

Servicer Evaluation: CBRE Loan Services Ltd.

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Ranking Overview

Servicing category	Ranking	Management and organization subranking	Loan administration subranking	Outlook
Commercial mortgages primary servicer	STRONG	STRONG	STRONG	Stable
Commercial mortgages special servicer	ABOVE AVERAGE	STRONG	ABOVE AVERAGE	Stable
Financial position	SUFFICIENT	N/A	N/A	N/A

N/A—Not applicable.

Major Ranking Factors

- In early 2016, the CBRE Group announced the launch of CBRE Loan Services—a global loan management business formed following the transfer to CBRE of GE Capital's interest in GEMSA Loan Services, L.P., which was a U.S. commercial loan-servicing joint venture between CBRE and GE Capital. The European head of CBRE Loan Services Ltd. (CBRELS) was appointed as Global Head of CBRE Loan Services.
- The company managed to maintain a positive growth of its primary servicing portfolio despite the significant amount of loans repaying or transferring as a result of the exit of GE Capital from the commercial real estate (CRE) market. In addition, CBRELS continued expanding its service offering and its presence in new European jurisdictions.
- The management team has long experience in servicing commercial mortgages in Europe and it successfully achieved its business targets for 2015. CBRELS boarded four new commercial mortgage-backed securities (CMBS) deals since our last review and it also obtained servicing mandates on balance sheet and syndicated loans. This enabled the servicer to diversify and expand its client base, counterbalancing the slowdown in the CMBS market. Moreover, in 2015, the company appointed a Business Development Manager to support the growth of its European platform and to enhance its presence in the marketplace.
- As a result of increased resolution activity, which has delivered favorable results, as well as a downturn of the special servicing market driven by the current positive economic environment, the special servicing portfolio could decrease considerably by the end of this year. Nevertheless, the servicer has some special servicing mandates in its pipeline and plans to expand its special servicing advisory services through the hiring of two more special servicing employees.
- Enhancements to CBRELS' IT platform continue to be added. Since our previous review, the servicer has completed an IT review, which has led to a servicing platform replacement project. Furthermore, CBRELS' IT system is cloud-based, which allows staff to work on it through web access available from a remote location, creating additional mobility and mitigation of risks.
- While being a small company in terms of the number of employees, CBRELS benefits from a robust Human Resources (HR) function as part of a wide global group. Staff development has improved since our previous review. There have been new initiatives, such as the introduction of succession planning. Additionally, the company has rolled out several staff enrichment programs, which reinforce the servicer's commitment to retaining talent within the organization.
- Being part of a global real estate services group, CBRELS can rely on its parent for the provision of back office tasks, as well as for supporting functions, such as human resources, audit, and technology.

Opinion

S&P Global Ratings' overall ranking on CBRELS is STRONG as a primary servicer of commercial mortgages in the U.K. Our overall ranking on CBRELS is ABOVE AVERAGE as a special servicer of commercial mortgages in the U.K.

Outlook

The outlook is stable on our rankings on CBRELS as a primary and special servicer of commercial mortgages in the U.K. The servicer has demonstrated a proven track record and has experienced staff. It has also demonstrated continuous IT improvement and has reliable operations, recording a positive performance.

Company Profile

CBRELS was established in July 2005 as a primary and special servicer of commercial loans in the U.K. We have been ranking CBRELS as a primary servicer since 2006 and as a special servicer since 2008. Both rankings are based on common assessments of all aspects of the company profile, with the exception of department structures and loan management activity uniquely devoted to one servicing function.

Company Overview	
Servicer name	CBRE Loan Services
Date formed and name at incorporation	2005, CB Richard Ellis Loan Servicing Ltd.
Assets under management	£17,39 billion (of which £16.42* billion in primary servicing)
Total staff	36 (including 5 employees based in EU)**/28***
Servicing staff	17 U.K. based/ 5 EU based
Servicing centers	3 (London, Frankfurt, and Madrid)
Client types	Investment funds, insurance companies, investors, special-purpose entities, commercial lenders etc.

*These figures include the amount of loans in special servicing for which CBRELS receives a primary servicing fee. It would be £15.44 billion for the primary servicing portfolio and £16.42 billion for the overall portfolio excluding double-counted loans, comparable to data published in our previous report. **This figure includes the Loan Recovery team which is a team of CBRE Group's employees providing Real Estate (RE) advisory service to CBRELS as well as other CBRE Group divisions. ***CBRELS' UK and EU staff only.

CBRELS is part of the CBRE Group, through a structure of controlling ownership. CBRELS is wholly owned by CBRE Ltd. (CBRE), a subsidiary of CBRE Inc., which is fully owned by the CBRE Group.

The CBRE Group is a worldwide CRE services firm with more than 70,000 employees. The CBRE Group provides services in brokerage, property and facilities management, mortgage banking and financial services, appraisal and property tax, and real estate market research.

The CBRE Group is also a significant player in the U.S. loan servicing market through its servicing subsidiary. At the time of our last review, this was still called GEMSA Loan Services L.P., set up as a joint venture with GE Capital, which we ranked as STRONG as a commercial mortgages servicer. In early 2016, the CBRE Group remained the sole owner of this company because GE Capital decided to exit the CRE market. As a result, the CBRE Group decided to run the

U.S. and European servicing operations under the same CBRE Loan Services brand and appointed the European Head of CBRE Loan Services as a Global Head of CBRE Loan Services. Although the two operations continue to work as separate entities, they share a common global business vision.

While CBRELS in the U.K. has a cooperation agreement with CBRE Ltd., it is an autonomous business unit and there are firewall policies in place to protect this condition. Under this structure, CBRELS retains independence while benefiting from the advantages of belonging to a large parent company.

CBRELS' European portfolio consists of both securitized and non-securitized loans. The CRE backing the loans is primarily located in the U.K., Germany and France but our ranking is limited to CBRELS' ability to manage U.K. loans.

The total amount of CBRELS' portfolio has been growing since our last review, notwithstanding the amortization of several loans which repaid and the transfer of loans accounting for almost £2 billion that CBRELS was managing on behalf of GE and that GE sold after its decision to exit the CRE market. The number of CBRELS' staff has reduced instead in line with the number of loans.

Chart 1

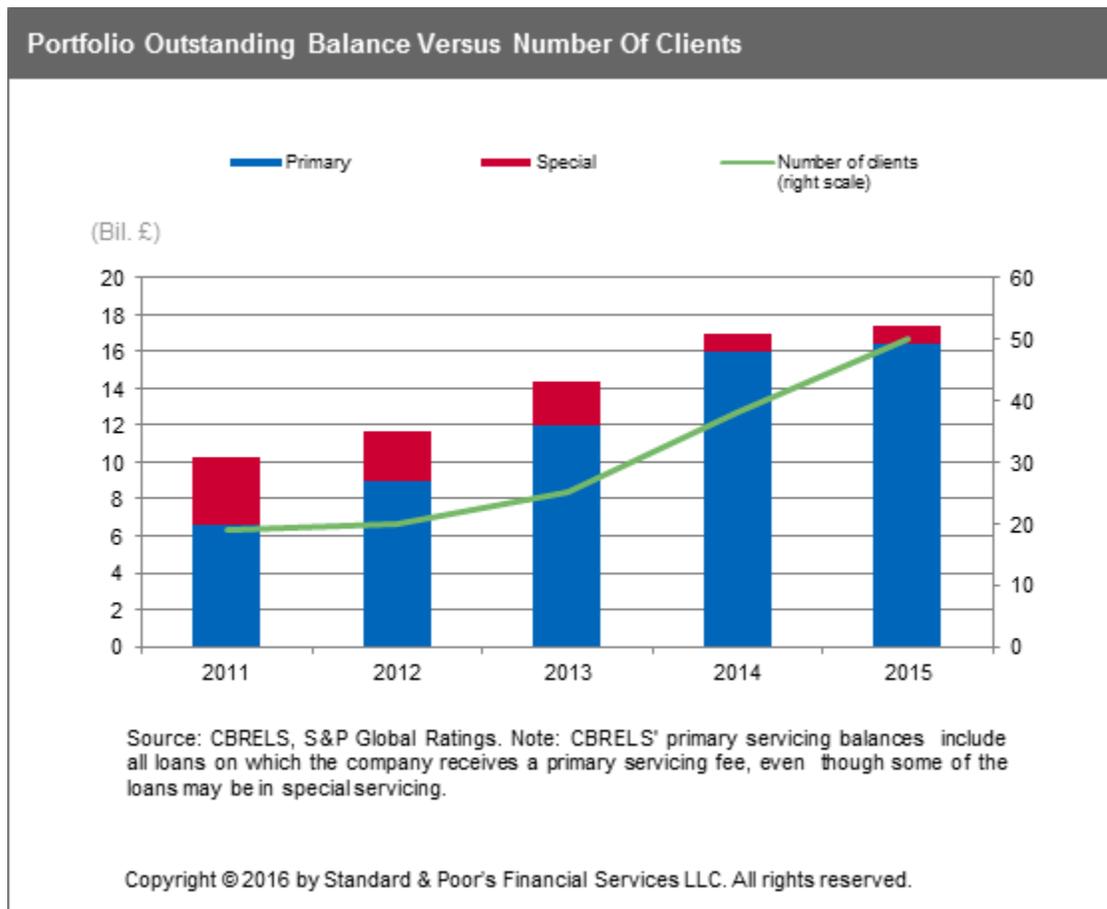
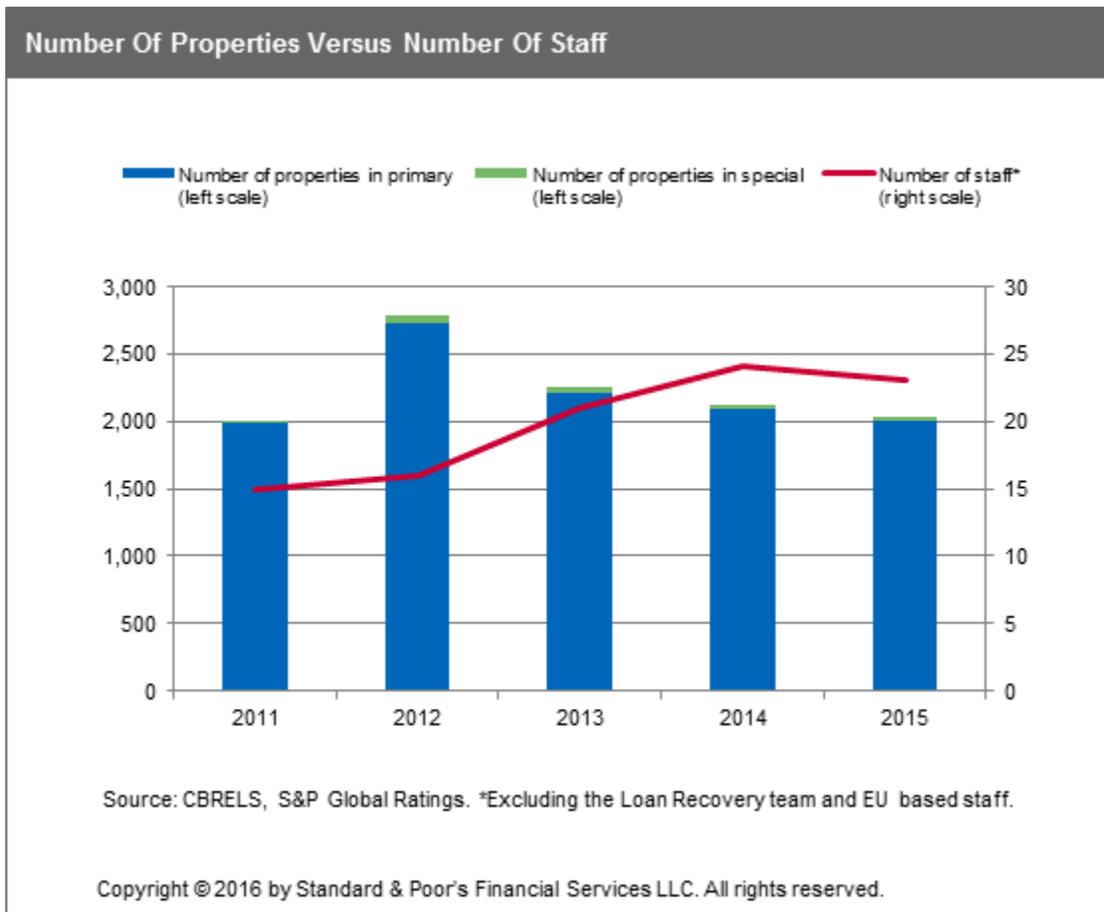


Chart 2



As of December 2015, CBRELS was managing loans totaling £17.39 billion, up from £16.94 billion as of December 2014 (see chart 1). Both CBRELS' primary and special servicing portfolios grew over this period; the first up to £16.42 billion from £15.97 billion and the second to £0.972 billion from £0.964 billion.

Table 1

Servicing Portfolio Evolution				
	2012	2013	2014	2015
Overall European Business				
Overall European Portfolio (GBV)- £	11,629,192,960	14,355,601,100	16,941,371,671	17,393,749,178
Overall European Portfolio (Loans)	95	218	276	334
Overall European Portfolio (Properties)	2777	2246	2122	2024
Overall European Commercial Mortgages Clients	20	25	38	50
Overall European Staff (including Loan Recovery team)	25	31	40	36
Overall U.K. Business				
U.K. Primary Portfolio (GBV)- £	5,074,148,424	7,484,005,037	10,252,376,292	11,479,874,457
U.K. Primary Portfolio (Loans)	80	157	215	241
U.K. Primary Portfolio (Properties)	953	1,216	1,545	1420
U.K. Primary Servicing Staff	7	10	13	12

Table 1

Servicing Portfolio Evolution (cont.)				
	2012	2013	2014	2015
U.K. Special Portfolio (GBV)- £	1,271,879,933	897,175,298	909,100,298	908,416,608
U.K. Special Portfolio (Loans)	2	3	4	4
U.K. Special Portfolio (Properties)	38	29	31	5
U.K. Special Servicing Staff	2	4	4	5
U.K. Loan Recovery Staff*	N/A	N/A	12	8

*CBRE group team working within the servicing unit and providing services to other business divisions as well. N/A--Not applicable.

CBRELS achieved its business plan goals since our last review, once again demonstrating its ability to reach its growth objectives. The servicer expanded its clients' base, signing new CMBS, balance sheet loans, and syndicated loans servicing mandates. As planned, CBRELS expanded its business in Europe hiring two consultants in Milan and opening a Spanish office composed of two employees.

CBRELS has positive expectations of further primary servicing growth gaining new business from outstanding clients and attracting new ones. In our view, CBRELS has the right competencies and structure in place to achieve those targets and we will closely monitor its primary portfolio evolution.

The special servicing portfolio could substantially diminish by the end of 2016 if the expected completion of two outstanding resolutions will not be counterbalanced by new boarding instead. If so, CBRELS is planning to retain the special servicing expertise, refocusing this team's effort to advisory services, thus reducing the operational risk linked to a potential portfolio decrease.

Management And Organization

We have affirmed our STRONG subranking on CBRELS for management and organization. We believe that the servicer relies on an experienced senior management team with a clear view of the market and the future position of the company. The leadership team has been able to diversify and expand its client base, as well as extend its service offering. In addition, the company continuously enhances its IT platform, which is reflected in a further increase in its 2015 technology budget. We based our subranking on our view of the following:

Structure and staff

CBRELS has a functional structure with three separate departments: loan servicing (formerly known as debt servicing) focused on the primary servicing of performing loans and watchlist management, loan advisory (former debt advisory) focused on special servicing and the restructuring of mainly defaulted loans, and loan recovery (former real estate advisory) concentrated on real estate advisory.

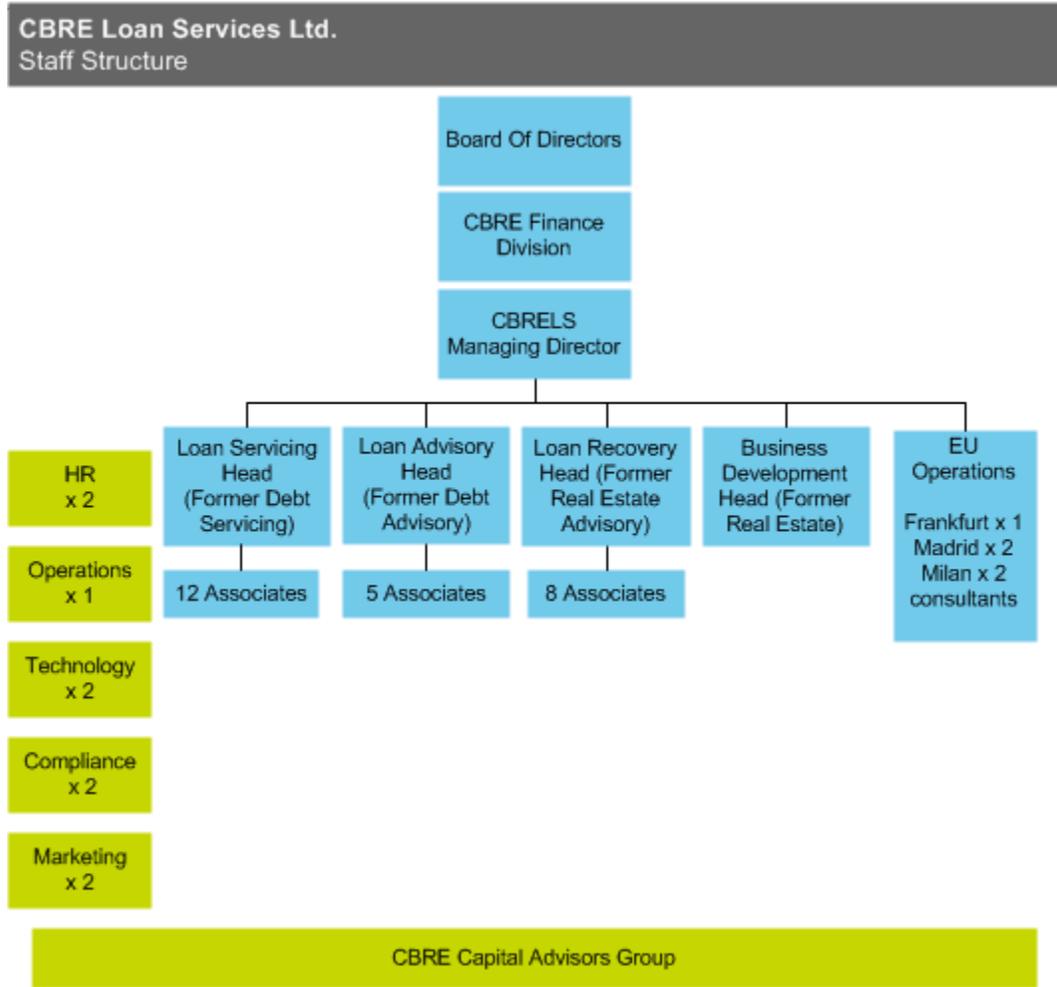
The loan servicing and advisory teams have different structures and apply different loan management workflows. The loan recovery team members work as consultants for the other two servicing teams. They review all real estate-related aspects of the performing loan, including inspections, providing surveillance and reviews of the same topics. This team reviews business plans and restructuring proposals, as well as exit strategies.

Consequently, loan recovery team members attend all credit committees and surveillance meetings. The loan recovery team can provide underwriting services too, whether or not linked to loan servicing. Every team reports to the same senior management group and receives support from the parent company on supporting functions, such as human resources, IT and compliance (see chart 3).

In 2015, the servicer hired a new strategic development manager responsible of the newly created business development function who has formed a business development department. The servicer also expanded its presence in continental Europe hiring two consultants working from CBRE group's office in Milan.

CBRELS' Chief Operating Officer (COO) and global head of CBRE Loans Services reports to the CBRE's head of capital advisors department. The head of CBRE's capital advisors department is a member of the CBRELS board of directors, together with the Managing Director (MD) of CBRE UK and the COO of CBRE UK.

Chart 3



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To conclude, CBRELS' corporate governance includes several meetings at corporate and loan-level.

Table 2

Corporate Governance Committees			
Committee	What	Who	When
Operation check-in meeting	The scope is to address operational issues	Team associates	Weekly
One-to-one manager meeting	The scope is to discuss management priorities and issues faced	Managers within the company	Monthly
One-to-one staff meeting	The scope is to address employee queries and concerns	Team associate and line manager	Monthly
Staff appraisals	The scope is to review employees' performance against objectives	Team associate and line manager	Bi-annually
Business Development Meetings	The scope is to discuss new business opportunities	Business development manager and department heads	Weekly
Team Meeting	The scope is to discuss team priorities and tasks' progress	Team associates and team leader	Monthly
Town Hall Meeting	The scope is to communicate company strategy and objectives	All staff	Quarterly
Credit committee Meetings	The scope is to review loan performance	Team associates and team heads	Ad-hoc
Client on-site Portfolio reviews	The scope is to discuss forward looking portfolio strategy	Clients and CBRELS representative	Quarterly
Senior Strategy Meetings	The scope is to discuss company strategy	Senior management	Quarterly
Staff Newsletter	The scope is to communicate monthly company updates	All staff	Monthly
Deal Board	The scope is to review of potential deals	Senior management	Quarterly
Management Review	The scope is to review the management system and its effectiveness	Board of directors	Bi-annually

As of December 2015, CBRELS employed 28 staff overall, including 23 U.K.-based staff--12 of them working on primary and five on special servicing--and five EU operations staff. These figures exclude eight staff members, which make up the loan recovery team that provides in-house real estate advisory services. Every loan manager works, on average, on 25.5 performing loans--up from 19 in 2014--and one defaulted loan.

In 2015, CBRELS registered a higher turnover rate than in the previous year as four employees left the company compared to just one in 2014. CBRELS does not perceive the turnover increase as critical because one staff member retired, two relocated within CBRE UK, thus retaining the expertise within the group, and just one pursued new professional opportunities.

Table 3

Staff Evolution and Turnover Rates					
	2015	2014	2013	2012	2011
Staff at beginning of period (E)	24	21	14	13	14
Number of joiners	3	4	10	4	1
Number of staff leaving voluntarily (A)	3	1	3	2	1
Number of staff leaving not voluntarily(B)	1	0	0	0	0
Number of expired contracts(C)	0	0	0	0	0
Number of staff redundant (D)	0	0	0	0	1
Staff at end of period	23*	24	21	15	13

Table 3

Staff Evolution and Turnover Rates (cont.)					
	2015	2014	2013	2012	2011
Turnover Rate [A+B+C+D]/E (%)	16.67	4.76	21.43	15.38	14.29

*Excluding eight staff working in the loan recovery team and outside the U.K. Source: CBRELS, S&P Global Ratings.

We consider the CBRELS team to have wide industry experience and good level of tenure in line with last year's level (see table 4).

Table 4

	Experience				Tenure			
	Senior management	Middle Management	Staff primary	Staff special	Senior management	Middle management	Staff primary	Staff special
2015	24.0	22.5	12.0	5.0	14.0	4.0	4.0	2.0
2014	27.0	26.5	11.0	8.0	16.5	5.5	3.0	3.5
2013	26.0	25.5	10.0	7.0	15.5	4.5	2.0	2.5

Source: CBRELS, S&P Global Ratings.

In our opinion, CBRELS does not face any major risk of key man dependency. The company is supported by a reasonable number of senior managers who can easily take over leadership responsibility in critical circumstances. Moreover in 2015, following the mother company's best practice, the servicer designed an official succession plan identifying who could run the business in the short and long term up to five years from now.

Training/development

CBRELS receives full support from its parent company for hiring, training, and staff development related issues. There are 56 employees on CBRE's HR team and two HR employees are exclusively working for CBRE's capital advisors division, which is the department in charge of reporting CBRELS' activity to the group. CBRELS' COO works directly with the two HR associates in order to tailor HR support to the company's needs. Those include CBRELS specific training requirements which CBRELS senior and middle managers are responsible to identify and CBRELS proposes to the CBRE UK board of directors to approve the related budget.

Moreover, CBRELS' staff has access to all of CBRE's internal and external training programs. Through CBRE's group intranet, they access their personal profile to book training courses and track the outcome of performance reviews. Compared to our previous review, the list of available training courses has almost doubled. CBRE training includes several business skills development related courses while CBRELS training courses are focused on servicing activity.

Table 5

	2014		2015	
	Average annual training hours	Induction	Average annual training hours	Induction
Internal	18.7	6.0	6.0	13.0
External	4.0	0.0	25.0	0.0
On the job	14.0	28.0	5.0	23.0

Table 5

Average Training Hours (cont.)				
	2014		2015	
	Average annual training hours	Induction	Average annual training hours	Induction
Online	13.0	3.0	6.5	10.0
Total	49.7	37.0	42.5	46.0

Source: CBRELS, S&P Global Ratings.

In 2015, the average annual training hours per employee decreased to 42.5 from 49.7. At the same time, the company shows a high level of staff expertise. The servicer also provides 46 hours on average of induction training for new joiners up from 37 hours in the previous year. Senior managers introduce new joiners to CBRELS' organization. During the first week, senior staff introduce policies and procedures, as well as the IT and compliance system. During the remaining onboarding period, ongoing training on the loan servicing system is provided. At the same time, specific training needs for each new resource are identified and provided as required.

In 2015, CBRELS strengthened its talent development activity in line with CBRE group's strategy. As a result, two CBRELS employees joined the newly established CBRE international swap and learn program which offers the chance to work from a foreign office for one week. Similarly, they introduced a CBRE talent program which supports two to 12-month secondment opportunities for high performing employees. Furthermore, two CBRELS employees attended a new program specifically designed to coach future leaders by developing their leadership skills. Three other CBRELS analysts participated in the management leadership program which CBRELS applied since our last review.

CBRELS follows the CBRE Group compensation system, which aims to retain staff through recognition of individual performance. At the beginning of each year, line managers communicate new corporate objectives to their teams and meet each employee for assessment of year-end personal results, and to set up new goals for the coming year. Since our last review, CBRELS also applies a talent matrix.

Systems and technology

CBRELS uses the same technology as the CBRE Group. This should guarantee access to significant resources, as CBRELS uses the best and most updated IT systems available at the CBRE Group level. CBRE's IT team and helpdesk service also supports CBRELS, which comprises of 144 staff who provide the full range of IT functions across the UK CBRE teams, including infrastructure, software development, application support. Two technology resources are fully dedicated to the capital advisors business line which CBRELS is part of.

CBRELS uses a single loan management system, Cassiopae, to manage all of its servicing activity. It is a web-based single database application that provides comprehensive functions to deal with commercial loan management, and is widely used in the European market. It supports loan agency and servicing, asset management, and financial reporting with multicurrency capabilities.

The system is continuously upgraded because CBRELS has developed a robust collaboration with Cassiopae's provider, allowing active participation in system development by both parties. The current loan management system can load up to 100% new loans without requiring any upgrade. Cassiopae is less appropriate for supporting the special servicing activity, as it is less standardized and requires functions Cassiopae does not have, such as cash flow

projections. Consequently, CBRELS uses some applications that are external to the core loan management system, such as the loan compliance solution which supports cash flows and asset valuation and the compliance diary that facilitates loan compliance with covenants. Similarly, CBRELS produces reports outside the loan management system.

In 2015 the servicer's technology budget increased by 27% which resulted in several system upgrades for CBRELS. First of all, CBRELS launched a major project to replace its loan servicing system with a new servicing system called Finance Active. The servicer has now boarded some loans onto the new system and plans to roll it out by the end of 2016.

Nevertheless, CBRELS will run the two servicing systems in parallel for at least two quarters in order to mitigate any operational risks that may occur and avoid errors. In the meantime, CBRELS will transfer all historic data from Cassiopae to Finance Active. The new loan servicing system is more versatile and it offers greater flexibility to the servicer. For instance, an asset manager could create a customized dashboard for each portfolio without requesting assistance from the vendor. In addition, interest rates are automatically boarded on the new system.

In our opinion, the new loan servicing system is user-friendly and easy to navigate, which should contribute to more efficient operations.

CBRELS has an intrusion detection system in place which was tested in September 2015. In addition, all user access passwords need to be changed every 12 weeks.

CBRE servers support CBRELS' systems. A specialist tape-storage company backs up the servers daily and stores them offsite. Storage area networks, de-duplication, and virtual tape libraries technologies support data retention and recovery. CBRE has four computer rooms: three in London and one in Madrid. The core data for each office, including network files and pivotal applications, can be replicated to an alternative site. In 2015, CBRE's data center was transferred from Milton Keynes to a state of the art data center in Romford.

The CBRE group has a business continuity (BC) plan for each local office, including the London office, where CBRELS is located. SunGard Consultancy Services developed it. It is responsibility of the CBRE group's BC officers for EMEA and U.K. to keep the BC plan up-to-date. The U.K. BC officer reviews and updates the London BC plan semiannually while the IT team works on the technical aspects of it.

Since our last review, a new BC plan template was rolled out by the CBRE group. The transition to the new BC plan was managed as a project with the assistance of the EMEA BC team. BC business impact analyses were conducted from both a business line and site perspective. The new BC plan was fully tested in November 2015.

The most recent Disaster Recovery test was in June 2015 and it took four hours to restore information. CBRELS can use the second CBRE office in London, which is five to six kilometers away and connected to a different power grid, as an alternative site. The company has three seats assigned there, but all staff can work from home, accessing the company systems and servers remotely and securely via a virtual network. Although we would normally anticipate an alternative site to be further apart, the proximity between sites is mitigated by the staff's ability to work from home, if necessary. If both the London sites became unavailable, the data stored on the storage area network would be accessible from the U.K. data centers or the Madrid data center.

In September 2014, the CBRE group obtained ISO 27001 Information Security accreditation. The CBRE group also follows the principles of the ISO 22301 Business Continuity standard and aims to get certified in the near future.

Internal controls

CBRELS is subject to the same internal controls regime as the CBRE Group:

- CBRELS' head of loans administration runs data quality and compliance checks twice a year, which are subsequently reviewed by CBRE's compliance officer. The activity is completed online and is focused on compliance with transaction documents and internal policies and procedures;
- Lloyds Register Quality Assurance (LRQA) is in charge of the external audit review and gives the CBRE Group an ISO9001/2008 certification. LRQA selects areas to audit based on its own criteria. Usually LRQA reviews each area over a cycle of a maximum three years, but has reduced it to one year for CBRELS. The most recent external audit of CBRELS was in July 2015. The current external auditor has a great deal of experience in real estate assurance;
- The board of directors review internal and external audit results as part of the bi-annual management review; and
- KPMG annually runs a financial audit review.

In 2015, internal and external audits did not highlight any issues.

The compliance officer heads a team of four compliance associates who manage the compliance and risk management functions, and coordinate the internal audit review for the whole group. CBRELS is subject to more frequent audit reviews than other CBRE group businesses because the parent company recognizes a higher operational risk embedded in the servicer activity. Consequently, CBRELS is subject to two semiannual internal checks and an annual external audit provided by external professionals. Each one details any required actions and is reviewed by CBRE's executive board on a timely basis. In our opinion, this audit practice guarantees a good level of assessment of the risk that is rooted in CBRELS' activity. There is a central system where audit reports and findings are stored. The tool is used for the management of compliance action plans as well.

The compliance officer oversees the internal data quality and compliance checks, and trains 80 audit champions from the business. CBRE confirmed that it carefully selects (usually based on seniority), trains, and monitors each auditor, to mitigate the risk of conflict of interests that could arise (as each area is essentially assessing its own operations). This risk is further mitigated as the final audit responsibility lies with the CBRE compliance team.

CBRELS' head of loan administration is in charge of internal data quality and compliance reports for CBRELS. Each check includes both file reviews and an overview of the teams' compliance. They are completed online and are submitted to compliance for review.

In addition, regular staff training and monitoring is undertaken in relation to compliance matters. The compliance officer reports any compliance issues to the COO of the CBRELS and completes monthly compliance reports which feed into the management review.

The compliance officer undertakes a risk review reported into the CBRE EMEA risk register and then feeds into the global risk register that holds the overall group risks. In our opinion, this increases the risk of concentration of pivotal roles into a single position. The CBRE Group risk register is reviewed every two years following extensive interviews with department heads. For each area, the register reports the related risk description, classification of the potential impact, risk likelihood, risk progress, and recommendations. On average, CBRE's management considers all the

reviewed areas as low to medium risk. The final result is a detailed action plan for the next two business cycles in order to mitigate the identified risks. The board reviews the plan progress every quarter. In addition, a monthly risk report is sent to the management board and all risks are reported in the biannual management review. We understand that there have been no complaints in 2015 and there are no outstanding litigation issues.

The anti-money laundering activity is part of the best practice officer's responsibilities who reports to the compliance officer. CBRE uses specific software to support this function, in line with best market practice.

CBRE applies a Business Management System which sets out the servicer structure, policies, and procedures, and it is certified by LRQA as meeting the requirements of the ISO 9001:2008 standard. Company policies and procedures can be found on the CBRE intranet and are accessible to all staff. CBRELS' manual, which covers the company's full range of servicing and special servicing activities, can be found on the compliance and best practice section of the intranet. The contents of the CBRELS manual are reviewed at least every 12 months. Changes to procedures are approved by the Head of either Loan Servicing or Loan Advisory before being incorporated into the manual. The manual carries the date of the latest version following any changes to procedures incorporated in the text.

Loan/Asset Administration

We have affirmed our STRONG subranking on CBRELS for loan administration as a primary servicer of commercial mortgages in the U.K. We have also affirmed our ABOVE AVERAGE subranking on CBRELS for loan administration as a special servicer of commercial mortgages in the U.K. CBRELS has well-established servicing operations, which have remained essentially unchanged since our last review. The servicer has invested in a new loan servicing system, which will further enhance the efficiency of its servicing processes and procedures. Similarly, CBRELS upgraded its loan compliance system and introduced a new client information portal.

Despite the current decreasing cycle of the special servicing portfolio, the servicer has managed to secure a couple of nonperforming loan mandates this year and has successfully leveraged its resources skillset in providing advisory services including loan sales, loan valuations, underwriting, and restructuring. Hence, special servicing talent remains within the organization while being continuously developed.

As of December 2015, the company serviced a portfolio of approximately 334 loans and 2024 properties, representing a total unpaid principal balance of approximately £17.3 billion of gross book value (GBV) (see table 6). Following CBRELS methodology, the above figure reports loans in both the primary and special portfolio if the servicer receives the two fees on the same loan. The overall portfolio accounts for £16.42 billion without double counting any loans which total 334 loans and 2024 properties.

As of December 2015, 65% of the overall portfolio in terms of GBV was in the U.K., 10% of the portfolio was in Germany with the rest being spread around Europe.

Chart 4

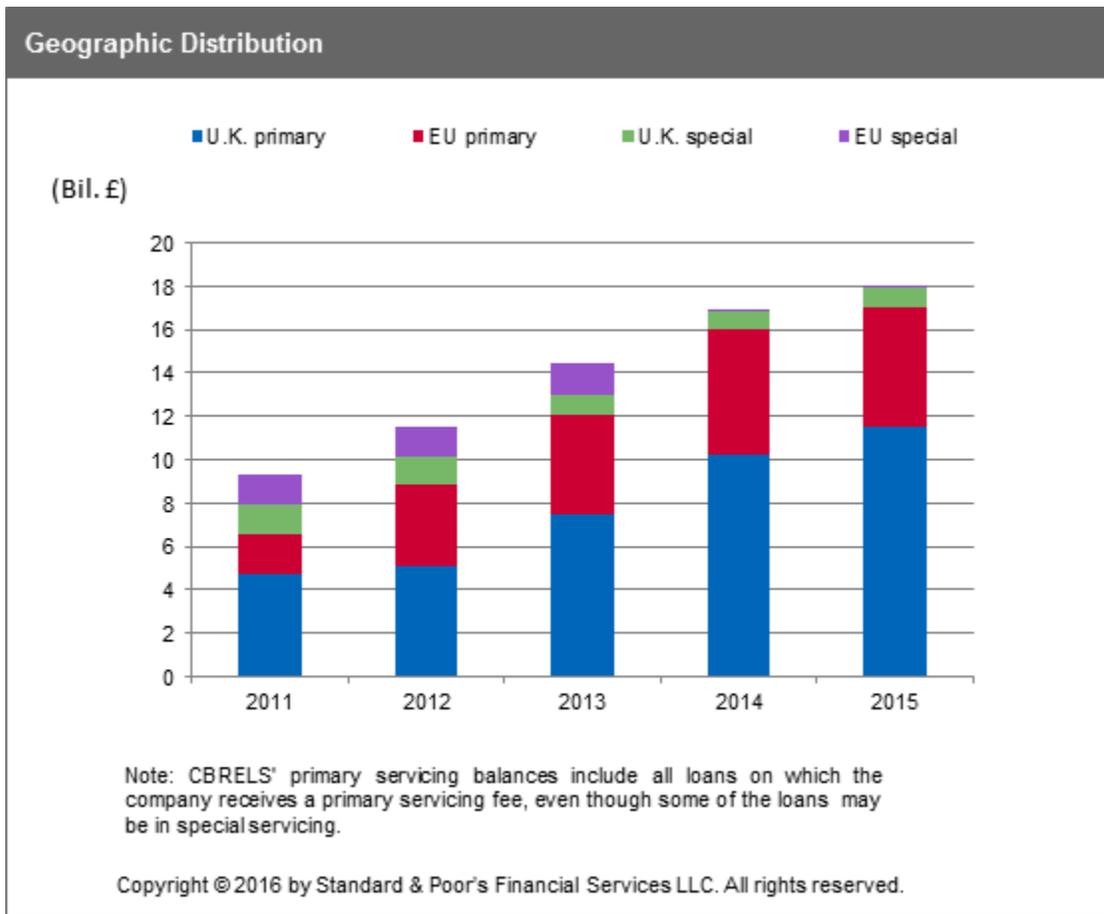


Table 6

Portfolio Evolution Distribution			
GBV as of December 2015	Performing (Primary)	Nonperforming	Total
European overall portfolio (£)			
<15 Million	690,014,057	29,108,298	719,122,355
>15 Million	14,758,309,255	943,604,635	15,701,913,890
CMBS	2,668,272,525	920,651,752	3,588,924,277
Balance sheet/syndicated	13,752,763,720	52,061,180	13,804,824,900
U.K. overall portfolio (£)			
<15 Million	485,268,184	16,881,843	502,150,027
>15 Million	10,060,293,677	891,543,455	10,951,837,131
CMBS	1,694,211,236	902,793,455	2,597,004,690
Balance sheet/syndicated	8,851,350,625	5,631,843	8,856,982,468

CBRELS does not directly own any portion of the portfolio. It acts on behalf of its clients including special-purpose entities (SPEs), originators, and investors.

Table 7

Portfolio Under Management By Ownership		
	Gross book value (£)	Number of loans
Portfolio directly owned	-	-
Portfolio owned by third-party	13,804,824,900	317
Securitized portfolio	3,588,924,277	17
Total	17,393,749,178	334

Note: CBRELS' primary servicing balances include all loans on which the company receives a primary servicing fee, even though some of the loans may be in special servicing.

We have reviewed all aspects of loan servicing, including loan boarding, payment processing, investor reporting, customer service, collections, litigation, and asset recovery functions.

New loan set-up and document tracking

From December 2014 and up to December 2015, CBRELS boarded 183 new loans. The servicer expects to board two new portfolios corresponding to 40 loans within the next 12 months.

CBRELS employs six staff members to take care of the administrative work related to the boarding activity; the head of loan administration, and five loan servicing analysts.

Once a new loan has been boarded, the head of loan servicing assigns an asset manager and a loan servicing analyst who work together to upload it onto the system and on surveillance tasks throughout the life of the loan. Upon acquisition, the loan servicing analyst and the asset manager set up Cassiopae, check and board the documentation, and store it. They scan all loan transaction documentation and upload an electronic copy to the intranet. The loan manager chases any missing information and organizes documents into lender and loan specific files (which is only accessible to loan servicing staff). Similarly, they create covenant entries within the loan compliance diary.

A portfolio manager (usually a middle manager at director level within the primary servicing team) reviews and approves the initial administrative work to make the loan live on the system. CBRELS procedures usually require approval at line manager level to change any basic details of the loan in the system, as a double check of data accuracy.

On average, it takes five days to board a new portfolio and two days to review the loan documentation in full.

Customers are notified of the change of servicer by the client or with a joint notification between 5-10 days from boarding.

Payment processing

The company is entitled to manage all borrowers' rent accounts but there is no direct management of any cash flow for loans in primary servicing. All payment is electronic. There are six staff members trained to manage the payment process and two are actively working on this task. There is robust segregation of duties in place as two authorizations are required before making any payment. Bank accounts are reconciled on a monthly basis and given that all the payments are electronic, there are no suspended items.

The six staff members run payment calculations for all loans through the Cassiopae system, as are calculations of

amounts due to or receivable by the borrowers from interest-rate hedges. After the asset and portfolio managers have checked the calculations, they forward them to the borrowers, with a hard copy retained on the loan file.

The asset manager verifies the funds held on the borrowers' rent accounts and other charged accounts. As this happens before the interest-payment date, if available funds are insufficient to meet the next loan payment, the asset manager contacts the borrower to establish how payment will be funded. However, we have been reassured that it has only been necessary in a few exceptional cases.

Banking systems are web-based which allows for making payments and the continuation of service from a remote location.

Property insurance

CBRELS' asset manager ensures that adequate and appropriate insurance is maintained on the property collateral in accordance with the loan documentation. The asset manager obtains evidence of continuing cover from the borrower or insurer as appropriate. The diary system records all renewal dates.

Client management and investor reporting

Since our last review, a client portal was created on SharePoint to facilitate clients' access to live information on every portfolio, associated loans, and the CBRE research portal. In addition, the newly appointed strategic development manager's mandate includes strengthening outstanding clients' relationship management. In our view, he has a solid experience in the CRE market having previously worked in the sector for over 20 years. CBRELS senior managers also promote CBRELS' service and are committed to improve its client relationships at a higher level. Finally, even though CBRELS does not have account directors, each loan and portfolio manager is always available for the company's clients.

CBRELS schedules the reporting process, when it boards the loan, to comply with the required timetable. Reporting duties remain within the primary servicing function, so the two teams agree on which data the special servicer has to provide to the primary servicer for compilation of reports. The special servicer will also issue strategy and performance reports as appropriate. All asset and portfolio managers have been trained on producing investor reports. The system provides automated reminders to the asset and portfolio managers. The portfolio manager is responsible for reports, while the asset managers ensure that data is current and accurate. In 2014, CBRELS updated the report production procedure. As of today, the portfolio manager in charge of it can automatically extract data from the unique database and automatically upload it into the system to generate the report.

CBRELS produces comprehensive standardized and bespoke reports on a loan and portfolio level to provide investors with insights on the quarterly movements and performance of investments highlighting any issues and concerns.

In our opinion, CBRELS provides good support to its clients and tailors its service as required.

Primary servicing

As of December 2015, the total primary portfolio has a GBV of £16.42 billion, totaling 327 loans and 2,009 properties.

During 2015, servicing mandates were won on four new CMBS loans, as well as 88 balance sheet loans. CBRELS managed to attract nine new balance sheet loan clients. In primary servicing, each employee manages 26 loans, on

average, compared to 19 loans in 2014.

The new initiatives that CBRELS introduced since our last review include a real estate review which is an enhanced reporting and surveillance product created with the Loan Recovery team and more robust asset surveillance, performed by a surveillance group designed to monitor performance of all assets under management.

The primary servicing duties typically involve managing the assets backing the loans, accounting, administration, monitoring transaction triggers, producing reports, and maintaining a watchlist based on the Commercial Real Estate Finance Council guidelines.

Cassiope management system fully supports the analytical work. The asset manager can organize the working agenda and priorities as they see fit, although they have to accomplish a minimum set of actions within certain deadlines.

Right after boarding, the asset manager checks property insurance adequacy, missing documentation, property reviews, financial controls, and other information to verify completeness and compliance with transaction documentation and to ascertain any additional requirements.

As part of the asset manager's information-gathering process, they undertake an initial inspection of properties. This inspection should take place within 12 months of the servicer appointment. The asset manager carries out future inspections in accordance with the transaction documents. CBRELS keeps detailed reports on the loans, which include the condition and location of properties, and any issues likely to affect value or demand. With regards to property valuations, when CBRELS manages agent or balance sheet loans, the lender recommends a valuation company. Otherwise, CBRELS follows the usual practice applied for securitized loans: to obtain three valuation quotes, including CBRE's; and pick the most appropriate and convenient in order to avoid any conflict of interest.

For commercial mortgage-backed securities transactions, it is key for CBRELS to ensure compliance with the financial covenants as per the loan documentation. This requires monitoring properties' financial performance against relevant loan obligations. To this end, the system automatically calculates financial covenants. This feature of the system helps to monitor loans' future performance and to assess critical situations, due to their constant review of factors such as tenant profiles, outstanding and prospective rent reviews, lease expiries/renewals, and lease breaks. The functionality of the loan compliance system has been further enhanced since our last review. The new loan management system is also expected to increase the efficiency of the primary servicing function.

The asset manager reports any critical loan to the watchlist committee. CBRELS operates a three-stage watchlist process which is designed to allow for a degree of flexibility and capture potential issues on time to ensure early resolution. Upon receiving any information that may negatively affect the asset's credit quality, the asset manager tests each loan against CBRELS' watchlist criteria. If any test fails, the asset manager prepares a watchlist recommendation and submits it to the portfolio manager who, in turn, jointly approves any watchlist with the departmental head. Similarly, the portfolio manager circulates a quarterly copy of the watchlist to each asset manager for comment. In our opinion, CBRELS' detailed watchlist process is robust. We note that each loan in special servicing was previously on the watchlist, which would suggest that the process functions as it should.

Special servicing

The total special servicing portfolio comprises £0.97 billion of GBV, totaling seven loans and 15 properties.

In principal, special servicing involves workouts or foreclosure of nonperforming loans. However, CBRELS' special servicing team also works closely with the primary servicing team on underperforming loans like those included on the watchlist. This activity can start even before the loan is on the watchlist. CBRELS considers the pre-default work as pivotal, and it works on resolution as on a case-by-case basis and, if necessary, well ahead of the incumbent default. Thus borrower meetings are all finalized ahead of the likely default event. The special servicing team places great focus on preparing both asset and loan reviews, including legal covenant reviews. The team takes care of loan litigation as well. Currently, two special servicing employees have been trained to work on this task.

Once a new loan is registered under the special servicing portfolio, either one from the watchlist or one that is newly boarded, senior managers assign it to a special servicing manager. If the loan is internally transferred to special servicing, the asset manager debriefs the special servicing manager on the loan's circumstances, and facilitates access to the relevant data and files.

The special servicing manager handles all of the preliminary administrative work, such as notifying the borrower about the default and reserving all the rights on the creditor's behalf. He subsequently contacts the borrower to gather information on the business plan and inspect the security asset right after transfer.

The special servicing manager inspects all properties when a loan is transferred to special servicing. Property inspections are performed based on CMBS deals' requirements and in accordance with client instructions for balance sheet loans.

The special servicing manager submits the workout strategy to the special servicing committee for approval. The committee is composed by a MD as chair, the heads of primary and special servicing, and special servicing senior directors. The timing of the meeting depends on the complexity of the transaction in question. The required quorum of the special servicing committee guarantees full independence of the workout strategy.

The workout can be finalized through a consensual or an enforced solution. In the former case, the special servicing manager takes care to amend all documents as required by the plan agreed with the borrower. They can request support from external advisors and lawyers as necessary. CBRELS' special servicing manager applies the remediation plan and reports to the special servicing committee on a timely basis. The consensual resolution usually results in either the loan returning to performing status or the assets being sold. In the enforcement case, the resolution is agreed with the receiver, administrator or liquidator, and every action is taken to protect the collateral.

The servicer registered a number of positive resolutions since our last review including the sale of a strategic CMBS in the U.K. and a German retail portfolio which are currently being finalized. Once this takes place, CBRELS' special servicing portfolio will substantially decrease if no further loans will be boarded into the special servicing.

While there are not a lot of special servicing opportunities given the positive market conditions, the servicer has already managed to secure a couple of special servicing mandates. Furthermore, the special servicing team provides a broad range of advisory services including loan valuation of both performing and nonperforming loans and

restructuring advisory. Therefore, despite a special servicing business lower than in the past, CBRELS advised that two more staff members are in the process of being hired. This reduces the operational risks associated to a decreasing portfolio.

In our opinion, CBRELS has demonstrated a robust professional and technical knowledge to manage a variety of situations and the ability to retain expertise during the downward part of the market cycle. During the past few years it has been able to successfully resolve several critical cases, reporting a recovery rate between 100% and 85%.

Outsourcing

CBRELS' servicing team relies on external support for legal, tax, and valuations-related issues. The company uses CBRE experts or external companies, depending on each case. CBRELS does not work with a panel of approved specialists and instead appoints the most appropriate through an internal committee. Finally, CBRELS can rely on CBRE's restructuring specialists in Frankfurt, Madrid and London.

Financial Position

We consider CBRELS' financial position to be SUFFICIENT. We have based this outcome on the 'BBB/Stable' credit rating we have assigned to CBRELS' parent, CBRE Services Inc. We believe that CBRE Services Inc. has sufficient financial strength to support CBRELS' servicing operations for the next 12 to 18 months.

Related Criteria And Research

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

- Servicer Evaluation: CBRE Loan Servicing Ltd., Jan. 19, 2015
- Select Servicer List, published monthly
- CBRE Services Inc., Sept. 18, 2015

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