279,733.4	100.0	35,963	100.0
<b>State</b>				
Calif.	45,285.0	16.2	4,158	11.6
N.Y.	28,900.9	10.3	1,672	4.6
Texas	26,527.8	9.5	3,063	8.5
Fla.	22,622.3	8.1	3,369	9.4
Ill.	11,456.5	4.1	1,313	3.7
All other	144,940.9	51.8	22,388	62.3
Total(ii)	279,733.4	100.0	35,963	100.0

(i) As of Dec. 31, 2019. (ii) Totals may not add due to rounding. (iii) Primarily contains portfolio loans and property types not specifically identified by the servicer. UPB--Unpaid principal balance.

**Table 4**

Primary/Master Portfolio By Investor Product Type(i)				
Loan type	UPB (mil. \$)	Loan count	UPB (%)	Loan (%)
Other third-party investors (REITs, investment funds, etc.)	163,980.4	10,045	58.6	54.1
Freddie Mac K-series	38,641.7	2,211	13.8	11.9
Fannie Mae	30,463.1	1,762	10.9	9.5
Life insurance companies	18,213.7	1,573	6.5	8.5

**Table 4**

Primary/Master Portfolio By Investor Product Type(i) (cont.)				
Loan type	UPB (mil. \$)	Loan count	UPB (%)	Loan (%)
FHA and Ginnie Mae	10,568.0	1,416	3.8	7.6
CMBS/CDO/ABS	9,669.8	1,000	3.5	5.4
Freddie Mac (exclude K-series deals)	5,167.1	349	1.8	1.9
On own or parent's balance sheet	2,621.4	175	0.9	0.9
Banks/financial institutions	408.1	28	0.1	0.2
Total	279,733.4	18,559	100.0	100.0

(i)As of Dec. 31, 2019. UPB--Unpaid principal balance. REIT--Real estate investment trust. CMBS--Commercial mortgage-backed security. CDO--Collateralized debt obligation. ABS--Asset-backed security.

## Management And Organization

The management and organization subrankings are STRONG for primary and master servicing. We based these subrankings on our view of the company's long, successful track record servicing multifamily/commercial real estate loans, and its experienced management team, good leverage of technology, and sound audit and control environment.

The management and organization subranking for special servicing is ABOVE AVERAGE. We based this subranking on our view of the servicer's good leverage of technology, adequate control environment, and strong training program. The modest staffing and uncertain future growth plans of the special servicing platform are key distinguishing factors that place the special servicing management and organization subranking one notch below that of primary and master servicing.

### Organizational structure, staff, and turnover

Berkadia's management team and staff demonstrate solid levels of industry experience and tenure, with averages similar to its STRONG-ranked peers (see table 5). The organization is structured so that primary and master servicing employees have parallel reporting to functional managers in the U.S. and India, aligning the goals and interests of the Hyderabad staff with their Ambler counterparts.

**Table 5**

	Senior managers		Middle managers		Asset managers		Staff	
	Industry experience	Company tenure	Industry experience	Company tenure	Industry experience	Company tenure	Industry experience	Company tenure
Primary	25	15	23	16	N/A	N/A	13	7
Master	21	11	15	14	N/A	N/A	8	7
Special	N/A	N/A	30	22	23	16	25	20
India	18	12	15	14	N/A	N/A	8	5

(i)As of Dec. 31, 2019. N/A--Not applicable.

The president of the servicing group has more than 32 years of industry experience, all with Berkadia (including its predecessors), and has seven servicing direct reports, who collectively average 24 years of industry experience and more than 12 years of tenure at Berkadia. These managers oversee:

- Client services. A SVP is responsible for management and oversight of client services, including client relations, special requests, portfolio surveillance and special servicing. Client services' responsibilities pertain to all portfolios other than the correspondent life insurance company relationships.
- Loan administration. A SVP is responsible for all aspects of loan administration outside the correspondent life insurance company portfolios, including cash management, payment processing, bank reconciliations, investor reporting, payoffs, escrow administration, reserves, inspections, Uniform Commercial Code (UCC) administration and taxes.
- BSIPL. An India-based SVP oversees servicing operating functions performed in Hyderabad, including personnel who have functional responsibilities for new loan boarding, financial statement analytics, surveillance, CMBS asset management, and cash operations.
- Life insurance company portfolios. A SVP is responsible for all aspects of servicing for correspondent life insurance company investor portfolios.
- Asset management. A SVP is responsible for loan boarding and data management, advances, financial statement analytics, insurance administration across all portfolios, as well as strategic initiatives, including operational efficiency opportunities.
- Servicing compliance. A VP was appointed to lead this newly established group, which performs quality assurance in a targeted manner across the servicing platform.
- Business development. A SVP handles investor relations and new business development.

In addition, a site director responsible for the Hyderabad operations, who joined Berkadia in March 2019, reports to the president of servicing. He is responsible for human resources (HR), administration and facilities, and development and advancement for the India location. Further, the commercial mortgage servicing platform is supported by corporate level functions in Ambler that include finance and accounting, information technology (IT), legal, and human resources.

Since the company established BSIPL over 17 years ago, it has continually migrated specific loan servicing processes to the Hyderabad office. These processes encompass all servicing functions, including loan administration, collateral and asset management, cash management, and client services. In addition, management places an emphasis on cross-training. Of the 531 total employees that make up the primary/master servicing operations, which is a 7.2% decline in headcount since our last review, 366 are India-based. In our view, Berkadia's significant use of offshoring allows for greater headcount and offers leverage to enhanced controls.

The BSIPL servicing full-time equivalent (FTE) staff represent 69% of the servicing headcount, consistent with our prior review. Servicing processes, and the percentage of personnel associated with each process that is located in Hyderabad include:

- Loan boarding/servicing data center (70%),
- Document imaging and workflow (97%);
- Cash administration/bank reconciliations (72%);
- Loan administration (77%);

- Investor reporting/payoffs (69%);
- UCC administration (67%);
- Credit administration (72%);
- Surveillance (83%);
- Financial statements/inspections (93%);
- Client relations support (100%); and
- Client relations that include vocal communications (3%).

With regard to the offshore client relations that include vocal communications noted above, some personnel that work with smaller-sized loans maintain full client relations responsibilities. While offshore client-facing employees are unusual in the servicing industry, the migration of a portion of these client relations functions offshore is consistent with the maturity of the Hyderabad operations. Nonetheless, we note that the percentage number of personnel associated with this process declined to 3% from 8% as of our last review.

By our measurement, the 11.6% overall primary/master servicing employee turnover rate during 2019 was largely consistent with the 11.5% 2018 level and well within historical industry norms. By management's measurement, Berkadia achieved a controllable turnover level (i.e., employee departures for anything other than family reasons or returning to school) in Hyderabad of 8.3% during 2019 compared with 8.5% during 2018. These metrics are well-below its 12.0% annual controllable attrition goal and indicative of an effective BSIPL employee retention program.

The special servicing team has five employees who are based onshore (Irvine and Ambler). The group experienced one staff level departure that it did not replace during the second half of 2018, and none during 2019.

## **Training**

Berkadia maintains a strong commitment to training and professional development, and it has a comprehensive and well-defined training program. Highlights of Berkadia's training program include the following:

- A career development program is administered by the HR department, facilitating the relationship between career development, achievements, and compensation.
- The Development and Advancement (DnA) platform provides learning and development opportunities for all employees.
- The DnA platform team consists of core members in both Hyderabad and the U.S., along with subject-matter experts. DnA has been established to shape and expand Berkadia University (described below), and to create and promote development programs that are aligned with business needs.
- DnA fosters a learning culture that embraces forward-looking development through feedback, coaching, and related confidence. Training programs and workshops, which are supported by managers and work opportunities, facilitate the achievement of competence in these areas. DnA also supports Berkadia's cultural infrastructure, Berkadia Way.
- Berkadia University (BU), which provides employees access to over 4,000 training topics, via LinkedIn Learning, supports employee learning and development. BU is housed in Saba, and its learning management system (LMS) tracks training, and prints certificates and transcripts. BU is overseen by the DnA program manager and is supported by the training team in Hyderabad.



- Minimum training targets are based on combined tenure at the company and prior industry experience, as well as country location. U.S.-based employees' annual minimum training requirements range from 15 hours for employees with at least 15 years of industry experience, to 50 hours for those with three or less years of experience. India-based employees' minimum training requirements range from 30 hours for employees with eight or more years of experience to 50 hours for those with three or less years of experience.
- Management reported that during 2019, employees averaged approximately 51 hours of training globally, with Hyderabad and U.S. employees averaging 51 and 49 hours, respectively. In 2018, employees averaged 58 hours of training globally, with Hyderabad and U.S. employees averaging 63 and 49 hours, respectively.
- Berkadia requires all employees to take yearly training courses in prohibited harassment, policies and procedures, antifraud, phishing, legal, and its Comprehensive Information Security Policy.
- Historically, senior managers, subject-matter experts, and trainers frequently travel to Hyderabad to facilitate and enhance the educational offerings. In light of travel restrictions resulting from COVID-19, management is working with its respective teams to identify any additional training that is needed at the functional business unit level, which it intends to conduct virtually.

### **Systems and technology**

Berkadia has well-integrated and efficient technology for its servicing requirements, and it operates with a high degree of system automation using an integrated array of applications. Its data warehouse is integrated with its application service provider (ASP)-hosted mortgage loan accounting and servicing system, special servicing system, and investor reporting and borrower website portals. Key elements of its systems and applications, business continuity (BC), and disaster recovery (DR) programs and security environment are discussed below.

#### ***Servicing system applications***

Berkadia's technology infrastructure is extensive and includes the following systems and support:

- McCracken Financial Solutions Corp.'s (McCracken) Strategy (Strategy; v.17.6) is the system of record for primary/master servicing. McCracken is subject to a service auditors' examination (SOC-1) performed by an independent certified public accounting (CPA) firm.
- AIMS, a proprietary application for special servicing, connects other internal systems and also has a reporting subsystem. It has modules for pooling and servicing agreement (PSA)-driven compliance, business plans, subcontracting service requests and administration, and assumptions and consent requests.
- Asset Surveillance (ASUR) 2.0 is a proprietary system, which is integrated with Strategy and used to track financial statement analysis, property inspections, and rent roll analysis. ASUR also includes a module that stores servicing agreement requirements for collecting, analyzing, and distributing operating statements and inspections.
- Enterprise Productivity Management Suite (EPM) is a proprietary document imaging system for deal and loan documents. EPM hosts several servicing workflows, including an electronic queuing system that facilitates internal approval of fund movements, while also providing an audit trail of all funds moved.
- SmartView, which produces over 2,000 customized operational and management reports for both internal and external users, combines data warehouse and business intelligence tools.
- CertInView is a proprietary tool for monitoring insurance compliance that includes an automated process of generating expiration and noncompliance letters.

- IRIS, which is used to store CMBS investor information, is a deal-level database and servicer advance tracking application that assists both the investor reporting and surveillance groups.
- Investor Query, an internally developed web portal, provides investors, rating agencies, and other interested parties with access to CMBS portfolio and loan-level reporting.
- InvestorView, an internally developed web portal that provides portfolio level dashboards, as well as loan and property level views and reporting with customizable export capabilities to third-party servicing clients.
- Loan View 2.0, a mobile-friendly borrower website that offers a chat feature with client service representatives, provides access to loan-level information, electronic billing, online bill payment, and loan alerts to credentialed users.
- Mega Workflow, an in-house Berkadia application designed for automating workflows, managing work requests, tracking turnaround times, and providing status updates on outstanding requests to borrowers and investors.
- Berkadia's intranet provides employees with access to policies and procedures, employee benefits, and organizational announcements. It is linked to BU, which communicates available training sessions, stores course content, and tracks completed training credits.

#### ***Business continuity and disaster recovery***

Berkadia operates with sound data backup protocols, as well as comprehensive DR and BC programs. Its BC plan includes a pandemic strategy with different levels of triggers depending upon its severity. Highlights include:

- Data is backed up to magnetic tape or off-site servers on an approved schedule utilizing automated job scheduling software. The production servers' backup tapes are stored at an off-site facility in Valley Forge, Pa., and IT performs an annual inventory.
- All critical system DR and BC plans are tested annually. In addition, the DR and BC plans are reviewed, approved, or revised annually by a BC committee.
- Berkadia's primary U.S. data center is outsourced to TierPoint, a tier 4 equipped and tier 3 certified state-of-the-art facility located in Norristown, Pa. It also utilizes a 50-seat tier 4 equipped and tier 3 certified data center operated by SunGard in Philadelphia for BC and DR. This location is less than 25 miles from the main U.S. servicing center and the primary data center, and it is on the same power grid. These factors are less than ideal, in our view.
- The latest DR test for India was successfully conducted in Pune, India in July 2019. The DR/BC India site was subsequently relocated to Bangalore, India from Pune. The site, which has a maximum of 94 seats per shift, supports the Hyderabad office's DR requirements. The initial Bangalore test is expected to be conducted during the second half of 2020.
- The most recent off-site DR test was successfully completed for the Ambler site in August 2019 at the SunGard facility. A DR exercise for all critical applications was successfully conducted in November 2019, with no issues.

In advance of initiating its business continuity plan in March 2020, the company performed multiple work-from-home exercises for all of servicing, including a four day test to ensure its preparedness before implementing its formal pandemic plan, which remains in place. All employees, including those at BSIPL, have laptops and the ability to work from home, which is the operating model at the time of this review.

### ***Cybersecurity***

With respect to cybersecurity, intrusion detection systems are configured to continually monitor Berkadia's network and identify potential security breaches early. Penetration tests are conducted annually by an external party, and they focus on physical building security, user identification, and password protection. Additionally, Berkadia performs monthly phishing awareness campaigns (which we have observed is more frequent than its peers'), with higher risk employees being targeted more frequently. The company also maintains a stand-alone cyber-insurance policy.

Berkadia has a comprehensive information security policy (CISP) that provides protection against unauthorized use or disclosure of confidential information, unauthorized access to personally identifiable information (PII), and threats that could compromise the integrity or accuracy of information. It utilizes data loss prevention technology that recognizes, captures, and reports inappropriate transmission of sensitive information, as well as removes access to external email accounts from the Berkadia network. A CISP committee, comprising representatives from legal, human resources, IT, vendor management, and the servicing and production business units, meets quarterly and regularly reviews current industry information security policies and makes recommendations to senior management as security policies require updating.

A thin-client computing environment has been implemented for BSIPL employees. As such, procedures have been implemented to prevent portable devices from accessing information, information from being removed or disclosed via portable devices, and unapproved software or malware from removable devices from being installed.

### **Internal controls**

Berkadia maintains strong internal controls that include extensive and well-documented policies and procedures, internal and external audits, and a quality control (QC) environment that includes proactive, well-documented compliance. The audit program includes internal staff, external auditor, client, and investor reviews.

### ***Policies and procedures***

Berkadia has an extensive, well-documented, and well-maintained library of procedures for all servicing operations.

- The procedures incorporate the step-by-step operations and provide relevant forms and definitions for each activity. Policies and procedures may also incorporate specific guidelines issued by partnering servicers.
- The procedures are online and reviews are to be performed and documented annually.
- Changes are conveyed to employees with appropriate training and follow-up QC and compliance reviews.

### ***Compliance and quality control***

From a corporate perspective, compliance is overseen by a SVP of risk, compliance and control (RCC), reporting to the chief financial officer. In addition, within the line of business, a three-person servicing compliance team oversees compliance with internal and applicable external guidelines.

In addition, Berkadia employs QC processes, including measuring performance against departmental standard turnaround times and monitoring productivity results and accuracy of various servicing tasks. Metrics and performance reports are reviewed daily and weekly by appropriate levels of management, and action is taken as

necessary.

### ***Internal and external audits***

The audit regime is robust. Highlights include:

- Berkadia's internal audit department independently reports to the audit committee and board of managers. Internal audits are geared toward all servicing compliance requirements, operational controls, and testing. The SVP of RCC and his staff oversee all audits, both internal and external.
- The department designs and performs an annual audit plan, which is approved by the audit committee, based on a risk assessment model. Segments are scored on qualitative and quantitative characteristics. The plan details audit coverage provided by internal audit, outside auditors, regulators, and the company's public accountants.
- For 2019, the Uniform Single Attestation Program and Regulation AB audits were performed by an independent external auditing firm across the servicing platforms with no reported findings.
- A major public accounting firm performed Statement on Standards for Attestation Engagements (SSAE) No. 16 reviews (SOC 1 and SOC 2 design and test of controls) in 2019.

The 2019 SOC 1 report examines Berkadia's commercial mortgage servicing operations and related general computer controls. The 2019 SOC 2 platform review covers data security, operational availability, processing integrity, and information confidentiality. There were no reported findings in either report. Management also reported that no material exceptions have been noted since SOC 1 and SOC 2 audits have been performed, starting in 2011 and 2014, respectively.

We reviewed summary reports of 2019 servicing-related internal audits associated with servicing cash movement and servicing reserves. The auditors for each report, which each contained minor findings that have since been remediated, concluded that Berkadia has a satisfactory control environment pertaining to those processes. We further reviewed a 2019 internal audit report of the operations of BSIPL prepared by a major international accounting firm. There were no findings associated with the scope of the review that pertained to finance and accounts, including compliance with service level agreements. However, three high-risk findings associated with administrative matters were identified, as follows: one related to optimizing the utilization of company sponsored transportation; a second related to the efficient and timely disposition of retired electronic equipment; and the third related to external vendor compliance monitoring. Management indicated that all were reported to have de minimis economic or operational impact.

### **Vendor management**

Berkadia's RCC group reviews and identifies high risk vendors annually. The threat analysis evaluates the level of access vendors have to company data and PII. For those deemed to be of high risk, RCC verifies that those vendors have implemented reasonable controls over their processes. The assessment includes a review of financial, operational, and compliance environments to ensure the third party meets, and can continue to meet, the terms of the contractual arrangement and company standards.

Vendor contracting is handled centrally for portfolio-wide operations (including UCC filings and tax service) and through asset managers with appropriate oversight and approval for asset-specific services (including property management, appraisal, and brokerage). Centralized vendor lists are maintained on Berkadia's asset management

system, and the company prepares an annual vendor compliance report to determine if its vendors continue to meet the terms of their contractual arrangements. A subcontracting manager tracks engagements through the system's automated requests for service, competitive bidding (if applicable), issuance of standard contracts, and final completion of service.

### Insurance and legal proceedings

Berkadia has represented that its directors and officers, as well as its errors and omissions insurance coverage is in line with the requirements of its portfolio size. As of the date of this report, there were no material servicing-related pending litigation items.

## Loan Administration--Primary Servicing

The loan administration subranking is STRONG for primary servicing.

For primary servicing, Berkadia has individual client relationship managers assigned to each loan. Multifamily is the emphasis (45% of UPB and 30% of property count), although the portfolio contains a varied geographic mix and all types of collateral properties (see table 3), including those with complex loan structures.

As of Dec. 31, 2019, the nearly \$280 billion (including master servicing) portfolio was broadly distributed (see table 4) across third-party investor clients (58.6%; including a number of private-label relationships and a CMBS-focused fee-for-service relationship). The next largest investor client type is Freddie Mac K-Series (13.8%), followed by Fannie Mae (10.9%). Life insurance companies (6.5%) and CMBS (3.5%) round out the top five investor types.

Primary servicing portfolio dollar volume has benefited from a steady increase in average loan size added to the platform in recent years, as well as substantial unit growth of more than 13% during 2019. At the same time, delinquency rates (see table 6) have benefited from favorable market conditions through year-end 2019. Given the economic weakness resulting from shelter-in-place orders associated with the COVID-19 outbreak, we anticipate delinquencies will increase throughout 2020.

**Table 6**

Primary Servicing Portfolio										
	Dec. 31, 2019		Dec. 31, 2018		Dec. 31, 2017		Dec. 31, 2016		Dec. 31, 2015	
	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.
Primary loans	266,456.1	17,477	222,744.7	15,423	201,584.0	15,017	217,710.3	17,840	219,446.7	19,658
Average loan size	15.2	--	14.4	--	13.4	--	12.2	--	11.2	--
<b>Delinquent (%)</b>										
30 days	0.16	--	0.10	--	0.22	--	0.25	--	0.25	--
60 days	0.01	--	0.04	--	0.09	--	0.05	--	0.11	--
90+ days	0.24	--	0.35	--	0.45	--	0.60	--	0.75	--
Total(i)	0.41	--	0.49	--	0.75	--	0.90	--	1.10	--

(i) Totals may not add due to rounding. UPB--Unpaid principal balance.

## **New-loan boarding**

Based on its stated practices and written procedures, Berkadia has a sound loan boarding function that includes in-depth procedures for secondary review. It boarded nearly 3,100 loans during 2019. Control and other features of new loan boarding include:

- Loan boarding personnel are located in Hyderabad and in the U.S., and the Hyderabad setup staff performs initial data scrubbing and generates deficiency reports from the servicing system.
- The U.S.-based team manages the entire loan boarding process in certain cases, including loans with special issues, loans with complex waterfalls, and loans returned from special servicers.
- For newly originated loans, a manual process that includes the input of loan and borrower information relevant to the application of payments and general loan-level data comprises phase I of loan boarding. This information is necessary to pass a file into Strategy. Phase II of loan boarding includes loading additional elements of the loan, including property-level information for collateral and loan administration. Documented procedures for loan boarding exist for other loan types that vary depending on the investor type/scope of service.
- Loans are boarded into Strategy before the first investor remittance date and should be boarded no more than 10 business days following closing. For acquired loans, the new loan boarding department performs a tape-to-tape record transfer from the prior servicer or manually loads prior servicer information from a data tape into the system. Loan boarding requires a secondary review in the U.S. for control and validation.
- A phase I and II QC review is performed by the loan boarding department the next day, as well as 30 and 60 days, respectively, after the loan has been boarded into Strategy. Discrepancies found during the QC review are communicated to analysts for correction.
- Imaging and workflow applications aid in the boarding process, and PSA abstracts are incorporated in the servicing system. Welcome letters are primarily system-generated and sent to the borrower within two days of closing.
- Berkadia reported no trailing documents outstanding on loans boarded more than six months prior.

## **Payment processing**

Payment processing is handled by a separate team in a highly automated process with appropriate segregation of duties. The protocols below indicate sound internal controls over payment posting and reconciliation:

- All payments are processed electronically with 64% received via Automated Clearing House, 20% via wire transfers, and 16% via lockbox.
- The servicer manages 2,039 adjustable-rate loans and performs regular adjustable-rate mortgage audits to ensure correct rate indices and changes.
- The servicing system automatically transfers funds daily between payment clearing and investor custodial accounts.
- No unidentified items aged more than two days were reported in the clearing account and no aged suspense items existed as of the reporting date.

## **Investor reporting**

Berkadia maintains efficient and effective investor reporting, remitting, and accounting processes with appropriate internal controls, and the company has experience with CMBS, life insurance company, GSE, and a variety of third-party investor clients. Specific processes include the following:

- Separate staff members handle the bank account reconciliation, remittance, and investor reporting processes to maintain a proper segregation of duties.
- The servicing system is integrated with external banking software to facilitate outgoing investor wires and automatically reconciles custodial balances.
- Disbursement and clearing account reconciliations are performed daily.
- As of our latest review, there were no unreconciled items within the investor custodial accounts and no instances of late reporting or remitting.

### **Escrow administration**

Berkadia maintains efficient and well-controlled escrow administration functions that use a high level of automation.

Features of escrow administration include:

- Berkadia significantly leverages its operation in Hyderabad for various escrow administration functions, including vendor and borrower contacts for taxes, escrow reserves, and draw requests. Hyderabad's night shift works concurrent hours with the U.S. staff and vendors during U.S. business hours. Approximately 55% of the total portfolio is escrowed for taxes and 38% for insurance.
- A third-party vendor processes taxes on escrowed loans. For non-escrowed loans, the third-party vendor performs tax searches and reports unpaid taxes to Berkadia, which contacts the borrower via letter to request the payment. If the taxes remain unpaid, Berkadia may advance payments on the borrower's behalf after receiving any required investor/authorized party approvals.
- It reported a minimal amount of non-reimbursable tax penalties paid.
- Berkadia uses CertInView, a proprietary in-house insurance tracking solution and risk mitigation tool, for monitoring and noncompliance reporting. The tool provides review consistency, eliminating document and requirement interpretation.
- CertInView also automates the process of generating expiration and noncompliant letters minimizing coverage lapses and deficiencies.
- Renewal notices are sent 30 days prior to expiration and carrier ratings are reviewed annually for compliance. Forced-placed coverage has a 120-day look-back period. There were 35 loans on forced-placed coverage as of Dec. 31, 2019, compared with 45 loans as of our prior review.
- External vendors are used for flood determinations, as well as for pre-closing policy reviews.

### **Asset and portfolio administration**

Berkadia has good controls to ensure that financial statement reviews and inspections comply with the company's policies, servicing agreements, and loan documents. Berkadia also maintains a sound portfolio surveillance function that proactively examines asset- and portfolio-level performance. Its well-detailed investor website offers deal- and loan-level performance data. Additionally, the following procedures are in place:

- Separate areas within loan administration handle the collections and financial statement spreads (with support from asset management and BSIPL) and the scheduling of property site inspections. Overall, procedures for these functions are properly managed with effective automation tools.
- As of Dec. 31, 2019, Berkadia received and analyzed 98% of 2018 annual CMBS property operating statements and

94.7% of all operating statements.

- Third-party vendors conduct most of the site inspections, which occur annually for loans over \$2 million in UPB and biannually for all others.
- The servicing system and workflow application track open items.
- Deferred maintenance (DM) open items are centrally tracked, and resulting DM notices are issued to borrowers as needed following inspection review.
- The loan administration group facilitates other collateral monitoring requirements, such as UCCs and letters of credit. Of the approximately 14,000 loans requiring UCC filings as of Dec. 31, 2019, none had experienced any filing lapses.

Portfolio surveillance is administratively managed under the SVP of servicing operations in Hyderabad with a U.S.-based SVP of portfolio surveillance (who also oversees special servicing) providing subject matter expertise to the team. Teams of asset managers are aligned by investor and assigned to specific loan pools. Surveillance analysts serve as the point of contact for trustees, bondholders, and rating agencies. Other surveillance features include:

- Asset managers review advances for principal and interest and for property protection, maintain watchlists, and monitor specially serviced loans.
- In addition to the standard Commercial Real Estate Finance Council watchlist, Berkadia maintains other specific client-driven watchlists. Automated logic places loans on the watchlist for deficient financials, low occupancy levels, and negative inspection reports. As of Dec. 31, 2019, there were 1,500 loans on the watchlist.
- The surveillance team reviews each transaction's performance monthly, with a focus on problem loans, 30-day delinquencies, special serviced loans, and advancing needs and recoverability.

### **Borrower requests**

Berkadia has well-controlled procedures for processing borrower consent requests. Highlights include:

- The client relations manager reviews borrower requests to determine if the requested event is allowable according to the loan documents. Certain requests requiring a waiver, loan document modification, or the consent of interested parties must be underwritten or reviewed by the special request department within client services.
- A documentation requirements letter is generated and provided to the borrower upon initial review of the request. The special request analyst obtains required internal and external approvals after receiving and reviewing the borrower package.
- A closing coordinator reviews documentation received against checklists for each type of request and the documentation must also be reviewed and approved by a manager prior to sign-off and execution. Each request is tracked for progress.
- As primary/master servicer, Berkadia processed 873 consents aggregating \$15.6 billion of UPB during 2019, including 265 related to leasing activity, 156 related to property management changes, 110 pertaining to loan assumptions, 89 defeasance reviews and 35 release of collateral requests.

During 2020, we expect forbearance request activity from GSE borrowers will represent a substantial volume of consent reviews based upon activity reported to S&P Global Ratings through May 2020.



## Early-stage collections

Berkadia proactively initiates collection efforts by contacting borrowers the day after a delinquency or grace period, depending on the service agreement. Other features of the collections group include:

- Client relationship managers monitor monthly delinquency reports and call borrowers to obtain information surrounding the delinquency's cause and anticipated payment cure date.
- Comments are centrally tracked on the servicing system.
- In instances of sustained delinquency, the relationship manager will refer the loan to the assigned asset manager for follow-up.
- Initial written default notices are manually generated within one to three days after the payment due date, with a second notice issued three to five days after the due date.

## Loan Administration--Master Servicing

The loan administration subranking is ABOVE AVERAGE for master servicing.

Berkadia has historically demonstrated strong subservicer oversight practices and low delinquency levels. However, its CMBS serviced by others (SBO) portfolio has dramatically declined in recent years as loan run-off has greatly exceeded new master servicing oversight activity. As of Dec. 31, 2019, it monitored seven subservicers that serviced 47 loans comprising \$549 million in UPB, compared with \$688 million (80 loans) as of our last review. With respect to the CMBS SBO portfolio, management reported that 30 loans reside with a single subservicer and seven with the next largest subservicer. As a result, the other five subservicers it oversees, manage two loans on average.

At the same time, Berkadia also performs certain master servicing type duties on a 1,035 loan insurance company portfolio with an aggregate UPB of \$12.7 billion that are included in the Master SBO loans portfolio total as of Dec. 31, 2019 (see table 7). The scope of services provided to this client include:

- Financial statement analysis and rent roll analysis, including QC review;
- QC of inspection reports and deferred maintenance;
- Investor reporting data aggregation;
- UCC administration;
- Watchlist preparation;
- Trigger testing and review; and
- Cash management waterfall processing.

**Table 7**

Master Servicing Portfolio										
	Dec. 31, 2019 (i)		Dec. 31, 2018		Dec. 31, 2017		Dec. 31, 2016		Dec. 31, 2015	
	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.
Master (SBO) loans	13,277.3	1,082	633.0	69	725.4	92	2,932.1	246	4,578.3	401

Table 7

Master Servicing Portfolio (cont.)										
	Dec. 31, 2019 (i)		Dec. 31, 2018		Dec. 31, 2017		Dec. 31, 2016		Dec. 31, 2015	
	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.
Subservicers	--	7	--	9	--	12	--	17	--	18
Average loan size	12.3	--	9.2	--	7.9	--	11.9	--	11.4	--
<b>Delinquent (%)</b>										
30 days	0.00	--	13.66	--	0.00	--	0.00	--	0.15	--
60 days	0.00	--	0.00	--	0.00	--	0.00	--	0.00	--
90+ days	0.00	--	0.00	--	0.00	--	0.00	--	0.00	--
Total(ii)	0.00	--	13.66	--	0.00	--	0.00	--	0.15	--

(i)Includes a 1,035 loan insurance company portfolio with an aggregate UPB of \$12.7 billion where Berkadia performs certain master servicing functions. (ii)Totals may not add due to rounding. SBO--Serviced by others. UPB--Unpaid principal balance.

### New-loan boarding

Berkadia follows the same primary servicing procedures for boarding new subserviced loans on its servicing system and shadow services the loans. Because these loans are all serviced by other servicers, the setup process is essentially via electronic file downloads. Other new loan setup features include:

- The subservicing team validates data consistency between the subservicer's system data and the loan record information downloaded to Berkadia's system;
- The monthly new loan setup tracking report includes information on subserviced loans covering volumes, timeliness, and accuracy of information; and
- Electronic copies of pertinent loan documents are also obtained and referenced within the imaging application.

### Subservicer accounting and reporting

Berkadia shadow-posts principal and interest loan-level activity within its SBO portfolio from electronic uploads by subservicers and reconciles each subservicer's loan remittance to match its own system records monthly. It does not require its subservicers to submit forecasted remittance amounts before the actual remittance date because it closely monitors delinquencies and controls advancing through its master servicer investor reporting.

### Subservicer oversight

#### *Escrow administration*

Berkadia obtains subservicer quarterly certifications to ensure timely payment of real estate taxes, property insurance, reserve releases, and UCC renewals. It reviews subservicer loan-level exception reports for taxes and UCCs on a quarterly basis. Subservicer insurance policy exception reports are reviewed annually. Berkadia's tax service contract includes the master servicing portfolio, so it verifies tax payments and updates its servicing systems' records.

#### *Asset and portfolio administration*

The client relations group performs monthly subservicer reviews for timeliness of remittances, watchlist items, financial statement collections and analysis, and property inspections.

Other features include:

- Berkadia monitors each property's performance by reviewing quarterly financial statement spreads, rent rolls, and inspection reports from subservicer uploads; and
- Borrower requests processed by the subservicer are tracked by Berkadia's subservicer team and managed through the workflow tracking system for response.

### ***Audit/compliance***

Despite less robust audit activity than most master servicers we rank, we believe Berkadia has adequate controls regarding subservicer compliance given its current portfolio level. Features include the following:

- Annual compliance requirements are tracked for each subservicer under established procedures per applicable servicing agreements.
- The RCC team is responsible for desktop and on-site compliance audits, which are conducted in 24-month intervals.
- Subservicer audits entail a detailed pre-audit questionnaire about the subservicer's operations and on-site audits cover all core servicing functions using file samplings, system reports, and staff interviews; however, we note that no audits were performed during 2019.

### **Investor reporting, advancing, and special servicer interaction**

All reporting is accomplished via electronic file deliveries and wire transfers, and combines Berkadia's subserviced portfolios with its own primary serviced loans. Proactive and conservative advance procedures are employed. Other investor reporting and advancing controls include the following:

- The investor reporting manager reviews the total remittances--primary plus subserviced loans--and supporting reports for accuracy, including watchlist information.
- The CMBS surveillance group monitors loan-level advances for each CMBS transaction using the asset management database for tracking advance details. As of Dec. 31, 2019, Berkadia had CMBS advancing responsibilities on a \$3.4 billion portfolio, including loans for which it is both primary and master servicer.
- A monthly advance review committee reviews delinquent loans to determine if it should continue making advances utilizing special servicer data and external market sources to determine net liquidation values. Advancing decisions are based on individual loan facts and circumstances, not a static formula. In addition to loan level reviews, advances are also reviewed for recoverability risk at the pool level.
- If a non-recoverability determination is made, bond impact analysis reviews are conducted to evaluate the impact of advance recovery from pool cash flow in order to assess if investment grade securities will be impacted. Notification is given to the rating agencies of recovery decisions, which may adversely impact any investment grade ratings.

## **Loan Administration--Special Servicing**

The loan administration subranking is ABOVE AVERAGE for special servicing.

As of Dec. 31, 2019, Berkadia is the named special servicer on 10 securitized transactions containing 406 assets,

totaling \$2 billion in UPB. We note, however, that one of the deals is a \$525 million single-asset, single-borrower transaction specially subserviced by KeyBank Real Estate Capital. Consequently, on a net basis, Berkadia is engaged on \$1.5 billion of securitized transactions. Additionally, it is responsible for default management activities associated with an agency portfolio of approximately 3,500 loans totaling \$46.2 billion.

As of Dec. 31, 2019, Berkadia was actively special servicing 12 loans aggregating \$17.4 million in UPB (see table 8). Recent resolution activity, as well as the current active portfolio include assets secured by both traditional and nontraditional collateral, including multifamily, skilled nursing, assisted living, hospitals, and funeral homes. Its special servicing team includes five staff members, including three asset managers. Given the small staff size and historically limited real estate-owned (REO) activity (none at year-end 2019), AMs, who average four assets each, are responsible for loan workout, as well as REO asset management.

**Table 8**

<b>Special Servicing Portfolio</b>															
	<b>Dec. 31, 2019</b>			<b>Dec. 31, 2018</b>			<b>Dec. 31, 2017</b>			<b>Dec. 31, 2016</b>			<b>Dec. 31, 2015</b>		
	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>Avg. age (i)</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>Avg. age (i)</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>Avg. age (i)</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>Avg. age (i)</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>Avg. age (i)</b>
<b>Active inventory</b>															
Loans	17.4	12	48.0	120.9	26	30.0	71.6	15	43.8	53.0	33	31.0	8.1	19	40.2
Real estate-owned	0.0	0	0.0	0.0	0	0.0	0.1	1	35.6	0.6	2	23.6	0.9	3	11.6
Total(ii)	17.4	12	48.0	120.9	26	30.0	71.7	16	43.3	53.7	35	30.6	8.9	22	36.3

(i) Avg. age reflects the time in months from the date the loan first became specially serviced to the reporting date. (ii) Totals may not add due to rounding. UPB--Unpaid principal balance.

### Loan recovery and foreclosure management

Berkadia proactively handles newly transferred loans to special servicing. Features include the following:

- AMs complete file reviews, order property inspections, assemble market data, perform a legal analysis, and develop loan resolution plans within 90 days of transfer.
- AMs perform site visits for all loans with an UPB of \$2 million or greater as soon as possible following transfer. For assets below \$2 million, the need for an AM site visit is at the portfolio manager's discretion.
- Before any substantive borrower discussions, the AM must obtain a signed pre-negotiation agreement.
- AIMS houses all work-out plans, which include net present value scenario analysis, where applicable.
- AMs engage vendors (inspections, appraisers, environmental, engineering, etc.) through approved lists and monitor them within AIMS.
- Plans are presented to a special servicing committee for approval with levels of delegated authority. If warranted, properties are recommended for foreclosure.
- Work-out plans are updated at least every six months and implemented and monitored for adherence to plan objectives and contractual servicing requirements.

Since our last review, Berkadia has completed 25 loan resolutions with an aggregate UPB of nearly \$167 million (see

table 9). During that period, it returned 16 loans aggregating \$72.8 million UPB to the master servicer, achieved five full payoffs (\$58.4 million UPB), and completed four discounted payoffs/note sales representing \$35.5 million UPB.

**Table 9**

Total Special Servicing Portfolio--Loan Resolutions															
	2019			2018			2017			2016			2015		
	UPB (mil. \$)	No.	Avg. age(i)	UPB (mil. \$)	No.	Avg. age(i)	UPB (mil. \$)	No.	Avg. age(i)	UPB (mil. \$)	No.	Avg. age(i)	UPB (mil. \$)	No.	Avg. age(i)
<b>Resolutions</b>															
Loans	134.4	21	22.0	54.4	6	11.6	42.8	23	26.8	4.9	5	31.4	2.1	10	28.8
Foreclosed loans	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A
Total	134.4	21	22.0	54.4	6	11.6	42.8	23	26.8	4.9	5	31.4	2.1	10	28.8
<b>Resolution breakdown</b>															
Returned to master	72.8	14	17.5	0.0	2	5.4	16.0	10	33.9	1.0	4	33.5	1.7	5	14.3
Full payoffs	26.1	3	23.8	54.3	4	14.7	26.3	11	16.3	0.0	--	N/A	0.0	1	61.2
DPO or note sale	35.5	4	36.5	0.0	0	N/A	0.5	2	48.4	3.9	1	22.9	0.4	4	38.9
Foreclosed loans	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A
Total/average(ii)	134.4	21	22.0	54.4	6	11.6	42.8	23	26.8	4.9	5	31.4	2.1	10	28.8

(i) Avg. age reflects the time in months from the date the loan first became specially serviced to the reporting date. (ii) Totals may not add due to rounding. UPB--Unpaid principal balance. DPO--Discounted payoff.

Although no foreclosure activity has occurred in recent years, Berkadia's foreclosure policies and procedures evidence a controlled and well-managed process. Recommended foreclosure actions initiate REO resolution plans, which include a bidding process for property management and leasing brokers. Detailed pre- and post-foreclosure checklists ensure that all time-sensitive issues surrounding the asset, such as environmental reports and appraisals, are completed before taking title.

### REO management and dispositions

During the past several years, Berkadia has reported negligible REO sales activity, which was largely limited to non-traditional asset types of small-balance collateral. Nonetheless, its REO management and dispositions policies and procedures evidence a controlled and well-managed process. Features include:

- Before an anticipated foreclosure action or deed-in-lieu of foreclosure, the AM identifies potential property managers, as applicable, and leasing brokers. Vendor selection comes from approved lists and is generally based on prior experience with firms and interviews with prospective candidates.
- AMs visit each REO property within 45 days of foreclosure and prepare a formal property business plan within the first 90 days of taking title. All REO business plans and any subsequent transaction-specific requests are presented for committee approval per an authority delegation matrix.
- Procedures require REO property to be listed within 90 days of taking title unless a client directs otherwise. AMs interview potential brokers to list the REO asset for sale, while obtaining and reviewing proposals, which include an opinion of value, the suggested list price, commission structure, marketing outline, and timeframe.
- Sale offers must meet the parameters of the approved REO plan, or a subsequent committee reviews the alternate

offer.

- AMs coordinate the closing process in conjunction with legal counsel and an asset administrator, who ensures that all documents are consistent with the approvals and update the information in the corresponding systems.

### **REO accounting and reporting**

Berkadia has well-defined and -controlled procedures to oversee REO accounting and reporting activities. Highlights include the following:

- When a property is converted to REO, an AM immediately initiates the process to establish and maintain control of any property-generated cash that is on deposit in accounts with the receiver, property manager, or borrower.
- Servicing accounting personnel, at the direction of the AM and asset administrator, establish a property-level bank account for the existing cash and its subsequent operations. The account functions as a receipt account for rental income and is also used for disbursements for budgeted operating expenses, which require dual signatures.
- Control over REO cash and operating activity is accomplished by monitoring performance against an approved operating and capital expenditure budget, scrutiny of the monthly property reporting package and funding request, and control over the aforementioned property manager bank accounts. These controls are the joint responsibilities of the AM and a designated administrator, who coordinates cash movement and other REO bank account activities.
- The special servicing group does not directly handle cash. That responsibility resides with Berkadia's accounting department. In addition, Berkadia's finance group reviews the operating reports for the subject properties in the current portfolio.
- Property managers receive manuals for reporting guidelines and standard formats. All property managers prepare a standard financial reporting package that must be submitted electronically on or before the 10th day of each month. The operating statements and budgets are used for monitoring the property's performance and validating the bank account reconciliation.

### **Performing loan surveillance**

Berkadia performs platform level surveillance on loans where it is the appointed special servicer, as well as its agency portfolio, where it also ranks each loan. Highlights include the following:

- Berkadia ranks each loan as pass, pass watch, special mention, substandard, or doubtful based upon each collateral property's financial performance, guarantor creditworthiness, and collateral condition as evidenced through site inspections, borrower communications, and other circumstances.
- For loans ranked pass, pass watch or special mention, a short narrative discussion of the loan and collateral operations is provided quarterly to the credit risk group.
- For loans ranked substandard and doubtful, a quarterly action plan is prepared that discusses the borrower and key principal's capacity and commitment to the transaction, any outstanding issues and documentation, the transaction's strengths and weaknesses, and the conclusions and strategic action plan for the asset.
- Each quarter, substandard/doubtful action plans are discussed internally with the credit risk group. Depending upon the severity of any perceived loss, a broker opinion of value and internal valuations may be obtained and/or prepared.

## **Legal department**

Special servicing operations are supported by an in-house attorney. The legal division maintains a list of approved outside attorneys and uses standard engagement letters. Assigned asset managers must review legal invoices before payment. We believe the legal function is adequately controlled.

## **Financial Position**

The financial position is SUFFICIENT.

## **Related Research**

- Berkadia Commercial Mortgage LLC Primary, Master, And Special Servicer Rankings Affirmed; Outlooks Stable, May 20, 2020
- Select Servicer List, May 1, 2020
- Jefferies Financial Group Inc. Outlook Revised To Negative On COVID-19 Impact; 'BBB' Ratings Affirmed, April 14, 2020
- U.S. Commercial Mortgage Servicers Preparing For Impact From COVID-19, April 3, 2020
- Analytical Approach: Global Servicer Evaluations Rankings, Jan. 7, 2019
- Berkshire Hathaway Inc., Nov. 19, 2019
- Jefferies Financial Group Inc., Oct. 28, 2019

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