S&P Global
Ratings

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Servicer Evaluation: Trimont Real Estate Advisors LLC

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Ranking Overview

		Subrankings		
Servicing category	**Overall ranking**	**Management and organization**	**Loan administration**	**Outlook**
Commercial primary	STRONG	STRONG	STRONG	Stable
Construction loan administration	STRONG	STRONG	STRONG	Stable
Commercial special	STRONG	STRONG	STRONG	Stable
Financial position				
SUFFICIENT				

Rationale

S&P Global Ratings' rankings on Trimont Real Estate Advisors LLC (Trimont) are STRONG as a commercial mortgage loan primary servicer, special servicer, and construction loan administration servicer. On March 28, 2019, we raised the primary servicer ranking and affirmed the special servicer and construction loan servicer rankings (please see "Trimont Real Estate Advisors LLC Commercial Primary Servicer Ranking Raised; Two Rankings Affirmed; Outlooks Are Stable," published March 28, 2019). The outlooks for all three rankings are stable.

Our rankings reflect Trimont's:

- Experienced senior management team;
- Solid training program with diversified learning opportunities;
- Lengthy and successful loan administration track record with extensive commercial real estate expertise;
- Solid control and governance framework, including proactive policies and procedures, internal/external audits, compliance, and prudent approval matrices;
- Solid leverage of technology systems to manage data and reports to clients; and
- Well-developed processes and specialization in construction asset management.

Since our prior review (see "Servicer Evaluation: Trimont Real Estate Advisors LLC," published Aug. 16, 2017), the following changes and/or developments have occurred:

- In August 2017, after a 12-month tenure, the chief operating officer (COO) departed the company and his duties have been absorbed by other executives.
- The business was aligned into three separate, but strategically interconnected units: performing asset management, non-performing asset management, and underwriting and advisory services.
- Due to growth in the business, the company hired a managing director of global information services, internally promoted a senior managing director for asset management and advisory, as well as a team lead for performing asset management, and hired a head of marketing and public relations.

- Due to the growth in demand for construction services functions within the performing asset team and an internal move, three new asset managers were added, each with construction experience.
- Several technology improvements were made, including upgrading the servicing system to McCracken Strategy version R19A from version 17.9, multiple security enhancements across their systems, and the rollout of Triview, a cloud-based portfolio analytics tool for their clients.

The outlooks are stable. Trimont's business plan includes a focus on excellence in customer service while handling complex issues, continued growth and process integrations across their business lines, and continued investments in technology. We believe that, based on the company's history and future plans, Trimont will continue to successfully manage its diverse commercial mortgage loan portfolio according to generally accepted servicing standards.

In addition to conducting an on-site meeting with servicing management, our review includes current and historical Servicer Evaluation Analytical Methodology data through Dec. 31, 2018, as well as other supporting documentation provided by the company.

Profile

Servicer Profile	
Servicer name	Trimont Real Estate Advisors LLC.
Primary servicing location	Atlanta, Ga.
Parent holding company	Trimont Global Real Estate Advisors LLC.
Loan servicing system	McCracken Strategy v. R19A.

Trimont is a privately owned commercial real estate asset management company with a 30-year operating history. It provides a full range of services to real estate lenders and investors on both debt and equity investments. The company's portfolio is varied, including mezzanine fund assets, construction loan servicing, primary servicing (mainly for institutional clients), special servicing, real estate equity fund assets, as well as real estate owned (REO) assets.

The company is 90.1% owned by funds controlled by Värde Partners. The original founding partners, who sold majority control in 2015, maintain indirect ownership of the remaining 9.9% of the company. Värde is a global alternative investment firm that invests across a broad array of geographies, segments, and asset types, including real estate, corporate credit, residential mortgages, specialty finance, transportation, and infrastructure. Trimont integrated the former servicing operations of FirstCity Financial Corp. (FCFC) and its approximately 1,500 assets totaling approximately $1 billion in unpaid principal balance (UPB) following the acquisition. However, as of Dec. 31, 2018, only 216 assets with approximately $141 million of UPB from the FCFC integration remain.

As of Dec. 31, 2018, Trimont had 127 employees dedicated to servicing functions. It is headquartered in Atlanta and has five additional offices, including Dallas, Los Angeles, New York, London, and Amsterdam. The London and Amsterdam offices handle the European assets and only perform work associated with those assets whose collateral is located in the European Union; only loans in the U.S. and U.S. territories are included in this report.

Unlike some of its peers, Trimont acts strictly in a fiduciary capacity and historically has not financed, invested in, or otherwise competed with its clients. Trimont's special servicing platform is independent and does not purchase B-pieces, nor leverage affiliate services such as appraisals, note sales, and property brokerage; therefore, it avoids the potential conflicts of interest that some competitors encounter. Trimont believes its operating model delivers customized, high-touch mortgage servicing solutions, rather than high-volume, standardized products. It serves a diversified client base of 175 institutions around the world.

Table 1

Total Servicing Portfolio

	UPB (mil. $)	YOY change (%)	No. of assets	YOY change (%)	No. of staff	YOY change (%)
Primary servicing(i)						
Dec. 31, 2018	52,646.9	16.4	2,238	0.7	105	28.0
Dec. 31, 2017	45,237.2	23.0	2,222	(10.4)	82	(1.2)
Dec. 31, 2016	36,765.0	2.4	2,480	24.6	83	3.8
Dec. 31, 2015	35,905.1	17.6	1,991	5.0	80	(8.0)
Dec. 31, 2014	30,526.1		1,897		87	
Special servicing						
Dec. 31, 2018	204.4	(30.5)	87	(73.3)	22	(21.4)
Dec. 31, 2017	294.2	(43.3)	326	(57.5)	28	(22.2)
Dec. 31, 2016	518.5	18.3	767	78.0	36	56.5
Dec. 31, 2015	438.4	(26.8)	431	23.9	23	(25.8)
Dec. 31, 2014	598.9		348		31	

(i)Primary includes construction loans and the FCFC portfolio effective from 9/1/2016. UPB--Unpaid principal balance. YOY--Year-over-year.

Management And Organization

The management and organization subrankings are STRONG for primary, special, and construction loan servicing.

Organizational structure, staff, and turnover

The company recently re-a1igned its business into three separate units:

- Performing Asset Management: The group is led by a managing director who joined Trimont in 2013 and has over 20 years of experience. The group monitors loans and the performance of their collateral. The group also handles loan servicing, cash flow management, and investment performance analytics.
- Non-Performing Asset Management: The group is led by a managing director who joined Trimont in 2001 and has over 20 years of experience. The group handles REO and nonperforming loan business plan development and execution. The group also handles commercial mortgage-backed securities (CMBS) and collateralized loan obligations (CLO) special servicing.
- Underwriting and Advisory Services: The group is led by a managing director who joined Trimont in 2017 and has over 15 years of experience in real estate and financial services. The group handles the initial due diligence and ongoing asset surveillance, credit and risk analytics, and asset evaluations.

Each unit reports to experienced and tenured senior leadership and is surrounded by other support functions such as accounting and information technology (IT).

Trimont's management team and staff exhibit adequate levels of industry experience and similar tenure levels when compared to their peers (see table 2). During 2018, turnover rates for the primary servicing and special servicing staffs were 26% and 21%, respectively. Turnover for primary servicing was greater than its peers, while turnover for special servicing was at a similar level to its peers given the reduction in specially serviced loans industrywide. We consider this turnover manageable, considering the average experience and tenure levels have generally stayed consistent since our last review.

Table 2+A1:I7

Years of Industry Experience/Company Tenure(i)

	Senior managers		Middle managers		Asset managers		Staff	
	Industry experience	Company tenure	Industry experience	Company tenure	Industry experience	Company tenure	Industry experience	Company tenure
Primary	26	11	20	12	N/A	N/A	10	5
Special	15	10	22	7	18	5	18	7

(i)As of Dec. 31, 2018. N/A--Not applicable.

Training

Trimont provides its management and staff with a diversified array of ongoing, formal, internal and external training programs, as well as on-the-job training. Trimont targets 40 hours per employee annually, and the company averaged 49 and 42 hours per employee during 2018 for primary and special servicing, respectively.

Other training features include:

- A dedicated full-time trainer;
- Its Learning Management System (LMS), which houses over 650 e-learning courses, tracks employee training hours, and provides management reports as needed;
- A new compliance training in 2017 with annual recertification; and
- A partnership with NYU Schack Institute of Real Estate that offers a three-semester real estate program, which offers 20 on-line courses along with in-person speakers.

Systems and technology

We believe Trimont has effective technology to meet its primary, special, and construction servicing requirements. The company continues to focus on technology enhancement projects to further streamline and automate servicing tasks across various loan administration functions. Trimont also has well-designed data backup routines and disaster recovery preparedness. Notable features and highlights are described below:

Servicing system applications

Trimont utilizes the following servicing system and technology applications:

- McCracken Strategy (Strategy) servicing platform, which it upgraded to version R19A from version 17.9 since our prior review.

- Application Portal is a proprietary application that aggregates critical inputs from different workflow screens into a single input. This allows for viewing and reporting solutions for special asset management users and allows asset managers to enter notes into the system.
- EMC's Documentum software is utilized for its enterprise content management, imaging, and workflow applications. The Documentum repository is integrated with Trimont's portals to allow clients access to pertinent documents. Trimont also uses Documentum to process, reconcile, and store incoming checks and wires electronically.
- DOMO is a software as a service (SaaS) business intelligence and analytics system that can automate data across multiple source platforms. It helps clients collaborate with the company to personalize their visual reports.
- Triview is used as a cloud-based portfolio analytics tool for clients.
- Argus is used for valuations and cash flow modeling.
- Special asset management uses ASR, a custom forms-based .NET application embedded with structured query language for cash flow calculations, reports, and presentations. Through the Trimont/FCFC integration, Trimont integrated ASR to Strategy so the data would be incorporated through the data warehouse, thus enabling reporting automation and daily deliverables.

Business continuity and disaster recovery

- Trimont has a documented information security plan that governs personnel security matters, facilities, assets, information, and business operations. Internal audits test compliance of the security plan annually.
- The company maintains comprehensive disaster recovery and business continuity procedures, and targets resumption of cash processing and investor reporting four hours after a disruption event. This quick resumption of services was made possible by moving Trimont's disaster recovery process to a cloud-based solution since our last report, which has cut the recovery time in half.
- The company's business continuity and disaster recovery plans are tested annually. The most recent test occurred in November 2018 with no material issues noted.
- Trimont has a 20-seat offsite disaster recovery location provided through a third party at a facility located in Smyrna, Ga. The facility is only 15 miles from its Atlanta office, but is on a separate power sub-station.
- Trimont has a state-of-the-art co-location data center in North Atlanta, Ga. It is also only 15 miles away from the office headquarters and on a separate power sub-station. The location employs biometric access, redundant connectivity, power, and cooling. This same vendor also owns data centers in Europe and Asia-Pacific, thus providing additional options for data management.

Cybersecurity

Trimont has extensive security processes and controls for protecting private information and preventing cyberattacks, which include security procedures for personal information and vendor information security management. Key features include the following:

- Trimont has annual independent third-party testing for data penetration issues, which was last completed in November 2018, with rotating vendors being used.
- All systems are actively refreshed and upgraded to meet increasing software/user requirements and to maintain active vendor support warranties.

- IT proactively upgrades and patches all third-party software applications to minimize vulnerabilities, to maintain support, and to offer additional product functionalities.
- Trimont appears to be diligent in managing cybersecurity risk. It has updated its firewalls, sends periodic phishing emails to employees to test compliance, and stays current with cyber issues in the market.
- The company has internal legal counsel with cybersecurity experience and a stand-alone cyber insurance policy.

Internal controls

Trimont maintains a strong internal control environment. It manages risk through its policies and procedures (P&Ps), quality control and compliance, internal audits, and multiple third-party audits.

Policies and procedures

- Trimont has well-documented, centrally managed P&Ps, which are accessed through the company's intranet. Its P&Ps contain accompanying exhibits that govern primary servicing, special servicing, and construction loan administration.
- All new policies, and changes to existing policies, are reviewed by the department heads and approved by management.
- Trimont reviews all policies annually, with assigned managers responsible for updating P&Ps.

Compliance and quality control

The company has ongoing quality control and compliance audits that examine a range of functions and servicing processes throughout the year. The compliance function is independent of the business and is housed within the legal department under the oversight of the chief legal officer. The group conducts compliance testing of P&Ps and servicing agreements (e.g., balance sheet and CMBS/CLOs), with a focus on certain key areas such as loan setup, taxes, insurance remittance, payoffs, consents, and resolutions.

Internal and external audits

Trimont has a thorough, independent internal audit program with the audit team reporting directly to the chief financial officer. A risk assessment is conducted with senior leadership to determine the audit's focus. In 2018, the internal audit scope included a review of loan billing, IT security, securitization, and follow-ups on prior year audits. The 2019 audit plan is currently in the process of being finalized, with a focus on new technology and processes. Of the nine internal audits and follow-ups completed since our last review, there were no material findings from the risk rating conclusions.

The company undergoes multiple third-party audits and reviews each year, including Regulation AB, Uniform Single Audit Program (USAP), and SOC I Type II. The year-end 2018 audits did not reveal any material findings. Trimont is also subject to periodic reviews and audits from clients.

Vendor management

- The vendor management process, including additions to an approved vendor list, is managed by the legal department. Feedback on vendors is collected from the asset managers.
- Before any vendor is added to the approved list, they undergo a rigid approval process that includes a review of its

work, financial condition, insurance coverage, risk and protection protocols for private and personal data, as well as feedback from asset managers who have prior experience with the vendor.

- Subject to client requirements, vendors are selected for engagements from this list based on the type of work they are performing and their geographic location.
- Trimont consolidated its policies around vendor engagement in 2018 to better clarify what is required in all vendor engagements.

Insurance and legal proceedings

Trimont has stated that its directors and officers, as well as its errors and omissions, insurance coverage is in line with the requirements of its portfolio size. As of Dec. 31, 2018, the company reported there were no pending material servicing-related legal matters.

Loan Administration--Primary Servicing

The loan administration subranking is STRONG for primary servicing.

As of Dec. 31, 2018, Trimont's loan servicing portfolio had grown to $52.6 billion (including approximately $32.4 billion in construction loans) with 2,238 loans and 2,528 collateral properties. Loan sizes have increased from our last report, with the company returning to typical loan levels as a result of servicing fewer small-balance distressed real estate loans that came from FCFC. As of the same date, the company reported a 3.9% delinquency rate, which is lower than the 5.1% reported at year-end 2017 and slightly above year-end 2016. Trimont services a significant amount of investment fund loans where delinquencies have run slightly higher than what we found with servicers who primarily deal with government-sponsored enterprise (GSE) or CMBS loans.

The loan portfolio is highly diverse and contains a variety of property types and geographic locations (see table 4). Trimont's major investor types include REITs and credit company/investment funds (50% based on UPB), banks and financial institutions (at 32% of UPB), life insurance companies (at 13% of UPB), and collateralized debt obligation (CDO)/CLO (at 4% of UPB) (see table 5). CMBS investors constitute less than 1% (three loans) of the portfolio.

Table 3

Primary Servicing Portfolio

	Dec. 31, 2018		Dec. 31, 2017		Dec. 31, 2016		Dec. 31, 2015		Dec. 31, 2014	
	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.
Primary loans	52,646.9	2,238	45,237.2	2,222	36,765.0	2,480	35,905.1	1,991	30,526.1	1,897
Average loan size	23.5	--	20.4	--	14.8	--	18.0	--	16.1	--
Delinquent (%)										
30 days	2.0	--	3.2	--	1.7	--	0.3	--	0.4	--
60 days	0.3	--	0.8	--	0.6	--	0.5	--	0.0	--
90+ days	1.5	--	1.1	--	1.2	--	0.9	--	0.6	--
Total	3.9	--	5.1	--	3.4	--	1.7	--	0.9	--

UPB--Unpaid principal balance.

Primary Portfolio Breakdown By Property Type And State(i)

	UPB (mil. $)	UPB (%)	No. of properties	Properties (%)
Type				
Multifamily	15,481.9	29.4	851	33.7
Office	10,556.4	20.1	440	17.4
Mixed use	9,344.1	17.7	145	5.7
Retail	5,909.1	11.2	125	4.9
Other/various	5,199.1	9.9	513	20.3
All other	6,156.3	11.7	454	18.0
Total	52,646.9	100.0	2,528	100.0
State				
N.Y.	14,536.6	27.6	324	12.8
Calif.	8,577.5	16.3	357	14.1
U.S. Territories/Caribbean	3,402.4	6.5	103	4.1
N.J.	3,112.5	5.9	110	4.4
Fla.	2,767.2	5.3	141	5.6
All other	20,250.6	38.5	1,493	59.1
Total	52,646.9	100.0	2,528	100.0

(i)As of Dec. 31, 2018. UPB--Unpaid principal balance.

Table 5

Primary Portfolio By Investor Product Type(i)

Loan Type	UPB (mil. $)	Loan count	UPB (%)	Loan (%)
Other third-party investors (REITs, investment funds, etc.)	26,296.6	1,430	49.9	63.9
Banks/financial institutions	17,073.7	478	32.4	21.4
Life insurance companies	7,071.1	130	13.4	5.8
CDO/CLO	2,085.5	197	4.0	8.8
CMBS	120.0	3	0.2	0.1
Total	52,646.9	2,238	100.0	100.0

(i)As of Dec. 31, 2018. UPB--Unpaid principal balance. REIT--Real Estate Investment Trust. CDO--Collateralized debt obligations. CLO--Collateralized loan obligations. CMBS--Commercial mortgage-backed securities.

New loan boarding

Based upon its stated practices and written procedures, Trimont has a sound loan setup function that includes two dedicated staff. Since our last review, Trimont updated its servicing platform, thus allowing the new loan boarding process to be managed via the Strategy web platform. New user guides were created to provide systematic directions for the new boarding process. This has helped streamline the boarding process and provide better tracking. Control and other features of the new loan setup include:

- New loan boarding that is performed by the new loan setup team with additional support from functional units for specific data setup (e.g., loan triggers and covenants, Uniform Commercial Codes [UCCs], taxes, and insurance).
- Core documents that are reviewed one at a time to confirm they are fully executed and labeled correctly.
- The processing manager, who reviews and passes all new loans boarded into Strategy.

- System logic quality assurance (QA), which is performed on each step of the loan boarding process.
- QA measures, which include a review of the basic loan terms of 10% of new loans boarded by an asset servicing quality associate before they are passed into the servicing system. (The group boarded 642 new loans during 2018.)
- Borrower welcome letters that are automatically generated and sent within five business days from loan closing or when Trimont takes the servicing assignment.

Payment processing

Trimont's practices and integrated technology tools efficiently address payment processing, cash management, and other complex loan structures with proper segregation of duties. The company has three dedicated internal staff for this function. Highlights of payment processing include the following:

- Separation of duties to ensure that checks are deposited and applied correctly.
- Payments are received into Trimont's clearing accounts. Treasury then downloads the activity feed into the system where the data generate various workflows to the assigned servicing analysts for posting into the Strategy system.
- Most payments are handled electronically (92%), with 51% via wires, 29% via automated clearing house, 12% via lockbox, and the remaining 8% by other methods, such as checks.
- The portfolio contains 945 loans with adjustable rates. The payment processing group audits these rates at regular intervals.

Investor reporting

Trimont is highly experienced with customized third-party reporting requirements. There are seven dedicated staff members for the various investor reporting and operational accounting activities that are appropriately segregated for reporting, remitting, and related account reconciliation processes. Other highlights include:

- Bank reconciliations that are completed monthly;
- Fully electronic reporting and remitting to the company's trustees and investors;
- No suspense items aged more than 60 days as of Dec. 31, 2018; and
- No penalties for late remitting or reporting during 2018.

Escrow administration

We believe the company has sound controls for escrow administration activities. Trimont has dedicated teams for tax and insurance administration, each with five dedicated analysts, and asset managers to handle loan-level reserve monitoring and analysis for other escrowed events such as tenant improvement and replacement reserves. Other features include the following:

- Approximately 18% of the loans in the portfolio are escrowed for taxes and 12% for insurance premiums.
- Tax and insurance (T&I) payment dates are monitored in the system.
- For assets where Trimont is not responsible for making T&I payments, the account is reviewed within 30 days after the due date to confirm that payments were made.
- Trimont directly monitors the tax payments, but a third-party tax monitoring service may be used in limited cases

depending on investor contracts.

- The company uses a vendor to identify and track collateral properties that might be in federally designated flood zones.
- Forced-placed coverage has a 90-day look-back period. There were 59 loans on forced-placed coverage as of Dec. 31, 2018, compared with 161 loans as of our prior review.
- Funding loan draws, along with escrow and reserve disbursements, are completed using the electronic voucher application. The system maintains multiple levels of asset management approvals, including both servicing and treasury.

Asset and portfolio administration

We believe Trimont has robust procedures covering asset and portfolio administration tasks with seven dedicated staff supporting the area. Other notable features include the following:

- The servicing system tracks operating statement collection and property inspections.
- As of Dec. 31, 2018, Trimont received and analyzed 100% of 2017 annual CMBS property operating statements, although their exposure to CMBS is limited. Trimont does not collect and spread financials for every investor per their specific servicing contacts.
- The asset management group administers loan-level covenant and deal compliance.
- UCC expiration dates are monitored via the servicing system. A paralegal prepares UCC continuations and notifies the assigned asset manager, who enters pertinent data into the system and follows up when continuations are received.
- Unlike many mortgage servicers, Trimont does not generally outsource collateral property inspections; instead, internal staff perform them, except in limited circumstances. If inspections reveal major deferred maintenance, the asset managers issue borrower notices for them to develop a corrective action maintenance plan, which is monitored until repair completion.

Borrower requests

Trimont addresses borrower requests in a well-controlled manner. Highlights include the following:

- Asset managers process all borrower consent requests through Strategy.
- Trimont uses a signing approval matrix, which may include internal and/or master servicer approvals depending on the client.
- Trimont processed 174 borrower requests during 2018, consisting of 72 assumptions, 23 leasing consents, 17 agency repair escrow extensions, 14 management changes, and four partial collateral releases. It also classified 44 requests as "Other".

Early-stage collections

The asset management group administers early-stage collections. Noteworthy features include the following:

- The borrower is contacted by phone and in writing three days after the grace period expires.
- Asset managers monitor their respective portfolios and handle the watchlist reporting of loans requiring additional monitoring per their client engagements.

- The system does not automatically generate late notices; instead, the asset managers send them per loan/client specifications.

Loan Administration--Construction Servicing

The loan administration subranking is STRONG for construction servicing.

The construction loan administration subranking is primarily based on our view of the following:

- Trimont's established track record of successful construction loan risk management and disbursement administration for a highly diversified portfolio with complex reporting and analytical requirements;
- The continued investment in new roles, processes, and technology to support the draw process; and
- The high quality of Trimont's operating procedures and its asset-tracking mechanisms for proactive risk-mitigation practices covering new loan boarding, draw request management and accounting, ongoing developer compliance, budget pro forma-to-actual tracking, collateral takedowns, and the use of consulting engineers.

Table 6

Construction Loan Servicing Portfolio Summary

	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Portfolio volume					
Outstanding balance (mil. $)	32,420.1	26,651.2	19,203.2	16,330.5	14,249.1
Unfunded commitments (mil. $)	14,916.2	10,931.1	6,647.3	6,734.3	5,106.6
Total construction portfolio (mil. $)	47,336.2	37,582.3	25,850.5	23,064.8	19,355.7
No. of loan commitments	1000	801	746	677	673
No. of projects	851	624	496	478	463
Average commitment size (mil. $)	47.3	46.9	34.7	34.1	28.8
Average project size (mil. $)	55.6	60.2	52.4	48.3	41.8
Projects in default, workout and/or litigation					
Outstanding balance (mil. $)	867.2	698.4	41.0	573.0	1,008.5
No. of projects	72	40	4	22	36
Pending foreclosure					
Outstanding balance ($)	0	0	0	0	0
No. of projects	0	0	0	0	0
Foreclosed (real estate owned)					
Asset value (mil. $)	75.5	151.1	397.0	388.4	718.1
No. of projects	12	6	17	24	42

Note: Because asset values are not tracked for all clients, "foreclosed (real estate owned) asset value" reflects the outstanding real estate owned balance rather than asset value.

There are complexities in construction loan administration that require specialized skills apart from those required to service and manage the assets included in amortizing and other permanent commercial real estate loan structures. With that in mind, Trimont continues to recruit staff with a depth of construction knowledge and experience.

We believe Trimont demonstrates these specialized skills and possesses the appropriate staffing, procedures, and reporting capabilities necessary to service construction loans on behalf of third-party investors in a highly effective and diligent manner.

Due to the growth in demand for construction services functions within the performing asset team and an internal move, three asset managers were added, each with construction experience.

A dedicated administrator position was created to perform draw requests and construction invoice reviews, allowing asset managers more time to spend reviewing changes or identifying risk on loans. Trimont also implemented a new workflow process to log and track completion of draw requests. The system provides enhanced management and analytics of the draw process, as well as improved report functionality and communication with borrowers and clients.

Since our last review, the construction portfolio UPB volume has continued to grow. As of Dec. 31, 2018, the portfolio totaled $47.3 billion (including unfunded commitments) and consisted of 851 projects, with an average project size of approximately $55.6 million (see table 6), up from the 624 projects with an average project size of approximately $60.2 million as of Dec. 31, 2017.

The portfolio is geographically diversified and includes all major property types. Multifamily projects account for the highest concentration by dollar volume (28%) and make up 25% of the total project portfolio (see table 7). Lodging projects make up 21% of the portfolio on a unit basis despite representing only 6% of the dollar volume.

Table 7

Construction Loan Portfolio Breakdown By Property Type And State(i)

	Total commitments (mil. $)	Total commitments (%)	No. of projects	Projects (%)
Type				
Multifamily	13,171.1	27.8	210	24.7
Mixed use	11,196.5	23.7	95	11.2
Other - special purpose	8,062.8	17.0	164	19.3
Office	6,994.7	14.8	117	13.7
Retail	4,325.7	9.1	50	5.9
All other	3,585.4	7.6	215	25.3
Total	47,336.2	100.0	851	100.0
State				
N.Y.	16,236.4	34.3	151	17.7
Calif.	7,324.6	15.5	112	13.2
U.S. Territories/Caribbean	4,460.7	9.4	86	10.1
N.J.	3,289.6	6.9	49	5.8
Fla.	2,396.1	5.1	42	4.9
All other	13,628.9	28.8	411	48.3
Total	47,336.2	100.0	851	100.0

(i)As of Dec. 31, 2018.

Trimont maintains the following solid construction risk management protocols:

- Initial project review and analysis that focuses on loan closing documents, market and property reports, construction contracts, budgets, and environmental reports.
- Loans are boarded into Strategy for ongoing servicing and reserve management.
- A comprehensive draw administration process and tracking sheet, including coordinating with consultants, title companies, architects, contractors, and syndicate lenders, as well as budget reconciliation, site inspection, and closely monitoring overruns and equity infusions.
- Compliance monitoring of all performance hurdles, financial tests, and borrower/guarantor reporting requirements.
- Lien waivers are required for all major contractors, and title searches are run periodically. If issues arise, draws are not funded until liens are satisfied or adequately bonded.

Loan Administration--Special Servicing

The loan administration subranking is STRONG for special servicing.

As of Dec. 31, 2018, the company was the named special servicer on 22 CMBS transactions containing 195 loans with a total outstanding balance of almost $9 billion. Since our last review, Trimont has worked through a significant portion of the acquired FCFC portfolio and the active volume reflects that progress. The active special servicing portfolio consists of 87 assets approximating $204.4 million of UPB (see table 8). Included in the portfolio are 22 loans and three REO assets with an outstanding balance of $120.8 million that we classify as Trimont legacy assets. The aggregate portfolio also includes 62 FCFC assets (52 loans and 10 REO) with an outstanding balance of $83.6 million.

The special servicing group includes two teams:

- A special servicing team in Atlanta with two full-time employees (FTE) that focus on CMBS, small loans, and GSE assignments, with an additional 16 staff members supporting the special servicing group as a whole; and
- A loan workout team in Dallas that focuses on nonperforming loans with three FTE, and an REO assets group with one FTE at this time.

Between the two special servicing groups, there are six total asset managers: five who are dedicated to loans and one who manages REO assets. The groups are led by managing directors in both locations. While the special servicing groups each have their own primary responsibilities, they can also provide assistance to each other if the need arises. The asset per asset manager ratio is 14.8 for loans and 13 for REO assets with average UPB of $2.5 million and $1.7 million, respectively. We feel that these staffing ratios are sustainable, particularly based on the lower complexity of the assets indicated by the low average UPB.

During 2018, Trimont completed 114 resolutions (not including the FCFC portfolio), including 110 discounted payoff/note sales and four full payoffs (see table 9). We note that the special servicing portfolio in table 8 does not include metrics associated with hold time from the loans transferred from FCFC to Trimont because the original transfer dates to special servicing were unavailable upon their boarding.

Table 8

Special Servicing Portfolio

	Dec. 31, 2018			Dec. 31, 2017			Dec. 31, 2016			Dec. 31, 2015			Dec. 31, 2014		
	UPB (mil. $)	No.	Avg. age (i)	UPB (mil. $)	No.	Avg. age (i)	UPB (mil. $)	No.	Avg. age (i)	UPB (mil. $)	No.	Avg. age (i)	UPB (mil. $)	No.	Avg. age (i)
Active inventory															
Loans	109.5	22	21.4	63.1	138	29.5	112.5	277	18.8	293.0	396	10.9	146.8	243	24.3
Real estate owned	11.3	3	59.6	85.7	28	38.8	124.4	63	29.5	145.5	35	43.5	452.1	105	27.0
Trimont legacy total	120.8	25	26.0	148.8	166	31.1	236.9	340	20.8	438.4	431	13.5	598.9	348	25.1
FCFC loans	72.8	52	N/A	115.9	110	N/A	219.2	310	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FCFC real estate owned	10.8	10	N/A	29.6	50	N/A	62.4	117	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Consolidated total	204.4	87	N/A	294.3	326	N/A	518.5	767	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(i)Avg. age reflects the time in months from the date the loan first became specially serviced to the reporting date. N/A--Not applicable.

Loan recovery and foreclosure management

Trimont has a controlled approach for handling loans transferred to special servicing. Notable highlights include the following:

- Asset managers evaluate the collateral, order property inspections, and create detailed loan resolution plans within 60 days of transfer.
- Standard pre-negotiation letters are sent to all borrowers for execution prior to engaging in workout discussions.
- The asset manager collaborates with workout counsel to draft appropriate demand/default letters.
- The resolution plans are approved by following the internal delegations of authority including the credit committee, which includes highly experienced senior managers, team leaders, department managers, and in-house legal counsel.
- The status of real estate taxes is reviewed and factored into any decision before foreclosure or taking title via deed-in-lieu. At least 30 days before foreclosure, the asset manager contacts the corporate risk management department and an insurance checklist is prepared by the insurance analyst before Trimont takes title.

Table 9

Total Special Servicing Portfolio--Loan Resolutions

	2018(ii)			2017(ii)			2016(ii)			2015			2014		
	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)
Resolutions															
Loans	36.6	114	32.5	77.9	150	18.7	62.7	91	12.8	62.0	91	22.8	291.2	163	22.0
Foreclosed loans	--	--	--	14.9	13	19.4	25.5	55	13.5	14.3	17	25.8	48.4	59	21.4
Total	36.6	114	32.5	92.8	163	18.8	88.2	146	13.1	76.4	108	23.3	339.6	222	21.9

Table 9

Total Special Servicing Portfolio--Loan Resolutions (cont.)

	2018(ii)			2017(ii)			2016(ii)			2015			2014		
	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)
Resolution breakdown															
Returned to master	--	--	--	--	--	--	--	--	--	3.3	1	43.2	13.4	14	17.8
Full payoffs	1.0	4	35.1	41.6	31	14.4	14.5	31	6.7	2.4	15	14.2	109.9	26	14.8
DPO or note sale	35.6	110	32.4	36.3	119	19.8	48.2	60	16.0	56.3	75	24.3	168.0	123	24.0
Foreclosed loans	--	--	--	14.9	13	19.4	25.5	55	13.5	14.3	17	25.8	48.4	59	21.4
Total/average	36.6	114	32.5	92.8	163	18.8	88.2	146	13.1	76.4	108	23.3	339.6	222	21.9

(i)Avg. age reflects time in months from date loan first became specially serviced to reporting date. (ii) 2018 data excludes 27 FCFC loans with UPB of $18.4M, 2017 data excludes 114 FCFC loans with UPB of $59.7M, and 2016 data excludes 110 FCFC loans with UPB of $71.4M. UPB--Unpaid principal balance. DPO--Discounted payoff.

REO management and dispositions

The company has a complete and detailed (P&P) manual covering all REO operations. Key operational aspects include the following:

- The REO asset manager generally completes REO business plans 60 days after the REO transfer, which is similar to peers.
- REO asset managers select property managers from the list of approved vendors and complete the transition checklist summary with the property manager within 30 days of taking title.
- Trimont typically administers blanket insurance for REO portfolios according to client preferences and company guidelines.
- Site inspections are completed by the REO asset manager and property manager within 30 days of taking title.
- Standard property management agreements and broker agreements are used for REO assets.
- Trimont audited the property management company used for its one active CMBS REO asset during the first half of the year, which was sold during the second half of 2018, and identified no material issues.

Timeframes for REO dispositions have varied across the portfolio, primarily based on client decisions dictating the hold period and marketing strategy. During 2018, Trimont's legacy portfolio realized aggregate net sales proceeds of 60.7% of the estimated market value (see table 10). Negatively affecting the sales/market value is one large CMBS disposition, which sold for only 56% of the appraised value. Management indicated that the asset was widely marketed and that it believes the appraised value was inflated by inaccurate assumptions and not deemed reliable.

The sales/market value without the above-noted property is 77%, which is below its peers and meaningfully below its historical levels prior to 2017. We have observed that lower sales/market value ratios are not uncommon for smaller assets (average asset size disposed was just over $2 million and under $0.5 million excluding the one large disposition). The loans transferred from the FCFC acquisition have not been included in this analysis due to insufficient data available.

Table 10

Total Special Servicing Portfolio--Real Estate-Owned Sales

	2018(i)			2017(i)			2016(i)			2015			2014		
	Amount (mil. $)	No.	Avg. REO hold period (mos.)	Amount (mil. $)	No.	Avg. REO hold period (mos.)	Amount (mil. $)	No.	Avg. REO hold period (mos.)	Amount (mil. $)	No.	Avg. REO hold period (mos.)	Amount (mil. $)	No.	Avg. REO hold period (mos.)
Estimated market value	73.7	34	20.5	44.9	101	15.0	34.8	46	29.7	264.8	87	17.3	161.0	103	14.2
Net sales	44.8	--	--	33.3	--	--	31.7	--	--	276.2	--	--	149.0	--	--
Sale/market value (%)	60.7	--	--	74.2	--	--	91.1	--	--	104.3	--	--	92.5	--	--

(i) 2018 data does not include 38 FCFC transferred loans with estimated market value of $13.2M, net sales of $9.4M and a sale/market value of 71.2%, 2017 data does not include 23 FCFC transferred loans with estimated market value of $13.6M, net sales of $9.8M and a sale/market value of 72.1%, and 2016 data does not include 67 FCFC transferred loans with estimated market value of $99.1M, net sales of $72.6M and a sale/market value of 73.3%.

REO accounting and reporting

We believe Trimont has adequate REO accounting and reporting functions accompanied with well detailed P&Ps. The company uses two accounting systems for REO loans. PeopleSoft is used for accounting of only the FCFC legacy assets, and Microsoft Dynamics is used to manage accounting for the rest of the portfolio. Key operational aspects include the following:

- The company uses a single REO operating account setup with the property managers for each property.
- Management indicated that they have adopted the Commercial Real Estate Finance Council's best practices and reporting updates.
- Checks are sent to the lockbox as soon as possible during the regular monthly business cycle, but no later than the second business day following receipt.
- As a general policy, operating data is uploaded monthly with 100% of the data sent electronically from property management companies, which is then reviewed by both the asset managers and the property management company.

Subcontracting management

Trimont handles the management and oversight of subcontractors in a controlled and effective manner and follows the following guidelines:

- Property managers are selected per the vendor management and engagement P&P manuals.
- Preferred or recommended vendors are used unless the situation warrants certain unique skill sets, in which case, additional approvals from senior management must be obtained.
- Standard property manager and broker agreements are used.
- In-house legal staff controls the approved vendor lists (appraisers, brokers, environmental/engineers, etc.) and engagement process, including outside counsel.

- Formal performance reviews occur, which include financial reviews and periodic site visits.

Legal department

Special servicing staff has access to two in-house attorneys to support the special servicing teams by advising asset managers and controlling the engagement of external law firms. Other notable aspects of the legal function include the following:

- The legal department completes abstracts of pooling and servicing agreements for CMBS loans.
- Trimont uses a standard engagement letter, and the asset management system tracks pending legal assignments and litigation status.
- The asset managers review all bills before they are submitted for payment.

Financial Position

The financial position is SUFFICIENT.

Related Research

- Trimont Real Estate Advisors LLC Commercial Primary Servicer Ranking Raised; Two Rankings Affirmed; Outlooks Are Stable, March 28, 2019
- Select Servicer List, March 17, 2019
- Analytical Approach: Global Servicer Evaluations Rankings, Jan. 7, 2019
- Servicer Evaluation: Trimont Real Estate Advisors LLC, Aug. 16, 2017