

# Operational Risk Assessments

## Situs Asset Management LLC and Situs Holdings, LLC

September 2016

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<b>Operational Classifications:</b>	Commercial Mortgage Primary and Special Servicer
<b>Rankings:</b>	Primary Servicer: MOR CS2 (Affirmed) Special Servicer: MOR CS1 (Affirmed)
<b>Forecast:</b>	Stable – Both Rankings
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### Rationale

Morningstar Credit Ratings, LLC affirmed its MOR CS2 commercial mortgage primary-servicer ranking for Situs Asset Management LLC and affirmed its MOR CS1 commercial mortgage special-servicer ranking for Situs Holdings, LLC. For this report, Morningstar refers to both entities collectively, and within their respective contexts, as Situs. The affirmed rankings reflect Morningstar's assessment of Situs' operational infrastructure and capabilities as a primary and special servicer. In particular, Morningstar affirmed its rankings based on these factors:

#### Primary Servicing:

- **Managerial Experience:** Despite organizational changes over the past few years, average experience levels for senior managers and portfolio-management staff remained extensive.
- **Training Functions and Talent Development:** Situs maintains a solid staff training program and is evolving its employee retention strategies.
- **Technology:** Morningstar believes the company operates with a state-of-the-art suite of servicing and supporting applications to address its data management and reporting requirements, which include large, complex transactions. The servicer continues to implement technology enhancements to ensure a scalable and flexible information technology environment. Situs has experienced IT staff and demonstrates sound practices for data protection and disaster-recovery preparedness.
- **Internal-Audit and Compliance Program:** Situs has a multilevel internal-audit function comprising an annual Uniform Single Attestation Program, or USAP, Regulation AB attestations, a Service Organization Control Report, or SOC-1, and an internal-audit/compliance-review program. Recently completed audit reports cited no material control or procedural exceptions. A compliance manager oversees a quality-monitoring program. During 2015, the company established the global risk and compliance group, which ensures compliance and manages risk across the organization.
- **Portfolio Management:** Situs has diligent practices to monitor asset performance and manage credit issues. The company has serviced distressed portfolios and highly structured assets, including mezzanine debt and syndicated positions.

In Morningstar's view, Situs has proven capabilities to deliver detailed reporting for institutional investor clients. The company is experienced with private-label servicing and portfolio-surveillance reporting to bond investors using the Commercial Real Estate Finance Council, or CREFC, formats. Although Situs has not serviced many commercial mortgage-backed securities, or CMBS, loans and is not a servicer for any government-sponsored entity, or GSE, portfolios, it services one securitized small-balance portfolio and is a subservicer for two single-asset securitizations.

#### Special Servicing:

- **Asset Resolution:** Situs has demonstrated successful asset-resolution performance results involving challenging assets. Morningstar considers Situs to be an adept CMBS special servicer that has consistently obtained high recoveries relative to collateral values. Situs also is the named special servicer for 11 single-family rental securitizations. Although the affirmed special-servicer ranking does not expressly extend to these transactions, which have not experienced any defaults, Morningstar believes Situs possesses the capabilities to competently serve in this role.
- **Technology:** Situs uses an effective proprietary asset-management system that is well-suited for CMBS reporting and integrated with the company's other applications.
- **Asset Analytics and Management:** Situs has diligent and controlled asset-analysis practices including a property-management company audit program for real estate owned assets.
- **Internal-Audit and Compliance Functions:** The special-servicing operation undergoes annual audits and has its own compliance function to monitor adherence to servicing agreements and loan-level requirements. Recently completed audits indicated no material control or procedural exceptions.
- **Conflict-of-Interest Management:** Situs' business model is to act as an independent, third-party special servicer without any investment in the securitized transactions it manages. Situs stated Stone Point Capital LLC, its parent company, does not hold any investments in CMBS. Accordingly, Morningstar views Situs as a special servicer that operates without the conflicts of interest inherent in transactions in which the special servicer manages transactions involving affiliated controlling bondholders.

Situs' primary-servicing business is segmented by client requirements, namely, primary servicing, asset management, and surveillance. As of Dec. 31, 2015, the portfolio contained 1,271 loans covering 3,019 properties with an aggregate unpaid principal balance, or UPB, of approximately \$29.47 billion. By comparison, as of Dec. 31, 2014, Situs' primary-servicing portfolio consisted of 963 loans for 3,743 properties with a UPB of approximately \$21.76 billion.

Situs provides special servicing to both CMBS trusts as well as institutional and third-party investors. As of Dec. 31, 2015, Situs is the named special servicer for 13 CMBS transactions with an aggregate UPB of roughly \$10.90 billion and 11 single-family rental transactions with an aggregate UPB of approximately \$6.50 billion. The company's total active special-servicing portfolio at Dec. 31, 2015, contained 96 assets comprising 79 loans and 17 real estate owned, or REO, properties with a combined UPB of approximately \$420.2 million.

#### Forecast

The forecasts for the primary- and special-servicer rankings remain Stable. Morningstar expects Situs to continue serving as an effective primary servicer based on its proactive, controlled loan-administration practices, commitment to training, solid reporting capabilities, and experienced managers. Morningstar will continue to monitor Situs' ability to maintain performance levels with its increased portfolio activity and lower staff turnover. Morningstar believes Situs will continue to serve as an effective special servicer for CMBS and other investor clients based on its diligent practices, experienced personnel, robust technology, and successful resolution record with challenging assets.

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## Company Profile and Business Overview

Situs began operations in 1985 and is a provider of commercial real estate and loan advisory solutions offering customized services to financial institutions, investors, owners, and developers. In addition to its loan-servicing and asset-management business, its other core businesses, managed through affiliate companies and specialized operating units, include:

- Due diligence;
- Loan underwriting, and advisory services for CMBS, other structured transactions, and banks; technical services (property inspections and valuations);
- Commercial real estate transactional analysis and related support services;
- Outsourcing services such as data aggregation, real estate accounting, and credit administration for other servicers and commercial real estate/finance companies; and
- Staffing services for other firms.

During its operating history, the company has evaluated over \$1 trillion in commercial real estate, has resolved over \$50.00 billion in distressed commercial real estate assets, and has been the special servicer on over \$100 billion in commercial real estate loans. Its assets under management in the U.S. and Europe total over \$100 billion. During 2015, the company was acquired by Stone Point Capital, a private equity firm that invests in the global financial services industry. Headquartered in Houston, Situs has offices spanning the U.S. and Europe.

**Table 1 – Historical Primary- and Special-Servicing Volume**

	Dec. 31, 2015		Dec. 31, 2014		Dec. 31, 2013	
	UPB (\$ Mil)	Loans	UPB (\$ Mil)	Loans	UPB (\$ Mil)	Loans
Primary Servicing	29,474.6	1,271	21,756.2	963	12,081.8	879
Average Loan Size	23.2		22.6		13.7	
Securitized Servicing Only*	1,877.1	134	1,000.9	116	52.5	139
Active Special Servicing**	420.2	96	1,405.4	193	2,440.8	320
Average Asset Size	4.4		7.3		7.6	

\*Excludes commercial real estate collateralized debt obligations. \*\*Includes loans and REO assets.

## Operational Infrastructure

### Organizational Structure

Situs operates as a primary servicer through five locations: Houston; Atlanta; New York; Robbins, North Carolina; and Blue Bell, Pennsylvania. The Robbins office, serves as the principal operations center for most loan-administration, transaction-processing, and related support functions. The other four locations primarily handle asset management and surveillance. As the corporate headquarters, the Houston office oversees all loan-servicing activities and has centralized units for IT, human resources, corporate accounting and treasury, compliance, and general counsel to support all business lines. As of Dec. 31, 2015, 15 people, or 27% of the total servicing staff, were in the Robbins office, up from five people at the end of 2013.

The company conducts special servicing from five offices: San Francisco (the principal location), Blue Bell, New York, Houston, and Robbins. Both the San Francisco and New York locations handle asset-management and administrative functions, while the Blue Bell and Robbins offices focus on asset management. The New York office exclusively handles a bank-owned portfolio through the Hanover Street Capital entity. The Houston office contains due diligence and legal staff along with and systems technology support.

Situs' organizational structure reflects a hybrid design of functionally and portfolio-driven teams to match the nature of respective tasks. For special servicing, Situs uses a team approach with at least one team leader in each regional office. Situs does not have any employees based offshore for its U.S. servicing portfolio. Since our prior report, Situs has consolidated management of its primary- and special-servicing platforms in an effort to enhance client service. In January 2016, the company appointed a new president and COO as its existing president.

Situs' servicing operations are involved in the following activities:

- Asset and portfolio administration;
- Payment processing and cash management;
- Construction management and draw processing;
- Warehouse line underwriting and servicing;
- CMBS special servicing;
- Distressed asset management and workouts;
- CREFC-compliant investor reporting; and
- Asset-disposition support.

### **Management and Staff Experience**

Within primary servicing, the average experience of senior management and staff engaged in portfolio-management functions fluctuated slightly during 2015. However, the average experience for all primary-servicing staff remained steady after the company's shift of more work to and increased hiring at the Robbins location. Within special servicing, the average industry experience for managers and asset managers has declined during the past two years.

**Table 2 – Management and Staff: Average Years of Experience (U.S. Operations)**

	Dec. 31, 2015		Dec. 31, 2014		Dec. 31, 2013	
	Industry	Tenure at Company	Industry	Tenure at Company	Industry	Tenure at Company
<b>Primary/Master Servicing</b>						
Senior Management	26	5	25	4	17	4
Middle Management	20	2	15	2	15	2
Staff	7	2	7	2	9	3
Portfolio-Management Staff Only*	13	4	16	2	13	3
<b>Special Servicing</b>						
Senior Management	27	7	29	7	29	6
Middle Management	23	6	21	5	23	5
Professional Staff	13	4	13	4	12	2
Asset Managers	6	3	16	4	14	3

**Management and Staff Turnover**

Situs continues to incur elevated turnover within its primary-servicing operations. The turnover rate of roughly 29% for 2015 follows the nearly 40% rate during 2014 when the servicer shifted work to its Robbins office. During 2013, the company reorganized and reduced staff as it transitioned to servicing larger-balance assets from servicing FDIC assets and small-balance assets. In response, management has instituted measures to boost its employee retention rate. These include implementing measures to ensure all employees are aware of and have the opportunity to apply for all open internal positions as well as a mentoring arrangement in which middle management are paired with company executives. Also in development is a program to identify and develop “high potential” employees for future leadership roles within Situs.

During 2015, the special-servicing operation had a 16.3% turnover rate, compared with 17.0% in 2014. Although Situs’ 2015 turnover rate remained above Morningstar’s 10% benchmark, it reflects some additional staff reductions related to a declining portfolio volume and three intracompany transfers. The turnover rate excluding non-asset-manager positions was approximately 11%.

**Table 3 – Management and Staff Turnover Rates\***

	Full-Year 2015		Full-Year 2014	
	Primary	Special	Primary	Special
Total Staff – Beginning of Period (# of positions)	55	43	33	47
Involuntary Turnover Rate (%)	9.1	4.7	6.1	4.3
Voluntary Turnover Rate (%)	20.0	11.6	33.3	12.7
Management Turnover Rate (%)	5.5	7.0	6.1	0.0
Staff Turnover Rate (%)	23.6	9.3	33.3	17.0
Total Turnover Rate (%/#)	29.1/16	16.3/7	39.4/13	17.0/8
Total New Hires (#)	21	0	35**	4
Total Staff – End of Period (# for U.S.)	60	36	55	43

\*Staff departures divided by number of staff at beginning of period. \*\*10 management and 25 staff positions

### Workload Ratios

#### Primary Servicing:

Situs had a 21:1 ratio of loans per employee for its primary-servicing portfolio as of Dec. 31, 2015, compared with 18:1 as of Dec. 31, 2014. These ratios are better than industry averages. However, they do not factor other asset-management and related surveillance work performed by some of the servicing staff. While Situs' average loan size also has been higher, the average number of properties for every serviced loan fell to roughly 2.4 at year-end 2015 versus approximately 3.9 in 2014.

#### Special Servicing:

As of Dec. 31, 2015, Situs had 7 loan asset managers and four REO asset managers. With reduced special-servicing volume more than offsetting some staff reductions, the company's overall assets/asset manager ratio increased during 2015 to approximately 13:1.

**Table 4 – Primary and Special-Servicing Workload Ratios**

	Dec. 31, 2015	Dec. 31, 2014
Primary Servicing (Loans/Employee)	21:1	18:1
Special Servicing (Assets/Asset Manager)		
Overall (Loans and REO)	13:1	9:1
Loan Portfolio	11:1	9:1
CMBS Loans Only	11:1	10:1
REO Portfolio	5:1	9:1
CMBS REO Only	5:1	7:1

Note: There are no longer any REO or CMBS asset managers.

**Assessment:** Situs has a reasonably designed organizational structure to address the company's respective primary- and special-servicing duties, leverage individuals' expertise, and promote asset-management accountability. Situs' hiring of an experienced compliance manager for primary servicing last year and its efforts to enhance this function strengthen the operation.

As both a primary servicer and special servicer, Situs has an experienced management team. The average experience for primary-servicing staff, and particularly for staff engaged in portfolio-management functions, remains solid. However, the shifting of more loan-administration work to the Robbins office and related hiring there have lowered the average, which may be lower than that of some other Morningstar-ranked servicers. The company is intently focused on training and mentoring its recently hired servicing staff. Based on Situs' year-end 2015 loans-per-employee ratio and efficiency gains from its technology, its servicing operation is soundly positioned to accommodate managed growth.

Morningstar will continue to monitor primary-servicing staff turnover. This rate is likely to drop this year now that Situs is servicing larger assets and leveraging the Robbins office as the center for loan operations, which, based on its location, it expects to be less susceptible to voluntary staff turnover. The company's special-servicing turnover rate for 2015, while elevated, is largely influenced by lower portfolio volume, which was occurring across the industry last year.

## Training

Situs provides training activities for both servicing and special-servicing personnel. Since Morningstar's prior report, the servicer formed a corporatwide training and development committee comprising members of each business line and headed by the company's executive managing director and its global head of training and quality control. Its purpose is to solicit feedback on training offerings, evaluate courses and resources, and assess current and future needs. Situs University training offerings are now available via a Learning Management System from a third-party vendor. The company also offers an extended orientation program where newly hired primary-servicing analysts rotate through all functional areas. The special-servicing area conducts its own training sessions, often with guest speakers, throughout the year covering issues specific to CMBS special servicing and asset management.

The company expects primary- and special-servicing personnel to complete at least 30 hours of formal training annually. For 2015, primary-servicing staff actually averaged 37 hours of training, and special-servicing personnel averaged roughly 30 hours. However, the average is higher when investment committee meetings are included.

**Assessment:** Situs has a well-designed and substantive training function supported by its university curriculum, other supplemental training sessions, and the new-hire servicing analyst rotation program. The company has further strengthened its training function by establishing the training and development committee. The company's required minimum annual training hours are solid, although they are somewhat below the averages of some other servicers we have assessed. However, Situs' actual hours are based primarily on formal training sessions and courses and exclude attendance at conferences. Finally, Situs' stated commitment to training and mentoring less experienced and recently hired primary-servicing employees.

## Audit, Compliance, and Procedural Completeness

Situs undergoes annual operational audits consisting of Regulation AB attestations that cover primary and special servicing as well as a USAP attestation and a SOC-1 report covering primary servicing. The primary- and special-servicing operations also each undergo another internal audit conducted approximately every year. Situs engages third-party firms to conduct all of these examinations.

The 2014 and 2015 USAP and Regulation AB attestations and the SOC-1 reports did not cite any material exceptions. Both an April 2015 internal-audit report for primary servicing and a September 2015 internal-audit report for special servicing cited no material exceptions. There is a SOC-2 report underway focusing on Situs' nonfinancial reporting controls as they relate to security, availability, processing integrity, confidentiality, and system privacy.

To supplement the internal-audit program, Situs monitors adherence to internal policies and procedures, pooling and servicing agreement, or PSA, requirements, and regulatory requirements for all business lines and managed portfolios.

Since Morningstar's prior report, the company established the global risk and compliance group, which comprises employees across all business lines and ensures compliance and manages risk throughout the entire organization. Participants have dual reporting responsibilities, to the head of the RCG and to their supervisors within the business lines they represent.

The company's primary-servicing compliance manager controls changes to documented policies and procedures and implements the compliance program. Situs said it plans to further leverage its technology tools to expand its performance-metrics tracking and loan-level testing for procedural exceptions related to primary servicing and surveillance functions. Situs also has a compliance manager within its special-servicing operation. The special-servicing compliance function focuses on adherence to PSA requirements and protocols using an asset-level exception tracking report based on data downloaded from the asset-management system.

Additionally, the servicing group maintains a risk matrix of key loan administration responsibilities that identifies the exact task, its corresponding control activity, the document or report used to evidence control over the task, and its owner. The SOC-1 assessment scope incorporates control items from the risk matrix.

Situs' policies and procedures for primary and special servicing are accessible in read-only format on the company's intranet site. The RCG is in the process of reviewing all policies and procedures to ensure consistency in form and content throughout the organization. Additionally, Situs is implementing a new policy-management system, developed by a third-party vendor, that will facilitate management of the process lifecycle from policy development to internal review and approval and provide version tracking and control.

**Assessment:** Situs has an effective internal-audit function for both primary and special servicing, and the company's successful efforts to expand its audit and compliance functions. We believe that Situs operates with well-documented policies and procedures covering both primary- and special-servicing processes that address the company's CMBS and other investor requirements.

### Legal Liability and Corporate Insurance

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

**Assessment:** Situs' insurance coverage limits are below industry guidelines based on the growth of the servicing portfolio and GSE seller/servicer guidelines. Based on Situs' representations, there are no material lawsuits related to the servicer's operations.

## Technology and Disaster Recovery

Situs has a centralized IT department for programming projects, user training and support, and managing data backup and disaster-recovery testing at the enterprise level and for primary servicing-related functions and applications. The special-servicing operation coordinates application development and support, data backup, and testing for its platform in conjunction with the global technology group. Since 2012, Situs has used the PNC Bank/Midland Loan Services-owned Enterprise<sup>®</sup> loan-servicing system. Through its data warehouse, Situs recently interfaced the servicing system with Closer, a proprietary loan-advisory and performing loan-management database. Situs has borrower and investor websites using the integrated modules in the servicing system combined with Closer. For primary servicing, the company uses a SharePoint site for electronic document sharing. The servicing system is not integrated with the company's general ledger accounting software or any front-end loan-origination application. However, the entire portfolio is off-balance sheet, and Situs is not self-originating loans.

For special servicing, Situs uses Midas, a proprietary asset-management system developed by the former Helios AMC operation, which acquired Situs in 2011. Midas is CREFC-compliant to address the latest CMBS investor-reporting-package requirements and handles detailed asset-level tracking for CMBS and other client-type specifications. The company continues to enhance the application. By later this year, Situs expects to link the servicing system with Midas via the data warehouse, which can transfer assets for situations in which Situs is both primary and special servicer. The special-servicing operation also has a general ledger/accounting application linked to Midas. Finally, servicing and special-servicing staff have access to Insight, a proprietary, customizable search engine for commercial real estate market information. This year, Situs is expanding the functionality of the Insight application to encompass all managed assets housed within Midas and the servicing system. Situs continues to expand its data warehouse application.

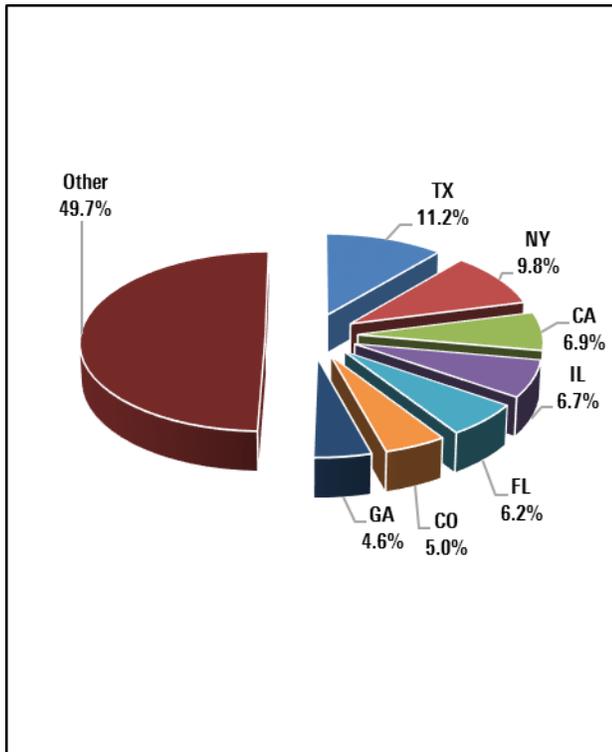
Situs stated that it conducts disaster-recovery and business-continuity testing annually. The most recent tests were completed in the fourth quarter of 2015. The company stated that it can restore business-critical systems within 15 minutes, while targeting 24 hours as the maximum time frame to fully resume operations in the event of a business interruption. Alternate sites for data and business recovery are well beyond 25 miles from their respective primary sites. Situs uses a vendor as part of its daily, mirrored data-backup routines to primary and alternate servers using Situs' locations and the vendor's data center. Situs also maintains a contract with the vendor for full recovery services. The disaster-recovery and business-continuity plan includes a full employee calling tree and a list of critical external contacts that the company reviews annually.

**Assessment:** Situs' technology platform is one of its core strengths. The servicing system provides the degree of process automation and data management to support the company's portfolio and growth plans as a primary servicer and potential handling of more securitized loans. Situs has a robust asset-management application that well supports CMBS special-servicer reporting and accounting, provides comprehensive asset and property-level tracking for large and complex assets, and addresses many other investor requirements besides CMBS. Situs' stated data-backup and disaster-recovery protocols indicate sound practices.

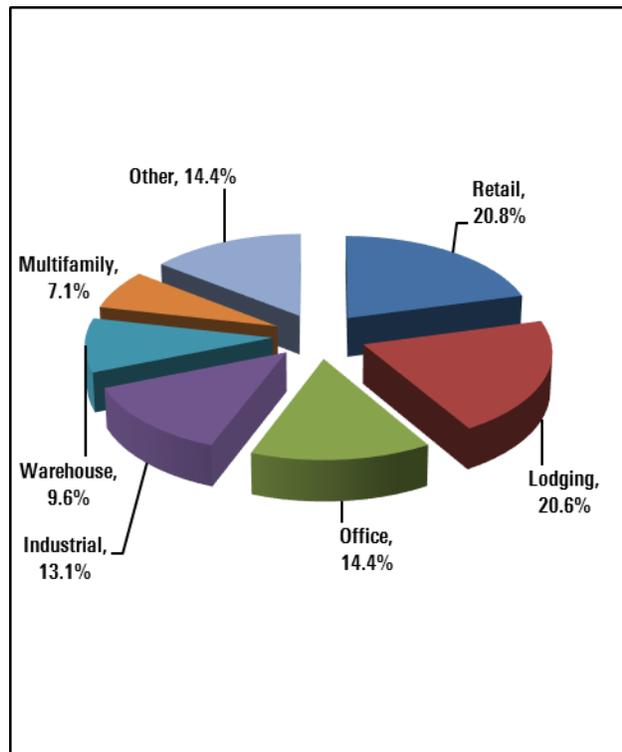
## Primary-Servicing Portfolio Administration

Situs' primary-servicing assignments include performing and nonperforming loan pools principally for institutional clients consisting of insurance companies, private equity, opportunity, and hedge funds. Some assignments involve full loan administration, portfolio management, and surveillance, while others may involve only selected duties. For some clients, Situs provides services on a private-label basis. The portfolio composition continues to be more concentrated in larger and highly structured assets. Situs also services some collateralized loan/debt obligation transactions, conducts due diligence and surveillance for warehouse lenders, and provides supplemental surveillance reports for some CMBS investor clients.

**Chart 1 – Active Portfolio by State (# of Assets)**



**Chart 2 – Active Portfolio by Property Count (# of Assets)**



**Table 5 – Total Servicing Volume by Investor Type (Dec. 31, 2015)**

	UPB (\$ Mil)	Loans (#)	UPB (%)	Loans (%)	Average Size (\$ Mil)
Third-Party Investors	22,464.7	970	76.2	76.3	23.2
CRE-CDO	4,807.5	118	16.3	9.3	40.7
CMBS	1,877.1	134	6.4	10.5	14.0
Life Insurance Companies	215.9	46	0.7	3.6	4.7
Banks/Financial Institutions	109.4	3	0.4	0.2	36.5
<b>Total</b>	<b>29,474.6</b>	<b>1,271</b>	<b>100.0</b>	<b>100.0</b>	<b>23.2</b>

Note: Percentages may not add up to 100% because of rounding.

**Table 6 – Total Servicing Volume by Property Type (Dec. 31, 2015)**

Property Type	UPB (\$ Mil)	% by UPB	Loans (#)	% byLoans	Average Size (\$ Mil)
Lodging	7,795.8	26.4	236	18.6	33.0
Office	7,604.6	25.8	279	22.0	27.3
Multifamily	4,309.7	14.6	234	18.4	18.4
Mixed Use	3,159.5	10.7	135	10.6	23.4
Retail	2,952.7	10.0	179	14.1	16.5
Industrial	1,220.5	4.1	41	3.2	29.8
Healthcare	302.8	1.0	9	0.7	33.6
Warehouse	301.5	1.0	24	1.9	12.6
Land	263.4	0.9	37	2.9	7.1
Mobile Home Park	258.8	0.9	30	2.4	8.6
Self-Storage	95.1	0.3	1	0.1	95.1
Other	1,210.1	4.1	66	5.2	18.3
Total	29,474.6	100.0	1,271	100.0	23.2

Note: Amounts and percentages may not add up to the totals because of rounding.

#### **Loan Boarding, Hedge Agreements, Letters of Credit, and Uniform Commercial Code**

During 2015, Situs boarded 603 new loans with a total UPB of approximately \$16.10 billion, compared with 592 new loans and a total UPB of approximately \$22.30 billion in 2014. Because Situs does not bid on mortgage-servicing rights or originate loans itself, new loans have come from the origination channels of private-equity investors and investment banks.

As a practice, Situs stated that it targets a maximum of five days to board individual new loans and completes the boarding process in less time with the data necessary to conduct payment processing and investor reporting. Situs targets two weeks to fully board a whole portfolio. Situs noted that during 2015, the average time to board a new loan was five days.

The servicing system is the main tool for tracking borrower compliance items, covenant triggers, missing documents, and other file exceptions. To input source-file data to the servicing system, Situs uses templates to minimize manual input and errors. The parent company's legal department also provides the servicing staff with a summary sheet to input loan-level and PSA-level covenant and trigger requirements for more complex loans. Loan-boarding procedures require staff to compare system inputs to source data, and there is a quality-control process to validate inputted data. The servicing system performs logic tests and provides exception reports. The asset manager assigned to the borrower also reviews servicing-system inputs to source records. In recent years, Situs has performed a number of whole-portfolio conversions using electronic data mapping processes, which include 10% data integrity samplings for different loan types. Situs uses its internal SharePoint site to track loan-boarding workflows. Through the servicing system, Situs sends a welcome letter to the borrower within three days after boarding the loan. Within 30 days of a loan closing or portfolio acquisition, Situs reviews the status of outstanding file items, pursues missing documents from investors and outgoing servicers, and refiles items as needed.

The company services some loans with interest-rate cap or hedge agreements. However, the company does not formally track credit rating changes of counterparties on its hedge agreements. It does not service any loans with letters of credit as supporting collateral. The loan

operations department tracks Uniform Commercial Code filing expiration dates via the servicing system and uses a third-party vendor to assist with monitoring and filing UCC continuation statements. Situs has system ticklers for UCC statements expiring within 90 days. The company reported no lapsed UCC filings during 2015 related to its own servicing practices.

During 2015, Situs boarded 17 modified loans. Because Situs services only two newer-issue CMBS loans and one small-balance transaction that does not require CREFC-type reporting, it has not received loan modification packages from external special servicers other than from the special servicer on the small-balance securitization. As a result, Situs noted that the majority of loan modifications move internally from its own special-servicing operation, enabling it to board loan modifications within a few days.

**Assessment:** The company's loan-boarding practices are efficient and controlled based on Situs' procedures including the additional data integrity reviews that the asset managers conduct. The servicer's targeted time frame to board new loans is in line with industry norms and best practices. Some servicers track loan-boarding accuracy and timeliness metrics as part of their compliance and performance monitoring programs, which Situs says it may consider. Situs has acceptable administrative practices for hedge agreements and UCC filings. However, formally tracking counterparties' credit ratings and required minimums on hedge agreements is considered best practice. Although Situs has limited experience boarding CMBS loans with full CREFC-reporting requirements, it has the knowledge base and capabilities for boarding more CMBS loans.

### Payment Processing

As of Dec. 31, 2015, Situs received approximately 8% of monthly loan payments by check to a central lockbox, 40% via automated clearing house, and 52% by wire transfer. All payments are first deposited to a central clearing account and then automatically swept to investor custodial accounts, unless flagged as a suspense or hold item. The payment receipts lockbox (operated through Wells Fargo Bank, N.A.) interfaces directly with the servicing system for automated posting with loan records refreshed five times per day. Cash-managed loan payments can usually be automatically system-posted through the same bank reporting and interface process. Live checks received on-site are centrally logged at their entry point, deposited on-site as scanned copies, and balanced daily to system entries. Payment posting, depositing, and system balancing tasks are segregated among the staff. The servicing system balances payment receipts daily. Situs reconciles clearing and custodial investor (sweep) accounts daily, while it reconciles escrow accounts monthly. Daily reconciliations involve management review and signoff. As of Dec. 31, 2015, Situs did not report any unreconciled or unidentified items older than two days in its clearing account. It also did not report any suspense items, including specially serviced loans, older than 60 days. A treasury-management specialist, under the supervision of the CFO, approves outgoing wire transfers before release. Situs noted that its cash-movement routines are largely automated through interfaced banking software.

As of Dec. 31, 2015, the servicer handled 95 loans with a UPB of approximately \$2.80 billion that had cash-management agreements (approximately 7% by loan count and 9% by UPB). The total serviced portfolio included 836 floating-rate loans with a UPB of approximately \$20.70 billion (approximately 66% by loan count and 70% by UPB). Situs stated that it routinely conducts reviews to validate rate indexes.

**Assessment:** Situs has a well-automated and controlled payment-processing function. The company has a record of clear audit results. Situs is experienced with loans requiring complex cash management.

## Real Estate Tax and Insurance Administration

Situs' loan and escrow administration department has staff for real estate tax administration and for insurance administration. This department handles related escrow-account analysis and initiates disbursement requests in conjunction with the company's corporate treasury and accounting group.

As of Dec. 31, 2015, Situs had 452 loans, or approximately 36% of all serviced loans, escrowed for real estate taxes. A tax service reports the status for both escrowed and nonescrowed loans. The servicing system tracks tax-payment due dates for all loans. Situs remits tax payments on escrowed loans within early-pay discount periods. Situs uses the servicing system to automatically send delinquent tax notices to borrowers and track delinquent taxes until paid. During 2015, Situs incurred no non-reimbursable tax penalties.

As of Dec. 31, 2015, the company had 252 loans, or approximately 20% of all serviced loans, escrowed for insurance. Situs manages insurance administration in-house without any external insurance consultants to assist with policy reviews. All newly boarded loans undergo an insurance compliance review. The company reviews insurance carrier ratings annually or before renewal for compliance. The servicing system tracks policy expirations, required coverage, and coverage amounts. Loan administrators also manage disbursement requests electronically through the servicing system. Situs stated that it issues policy-renewal reminder notices to borrowers and their insurance agents 30 and 15 days before expiration to request new policies. All insurance notices are generated through servicing system prompts. Situs noted that because it continues to service many nonperforming loans, procuring new insurance policies or obtaining timely evidence of renewed coverage for those loans can be challenging. As of Dec. 31, 2015, it reported 31 loans, or 2.4% of all serviced loans, on its forced-placed policy. The policy has a 90-day retroactive coverage provision. The policy has a \$35 million coverage limit per location. The forced-placed insurer is Great Lakes Reinsurance (UK) PLC, which has a financial strength rating/outlook of A+/Stable by A.M. Best.

The asset-management department reviews and authorizes the release of funds from capital reserve accounts. The company tracks reserve-account escrows and controls disbursement activity through the servicing system. Management must review and approve all reserve-account disbursement requests. Situs handles reserve accounts similar to construction loan draws by requiring backup invoices, approved line-item budgets, lien waivers, and prefunding inspections. As part of the supplemental services it provides to certain investors, Situs also performs capital reserve-account analyses and disbursements for certain loans in which it may not be the full or named servicer.

**Assessment:** Situs has effective, controlled real estate tax, insurance, and capital expenditure reserve administration based on its negligible amount of tax payment penalties and its proactive payment-tracking and coverage-monitoring practices. Because Situs services many distressed loans, its forced-placed insurance activity is higher than that of some other servicers. Although Situs reduced its retroactive coverage provision for the forced-placed policy to 90 days from 120 days, it remains in line with customary servicing standards.

## Investor Reporting and Accounting

A dedicated unit handles investor reporting with input from the asset managers. The company, as a subservicer, reports and remits to a master servicer for two large CMBS loans. It also performs trustee remitting and reporting for one securitized portfolio of small-balance mortgage loans, which does not require CREFC-formatted reports. Additionally, Situs has investor accounting/reporting responsibilities for a number of commercial real estate collateralized debt obligation transactions and issues customized performance reports to other entities and fund owners invested in whole loans, mezzanine debt, B-notes, and CMBS. While the investor web portal provided through the servicing system is activated, Situs principally uses an integrated module in its Closer application to give its investors view-only access to loan documents, financial-statement analyses, remittance information, and other asset-performance data.

Situs maintains a segregation of duties so that investor reporting and the initial preparation of remittances, which usually are based on preset wiring instructions, are separated from account-reconciliation tasks. The company uses a shared calendar to monitor reporting deadlines, with investor reports generated through the servicing system. Situs requires dual-level management review and signoff for investor reports and remittances, with the accounting department handling the final approval and execution of remittances. The asset manager must validate investor reports. Situs also requires a secondary level of review and sign-off for custodial account reconciliations. Bank account activity is balanced daily, with reconciliations performed daily and more formally monthly. The company also tracks custodial banks' credit ratings for servicing-agreement compliance. As of Dec. 31, 2015, Situs executed approximately 200 deal- or investor-level remittances per month, with one small-balance transaction, as noted, involving trustee reporting and remitting. During 2015, the company reported no unidentified items in custodial accounts older than 60 days. For 2015, Situs reported no remittance recalculations and subsequent restatements of investor reports.

**Assessment:** Situs has well-automated and controlled investor reporting with sound practices to support timely and accurate reporting/remitting for its various investor requirements. Based on its knowledge base and technology tools, the company should be suitably positioned to assume additional CMBS investor reporting work as the opportunity arises.

### **Portfolio Management and Surveillance**

Situs assigns asset managers in tandem with a portfolio analyst to every borrower to monitor credit performance and covenant compliance, provide asset status reports, and prepare detailed quarterly asset-level reviews, which provide further information on market conditions, property performance, and lease-rollover risk. A portfolio manager reviews all financial analyses and reports before they are submitted to clients.

### Financial-Statement Analysis and Property Inspections

The assigned asset managers, with support from asset analysts, are responsible for financial-statement tracking, collection, and analysis. The company primarily uses tickler reports and other features of the servicing system to manage these tasks. The majority of loan documents require borrowers to submit quarterly financial statements, which Situs uses to prepare asset reviews for selected clients. For some loans, Situs is required only to forward statements its receives to the investor. Situs also noted that its portfolio of securitized small-balance loans do not require borrowers to submit property operating statements. However, Situs still aims to collect and analyze statements on these loans.

Excluding its nonperforming loans, Situs has achieved high financial-statement compliance rates from borrowers. For 2014 and 2015, it collected approximately 95% of all required full-year statements by May 31. Situs noted that it can usually spread and analyze a property operating statement within five days of receipt. Situs includes a lease-rollover risk analysis for all tenants with every financial-statement review. Situs spreads financial statements according to the CREFC format.

Portfolio and asset managers also oversee the property-inspection process and analyze results. Situs uses a national vendor for most property inspections, with some handled internally by asset managers. Generally, all loans with balances of \$250,000 or greater require annual inspections unless waived by an investor. For 2015, Situs reported that it obtained all required property-inspection reports within 30 days of their due dates. The servicing system tracks and maintains links to the imaged inspection reports. The system also tracks the nature and resolution status of deferred maintenance with follow-up letters issued to borrowers as needed.

### Watchlist, Trigger Events, and Early-Stage Collections

The asset-management department oversees the loan watchlist and coordinates asset transfers to the corresponding special servicer, which is Situs' own special-servicing operation for most of the portfolio. Situs has defined watchlist criteria that reflect the CREFC guidelines. Situs offers all clients CREFC watchlist reporting as the standard option if not otherwise specified. Situs uses the servicing system to generate watchlists

based on its programmed criteria and to flag loans to put on the watchlist based on financial-statement reviews, inspections, and other defined qualifiers and thresholds. Situs does not formally risk rate any loans. The servicing system tracks loan-level trigger events and covenant exceptions and the status of their resolution. Loans failing established trigger tests are escalated to asset and portfolio managers for resolution.

As of Dec. 31, 2015, Situs reported 205 loans, or roughly 16% of the primary-servicing portfolio, on its watchlist. By comparison, as of Dec. 31, 2014, Situs reported 131 loans, or 14% of the primary-servicing portfolio, on its watchlist. Situs aims to contact borrowers one day after a missed payment, with the first formal notice issued within five days. Situs issues a second collection/late charge assessment notice 15 days after the due date. Situs stated that it uses the features of the servicing system to automatically generate collection notices. Situs serviced few loans with springing lockbox provisions and had three springing lockbox events during the past three years.

#### Portfolio Management: Supplemental Surveillance Assignments

Situs provides shadow servicing and specialized portfolio-management services to investors for certain large loans, including warehouse and CMBS loans, in which it is not the named servicer. These services include supplemental asset reviews and surveillance reporting, as well as designated asset-administration tasks such as reserve-account management, property cash flow reviews, covenant/trigger-event monitoring, lease reviews, and shadowing the progress of borrower consent requests. In 2013, Situs obtained its first asset-management and surveillance assignment for an insurance company's equity real estate portfolio comprising approximately 200 net-leased properties. In 2015, Situs was engaged by a private-equity firm to perform surveillance on its portfolio of bond holdings in various single-borrower deals. This engagement includes monitoring the financial performance of the bonds in addition to reviewing market conditions and the performance of the underlying real estate collateral.

**Table 7 – Supplemental Portfolio Management Volume**

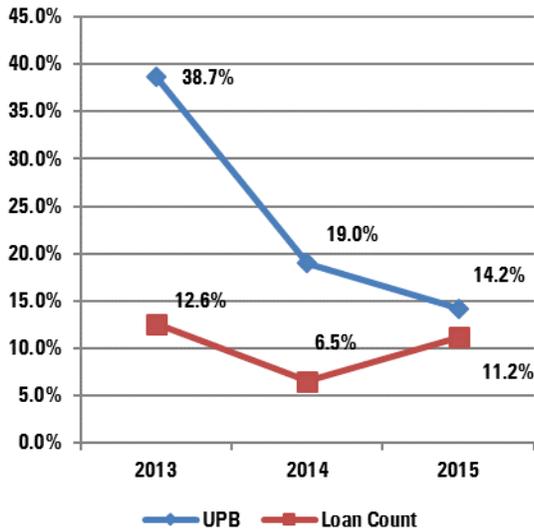
	2015		2014		2013	
	Loans (#)	UPB (\$ 000s)	Loans (#)	UPB (\$ 000s)	Loans (#)	UPB (\$ 000s)
Specialized Surveillance/Asset Administration (Year End)	0	0	2	958,733	6	1,431,650
Warehouse Loan Reviews (Total for Year)	34	1,857,377	100	4,236,442	90	3,642,292
CMBS Surveillance (Year End)	31	940,991	0	0	0	0
Equity Investment Surveillance (Year End)	24	1,650,964	26	1,946,761	13	974,591
Construction Draw Monitoring (Year End)	3	109,447	0	0	0	0
<b>Total</b>	<b>92</b>	<b>4,558,779</b>	<b>128</b>	<b>7,141,936</b>	<b>109</b>	<b>6,048,533</b>

**Assessment:** Situs has effective practices to monitor and report loan-level and portfolio-level performance risks. The company's stated \$250,000 minimum loan size for annual property inspections denotes a proactive process and is much lower than the customary industry threshold of \$2 million. Situs' submission of detailed quarterly asset reports to investors is an indication of the company's efforts to provide clients with added value. The company demonstrates the capabilities to perform portfolio management and related reporting for CMBS transactions.

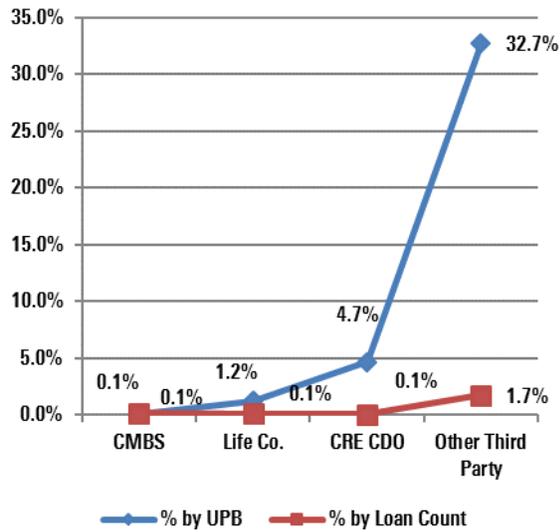
#### Primary-Servicing Portfolio Delinquency Rates

Because Situs has acquired a number of servicing assignments comprising distressed-loan portfolios in recent years, its loan delinquencies, although now declining, continue to be higher than those of many other servicers and industry averages. As of Dec. 31, 2014, out of the 183 delinquent loans, 91% were 90 days or more past due.

**Chart 3 – Historical Delinquency Percentages**



**Chart 4 – Delinquencies Within Investor Types (Dec. 31, 2015)\***

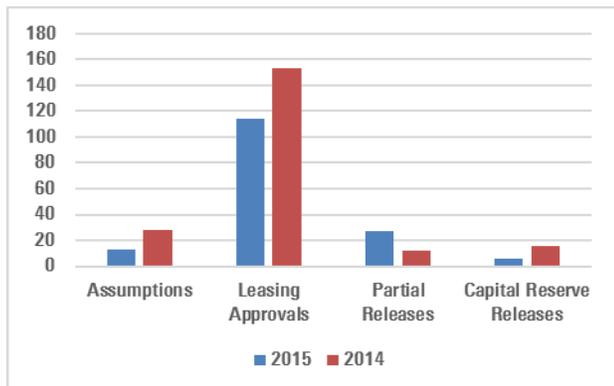


\*Includes loans that are 30-plus days delinquent and REO assets.

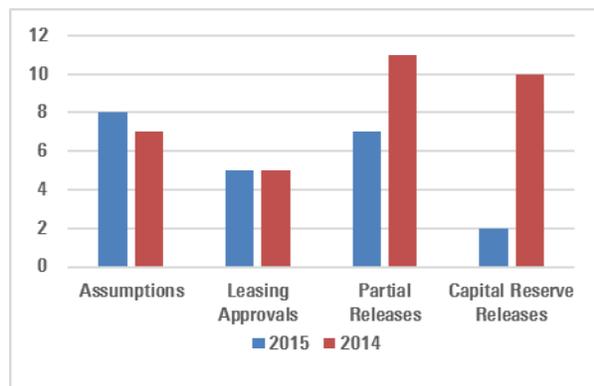
Borrower Consent Requests (Primary and Special Servicing)

The asset-management department analyzes consent requests such as assumptions, partial releases, reserve disbursements, and new leases. Asset managers’ credit-analysis cases require management approvals before submission to investors. Many of Situs’ consents do not require external approval. Besides handling consents within its own servicing portfolio, through another business unit, Situs also provides loan-assumption underwriting for other servicers. Situs handles workflow management through the servicing and Closer asset-management applications. For approved consents, the loan-boarding staff receives a file maintenance form to input changes to the loan record using similar procedures as those for boarding new loans. During 2015, Situs processed 160 credit requests involving partial releases, assumptions, and lease reviews with an average turnaround time of eight business days or less upon receipt of all required borrower documentation. Because Situs has had limited activity as a CMBS servicer, it has not completed any consents within CMBS transactions.

**Chart 5 – Consent Volume**



**Chart 6 – Consent Completion Time in Days\***



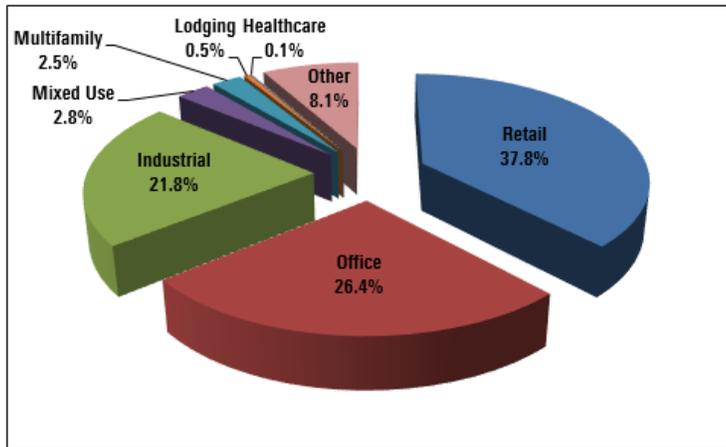
\*Average days of internal processing time.

**Assessment:** Situs has sound practices to analyze and process borrower consents, with reasonable turnaround times based on relatively moderate volume. Its internal processing times, which reflect the company’s role in most cases as a primary and special servicer, are in line with other Morningstar-ranked servicers.

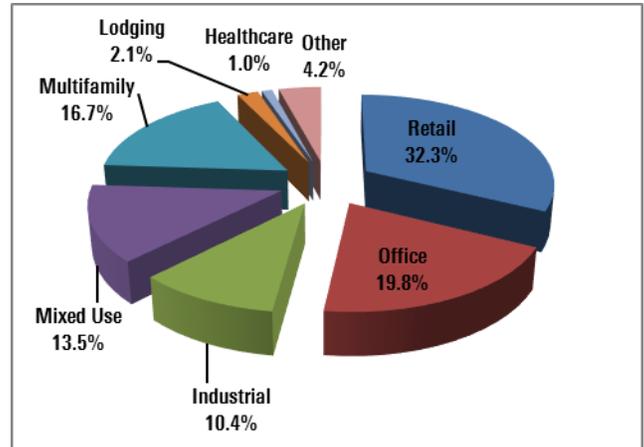
**Special-Servicing Administration**

As of Dec. 31, 2015, Situs was the named special servicer on 889 loans with an approximate UPB of \$17.40 billion including 13 CMBS transactions, 11 securitized pools of single-family residential rental properties, and some other third-party investor-held loans. The company’s total active special-servicing portfolio contained 96 assets comprising 79 loans and 17 REO properties with a combined UPB of approximately \$420.2 million. The CMBS portion of the active special-servicing portfolio consisted of 26 loans and four REO properties with a combined UPB of approximately \$311.5 million.

**Chart 7 – Active Portfolio by Property Type (UPB)\***



**Chart 8 – Active Portfolio by Asset Counts\***



\*As of Dec. 31, 2015. Includes loans and REO assets.

**Asset-Review Process**

The special-servicing compliance manager receives new loan transfers from the primary-servicing group or from external CMBS servicers. Upon receiving new assets, loan asset managers, in collaboration with asset analysts, conduct file reviews (including a review of the servicing agreement), order property inspections, and complete asset-transfer checklists. Through their initial file reviews, asset managers formulate potential recovery options and strategies. Before engaging in workout discussions, Situs requires that borrowers sign prenegotiation agreements. Because Situs loads the entire loan pool onto Midas when it becomes a named CMBS special servicer, it already has much of the file information when a loan transfers to special servicing. Situs also stated that it monitors the respective master servicers’ watchlists on all transactions in which it is the named special servicer.

Asset managers obtain approval of their initial asset recovery plans within 90 days of a loan transfer. Asset managers submit an updated asset business plan as an approval request case before initiating foreclosure or requesting a court-appointed receiver, when they have negotiated specific resolution terms, or before committing to other major asset decisions. Initial business plans and updated cases include a net present value analysis of each alternative resolution scenario. Situs stated that it typically pursues a dual-track resolution strategy. Asset managers form asset value opinions using multiple market sources and recommend actions that achieve the highest NPV recovery for CMBS trusts or investment entities as a whole. To facilitate their asset analysis, asset managers can use the Insight web portal, which provides catalogued and

centralized access to third-party market and property-level research reports. The company's procedures also address handling loans involving borrower bankruptcy filings.

Based on Situs' established authority delegations, most asset business plans, cases, and resolution decisions require internal approval from the asset managers' team leaders and from a senior management investment committee. For CMBS assets, Situs stated that it formally monitors master servicers' outstanding advances against property values and expected recovery amounts. The company has formal policies and procedures to interact with master servicers, and it stated that it routinely consults with master servicers on their advancing decisions. Situs uses Midas to prepare business plans and cases, conduct cash flow modeling, track PSA-driven requirements, control approvals, track resolution cases, and manage borrower requests. Situs essentially uses Midas as the central tracking tool to manage the life cycle of each specially serviced asset.

**Assessment:** Situs has proactive and controlled asset analysis, workout, and recovery practices based on its stated policies and procedures, which are interrelated with the functions of the asset-management system. The company's committee process represents a best practice for controlling asset-resolution approvals and other major decisions. While Situs' committee approval policy requires a minimum of two voting members, a three-person minimum is more customary. Situs has proactive procedures to coordinate asset transfers and advancing decisions with master servicers. Finally, Situs' stated procedures reflect diligent asset-management practices to address complex structures. Situs' asset-resolution track record supports shows that the company has established significant experience and success in this regard. The company's satisfactory annual special-servicing audits and its compliance function to monitor procedural controls further showcase Situs' asset-management capabilities.

## REO Property Management

Loan asset managers prepare a preliminary 90-day budget as part of the required business-approval case to complete a foreclosure action. During the month before taking title to a property, the loan and REO asset managers discuss immediate property issues and choose the property manager and listing broker. The loan asset manager prepares a preforeclosure checklist for the REO asset and gives it to compliance managers at least 10 days in advance. The compliance manager also monitors pending foreclosure activity through a pipeline report. Asset managers must complete and obtain committee approval of an initial REO business plan within 120 days after acquiring the property. The company requires subsequent REO case submissions for specific sale terms or other major decisions. Situs stated that the longer REO business plan time frame enables asset managers to prepare their plans with more accurate information and recovery assumptions.

Situs uses single trust accounts rather than separate rent collection and expense accounts for REO property management. Situs requires dual levels of approval authorizations from accounting and senior-management personnel to establish property operating accounts and execute cash-management instructions. Situs receives monthly operating statements and property-performance reports from external property managers and stores that information in a shared network drive. The company has REO asset analysts who, along with the assigned asset managers, review the property manager reporting packages. Using these reports, REO analysts reconcile bank account activity and provide asset managers, accounting staff, and the compliance manager with a control report containing data that tracks completed property-management financial reviews and year-to-date operating income. Accounting staff also review the account reconciliations. Advances for debt service and property protection expenses for all loan and REO assets are also downloaded from the general ledger accounting system into Midas to assist with projecting net recoveries and losses. Situs requires property managers and brokers to use standardized engagement agreements. It also provides property managers with a set of specific reporting requirements. During 2014, Situs established an REO property-

manager audit program using an external accounting firm, which completed two audits for the year. Thus far in 2015, Situs completed another two audits.

**Assessment:** Situs has proactive practices to prepare for new REO property transfers and their management. Situs also demonstrates sound controls to oversee external property managers, brokers, and their respective monthly reporting. Although Situs formally monitors property performance and reconciles monthly property manager operating accounts through experienced REO analysts working with asset managers, and with compliance manager oversight, this method is tantamount to the customary practice of involving accounting personnel. Also, Situs' property-manager audit program is a best practice. Although Situs' permitted time frame to complete REO business plans is longer than the customary 90-day maximum, Situs' REO plans are thorough; the company has continued to achieve successful REO sales results.

### Vendor Oversight

Situs 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 stated that it normally engages vendors through a bidding process. For most engagements, Situs requires vendors to use Situs' own standardized agreements. For appraisals, Situs may use its affiliate, Real Estate Research Corp., to engage appraisers and review their submissions. For environmental and engineering assessments, Situs contracts with one firm to obtain bids and review submitted reports. Situs has a legal department at its corporate office to support all business lines by providing counsel on new servicing contracts and various issues. The legal department includes one attorney to support the special-servicing operation. Situs uses one external firm for general counsel and to engage local law firms using a standard engagement letter. Asset managers, along with their team leaders, review and approve legal invoices before payment. Situs centrally tracks all completed vendor work orders through the asset-management system. Pending vendor engagements and work orders are tracked on a separate spreadsheet. The company maintains vendor-performance ratings in the system as part of managing the approved lists.

**Assessment:** Situs has controlled and efficient vendor-engagement and management practices. The company's use of external firms in an oversight role to engage and review the work of appraisers and engineering firms is an effective approach.

### Managing Conflicts of Interest

Situs acts as an independent, third-party special servicer without any investment in the securitized transactions it manages. Situs stated that its new majority owner, Stone Point Capital, does not hold any investments in CMBS. Situs stated that it does not have or use affiliates for property management or brokerage. Although it uses an affiliate to order and review third-party property valuations, Situs indicated that it would not involve that firm to review appraisals if itself or an affiliated investor ever sought to acquire an asset out of the trust by exercising a permitted fair market value purchase option. Situs also stated that it does not seek an additional fee from the CMBS trust if it has already obtained an equivalent fee from the borrower and if collecting such a fee from the trust would create or increase a loss to a trust.

**Assessment:** As a special servicer, Situs operates without the conflicts of interest inherent in transactions in which the special servicer manages transactions involving affiliated controlling bondholders. The company's processes reflect a commitment to the servicing standard in which decision-making is based on the interests of the CMBS trust as a whole.

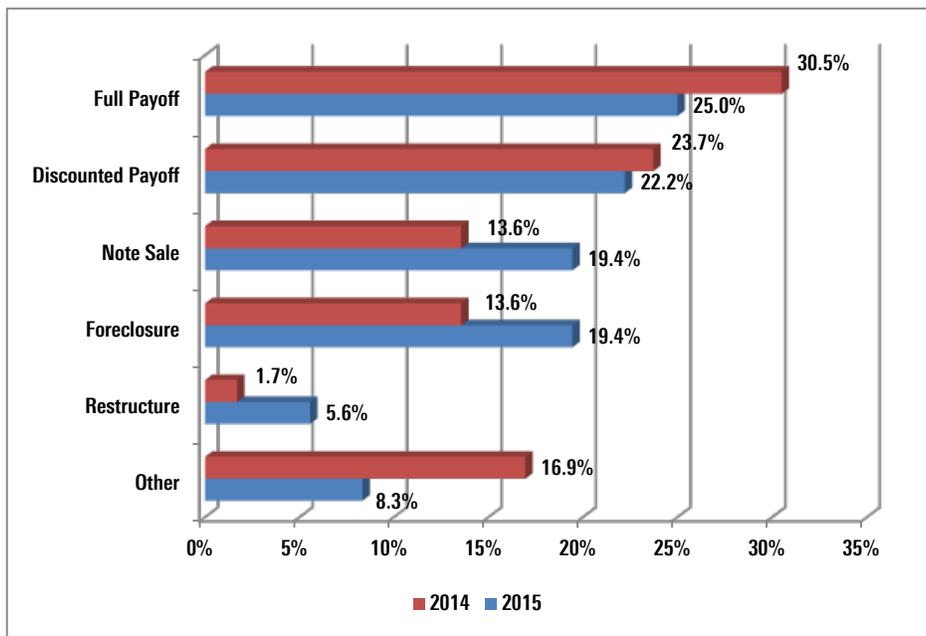
## Asset Resolution and Recovery Performance

### Asset-Resolution Volume and Disposition Methods

The majority of Situs’ CMBS loan resolutions have involved transactions issued between 2005 to 2007. The company also achieved a number of asset resolutions through receivership sales with a corresponding loan assumption/modification.

The company’s loan resolutions, by count, equaled approximately 43% of its loan inventory for the beginning of 2015. The company’s REO sales, by count, were approximately 49% for the same period.

**Chart 9 – Asset Resolutions By Disposition Methods (2014-15)**



### Asset-Resolution Hold Times

For 2014 and 2015 combined, Situs’ average completion time was approximately 32 months for loan modifications, 22 months for note sales and discounted payoffs, and 14 months for REO sales. While these resolution times appear to be within industry norms, they may be toward the higher end of the range. Morningstar believes this reflects the concentration of older-vintage assets and some especially problematic loans in difficult locations that Situs was able to restructure. The 14-month average hold time for sold REO properties appears to be at the lower end of the range compared with some other special servicers.

**Table 8 – Special-Servicing Resolutions – Count and Average Time (in Months)**

	2015		2014	
	Count (#)	Months (#)	Count (#)	Months (#)
Corrected/Restructured	2	19.5	2	8.2
Discounted Note Sales	7	38.3	16	25.5
Full Payoffs	9	32.6	36	19.6
Discounted Payoffs	10	37.0	28	21.6
Completed Foreclosures	7	32.0	16	23.8
Other Loan Correction	3	13.2	20	35.0
<b>Total</b>	<b>38</b>	<b>28.8</b>	<b>118</b>	<b>23.9</b>

Asset-Resolution Recovery Proceeds

For 2015 and 2014, Situs' reported aggregate net proceeds-to-collateral values that ranged from roughly 87% to well above 100% for asset liquidations involving note sales, discounted payoffs, and REO sales.

**Table 9 – Asset Recoveries Relative to Collateral Value and UPB**

	2015		2014		Average (Unweighted)
	First Half	Second Half	First Half	SecondHalf	
Net Recovery Proceeds-to-Value (%)					
Note Sales	100.0	113.7	103.5	100.5	104.4
Discounted Payoffs	107.8		121.3	86.9	105.3
REO Sales	118.1	115.1	102.0	117.0	113.1
Net Recovery Proceeds-to-UPB (%)					
Note Sales	21.8	35.6	50.9	69.6	44.5
Discounted Payoffs	87.2		70.3	55.9	71.1
Full Payoffs	101.3	105.4	101.9	100.9	102.4

**Table 10 – Special Servicing Portfolio Activity (2015)**

	Total Volume (\$ Mil)	Total Loans (#)	Total Properties (#)	CMBS Volume (\$ Mil)	CMBS Loans (#)	CMBS Properties (#)
Loan Portfolio - Beginning of Period	1,153.9	156	183	472.1	40	66
Loans Transferred Into Portfolio:						
New Nonmonetary/Imminent Default Transfers	139.5	14	14	139.5	14	14
New Monetary Default Transfers	5.8	1	1	5.8	1	1
Retransferred/Redefaulted Loans	27.3	8	6	27.3	8	6
Pre-Existing from Another Special Servicer	0.0	0	0	0.0	0	0
Total Transfers Into Special Servicing	172.6	23	21	172.6	23	21
Loans Resolved or Transferred Out of Portfolio:						
Modified or Corrected Loans	108.9	5	15	108.9	5	15
Completed Foreclosures and Converted to REO	25.7	7	7	21.0	2	2
Note Sales	53.9	6	6	51.8	3	3
Discounted Payoffs (Excludes Note Sales)	30.2	11	9	24.1	5	5
Full Payoffs	11.6	9	8	5.6	1	1
Total Loans Resolved and Foreclosed	230.3	38	45	211.4	16	26
Adjustments and Other Loans Transferred Out	(782.6)	(62)	(125)	(157.8)	(19)	(12)
Loan Portfolio - End of Period	313.6	79	34	275.4	28	49

Note: Volume figures may not add up to totals because of rounding.

**Table 11 – Special Servicing Portfolio Activity (2014)**

	Total Volume (\$ Mil)	Total Loans (#)	Total Properties (#)	CMBS Volume (\$ Mil)	CMBS Loans (#)	CMBS Properties (#)
Loan Portfolio - Beginning of Period	2,062.4	247	291	1,032.6	78	91
Loans Transferred Into Portfolio:						
New Nonmonetary/Imminent Default Transfers	34.1	6	6	34.1	6	6
New Monetary Default Transfers	9.7	4	4	9.7	4	4
Retransferred/Redefaulted Loans	29.9	4	4	29.9	4	4
Pre-Existing from Another Special Servicer	402.0	30	63	163.8	7	40
Total Transfers Into Special Servicing	475.7	44	77	237.5	21	54
Loans Resolved or Transferred Out of Portfolio:						
Modified or Corrected Loans	270.8	21	33	258.8	18	31
Completed Foreclosures and Converted to REO	172.7	14	14	125.4	8	8
Note Sales	115.9	17	17	58.2	6	6
Discounted Payoffs (Excludes Note Sales)	221.7	28	25	159.9	13	12
Full Payoffs	469.6	36	39	126.9	5	5
Total Loans Resolved and Foreclosed	1,250.7	116	128	729.2	50	62
Adjustments and Other Loans Transferred Out	(132.7)	(17)	(55)	(68.3)	(8)	(16)
Loan Portfolio - End of Period	1,154.7	158	185	472.6	41	67

**Table 12 – REO Portfolio Activity (2015)**

	Total Volume (\$ Mil)	Total Properties (#)	CMBS Volume (\$ Mil)	CMBS Properties (#)
REO Portfolio - Beginning of Period	250.8	35	167.3	14
Assets Already REO When Acquired	0.0	0	0.0	0
Completed Foreclosures	25.7	7	21.0	2
REO Sold During Period	(105.9)	(17)	(100.3)	(9)
Other REO Transferred Out	(78.4)	(7)	(32.6)	(4)
Other Adjustments	14.5	(1)	(19.3)	1
REO Portfolio - End of Period	106.6	17	36.1	4
Average REO Value	6.3		9.0	

Note: Volume figures may not add up to totals because of rounding.

**Table 13 – REO Portfolio Activity (2014)**

	Total Volume (\$ Mil)	Total Properties (#)	CMBS Volume (\$ Mil)	CMBS Properties (#)
REO Portfolio - Beginning of Period	378.6	73	207.7	19
Assets Already REO When Acquired	0.0	0	0.0	0
Completed Foreclosures	172.6	14	125.4	8
REO Sold During Period	(179.4)	(49)	(90.9)	(11)
Other REO Transferred Out	0.0	0	0.0	0
Other Adjustments	(121.0)	(3)	(74.9)	(2)
REO Portfolio - End of Period	250.8	35	167.3	14
Average REO Value	7.2		12.0	

**Assessment:** Situs has continued to achieve successful asset resolutions. Additionally, the company's substantial volume of CMBS asset resolutions during the past few years has principally involved legacy transactions with many problematic issues. Situs' asset-recovery performance dovetails demonstrates its proactive, controlled practices led by a well-experienced professional team.

#### Investor and Master-Servicer Reporting

The special servicer's compliance unit oversees communication with investors and external master servicers in conjunction with a special-servicing investor reporting team. Situs' procedures and asset-management system address CREFC-compliant reporting content including asset-status reports, property-protection advances, updated appraisals and appraisal-reduction calculations, and realized-loss calculations. Situs continually communicates with master servicers on advances, imminent transfers, and pending asset-resolution decisions. Midas tracks advances through downloaded master-servicer reports and through an internal accounting-system interface. The compliance manager reviews total advances against projected recovery amounts and property values, with the 50% mark as the threshold for increased scrutiny. Situs also customized its system and procedures to cover reporting requirements for its non-CMBS portfolios.

As a CMBS special servicer, Situs also reviews borrower-consent requests received from other master/primary servicers. During 2015, Situs reviewed 13 assumptions, 46 leasing consents, and one partial-property release. By comparison, during 2014, Situs reviewed 27 assumptions and 103 leasing consent requests. Its average internal time to review consent requests during 2015 was approximately six days.

**Assessment:** Situs is experienced with and has effective special-servicer-related reporting capabilities to address CMBS and other investor type reporting requirements.

## Ranking Definitions

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

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

A servicer assigned a ranking of at least MOR CS3 is deemed to comply with what we view as the minimum prudent loan servicing standards and requirements for the servicer's operational category and role. For access to Morningstar's "Operational Risk Assessments of Commercial Servicers: Methodology and Process" and other published reports, please visit [www.morningstarcreditratings.com](http://www.morningstarcreditratings.com).

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