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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	Ranking 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. Oct. 15, 2021, we affirmed all three rankings (see "Berkadia Commercial Mortgage LLC Commercial Mortgage Servicer Rankings Affirmed; Ranking Outlooks are Stable," published Oct. 15, 2021). The ranking outlook for all three rankings is 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 varied geographic presence, diverse constituency of investor and property types, and a strong commitment to primary servicing;
- Limited subservicer oversight volume as a CMBS master servicer; and
- Modest staffing associated with the special servicing platform.

Since our prior review (see "Servicer Evaluation: Berkadia Commercial Mortgage LLC," published June 9, 2020), the following developments have occurred:

- The senior vice president (SVP) responsible for servicing operations in Hyderabad, India left the company in November 2020. With his departure, reporting lines for the India managers were changed to directly report to U.S. senior managers.
- In July 2020, Berkadia hired a new SVP to serve as the chief risk, compliance and information security officer, who

is an executive with 28 years of industry experience, following the departure of a long-tenured SVP of risk, compliance and controls.

- The firm expanded its real estate footprint, adding 55,000 sq. ft. of office space in Hyderabad (now occupying 140,000 sq. ft.), 15,000 sq. ft. of conference and office space in Ambler, Pa., and completed the construction of an 18,000 sq. ft. innovation center in Philadelphia.
- Berkadia developed "FA App", a proprietary financial analysis application that uses optical character recognition, machine learning, and proprietary algorithms to simplify the financial statement review process for all property types. Management noted that this tool has demonstrated a 50% reduction in time spent spreading financial statements.
- The company created (and subsequently updated) specific policies pertaining to incident response, access controls, and data protection and privacy. The policies outline requirements and guidelines to ensure the confidentiality, integrity and availability of data.
- The number of primary serviced loans increased by 7.4%, driving a 13.6% increase in overall unpaid principal balance (UPB) to \$302.7 billion that was also boosted by an increase in average loan size to \$16.1 million from \$15.2 million.
- Overall staffing levels increased 24.5% to a total full-time servicing employee count of 640, with 66.9% of staff located offshore.

Our ranking outlook for all three rankings is stable. The servicer has an experienced and tenured management team, a long track record of strong internal controls and continues to invest in technology improvements while boosting its servicing personnel to handle its growth. 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 June 30, 2021, 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. (50%) and Jefferies Financial Group Inc. (50%)
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 2020, Berkadia, which, according to management, is the largest private originator of commercial mortgage loans in the U.S., originated \$26.9 billion in UPB with a primary emphasis on government-sponsored enterprise (GSE) and U.S. Department of Housing and Urban Development (HUD) execution, along with, correspondent life insurance companies, CMBS, and proprietary mortgages. In 2020, according to management, Berkadia was the second-largest Freddie Mac lender, the second-largest HUD lender (up from the third), and the third-largest Fannie Mae lender (up from the fourth). Additionally, in 2020, the investment sales division completed 354 transactions totaling \$7.9 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 primary and master servicing employees and back-office operations are based in Hyderabad, India and conducted through Berkadia Services India Private Ltd. (BSIPL). The five-person special servicing team operates out of Irvine, Calif.

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 \$176.7 billion of its \$316.2 billion primary/master servicing portfolio as of June 30, 2021.

**Table 1**

<b>Total Servicing Portfolio</b>						
	<b>UPB (mil. \$)</b>	<b>YOY change (%)<sup>(i)</sup></b>	<b>No. of assets</b>	<b>YOY change (%)<sup>(i)</sup></b>	<b>No. of staff</b>	<b>YOY change (%)<sup>(i)</sup></b>
<b>Primary/master servicing</b>						
June 30, 2021	316,153.3	4.4	19,896	(2.0)	635	8.5
Dec. 31, 2020	302,864.6	8.3	20,295	9.4	585	14.9
Dec. 31, 2019	279,733.4	25.2	18,559	19.8	509	(1.5)
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)
<b>Special servicing</b>						
June 30, 2021	366.8	(73.3)	32	(66.0)	5	0.0
Dec. 31, 2020	1,371.6	7800.3	94	683.3	5	0.0
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)

(i) June 30, 2021 YOY change based on the prior year end. YOY--Year-over-year. UPB--Unpaid principal balance.

**Table 2**

<b>Portfolio Overview</b>										
	<b>June 30, 2021</b>		<b>Dec. 31, 2020</b>		<b>Dec. 31, 2019</b>		<b>Dec. 31, 2018</b>		<b>Dec. 31, 2017</b>	
	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>
Primary loans	302,731.4	18,770	288,861.5	19,047	266,456.1	17,477	222,744.7	15,423	201,584.0	15,017
Master (SBO) loans	13,421.9	1,126	14,003.1	1,248	13,277.3	1,082	633.0	69	725.4	92
Total servicing	316,153.3	19,896	302,864.6	20,295	279,733.4	18,559	223,377.7	15,492	202,309.3	15,109
Average loan size	15.9	--	14.9	--	15.1	--	14.4	--	13.4	--
<b>Special servicing</b>										
Loans	366.8	32	1,371.6	94	17.4	12	120.9	26	71.6	15
REO properties	0.0	-	0.0	-	0.0	-	0.0	-	0.1	1
Total special servicing	366.8	32	1,371.6	94	17.4	12	120.9	26	71.7	16

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

**Table 3**

<b>Primary/Master Portfolio Breakdown By Property Type And State(i)</b>				
	<b>UPB (mil. \$)</b>	<b>UPB (%)</b>	<b>No. of properties</b>	<b>Properties (%)</b>
<b>Type</b>				
Multifamily	161,219.6	51.0	12,665	23.7
Office	43,787.3	13.9	1,636	3.1
Retail	33,034.6	10.4	2,190	4.1
Industrial	17,881.0	5.7	2,676	5.0
Other/various	13,605.7	4.3	7,097	13.3
All other	46,625.1	14.7	27,226	50.9
Total	316,153.3	100.0	53,490	100.0
<b>State</b>				
CA	48,384.5	15.3	4,645	8.7
NY	30,870.9	9.8	1,777	3.3
TX	30,529.0	9.7	5,425	10.1
FL	24,093.8	7.6	4,585	8.6
NJ	13,019.7	4.1	2,307	4.3
All other	169,255.5	53.5	34,751	65.0
Total	316,153.3	100.0	53,490	100.0

Totals may not add due to rounding. (i)As of June 30, 2021. UPB--Unpaid principal balance.

**Table 4**

<b>Primary/Master Portfolio By Investor Product Type(i)</b>				
<b>Loan Type</b>	<b>UPB (mil. \$)</b>	<b>Loan count</b>	<b>UPB (%)</b>	<b>Loan (%)</b>
Other 3rd Party Investors (REITs, Investment Funds, etc.)	180,805.1	10,766	57.2	54.1
Freddie Mac K-Series	48,198.3	2,613	15.2	13.1
Fannie Mae	37,194.5	2,232	11.8	11.2
Life insurance companies	21,214.3	1,569	6.7	7.9

**Table 4**

Primary/Master Portfolio By Investor Product Type(i) (cont.)				
Loan Type	UPB (mil. \$)	Loan count	UPB (%)	Loan (%)
FHA & Ginnie Mae	10,942.9	1,305	3.5	6.6
CMBS/CDO/ABS	8,537.4	756	2.7	3.8
Freddie Mac (exclude "K-Series" deals)	6,191.9	436	2.0	2.2
On own or parent's balance sheet	2,063.8	157	0.7	0.8
Contained in a CRE CDO/CRE CLO	619.8	30	0.2	0.2
Banks/Financial institutions	385.4	32	0.1	0.2
Total	316,153.3	19,896	100.0	100.0

Totals may not add due to rounding. (i)As of June 30, 2021. UPB--Unpaid principal balance

## 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 and successful track record servicing multifamily and commercial real estate loans, 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 lack of dedicated resources toward 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 demonstrates solid levels of industry experience and tenure, with averages similar to the highest-ranked servicers (see table 5). The experience and tenure levels of its staff trails peers, which we believe is a function of the concentration of staff level positions in India. The organization is structured so that primary and master servicing managers based in India report to senior managers in the U.S.

**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	27	19	24	17	N/A	N/A	9	7
Master (ii)	27	19	16	15	N/A	N/A	7	6
Special	N/A	N/A	36	24	24	18	22	21
India	18	12	11	11	N/A	N/A	5	5

(i)As of Jun. 30, 2021. (ii)Master servicing senior managers are identical to primary servicing senior managers.

The president of the servicing group has 34 years of industry experience, all with Berkadia (including its predecessors),

and has four servicing direct reports in the U.S., who collectively average nearly 32 years of industry experience and more than 19 years of tenure at Berkadia. These managers oversee:

- Client services. A SVP, managing director (MD) is responsible for management and oversight of client services, including client relations, special requests, portfolio surveillance, financial statement analytics, loan surveillance, CMBS asset management, insurance compliance and claims administration 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.
- Life insurance company portfolios. A SVP is responsible for all aspects of servicing for correspondent life insurance company investor portfolios. This executive is also responsible for oversight of all new loan boarding across the servicing platform as well as the servicing data center and workflow management.
- Business development. A SVP, MD 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, as well as 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 19 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 635 total employees that make up the primary/master servicing operations, which is a 24.8% increase in headcount since our last review, 428 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 66.9% of the servicing headcount, down slightly from 67.1% at our prior review. Servicing processes, and the percentage of personnel associated with each process located in Hyderabad include:

- Loan boarding/servicing data center (80%),
- Document imaging and workflow (97%);
- Cash administration/bank reconciliations (74%);
- Loan administration (77%);
- Investor reporting/payoffs (70%);
- UCC administration (67%);
- Credit administration (70%);

- Surveillance (73%);
- Financial statements/inspections (93%);
- Client relations support (100%); and
- Client relations that include vocal communications (4%).

With regard to offshore client relations that include vocal communications noted above, some personnel working with smaller-sized loans maintain full client relations responsibilities. While offshore client-facing employees are unusual in the servicing industry, we note that the number of personnel associated with this process includes only four FTE.

By our measurement, the 10.6% overall primary/master servicing employee turnover rate during 2020 was a slight improvement from the 11.6% 2019 level and well within historical industry norms. First half 2021 turnover was 5.3%, in line with 2020 and well below peers. 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 4.7% during 2020 and 4.0% during the first half of 2021 compared with 8.3% during 2019. 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 in Irvine and include a senior asset manager and two junior asset managers who focus on loan workouts and two junior asset managers who handle performing loan consent activity within the assigned special servicing portfolio. The group has experienced no turnover since our last review.

## **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) team, which consists of core members in both Hyderabad and the U.S., along with subject-matter experts, manages learning and development efforts for all employees.
- Training programs and workshops, which are supported by managers and work opportunities, facilitate the achievement of competence in these areas and supports the company's cultural infrastructure, which it refers to as Berkadia Way.
- MyRED, which provides employees access to over 4,000 training topics, via LinkedIn Learning, further supports employee learning and development. MyRED is housed in Saba, its learning management system (LMS), which tracks training. MyRed is overseen by the DnA program manager and is supported by the training team in Hyderabad.
- Employees are also encouraged to seek outside training opportunities that will enhance their personal and professional growth. Included are college and certificate level classes and industry conferences (CREFC, MBA).
- Berkadia requires all employees to take yearly training courses in prohibited harassment and discrimination, antifraud, phishing, and its comprehensive information security policy (CISP).
- 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 more than eight years of experience to 50 hours for those with three or less years of experience.

- Management reported that during the first half of 2021, employees averaged approximately 20 hours of training globally, with Hyderabad and U.S. employees averaging 19 and 22 hours, respectively. In 2019, employees averaged 53 hours of training globally, with Hyderabad and U.S. employees averaging 60 and 40 hours, respectively.
- Historically, senior managers, subject-matter experts, and trainers frequently travel to Hyderabad to facilitate and enhance the educational offerings. Due to travel restrictions resulting from COVID-19, this training has largely been conducted 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, many of which have been enhanced since our last review. 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. Sixty-eight information technology personnel also support its servicing operations. 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 and master servicing. McCracken is subject to a service auditors' examination (SOC-1) performed by an independent certified public accounting (CPA) firm. Since our last review, Berkadia implemented Strategy's web portal updates to leverage process management functionality to provide enhanced management and monitoring of loan triggers.
- 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, 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, a third-party application which produces over 2,000 customized operational and management reports for both internal and external users, combining data from Strategy, EPM, and other data sources utilizing business intelligence tools.
- CertInView is a proprietary tool for managing and 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.
- FA App, a proprietary financial analysis application that uses optical character recognition, machine learning, and proprietary algorithms to simplify the financial statement review process for all property types.
- Berkadia's intranet provides employees with access to policies and procedures, employee benefits, and organizational announcements. It is linked to MyRED, 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.
- 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 3 certified facility located in Norristown, Pa. It also utilizes a 50-seat 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 in July 2019. The India site was subsequently relocated to Bangalore, India, however, business recovery testing has been suspended due to the COVID-19 pandemic with the BSIPL employees operating remotely with the formal pandemic plan in place. Nonetheless, the site, which has a maximum of 94 seats per shift, supports the Hyderabad office's DR requirements.
- The most recent off-site business continuity test was successfully completed prior to the COVID-19 pandemic for the Ambler site in February 2020 at the SunGard facility. 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 currently 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.
- A DR exercise for all critical applications was successfully conducted in October 2020, with no issues.

### ***Cybersecurity***

With respect to cybersecurity, intrusion detection systems are configured to continually monitor Berkadia's network and identify potential security breaches early. External penetration tests are conducted annually by a rotating group of external parties (most recently in May 2021), 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 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 reports to the chief information security officer and includes representatives from legal, human resources, IT, vendor management, and the servicing and production business units. The committee 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 including extensive and well-documented policies and procedures, internal and external audits, and a quality control (QC) environment with proactive, well-documented compliance. The audit program involves internal staff, external auditor, client, and investor reviews.

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

Berkadia has an extensive, well-documented, and well-maintained library of procedures for its 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 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 the SVP information, security enterprise of risk and, compliance (RCC), who reports to the chief financial officer. In addition, within the line of business, a servicing compliance team is overseen by a VP who reports to the SVP of loan administration and is responsible for compliance with internal and applicable external guidelines. We note that the highest ranked servicers typically have this function report outside of the servicing operation.

In addition, Berkadia employs QC processes, including measuring performance against departmental standard turnaround times and monitoring productivity results and the 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 2020, 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 2020.

The 2020 SOC 1 report examines Berkadia's commercial mortgage servicing operations and related general computer controls. The 2020 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.

Berkadia's internal auditors performed a 2021 advance/forbearance internal audit which concluded that Berkadia has a satisfactory control environment pertaining to that process. We further reviewed a 2020 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. Further, no high-risk findings were observed across any of the tested processes.

### **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 the 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 (51.0% of UPB and 23.7% 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 June 30, 2021, the \$316.2 billion (including master servicing) portfolio was broadly distributed (see table 4) across third-party investor clients (57.2%; 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 (15.2%), followed by Fannie Mae (11.8%). Life insurance companies (6.7%) and FHA & Ginnie Mae (3.5%) round out the top five investor types.

Since our last review, primary servicing portfolio dollar volume has benefited from a 5.8% increase in average loan size, as well as unit growth of 7.4%. At the same time, delinquency rates (see table 6) have increased approximately 100 basis points to 1.4% due to COVID-19 related economic weakness, particularly from within its FHA & Ginnie Mae portfolio, which reported a 4.0% delinquency rate and amongst its lodging portfolio, which suffered from a 5.5% delinquency rate.

**Table 6**

Primary Servicing Portfolio										
	Jun. 30, 2021		Dec. 31, 2020		Dec. 31, 2019		Dec. 31, 2018		Dec. 31, 2017	
	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.
Primary loans	302,731.4	18,770	288,861.5	19,047	266,456.1	17,477	222,744.7	15,423	201,584.0	15,017
Average loan size	16.1	--	15.2	--	15.2	--	14.4	--	13.4	--
<b>Delinquent (%)</b>										
30 days	0.5		0.5		0.2		0.1		0.2	
60 days	0.1		0.8		0.0		0.0		0.1	
90+ days	0.8		0.7		0.2		0.4		0.5	
Total	1.4		2.1		0.4		0.5		0.8	

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

## **New loan boarding**

Berkadia has a sound loan boarding function that includes in-depth procedures for secondary review. It boarded nearly 3,300 loans during the trailing 12 months ended June 30, 2021. Control and other features of new loan boarding include:

- Loan boarding personnel are in Hyderabad (37) and in the U.S. (9), 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 Phase I loan boarding process is performed in Hyderabad (with Ambler as backup) that includes the input of loan and borrower information relevant to the application of payments along with general loan-level data. This information is necessary to pass a file into Strategy. Phase II of loan boarding, which is performed in Hyderabad and completed within 30 days of initial upload, includes loading additional elements of the loan, including property-level information for collateral and loan administration as well as all trigger information. Documented procedures for loan boarding exist for other loan types that vary depending on the investor type and scope of service.
- Loans are boarded into Strategy before the first investor remittance date and are expected to 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.
- Daily review of loans passed into Strategy for the majority of loans, details vary based upon the portfolio. Each month a sample of manually boarded loans is reviewed to ascertain the accuracy of the data loaded to the system.
- 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 57% received via Automated Clearing House, 33% via wire transfers, and 10% via lockbox.
- The servicer manages 2,182 adjustable-rate loans and performs regular adjustable-rate mortgage audits to ensure correct rate indices and changes and we expect it will be adequately prepared to handle the sunset of LIBOR.
- 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.
- Since our last review, there have been 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 47% 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 or authorized party approvals.
- During the trailing 12-months ending June 30, 2021, it reported 37 instances of incurring non-reimbursable tax penalties, which is an increase from nine instances reported during 2019. Management attributed the increased number of penalties to a combination of issues primarily related to COVID-19, including delayed mail and the extended closure and lack of staffing at municipal and county tax offices.
- 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 (60 days prior for flood insurance) and carrier ratings are reviewed annually for compliance. Forced-placed coverage has a 120-day look-back period for flood (and 180 days for other coverage). There were 23 loans on forced-placed coverage as of June 30, 2021, compared with 35 loans as of our prior review.
- External vendors are used for flood determinations, as well as for pre-closing policy reviews and supplemental financing transactions.
- Since our last review, it increased its dedicated staff headcount for the insurance function from 70 to 102.

## **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, which has implemented updated reporting features since our last review, 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, including FA App, the financial statement application previously noted.
- As of June 30, 2021, Berkadia received and analyzed 98% of 2020 annual CMBS property operating statements and 96% 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 tracks open items.
- Deferred maintenance (DM) open items are tracked centrally and the 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 15,400 loans requiring UCC filings as of June 30, 2021, none had experienced any filing lapses.

Portfolio surveillance is administratively managed under a U.S.-based SVP of portfolio surveillance (who also oversees special servicing), who has a team of four in the U.S. and 11 in Hyderabad. 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 June 30, 2021, approximately 10% of the portfolio was on the watchlist.
- The surveillance team reviews transaction 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, where its allocated staff increased to 39 from 29 from our prior review. 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.



- Berkadia sometimes utilizes vendors to assist with underwriting and preparing case memorandums for loan assumption requests.
- Upon initial review of the request, a documentation requirements letter is generated and provided to the borrower. 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 a primary/master servicer, Berkadia processed 368 consents aggregating \$10 billion of UPB during the first half of 2021, including 136 pertaining to loan assumptions, 133 related to leasing activity, 64 related to property management changes and 24 defeasance reviews. During 2020, Berkadia processed 1059 total consents aggregating \$22.8 billion of UPB, including 265 related to leasing activity, 233 forbearance requests, 141 pertaining to loan assumptions, 145 related to property management changes, 114 defeasance reviews and 85 related to repair extensions.

### **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 within one to three days following the expiration of any grace period to obtain information surrounding the delinquency's cause and anticipated payment cure date.
- Comments are centrally tracked on the servicing system.
- Initial written default notices are manually generated and sent to the borrower based upon the notice requirements of the loan documents.
- In instances of sustained delinquency (i.e., 30-60 days), the relationship manager will refer the loan to the assigned asset manager for follow-up and or transfer to special servicing.

### **Loan Administration--Master Servicing**

The loan administration subranking is ABOVE AVERAGE for master servicing.

Berkadia has historically demonstrated strong subservicer oversight practices and reported low delinquency levels amongst its subservicers. However, its CMBS serviced by others (SBO) portfolio has continued to decline because loan run-off has greatly exceeded new master servicing oversight activity. As of June 30, 2021, it monitored five subservicers that serviced 35 loans comprising only \$137 million in UPB, compared with \$549 million (47 loans) as of our last review. With respect to the CMBS SBO portfolio, management reported that 27 loans reside with a single subservicer. As a result, the other four subservicers it oversees, manage two loans on average.

At the same time, Berkadia also performs certain master servicing type duties on a 1,091 loan insurance company portfolio with an aggregate UPB of \$13.3 billion that are included in the Master SBO loans portfolio total as of June 30,

2021 (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**

<b>Master Servicing Portfolio</b>										
	<b>Jun. 30, 2021</b>		<b>Dec. 31, 2020</b>		<b>Dec. 31, 2019</b>		<b>Dec. 31, 2018</b>		<b>Dec. 31, 2017</b>	
	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>
Master (SBO) loans	13,421.9	1,126	14,003.1	1,248	13,277.3	1,082	633.0	69	725.4	92
Subservicers	--	5	--	5	--	7	--	9	--	12
Average loan size	11.9	--	11.2	--	12.3	--	9.2	--	7.9	--
<b>Delinquent (%)</b>										
30 days	0.0		0.0		0.0		13.7		0.0	
60 days	0.0		0.0		0.0		0.0		0.0	
90+ days	0.0		0.0		0.0		0.0		0.0	
Total	0.0		0.0		0.0		13.7		0.0	

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; While no audits occurred during the trailing 12 months ended June 30, 2021, two desk audits were performed during the first half of 2020.

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

All reporting is accomplished via electronic file deliveries and wire transfers. 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 June 30, 2021, Berkadia had CMBS advancing responsibilities on a \$1.84 billion portfolio, including loans for which it is both the 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 June 30, 2021, Berkadia is the named special servicer on 12 securitized transactions containing 383 assets, totaling \$3.3 billion in UPB. We note, however, that two of the deals totaling \$769 million pertain to single-asset, single-borrower transactions specially subserviced by KeyBank Real Estate Capital. Consequently, on a net basis, Berkadia is engaged in approximately \$2.6 billion of securitized transactions. Additionally, it is responsible for default management activities associated with an agency portfolio of approximately 4,000 loans totaling \$54.3 billion.

As of June 30, 2020, Berkadia was actively special servicing 32 loans aggregating \$366.7 million in UPB (see table 8). Recent resolution activity, as well as the current active portfolio includes assets largely secured by multifamily, student housing, skilled nursing and assisted living collateral. Its special servicing team includes five staff members, including three loan workout asset managers and two asset managers who handle performing loan consent activity. Given the small staff size and historically limited real estate-owned (REO) activity (none since 2018), AMs, who average 10.7 assets each, are responsible for loan workout as well as REO asset management.

**Table 8**

Special Servicing Portfolio															
	Jun. 30, 2021			Dec. 31, 2020			Dec. 31, 2019			Dec. 31, 2018			Dec. 31, 2017		
	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>Active inventory</b>															
Loans	366.8	32	12.6	1,371.6	94	8.1	17.4	12	48.0	120.9	26	30.0	71.6	15	43.8
Real estate owned	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A	0.1	1	35.6
Total	366.8	32	12.6	1,371.6	94	8.1	17.4	12	48.0	120.9	26	30.0	71.7	16	43.3

Totals may not add due to rounding. (i)Average age reflects the time in months from the date the loan first became specially serviced to the reporting date.

### 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 are expected to 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. Nonetheless, all new loan transactions require an initial site inspection unless waived by the portfolio manager.

- 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 valid for six months to be implemented and monitored for adherence to plan objectives and contractual servicing requirements. If the approved plan has yet to be executed within such time frame, the plan must be submitted for re-approval, as applicable.

Since our last review, Berkadia has completed 82 loan resolutions with an aggregate UPB of \$1.15 billion (see table 9). During that period, it returned 73 loans aggregating \$1.13 billion UPB to the master servicer and achieved nine full payoffs (\$21.7 million UPB). Its average hold time for the 68 loans returned to the master servicer was 11.7 months during the first half of 2021. We note that figure would be only 10 months if a \$98,000 securitized loan that took more than 10 years to resolve were excluded from the calculation.

**Table 9**

Total Special Servicing Portfolio--Loan Resolutions															
	2021(ii)			2020			2019			2018			2017		
	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	1,120.1	69	11.6	29.2	13	29.0	134.4	21	22.0	54.4	6	11.6	42.8	23	26.8
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	1,120.1	69	11.6	29.2	13	29.0	134.4	21	22.0	54.4	6	11.6	42.8	23	26.8
<b>Resolution breakdown</b>															
Returned to master	1,112.0	68	11.7	15.6	5	61.6	72.8	14	17.5	0.0	2	5.4	16.0	10	33.9
Full payoffs	8.1	1	5.4	13.6	8	8.7	26.1	3	23.8	54.3	4	14.7	26.3	11	16.3
DPO or note sale	0.0	0	N/A	0.0	0	N/A	35.5	4	36.5	0.0	0	N/A	0.5	2	48.4
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 and average	1,120.1	69	11.6	29.2	13	29.0	134.4	21	22.0	54.4	6	11.6	42.8	23	26.8

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

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**

Berkadia has reported no REO sales activity since 2018 and its historically negligible REO management and sales volume has been 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 updates 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 detailing 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. The portfolio surveillance team of 14 people assists the special servicing team with the foregoing processes:

- 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 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 Commercial Mortgage Servicer Rankings Affirmed; Ranking Outlooks are Stable, Oct. 15, 2021
- Select Servicer List, Oct. 13, 2021
- Berkshire Hathaway Inc., June 23, 2021
- Servicer Evaluation Spotlight Report™: Environmental, Social, And Governance Factors Have Consistently Powered Our Servicer Evaluation Rankings, Nov. 16, 2020
- Jefferies Financial Group Inc. Outlook Revised To Stable From Negative On Resilient Revenue; Ratings Affirmed, Oct. 29, 2020
- Jefferies Financial Group Inc., Aug. 11, 2020
- Servicer Evaluation: Berkadia Commercial Mortgage LLC, June 9, 2020
- Servicer Evaluation Spotlight Report™: U.S. Commercial Mortgage Servicers Preparing For Impact From COVID-19, Apr. 3, 2020

- Analytical Approach: Global Servicer Evaluations Rankings, Jan. 7, 2019

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