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# Servicer Evaluation: Trimont Real Estate Advisors LLC

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| Outlook | Stable |
| **Construction loan administration** | |
| Overall ranking | STRONG |
| **Subranking** | |
| Management and organization | STRONG |
| Loan administration | STRONG |
| Outlook | Stable |
| **Commercial special** | |
| Overall ranking | STRONG |
| **Subranking** | |
| Management and organization | STRONG |
| Loan administration | STRONG |
| Outlook | Stable |
| Financial position | SUFFICIENT |

## Key Ranking Factors

- A lengthy and successful track record with extensive commercial real estate expertise;
- A 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;
- Well-developed processes and specialization in construction asset management; and
- Overall employee turnover rates have been reduced over the past year and are more in line with industry peers and other highly ranked servicers, although several leadership changes were made with the First City platform integration.

## Opinion

S&P Global Ratings rankings for Trimont Real Estate Advisors LLC (Trimont) are ABOVE AVERAGE as a primary commercial servicer, STRONG as a commercial special servicer, and STRONG as a construction loan servicer. On July 20, 2017 we affirmed these rankings (please see "Three Trimont Real Estate Advisors LLC Commercial Loan Servicing

Rankings Affirmed; Outlooks Are Stable"). Our rankings reflect Trimont's lengthy and successful track record in managing a diverse commercial mortgage loan portfolio for a variety of capital sources, our favorable view of the company's management and organization, an effective organizational structure, and a sound quality control and audit framework, among other factors.

## Key Changes Since Last Review

- During 2016, the former servicing operations of First City Financial Corp. (FCFC) and its approximately 1,500 assets totaling $1 billion in unpaid principal balance (UPB) were integrated into Trimont;
- Three principles of Trimont departed per a transition agreement;
- Several executives hired were successfully integrated into Trimont, including a seasoned new CEO, new chief operating officer (COO), and a new chief financial officer (CFO);
- Three new positions in underwriting and client services were created and filled in the newly formed Dallas office in March 2017;
- Operations were streamlined by reducing the company business lines from 26 to six core areas to encourage operating efficiencies and restructured leadership around these core business lines;
- The headquarters moved to a new office in Atlanta in May 2016 for a more collaborative work space with improved employee amenities;
- Several technology improvements were made, including upgrading its servicing system to McCracken Strategy version 17.9 from version 17.6, implementing Microsoft Office 365 for all users, moving their data center out of the previous Trimont building and into a nearby colocation, and upgrading the corporate website; and
- Trimont continued expanding its construction portfolio and experienced ongoing primary servicing growth.

## Outlook

The outlook for all three rankings is stable. We based our outlook on Trimont's successful track record in managing a diverse commercial mortgage loan portfolio from a variety of capital sources. The company has historically had strong management and organization. It continues to invest in additional technology systems and upgrades and it expects to enhance its organizational effectiveness through its recent leadership restructure.

In addition to conducting an onsite meeting with servicing management, our review includes current and historical Servicer Evaluation Analytical Methodology (SEAM) data through Dec. 31, 2016, as well as other supporting documentation the company provided.

## Profile

| Servicer Profile | |
|---|---|
| Servicer Name | Trimont Real Estate Advisors LLC |
| Primary servicing location: | Atlanta, Ga. |
| Parent holding company: | Trimont Global Real Estate Advisors LLC. |
| Servicer affiliates: | N/A |
| Loan servicing system: | McCracken Strategy v. 17.9 v2 |

**Table 1**

**Total Servicing Portfolio**

| | UPB (mil. $) | YOY change (%) | No. of assets | YOY change (%) | No. of staff | YOY change (%) |
|---|---|---|---|---|---|---|
| **Primary/master servicing(i)** | | | | | | |
| 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 | 11.7 | 1,897 | 3.6 | 87 | 6.1 |
| Dec. 31, 2013 | 27,339.7 | (7.1) | 1,831 | 10.2 | 82 | 0.0 |
| Dec. 31, 2012 | 29,438.9 | N/A | 1,661 | N/A | 82 | N/A |
| **Special Servicing** | | | | | | |
| Dec. 31, 2016 | 518.5 | 18.3 | 779 | 80.3 | 36 | 56.5 |
| Dec. 31, 2015 | 438.4 | (26.8) | 432 | 24.1 | 23 | (25.8) |
| Dec. 31, 2014 | 598.9 | (69.6) | 348 | (67.4) | 31 | (26.2) |
| Dec. 31, 2013 | 1,969.0 | 30.1 | 1,066 | 105.4 | 42 | (20.8) |
| Dec. 31, 2012 | 1,513.9 | N/A | 519 | N/A | 53 | N/A |

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

Trimont is a privately owned commercial real estate asset management company with a 28-year operating history. In September 2015, funds controlled by Värde Partners acquired a substantial controlling interest in Trimont. Värde is a $10 billion 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.

At the same time, the former servicing operations of FCFC and its approximately 1,500 assets totaling approximately $1 billion in UPB were integrated with Trimont. The combination provided a new Dallas office that is locally managed by a seasoned executive.

In 2016, three Trimont principals left the company as planned and the firm hired a seasoned CEO in January 2016. After the integration of FCFC and some restructuring, the CEO added several key leadership positions around the core businesses, including the chief human resource officer, who started in March 2016, the COO, who joined in September 2016, and the CFO, who started in January 2017.

Trimont provides a full range of services to real estate lenders and investors on both debt and equity investments. The company streamlined its operations to eliminate potential conflicts and distractions and will focus on its six core service areas: loan servicing, primary asset management, special asset management, construction loan administration, bond administration, and asset underwriting and advisory. 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, as well as real estate owned (REO) assets, small loan disposition assignments, commercial mortgage-backed securities (CMBS) special servicing, and permanent mortgage primary servicing (mainly for institutional clients). See table 1 for an overview of the primary and special servicing portfolios.

As of Dec. 31, 2016, Trimont had 216 employees, including 119 who are dedicated to servicing functions. It is headquartered in Atlanta and has five additional offices, including Dallas, Los Angeles, New York, London, and Amsterdam. (Portfolio data provided in this report includes only loans in the U.S. and U.S. territories.) 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. The Atlanta office handles the remaining international assets with collateral located in Mexico, South America, and the Virgin Islands, as well as all U.S. collateral. The Los Angeles office also handles an asset in Mexico.

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 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.

Management business plans include a focus on excellence in customer service while handling complex issues, continued growth centered around their core business lines, and continued investments in company technology.

## Management And Organization

The management and organization subranking is STRONG for all three rankings. We based our subrankings on our view of the experienced senior management team, its solid control and governance framework, and its sound leverage of technology systems to manage data and reports to clients.

### Organizational structure, staff and turnover

Since our last review, the company has experienced a number of management changes associated with the planned departure of the three founders and integration of the FCFC operations. Highlights of the changes include:

- The new CEO, chief human resources officer, COO, and CFO;
- The managing director of client services was hired in September 2016; and
- Three new positions were filled with senior employees in the Dallas office in March 2017 to focus on client services, underwriting, and due diligence.

Although these individuals are new to Trimont, they each have extensive experience in leadership positions and have held servicing responsibilities with prior companies.

Of the 119 servicing employees 83 are in primary servicing and 36 are in special servicing. Within primary servicing, senior and middle managers have 25 and 19 years of industry experience, respectively, and an average of 12 years of tenure at Trimont. Within special servicing, senior and middle managers average 21 years of industry experience and 11 and six years of tenure at Trimont, respectively. These averages are in line with similarly ranked peers (see table 2).

Trimont's organizational structure has both an operations and a client-facing focus. The newly created client services team supports the business line leaders in business development and working with new clients. Tenured individuals were elevated to this team to cover the western, central, and eastern regions. The managing director of the client services team replaced a tenured executive who passed away. We believe Trimont's organizational structure effectively addresses primary and construction loan administration, project risk management, and special servicing activities.

**Table 2**

**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 | 25 | 12 | 19 | 12 | N/A | N/A | 10 | 6 |
| Special | 21 | 11 | 21 | 6 | 19 | 5 | 14 | 5 |

(i)As of Dec. 31, 2016.

Overall turnover levels have improved since our last review. For the six and 12 months ended Dec. 31, 2016, the overall turnover rate was 8% and 9%, respectively, for primary servicing staff, which compares favorably to other primary servicers. The special servicing staff turnover rates for the same periods were 10% and 22%, which is more in line with trends experienced by other ranked special servicers. For comparison, the 12-month primary servicing turnover ending June 30, 2015, was 26% and the special servicing turnover for the same period was 41%.

## Training

Trimont has a strong commitment to training and employee development. The company has a dedicated full-time trainer who coordinates various types of learning programs. In September 2016, Trimont collaborated with the NYU Schack Institute of Real Estate (NYU) to launch Trimont University. Trimont and NYU co-developed online and live classroom trainings for the Trimont staff around the world. They also offer employees the ability to earn a NYC Schack Institute of Real Estate Certificate by completing the three-semester program. Seventy employees are enrolled in the program.

The company also offers various on-the-job training opportunities, classroom training, and training led by industry experts. The Learning Management System (LMS) was implemented in August 2016, offering over 60 e-learning courses for employees to use. LMS tracks courses offered, staff participation, and training hours completed, both individually and across reporting lines.

The company sets an annual target of 40 training hours for each employee. For the 12-month period ending Dec. 31, 2016, training averaged between 45-50 hours per employee for both primary and special servicing.

## Systems and technology

Since our last review, Trimont has updated its McCracken Strategy servicing platform to version 17.9 from version 17.6. By adopting and maintaining the latest version, the company is able to quickly and effectively implement new servicing system features and functionality, such as enhanced utilization in working with specialized government-sponsored enterprise (GSE) loans. Trimont has a very active and longstanding relationship with McCracken. Some company employees are active members of the McCracken Strategy user committee, which is focused on steering new product features and enhancements.

Trimont has a proprietary asset management platform made up of a Microsoft SQL Server 2008 R2 database and customized web applications (.NET framework) to support its asset management and loan workout functions. This same platform integrates with servicing (McCracken) and treasury, supports external client applications, and feeds data and results into Trimont's reporting platform (SQL Server Reporting Services).

Additional system and technology applications include:

- A state of the art co-location data center in Suwanee, Ga., which is 15 minutes away. The location employs biometric access, redundant connectivity, power, and cooling. This same colocation also owns data centers in Europe and Asia-Pacific, providing additional options for data management.
- Microsoft Office 365 is used across the company on a cloud-based platform as a service (PaaS) which offers MS Office applications, plus other productivity services enabled over the internet. This provides for improved productivity, data management, collaboration, and a standardized platform for various third-party solutions (i.e., internet, Enterprise Resource Planning [ERP] solutions)
- Microsoft Azure AD, a cloud-based PaaS that improves the authentication process. It provides high availability and ease of third-party authentication integration and is an extension of MS Office 365.
- EMC's Documentum software for its enterprise content management, imaging, and workflow applications. The Documentum repository is integrated with Trimont portals to allow clients access to pertinent documents. In conjunction with the content management platform, Trimont uses Documentum to process, reconcile, and store incoming checks and wires electronically.
- DOMO, 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.
- MREN (Metis Real Estate Network) is used for file sharing capabilities between the company and client.
- Argus is used for valuations and cashflow modeling.
- Special asset management uses ASR, a custom forms-based .NET application embedded with SQL for cash flow calculations, reports, and presentations. Through the Trimont/FCFC integration, Trimont intregrated ASR to McCracken Strategy so the data would be incorporated through the data warehouse, thus enabling enhanced reporting automation and daily deliverables.
- Application Portal is a proprietary application that aggregates critical inputs from different workflow screens into a single input. This allows for better viewing and reporting solutions for special asset management users and also allows asset managers to enter notes into the system.
- Mimecast is used as a cloud-based email archival system for increased security and reliability, with added anti-spam and anti-malware protections.
- A new internal intranet site that the company rolled out in May 2017, which includes an internal social feed, company news, industry news, and is integrated with their MS Office 365 environment.

All systems are actively refreshed and upgraded to meet increasing software/user requirements and to maintain active vendor support warranties. Trimont also proactively upgrades and patches all third-party software applications to minimize vulnerabilities, to maintain support, and to offer additional product functionalities. Additionally, the company appears to be diligent with cybersecurity issues. It has updated its firewalls, sends periodic phishing emails to employees to test compliance, and stays current with cyber issues in the market. They also have an annual independent third-party test for data penetration issues.

Trimont has a documented information security plan that governs personnel security matters, facilities, assets, information, and business operations. Adherence is audited 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 its disaster recovery process to a cloud-based solution. The 20-seat offsite disaster recovery site is provided through a third-party at a facility located in Smyrna, Ga., which is outside of Atlanta and is on a separate power grid. Trimont tests its recovery systems annually, with the most recent test being completed in June 2017. No material issues were identified.

### Internal controls

Trimont has well-documented, centrally managed policies and procedures and has accompanying exhibits that govern primary servicing, special servicing and construction loan administration. New policies are written as needed and all new policies, as well as any changes to other policies, are reviewed by the policy coordinator, the department heads, and approved by the COO. All policies and procedures can be accessed through the company's intranet. Trimont reviews all policies annually and makes updates as needed. Assigned managers are responsible for updating policies and procedures.

Trimont has a thorough, independent internal audit program with the audit team reporting directly to the CFO. The company also has ongoing quality control and compliance audits that examine a range of functions and servicing processes throughout the year, under the guidance of the audit staff. This year, the internal audit scope included a review of service fees, disposition of incoming funds, property tax, property and liability insurance, treasury database review, CMBS compliance and tracking, loan servicing and billing, loan payoffs and transfers, as well as the business continuity plans. The most recent internal audit was completed in December 2016 and reflected no material issues. This audit covered various functions, including pay-offs, insurance, taxes, servicing fees, treasury, and information security plan compliance.

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 2016 audits did not reveal any material findings or exceptions. Trimont is also subject to periodic reviews and audits from clients.

In addition, for special servicing, Trimont has annual in-house audits for property managers on CMBS REO properties to review property management companies under contract. These audits ensure compliance with the requirements and guidelines in each property management agreement. The company currently has just one CMBS REO property and the audit of the property management company revealed no issues.

### Vendor management

Subject to client requirements, vendors are selected from a recommended or a preferred vendor list, based on the type of work they are performing and their geographic location. Before any vendor is added to the approved list they go through 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 previously used them. The addition of new vendors to the list requires senior management's approval. The vendor management process, including additions to the approved vendor list, is managed by the legal department. Feedback on vendors is collected from the asset managers.

### Insurance and legal proceedings

The company has confirmed 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, 2016, the company reported there were no pending material servicing-related legal matters.

## Loan Administration--Primary Servicing

The loan administration subranking for commercial loan primary servicing is ABOVE AVERAGE. Our subranking reflects Trimont's lengthy and successful track record in managing a diverse commercial mortgage loan portfolio for a variety of capital sources across all major property types.

As of Dec. 31, 2016, its loan servicing portfolio had grown to $36.7 billion (including approximately $19 billion in construction loans) with 2,480 loans and 3,214 collateral properties. As of the same date, the company reported a 3.4% delinquency rate, up slightly since year-end 2015 but is still well below levels reported in 2012 and 2013 (see table 3).

Trimont's major investor types include banks and credit company/investment funds (43% based on UPB), banks and financial institutions (at 40% UPB) and, to a lesser extent, life insurance companies (at 14% of UPB) (see table 4). CMBS investors constitute less than1% (three loans) of the portfolio. Nonetheless, the loan portfolio is highly diverse containing a variety of property types and geographic locations (see table 5).

**Table 3**

**Primary Servicing Portfolio(i)**

| | **Dec. 31, 2016** | | **Dec. 31, 2015** | | **Dec. 31, 2014** | | **Dec. 31, 2013** | | **Dec. 31, 2012** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | UPB (mil. $) | No. | UPB (mil. $) | No. | UPB (mil. $) | No. | UPB (mil. $) | No. | UPB (mil. $) | No. |
| Primary loans | 36,765.0 | 2,480 | 35,905.1 | 1,991 | 30,526.1 | 1,897 | 27,339.7 | 1,831 | 29,438.9 | 1,661 |
| Average loan size | 14.8 | -- | 18.0 | -- | 16.1 | -- | 14.9 | -- | 17.7 | -- |
| **Delinquent (%)** | | | | | | | | | | |
| 30 days | 1.7 | -- | 0.3 | -- | 0.4 | -- | 4.3 | -- | 1.5 | -- |
| 60 days | 0.6 | -- | 0.5 | -- | 0.0 | -- | 0.2 | -- | 0.0 | -- |
| 90+ days | 1.2 | -- | 0.9 | -- | 5.0 | -- | 12.4 | -- | 12.2 | -- |
| Total | 3.4 | -- | 1.7 | -- | 5.4 | -- | 16.9 | -- | 13.7 | -- |

(i)Primary loan count includes construction loans. UPB--Unpaid principal balance.

**Table 4**

**Total Portfolio by Investor Product Type**

| **Loan Type** | **UPB (mil. $)** | **Loan Count** | **UPB (%)** |
|---|---|---|---|
| Other third party investors (REITs, investment funds, etc.) | 15,971.5 | 1,907 | 43.4 |
| Banks/financial institutions | 14,833.3 | 365 | 40.3 |
| Life insurance companies | 5,449.6 | 102 | 14.8 |
| CMBS/CDO/ABS | 510.5 | 106 | 1.4 |
| Total | 36,765.0 | 2,480 | 100.0 |

UPB--Unpaid principal balance. CMBS--Commercial mortgage-backed securities. CDO--Collateralized debt obligations. ABS--Asset-backed securities.

**Table 5**

**Portfolio Breakdown By Property Type And State(i)**

| | **UPB (mil. $)** | **UPB (%)** | **No. of properties** | **Properties (%)** |
|---|---|---|---|---|
| **Type** | | | | |
| Multifamily | 12,540.0 | 34.5 | 945 | 29.4 |

**Table 5**

| Portfolio Breakdown By Property Type And State(i) (cont.) | | | | |
|---|---|---|---|---|
| | **UPB (mil. $)** | **UPB (%)** | **No. of properties** | **Properties (%)** |
| Office | 7,543.8 | 20.2 | 351 | 10.9 |
| Lodging | 4,343.0 | 11.7 | 333 | 10.4 |
| Mixed Use | 3,734.3 | 10.2 | 83 | 2.6 |
| Retail | 2,016.2 | 5.7 | 219 | 6.8 |
| All other | 6,587.7 | 17.7 | 1,283 | 39.9 |
| Total | 36,765.0 | 100.0 | 3,214 | 100.0 |
| **State** | | | | |
| N.Y. | 9,550.3 | 26.0 | 287 | 8.9 |
| Calif. | 6,123.6 | 16.7 | 354 | 11.0 |
| U.S. Territories/Caribbean (ii) | 2,585.7 | 7.0 | 224 | 7.0 |
| Fla. | 2,139.0 | 5.8 | 206 | 6.4 |
| Hawaii | 1,925.9 | 5.2 | 22 | 0.7 |
| All other | 14,440.5 | 39.3 | 2,121 | 66.0 |
| Total | 36,765.0 | 100.0 | 3,214 | 100.0 |

(i)As of December 31, 2016. (ii) Includes properties in Bermuda and the Virgin Islands. UPB--Unpaid principal balance.

Trimont's primary servicing operations take place in the Atlanta corporate office, which supports the asset management staff located in the Atlanta, Dallas, Los Angeles, New York, London, and the Amsterdam offices.

## New loan setup

New loan boarding is performed by the new loan setup team with additional support from functional units for specific data set-up (e.g., loan triggers and covenants, Uniform Commercial Codes [UCCs], taxes, and insurance). Core documents are reviewed one at a time to confirm they are fully executed and the documents are labeled correctly. The loan set up is completed using a checklist that is then stored in Documentum when all tasks are completed. The team works with the client as well as closing counsel to open bank accounts needed for any lockbox or cash-managed accounts.

The special processing manager reviews and passes all new loans boarded into McCracken Strategy. The target timeframe for completing the process to load essential data and commence payment processing and reporting is three business days. Quality measures include a review of the basic loan terms of 10% of the new loans boarded by an asset servicing quality associate before they are passed.

The group boarded 500 new loans for the six-month period ending Dec. 31, 2016, for a total of 1,974 new loans during the full year. Borrower welcome letters are automatically generated and sent out within three business days from loan closing. Loan documents are abstracted, and requirements are loaded into the compliance-tracking database, easing compliance with reporting requirements and monitoring important covenant trigger dates.

## Payment processing

Payment processing is well-automated, and has adequate controls and 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 McCracken Strategy system.

Most payments are handled electronically, with 31% being submitted via automated clearing house, 31% via lockbox, and 29% via wires. The remaining 9% are received by mail.

The portfolio contains 948 loans with adjustable rates. These rates are audited by the payment processing group at regular intervals.

### Escrow administration

Trimont employs prudent escrow administration procedures that are well-controlled. Highlights include:

- Asset managers are responsible for processing and reviewing reserve account draws. Disbursement requirements are compared against loan documents, budgets, and an internal draw review checklist. 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.
- 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.
- Approximately 19% of the loans in the portfolio are escrowed for taxes and 9% 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. Management stated that it would be unusual to escrow tax impounds for assets outside the continental U.S.; therefore, they obtain proof of tax payments from the borrower.
- A national service provider is used to track real estate taxes on a limited basis for escrowed loans. Trimont makes very limited use of third-party service providers compared with other ranked servicers. The company uses a vendor to identify and track collateral properties that might be in federally designated flood zones.
- Unlike many mortgage servicers, Trimont does not outsource collateral property inspections, instead internal staff do them. If inspections reveal major deferred maintenance, the asset managers would issue borrower notices and develop a corrective action maintenance plan.

### Asset and portfolio administration

Trimont has a robust loan and portfolio surveillance program. Borrower reporting requirements for collateral property operating statements and rent rolls are maintained in a proprietary compliance application; however, the company does not currently track collection and reporting rates for non-CMBS loans in a centralized, automated fashion because they may not be contracted to collect them. The portfolio asset management team follows up with borrowers that are delinquent in providing any of these items.

Some asset and portfolio administration observations include:

- As of Dec. 31, 2016, the company reported a 100% financial statement collection rate for its small CMBS portfolio as of year-end 2015.
- Noncompliant loan issues are flagged for inclusion on the investor and company watchlist.
- Watchlist reporting also includes loans with delinquent or partial payments, as well as loans maturing within 90 days.
- Property inspections are conducted by Trimont staff based on system reminder dates, which are determined

according to company policy and investor requirements. Any significant deferred maintenance items are relayed to the borrower.
- The asset management group administers loan-level covenant and deal compliance.

The company has well-described and documented procedures for monitoring asset and portfolio administration activities that follow investor specific watchlist standards for early warnings of potential problems.

### Investor reporting

Seven staff members handle investor reporting, which is well-automated and has adequate controls and separation of duties. Separate personnel handle remitting versus bank reconciliations, as well as reporting versus approving remittances.

Bank reconciliations are completed monthly. The company has 100% electronic reporting and remitting to their trustees and investors. There were no reported suspense items aged more than 60 days as of Dec. 31, 2016.

### Borrower requests

Asset managers process all borrower consent requests through their McCracken Strategy system. The company has metrics around their borrower requests, including the type of request, completion timeliness, and both internal and third-party decisions.

Asset managers prepare cases and offer recommendations for borrower requests. Trimont has a signing approval matrix, which may include internal and/or master servicer approvals depending on the client.

Overall, the company processed 419 borrower requests in 2016 consisting of 300 agency repair escrow extensions, 56 assumptions, 34 partial collateral releases, 20 management changes, three leasing consents, and six other client transactions. The amount of borrower request work has risen significantly from year-end 2015 when they handled slightly over 200 transactions. Asset managers are also responsible for monitoring upcoming loan maturities.

### Early-stage collections

The asset management group also administers early-stage collections. The staff contacts the borrower in writing two days after a missed payment due date, and calls the borrower by phone after the grace period expires if the payment has still not been made. The system does not automatically generate late notices; instead, the asset managers send them.

Asset managers monitor their respective portfolios and handle the watchlist reporting of loans requiring additional monitoring per their client engagements. Internal delinquency reports are produced at month-end.

## Loan Administration--Construction Loan Servicing

The loan administration subranking for construction loan servicing is STRONG. 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; 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, 2016 | Dec. 31, 2015 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2012 |
|---|---|---|---|---|---|
| **Portfolio volume** | | | | | |
| Outstanding balance (mil. $) | 19,203.2 | 16,330.5 | 14,249.1 | 14,695.8 | 12,285.4 |
| Unfunded commitments (mil. $) | 6,647.3 | 6,734.3 | 5,106.6 | 1,796.2 | 891.0 |
| Total construction portfolio (mil. $) | 25,850.5 | 23,064.8 | 19,355.7 | 16,492.0 | 13,176.4 |
| No. of loan commitments | 746 | 677 | 673 | 689 | 525 |
| No. of projects | 496 | 478 | 463 | 523 | 354 |
| Average commitment size (mil. $) | 34.7 | 34.1 | 28.8 | 23.9 | 25.1 |
| Average project size (mil. $) | 52.4 | 48.3 | 41.8 | 31.5 | 37.2 |
| **Projects in default, workout and/or litigation** | | | | | |
| Outstanding balance (mil. $) | 41.0 | 573.0 | 1,008.5 | 1,561.5 | 2,227.9 |
| No. of projects | 4 | 22 | 36 | 83 | 112 |
| **Pending foreclosure** | | | | | |
| Outstanding balance ($) | 0 | 0 | 0 | 1.6 | 0 |
| No. of projects | 0 | 0 | 0 | 1 | 0 |
| **Foreclosed (real estate-owned)(i)** | | | | | |
| Asset value (mil. $) | 397.0 | 388.4 | 718.1 | 1,468.3 | 2,047.9 |
| No. of projects | 17 | 24 | 42 | 84 | 78 |

(i)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.

Since our last review, the construction portfolio UPB volume has continued to grow. As of Dec. 31, 2016, the portfolio totaled $25.9 billion (including unfunded commitments) and consisted of 496 projects, with an average project size of approximately $52.4 million (see table 6), up from the 478 projects with an average project size of approximately $48.3 million as of Dec. 31, 2015.

The portfolio is geographically diversified and includes all major property types. Multifamily projects account for the highest concentration by dollar volume (40%) and make up nearly 31% of the total project portfolio. Lodging projects make up 40% of the portfolio on a unit basis despite representing only 11% of the dollar volume.

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 McCracken Strategy for ongoing servicing and reserve management.
- A comprehensive draw administration process, 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.
- A standardized construction draw tracking sheet that provides extensive tracking of budgeted line items and draws

to date. Change orders are tracked by type and approvals follow an approved authority matrix.
- Covenant compliance monitoring to ensure that all performance hurdles, financial tests, and borrower/guarantor reporting requirements are satisfied.
- Lien waivers are required for all major contractors and title searches are run. If issues arise, draws are not funded until liens are satisfied or adequately bonded.
- Client training and guidance for requesting clients to allow the company to be involved in the deal earlier in the process to assist in document design to mitigate risk and better monitor borrower equity contributions.

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. Trimont recently added a former general contractor project manager with a finance degree and masters in construction management to the group.

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.

## Loan Administration--Special Servicing

The loan administration subranking for commercial loan special servicing is STRONG. Our subranking reflects Trimont's lengthy and successful track record in managing an active and diverse commercial mortgage loan special servicing portfolio, as well as its experienced management and use of solid technology systems.

The special servicing group includes two teams:

- A special servicing team in Atlanta that focuses on CMBS, small loans, and GSE assignments; and
- A small loan workout team in Dallas that focuses on nonperforming loans and REO assets.

There are 13 total asset managers within the group: nine who are dedicated to loans and four who manage REO assets. Twenty additional staff members support the special servicing group. Because most of the loans are small-balance loans and other nontraditional assets, we believe they are acceptably staffed.

Since our last review, Trimont has continued to maintain the resources, processes, and systems needed to effectively manage its specially serviced portfolio. Handling distressed commercial real estate is one of the company's key strengths, and it has a long history and considerable experience across all major property types and geographic markets.

As of Dec. 31, 2016, the company was the named special servicer on 15 CMBS transactions containing 100 loans with a total outstanding balance of almost $7.1 billion. Active volume has grown considerably since our last review due to the inclusion of the FCFC portfolio. The active special servicing portfolio consists of 767 assets approximating $519 million of UPB (see table 7). Included in the portfolio are 277 loans and 63 REO assets with an outstanding balance of $236.9 million that we consider Trimont legacy assets. The aggregate portfolio also includes 427 FCFC assets (310 loans and 117 REO) with an outstanding balance of $281.6 million. The addition of the FCFC assets resulted in a 55% increase in the number of loans from the prior year end.

We note that the special servicing portfolio in table 7 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 7**

**Special Servicing Portfolio**

| | Dec. 31, 2016(ii) | | | Dec. 31, 2015 | | | Dec. 31, 2014 | | | Dec. 31, 2013 | | | Dec. 31, 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | UPB (mil. $) | No. | Avg. time in special servicing (mos.)(i) | UPB (mil. $) | No. | Avg. time in special servicing (mos.)(i) | UPB (mil. $) | No. | Avg. time in special servicing (mos.)(i) | UPB (mil. $) | No. | Avg. time in special servicing (mos.)(i) | UPB (mil. $) | No. | Avg. time in special servicing (mos.)(i) |
| **Active inventory** | | | | | | | | | | | | | | | |
| Loans | 112.5 | 277 | 18.8 | 293.0 | 396 | 10.9 | 146.8 | 243 | 24.3 | 1,035.0 | 852 | 15.4 | 1,026.3 | 374 | 14.2 |
| Real estate owned | 124.4 | 63 | 29.5 | 145.5 | 35 | 43.5 | 452.1 | 105 | 27.0 | 934.0 | 214 | 21.3 | 487.6 | 145 | 22.0 |
| Trimont Total | 236.9 | 340 | 20.8 | 438.4 | 431 | 13.5 | 598.9 | 348 | 26.4 | 1,969.0 | 1066 | 18.2 | 1,513.9 | 519 | 16.7 |
| FCFC loans | 219.2 | 310 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| FCFC real estate owned | 62.4 | 117 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Consolidated total | 518.5 | 767 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

(i) Avg. time reflects time in months from date loan first became specially serviced to reporting date. (ii)2016 data does not include 427 FCFC recently transferred loans with UPB of $281.6 million. UPB--Unpaid principal balance.

## Loan recovery and foreclosure management

**Table 8**

**Total Special Servicing Portfolio--Loan Resolutions**

| | 2016(i) | | | 2015 | | | 2014 | | | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | UPB (mil. $) | No. | Avg. time in special servicing (mos.) | UPB (mil. $) | No. | Avg. time in special servicing (mos.) | UPB (mil. $) | No. | Avg. time in special servicing (mos.) | UPB (mil. $) | No. | Avg. time in special servicing (mos.) | UPB (mil. $) | No. | Avg. time in special servicing (mos.) |
| **Resolutions** | | | | | | | | | | | | | | | |
| Loans | 62.7 | 91 | 12.8 | 62.0 | 91 | 24.9 | 291.2 | 163 | 21.9 | 514.6 | 301 | 10.4 | 1,529.4 | 146 | 10.2 |
| Foreclosed loans | 25.5 | 55 | 13.5 | 14.3 | 17 | 25.8 | 48.4 | 59 | 21.4 | 60.1 | 45 | 17.6 | 196.7 | 108 | 17.8 |
| Total | 88.2 | 146 | 13.1 | 76.4 | 108 | 23.3 | 339.6 | 222 | 21.8 | 574.7 | 346 | 11.1 | 1,726.2 | 254 | 11.1 |
| **Resolution breakdown** | | | | | | | | | | | | | | | |
| Returned to master | -- | -- | -- | 3.3 | 1 | 43.2 | 13.4 | 14 | 17.8 | 288.7 | 103 | 8.2 | 195.3 | 81 | 15.8 |
| Full payoffs | 14.5 | 31 | 6.7 | 2.4 | 15 | 14.2 | 109.9 | 26 | 13.9 | 40.7 | 41 | 12.3 | 1,180.5 | 25 | 8.7 |
| DPO or note sale | 48.2 | 60 | 16.0 | 56.3 | 75 | 24.3 | 167.9 | 123 | 24.0 | 185.3 | 157 | 13.3 | 153.6 | 40 | 14.8 |
| Foreclosed loans | 25.5 | 55 | 13.5 | 14.3 | 17 | 25.8 | 48.4 | 59 | 21.4 | 60.1 | 45 | 17.6 | 196.7 | 108 | 17.8 |

**Table 8**

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

| | 2016(i) | | | 2015 | | | 2014 | | | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | UPB (mil. $) | No. | Avg. time in special servicing (mos.) | UPB (mil. $) | No. | Avg. time in special servicing (mos.) | UPB (mil. $) | No. | Avg. time in special servicing (mos.) | UPB (mil. $) | No. | Avg. time in special servicing (mos.) | UPB (mil. $) | No. | Avg. time in special servicing (mos.) |
| Total/Average | 88.2 | 146 | 13.1 | 76.4 | 108 | 23.3 | 339.6 | 222 | 21.8 | 574.7 | 346 | 11.1 | 1,726.2 | 254 | 11.1 |

(i)2016 data does not include 110 FCFC recently transferred loans with UPB of $71.4 million. UPB--Unpaid principal balance. DPO--Discounted Payoff.

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

- As loans are transferred to special servicing, asset managers evaluate the collateral to best determine the optimal strategy for loan resolution beginning with a complete re-underwriting of the property and borrower, which includes ordering a new appraisal and other customary third-party reports.
- Standard pre-negotiation letters are sent to all borrowers for execution.
- The asset manager collaborates with workout counsel to draft appropriate demand/default letters.
- Resolution plans for nonperforming assets are generally completed 45 days after transfer to special servicing, with status updates performed semiannually thereafter. The resolution plans incorporate specific facts about the loan history, borrower, and collateral, as well as the reason for the default, a recommended course of action for resolving the loan, and a discounted cash flow model valuing both the collateral and the loan asset that discusses the highest and best return to the investor on a net present value basis.
- The resolution plans, including business plans on REO properties, are approved by the credit committee. The committee members include highly experienced senior managers, team leaders, department managers, property experts, and in-house legal counsel. We believe this structure ensures that major credit decisions are well-vetted and consistent, and increases the likelihood of the highest recovery for investors and clients. 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.
- During 2016, Trimont completed 146 resolutions (not including the FCFC portfolio) including 60 discounted payoff/note sales and 55 foreclosures, while 31 loans were fully paid off (see table 8). Including small-balance loans, Trimont has resolved $24 billion of nonperforming loans consisting of over 3,000 properties since 2001. Although the servicer's active CMBS portfolio business is currently modest, Trimont has historically worked closely with master servicers to ensure that specially serviced loans are managed effectively. The company shadow-services master servicer advances, which allows it to track more details related to expenses paid and advance recoveries. It also communicates collateral value information to facilitate recoverability determinations and avoid over-advance situations that could create unnecessary expenses for investors.

## REO management and disposition

The company has a complete and detailed policies and procedures manual covering all REO operations. Key operational aspects include:

- The REO asset manager completes the pre-REO checklist with pertinent data that is subject to review by the assigned team leader. Once completed, the checklist is shared with the assigned financial analyst and utilized for

follow up on unresolved items. The REO asset manager reviews the loan files and obtains any missing compliance items.
- REO business plans are generally completed 60 days after the REO transfer by the REO asset manager.
- Trimont typically administers blanket insurance for REO portfolios according to client preferences and company guidelines.
- REO asset managers review all third-party reports as soon as they are available, including environmental reports and appraisals.
- The REO asset manager hires a property management company from the approved vendor list upon taking title to the property. The REO asset manager completes the transition checklist summary, outlining the property facts and issues in conjunction with the property management company within the first 30 days of taking the property's title. The REO asset manager and property management company jointly prepare both an operating and capital budget subject to internal approval.
- 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. During 2016, the property management company that was used for their single CMBS REO asset was audited with no material issues identified. Trimont has disposed of almost 800 REO properties in 44 states since 2011.

Timeframes for REO dispositions have varied across the portfolio, primarily based on client decisions dictating the hold period and marketing strategy. For the year ending Dec. 31, 2016, the Trimont legacy portfolio realized aggregate net sales proceeds of 91.1% of estimated market value (see table 9), which we believe is acceptable for smaller assets (average asset size disposed was just over $1 million). The loans transferred from the FCFC acquisition have not been included in this analysis due to insufficient data available.

### REO accounting and reporting

The companies detailed policies and procedures manual also covers REO accounting and reporting. Key operational aspects include:

- The company uses a dual REO operating account set up with the property managers.
- Management indicated that they have adopted Commercial Real Estate Finance Council 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.
- While Trimont does not utilize a third-party REO accounting system, as a general policy, operating data is uploaded monthly, 100% of the data is sent electronically from property management companies, which is then reviewed by both the asset managers and the property management company.

We believe that Trimont has adequate REO accounting and reporting functions.

**Table 9**

**Total Special Servicing Portfolio--Real Estate-Owned Sales**

| | 2016(i) | | | 2015 | | | 2014 | | | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount (mil. $) | No. | Average REO hold period (months) | Amount (mil. $) | No. | Average REO hold period (months) | Amount (mil. $) | No. | Average REO hold period (months) | Amount (mil. $) | No. | Average REO hold period (months) | Amount (mil. $) | No. | Average REO hold period (months) |
| Estimated market value | 34.8 | 46 | 29.7 | 264.8 | 87 | 19.1 | 161.0 | 103 | 14.3 | 232.0 | 129 | 15.5 | 249.5 | 184 | 8.7 |
| Net sales | 31.7 | -- | -- | 276.2 | -- | -- | 149.0 | -- | -- | 255.5 | -- | -- | 237.5 | -- | -- |
| Sale/market value (%) | 91.1 | -- | -- | 104.3 | -- | -- | 92.5 | -- | -- | 110.1 | -- | -- | 95.2 | -- | -- |

(i)2016 data does not include 67 FCFC recently transferred loans with estimated market value of $99.1 million, net sales of $72.6 million and a sale/market value of 73.3%. REO--Real-estate owned.

### Subcontracting management

Property managers are selected per the vendor management and engagement policies and procedures manuals. Preferred or recommended vendors are used unless the situation warrants certain unique skill sets, in which case additional approvals must be obtained. In-house legal staff controls the approved vendor lists (appraisers, brokers, environmental/engineers, etc.) and engagement process, including outside counsel. The company has a formal performance review process in place for all vendors.

### Legal department

Trimont has two in-house attorneys to support the special servicing teams by advising asset managers and controlling the engagement of external law firms. Trimont uses a standard engagement letter, and the asset management system tracks pending legal assignments and litigation status.

## Financial Position

The financial position is SUFFICIENT.

## Related Criteria

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

## Related Research

- Three Trimont Real Estate Advisors LLC Commercial Loan Servicing Rankings Affirmed; Outlooks Are Stable, July 20, 2017
- Select Servicer List, June 2, 2017
- Servicer Evaluation: Trimont Real Estate Advisors Inc., Jan. 5, 2016