Trimont Real Estate Advisors Inc. Commercial Servicer Rankings Affirmed

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OVERVIEW

- We affirmed our STRONG rankings on Trimont Real Estate Advisors Inc. as a commercial loan construction servicer and commercial loan special servicer and our ABOVE AVERAGE ranking as a commercial loan primary servicer. The outlooks are stable.
- Our rankings reflect Trimont Real Estate Advisors Inc.'s lengthy and successful track record in managing a diverse commercial mortgage loan portfolio for a variety of capital sources, our favorable view of Trimont's management and organization, an effective organizational structure, and a sound quality control and audit framework.

NEW YORK (Standard & Poor's) Dec. 16, 2015--Standard & Poor's Ratings Services today affirmed its STRONG overall rankings on Trimont Real Estate Advisors Inc. (Trimont) as a commercial loan construction servicer and commercial loan special servicer. We also affirmed our overall ranking on Trimont as a commercial loan primary servicer at ABOVE AVERAGE. The outlooks are stable.

Our rankings reflect:

- A lengthy and successful track record, with extensive commercial and multifamily real estate expertise;
- A solid control and governance framework, including proactive policies and procedures, internal/external audits, compliance, and prudent approval matrices;
- Good leverage of technology systems to manage data and reports to clients;
- Well-developed processes and specialization in construction development

asset management; and
- Recent turnover rates are substantially greater than industry peers and other highly ranked servicers.

Trimont is a privately owned commercial real estate asset management company with a 27-year operating history. The company has more than 210 employees, including 108 dedicated to servicing functions. It is headquartered in Atlanta, and has additional offices in Irvine, Calif., New York, London, and the Netherlands.

Trimont provides a full range of services to real estate lenders and investors on both debt and equity investments. Core services include asset management (primary, fund, and special), asset servicing, construction administration, bond finance services, defeasance consulting, underwriting, and portfolio risk analysis and consulting, and it also serves as a trust/operating advisor in commercial mortgage-backed securities (CMBS) transactions. The company's portfolio includes mezzanine fund assets, redevelopment and construction loan servicing, and special servicing (associated with securitized and nonsecuritized transactions), real estate equity fund assets, Fannie Mae watchlist management and real-estate owned [REO] asset management, and permanent mortgage primary servicing (mainly for institutional clients).

Since our last review, Trimont has:
- Had a controlling interest in the firm acquired by funds managed by Värde Partners (Värde) on Sept. 9, 2015;
- Continued its focus on client diversification;
- Instituted multiple process workflow and system enhancements;
- Upgraded its servicing system to McCracken Strategy v. 17.6;
- Established a loan origination services platform for affordable multifamily rehab and construction loans in New York with Amalgamated Bank;
- Hired a new seasoned Director of Human Resources;
- Achieved substantial growth in its construction portfolio, accompanied by double-digit growth in primary servicing; and
- Experienced a special servicing portfolio volume decline of more than 50%.

Unlike many 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 operating model delivers customized, high-touch mortgage servicing solutions, rather than high-volume, standardized products.

As previously noted, on Sept. 9, 2015, funds affiliated with Värde acquired a substantial controlling interest in Trimont. Värde sponsors and manages private investment funds with a global investor base that includes foundations and endowments, pension plans, insurance companies, other institutional investors and private clients. Since 2013, its investment funds have owned FirstCity Financial Corp. (FCFC), a commercial finance company providing commercial loan underwriting, asset management, and loan servicing for institutional clients and investors, as well as specialized liquidity and credit solutions for lenders and borrowers.

During 2016, FCFC's former servicing operations (FirstCity Servicing LLC) and its approximately 1,500 assets with $1 billion unpaid principal balance will be integrated with Trimont. We consider the detail of the planned integration and the strength of the combined platform as positive developments. At the same time, there are risks associated with business integrations and we will monitor the company's execution during 2016. We also note that by virtue of its affiliation with Värde, Trimont now competes with several of its clients and some client attrition may develop from the ownership change.

Going forward, the three founding Trimont principals will remain in their current roles (they have executed multi-year employment contracts), own nearly 10% of the merged entity, and currently serve as the office of the CEO. However, the company is actively seeking to hire a permanent CEO and have resumed the search that Trimont had started earlier this year.

As of June 30, 2015, Trimont's construction portfolio volume was $21 billion (495 projects with an average project size of more than $42 million), which is more than 70% higher than it was at our last review. The portfolio is geographically diversified and includes all major property types. Multifamily projects account for the highest concentration by dollar volume (30%) and make up nearly 23% of the total project portfolio.

As of June 30, 2015, Trimont was the named special servicer on nine CMBS transactions with 67 assets and a total outstanding balance of $4.5 billion. Active volume has declined considerably since our last review, in line with the recovery on the real estate markets. The aggregate active special servicing portfolio consists of approximately 200 loans and REO assets with an outstanding balance of $501.4 million (53% decrease).

As of June 30, 2015, Trimont's primary loan servicing portfolio totaled $31.7 billion (16% higher than our prior review), with 1,813 loans and 3,202 collateral properties. Major investor types include banks and credit company/investment funds with a lesser extent life insurance companies. CMBS investors constitute only 1% of the portfolio. Nonetheless, the loan portfolio is highly diverse as it pertains to property types and geographic location.

OUTLOOK

The outlook is stable for all rankings. We base our outlook on Trimont's successful track record in managing a diverse commercial mortgage loan portfolio for a variety of capital sources. The company has historically had strong management and organization, it continues to invest in technology systems, and it expects to enhance its organizational effectiveness through its recent combination with FCFC. We acknowledge, however, the integration associated with the combination could be challenging and disruptive.

The financial position is SUFFICIENT.

RELATED RESEARCH AND CRITERIA

Related Criteria

- Revised Criteria For Including RMBS, CMBS, And ABS Servicers On Standard & Poor's Select Servicer List, April 16, 2009
- Servicer Evaluation Ranking Criteria: U.S., Sept. 21, 2004

Related Research

- Select Servicer List, Dec. 7, 2015
- Servicer Evaluation: Trimont Real Estate Advisors Inc., May 14, 2015