Operational Risk Assessments
Torchlight Loan Services, LLC

DBRS Morningstar
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Contents

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Operational Classification:	Commercial Mortgage Special Servicer
Ranking:	MOR CS1 (Confirmed)
Trend:	Stable

Rationale

DBRS, Inc. (DBRS Morningstar) confirmed its MOR CS1 commercial mortgage special servicer ranking for Torchlight Loan Services, LLC (Torchlight), a wholly owned subsidiary of Torchlight Investors, LLC (Torchlight Investors). The confirmed ranking reflects the following factors:

- **Asset-Recovery Performance:** Torchlight has a lengthy track record as an adept special servicer for commercial mortgage-backed securities (CMBS) transactions. The company demonstrates expertise with complex debt and real estate owned (REO) assets involving a range of property types across the United States. Torchlight Investors' investment fund portfolio managers also have experience working out large-scale distressed non-CMBS assets.

  After reducing its once sizable distressed CMBS portfolio to a low level at YE2019, the company's volume has increased because of the Coronavirus Disease (COVID-19) pandemic, albeit to a lesser degree than some other special servicers. During 2020, Torchlight resolved more legacy assets while coordinating with master servicers on borrowers' payment relief requests and loan transfers.

- **Organizational Stability and Professional Depth:** Torchlight has a well-experienced executive and professional team, a cohesive organizational framework, and had minimal employee turnover in the past two years. Asset managers' average experience remains solid. Torchlight Investors also supports special servicing with compliance, centralized reporting and accounting, portfolio surveillance, and legal oversight.

- **Staffing Workloads and Capacity:** Torchlight entered 2020 with a degree of excess capacity. To date, it has handled increased CMBS loan transfer activity solely through asset manager redeployments from its investment-management business enabling it to maintain reasonable workload levels. Considering Torchlight's exposure as a named CMBS special servicer, the company should have enough capacity to address its expectations for a moderate amount of additional asset transfers in the coming months.

- **Technology:** Torchlight principally operates in a cloud-computing environment. It uses the remote-hosted Backshop asset-management application, which has strong asset-tracking, investor-reporting, and workflow-control capabilities geared to CMBS requirements. Through another vendor, which undergoes security audits and Service Organization Control (SOC 1 and 2) examinations, Torchlight effectively administers data backup and security, helpdesk needs, and data-recovery testing. An automated and integrated vendor-invoice approval/processing application also facilitates special-servicing controls and efficiency.

- **Asset Analytics and Management:** Supported through the asset-management application, Torchlight has diligent asset-analysis practices and well-delineated policies and procedures for effective and controlled special servicing, including borrower consent requests. With steady REO activity in the past few years, Torchlight commissions independent property-manager audits as well.

- **Internal Audit and Compliance:** Torchlight has sound auditing and control practices. A nationally known firm audits a range of processes, including cash controls, investor reporting, and approvals. The latest available audit report issued in May 2019 did not identify any high-risk control weaknesses. Another audit is currently in process, and Torchlight expects satisfactory results based on indications thus far. Citing increased portfolio activity, Torchlight plans to reinstate a shorter audit cycle from the current 24 months. Regulation AB attestations have consistently not contained any exceptions. The features of the asset-management system, the invoice-processing application, stringent vendor oversight, and controlled investor-reporting review procedures further support the company's compliance practices.

- **Conflicts of Interest Management:** Torchlight is the named special servicer for several transactions in which Torchlight Investors holds first-loss bond positions and is the controlling classholder. Torchlight's asset-management practices, asset-recovery results, and handling of fees indicate that it strives to follow the servicing standard. As a Securities and Exchange Commission-registered investment advisor, Torchlight Investors also has a compliance function to guard against potential conflicts with its special-servicing work.

Special-Servicing Volume: As of December 31, 2020, Torchlight was the named special servicer for 21 CMBS securitizations (including two single-asset/single-borrower transactions) with a combined remaining unpaid principal balance (UPB) of $7.52 billion consisting of 416 loans and 819 properties. Nine of these 21 transactions were issued before 2011. It also was the special servicer for a 2005-vintage commercial real estate collateralized debt obligation (CRE CDO) with a remaining $34.3 million UPB containing one asset.

As of December 31, 2020, excluding some non-CMBS workouts in affiliated debt funds, the active special-servicing portfolio contained 42 assets (38 loans and four REO assets) with a combined UPB of approximately $920.7 million. By property count, lodging assets composed 47% of the active portfolio and retail represented 32%. By comparison, as of December 31, 2019, the active special-servicing portfolio contained 16 assets (nine loans and seven REO properties) with a combined UPB of approximately $397.57 million.

During 2020, aside from working with master servicers on nontransfer payment relief requests, Torchlight handled 11 corrected loans, including one forbearance, and liquidated one loan through a receivership sale. It also sold five REO assets that generated aggregate net proceeds well above 100% of value.

During 2019, Torchlight resolved six nonperforming CMBS loans through one restructure, two full payoffs, and three note sales that generated aggregate net proceeds equal to nearly 99% of value. It also sold eight REO properties, including two retail malls, that generated aggregate net proceeds equal to approximately 91% of value.

Trend

The trend for the ranking is Stable based on Torchlight's expertise with CMBS transactions, low employee turnover, proactive staffing management, solid control practices, and robust technology.

Company Profile and Business Overview

New York City-based Torchlight is a wholly owned subsidiary of Torchlight Investors, 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 remains privately owned by a controlling principal and other key employees.

Torchlight Investors' core businesses are investment advisory, which encompasses special servicing and commercial real estate debt investment and asset management. To support its acquisitions and investment-management businesses, the company may provide senior or subordinated financing or preferred equity. Since 1995, Torchlight Investors' has acquired investment positions in assets valued at more than $25 billion, principally through its opportunistic, or value-add, investment funds, which it issues and manages as a registered investment advisor. In June 2020, the company launched its Fund VII, which is structured to hold a mix of asset types including B-pieces in CMBS and Freddie Mac-sponsored transactions. As of early April 2021, the fund has raised $1.95 billion, exceeding its capital-raising target of $1.5 billion.

As of December 31, 2020, Torchlight Investors had approximately $4.4 billion in assets under management, including investments in CMBS. It manages assets on behalf of third-party institutional clients, largely comprising retirement and pension funds, principally through its closed-end debt funds.

Torchlight Investors was one of the most active CMBS B-piece investors in the years immediately preceding the 2008 financial crisis. As a result, Torchlight became one of the larger-volume special servicers for legacy CMBS. Torchlight Investors also has acquired subordinate bond positions in newer-issue CMBS and appointed Torchlight as the special servicer. Additionally, Torchlight Investors continues to acquire first-loss bond positions in Freddie Mac K-Series securitizations. Cumulatively, across all transactions, it has acquired 60 B pieces with an approximate $1.5 billion acquisition value.

Torchlight is an approved Freddie Mac special servicer and recently served in that capacity for a 2014-vintage securitization. Additionally, Torchlight is a consultant for its affiliate's positions as the directing certificateholder in some other Freddie Mac transactions.

Since inception through December 2020, Torchlight has resolved 713 specially serviced loans with an aggregate balance of approximately $11.2 billion and managed 236 real estate assets valued at approximately $2.3 billion.

As of December 2020, Torchlight Investors had 58 total employees across its business lines of real estate investment and asset management, special servicing (through Torchlight Loan Services), and securitization structuring. Besides a nine-person special-servicing team for CMBS loan and REO workouts, the organization included a 10-person investment/asset-management team plus accounting/reporting, legal, and compliance staff.

Financial Position: Torchlight Investors generates revenue principally from asset-management and special-servicing fees. For the past several years, the company has generated healthy revenue and profitability contributing to increased and solid members' total equity. The company continues to self-fund its capital needs and has no third-party outstanding debt. Overall, Torchlight Investors displays a long-term commitment to asset management and special servicing with an allocation of resources to fully support its business needs.

Exhibit 1 Torchlight Historical Special-Servicing Volume

	December 31, 2020		December 31, 2019		December 31, 2018		December 31, 2017	
	UPB ($ Mil)	**Loans**	**UPB ($ Mil)**	**Loans**	**UPB ($ Mil)**	**Loans**	**UPB ($ Mil)**	**Loans**
Loan Portfolio	774.0	38	268.1	9	174.3	10	549.5	22
REO Portfolio	146.7	6*	129.4	7	463.4	28	340.1	21
Total Active Portfolio (All CMBS)	920.7	44	397.5	16	637.7	38	889.6	43
Named CMBS Special Servicer**	7,550.6	417	11,880.4	690	16,225.8	951	16,687.3	1,028
Number of Transactions as Named Special Servicer**		22		26		34		35

*Four REO assets on a consolidated basis. **As of December 31, 2020, included one 2005-vintage CRE CDO with one remaining loan. As of December 2019, included one Freddie Mac securitization (FREMF 2014-K39).

Operational Infrastructure

Organizational Structure

Torchlight Investors' executive team consists of nine partners, which includes the chief executive officer (and co-chief investment officer), the co-chief investment officer, the head of asset management, two investment-management heads, the chief credit officer, the chief operating officer, and two investor relations executives. Collectively, they oversee the company's principal business of real estate debt investment and asset management, which involves its debt funds, the funds' related CMBS bond positions, and the operations of Torchlight, the special-servicer subsidiary.

Torchlight Investors' chief operating officer oversees the financial-control department, which has teams for corporate-level, fund-level, and special-servicer accounting and finance. Among its duties for special servicing, the financial-control staff manages REO property bank accounts and reconciliations, special-purpose entity management in conjunction with internal legal counsel, vendor invoice approvals and processing, master-servicer 1099 reporting, and external auditor management.

The organization also has dedicated staff for legal, compliance, portfolio surveillance, investment underwriting, and client services, which handles marketing and investor relations for the debt funds.

Torchlight, as the special-servicing subsidiary operation for publicly rated CMBS, is part of Torchlight Investors' asset-management division, which handles the underwriting and assets in the private-placement debt funds.

Including other support staff from the parent, Torchlight's platform consists of the following:

- The asset-management division head;
- The special-servicing team, which expanded to nine people from four people during 2020. As of February 2021, it included the head of special servicing, five officer-level asset managers, two senior associates (including one with CMBS investor reporting to assist with those functions in conjunction with the financial-control team's review and approval process) and a supporting analyst;
- Accounting personnel from Torchlight Investors' financial-control department for portfolio- and asset-level accounting, including property-level accounting oversight on REO assets;
- Torchlight Investors' chief compliance officer, who serves the company on a contract basis to provide counsel regarding servicing-agreement issues and regulatory compliance, including conflicts-of-interest risk mitigation; and
- Shared resources from the parent: an in-house attorney, a five-person client services team, and a four-person portfolio surveillance team.

The special-servicing team added three asset managers in 2020 through staff redeployments from Torchlight Investors' investment-management team. A founding member of a Torchlight Investors' predecessor company also continues to serve as a special advisor and member of the special-servicing credit committee.

Management and Staff Experience

As of December 2020, the six officer-level managers in the special-servicing team averaged nearly 13 years of experience, including the head of special servicing who had 17 years of experience. The three asset managers who transferred into CMBS special servicing from Torchlight Investors' debt fund team averaged 12 years of related experience, and two of them previously worked at other CMBS special servicers. Overall, the debt fund team averaged 11 years of experience, excluding the asset-management division head who had 23 years of experience. Additionally, the six members of Torchlight's special-servicing credit committee averaged 27 years of experience.

Exhibit 2 Management and Staff: Average Years of Experience

	December 31, 2020		December 31, 2019		December 31, 2018	
	Industry	**Company Tenure**	**Industry**	**Company Tenure**	**Industry**	**Company Tenure**
Senior Management	23	10	22	9	20	8
Middle Management	15	9	13	8	15	9
CMBS Asset Managers*	12	6	13	5	12	4
Other Asset Managers**	11	6	10	3	10	5

*Includes senior associate and analyst positions. **Torchlight Investors' 10-person debt fund team.

Management and Staff: Additions and Turnover

Torchlight had a net five-person staffing increase in 2020. Employee turnover was limited to one staff-level departure, which occurred on the first half of the year. The two employee departures in 2019 both involved positions in the financial-control team, and those vacancies were subsequently filled. As noted, all hires into the CMBS special-servicing team involved internal transfers. Torchlight noted that it may add another special-servicing asset manager in the coming months as well.

Exhibit 3 CMBS Special Servicing: Management and Staff Turnover Rates*

	2020	**2019**
Total Employees - Beginning of Period	16	16
Total Turnover Rate (%)	6.3	12.5
	1 Position	2 Positions
Involuntary (%)	6.3	6.25
Voluntary (%)	0.0	6.25
Management Only (%)	0.0	6.25
Staff Only (%)	6.3	6.25
New Hires (# of Positions)	6 (2 Managers)	2 (Staff Level)
Total Staff - End of Period	21	16

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

Workload Ratios

As of December 31, 2020, Torchlight had a 5:1 ratio of assets per asset manager, including a junior-level support analyst but excluding the asset-management division head, although he is involved in some asset deliberations. By comparison, Torchlight's assets/asset manager ratios (excluding the division head), were 5:1 as of March 31, 2020, 10:1 as of December 31, 2018, and 14:1 as of December 31, 2017.

Assessment: Torchlight has maintained the requisite expertise and operating depth to proactively address increased portfolio activity arising from the pandemic. Over the past few years, Torchlight Investors also has increasingly integrated its CMBS special-servicing team into the larger organization, and especially regarding financial-control and reporting processes, to build synergies and efficiency.

Unlike some other CMBS special servicers, Torchlight thus far has been able to manage its higher asset volume essentially by redeploying existing internal resources without a rushed need to hire externally. While the company expects its asset volume to increase further in 2021, it should be suitably positioned to address it based on current workload allocations. Torchlight Investors' measured approach toward adding new CMBS positions and its corresponding lower exposure as a named special servicer relative to past years also have likely facilitated resource management.

Training

Torchlight provides formalized training for all staff, with sessions led by external guest speakers and Torchlight managers covering a range of CMBS-centric, compliance, and other special-servicing topics. A designated asset-management team member coordinates training-event logistics and tracks employee-participation hours. The special-servicing manager also oversees asset-management system training and serves as liaison to the vendor supporting the system. Torchlight managers also conduct weekly asset-review meetings that cover every specially serviced asset and serve as a training forum for case studies and procedural issues.

The company expects all personnel to complete approximately 40 hours of training annually, excluding participation at conferences. Employees averaged 14 training hours in the first half of 2020 and 26 hours in the second half. For the 13-month period of January 2020 through January 2021, Torchlight sponsored 24 training sessions totaling about 42 hours.

Assessment: Based on the content and frequency of activities, Torchlight has maintained a sound employee training function. 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 DBRS Morningstar-ranked special servicers. Torchlight may benefit from developing an intranet portal, integrated with specialized software or leveraging the asset-management system, as feasible, to serve as a centralized tool for staff to gain access to training materials and recorded sessions, register for sessions, and track hours.

Audit, Compliance, and Procedural Completeness

The financial-control department certifies portfolio transfers and serves as liaison with firms engaged to perform internal audits. The department also monitors compliance with servicing agreements in conjunction with a corporate-level chief compliance and legal officer.

Torchlight uses a nationally recognized accounting firm to conduct operational audits examining cash management and accounting; special-servicing approvals, processes, and asset transfers; investor/master servicer reporting; and technology application workflows. In 2017, Torchlight shifted to a two-year cycle from a one-year cycle for these audits based on its declining special-servicing portfolio. However, with expectations for sustained higher portfolio volume over the next couple years, the company plans to revert to a shorter audit cycle.

The most recent audit report, dated May 2019, contained some recommendations that Torchlight addressed, but it did not identify any high risk or material control weaknesses. Another audit is currently in progress, and Torchlight expects satisfactory results based on its interactions thus far with the auditors. Additionally, an annual Regulation AB attestation has not contained any exceptions for the past nine calendar years through 2020.

The reporting, task-tickler, and workflow-management features of the asset-management system support Torchlight's quality-control and compliance efforts. In particular, the system has compliance checklists for asset transfers to and from master servicers and other special servicers and for loan-to-REO transitions. The company also noted that it expanded management sign-off procedures covering more aspects of its monthly internal compliance tracking and investor reports.

The financial-control department, in conjunction with other senior management, manages updates to the company's policies and procedures. Torchlight updated and enhanced its documented policies and procedures in 2018 and again in early 2020. They include guidance with the asset-management system and focus on proactive and controlled special-servicing practices and especially CMBS requirements. The policies and procedures encompass vendor-oversight protocols and authority delegations, including required committee approvals, for asset-level expenses and various asset management/recovery recommendations. Additionally, employees must adhere to Torchlight Investors' separately documented policies and procedures covering corporate compliance and governance.

Assessment: Torchlight has a sound internal-audit function supplemented with solid internal practices, resources, and supporting technology to monitor operational risk and servicing-agreement compliance. The company's plan to shorten its audit cycle, excluding the annual Regulation AB attestation, would be a best practice as well given the resurgence in asset activity. The depth of policies and procedures, along with the workflow processes embedded in its asset-management system, denote proactive and controlled practices to address Torchlight's focus on CMBS special servicing. As a special servicer focused on CMBS, Torchlight also may benefit by integrating its abstractions of pooling and servicing agreement (PSA) requirements into the system's workflow and user-dashboard programming.

Legal Liability and Corporate Insurance

Torchlight reported that it was not involved in any 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 with highly rated carriers. Torchlight's corporate insurance program includes a data-security policy providing a $5 million coverage limit. The company reported that, as a special servicer, it has not received any notices of PSA default or citations related to performance.

Assessment: Torchlight's corporate insurance coverage limits should remain satisfactory based on asset volume and relative to other special servicers. Torchlight Investors' procurement of cybersecurity insurance also is a best practice that has become more common among servicers. Based on Torchlight's representations, DBRS Morningstar is not aware of any material lawsuits related to, or which could potentially impair, the special servicer's operations.

Technology: Applications, Disaster Recovery, and Data Security

Torchlight uses CMBS.com, Inc.'s Backshop special-servicing/asset-management system. Torchlight, as a licensee since 2015, uses the system in a hosted environment on Backshop's servers through a cloud-computing structure. The vendor, with Torchlight's input, continues to periodically roll out functional enhancements. Additionally, Backshop provides Torchlight with its programming source codes, associated technology requirements for the entire application, and monthly updates, which Iron Mountain Inc. as custodian holds in escrow. Iron Mountain conducts usability testing, with the most recent test report issued in 2019, to verify the integrity of the intellectual property and deposit agreement. In 2020, Torchlight, as an added control test, successfully used the report results and source coding to recreate the Backshop technology environment for itself.

Torchlight stated that Backshop can produce the latest CMBS investor-reporting package requirements established by the Commercial Real Estate Finance Council (CREFC). The system has modules to prepare and store asset business plans, perform property cash flow modeling/valuation analysis and net present value recovery projections based on different scenarios, compare current performance with 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 tax payments, and insurance policy renewals using file downloads from master servicers.

The system can provide business-volume forecasting/revenue tracking tied to expected losses and controlling classholder changes. The application provides cloud-based document storage, a menu of standard reports, and ad hoc reports based on database queries. To facilitate surveillance and asset transfers, the application's database includes every loan for which Torchlight is the named special servicer.

Through the system's functionality enhancements, Torchlight can initiate and track work orders from vendors and track vendors' performance; conduct all essential loan-level tickler management; obtain automated realized loss, fee, and advancing calculations; populate information into form documents and notification-letter templates; and track internal workflows and approvals. The system also has links to each asset's corresponding PSA and PSA abstraction, although there is not a direct feed of the PSA requirements for each asset-management task to the system's workflow features of credit-management action alerts and procedural checklists.

Torchlight also uses SAP Concur Technologies' automated vendor-invoice processing application, which is integrated with Torchlight Investors' corporate accounting system and was already used for its other business lines. In 2020, the company added electronic document signatory software for use across all business areas.

Torchlight Investors uses Eze Castle Integration, Inc. to provide IT support for all business lines. The vendor, which has offices in several U.S. cities, London, and Asia, has a 24/7 help desk and an on-site engineer available every workday at Torchlight's New York headquarters. The vendor provides a dedicated network through cloud-based servers, handles network access, and performs real-time data backups to an alternate data center. Employees' network access at the folder level also requires Torchlight management approval.

The vendor, which also provides Torchlight with disaster-recovery services, completed its most recent recovery tests in April and October 2020 with successful results. Eze Castle's data centers (through other vendors) also are represented to be SOC 1 and 2 compliant. Although Torchlight is migrating its email and network servers to the Microsoft Azure cloud-computing environment this year, it expects the IT vendor's oversight and support roles to expand.

Torchlight's data-security protocols, managed through its financial-control department in conjunction with the IT vendor, include required annual employee training modules, periodic phishing exercises, and scheduled system penetration tests.

Torchlight's business-continuity plan is predicated on staff working remotely with access to all network applications through a virtual private network. The business-continuity plan includes a formalized third-party agreement that provides some office space in Atlanta. Through its technology vendors, Torchlight indicated that it should have access to all business-critical systems and data and resume all special-servicing functions within one hour of a declared disaster event or business interruption.

Assessment: Torchlight's technology platform effectively supports workflow efficiencies and data-integrity for detailed asset-level tracking and reporting geared for CMBS transactions and real estate fund investors. The company's IT outsourcing and expansion of cloud-based computing are sound based on its oversight controls and vendors' represented capabilities and certifications. Torchlight's smooth transition to working from home in response to the pandemic and its practices for managing cybersecurity risk further indicate operational soundness and resiliency.

Special-Servicing Administration

As an active CMBS special servicer for many years, Torchlight has managed large, complex assets involving a range of property types throughout the United States. Although the company is handling more assets in later-vintage CMBS pools, especially with the onset of the coronavirus pandemic, it has substantial experience with loans originated between 2004 and 2007. The company has shown proficiency managing highly distressed larger-scale retail, office, and lodging properties fraught with legal impediments and collateral deficiencies. As of December 31, 2020, 18 lodging and 12 retail properties composed 79% of the active portfolio by asset count and 65% by UPB. The portfolio had assets in 17 states with concentrations in Illinois, California, Florida, New York, and Texas.

Exhibit 4 Active Special Servicing by Property Type (UPB)*

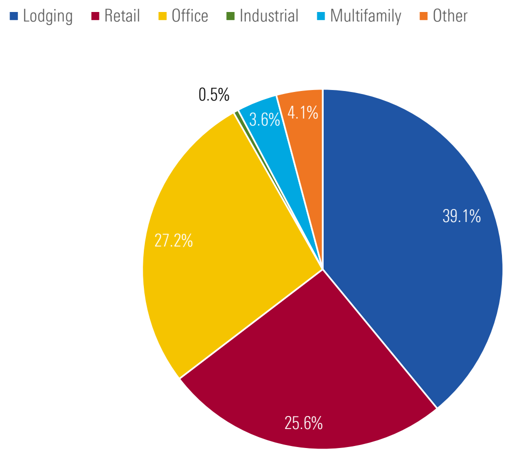
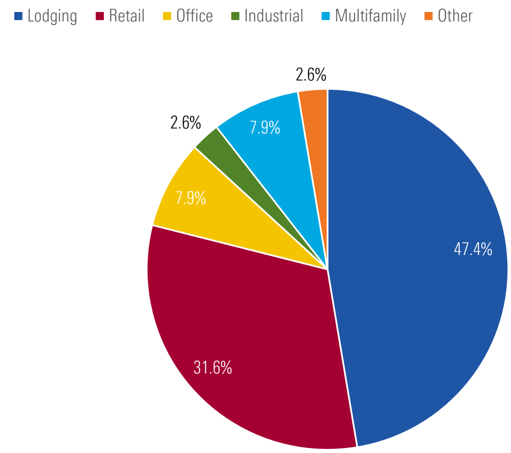


Exhibit 5 Active Special Servicing by Property Type (Asset Count)*



**Loans and REO as of December 31, 2020. Percentages may not equal 100% because they are rounded.

Asset-Review Process

For newly transferred loans, the asset manager reviews the file records, examines PSA-related requirements and loan-level covenants, and orders a property inspection. If needed, the asset manager also may visit the property. As noted, the asset-management system maintains information for all CMBS loans in which Torchlight is the special servicer. Through this due-diligence process, the asset manager formulates recovery options and strategies. Before engaging in workout discussions, Torchlight requires borrowers to sign prenegotiation agreements and pursues updated financial statements.

Asset managers generally prepare and obtain approval of an initial business plan within 60 days of an asset transferring to Torchlight for special servicing. For CMBS loans, asset managers also prepare an initial asset status report for investor reports as required by PSAs. Asset managers must update their asset-status comments twice a month. They must submit action-approval cases to initiate foreclosure when they have negotiated specific resolution terms or before committing to other major asset decisions. Business plans and updated cases include a net present value analysis of each alternative resolution scenario. Asset managers prepare their business plans and approval cases directly in the asset-management system. As noted, the system also serves as the central tracking, compliance, and asset-analysis tool for the entire lifecycle of each specially serviced asset; its functionality includes cash flow modeling and workout scenario analysis.

The company has delegations of authority that require senior management sign-off and a committee-type approval structure for asset business plans and most resolution cases. Torchlight's special-servicing committee includes Torchlight Investors' head of asset management, its co-chief investment officer, in-house counsel, the head of special servicing, and another senior-level asset manager.

The asset-management system tracks pending and approved asset plans and cases, issues alerts based on critical dates and trigger events, and provides for electronic signatures. Through the system, asset managers also can initiate email requests for updated appraisals and inspections based on tickler dates. Torchlight also holds weekly asset-review meetings. Torchlight stated that it formally monitors outstanding advances against property values and expected recovery amounts through the asset-management system and consults with master servicers on their advancing decisions. Through the asset-management system, Torchlight uses checklists to manage loan transfers from master/primary servicers and portfolio transfers to and from other special servicers.

Assessment: Based on its stated policies and procedures, Torchlight has proactive and controlled loan-transfer, asset-analysis, and resolution-management practices especially geared for CMBS special servicing. The asset-management system's tracking and workflow features strengthen the company's asset analytics and data-management controls.

REO Property Management

Torchlight uses a property-takeover checklist when transitioning an asset to REO status. The REO asset manager addresses any immediate property issues and engages a property-management company and listing broker. The selected companies must qualify for or already be on Torchlight's approved-vendor lists. Once a loan becomes an REO asset, the REO asset manager generally prepares and obtains approval of a business plan within 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 manager must ensure that the property is added to Torchlight's blanket insurance program.

Torchlight's property-management agreement contains specific monthly reporting requirements and procedures. The company retains the property-management company reports on its shared drive and uploads the information into the asset-management system to track budget-to-actual property performance and to prepare operating statement analysis reports. 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 involving accounting and management personnel to establish REO property bank accounts, fund expenses, and move excess cash to investor-level custodial accounts. Although REO asset managers review monthly property manager reporting packages and the property manager's bank account reconciliations, they do not have access rights to view bank account activity. Torchlight's accounting staff independently reconciles property manager bank account activity.

Using an external auditing firm, Torchlight annually targets approximately 15%-20% of its REO portfolio for property manager audits. Commensurate with actual portfolio volume and property profiles, it commissioned one audit in 2020, three audits in 2019, and four in 2018.

Assessment: Torchlight has maintained diligent practices for transitioning loans to REO status, overseeing property managers and brokers, and formulating and executing property resolution plans. Torchlight demonstrates sound control procedures for monitoring property performance and reconciling monthly property manager receipts and expenditures. Torchlight's property-manager audit program also is a best practice.

Vendor and Legal Oversight

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

The asset-management system tracks all pending and completed vendor work orders. The system's tracking features also assist Torchlight's ability to revise its approved lists based on vendors' delivery performance, work quality, and risk ratings. As previously noted, Torchlight uses an invoice management application, which automates tracking, approvals, and payment processing; mitigates the risk of duplicate payments; and provides vendor performance metrics.

Over the past two years, Torchlight has enhanced its vetting, onboarding requirements, and monitoring practices for all third-party service providers. The expanded compliance program includes: confirmations of vendors' legal, tax, and state business records; confirmations of electronic remittance instructions through a call-back procedure; and multilevel approvals from the financial-control and special-servicing departments for new engagements. Additionally, Torchlight assesses every new vendor using a proprietary risk-rating matrix and reviews available SOC reports from its largest and more critical vendors. Torchlight reviews vendors' risk ratings and SOC reports annually as well. In 2020, Torchlight Investors, through a consulting firm, issued an extensive data-security questionnaire to all vendors and risk-rated the responses.

For legal oversight, a former special-servicing department head serves as Torchlight Investors' in-house counsel. Although principally supporting the company's investment-management business, she also can advise on CMBS special-servicing matters. Torchlight uses an external general counsel to assist with CMBS servicing-agreement issues and to obtain legal opinions as needed on transactions. The senior asset managers approve law firm selections in consultation with the special-servicing department head. The asset manager and special-servicing department head, along with accounting staff, review and approve legal and all other vendor invoices before issuing payment.

Assessment: Torchlight demonstrates strong oversight practices for legal counsel and other vendors based on the tracking features of the asset-management system, the integrated invoice processing application, and vendors' stringent compliance requirements. For Torchlight's consideration, some special servicers have realized operational benefits by centralizing law firm engagements and fee arrangements through their in-house counsel.

Managing Conflicts of Interest

Torchlight is a special servicer for several CMBS transactions in which Torchlight Investors holds the first-loss bond positions and is the controlling classholder. Torchlight does not use affiliates for its special-servicing work, but its parent has acquired a few assets from CMBS trusts using permitted purchase options. As an added control, Torchlight Investors' chief compliance officer monitors investment-fund activities and data access for potential conflicts between business lines.

Assessment: Based on its stated compliance procedures and practices, Torchlight effectively manages its conflicts of interest. Its 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 and minimizing realized losses whenever possible.

Borrower Consent Requests

The special-servicing team also underwrites consent requests and obtains approvals through delegations of management authority, which usually require sign-off from the special-servicing division head and, for larger transactions, committee approval. Some legacy CMBS portfolios that Torchlight received because of controlling classholder changes have required Torchlight to coordinate the entire process directly with the borrower and underwrite the request as though it were the primary servicer. However, Torchlight did not manage any consent requests with that structure in 2019 and 2020. Supported through the asset-management system, Torchlight uses underwriting and transaction-closing checklists and approval case templates.

Exhibit 6 Borrower Consent Activity and Average Processing Time

	2020		2019	
	Processed (#)	**Internal Review Time (Days)**	**Processed (#)**	**Internal Review Time (Days)**
Assumptions	5	22	11	25
Leasing	29	25	40	26
Property Management Changes	2	29	n/a	n/a
Payment Protection Program Loan	8	13	n/a	n/a
Total	**44**		**51**	

n/a - No activity.

Pandemic-Related Payment Relief Requests

Aside from conventional borrower requests for performing loans, Torchlight responded to approximately 71 payment relief requests in 2020 arising from the pandemic. In a consultation and approval role with CMBS master servicers, it granted various payment relief solutions that included forbearances, redirecting reserve account funds, performance covenant waivers, and other remedies that in several cases avoided formal special-servicing transfers. Of the 71 requests, Torchlight noted that about 20% of these requests were rescinded and another 10% involved forbearances or other relief measures granted without a loan transfer.

Exhibit 7 Borrowers' Payment Relief Requests: April through September 2020

Property Type	Total Requests (# Loans)	Total Requests (UPB $Mil)
Lodging	28	374.5
Retail	35	534.3
Office	6	168.2
Mixed Use	2	19.9
Total	**71**	**1,096.9**

Assessment: The company has sound controls and proactive procedures for effective consent management, including its participation with master servicers to manage and construct solutions to pandemic-related payment relief requests. With moderating exposure as a named special servicer, Torchlight should have enough personnel in the near term to manage its request volume. Torchlight's average processing times for lease reviews and assumptions, given the variables involved, are overall reasonable although some other special servicers' averages have been lower.

Asset-Resolution and Recovery Performance

Asset-Resolution Volume and Disposition Methods

During 2020, Torchlight resolved 17 assets (all CMBS) consisting of 11 corrected or loans otherwise returned to the master servicer, one severely impaired loan that liquidated via a receivership sale, and five REO sales with total resolution proceeds or UPB of approximately $231.7 million. Most of the loans returned to the master servicer were rescinded transfers and/or reinstatements. Torchlight resolved one transferred lodging loan through a forbearance.

During 2018-19, Torchlight resolved 33 assets through discounted payoffs, note sales, modifications, full payoffs, and REO sales with a total resolution proceeds or UPB of $381.1 million. All resolutions involved CMBS assets. During 2014-17, when it managed a much larger portfolio, it fully resolved 269 assets (32 discounted payoffs, 18 note sales, 31 modified or corrected loans, 77 full payoffs, and 111 REO sales) with total resolution proceeds or UPB of approximately $2.85 billion.

Exhibit 8 Resolutions by Disposition Methods (2018-19)*

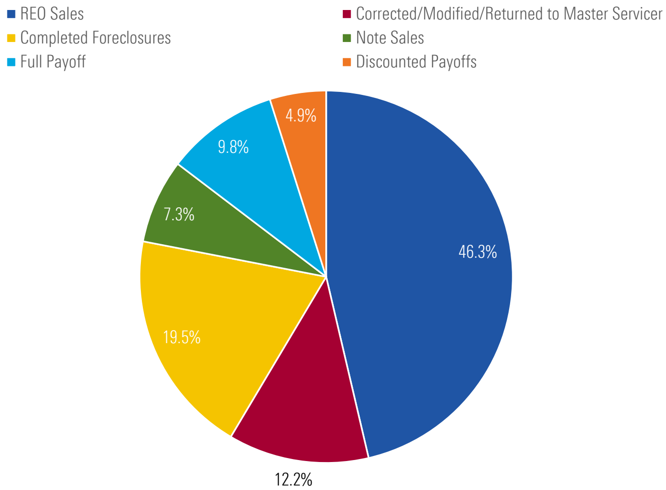
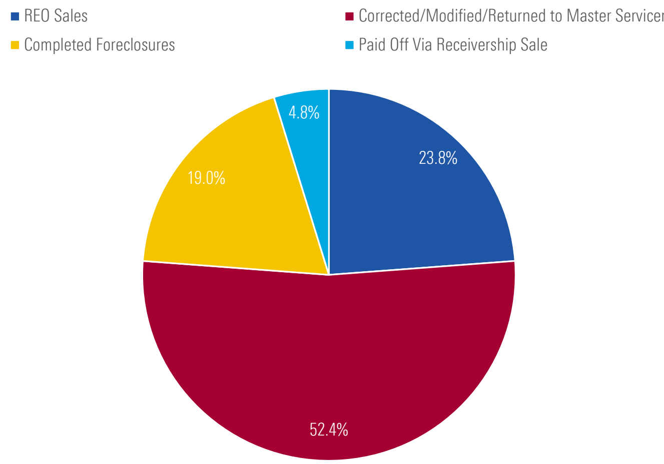


Exhibit 9 Resolutions by Disposition Methods (2020)*



*Percentages are by asset count. Although foreclosures are not final resolutions, they are included to account for all activity.

Asset-Resolution Hold Times and Portfolio Age

Accounting for the concentration of 2004-07 vintage assets and several large assets with protracted legal and collateral issues, the company's average resolution times have generally been in line with other special servicers contending with similar situations. Some especially impaired retail and office properties have caused Torchlight's average resolution and holding times for REO to lengthen in the past two years.

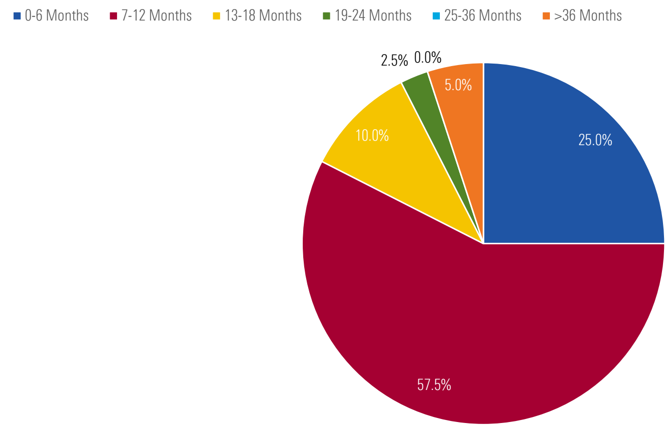
As of December 31, 2020, Torchlight held approximately 83% of its unresolved assets for one year or less and held only two assets more than three years. Skewed longer because of one retail-secured loan and one office REO property, the average age of assets was approximately 12 months, down from 36 months a year earlier, and the median age was eight months, down from 14 months a year earlier. The REO properties averaged approximately eight months as REO and 21 months total time in special servicing.

Exhibit 10 Torchlight - Average Asset-Resolution Times (Months)*

	2020	**2019**	**2018**	**2017**
Modified/Corrected Loans	2	8	6	17
Individual Note Sales	n/a	40	n/a	5
Discounted Payoffs	n/a	n/a	11	13
Full Payoffs	n/a	4	10	8
Completed Foreclosures	18	n/a	22	8
REO Sales (Time held as REO by Torchlight)	45	27	30	21

*Rounded to nearest whole month. n/a - not applicable.

Exhibit 11 Active Special-Servicing Portfolio: Aging by Asset Count (December 31, 2020)*



*Based on the time Torchlight held the asset as special servicer.

Asset-Resolution Recovery Proceeds

Torchlight's recovery proceeds relative to realizable collateral values have been high for most liquidations. Recoveries from most REO sales for the past several years were above 90% of estimated value. The company noted that the net proceeds/value percentages for some REO sales reflect the last available appraisals or broker opinions that did not include subsequent collateral or other valuation considerations.

Exhibit 12 Torchlight: Asset-Recovery Proceeds Relative to Collateral Values and Unpaid Principal Balances*

	2020	**2019**	**2018**	**2017**
Net Recovery Proceeds-to-Value (%)				
Note Sales	n/a	98.6 (3)	n/a	64.0 (1)
Discounted Payoffs	n/a	n/a	129.1 (2)	103.2 (7)
Paid Off at Receivership Sale	n/m (1)	n/a	n/a	n/a
REO Sales	118.1 (5)‡	91.4 (8)	88.7 (11)**	90.7 (21)
Net Proceeds-to-UPB (%)				
Individual Note Sales	n/a	53.9	n/a	100.9
Discounted Payoffs	n/a	n/a	87.5	74.8
Full Payoffs	n/a	100.0 (2)	111.2 (2)	105.2 (10)

*Number of assets shown in parentheses. **99.3% based on gross proceeds. ‡118.1% from the sale transaction and 128.4% including all retained cash accounts. n/a – not applicable. n/m – Full recovery of negligible realizable value, but metric not meaningful.

Exhibit 13 Torchlight: Total Special-Servicing Loan Activity (2018-20)*

	2020		2019		2018	
	Volume ($ Mil)	**Loans**	**Volume ($ Mil)**	**Loans**	**Volume ($ Mil)**	**Loans**
Loan Portfolio at Beginning of Period	268.2	9	174.3	10	549.5	22
Loans Transferred Into Portfolio:						
Retransferred/Redefaulted Loans	7.2	1	127.4	1	0.0	0
Pre-Existing from Another Special Servicer	0.0	0	0.0	0	0.0	0
New Nonmonetary/Imminent Default Transfers	690.8	40	69.3	4	79.6	7
New Monetary Default Transfers	171.8	7	25.4	4	0.0	0
Total Transfers	**869.8**	**48**	**222.2**	**9**	**79.6**	**7**
Loans Fully Resolved:						
Modified or Corrected Loans	(160.5)	(11)	(4.4)	(1)	(49.8)	(4)
Individual Note Sales	0.0	0.	(100.1)	(3)	0.0	0
Discounted Payoffs (Excludes Note Sales)	0.0	0	0.0	0	(6.8)	(2)
Full Payoffs	0.0	0	(26.2)	(2)	(6.5)	(2)
Loans Paid Off at Foreclosure/Receivership Sale	(1.3)	(1)	0.0	0	0.0	0
Other Cash Recoveries	(18.5)		0.0		(21.4)	
Total Loan Resolutions and Recoveries	**(180.3)**	**(12)**	**(130.8)**	**(6)**	**(84.5)**	**(8)**
Completed Foreclosures	(136.3)	(4)	0.0	0	(386.1)	(8)
Net Adjustments and Other Loans Removed	(47.4)	(3)	(2.5)	(4)	15.8	(3)
Loan Portfolio at End of Period	**774.0**	**38**	**268.2**	**9**	**174.3**	**10**
Property Count at End of Period		40		9		11

*All contained in CMBS transactions.

Exhibit 14 Torchlight: REO Portfolio Activity (2018-20)*

Total REO Portfolio	2020		2019		2018	
	Volume ($ Mil)	**Properties**	**Volume ($ Mil)**	**Properties**	**Volume ($ Mil)**	**Properties**
REO Portfolio at Beginning of Period	129.4	7	463.4	28	340.1	21
Completed Foreclosures	136.3	4	0.0	0	386.1	29
REO Sold During Period	(69.8)	(5)	(107.1)	(8)	(80.1)	(11)
Other REO Transferred Out	0.0	0	(94.6)	(16)	(69.9)	(11)
Other Adjustments	(49.2)	0	(132.3)	3	(112.8)	0
Total REO Portfolio at End of Period	**146.7**	**6****	**129.4**	**7**	**463.4**	**28**
Average Asset Size (End of Period)	24.5		18.5		16.6	

*All contained in CMBS transactions. **Four assets on a consolidated basis.

Exhibit 15 Torchlight Investors: Non-CMBS Distressed Assets and Workout Activity (2016-20)

Property Type	**State**	**Original Balance ($ Mil)**	**Original Investment Type**	**Outcome/Status**
Industrial Portfolio	Various	149.1	Distressed First Mortgage Note	A performing asset through a third-party refinancing in 2016 with Torchlight Investors retaining a mezzanine loan and preferred equity. Both positions were realized in 2017-18, with warrants retained for potential further recovery.
Office Portfolio	Various	36.0	Mezzanine Loan	Loan modification in 2016 and subsequent deed in lieu of foreclosure and sale of a remaining property in 2018.
Student Housing	Michigan	18.0	Preferred Equity	Became REO property in 2018 through foreclosure. Torchlight Investors is working toward stabilization.
Hotel	Maryland	27.5	Senior/Mezzanine Loans	Became REO property in 2018 through foreclosure. Torchlight Investors is working toward stabilization.
Hotel	Florida	41.6	Senior/Mezzanine Loans	Equity real estate through a deed in lieu of foreclosures in 2016. Renovated and reflagged with a brand upgrade. Working toward stabilization.
Office	Ohio	24.6	Distressed First Mortgage Note	Negotiated a full payoff of the loan in 2019 while pursuing foreclosure.
Office	Delaware	42.6	Distressed First Mortgage Note	Became equity real estate through foreclosure in 2019. Obtained new senior loan and working toward stabilization.
Hotel	Louisiana	83.4	A and B Notes	Completed foreclosure in 2020. Rebranded remaining hotel (originally a three-property asset) and working to stabilize.
Hotel	Florida	17.0	Distressed First Mortgage Note	Hotel performance declined in 2020 because of the coronavirus pandemic, resulting in monetary default. Torchlight Investors purchased the note at par value and is dual-tracking foreclosure and workout resolution.
Total		**439.8**		

Fees Collected From CMBS Trusts Versus Borrowers

Torchlight stated that it does not charge a duplicative fee to the CMBS trust and a borrower with respect to the same transaction. The company's collected and retained asset-resolution fees have continued to align with that policy. Moreover, Torchlight Investors' compliance officer must approve any material fees not specified in the governing PSA for all nonperforming loans. Torchlight's compliance policies require borrowers' loan-modification fees to be within the range of current market rates, which Torchlight tracks. Should Torchlight execute a loan forbearance, it stated that it generally will not recognize its fee until the loan pays off.

Torchlight Investors' Asset Purchases from CMBS Trusts

Torchlight Investors has exercised its permitted fair market value purchase option on a few occasions to buy assets out of legacy CMBS deals in which Torchlight was the special servicer. Torchlight Investors acquired one loan through option rights in 2017 and six loans during 2014-15. During 2014, Torchlight Investors also purchased five REO properties out of CMBS trusts. Torchlight's stated recovery results for the trusts, based on net proceeds-to-value and realized losses, for these total CMBS asset purchases exceeded its results for asset liquidations to third parties. Torchlight noted that it obtained independent validations of the values for the assets purchased by its affiliate, as required by its servicing agreements.

Assessment: Torchlight has continued to post solid asset resolutions signifying its expertise working out complex loans and REO assets in CMBS transactions. During the past several years, the company has liquidated some especially challenged assets, including several outcomes resulting in minimal or sometimes no realized losses. Although the company has had large realized losses for some REO sales, and especially large-scale retail, the corresponding sales proceeds were generally high relative to the collateral values and Torchlight's estimates for recoverability.

During 2020, Torchlight further reduced its legacy special-servicing portfolio. The company's command of the issues and its action plans indicate that it is working diligently to liquidate its few remaining prepandemic assets with the best possible results.

Investor and Master-Servicer Reporting

Torchlight's investor-reporting practices involve oversight from the financial-control team resulting in three levels of review. The special-servicing team's senior associate, who had experience with CMBS special-servicer reporting before joining Torchlight in 2018, prepares the reports and verifies content before the special-servicing head reviews them. The financial-control team then reviews the reports and all calculations before signing off on each pool. As a last step, the special-servicing head reviews and formally approves the final reports. A separate sign-off sheet tracks the reviews and approvals.

Surveillance practices and reporting procedures address CREFC-compliant content including asset status reports, property protection advances, appraisal subordination entitlement reductions, and realized loss calculations. Torchlight noted that it routinely communicates with master servicers on loan watchlist activity, trigger events and covenant-compliance, advancing, transfers, and resolution decisions. As noted, Torchlight has all its deals as a named special servicer loaded on the Backshop system, and it reviews monthly portfolio performance reports downloaded from a CMBS data provider. The special-servicing senior associate, in conjunction with the special-servicing department head and financial-control team, coordinates portfolio transfers arising from CMBS directing classholder changes.

Assessment: Torchlight's staffing, approval procedures, and technology indicate that the company remains soundly positioned to provide effective asset surveillance and special-servicer reporting for CMBS trusts and investors in its affiliated debt funds.

Ranking Scale

- MOR CS1: Superior Quality—Exceeds prudent loan servicing standards. Unlikely to be significantly vulnerable to future credit events.
- MOR CS2: Good Quality—Demonstrates proficiency in loan servicing standards. May be vulnerable to future credit events, but qualifying negative factors are considered manageable.
- MOR CS3: Adequate Quality—Demonstrates satisfactory loan servicing standards. May be vulnerable to future credit events.
- MOR CS4: Weak Quality—Demonstrates lack of compliance with one or more key areas of risk. Vulnerable to future credit events.

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.

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