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Servicer Evaluation: Berkadia Commercial Mortgage LLC

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Ranking Overview				
Servicing category	Overall ranking	Subrankings		
		Management and organization	Loan administration	Ranking overview
Commercial primary	STRONG	STRONG	STRONG	Stable
Commercial master	ABOVE AVERAGE	STRONG	ABOVE AVERAGE	Stable
Commercial special	ABOVE AVERAGE	STRONG	ABOVE AVERAGE	Stable
Financial position				
SUFFICIENT				

Rationale

S&P Global Ratings' rankings on Berkadia Commercial Mortgage LLC (Berkadia) are STRONG as a commercial mortgage loan primary servicer and ABOVE AVERAGE as a commercial mortgage loan master and special servicer. On March 17, 2023 we affirmed all three rankings (see "Berkadia Commercial Mortgage LLC Commercial Mortgage Loan Servicer Rankings Affirmed; Ranking Outlooks Stable," published March 17, 2023). The ranking outlook is stable for each ranking.

Our rankings reflect Berkadia's:

- Senior management team's experience and tenure;
- Comprehensive and well-defined training program;
- Robust audit and quality control environment;
- Proactive and well-documented compliance, governance and internal controls;
- Effective 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 Nov. 10, 2021), the following developments have occurred:

- Berkadia executed its return to office (RTO) plan, which included a staggered RTO to a remodeled and enlarged facility (addition of 55,000 sq. ft., which is 65.0% larger) in Hyderabad, India, over multiple months beginning in March 2022 and a RTO hybrid two day plan beginning in May 2022 for the U.S. servicing team.

- The company migrated its India disaster recovery and business continuity site from Pune to Bangalore while also expanding its operational footprint in Bangalore.
- Berkadia implemented several technology enhancements to boost efficiencies and automation in the areas of insurance and financial statement analysis while also completing the migration of its loan servicing system to Strategy release 20.
- Following the 2021 retirement of the chief innovation officer, an executive with more than 20 years of experience joined the company in the same role and was appointed to the management committee.
- A senior vice president (SVP) with 33 years of tenure with Berkadia rejoined the servicing team to assist with strategic business and technology initiatives and led the firm's Strategy conversion.
- The firm's general counsel and executive vice president (EVP) transitioned to the newly created position of chief legal officer and the assistant general counsel was promoted to general counsel with the legal function, which previously reported to the CEO, now reporting to the chief financial officer.
- The number of primary serviced loans increased by 6.3%, contributing to a 24.2% increase in overall unpaid principal balance (UPB) to \$376.1 billion, which was further boosted by an increase in average loan size to \$18.8 million from \$16.1 million.
- Overall staffing levels increased by 17.3% to a total full-time servicing employee count of 751, with 67.8% of staff located offshore.

Our ranking outlook is stable for each ranking. Berkadia 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 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, 2022, 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. 20

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 2022, Berkadia, which, according to management, is the largest private originator of commercial mortgage loans in the U.S., originated \$35 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 2022, according to management, Berkadia was the largest Freddie Mac Optigo, Conventional and Targeted Affordable Housing lender, and the second largest Fannie Mae lender and the third-largest FHA-insured lender. Additionally, in 2022, the investment sales division completed 638 transactions totaling \$22 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 seven-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 the "servicer's servicer," providing servicers with both borrower-facing and non-borrower-facing outsourcing support. Its fee-for-service loan portfolio represents more than \$227 billion of its \$393 billion primary/master servicing portfolio as of Dec. 31, 2022.

In addition, according to the Mortgage Bankers Association, Berkadia is the fourth largest primary and master servicer of commercial/multifamily mortgage loans and is among the top five for various investor types, including Fannie Mae (3rd), FHA & Ginnie Mae (3rd), CMBS (4th), Freddie Mac (5th) and life insurance companies (5th).

Table 1

Total Servicing Portfolio						
	UPB (mil. \$)	YOY change (%)	No. of assets	YOY change (%)	No. of staff	YOY change (%)
Primary/master servicing						
Dec. 31, 2022	393,009.3	16.5	20,974	4.2	744	16.3
Dec. 31, 2021	337,202.6	11.3	20,122	(0.9)	640	9.4
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)
Special servicing						
Dec. 31, 2022	203.9	(32.1)	16	(40.7)	7	16.7
Dec. 31, 2021	300.2	(78.1)	27	(71.3)	6	20.0
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)

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

Table 2

Portfolio Overview										
	Dec. 31, 2022		Dec. 31, 2021		Dec. 31, 2020		Dec. 31, 2019		Dec. 31, 2018	
	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.
Primary loans	376,092.4	19,960	324,440.3	19,181	288,861.5	19,047	266,456.1	17,477	222,744.7	15,423
Master (SBO) loans	16,916.8	1,014	12,762.3	941	14,003.1	1,248	13,277.3	1,082	633.0	69
Total servicing	393,009.3	20,974	337,202.6	20,122	302,864.6	20,295	279,733.4	18,559	223,377.7	15,492
Average loan size	18.7	--	16.8	--	14.9	--	15.1	--	14.4	--
Special servicing										
Loans	203.9	16	300.2	27	1,371.6	94	17.4	12	120.9	26
REO properties	0.0	--	0.0	--	0.0	--	0.0	--	0.0	--
Total special servicing	203.9	16	300.2	27	1,371.6	94	17.4	12	120.9	26

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 (%)
Type				
Multifamily	204,246.9	52.0	15,432	22.1
Office	51,671.6	13.1	1,702	2.4
Industrial	31,463.3	8.0	6,306	9.0
Retail	31,153.3	7.9	1,944	2.8
Other/various (ii)	16,397.7	4.2	7,495	10.7
All other (iii)	58,076.4	14.8	37,011	53.0
Total	393,009.3	100.0	69,890	100.0
State				
CA	63,056.9	16.0	6,591	9.4
TX	39,835.3	10.1	7,806	11.2
NY	37,418.3	9.5	2,530	3.6
FL	31,660.4	8.1	6,511	9.3
NJ	16,071.1	4.1	2,951	4.2
All other	204,967.3	52.2	43,501	62.2
Total	393,009.3	100.0	69,890	100.0

Totals may not add due to rounding. (i)As of Dec. 31, 2022. UPB--Unpaid principal balance. (ii)Other/various includes loans reported as "Other" and multi-collateral property type loans. (iii)"All other" includes specific property types reported but not one of the four largest.

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.)	226,888.2	11,389	57.7	54.3
Freddie Mac K-Series	53,300.3	2,986	13.6	14.2
Fannie Mae	41,162.2	2,312	10.5	11.0

Table 4

Primary/Master Portfolio By Investor Product Type(i) (cont.)				
Loan Type	UPB (mil. \$)	Loan count	UPB (%)	Loan (%)
Life insurance companies	22,604.5	1,464	5.8	7.0
CMBS/CDO/ABS	21,712.9	820	5.5	3.9
FHA & Ginnie Mae	11,187.9	1,222	2.8	5.8
Freddie Mac (excludes "K-Series" deals)	8,836.5	484	2.2	2.3
Contained in a CRE CDO/CRE CLO (whole loan, mezz, B Note)	2,742.7	111	0.7	0.5
Banks/financial institutions	2,633.3	59	0.7	0.3
On own or parent's balance sheet (exclude issued CRE CDO/CRE CLO)	1,940.8	127	0.5	0.6
Total	393,009.3	20,974	100.0	100.0

Totals may not add due to rounding. (i)As of Dec. 31, 2022. UPB--Unpaid principal balance.

Management And Organization

The management and organization subrankings are STRONG for each of primary, master, and special 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 robust audit and control environment.

Organizational structure, staff, and turnover

Berkadia's senior and middle management teams demonstrate solid levels of industry experience and tenure, with averages commensurate with the highest-ranked servicers (see table 5). The staff experience and tenure levels trail 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	29	20	21	15	N/A	N/A	8	5
Master (iii)	29	20	20	12	N/A	N/A	6	6
Special	N/A	N/A	22	11	22	12	24	13
India	20	14	16	14	N/A	N/A	5	4

(i)As of Dec. 31, 2022. (ii)Primary, Master, and Special averages are indicative of experience/tenure across the platform (i.e. U.S. and India). (iii)Master servicing senior managers are identical to primary servicing senior managers.

The president of the servicing group is a direct report to Berkadia's CEO. He has more than 35 years of industry experience, all with Berkadia (including its predecessors), and has four servicing direct reports in the U.S., who collectively average nearly 34 years of industry experience and more than 20 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 servicing, asset management, surveillance, borrower consents and insurance compliance and claims administration. Client services' responsibilities pertain to all portfolios other than the correspondent life insurance company relationships.
- Loan administration. A SVP, MD 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 analysis, reserves, inspections, rent rolls, Uniform Commercial Code (UCC) administration and taxes. This executive also maintains oversight for the servicing risk and compliance area.
- Life insurance company portfolios. A SVP, MD 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, workflow management and strategic initiatives.
- Business development. A SVP, MD handles new business development across the servicing platform.

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 locations. 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 20 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 744 total employees that make up the primary/master servicing operations, which is a 17.2% increase in headcount since our last review, 509 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 68.4% of the servicing headcount, up slightly from 66.9% as of our prior review. Servicing processes, and the percentage of personnel associated with each process located in Hyderabad include:

- Loan boarding/servicing data center (81%);
- Document imaging and workflow (98%);
- Cash administration/bank reconciliations (73%);
- Loan administration (80%);
- Investor reporting/payoffs (67%);
- UCC administration (75%);
- Credit administration (67%);
- Surveillance (72%);
- Financial statements/inspections (93%);

- Client relations support (100%); and
- Client relations that include vocal communications (3%).

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.

With respect to staff turnover, by our measurement, while the 17.3% overall primary/master servicing employee turnover rate during 2022 represented a five-year high, it was within 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 16% during 2022 compared with 9.5% during 2021. The turnover experienced in Hyderabad during 2022 is above its 12.0% annual controllable attrition goal, which management attributes to the impact of the lifting of the COVID constraints and the low rate of turnover in each of the prior two years.

The special servicing team has seven employees who are based onshore in Irvine and include a senior asset manager, five asset managers and a compliance analyst. The asset managers handle loan workouts as well as performing loan consent activity within the assigned special servicing portfolio. The group has expanded from five to seven staff members since our last review. At the same time, it experienced 50% turnover comprised of one transfer, one retirement and one departure (a vice president who was replaced by an external hire) during 2022 after a prior 18-month period of experiencing no turnover.

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:

- The Learning and Development (L&D) team, which consists of core members in both Hyderabad and the U.S., along with subject-matter experts. It manages learning and development efforts for all employees.
- The L&D team curates a full menu of offerings, including interpersonal training sessions at all servicing locations. These trainings are offered at four additional locations, and interactive video conferencing is utilized across the enterprise. Berkadia also has an extensive e-library and utilizes LinkedIn learning.
- Berkadia Way training programs and workshops in support of the company culture, which are supported by managers and work opportunities, include foundational programs for new hires, refresh sessions and accountability tools.
- Since our last review, Berkadia built a new hire resource center to support asynchronous learning.
- MYRED (SABA-based software), its learning management system (LMS), tracks internal training, as well as external training and conference attendance.
- 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 2022, primary/master servicing employees averaged more than 45 hours of training globally while special servicing employees averaged 41 hours. Hyderabad and U.S. employees averaged 50 and 49 hours, respectively.
- Senior managers, subject-matter experts, and trainers frequently travel to Hyderabad to facilitate and enhance the educational offerings. While travel restrictions during the COVID-19 pandemic limited such travel, management has resumed this in-person training.

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. It has 83 information technology personnel, up from 68 since our last review, that 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.20) is the system of record for primary and master servicing and the company migrated from version 17.6 since our last review. McCracken is subject to a service auditors' examination (SOC-1) performed by an independent certified public accounting firm. Strategy v.20 enables system functionality for Secured Overnight Financing Rate (SOFR) interest rate calculation programs.
- AIMS, a proprietary application for special servicing, connects to other internal systems and 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 Berkadia has customized to produce over 2,000 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 at the loan, property and building level 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, 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 also 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 on its severity. Highlights considered in our analysis 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 (generally recognized as industry standard) 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 Ambler was successfully conducted in October 2022. At this time, management has no plans to conduct an offsite in India as it believes to have proven its ability to work remotely during the COVID pandemic and continues to work in a hybrid environment across its India platform.
- The Bangalore, India DR/BC site, which supports the Hyderabad office's DR requirements, has 94 dedicated seats (86 thin client and 8 laptop) workstations available for three shifts. Additionally, Berkadia has contracted co-working spaces in Hyderabad to use, if necessary.
- All employees, including those at BSIPL, have laptops and the ability to work from home.
- A DR exercise for the Strategy application was successfully conducted in March 2022, with no issues.

Cybersecurity

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.

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/June 2022), and they focus on physical building security, user identification, and password protection. Based on results of the latest penetration test, management implemented remediation efforts to address vulnerabilities identified during the testing. Based on the findings observed and remediation already in progress during the assessment, the vendor believes Berkadia is following a best practices approach to continually improve the organization's maturity and meet or exceed industry standards for information security.

Berkadia performs bi-weekly phishing awareness campaigns (which we have observed is more frequent than its peers'), with higher risk employees targeted more frequently; it believes that its "click rate" is well below industry averages. The company also maintains a stand-alone cyber-insurance policy.

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, chief information security, enterprise risk and

compliance (RCC) officer, 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.

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 2022, 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) for the period from Oct. 1, 2021, to Sept. 30, 2022.

The SOC 1 report examines Berkadia's commercial mortgage servicing operations and related general computer controls. The SOC 2 platform review covers data security, operational availability, processing integrity, and information confidentiality. There were no reported findings in the SOC 1 report and a minor exception was noted in the SOC 2 report pertaining to policy acknowledgements for newly hired employees. Management has addressed this oversight through an expanded plan for policy acknowledgement.

In November 2022, Berkadia conducted an internal audit on the cash disbursements process and the cash receipts process was audited during 2021, each which concluded that Berkadia has a satisfactory control environment pertaining to that process. We further reviewed a March 2022 internal audit report of the operations and administration functions (payroll processing and employee disbursement; finance and account; and facility management) of BSIPL prepared by a major international accounting firm. No high-risk findings were observed across any processes tested.

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. 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 commercial mortgage loan primary servicing.

For primary servicing, Berkadia has individual client relationship managers assigned to each loan. Multifamily is the emphasis (52.0% of UPB and 22.1% 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, 2022, the \$393 billion (including master servicing) portfolio was broadly distributed (see table 4) across third-party investor clients (57.7%; including several private-label relationships and a CMBS-focused fee-for-service relationship). The next largest investor client type is Freddie Mac K-Series (13.6%), followed by Fannie Mae (10.5%). Life insurance companies (5.8%) and CMBS (5.5%) round out the top five investor types.

Primary servicing portfolio dollar volume has continued to benefit from an increase in average loan size (11.4% during 2022), and experienced unit growth of 4.1% during the year. At the same time, delinquency rates (see table 6) declined approximately 22 basis points to 0.35% as COVID-19 related economic weakness subsided.

Table 6

Primary Servicing Portfolio										
	Dec. 31, 2022		Dec. 31, 2021		Dec. 31, 2020		Dec. 31, 2019		Dec. 31, 2018	
	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.
Primary loans	376,092.4	19,960	324,440.3	19,181	288,861.5	19,047	266,456.1	17,477	222,744.7	15,423
Average loan size	18.8	--	16.9	--	15.2	--	15.2	--	14.4	--
Delinquent (%)										
30 days	0.13		0.08		0.54		0.16		0.10	
60 days	0.05		0.06		0.78		0.01		0.04	
90+ days	0.16		0.44		0.74		0.24		0.35	
Total	0.35		0.57		2.06		0.41		0.49	

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

New loan boarding

Berkadia has a sound loan boarding function including in-depth procedures for secondary review. It boarded more than 3,500 loans during 2022. Control and other features of new loan boarding considered in our analysis include:

- Loan boarding personnel are in Hyderabad (46) and in the U.S. (11), and the Hyderabad setup staff performs initial data scrubbing and generates deficiency reports from the servicing system.

- 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.
- Reviews of the majority of loans passed into Strategy occur daily. 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 business 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 67% received via Automated Clearing House, 23% via wire transfers, 6% via lockbox and 4% via the internet.
- The servicer manages 2,676 adjustable-rate loans and performs regular adjustable-rate mortgage audits to ensure correct rate indices and changes. We expect it will be adequately prepared to handle the sunset of LIBOR and the transition to SOFR (or other alternate rates) across its portfolio.
- 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 substantial 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 49% 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 2022, it reported 31 instances of incurring non-reimbursable tax penalties, which is an increase from 25 instances reported during 2021. Management noted that it continues to focus on processes and procedures that minimize any tax penalties and anticipates 2023 tax penalties to remain at or below the 2022 levels.
- 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 36 loans on forced-placed coverage as of Dec. 31, 2022, compared with 23 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 102 to 128.

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 enhanced 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 Dec. 31, 2022, Berkadia received and analyzed 97% of the 2021 annual CMBS property operating statements and 98% of all operating statements.
- Third-party vendors conduct most of the site inspections, which occur annually for loans of more than \$2 million in UPB and biannually for all others.
- The servicing system and workflow application tracks open items.
- Deferred maintenance (DM) open items are centrally tracked 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 nearly 17,000 loans requiring UCC filings as of Dec. 31, 2022, none 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 five in the U.S. and 13 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 Dec. 31, 2022, approximately 11% 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 54 from 39 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 during 2022, Berkadia processed 638 total consents aggregating \$39.1 billion of UPB, including 146 related to property management changes, 134 related to leasing activity, 132 pertaining to loan assumptions, 127 related to repair extensions, 36 defeasance reviews, 23 maturity extensions, 14 partial collateral releases, and 26 other requests.

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 commercial mortgage loan master servicing.

Berkadia has 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 Dec. 31, 2022, it monitored four subservicers that serviced 23 loans comprising only \$115 million in UPB, compared with \$137 million (35 loans) as of our last review. With respect to the CMBS SBO portfolio, management reported that 20 loans reside with a single subservicer.

At the same time, Berkadia also performs certain master servicing type duties on a 991-loan insurance company portfolio with an aggregate UPB of \$16.8 billion that are included in the Master SBO loans portfolio total as of Dec. 31, 2022 (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, 2022		Dec. 31, 2021		Dec. 31, 2020		Dec. 31, 2019		Dec. 31, 2018	
	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.
Master (SBO) loans	16,916.8	1,014	12,762.3	941	14,003.1	1,248	13,277.3	1,082	633.0	69
Subservicers	--	4	--	3	--	5	--	7	--	9
Average loan size	16.7	--	13.6	--	11.2	--	12.3	--	9.2	--
Delinquent (%)										
30 days	0.0		0.0		0.0		0.0		13.7	
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		0.0		13.7	

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 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. One desk audit was performed during 2022. The desk audit was for the largest CMBS subservicer in Berkadia's SBO portfolio and it was determined to be satisfactory.

Investor reporting, advancing, and special servicer interaction

As of Dec. 31, 2022, Berkadia had CMBS advancing responsibilities on an approximately \$15.3 billion portfolio, including loans for which it is both the primary and master servicer, up significantly from \$1.8 billion as of our prior review. The bulk of the growth came from appointments on CMBS SASB transactions and to a lesser extent, affordable housing and SFR transactions. Investor reporting and advancing controls considered in our analysis 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.
- 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 the circumstances of individual loans, not a static formula. In addition to loan level reviews, advances are also assessed for recoverability risk at the pool level.
- Berkadia interacts with special servicers regarding recovery values routinely. If a non-recoverability determination is made, bond impact analysis reviews are conducted to evaluate the impact of advance recovery from pool cash flow to assess if investment grade securities will be impacted. Notification is given to the rating agencies of recovery decisions which it believes may adversely impact any investment grade ratings.

Loan Administration – Special Servicing

The loan administration subranking is ABOVE AVERAGE for commercial mortgage loan special servicing.

As of Dec. 31, 2022, Berkadia is the named special servicer on 14 securitized transactions containing 380 assets, totaling \$4.9 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 \$4.1 billion of securitized transactions. Additionally, it is responsible for default management activities associated with an agency portfolio (HUD and FNMA) of approximately 3,500 loans totaling \$51.4 billion.

As of Dec. 31, 2022, Berkadia was actively special servicing 16 loans aggregating \$203.9 million in UPB (see table 8). Recent resolution activity, as well as the current active portfolio includes assets largely secured by multifamily, skilled nursing and assisted living collateral. Its special servicing team includes seven staff members, including five asset managers who handle loan work and performing loan consent activity. Given the small staff size and historically limited real estate-owned (REO) activity (none since 2018), AMs, who average 3.2 special servicing assets each, are also responsible for REO asset management to the extent required.

Table 8

Special Servicing Portfolio															
Dec. 31, 2022			Dec. 31, 2021			Dec. 31, 2020			Dec. 31, 2019			Dec. 31, 2018			
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)	
Active inventory															
Loans	203.9	16	13.2	300.2	27	19.9	1,371.6	94	8.1	17.4	12	48.0	120.9	26	30.0
Real estate owned	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	203.9	16	13.2	300.2	27	19.9	1,371.6	94	8.1	17.4	12	48.0	120.9	26	30.0

Totals may not add due to rounding.(i)Avg. 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 completed 14 loan resolutions with an aggregate UPB of \$140 million (see table 9). During that period, it returned nine loans aggregating \$98.8 million UPB to the master servicer and achieved five full payoffs (\$41.2 million UPB). Its average hold time for the loans returned to the master servicer and the full payoffs were 9.1 months and 15.8 months, respectively, during the 18-month period ending Dec. 31, 2022.

Table 9

Total Special Servicing Portfolio--Loan Resolutions															
	2022			2021			2020			2019			2018		
	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)
Resolutions															
Loans	76.4	9	13.1	1,183.7	74	11.4	29.2	13	29.0	134.4	21	22.0	54.4	6	11.6
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	76.4	9	13.1	1,183.7	74	11.4	29.2	13	29.0	134.4	21	22.0	54.4	6	11.6
Resolution breakdown															
Returned to master	36.0	5	11.8	1,174.8	72	11.4	15.6	5	61.6	72.8	14	17.5	0.0	2	5.4
Full payoffs	40.4	4	14.7	8.9	2	12.9	13.6	8	8.7	26.1	3	23.8	54.3	4	14.7
DPO or note sale	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A	35.5	4	36.5	0.0	0	N/A
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	76.4	9	13.1	1,183.7	74	11.4	29.2	13	29.0	134.4	21	22.0	54.4	6	11.6

Totals may not add due to rounding. (i)Avg. 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.

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 deposited 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 property manager bank accounts. These controls are the joint responsibilities of the AM and a designated administrator, who coordinates cash movement and other REO 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 monitor the property's performance and validate 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 Loan Servicer Rankings Affirmed; Ranking Outlooks Stable, March 17, 2023
- Select Servicer List, Feb. 14, 2023
- Berkshire Hathaway Inc., Nov. 10, 2022
- Jefferies Financial Group Inc., Aug. 30, 2022
- Servicer Category Descriptions Expanded and Revised, Feb. 28, 2022
- Servicer Evaluation: Berkadia Commercial Mortgage LLC, Nov. 10, 2021
- Servicer Evaluation Spotlight Report: Environmental, Social, And Governance Factors Have Consistently Powered Our Servicer Evaluation Rankings, Nov. 16, 2020
- Analytical Approach: Global Servicer Evaluations Rankings, Jan. 7, 2019

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