Operational Risk Assessments

Torchlight Loan Services, LLC

April 2015

Operational Classification:	Commercial Mortgage Special Servicer
Assigned Ranking:	MOR CS2
Forecast:	Positive
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Rationale

Morningstar Credit Ratings, LLC (Morningstar) assigned its 'MOR CS2' commercial mortgage special servicer ranking to Torchlight Loan Services, LLC (Torchlight), the wholly owned asset management subsidiary of Torchlight Investors, LLC. The assigned ranking reflects Morningstar's assessment of Torchlight's operational infrastructure and portfolio administration capabilities as a commercial mortgage special servicer. Specifically, Morningstar based its ranking on the following factors:

- Stabilizing operations: Morningstar believes Torchlight has a soundly designed organizational structure, with dedicated staff for asset management, investor reporting, and accounting. Although the relocation of Torchlight's asset-recovery unit from New York to Miami last year triggered employee turnover and rehiring, Morningstar believes the company is stabilizing and is increasingly realizing the operational benefits it anticipated from the move. Since June 2014, the company's employee turnover has eased and normalized.
- Successful performance record with commercial mortgage-backed securitizations: Torchlight has been among the most active special servicers handling legacy CMBS transactions. Morningstar considers Torchlight to be a skilled CMBS special servicer, which produced excellent recovery results in 2013 and 2014 involving many large and complex assets.
- Sufficient operational capacity: Morningstar determined that Torchlight's workload ratios, particularly for real estate owned properties, are higher compared to most special servicers. However, based on Torchlight's pace of asset resolutions and its portfolio volume trending lower despite having a net gain in assignment transfers last year, Morningstar believes the company has sufficient personnel resources.
- Experienced management and professional team: Following its office relocation, the company's average years of staff experience declined relative to previous levels. Although some special servicers have higher average staff experience, Morningstar believes that Torchlight's asset management team is well experienced. Torchlight also demonstrates a sound training function.
- Effective and improving technology: Torchlight purchased the Backshop™ asset-management system to replace an older database. Morningstar believes that the new system, once fully implemented this year, will strengthen Torchlight's asset-tracking, investor-reporting, and workflow-control capabilities. Torchlight handles its technology needs, including network support and disaster-recovery management, entirely through a third-party vendor. Morningstar believes that this approach, while not common, is acceptable based on the vendor's stated capabilities and undergoing independent security audits to validate that its infrastructure meets best practices.

- Proactive, controlled asset analytics and management: Torchlight displays diligent asset-analysis practices along with well delineated policies and procedures covering all essential elements of CMBS special servicing. The new asset-management system should facilitate the company's ability to monitor procedural compliance and conduct thorough, controlled asset-resolution analysis. As a control enhancement, Torchlight is initiating a program to audit third-party property managers handling REO properties.
- Sound internal audit function: Torchlight's compliance manager monitors adherence to servicing agreements and coordinates the company's internal audit function, which consists of an annual Regulation AB attestation and a cash-controls audit conducted every other year. The most recent Regulation AB attestation and internal audit were both satisfactory. Morningstar believes that the internal audit regimen, while sound, could be enhanced with annual audits of wider scope to supplement the Regulation AB examinations.
- Effective conflicts of interest management: Torchlight is a special servicer for many CMBS transactions in which its parent company holds first-loss bond positions and is the controlling class holder. Torchlight does not use affiliates for its special-servicing work, although its parent has acquired assets from CMBS trusts using permitted purchase options. Based on Torchlight's compliance procedures and asset-resolution practices, Morningstar has concluded that the company effectively manages its conflicts of interest.

As of Dec. 31, 2014, Torchlight was the named special servicer on 34 CMBS transactions comprising 2,104 loans with an approximate unpaid principal balance, or UPB, of $27.58 billion. It was also the named special servicer on one commercial real estate collateralized debt obligation with a remaining UPB of $377.4 million and 25 loans. The company's total active special servicing portfolio contained 79 loans and 74 REO properties with a combined UPB of approximately $1.92 billion. CMBS assets accounted for 99% of the active portfolio by asset count and 98% by UPB.

Forecast

The forecast for the ranking is Positive. Morningstar views Torchlight as an effective asset manager for its investment funds and special servicer for CMBS transactions based on the company's successful asset-resolution history, proactive and controlled practices, and experienced personnel. The Positive forecast reflects Torchlight's strengthening technology capabilities, successful relocation to Miami for asset management and related hiring efforts, expected lower staff turnover this year, the launch of a property-manager audit program, and Morningstar's expectation that Torchlight, based on past performance, will continue to achieve strong asset-recovery results.

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Company Profile and Business Overview

Torchlight is a wholly owned subsidiary of Torchlight Investors, LLC, which began in 1995 as Jones Lang Wootton Realty Advisors. In 2002, ING Group purchased a minority equity stake in Jones Lang Wootton Realty Advisors and changed the name to ING Clarion Capital. In 2010, the management team acquired ING Group's investment position, and the company assumed its current name. Torchlight Investors is a 100% management-owned company.

Torchlight Investors' core businesses are investment advisory, which encompasses commercial real estate debt investment and asset management, and special servicing. To support its acquisitions and investment management, the company also may provide senior or subordinated financing, or preferred equity. Since 1995, the company has acquired more than $20 billion of assets and launched nine opportunistic or value-add investment funds. As of Dec. 31, 2014, Torchlight Investors had approximately $4.1 billion of assets under management. The company principally manages assets on behalf of third-party institutional clients, largely comprising retirement and pension funds.

Torchlight Investors was one of the most active CMBS B-piece investors in the years immediately prior to the 2008 financial crisis. As a result, Torchlight Loan Services has been one of the larger-volume special servicers for legacy CMBS. During 2014, Torchlight Investors acquired subordinate bond positions on two new CMBS conduit transactions, with a total UPB of $2.06 billion at issuance, and appointed Torchlight as the special servicer. Last year, Torchlight Investors acquired bonds in three Freddie Mac securitizations totaling $3.96 billion at issuance. During 2013 and 2014, Torchlight, as a result of controlling class holder changes, became the successor special servicer on 13 legacy CMBS transactions consisting of 110 active specially serviced assets with a total UPB of $1.25 billion. In seven of these transactions, the controlling class holder was a third-party investor. As of March 2015, Torchlight remained the special servicer on eight of these 13 CMBS transactions. In total between 2011 and 2014, Torchlight became the successor special servicer on 16 CMBS transactions and relinquished its special servicing rights on six CMBS transactions. In December 2014, Torchlight became an approved Freddie Mac special servicer, and, in January 2015, became the replacement special servicer for one Freddie Mac-issued securitization, FREMF 2012-K705.

As of Dec. 31, 2014, Torchlight Investors had approximately 50 employees across all of its business lines inclusive of real estate investment and asset management, special servicing, lending, and securitization activities. Between the latter months of 2013 and early 2014, the company transitioned its special servicing operations to Miami from New York. The New York office remains the corporate headquarters, inclusive of human resources, investor reporting, and finance and accounting functions.

Table 1 – Historical Special-Servicing Volume

	Dec. 31, 2014		Dec. 31, 2013		Dec. 31, 2012	
	UPB (000s)	Loans (#)	UPB (000s)	Loans (#)	UPB (000s)	Loans (#)
Total Active Loan Portfolio	1,148,908	79	1,623,016	101	2,661,157	136
Average Loan Size	14,543		16,069		19,567	
Total Active REO Portfolio	770,628	74	580,372	50	422,768	36
Average REO Size	10,413		11,607		11,744	
Active CMBS Loan Portfolio	1,119,708	77	1,615,370	100	2,642,511	134
Active CMBS REO Portfolio	770,628	74	580,372	50	279,068	35
Average CMBS Asset Size	12,519		14,638		17,287	

Operational Infrastructure

Organizational Structure

Torchlight Investors' New York-based executive management consists of five managing partners who oversee the business and related operational activities of Torchlight Loan Services, the special servicer subsidiary. Through dedicated teams, the company handles day-to-day asset management and recovery work through its Miami office, while the New York headquarters has dedicated personnel for finance and accounting, investor reporting, and compliance functions. The manager of special servicing is based in Miami.

Torchlight's organizational structure for special servicing comprises the following core departments:

Loan Asset Management - This department, based in Miami, consists of a team leader, a senior associate, and another analyst to manage performing-loan consent requests. The department has responsibility for all management and related disposition activities for an assigned portfolio of nonperforming loans. At the time of Morningstar's review, the department had one open analyst position, which it has since filled.
REO Asset Management - This department, based in Miami, consists of a team leader, a senior associate, and one analyst. The department has responsibility for all management and related disposition activities for its assigned real estate portfolio.
Hybrid Asset Management - This four-person department, based in Miami, has responsibility for a portfolio consisting of both loans and REO properties. Assets assigned to this group tend to have smaller balances and/or may have fewer complexities relative to the assets managed by the other departments. The hybrid-group asset managers report to the loan asset-management manager for their assigned loans, and to the REO asset-management manager for their assigned REO properties.
Operations - Based in New York, this department consists of a manager, two associates (including one in Miami), and a dedicated compliance consultant. This group has responsibility for CMBS investor reporting, related rating agency communications, and special-servicing compliance.
Finance, Accounting, and Treasury - Based in New York, this department, handles all corporate, asset, and portfolio financial reporting and accounting, including property-level accounting on REO assets. This group also oversees accounting and reporting for Torchlight Investors' real estate investment funds.

Staffing, Experience, and Turnover

As of Dec. 31, 2014, middle managers averaged 14 years of experience and senior management averaged more than 20 years of experience. As a result of Torchlight relocating its operations to Miami and needing to hire new asset managers, the average experience for asset managers/analysts declined to 11 years as of December 2014, from 13 years as of December 2013. However, Morningstar believes the current team possesses solid backgrounds in real estate finance, property management, and loan workout, and that the management team has expertise managing assets according to CMBS transaction requirements.

Table 2 – Management and Staff: Average Years of Experience

	December 2014		December 2013	
	Industry	Tenure at Torchlight	Industry	Tenure at Torchlight
Senior Management	20	6	27	9
Middle Management	14	4	16	5
Professional Staff	8	1	7	3
Asset Managers	11	1	13	2

Workload Ratios

As of Dec. 31, 2014, Torchlight had nine dedicated asset managers: three loan-recovery asset managers including the special-servicing department manager, two dedicated REO asset managers, and four asset managers in the hybrid group handling a mix of loans and REO properties. Based on the total number of unresolved assets and the nine asset managers at the end of 2014, Torchlight had a consolidated 17:1 ratio of loans-to-asset managers.

Table 3 – Asset Manager Workload Ratios (Dec. 31, 2014)

	Assets (UPB Mil)	Assets (#)	Assets/Asset Manager
Total Combined (Loans and REO)	1,919.5	153	17.0
Loan Department (3 asset managers)	905.3	47	15.7
REO Department (2 asset managers)	505.7	36	18.0
Hybrid Asset Management Department (4 asset managers)	508.5	70 (32 loans and 38 REO)	17.5

Management and Staff Turnover

During 2013, Torchlight's employee turnover rate was approximately 26%. In the first half of 2014, the company's turnover rate rose to almost 46%. Morningstar understands that these high turnover rates, and corresponding hiring activities, largely reflect the company's relocation of special servicing operations to Miami from New York.

Table 4 – Management and Staff Turnover Rates*

	Second Half 2014	**First Half 2014	**Full Year 2013
Total Staff - Beginning of Period (# positions)	28	33	39
Total Turnover	**10.7% (3 positions)**	**45.5% (15 positions)**	**25.6% (10 positions)**
Involuntary	3.6% (1 position)	18.2% (6 positions)	5.1% (2 positions)
Voluntary	7.1% (2 positions)	27.3% (9 positions)	20.5% (8 positions)
Management Only	3.6% (1 position)	15.2% (5 positions)	5.1%
Staff Only	7.1% (2 positions)	30.3% (10 positions)	20.5%
Total New Hires (# positions)	2 (2 mgmt)	10 (2 mgmt and 8 staff)	4 (1 mgmt and 3 staff)
Total Staff - End of Period** (# positions)	27	28	33

* Turnover rates equal staff departures divided by number of staff at beginning of period.

** Between late 2013 and early 2014, Torchlight completed the transition of its special servicing operation from New York City to Miami.

Assessment: Morningstar believes Torchlight has a reasonably designed organizational structure with demonstrated synergy between the New York and Miami offices to address the company's asset-management and CMBS-reporting requirements. Although the office relocation to Miami last year triggered increased turnover, hiring, and a reduction in average experience levels, we believe the company is stabilizing and should increasingly realize the operational benefits it expected from the move. While the average years of experience of Torchlight's asset managers may be lower than that of some other Morningstar-ranked special servicers, we believe that the company has an experienced professional team. Morningstar believes that Torchlight, despite becoming the successor special servicer on a number of CMBS transactions, has adequate personnel resources allocated to special servicing based on its pace of resolutions and slowing transfer volume. However, we observe that the workload ratios as of Dec. 31, 2014, especially for REO management, were higher than the ratios at most other CMBS special servicers.

Training

Torchlight provides formalized training for all staff, with scheduled sessions covering a range of special servicing topics. The training regimen includes onsite events with invited guest speakers and weekly companywide and asset-manager roundtable sessions that review case studies and procedural issues. A designated asset manager coordinates training-event logistics and tracks employee-participation hours. The training manager also oversees asset-management system training and serves as liaison to Backshop, the vendor supporting the system.
The company expects all personnel to complete at least 40 hours of training annually. For 2014, Torchlight averaged 65 training hours per person, which included participation at internally and externally-sponsored sessions but excluded industry conferences. The company noted that the actual training hours in 2014 reflect the extra training time and activities devoted to the many new employees it hired.

> **Assessment:** Torchlight acceptably addresses employee training through substantive session offerings, emphasizing a team-building and mentoring environment, and having a designated asset manager to coordinate scheduled events and track training hours. The company's required minimum and actual annual training hours are solid and appear to be in line with and even higher than some other special servicers we have assessed. As the company's Miami office expands and to alleviate the burden of the current designated asset manager, Torchlight may benefit from having a dedicated, full-time training manager and developing an intranet portal, acquiring specialized software or leveraging the asset-management system, as feasible, to serve as a centralized tool for staff to access training materials and recorded sessions, register for sessions and track completed training hours.

Audit, Compliance, and Procedural Completeness

A compliance consultant, supervised by the manager of the special-servicing operations department, has responsibility for certifying portfolio transfers and managing the company's internal audit function. Additionally, Torchlight Investors has its own corporate-level chief compliance officer, who is also employed as a consultant but dedicated exclusively to the company. The special-servicing operations department manages the annual Regulation AB attestation process and monitors PSA compliance through monthly exception reports. The compliance manager also performs independent operational audits approximately every 24 months. These audits principally examine cash controls particularly surrounding REO property management. The last internal audit from March 2013 contained some minor observations but otherwise had no material findings. The Regulation AB attestations for the past three years were all clear of exceptions. The latest Regulation AB examination tested controls based on sampling 28% of Torchlight's total managed assets in 2014. The recently installed asset-management system provides reporting and tickler functions, including a nearly completed workflow-management component, to support Torchlight's quality-control and compliance efforts. As a CMBS-centric special servicer, Torchlight may benefit from further enhancements to integrate its abstractions of PSA requirements into the system's workflow programming.

Torchlight operates with well-constructed policies and procedures, which denote proactive, controlled special servicing practices and are contained in a singular, read-only document. The compliance department in conjunction with other senior management centrally controls updates and changes to the company's documented policies and procedures. Additionally, Torchlight Investors maintains separate policies and procedures covering corporate compliance and governance.

> **Assessment:** In Morningstar's view, Torchlight has a sound internal audit function for its CMBS special-servicing and related reporting requirements. Morningstar believes that the internal audit regimen, while sound, could be enhanced with annual audits of wider scope to supplement the Regulation AB examinations. We believe that Torchlight operates with detailed policies and procedures denoting proactive special-servicing practices that are well designed to address CMBS requirements and related investor compliance.

Legal Liability and Corporate Insurance

Torchlight reported that it was not involved in any pending litigation directly related to its special servicing operations. It also reported that it has directors and officers, errors and omissions, and fidelity bond insurance policies. As a special servicer, the company reported that it has not received any notices of PSA default or citations related to performance.

> **Assessment:** Morningstar believes Torchlight's insurance coverage limits are reasonable based on the company's current volume and relative to other special servicers. Based on Torchlight's representations, we are not aware of any material lawsuits related to, or which could negatively affect, its operations.

Technology and Disaster Recovery

Last year, to replace its SharePoint database, Torchlight purchased a new special servicing/asset management system from Backshop, a software and data provider to the CMBS industry. Torchlight is implementing the Backshop system through a phased-in process, which the company expects to be completed by mid-2015. Torchlight is using the asset-management system in a hosted environment on Backshop's servers through a cloud-computing structure. However, Torchlight has the ability to make minor programming alternations such as modifying or adding certain data fields.

Torchlight stated that Backshop can produce the latest CMBS investor reporting package requirements established by the Commercial Real Estate Finance Council, or CREFC. The system has modules to prepare and store asset business plans, perform property cash flow/valuation analysis and net present value recovery projections based on different scenarios, compare current performance to original underwriting, track property-level line item budgeted-to-actual income and expenses, produce asset-status reports, and shadow loan administration activity such as payment histories, real estate taxes, and insurance tracking using file downloads from master servicers. The system can provide business-volume forecasting/revenue tracking tied to expected losses and controlling class holder changes. The application provides cloud-based document storage, a number of standard reports, and the ability to generate ad hoc reports based on database queries. When finished and implemented, Torchlight also expects the system to track vendor orders and performance, provide all essential loan-level tickler management, populate information into form documents and notification-letter templates, and track internal workflows and approvals. Torchlight plans to transfer its PSA abstracts into Backshop, although the system does not contain any automated workflows or credit-management action alerts fed from the PSA requirements. The system maintains all interested parties and approved-vendor information. As a future enhancement, Torchlight also may consider creating a cash-management workflow feature enabling asset managers to review received payment alerts and approve cash allocations to curb undue suspense account activity.

The corporate parent, Torchlight Investors, uses a third-party firm, EZE Castle Integration Ltd., to provide information-technology support for all business lines. The IT vendor, which has offices in seven U.S. cities, London, and in Asia, provides a 24-hour help desk and an onsite engineer two days per week at Torchlight's New York headquarters with additional onsite support available as needed. Torchlight stated that the vendor provides a dedicated network with virtually unlimited storage capacity through a cloud-based server structure, handles network access, and performs real-time data backups to an alternate data center. The vendor also provides Torchlight with disaster-recovery services and conducts annual testing, with the last one successfully completed in November 2014. A February 2015 independent audit determined that the technology vendor's data security and infrastructure met accepted industry standards and best practices.

Torchlight maintains its own business-continuity plan covering operations for both the New York and Miami offices, which serve as alternate site locations. Morningstar found the plan to be sufficiently detailed, although the employee-notification calling list is not shown in a cascading, or calling-tree, format. Torchlight indicated that it should be able to access all business-critical systems and data and resume all special-servicing functions within four hours of a declared disaster event or business interruption. Employees have connectivity to access all network applications remotely.

Assessment: Based on Morningstar's assessment, the new asset-management system should provide Torchlight with a high degree of processing and data-management efficiency to handle detailed asset-level tracking and reporting for CMBS and investor clients. Although all other special servicers have their own technology-support staff and networks, Morningstar believes Torchlight's decision to entirely outsource this function, while not a common practice, is acceptable based on the vendor's represented capabilities, its large client base, and the recurring independent audits of its infrastructure and security protocols.

Special-Servicing Administration

As one of the most active CMBS special servicers in the past few years, Torchlight has managed large, complex assets collateralized by a range of property types located throughout the U.S.

Charts 1 and 2 – Active Special Servicing Portfolio by Property Types (Dec. 31, 2014)

Chart 1 - Total Loan and REO Portfolio (by UPB)*

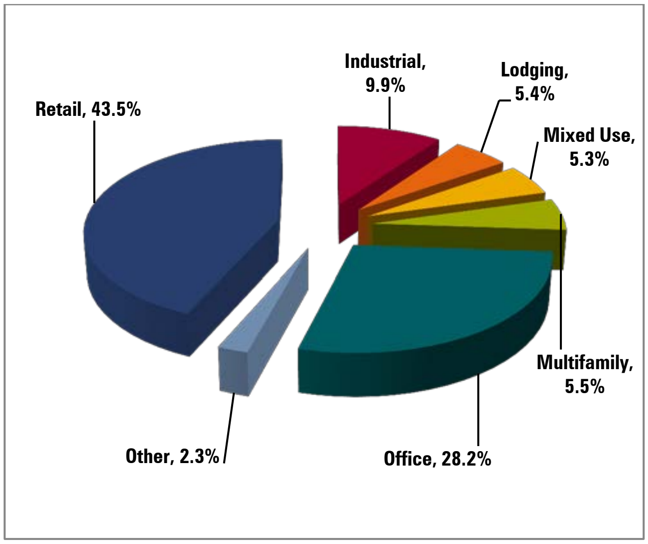
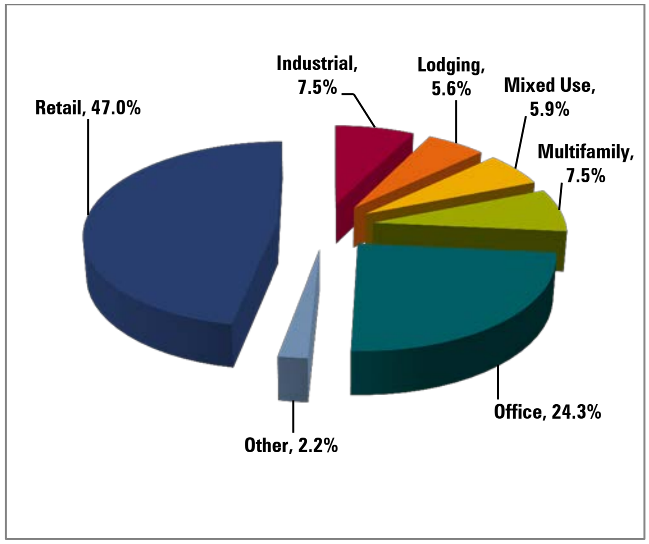
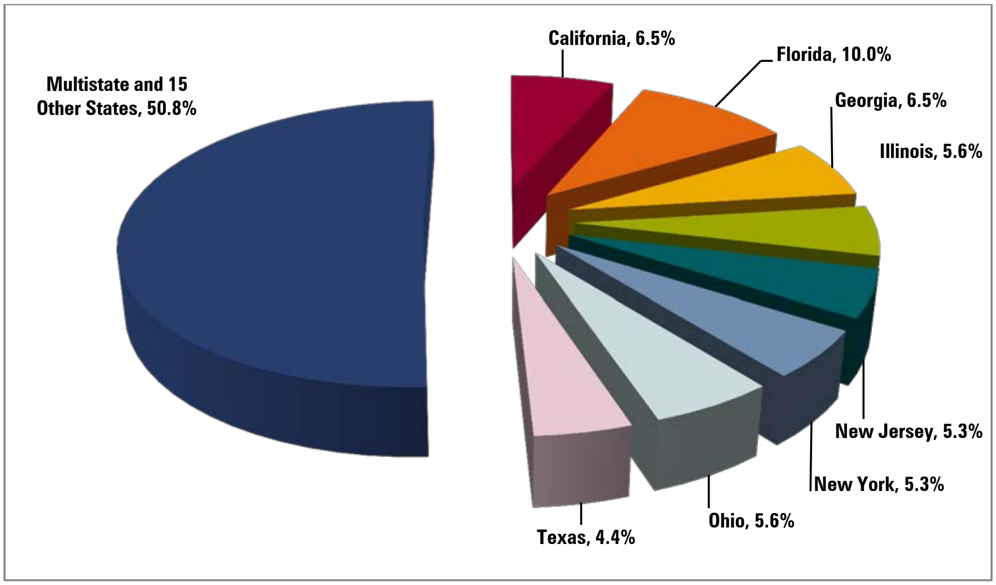


Chart 2 - Total Loan and REO Portfolio (by Asset Count)



*Does not equal 100% due to rounding.

Chart 3 – Active Special-Servicing Portfolio: Asset Count by Geographic Dispersion (Dec. 31, 2014)



Asset Review Process

The special-servicing division manager, in consultation with team leaders, assesses each newly transferred loan to determine which asset manager is best suited to handle it. Upon the transfer of assets to special servicing, loan asset managers conduct full file reviews, including a review of PSA-related requirements and loan-level covenants and ordering property inspections. Through their initial file reviews, asset managers are expected to formulate potential recovery options and strategies. Before engaging in any workout discussions, Torchlight requires that borrowers sign prenegotiation agreements. The new asset-management system houses data for all CMBS loan-pools in which Torchlight is the named special servicer. This enables the company to have ready access to core information should a loan require special servicing.

Torchlight requires asset managers to prepare and obtain approval of asset business plans for all assets within 60 days of transfer. For CMBS loans, asset managers also prepare an initial asset status report for investor reports as required by PSAs. Asset managers are required to update their asset-status comments twice per month. Asset managers must submit action approval cases to initiate foreclosure, when they have negotiated specific resolution terms, or before committing to other major asset decisions. Initial business plans and updated cases include a net present value analysis of each alternative resolution scenario. As noted, Torchlight intends to use its asset-management system as the central tracking, compliance, and asset-analysis tool for the entire lifecycle of each specially serviced asset, including the preparation of asset business plans and cases.

The company has defined delegations of authority, with a formal committee process required to approve asset business plans and most resolution cases. Torchlight also holds weekly asset-review meetings in which asset managers discuss their assets with the senior management team. Torchlight stated that it formally monitors outstanding advances against property values and expected recovery amounts, and consults with master servicers on their advancing decisions. The company expects the new asset-management system to facilitate the tracking of advances. As a CMBS special servicer on many legacy transactions, Torchlight has detailed checklists to manage loan transfers from master/primary servicers and portfolio transfers to and from other special servicers.

Assessment: Morningstar considers Torchlight to have proactive and controlled loan-transfer, asset-analysis, and resolution-management practices based on its stated policies and procedures. Torchlight's asset-management system should further strengthen the company's asset-resolution management controls.

REO Property Management

Asset managers use a property-takeover checklist as part of transitioning an asset to REO status. During the weeks before and after a scheduled foreclosure, the REO asset manager is expected to address any immediate property issues and obtain approvals for the selected property management company and listing broker. Once a loan becomes an REO asset, the REO asset manager prepares and obtains approval of an REO business plan within the first 60 days, with subsequent business cases submitted to obtain approval of specific sales offer terms or other major decisions. In preparation for taking title, the REO asset manager also must ensure that the property is added to Torchlight's blanket insurance program.

As part of its standard property management agreement, Torchlight gives property managers specific monthly reporting package requirements and procedures. The company retains property management company reports on its shared drive, and plans to download the operating statements to the Backshop system to facilitate monthly budget-to-actual tracking. Torchlight controls property-level cash management through dual operating accounts: one for rent collections and one to fund expenses based on approved budgets. Torchlight requires multiple levels of approval authorizations through accounting and management personnel to establish REO property bank accounts, fund expenses and move excess cash to the respective investor custodial account. The REO asset managers review monthly property manager reporting packages and the property manager's bank account reconciliations. Torchlight's separate REO accounting group also formally reconciles property manager bank account activity monthly. The company is launching a program to audit REO property managers and recently engaged a third-party auditing firm to perform the work. Torchlight plans to audit annually approximately 15-20% of its REO property-management companies.

Assessment: In Morningstar's view, Torchlight has diligent practices for REO property transfers and executing resolution plans. Torchlight demonstrates proactive procedural controls to oversee external property managers and brokers, and manage their respective monthly reporting. We believe the manner in which Torchlight formally monitors property performance and reconciles monthly property manager operating accounts is in keeping with customary and best practices. Torchlight's use of dual operating accounts is an effective control practice. Morningstar acknowledges Torchlight's initiative to establish a property-manager audit program, which Morningstar views as an industry best practice that can further mitigate risk.

Vendor Oversight

Torchlight controls vendor selection through a centralized list of approved vendors for such needs as appraisals, environmental and engineering assessments, legal counsel, property management, and brokerage services. It also stated that it generally conducts a request-for-proposal (RFP) bidding process to engage a vendor. For most engagements, Torchlight requires vendors to use its own standardized agreements. Torchlight uses a designated external law firm to review environmental assessments.

Torchlight does not have any in-house legal staff, but consults with dedicated external counsel to assist with CMBS servicing-agreement issues and to obtain formal legal opinions as needed on transactions. Asset managers, along with their team leaders, review and approve legal invoices prior to payment.

Assessment: In Morningstar's view, Torchlight has soundly controlled vendor engagement and oversight practices, which are delineated in the company's policies and procedures. The new asset-management system also should facilitate vendor management. Torchlight acceptably manages its legal needs through approved external counsel. However, Morningstar observes that most other active CMBS special servicers realize control and efficiency benefits by having dedicated in-house legal resources to support asset-resolution deliberations, manage external law firm engagements, monitor fees, and prepare standardized documents.

Managing Conflicts of Interest

Torchlight is a special servicer for a number of CMBS transactions in which its parent company holds first-loss bond positions and is the controlling class holder. Torchlight does not use affiliates for its special-servicing work, although its parent has acquired a few assets from CMBS trusts using permitted purchase options. Accordingly, Morningstar reviewed Torchlight's stated asset-management practices and assessed its resolution results in this context. Torchlight also stated that it does not seek an additional fee from the CMBS trust if it has already obtained an equivalent fee from the borrower and the collection of such a fee from the trust would create or increase a loss to a trust.

Assessment: Based on Torchlight's compliance procedures and stated practices, Morningstar determined that the company effectively manages its conflicts of interest. Morningstar believes that Torchlight's asset-resolution results during the past two years are consistent with the company's stated commitment to the servicing standard of working for the entirety of the CMBS trust.

Asset-Resolution and Recovery Performance

Asset-Resolution Volume and Disposition Methods

Torchlight's resolved assets have mostly been in legacy CMBS transactions issued between 2003 and 2007. The company's loan resolutions by count during 2013 equated to approximately 51% of its beginning-year loan inventory. During 2014, its loan resolutions by count equated to approximately 59% of its beginning-year loan inventory. The company's REO sales, by count, equated to approximately 78% and 54% of its beginning-year REO inventories for 2013 and 2014, respectively.

Charts 4 and 5 – Special-Servicing Resolution Type Percentages by Asset Count (2013 and 2014)

Chart 4 - 2013 Resolutions*

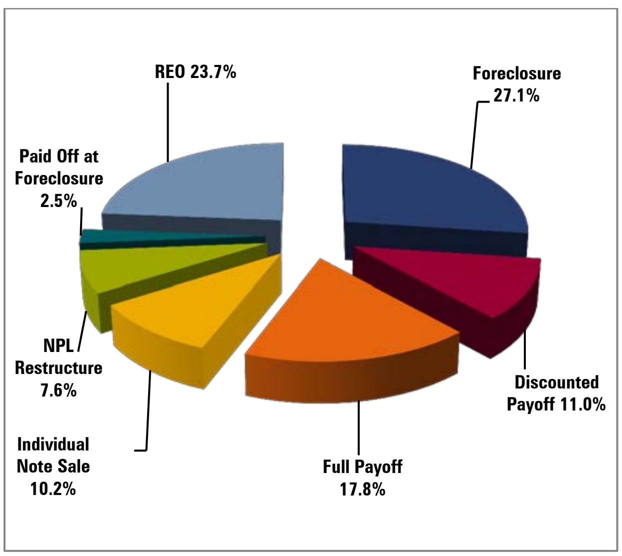
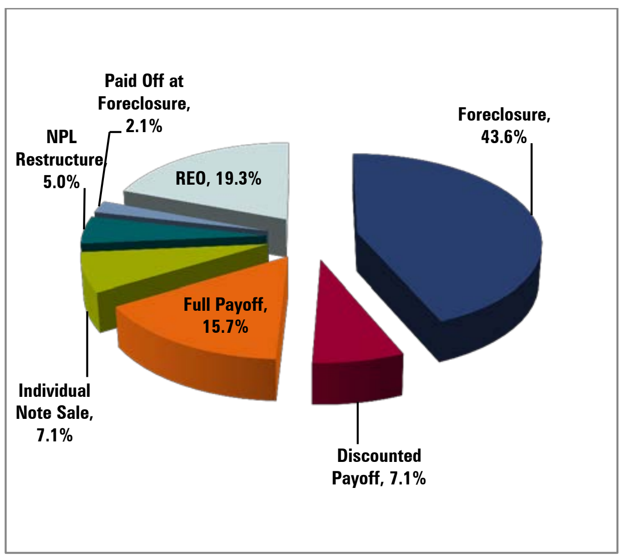


Chart 5 - 2014 Resolutions*



**Does not equal 100% due to rounding.

Asset Resolution Hold Times

For 2013 and 2014 combined, Torchlight's average completion time was approximately 21 months for loan modifications, 20 months for note sales, 30 months for discounted payoffs, and 15 months for REO sales. While the company's average resolution times for all loan liquidations appear to be in line with other special servicers Morningstar ranks, Torchlight's average for discounted payoffs is higher than some of its peers. The 15-month average hold time for sold REO appears to be at the lower end of the range compared with some other Morningstar-ranked special servicers.

Table 5 – Average Asset Resolution Times (months)

	2013	2014	Two-Year Average (un-weighted)
Restructured Loans	17.2	24.7	20.9
Note Sales	19.8	20.9	20.4
Discounted Payoffs	28.3	31.3	29.8
Full Payoffs	13.5	12.2	12.9
Paid Off at Foreclosure Sale	22.9	11.8	17.4
REO Sales	13.5	16.7	15.1
Completed Foreclosures	22.9	11.8	17.4

Asset-Resolution Recovery Proceeds

For 2013 and 2014, Torchlight reported aggregate net proceeds-to-collateral values that ranged between 90% to well above 100% for asset liquidations involving note sales, DPOs, and REO Sales. In many cases, Torchlight's recovery approached or even exceeded the UPB.

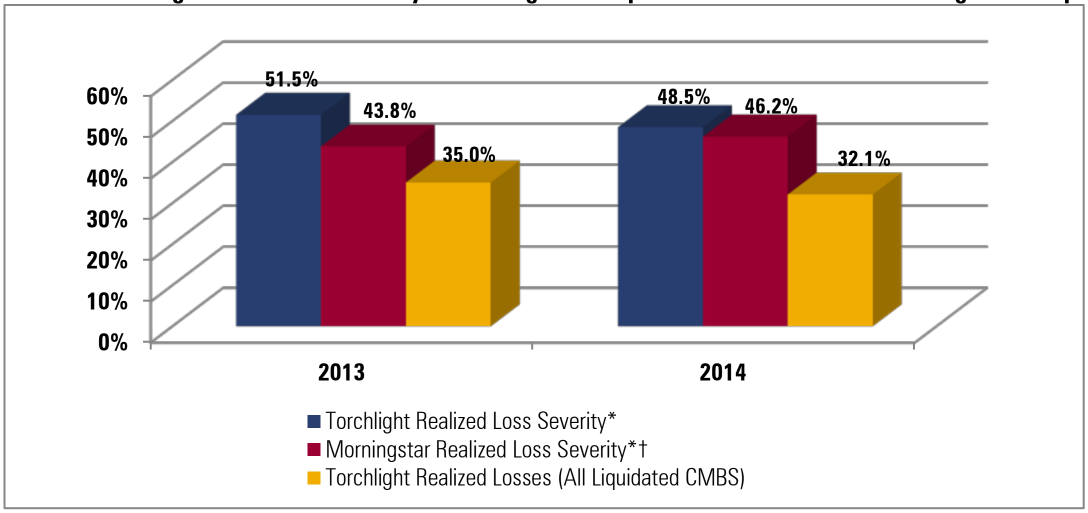
Table 6 – Asset Recoveries Relative to Collateral Value and UPB (2013 and 2014)

	2013	2014
Net Recovery Proceeds-to-Value (%)		
Individual Note Sales	99.6	112.1
Discounted Payoffs	90.6	97.1
Paid Off at Foreclosure Sale	98.2	88.6
REO Sales	92.6	103.4
Net Proceeds-to-UPB (%)		
Note Sales	99.0	80.0
Discounted Payoffs	80.0	46.2
Paid Off at Foreclosure Sale	108.4	95.2
Full Payoffs	105.3	113.7

CMBS Realized Loss Severities

For 2013 and 2014, Torchlight's reported realized loss severities for liquidated CMBS assets averaged slightly above Morningstar's composite averages. However, Torchlight's average loss percentages for all liquidated assets were well below the Morningstar composites. Additionally, Torchlight's average realized loss just for loans with losses was 40.9% in 2013, and 47.6% in 2014. Its average realized loss for REO sales that incurred losses was 63.5% in 2013, and 49.2% in 2014. The large concentration of legacy assets may be a factor affecting Torchlight's results.

Chart 6 – Average CMBS Loss Severity Percentages on Liquidated Assets versus Morningstar Composite



* Average realized losses based only on liquidated loans and sold REO with reported trust losses. Unweighted.
† Source: Morningstar Monthly CMBS Delinquency Reports.

<u>Torchlight Investors' Asset Purchases from CMBS Trusts*</u>

During 2013, Torchlight Investors exercised its fair-market-value purchase option to buy two loans out of CMBS trusts in which it was the special servicer. During 2014, Torchlight Investors purchased two other loans using the same option rights. It also purchased four REO properties from CMBS trusts in which it was the special servicer. Morningstar determined that the recovery results to the trust, based on net proceeds and realized losses, for all of these sales exceeded Torchlight's average results for asset liquidations to third parties. Torchlight noted that it obtained independent validations of value for all assets it purchased, as required by its servicing agreements.

Table 7 – Torchlight FMV Purchase-Option Results versus Asset Liquidations to Third Parties

	2013		2014	
	Assets (#)	Average Realized Loss Severity (%)	Assets (#)	Average Realized Loss Severity (%)
Torchlight Loan Purchases from Its CMBS* (fair market value option exercised)	2	19.3 (one at 100% of UPB, one at 96% of value)	2	18.7 (avg. 119.3% of value)
Loans Liquidated to Third Parties (with realized loss)	20	45	17	52.2
Torchlight REO Purchases from Its CMBS*	0	---	4	15.5 (avg. 101.5% proceeds/value and avg. broker fee 0.7%)
REO Sold to Third Parties (sales with realized loss)	---	---	20	56.5 (avg. 96.5% proceeds/value and avg. broker fee 3.1%)

*Permitted asset purchases from the CMBS transactions in which Torchlight was the named special servicer.

<u>Fees Collected from Trust versus Borrowers</u>

Torchlight stated that its policy is to retain liquidation or modification fees in excess of the fee collected from the CMBS trust only to the extent that the retention of such excess fees does not create or increase a realized loss. Morningstar found that the company's collected and retained fees for all resolved assets in 2013 and 2014 complied with that policy.

Table 8 – Special-Servicing Loan Portfolio Activity (Full Year 2014)

	Total $ Vol (000s)	Total Loans (#)	Total Props (#)	CMBS $ Vol (000s)	CMBS Loans (#)	CMBS Props (#)
Loan Portfolio at Beginning of Period	1,622,980	101	*154	1,615,334	100	*154
Loans Transferred into Portfolio:						
Re-transferred/Re-defaulted Loans	5,969	2	2	5,969	2	2
Pre-existing Specially Serviced/Acquired Portfolios	637,269	64	94	637,269	64	94
New Nonmonetary/Imminent Default Transfers	357,954	44	48	357,954	44	48
New Monetary Default Transfers	161,266	15	30	132,066	13	28
Total Transfers into Special Servicing	1,162,458	125	174	1,133,258	123	172
Loans Fully Resolved:						
Modified or Corrected Loans	(154,451)	(15)	(15)	(154,451)	(15)	(15)
Individual Note Sales	(233,055)	(10)	(11)	(233,055)	(10)	(11)
Discounted Payoffs (excludes note sales)	(217,263)	(10)	(46)	(217,263)	(10)	(46)
Full Payoffs	(176,547)	(22)	(21)	(168,901)	(21)	(21)
Paid off at Foreclosure Sale (never became REO)	(7,962)	(3)	(3)	(7,962)	(3)	(3)
Total Loan Resolutions	(789,278)	(60)	(96)	(781,632)	(59)	(96)
Completed Foreclosures/Converted to REO	(552,043)	(62)	(70)	(552,043)	(62)	(70)
Other Loans Transferred Out	(267,648)	(25)	(27)	(267,648)	(25)	(27)
Net Adjustments	(27,561)	0	0	(27,561)	0	0
Loan Portfolio at End of Period**	1,148,908	79	135	1,119,708	77	133
Average Loan Size at End of Period	14,543			14,541		
Nonperforming Loans - End of Period	82%	81%		82%	81%	

*Certain CMBS and subordinated non-CMBS loans were collateralized by the same property.

**Includes two non-CMBS whole loans in one CRE CDO for which Torchlight is the special servicer.

Table 9 – REO Portfolio Activity (Full Year 2014)

	Total $ Vol (000s)	Total Props (#)	CMBS $ Vol (000s)	CMBS Props (#)
REO Portfolio At Beginning of Period	580,372	50	580,372	50
Assets Already REO when Acquired	190,740	13	190,740	13
Completed Foreclosures	552,043	70	552,043	70
REO Sold During Period	(203,550)	(27)	(203,550)	(27)
Other REO Transferred Out	(208,672)	(32)	(208,672)	(32)
Other Adjustments	(140,305)	0	(140,305)	0
REO Portfolio At End of Period	770,628	74	770,628	74
Average REO Size	10,414		10,414	

Table 10 – Special-Servicing Loan Portfolio Activity (Full Year 2013)

	Total $ Vol (000s)	Total Loans (#)	Total Props (#)	CMBS $ Vol (000s)	CMBS Loans (#)	CMBS Props (#)
Loan Portfolio at Beginning of Period*	2,717,702	137	*197	2,699,056	135	*197
Loans Transferred into Portfolio:						
Re-transferred/Re-defaulted Loans	5,075	1	1	5,075	1	1
Pre-existing Specially Serviced/Acquired Portfolios	172,105	14	15	172,105	14	15
New Nonmonetary/Imminent Default Transfers	611,645	47	56	611,645	47	56
New Monetary Default Transfers	81,339	17	23	81,339	17	23
Total Transfers into Special Servicing	870,164	79	95	870,164	79	95
Loans Fully Resolved:						
Modified or Corrected Loans	635,998	21	28	635,998	21	28
Individual Note Sales	337,856	12	19	337,856	12	19
Discounted Payoffs (excludes note sales)	171,609	13	14	171,609	13	14
Full Payoffs	245,156	21	27	234,156	20	27
Paid off at Foreclosure Sale (never became REO)	25,242	3	3	25,242	3	3
Total Loan Resolutions	1,415,861	70	91	1,404,861	69	91
Completed Foreclosures/Converted to REO	341,450	35	35	341,450	35	35
Other Loans Transferred Out	119,161	10	12	119,161	10	12
Net Adjustments	(88,414)	0	0	(88,414)	0	0
Loan Portfolio at End of Period	1,622,980	101	*154	1,615,334	100	*154
Average Loan Size at End of Period	16,069			16,153		
Nonperforming Loans - End of Period	90%	87%		90%		87%

Table 11 – REO Portfolio Activity (Full Year 2013)

	Total $ Vol (000s)	Total Props (#)	CMBS $ Vol (000s)	CMBS Props (#)
REO Portfolio At Beginning of Period	277,943	37	277,943	37
Assets Already REO when Acquired	126,592	8	126,592	8
Completed Foreclosures	341,450	35	341,450	35
REO Sold During Period	(102,907)	(29)	(102,907)	(29)
Other REO Transferred Out	(1,641)	(1)	(1,641)	(1)
Other Adjustments	(61,065)	0	(61,065)	0
REO Portfolio At End of Period	580,372	50	580,372	50
Average REO Size	11,607		11,607	

Assessment: In Morningstar's opinion, Torchlight, although a few of its resolved assets had long hold periods, demonstrated excellent recovery results during the past two years. The company's office relocation does not appear to have impaired its ability to resolve assets during 2014. Morningstar also recognizes that Torchlight's resolution activity has principally involved legacy CMBS and large assets, which tend to have challenging workout issues.

Investor and Master-Servicer Reporting

The operations unit coordinates monthly reporting for the company's investment funds and securitized transactions. Torchlight's procedures address CREFC-compliant content including asset status reports, property protection advances, appraisal subordination entitlement reduction calculations, and realized loss calculations. Torchlight noted that it communicates closely with master servicers on asset advances, transfers, and resolution decisions. The operations team also coordinates portfolio transfers arising from CMBS bond holder controlling-class changes. The compliance manager certifies the accuracy of transfers and reviews Torchlight's adherence to servicing agreements.

Borrower Consent Requests

A dedicated senior analyst, in collaboration with special-servicing asset managers and analysts, reviews and provide decisions on borrower credit-related requests. Torchlight approves consent requests through delegations of management authority which may require management committee approval for larger transactions. During 2014, in addition to some other types of consents, Torchlight handled 123 borrower-consent requests corresponding to 55 assumption requests, 66 leasing consents and two loan defeasances. For almost one-third of the requests, Torchlight, based on the terms of the governing servicing agreements, had responsibility for coordinating the entire process directly with the borrower and underwriting the request as though it were the primary servicer. As a result, Torchlight's average processing times for all requests may be longer than that of some other special servicers.

Table 12 – Torchlight 2014 Borrower-Consent Request Volume and Average Processing Times

	Volume Processed (#)		Internal Processing Time (Days)	
	All Consents	Role as Special Servicer Only	All Consents	Role as Special Servicer Only
Assumptions	55	43	31	17
Leasing	66	40	25	19
Defeasance	2	1	57	21
Total/Weighted Average Time	123	84	27	18

Assessment: Morningstar believes that Torchlight has expertise to address the latest CMBS reporting requirements and process borrower consents within reasonable time frames. The company's retained professional experience, proactive procedures, and expanding capabilities available through the new asset-management system indicate that the company is positioned to provide effective investor reporting for CMBS and a range of client types.

Ranking Definitions

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

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

A servicer assigned a ranking of at least 'MOR CS3' is deemed to comply with what we view as the minimum prudent loan servicing standards and requirements for the servicer's operational category and role. To access Morningstar's *Operational Risk Assessments of Commercial Servicers: Methodology and Process* and other published reports, please visit https://ratingagency.morningstar.com.

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