

Torchlight Loan Services, LLC

Torchlight Loan Services, LLC (TLS, or the company) is the special servicing subsidiary of Torchlight Investors, LLC (TI), a New York-based investment advisor whose core business is the management of commercial real estate (CRE)-related debt investments for institutional investors. TI has \$3.4 billion in funds under management that focus on CRE debt strategies on behalf of more than 50 investor clients as of December 2019.

TLS is the named special servicer for 693 loans totaling \$11.9 billion, the vast majority of which are securitized in 26 CMBS transactions. TLS's largest client is TI, which represents approximately half of named special servicing by transaction count. The company has grown and diversified its third-party special servicing portfolio to include servicing for 10 distinct clients including investment managers and hedge funds. The CMBS portfolio includes 11 pre-2008 transactions, which are highly concentrated as a result of 10-year loan payoffs and asset resolutions. Future B-piece acquisitions of TI, which targets between three to four CMBS transactions annually, will offset some legacy runoff.

Servicer Ratings

- Fitch rates primary and master servicers, which protect the interests of the certificateholders in the trust, by servicing and administering the mortgage loans.
- The primary servicer is responsible for day-to-day servicing functions, while the master servicer is responsible for monitoring the activities of the primary servicers, investor reporting, and timely remittance of funds to trustees.
- Fitch also rates special servicers, which are key to maintaining the credit quality of a pool containing nonperforming commercial mortgages and real estate-owned assets. The special servicer is responsible for working out loans, foreclosing, and liquidating assets.
- In assessing and analyzing the capabilities of primary, master, and special servicers, Fitch reviews several key factors, including the management team, organizational structure and operating history, financial condition, information systems, and, with respect to the special servicer, workout and asset disposition experience and strategies.
- Fitch rates commercial mortgage primary, master, and special servicers on a scale of 1 to 5, with 1 being the highest rating. Within each of these rating levels, Fitch further differentiates ratings by plus (+) and minus (-) as well as the flat rating.

Ratings

Commercial Special Servicer^a CSS2-
^aAffirmed March 25, 2020

Related Research

[Fitch Affirms Torchlight's Special Servicer Rating \(March 2020\)](#)

Applicable Criteria

[Criteria for Rating Loan Servicers \(February 2020\)](#)

[Criteria for Rating North American Commercial Mortgage Servicers \(January 2020\)](#)

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Key Rating Drivers

Company and Management: TLS provides asset management and special servicing support for TI's CRE investments as well as third-party special servicing assignments. TI manages multiple funds that invest in CMBS controlling class bonds, providing TLS with ongoing special servicing assignments and potentially mitigating the runoff of legacy vintage CMBS. Management has a long track record of securitization market participation, and their most recent investment fund, which exceeded its target goal, is expected to provide capital for three to four CMBS investments annually.

Staffing and Training: TLS's staff comprises 16 professionals, four of whom are employees of TLS and responsible for loan and REO asset management, borrower consent reviews and operations and compliance functions. The remaining 12 employees are shared resources of TI, including the majority of members of TLS's credit committee. TLS has three asset managers who average 13 years of experience and five years of tenure. As of December 2019, the assets-to-asset manager ratio was 4-to-1, down significantly from 24-to-1 in 2017 as a result of dispositions. Aggregate employee turnover declined materially in 2019 to 13% from 39% the prior year.

Financial Condition: Fitch Ratings does not rate TI or TLS. However, Fitch performed a financial assessment of TI and determined that the company's short-term financial viability is sufficient to support the servicing platform.

Technology: TLS's primary asset management application is a custom-built version of Backshop, which was designed and continues to be enhanced to support asset management and tracking, investor reporting and scenario-modelling capabilities, in addition to the existing commercial loan underwriting features.

Procedures and Controls: TLS maintains detailed special servicing policies supplemented by desktop procedural checklists and servicing guides that are reviewed annually. The company does not maintain compliance or independent internal audit functions. However, TLS engages a third-party audit firm to perform internal audits of special servicing operations every two years. The most recent audit occurred in 2018 and did not result in any material findings but included several control enhancement suggestions, which management implemented. Ongoing compliance is monitored by the head of special servicing, delegations of authority and formal credit committee reviews for all significant workout decisions for loans. Additional support is provided by the TI financial control group, which is shared with TI and the chief compliance officer of TI.

Defaulted/Nonperforming Loan Management: The head of special servicing along with a senior associate interface with master servicers monthly to monitor potential loan transfers. Special servicing asset management and REO functions are not segregated given the small team and limited number of active defaults. In 2019 the company resolved 13 loans totaling \$392 million, the majority of which were REO sales.

Governance and Conflicts of Interest: Special servicing decisions are made by a committee comprising six members, two of whom are members of the TI investment committee. All special servicing committee decisions require the unanimous consent of all members.

Company Experience Since

CRE Loan Workout	1998
CRE Servicing	1998

Source: Torchlight Loan Services, LLC.

Operational Trends

Business Plan	■	Stable business plan with steady flow of new business offsetting portfolio declines
Servicing Portfolio	▼	Less than 10% year-over-year growth by loan count or runoff in the portfolio
Financial Condition	■	Stable Outlook
Staffing	■	Staffing changed less than 12% +/-
Technology	■	Stable technology platform
Internal Controls	■	Stable control environment, no material audit findings
Servicing Operations	■	Stable operations, no material changes year-over-year

Source: Fitch Ratings.

Company Overview

TLS is sponsored by its parent, TI, which was founded in 1995 and is a New York-based, SEC-registered investment advisor specializing in CRE debt finance and investments. The parent company was previously known as ING Clarion Capital, LLC. In July 2010, ING Groep NV (ING) sold its minority interest in ING Clarion Capital and its subsidiary, ING Clarion Capital Loan Services, LLC, to the parent company's management and principals. The parent company was renamed TI.

Servicing Portfolio Overview

	12/31/2019	% Change	12/31/2018	% Change	12/31/2017
Special Servicing – Named					
UPB (\$ Mil.)	11,945.0	(20)	14,891.9	(18)	18,154.8
No. of Loans	693	(22)	883	(18)	1,076
Special Servicing – Active^a					
UPB (\$ Mil.)	397.5	(41)	671.9	(47)	1,264.1
No. of Loans	13	(46)	24	(44)	43

^aIncluding REO.

UPB – Unpaid principal balance.

Source: Torchlight Loan Services, LLC.

TLS (including its predecessor, ING Clarion Partners) was formed in 1998. The company became a Fitch-rated servicer in 1999 to work out distressed CRE debt loans and REO assets on behalf of TI. TI's core business continues to be the management of CRE-related debt investments. The company has approximately \$3.4 billion under management in benchmarked, opportunistic and long- and short-term CRE debt strategies.

TI has raised and managed six closed-end debt funds (DFs) since 1996 and is currently in the process of raising its seventh fund. The funds have ranged in size from \$280 million to \$1.7 billion, with the first three funds fully realized. TI's DF IV fund is currently being harvested, and the \$1.4 billion V fund has been invested. The VI fund, the company's largest to date, received capital commitments of approximately \$1.7 billion when it closed in February 2020, above the original goal of \$1.5 billion. The DF VI is a 10-year fund (with two one-year extensions) structured to accommodate CMBS investments with horizontal risk retention rules for three to four CMBS transactions annually, as well as other CRE investments. TI also recently launched the DF VII, with a \$1.5 billion target and an investment profile similar to the DF VI.

In May 2014, Torchlight relocated its principal special servicing operations from New York to Miami. Loan and REO asset management operations were based in Miami, while investor reporting, operations and compliance remained in New York. In response to a 40% decline in active special servicing since YE14, the company elected to cease operations in Miami and consolidate special servicing functions back to New York in December 2016.

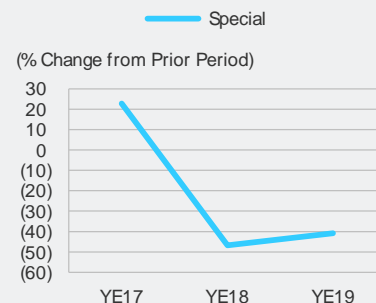
Financial Condition

Fitch does not maintain credit ratings on TLS or TI. However, Fitch performed a financial assessment of TI and noted the company has overall shown a fairly stable income stream, good liquidity position and flexible financial profile. TI experienced growth in its financial profile, notably in revenue (growth percentage) and EBITDA trend from 2018 to 2019. Fitch also notes that TI's reliance on asset management fees from a limited number of funds elevated vulnerability in the unlikely event the funds are liquidated and management fees are not replaced. TI is currently in the process of raising its seventh fund (DF VII), with a target size of \$1.5 billion. As of Dec. 31, 2019, the prior fund, DF VI, was closed with \$1.7 billion in capital committed.

Employees

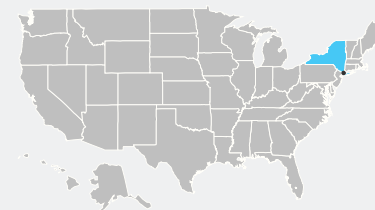
As of Dec. 31, 2019, the special servicing team consisted of 16 professionals, consistent with the prior year. Four are dedicated employees of TLS, including the head of special servicing,

Servicing Portfolio



Note: Special servicing includes loans actively in special servicing (including REO).
Source: Torchlight Loan Services, Inc

Office Locations



Primary Office: New York, NY

two asset managers and an analyst, all of whom are located in New York. The remaining 12 are employed by TI but split their time between TI and TLS; they include the senior manager responsible for TLS who is also responsible for TI fund asset management. The shared functions include areas such as accounting, financial controls, COO and CEO, as well as senior officers of TI who serve on the TLS credit committee. The chief compliance officer of TI, who spends approximately 20% of his time supporting TLS, is a retained consultant and therefore not reflected in Fitch's employee statistics.

Employee Statistics

	2019				2018			
	No. of Employees	Average Years Industry Experience	Average Years Tenure	%Turnover	No. of Employees	Average Years Industry Experience	Average Years Tenure	%Turnover
Special Servicing								
Senior Management	8	22	9	0	8	20	8	13
Middle Management	1	13	8	67	2	15	9	50
Servicing Staff	7	8	2	15	6	6	2	67
Total	16	-	-	13	16	-	-	39

Source: Torchlight Loan Services, LLC.

Aggregate employee turnover declined significantly in 2019: to 13% from 39% the prior year as a result of two employee separations, both of which were shared resources. Turnover was the result of one involuntary manager and one voluntary staff departure. The number of employees remained consistent as a result of two staff additions to the financial controls group, both of which are partially allocated to supporting special servicing.

The eight members of the senior management team, two of which are fully dedicated to TLS, average 22 years of experience and nine years with the company, while the middle manager has 13 years and eight years, respectively. Special servicing staff, of which two are fully dedicated and five comprise shared resources, average eight years of experience and two years with the company.

Fitch classifies two senior managers and one staff-level employee as special servicing asset managers, all of whom are fully dedicated to TLS. Asset managers average 13 years of experience, five years of tenure and four specially serviced assets per manager, which is lower than other Fitch-rated special servicers and down significantly from the prior-year average of eight assets per manager owing to dispositions. Asset managers are supported by a fully dedicated special servicing analyst with five years of experience.

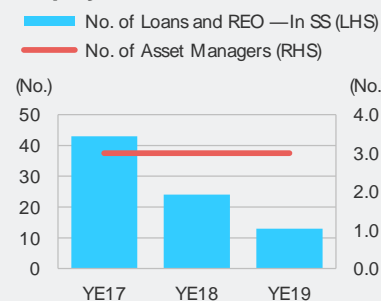
Training

Management's goal is for employees to attend an average of 40 hours of training annually through a formal training program, including external instructor-led training and lunch-and-learn sessions. One vice president of special servicing is the designated training coordinator responsible for working with the head of special servicing to identify potential topics and coordinate external trainers. Training needs are evaluated based on the level of staff experience and individual strengths and weaknesses. TLS provides expense reimbursement for continuing education expenses for CFA and CPA designations, as well as professional educational programs.

TLS reports employees completed 40 hours of training on average in 2019. Recent training topics included collateralized loan obligation (CLO) markets, SEC compliance testing, ground leases and operating advisors, office market overview, hotel workouts, tenant bankruptcies/New York City affordable housing and retail workouts, among others. TLS's primary training method for employees is on the job, pairing asset managers and analysts with team leaders. While this may be an effective method for TLS's open space work environment, it is not reflected in formal training hours.

TLS's assets-to-asset manager ratio as of YE19 is 4-to-1, which is half the number of assets observed the prior year as a result of dispositions.

Special Servicing Loan and Employee Counts



SS – Special Servicing.
REO – Real estate owned.
Source: Torchlight Loan Services.

Fitch notes that only 25% of TLS employees are fully dedicated to special servicing. The remaining employees are TI employees who spend between 5% and 50% of their time supporting special servicing.

Operational Infrastructure

Outsourcing

Torchlight does not outsource core special servicing functions. However, the company has historically supplemented its staffing needs through the use of consultants. A single staffing company provides personnel to TLS as needed. As of December 2019, there were no consultants engaged to support special servicing, although TI had six consultants engaged to supplement its 57 employees.

Vendor Management

TLS does not have a formalized vendor management program; it maintains an approved vendor list that is reviewed regularly. Vendor performance is continually monitored through team communications. Vendor assignments are tracked in the company's special servicing application, which produces customized reports to analyze trends in vendor performance and exposure. The heads of special servicing and asset management must approve all vendor assignments and actively provide feedback on past performance.

Information Technology

TLS's primary asset management application is Backshop (version 7.0), which was designed and then enhanced by TLS and the vendor to support asset management and tracking, investor reporting and scenario-modeling capabilities, in addition to the application's commercial loan underwriting features. Variations of the asset management application are also used by other Fitch-rated special servicers.

The Backshop application is populated with CREFC IRP (Commercial Real Estate Finance Council – Investor Reporting Package) data fields from various trustees for all transactions in which TLS is the named special servicer. Backshop's reporting functions provide TLS with internal controls around workout milestones, including recording formal approvals, as well as CREFC IRP (version 8) and ad hoc reporting. Backshop also contains pooling and servicing agreement (PSA) requirements, deadlines and documentation for TLS transactions to support some systematic internal controls for monitoring deliverables, e.g. inspections and appraisals.

In addition to Backshop, TLS employees use SharePoint for document management, the complete suite of Microsoft Office products, SAP Concur for expense management and vendor management, and Reis, Inc. and CoStar to aid in analysis and workouts. Ad hoc reporting is available from both TI's data warehouse and a separate Backshop data warehouse. TLS currently does not have any material technology enhancements planned for 2020, although it may leverage improved watchlist and surveillance tracking features within Backshop.

Network and desktop support is provided by a third-party contractor, Eze Castle Integration (ECI). ECI provides 24-hour desktop support and a part-time on-site engineer. Support for Backshop is continuously available by phone and e-mail from the vendor, as well as from a select group of TLS employees with the most experience.

Disaster Recovery/Business Continuity Plan

TLS, through TI, maintains disaster recovery and business continuity processes that are tested on a regular basis and annually at minimum. The disaster recovery process is also outsourced to ECI, which hosts TI's data and applications at both a primary data center in New Jersey and a disaster recovery site in Sacramento, CA. Disaster recovery testing is performed about once every six months; the most recent test occurred in July 2019 with successful results and no material exceptions. Backshop's most recent disaster recovery test was in December 2019 and likewise had successful results.

TLS does not maintain employee backup or hot site locations if its primary office is inaccessible; it relies on a work-from-home strategy dependent on power and internet availability. TLS also has a private agreement with a third-party servicer to host up to five employees in their Atlanta office in the event the New York office is inaccessible; however, Fitch notes the difficulty New York employees would face if relocating to Atlanta was necessary.

The support provided by ECI for management of the disaster recovery process includes monitoring and maintaining both data replication and the associated IT hardware and

TLS has made significant enhancements to Backshop to support special servicing; however, the system currently lacks some of the robust reporting features of other applications.

applications at the disaster recovery data center. Data are backed up through replication technology that regularly copies all data from the primary data center to the disaster recovery site, making the maximum possible data loss time in an event of disaster 30 minutes or less. Should a disaster event occur, TLS employees have access to systems through remote access, which has a stated recovery goal of four to six hours.

Internal Control Environment

TLS's internal control environment features high level policies and procedures, manager oversight, dual reviews of external reports and a formal special servicing committee for all workout decisions. Internal compliance is shared with TI and focused on SOX (Sarbanes-Oxley Act) controls, and employees are required to certify compliance with policies and procedures quarterly. While the company does not maintain dedicated audit resources, TLS engages a third-party audit firm to perform operational audits every two years.

Policies and Procedures

The special servicing manual is reviewed annually, with changes or updates made as necessary. The head of special servicing is responsible for changes and updates that the head of asset management, COO and chief compliance officer review and approve prior to implementation. Recent changes reflect the greater role the TI financial control group takes in TLS's processes and additional vendor onboarding.

The policies and procedures manual is distributed to employees via the company's intranet. All new employees receive training (they are required to review the manual), and important updates are distributed by e-mail as necessary. Fitch reviewed the 2020 version of TLS's policies and procedures manual, which provides an overview of special servicing – including the analysis of loan, property and sponsor attributes, as well as strategies and rationales for evaluating potential resolution methods.

In addition to policies and procedures, TLS maintains supplemental checklists that have been incorporated within its asset management functions, outlining key steps for loan transfers, changes in special servicer, loan modifications, foreclosures and deed-in-lieu. The checklists, also reviewed by Fitch, outline basic procedures to be performed in a step-by-step format and specifically identify approved templates for borrower correspondence, business plans and internal resources.

Compliance and Controls

TLS addresses quality control and compliance through its policies and procedures, automated ticklers within Backshop for key milestones and multiple levels of review for items such as remittance reports and business plans. The company itself does not have an internal compliance function dedicated to servicing. However, TI, as an SEC-registered investment advisor, has an internal compliance function staffed by the chief compliance officer, who is a third-party consultant. While focused primarily on SOX controls, the compliance group monitors conflicts of interest and disclosures of non-public information for TLS.

In 2019, TI/TLS introduced automated quarterly attestations for employees through a third-party vendor. Employees are required to attest their compliance with TLS policies and procedures in addition to gift and entertainment, conflict of interest and political contribution policies.

Additionally, the heads of special servicing and financial control are responsible for servicing compliance through monthly exception reporting that utilizes the company's data warehouse and Backshop. Monthly compliance reports are generated and reviewed to confirm servicing requirements are met, including key servicing agreement deadlines and timely appraisals, REO budgets, insurance and site inspections, among other key deliverables. After reviewing several sample compliance reports for the latter half of 2019, Fitch noted that they were effective and included evidence of compliance and senior management review.

The company also uses a delegation of authority process whereby only vice presidents or higher ranking executives may sign contracts or engage third-party services on behalf of the trusts they represent. The company also views the use of delegations of authority and the requirement of dual signatories to request funding for REO assets as effective internal controls to monitor REO assets and advancing.

Fitch found TLS's policies and procedures manual and supplemental checklists to be sufficiently detailed to perform asset management functions.

Internal Audit

TLS does not have an independent internal audit function that performs regular risk-based audits of special servicing functions. Rather, the company outsources internal audit functions to a third-party firm that performs internal audit reviews every two years. The company began outsourcing internal audits in 2016, and in 2018 it engaged a new firm, Baker Tilly, to perform the most recent audit, citing that firm's experience and familiarity with TLS as the financial statement auditor of TI.

The 2018 Baker Tilly audit, which was completed in May 2019, covered special servicing operations that include cash collection and administration, accounts payable and advances, special servicing administration, Backshop system workflow and investor and master servicer reporting procedures for all of 2018. The audit included representative sample testing of reports and 59 key controls.

Fitch reviewed the completed audit, which contained a detailed overview of controls testing and sample sizes and had no material adverse findings. The audit contained two moderate observations pertaining to one late bank reconciliation and vendor oversight that management sufficiently addressed through additional controls administered by the Financial Controls group. The audit also included four low risk findings that Fitch deemed minor and sufficiently addressed. Additionally, the audit contained six control improvement recommendations, which management implemented in 2019.

The next internal audit (for 2020 operations) is scheduled for 2021 and expected to be completed by Baker Tilly.

External Audit

TLS was subject to a Regulation AB (Reg AB) audit in 2019 as a special servicer for securitized transactions. Fitch reviewed the 2019 Reg AB audit completed by Cohn Reznick LLP, which has audited TLS for the last several years. The audit determined that TLS complied with servicing criteria set forth in Reg AB for the year ended Dec. 31, 2019, as evidenced by management's attestation.

Special Servicing

Special Servicing Portfolio

As of Dec. 31, 2019, TLS was the named special servicer for 26 CMBS transactions, representing 690 loans totaling \$11.9 billion. Out of its CMBS special servicing portfolio, the company was actively working out nine CMBS loans representing \$268.2 million in outstanding balance and managing three REO properties with \$95.1 million in unpaid principal balance. As of the same date, TLS was servicing one nonsecuritized REO asset representing \$34.3 million from a CRE CDO on behalf of a third party.

Special Servicing Portfolio Overview

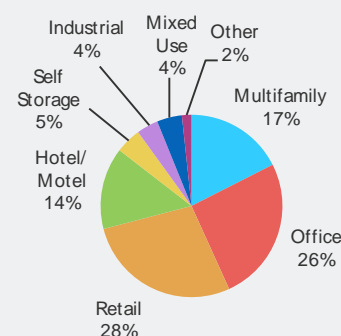
	12/31/19	% Change	12/31/18	% Change	12/31/17
CMBS					
No. of Transactions — Special Servicer	26	(21)	33	(8)	36
UPB — Special Servicer (\$ Mil.)	11,880.4	(20)	14,790.3	(18)	18,051.1
No. of Loans — Named Special Servicer	690	(21)	877	(18)	1,069
UPB — Actively Special Servicer (Non-REO) (\$ Mil.)	268.2	54	174.3	(80)	886.7
No. of Loans — Actively Special Servicer (Non-REO)	9	(10)	10	(55)	22
UPB — REO Assets (\$ Mil.)	95.1	(79)	463.4	36	340.1
No. of REO Assets	3	(77)	13	(35)	20
Non-CMBS					
UPB — Named Special Servicer (\$ Mil.)	64.5	(37)	101.7	(2)	103.7
No. of Loans — Named Special Servicer	3	(50)	6	(14)	7

TLS does not maintain dedicated internal compliance resources independent of servicing to monitor operational compliance. The head of special servicing, who reports to the head of fund asset management for TI, is responsible for monthly monitoring of compliance, using exception reports for key deliverables.

TLS engages a third-party audit firm to perform internal audits every two years. The most recent audit contained minor findings and observations to enhance controls, all of which were addressed by management. Fitch notes that the most recent audit was robust and an effective control.

CMBS Servicing Property Type

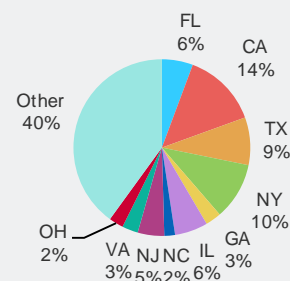
(As of Dec. 31, 2019)



Source: Torchlight Loan Services.

CMBS Geographic Distribution

(As of Dec. 31, 2019)



Source: Torchlight Loan Services.

Special Servicing Portfolio Overview

	12/31/19	% Change	12/31/18	% Change	12/31/17
UPB – Actively Special Servicing (Non-REO) (\$ Mil.)	0.0	–	0.0	–	0.0
No. of Loans – Actively Special Servicing (Non-REO)	0	–	0	–	0
UPB – REO Assets (\$ Mil.)	34.3	–	34.3	–	34.3
No. of REO Assets	1	–	1	–	1

UPB – Unpaid principal balance.
Source: Torchlight Loan Services, LLC.

TLS’s CMBS special servicing portfolio includes 11 legacy transactions from 2000 through 2007 vintages and 15 recent vintage transactions issued between 2011 and 2018. Of the 26 transactions within TLS’s portfolio, the company acts as a third-party special servicer for 14 transactions on behalf of 10 distinct clients.

While TLS did not gain any new issue CMBS assignments in 2019, TI purchased a controlling class position in a 2011 vintage transaction in the secondary market and appointed TLS as special servicer.

Loan Administration

TLS is proactive in its surveillance practices via regular communication with master servicers for CMBS transactions in which it is the named special servicer. TLS utilizes Backshop to monitor loan performance. The application gives TLS access to real-time CREFC reporting data from master servicers and trustees. The head of special servicing and a special servicing associate use monthly CREFC reports to monitor delinquencies and underperforming loans and may request additional information from master servicers. Additionally, the special servicing team maintains a proprietary database of the company’s bonds, from which the major tenant, location and rent exposure are assessed. The company cross-references this database with major company announcements and news items (such as bankruptcies, mergers and major disasters) and shares this information with the special servicing group.

Defaulted/Nonperforming Loan Management

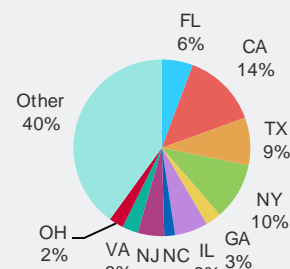
Upon notification of a servicing transfer event, the relevant loan documents and historical information are requested from the master servicer under supervision of the head of special servicing. The loan documents and original underwriting information are reviewed by the asset manager and legal counsel to obtain a clear understanding of the loan structure, the existing lender protections and the economic conditions present both currently and at the time of origination.

Within 90 days of the loan’s transfer to special servicing, TLS creates a business plan, obtains an updated appraisal and obtains at least one broker opinion of value. The company does the same within 60 days of the conversion of a loan to REO status. Asset managers work with legal counsel and other third-party vendors to develop a resolution strategy, requiring approval from the team leader and special servicing committee. Asset status reports are created and distributed per guidelines in the PSA, and monthly remittance reports provide updates.

All special servicing functions, including the creation of asset status reports and business plans, consent tracking, cash flow modeling, contract management and disposition strategy development and analysis take place in Backshop. Fitch found Backshop to be a robust system for underwriting and noted TLS’s significant efforts to adapt the system into a strong asset management and surveillance application. Fitch believes Backshop compares favorably with systems used by other rated servicers managing large volumes of defaulted loans.

For market research, the company uses third-party data providers (REIS, CoStar and Trepp), local market contacts and proprietary data to identify other defaulted loans in the same submarket or by the same borrower to determine a strategy. The asset manager is also responsible for obtaining or performing a physical property inspection, generally within 30 days. In addition to using various data sources and publications in conducting its market

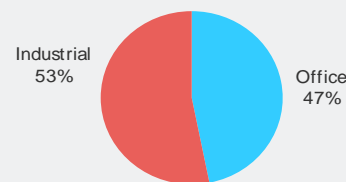
CMBS
Geographic Distribution
(As of Dec. 31, 2019)



Source: Torchlight Loan Services.

TLS’s special servicing portfolio is a mix of legacy and post-2011 vintage CMBS transactions. While primarily a captive servicer for TI, TLS has been successful in obtaining third-party servicing assignments from 10 clients.

Non-CMBS Servicing
Property Type
(As of Dec. 31, 2019)



Source: Torchlight Loan Services.

TLS performs a high number of audits of its REO property managers relative to the size of their portfolio compared to other Fitch-rated servicers. Fitch reviewed three recent audits and found them to be among the most thorough of audits from Fitch-rated servicers.

research for newly transferred loans, the special servicing team identifies local brokers from which to obtain broker opinions of value.

TLS's special servicing committee is an additional internal control around the workout process, as each workout is subject to approval from the relevant members of the six-member committee. The special servicing committee comprises three members of the TI senior management team, an independent external advisor and two senior TLS managers whose approval is required for business plans, significant lease approvals, foreclosure filings, discounted payoffs, loan modifications and assumptions, foreclosure bid strategies and REO business plans and liquidations.

REO Management

When a property is put into receivership or a foreclosure is completed, the asset manager oversees property-level operations and develops the ultimate resolution strategy. The asset manager works with the property manager to develop a budget and with other third-party service providers to develop a business plan to maximize net present value (NPV) at resolution. Budgets, which must be approved annually by senior management, include operating and capital expenses necessary to operate and maintain the property for sale. The asset manager monitors budget variances monthly as part of the funding request process.

TLS's policies and procedures generally require updated business plans for REO assets to be presented to the special servicing committee within 90 days of foreclosure, although the company notes that complex assets may take longer than 90 days. Approved REO business plans are reviewed no less than annually by the special servicing committee – or more frequently if there is a significant change in strategy, occupancy or pending liquidation.

Torchlight utilizes a property manager oversight program for REO assets. The program consists of a third-party audit firm engaged by TLS, on behalf of the trust, to perform one property manager audit per month, with the ultimate goal of auditing 15% to 20% of eligible firms annually. The scope of the audits include rental income reporting and collection verification, reviews of expense processing, cash account reconciliations, a common area accounting review, a review of third-party contractors and a compliance review of the property management agreement.

Governance and Conflicts of Interest

Managing Conflicts of Interest

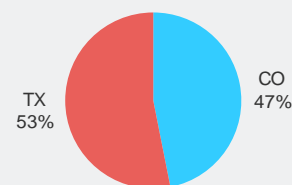
Potential conflicts of interest in special servicing can arise through various forms, particularly as investors retaining controlling positions in securitizations or specific loans have influence on workout strategies and the ability to select the special servicer.

While the company performs third-party special servicing for investment managers and private equity firms that hold nonsecuritized B notes and hedge funds that hold controlling class bonds, the majority of TLS's named special servicing assignments are on behalf of its parent. Fitch notes as a potential conflict of interest that half the members of the six-member TLS special servicing credit committee are employees of TI. The committee, whose members average approximately 25 years of CRE experience, comprises three senior employees of TI, two employees of TLS and one independent advisor. Additionally, decisions made by the special servicing committee require the unanimous consent of all members.

Torchlight manages potential conflicts of interest on two levels: first, through its policies and procedures, which require that all major special servicing decisions be made by the special servicing committee (although TI employees represent one-half of the committee); and second, through TLS and TI compliance and code of ethics policies with which employees are required to certify their compliance annually. Notwithstanding shared employees and office space between TLS and TI, the policies address the disclosure of confidential information and potential conflicts of interest that may arise through the normal course of business. Limited mitigants to potential conflicts of interest are considered in the rating.

Fitch reviewed a sample of business plans for approximately six specially serviced loans and found that these plans were sufficient and generally reflected the consideration of alternate

Non-CMBS Geographic Distribution (As of Dec. 31, 2019)



Source: Torchlight Loan Services.

Fitch noted a concern over potential conflicts of interest between TLS and TI. While partially mitigated through policies and procedures, the two firms closely share office space and employees, and TI employees represent half the members of TLS's special servicing credit committee.

resolution strategies, with an NPV analysis to support the ultimate workout strategy when warranted.

Affiliated Companies

Neither TLS nor TI currently have affiliate companies that provide real estate management or CRE property brokerage services. TI or affiliate entities may provide CRE financing options for maturing loans or loans being worked out by TLS.

Members of TLS's special servicing credit committee include an outside senior advisor, the co-chief investment officer of TI, the head of asset management of TI, the senior vice president of legal, the head of special servicing and a vice president in special servicing.

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