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Servicer Evaluation: CWC Capital Asset Management LLC

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Ranking Overview

Commercial special

Overall ranking	STRONG
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Subranking

Management and organization	STRONG
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Loan administration	STRONG
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Outlook	Stable
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Financial position	SUFFICIENT
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Key Ranking Factors

- Highly experienced and reasonably well-tenured senior management and asset management staff.
- Good leverage of proprietary special servicing technology system.
- Substantial audit, compliance, and control framework.
- Demonstrated ability to successfully resolve defaulted loans and manage real-estate owned (REO) assets of all levels of complexity.
- Shrinking, yet still sizable, portfolio volume.
- Improved 2017 average loan resolution speed relative to peers' and significant REO liquidation volume, though the average hold period for its REO assets remain elevated compared with those of most other STRONG ranked special servicers.

Opinion

S&P Global Ratings' overall ranking on CWC Capital Asset Management LLC (CWCAM) is STRONG as a commercial mortgage loan special servicer ranking. We believe CWCAM maintains an efficient and reliable platform for managing a high-volume portfolio of nonperforming commercial mortgage loans. In particular, it has a highly experienced and reasonably well-tenured management team, solid internal controls, a strong risk management program, and a robust technology platform. While staffing levels have been affected by attrition necessitated by portfolio run-off in recent years, the senior management team has remained stable, and average employee experience and tenure levels, which are largely similar to peers, have remained consistent since our prior review.

Key Changes Since Last Review

- CWCAM's active special servicing portfolio declined 56% to total approximately \$3.3 billion as of Dec. 31, 2017, from \$7.5 billion as of June 30, 2016 (our last review).

- Its named commercial mortgage-backed securities (CMBS) special servicer portfolio (including Freddie Mac K-Series transactions) declined 17% to \$74.2 billion as of Dec. 31, 2017, from \$85.4 billion as of June 30, 2016.
- It migrated to Amazon Web Services (AWS) cloud for its technology infrastructure, which was accompanied by the decommissioning of legacy datacenters and upgrading remote office networks.
- CWCAM revised its disaster recovery and business continuity plans, leveraging and focusing on cloud-based solutions that allow employees to work from anywhere, while altering its recovery location in the Washington D.C. metropolitan area and eliminating the recovery location for its Dallas-based employees.
- It replaced KPMG with CohnReznick to perform its Regulation AB (Reg AB) audits.
- CWCAM added various enhancements to its Commercial Asset Management System (CAMS), including updating the infrastructure with Windows 2016 Servers for the application and database servers, updating the database backend, and integrating with Intex to load CREFC IRP reported fields for CMBS transactions.
- Began utilizing RealINSIGHT® Marketplace, a CWCAM affiliate product launched in May 2017, to conduct auctions of certain loans and REO assets.

Outlook

The outlook for our ranking on CWCAM as a commercial mortgage loan special servicer is stable. We expect active special servicing volume to continue to decline during the remainder of 2018 and into 2019 as CWCAM continues to resolve pre-crisis defaults and manage staffing accordingly to maintain efficiencies. At the same time, we expect CWCAM will continue its efforts to grow its named special servicer portfolio to increase assets under management, largely by working on new CMBS and Freddie Mac structured transactions with B-piece investors. We believe management will continue to invest in technology to increase automation to enhance productivity and retain the necessary staffing, systems, and resources necessary to maintain its existing ranking.

In addition to conducting an on-site meeting with servicing management, our review includes current and historical Servicer Evaluation Analytical Methodology (SEAM) data until Dec. 31, 2017, as well as other supporting documentation provided by the company.

Profile

Servicer Profile	
Servicer	CWCapital Asset Management LLC.
Primary servicing location	Bethesda, Md.
Parent holding company	CW Financial Services LLC.
	Affiliates of certain Fortress Investment Group LLC managed funds.
Servicer affiliates	CWCI, REDS, ConvergentRisk Insurance, and RealINSIGHT®.
Loan servicing system	Commercial Asset Management System (CAMS).

CWCAM, a subsidiary of CW Financial Services LLC (CW), was originally formed in 2005, and the experience of its predecessor entities, Allied Capital Corp. and CRIIMI MAE Inc., dates back to 1995. CWCAM is the appointed special

servicer on 95 CMBS transactions containing \$37.6 billion in unpaid principal balance (UPB) and an additional 38 Freddie Mac K-Series transactions aggregating \$36.5 billion in UPB. The more than \$74 billion in aggregate appointments is the sixth-largest portfolio among all special servicers.

Although CWCAM manages distressed and nonperforming loans and real estate-owned (REO) that are part of assets under management for CW, it is primarily a third-party special servicer. According to management, CWCAM works with more than 40 unique firms that serve as controlling class bondholders. In addition to performing special servicing duties, CWCAM provides acquisition and valuation services to investors, primarily focused on B-piece underwriting and investment analysis related to CMBS and Freddie Mac K-series transactions.

CWCAM's active special servicing portfolio, with \$3.3 billion in UPB, was the third-largest in the industry (see table 1). The active portfolio includes \$1.9 billion in loan UPB (102 loans) and \$1.4 billion in REO across 84 loans containing 99 properties.

Since 2010, CW, which is a commercial real estate finance and investment management company, has been owned by certain Fortress Investment Group LLC (FIG) managed funds. With \$43.6 billion of assets under management, FIG is a leading, highly diversified global investment management firm. FIG has specialized expertise across a range of credit and real estate, private equity, and permanent capital investment strategies and more than 1,750 institutional investors and private clients worldwide. Although SoftBank Group Corp. acquired FIG for \$3.3 billion in December 2017, FIG managed funds continue to autonomously own and operate CW.

CW operates through seven key wholly owned subsidiaries, including CWCAM. CW's other key operating subsidiaries include:

- CW Capital Investments LLC (CWI), which manages commercial real estate debt and collateralized debt obligations;
- CWFS-REDS LLC (REDS), which provides disposition and sale services relating to commercial real estate loans and REO properties;
- CWFS Insight LLC (RealINSIGHT), which develops, creates, and services technology business solutions for investors, lenders, servicers, and special servicers of CMBS transactions, including CAMS, the proprietary servicing technology platform used by CWCAM, and the Marketplace auction platform;
- ConvergentRisk Insurance Agency LLC, which provides risk management and insurance services; and
- CWC Capital Markets LLC, which provides qualified deal flow, underwriting data and expediting services to capital providers, borrowers, and buyers to facilitate financing transactions.

Table 1

Total Servicing Portfolio						
	UPB (mil. \$)	YOY change (%)	No. of assets	YOY change (%)	No. of staff	YOY change (%)
Special servicing						
Dec. 31, 2017	3,276.0	(42.5)	186	(39.6)	70	(11.4)
Dec. 31, 2016	5,695.3	(25.1)	308	(18.9)	79	(20.2)
Dec. 31, 2015	7,605.4	(45.7)	380	(29.6)	99	(11.6)
Dec. 31, 2014	14,002.4	(23.0)	540	(32.4)	112	(15.8)
Dec. 31, 2013	18,195.3	--	799	--	133	--

UPB--Unpaid principal balance. YOY--Year-over-year.

Management And Organization

The subranking for management and organization is STRONG.

Organizational structure, staff, and turnover

CWCAM's principal offices are located in Bethesda, Md., where most of its 70 staff members reside. Certain personnel also operate out of Baltimore and Dallas. The senior executives of the organization report to the president of CW, who has approximately 30 years of industry experience. The key CWCAM executives that report to the president include:

- A managing director (MD) of special servicing who has more than 38 years of experience and is responsible for CWCAM's special servicing asset management and workout functions;
- An MD who has 35 years of experience and maintains responsibility for CMBS and industry relationships;
- An MD and associate general counsel who has 25 years of industry experience and, as a CW employee, oversees CWCAM's compliance, operations, and investor reporting; and
- An MD who has nearly 20 years of experience and is responsible for business development, valuations and underwriting, collateralized debt obligation (CDO) management, and loan management functions, including loan surveillance.

The special servicing group primarily consists of two larger asset management teams, each under the direct management of an experienced asset manager, and a small team that reports directly to the MD of special servicing. The teams consist of a cross section of asset management personnel that oversee loans and assets from transfer in to special servicing through resolution. In addition, CWCAM has separate teams that provide valuations that support the workout process, perform surveillance on the named CMBS and CDO portfolios, and provide third-party underwriting services. The special servicing business is further supported by CW's administrative functions, including the information technology (IT), human resources, marketing, legal, insurance, finance, and accounting departments.

Senior and middle management members possess a high average level of industry experience (see table 2). Despite the significant volume decline since our last review, CWCAM experienced lower turnover: 17.7% in 2017, compared with 25.3% in 2016. In addition, CWCAM's special servicing loan and REO asset managers' industry and company experience, at 25 years and 10 years, respectively, compare quite favorably with those of its peers'. Further, CWCAM reported an assets to asset manager ratio of 6.9 (measured by active loans plus REO assets, totaling 201), compared

with a 9.7 ratio as of our last review. We believe the asset manager ratio suggests CWCAM has ample capacity for new assignments.

Table 2

Years Of Industry Experience/Company Tenure(i)								
	Senior managers		Middle managers		Asset managers		Staff	
	Industry experience	Company tenure	Industry experience	Company tenure	Industry experience	Company tenure	Industry experience	Company tenure
Special	31	12	23	11	25	10	12	8

(i)As of Dec. 31, 2017.

Overall experience and tenure levels have remained generally stable since our last review, despite substantial volume declines in recent years that led to a largely attrition derived contraction in staffing. We expect CWCAM's management and staff members will continue to exhibit the capacity, professional experience, and skills needed to effectively manage its portfolio in accordance with generally accepted industry servicing standards.

Training

CWCAM continues to maintain a robust employee training and professional development program, and its training committee has representatives from various departments in the company. The stated mission of this committee is to organize, plan, and continuously enhance all training programs to ensure targeted topics are covered and each employee achieves a minimum of 40 training hours annually.

CWCAM believes training is a key component of its success and that employee development leads to higher staff retention rates. Training is accomplished through a combination of in-house training seminars (offered live via webinar to remote offices or recorded and made accessible through CWCAM's intranet site) conducted by a mix of in-house and outside professionals. CWCAM offers a wide range of training topics, with an emphasis on practical, hands-on education and high-level, strategic topics. Training participation is also a key element of employee reviews.

Employees new to CWCAM or the industry are provided with a formal onboarding program and orientation in the first two weeks of their hire date. Thereafter, training covers both fundamental and advanced topics related to the CMBS industry, special servicing, real estate, and analytics. Prescribed topics are determined by industry trends, committee members, and polling employees, with the goal of delivering interactive, pragmatic training through high-level, strategic topics that maximize company-wide performance and results. Individual staff members are able to select topics and tracks where skills can be learned or strengthened.

In 2016, CWCAM added a self-guided, web-based intranet training platform that houses thousands of web-based video courses on various topics and professional development. The resource is available to all employees through any internet-enabled device. In 2017, all employees were required to attend third-party hosted web training sessions on handling sensitive information, protecting personally identifiable information and security awareness. Further, specific training for treasury group employees was provided that covered the transmission of banking information, including protocols associated with utilizing the company-wide secure e-mail function. In addition, company-wide training was offered during the year that focused on CWCAM's policies and procedures across a variety of topics.

CWCAM centrally tracks training attendance and monitors all training hours. In 2017, average training hours per

employee approximated 48 hours (excluding industry conferences), comfortably ahead of the firm's objective.

Systems and technology

In our view, CWCAM maintains a well-developed technology platform that facilitates efficient collateral, loan and portfolio information, and data management. It continues to demonstrate a strong commitment to enhancing its systems and business applications.

Special servicing activities are managed and tracked through CAMS, which is web-enabled, using XML web services. It is a full-function asset management platform capable of tracking CMBS and other assets seamlessly from loan inception (performing or nonperforming) until disposition. While CWCAM does not maintain other database systems for the management of the assets, it has gained efficiencies since our last review by implementing applicable data feeds from Intex, thereby eliminating the need for manual uploading of individual data files.

CWCAM has customized CAMS special servicing functionality to meet its specific needs as detailed in the controlling Pooling and Servicing Agreements (PSA) as well as adhering to CWCAM's internal policies and procedures. The system allows CWCAM to track servicers and PSA abstracts, calculate servicing fees, prepare expense reimbursements, spread financial statements, generate operating statements, track appraisals, and import and export standard Commercial Real Estate Financial Council Investor Reporting Package (CREFC IRP) reports. It also provides a unique platform for asset management to perform pro forma analyses of various disposition strategies and to create and generate special servicing business plans.

Since our last review, CWCAM added various enhancements to CAMS, including bringing the infrastructure up-to-date with Windows 2016 Servers for the Application and Database servers, an update of the database backend, and integration with Intex for loading of CREFC IRP reported fields for CMBS transactions.

Additional key components of CWCAM systems include:

- Reports are developed using an ad hoc report writer and can be delivered in PDF, Excel, Word, or raw data formats. Over 200 pre-set reports are available in a report catalog.
- The network drive used for document management and Concur expense reporting are integrated with CAMS.
- Property-level cash flow modeling is done through Argus or standard Excel templates, but both are imported through an interface into CAMS.
- Login is required to securely protect data and allow CWCAM to grant access rights sorted by any combination of user, role, assets, or group.

We believe CWCAM's full use and customization of the CAMS system allows for efficient investor reporting and enhanced compliance with servicing contracts and internal policies and procedures.

Other technology related productivity initiatives since our last review include the migration to AWS for technology infrastructure, which was completed in 2018, and the migration to Office 365 for email services. The transition to AWS was accompanied by the decommissioning of legacy datacenters and upgrading remote office networks.

CW supports disaster recovery (DR) and business continuity (BC) planning for CWCAM. Plans are documented and

kept in a secure location with ease of access during a disaster, and they include comprehensive emergency response and business process recovery procedures. Target recovery time objectives range from one to two days, depending on the business process. CW also provides plan training and testing and maintenance, and it maintains dedicated business continuity plans drafted by Bethesda office management that reflect business obligations and needs, as well as detailed checklists, guidance, and response times for each business activity located in Bethesda.

With the evolution of CW's business both in scale and focus and the advent of cloud based platforms, the company has adjusted its approach to its DR/BC plan to right size its response and leverage its IT capabilities. All key staff have high speed internet (by cable or company provided hotspots) and access via input/output devices (smartphones, iPad, or company supplied laptop). As a result, the plan provides for primary, secondary, and tertiary responses as follows:

- Primary response: staff operates remotely, utilizing AWS, either from home or alternative location;
- Secondary response: for key managers, CW contracted for 10 seats with Agility Recovery ReadyOffice, a national firm capable of providing access to over 40 Washington, D.C.-area office properties, for backup office capability to be operational within 24 hours of event declaration; and
- Tertiary response: deployment of Bethesda staff to remaining CW offices in Baltimore, New York, or Dallas as needed.

In the event a smaller branch office is affected by a serious disaster event, office staff will operate similarly to Bethesda, initially utilizing remote operations via AWS, followed by guidance from senior management as to next steps, based on the extent of the event and anticipated duration of remote operations.

Under the new DR/BC regime, the plans will be formally reviewed periodically or whenever significant business process change occurs, whichever is sooner. Plan testing occurs no less than annually. While no longer applicable, the latest testing performed in 2017 that supported Bethesda (September 2017) and Dallas (November 2017) operations were successful.

In order to prevent cyber-attacks, an intrusion detection and intrusion prevention system is used to monitor real-time network traffic and provide automated security actions, alerts, escalations, and reporting. Routine third-party network penetration testing is performed quarterly, with more comprehensive testing performed annually. Additionally, employee desktops and servers are secured with an advanced security platform, which utilizes algorithms and artificial intelligence to block threats. CWCAM indicates these features are in addition to typical standard security measures such as firewalls and system monitoring.

All critical systems are protected by a combination of both backup and replication technologies. Backups are performed using snapshot technology on routine schedules. These backups are uploaded to Amazon snapshot storage in the production region and then also replicated to the disaster recovery region for additional protection. In addition to routine backups, replication technologies are used where applicable to continuously protect systems on a real-time basis. By leveraging multiple technologies and layers of protection, the company believes it is prepared for any potential system failures or disasters and has the ability to quickly recover with little to no data loss. Its recovery point objective is four hours.

Internal controls

We believe CWCAM has a solid control environment designed to mitigate operational risk and maximize recoveries for investors and clients. The control environment includes detailed policies and procedures and a variety of internal audits (quarterly and annually), as well as an annual external audit of management's attestation of compliance with each of Reg AB and Uniform Standard Audit Program (USAP).

CWCAM's compliance committee is responsible for the company's overall internal framework. The compliance committee consists of various senior management, compliance, and reporting employees. These members include the MD of legal, senior vice president of internal risk assessment, MD of special servicing, MD of relationship management, senior vice president of reporting, MD of corporate operations, and the chief financial officer.

We believe CWCAM's special servicing policies and procedures (P&Ps), which are available to all employees online via a shared network, are detailed and comprehensive. The P&Ps, which contain workflow charts to help supplement written explanation of policies, are updated as needed under the direction of the compliance committee. The most recent version was dated as of February 2017. CWCAM uses a committee format that includes certain delegations of authority for lender consents and all special servicing credit decisions. Members of the senior management team participate on the committee and provide feedback to the presenting asset manager.

CW internal audit also conducts quarterly reviews, the frequency of which we view favorably, to evaluate CWCAM's compliance with Reg AB along with related PSAs. The 2017 quarterly reviews contained no exceptions. In addition, CWCAM's Reg AB and USAP reports for each of 2017 and 2016 contained no material exceptions. Beginning in 2016, CohnReznick replaced KPMG, which was the prior Reg AB auditor. Management indicates that no disagreements with KPMG existed and the change was made to diversify service providers and alleviate KPMG service restrictions to CW as a result of CW being classified as an SEC client due to the Reg AB audit. KPMG continues to audit CW and CWCAM's financial statements. No auditor changes have been made for USAP, which continues to be performed by a regional accounting firm.

As an additional control to improve compliance with PSAs and internal P&Ps, CWCAM uses an internal compliance module within CAMS. The module tracks the completion and delivery of all required third-party reports, and other requirements, such as appraisal subordinate entitlement reduction (ASER) calculations, business plans, and official notices. The results are available online to asset management staff in the form of reminders and ticklers, and exception reports are distributed to senior management. Internal audit also performs an annual compliance review with respect to CWCAM's internal policies and procedures as incorporated in CAMS in May 2017 with no exceptions noted.

Finally, CWCAM maintains P&Ps to ensure the appropriate treatment and recognition of ancillary and servicing fees governed by PSAs. CW internal audit reviewed these procedures and performs an annual fee audit. The audit, which covered a nine-month period in 2017, contained no exceptions to the appropriate treatment and recognition of fees noted.

Overall, we believe the preceding supports our view that CWCAM maintains a substantial audit, compliance, and control framework.

Insurance and legal proceedings

CWCAM has represented 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, 2017.

Management reported three material legal matters outstanding against CWCAM. One is associated with CWCAM's servicing activities of a CMBS first mortgage in the ordinary course of business involving a junior creditor. Another matter was initiated by the trustee (the trustee litigation) under five PSAs, each of which held a pari passu interest in a \$3 billion mortgage. The petition requests the Southern District of New York (SDNY Court) to instruct the trustee, the trust beneficiaries, and any other interested parties as to the proper allocation of \$560 million of disputed proceeds that CWCAM considered to be penalty interest (and thus was paid to CWCAM as servicer compensation). The third, also filed in the SDNY, was initiated by a CDO bondholder pertaining to the same underlying \$3 billion mortgage and asserts claims against CWCAM for aiding and abetting, breach of fiduciary duty, conversion, and unjust enrichment. This latter complaint was recently dismissed for lack of subject matter jurisdiction (although the dismissal can be appealed).

Despite the aforementioned matters, management denies the claims, does not provide for any accrual for any legal exposure in its financial statements, and has indicated that it intends to vigorously contest each of these matters. While we are concerned with the magnitude of the damages sought in the trustee litigation, our financial position assessment of SUFFICIENT for CWCAM assumes the servicer is successful in such litigation. S&P Global Ratings will continue to monitor the litigation matters and will take ranking action as appropriate.

Loan Administration

The loan administration subranking for commercial mortgage special servicing is STRONG.

CWCAM has built a track record of successfully managing and disposing of troubled assets nationwide while handling complex assets collateralized by multiple property types. CWCAM manages special servicing from its headquarters in Bethesda, Md. and also has staff members located in two smaller regional offices (Baltimore, Md. and Dallas). It reported 70 full-time employees, of which 29 were dedicated loan workout and REO asset management personnel.

In conjunction with improving market conditions, the company's active special servicing portfolio (see table 3) declined dramatically in recent years and continued unabated in 2017: the year-end 2017 portfolio was approximately 85% lower than the peak level.

Table 3

Special Servicing Portfolio															
	Dec. 31, 2017			Dec. 31, 2016			Dec. 31, 2015			Dec. 31, 2014			Dec. 31, 2013		
	UPB (mil. \$)	No.	Avg. age(i)	UPB (mil. \$)	No.	Avg. age(i)	UPB (mil. \$)	No.	Avg. age(i)	UPB (mil. \$)	No.	Avg. age(i)	UPB (mil. \$)	No.	Avg. age(i)
Active inventory															
Loans	1,884.0	102	16.2	3,660.1	183	12.3	3,879.5	185	13.9	5,993.6	265	13.3	9,876.2	379	15.0
Real estate owned	1,392.0	84	35.6	2,035.2	125	42.5	3,725.9	195	42.0	8,008.8	275	38.9	8,319.1	420	33.9
Total	3,276.0	186	25.0	5,695.3	308	24.6	7,605.4	380	28.3	14,002.4	540	26.4	18,195.3	799	24.9

(i) Avg. age reflects the time in months from the date the loan first became specially serviced to the reporting date. UPB--Unpaid principal balance.

Despite significant resolution activity since our last review, the overall average hold time declined moderately to 25 months from 25.7 months. This modest improvement resulted from the lower average hold time of 35.6 months for the REO portfolio (versus 39.8 months for the last review) more than offsetting the increase in average hold period for loans to 16.2 months from 12.3 months. While we have a positive view of the shortened hold time, we note that CWCAM's average hold period for REO assets remain elevated compared with those of most other STRONG ranked servicers.

Loan recovery and foreclosure management

CWCAM displays comprehensive and proactive loan recovery and foreclosure management protocols to efficiently resolve nonperforming loans across a broad spectrum of property types. Highlights of its processes are described below.

Following a transfer to special servicing, the asset manager will conduct a preliminary assessment of the asset, including identification of all entities involved with the asset. The asset manager works with the legal department to determine whether the mortgage loan issuer breached any representations or warranties that would allow for a put-back claim to the loan issuer. The asset manager will also review the collateral and loan files within two weeks of file receipt. The goal of the preliminary assessment is to develop an understanding of the lender's rights under the loan documents and the conditions that led to the loan's default.

Utilizing pre-approved lists, CWCAM's operations team will order the necessary third-party reports (inspections, appraisals, property condition, and environmental reports) required under a PSA, consulting with the asset manager when selecting the vendors that will receive the engagement.

The asset manager will contact the borrower and generally utilizes a third-party vendor to conduct a site inspection within 60 days of loan transfer. If an asset manager performs the site inspection personally, he/she is expected to make every effort to meet with the borrower while on-site in order to establish a dialogue for resolving the current default. CWCAM requires borrowers to sign a pre-negotiation agreement before commencing any workout discussions. In cases where a third-party inspector is engaged, the asset manager is expected to make every effort to be sure that appropriate borrower related personnel are on site to provide complete access.

Asset managers must complete initial asset status reports (ASRs) within PSA guidelines, and an ASR process work flow chart is included in the P&Ps. Subsequently, asset managers complete a full asset business plan within 90 days of transfer using information and analysis gathered after the transfer. This process includes support from CWCAM's valuations team to establish the collateral's target recovery value as well as the fair value of the loan, to the extent required under a PSA. The business plan establishes a target timeframe for the manager to resolve the loan or asset through a loan reinstatement, restructure, payoff, foreclosure, or sale. Asset managers follow more intensive valuation procedures for loans with UPB in excess of \$50 million (an increase from \$20 million as of our last review).

Business plans are presented for approval to the weekly CWCAM credit committee, according to certain delegations of authority. Business plans require an analysis demonstrating that the requested action will maximize the net present value recovery to the trust, with at least two scenarios modeled. Credit committee members include the MD of special servicing, the two team leaders, the associate general counsel, and the head of the operations and compliance group. For loans of \$75 million or more, the president of CWCAM must also sign off on the business plan. We believe the inclusion of representatives from legal and compliance is a best practice because it enhances adherence with real estate mortgage investment conduit (REMIC) rules, servicing standards, company procedures, and servicing contracts. Following committee approval, additional consent is sought by the appropriate controlling class representatives under the governing documents.

CWCAM bases its workout and liquidation strategies on net present value calculations and takes the potential for litigation into consideration. If it is determined that a strategy should be altered or a new one undertaken, the asset manager may be required to produce a new business plan (depending on the extent of the change). All plans are updated as required under PSAs, but generally no less than every 12 months from the last approved plan or when a material change has occurred to the asset or its strategy.

In the event that CWCAM's approved strategy is foreclosure, the asset manager is responsible for coordinating the foreclosure with outside counsel and obtaining all of the appropriate internal and trust approvals. Major asset manager responsibilities prior to foreclosure include:

- Working with the legal department to update title and survey and to secure appropriate title insurance protection;
- Working with the legal department to create a single purpose entity that will take title to the property;
- Ensuring that appropriate insurance is in place;
- Ensuring that all PSA-required third-party reports (environmental site assessment, property condition report, appraisal, etc.) are ordered and reviewed, as applicable;
- Establishing that there are no adverse environmental conditions affecting the property;
- Identifying and hiring the property manager and leasing agent; and
- Overseeing the foreclosure sale.

Table 4 provides a history of CWCAM's loan resolution activity. In 2017, CWCAM loan resolution dollar volume increased more than 31% compared to 2016. All resolution strategies other than returned to master were extensively used and exceeded prior year volume. CWCAM's loans returned to master servicers' have been in decline for several

years, which is consistent with industry trends.

Overall average time of resolution has meaningfully improved since our last review, decreasing to 10.5 months during 2017. CWCAM's accelerated resolution pace has been driven by faster foreclosure time frames as indicated by the five-year low of 12.4 months reported during 2017. Further, when modifying a loan, CWCAM continues to return loans to the master servicer at a relatively rapid clip compared with peers and averaged 9.5 months in 2017.

Table 4

Total Special Servicing Portfolio--Loan Resolutions															
	2017			2016			2015			2014			2013		
	UPB (mil. \$)	No.	Avg. age(i)	UPB (mil. \$)	No.	Avg. age(i)	UPB (mil. \$)	No.	Avg. age(i)	UPB (mil. \$)	No.	Avg. age(i)	UPB (mil. \$)	No.	Avg. age(i)
Resolutions															
Loans	2,720.5	160	9.7	2,286.7	137	7.9	3,789.2	215	11.6	4,259.1	275	15.5	4,995.0	446	16.1
Foreclosed loans	1,067.5	65	12.4	595.5	57	17.9	700.7	70	15.3	4,298.3	76	18.9	1,670.1	137	13.4
Total	3,788.0	225	10.5	2,882.1	194	10.9	4,489.9	285	12.5	8,557.4	351	16.2	6,665.0	583	15.5
Resolution breakdown															
Returned to master	290.0	21	9.5	825.9	26	11.9	1,915.6	62	13.1	2,077.6	87	16.4	3,120.7	169	17.2
Full payoffs	1,357.0	81	5.8	823.0	74	5.1	1,065.5	81	5.6	480.1	69	8.8	601.0	68	7.4
DPO or note sale	1,073.5	58	15.3	637.8	37	10.9	808.1	72	17.0	1,701.3	119	18.7	1,273.2	209	18.1
Foreclosed loans	1,067.5	65	12.4	595.5	57	17.9	700.7	70	15.3	4,298.3	76	18.9	1,670.1	137	13.4
Total/average	3,788.0	225	10.5	2,882.1	194	10.9	4,489.9	285	12.5	8,557.4	351	16.2	6,665.0	583	15.5

(i) Avg. age reflects the time in months from the date the loan first became specially serviced to the reporting date. UPB--Unpaid principal balance. DPO--Discounted payoff.

REO management and dispositions

CWCAM demonstrates extensive REO management and sales oversight. Notable aspects are described below.

Loan asset managers continue to handle assets following foreclosure and conversion to REO status. Nonetheless, for certain assets, primarily large hospitality assets, large multifamily assets, regional malls, and large office buildings, CWCAM will utilize REO asset managers with particular expertise with the property type upon a foreclosure. In such instances, the REO asset manager has the following duties:

- Before the foreclosure, the REO asset manager and the loan asset manager will retain a property manager and leasing agent to operate the asset. The REO asset manager will attempt to initiate this process at least 30 days prior to the foreclosure date to allow sufficient time to interview managers and agents, set up bank accounts, evaluate service contracts, and negotiate the management agreement.

- The REO asset manager will endeavor to inspect the property at least 30 days prior to the foreclosure date, but no later than 30 days after title transfer.

CWCAM has specific policies and procedures for asset managers to determine the exit strategy for all REO assets following title transfer. These include:

- The property manager is required to submit an annual operating and capital budget to the asset manager within 30 days of asset takeover. The budget will form the foundation for the REO business plan.
- Asset managers must prepare a REO business plan within 90 days of a foreclosure or transfer of title to the trust. The REO plan outlines in detail the operating, repositioning, and liquidation strategies that are expected to produce the highest net present value recovery for the trust. Once approved, the REO plan also provides the asset manager with the budget authority required to implement the strategy.
- The selected strategy specified in the REO plan must be based on a thorough analysis of the property, its surrounding location, and existing market conditions. Among other functions, the REO plan serves as an internal control by enabling senior management to review and approve each recommended plan. The credit committee must approve REO plans in accordance with an established approval matrix.
- REO business plans must be updated annually, or when a material change occurs.

REDS leads, coordinates, and manages all CWCAM disposition actions. CWCAM believes REDS involvement in the sale process (for both loan sales and REO) allows for enhanced efficiencies, translating into higher proceeds obtained for the respective trusts. In 2017, CWCAM, via REDS began utilizing RealINSIGHT Marketplace, a CWCAM affiliate auction platform formed in May 2017, to conduct auctions of certain loans and REO assets (16 auction events were conducted in 2017).

CWCAM maintains specific policies and procedures associated with its REO disposition actions. Once the asset manager determines the disposition goal in terms of timing and sale price and receives credit committee and external approval, the asset manager notifies REDS. Once REDS obtains approval from CWCAM's president and the MD of special servicing (the executive committee), including the executive committee's selection of the broker or advisor, REDS will notify the asset manager that the sale methodology, broker, and respective fee structure have been approved. The asset manager consults with the credit committee to establish a minimum sale price and, once the asset manager receives controlling holder approval, REDS initiates the formal sale process. The asset manager, executive committee, and REDS are all involved in reviewing bids and selecting the purchaser.

As noted in table 5, CWCAM has substantial REO disposition experience. Since 2013, CWCAM has sold nearly 800 assets for aggregate net sales proceeds of \$13.1 billion, CWCAM's overall REO sales have largely been consistent with market value (an outsized sale inflated the ratio during 2015), although they reported a multiyear low level of 91.9% in 2017. However, after experiencing steadily rising average hold periods during the past several years, reaching 33.8 months during 2016, CWCAM reported an improved REO average hold period of 29.2 months in 2017--albeit a level that is still among the highest of the special servicers we rank.

Table 5

Total Special Servicing Portfolio--REO Sales															
	2017			2016			2015			2014			2013		
	Amount (mil. \$)	No.	Avg. REO hold period (mos.)	Amount (mil. \$)	No.	Avg. REO hold period (mos.)	Amount (mil. \$)	No.	Avg. REO hold period (mos.)	Amount (mil. \$)	No.	Avg. REO hold period (mos.)	Amount (mil. \$)	No.	Avg. REO hold period (mos.)
Estimated market value	1,131.2	107	29.2	1,371.2	130	33.8	4,853.8	149	32.0	3,038.0	225	24.6	1,604.9	186	22.3
Net sales	1,039.9	--	--	1,366.4	--	--	6,149.5	--	--	3,001.5	--	--	1,562.5	--	--
Sale/market value (%)	91.9	--	--	99.7	--	--	126.7	--	--	98.8	--	--	97.4	--	--

REO--Real estate owned.

REO accounting and reporting

CWCAM's controls and procedures for property-level accounting and oversight are sound. Noteworthy aspects are described below.

Asset managers are responsible for ensuring that the property operating accounts are opened when a property is transferred to REO and the CWCAM cash controls are established immediately. CWCAM establishes a single operating account for rent collections and payment of property operating expenses. The accounts, which require dual signature authority within the property management company, are held at a federally insured bank and opened in the name of the trust or the special-purpose entity.

Property managers deposit all funds into the operating account within 24 hours of receipt and pay operating expenses from funds in the account to the extent that they are consistent with an approved budget. A maximum permitted operating account balance is established, and property managers wire excess funds to CWCAM for delivery to the trust on a monthly basis. If insufficient funds exist to pay expenses or capital expenditures, the property manager must submit an advance request to the asset manager, along with supporting information. Pursuant to approvals under the delegations of authority, CWCAM's accounting department will instruct the trust to advance funds to the operating account.

Property managers must submit a monthly financial reporting package to CWCAM generally no later than the third week of each month, all of which are distributed to CWCAM electronically. The asset manager must review and approve each package within three days of receipt (or the MD of special servicing will be notified) to ensure that it is complete and meets any specific requirements stated in the property management agreement. Variance reports, which the asset managers review, are included in the monthly packages.

In addition, CWCAM has developed and implemented a formal REO property management and audit program. The company uses audit results to streamline contractual agreements and improve oversight. Regular ongoing testing is performed on various properties by CW's internal audit department. Management provided examples of three such audits that were performed during 2017. We reviewed these audits, which spanned retail, office, and multifamily property types, and found no exceptions to compliance with the respective property management agreements.

Subcontracting management

CWCAM handles the management and oversight of subcontractors in a controlled and effective manner and follows formal guidelines. Contracting for third-party reports (e.g., appraisals, environmental assessments, and property condition reports) is centralized under designated staff on the operations and compliance team, which we view as best practice. CWCAM maintains an approved vendor list for appraisers, environmental consultants, attorneys, property management firms, and receivers. Qualifications, market knowledge, and fees based on particular locations and property types are taken into consideration in the engagement process.

As previously discussed, CWCAM uses its REDS subsidiary to aid in special servicing property and note sale brokerage disposition services. Since our last review, REDS has also begun utilizing the RealINSIGHT Marketplace affiliate platform to conduct property and note auctions, which are also collaboratively marketed with third-party real estate brokers.

In order to manage the conflict of interest, inherent in using affiliates, CWCAM engaged an independent third party to conduct a market survey to the reasonableness of fees charged by REDS. Results from the most recent engagement during 2017 led to the third-parties' conclusion that the REDS platform's fee structure are reasonable in the context of the market for similar services. Management anticipates performing similar fee studies on an annual basis to continue to manage the conflict of interest.

Performing loan surveillance

CWCAM has a three-person performing loan surveillance team that monitors loan portfolios where the company is the appointed special servicer. The team focuses on identifying problem loans or loans approaching maturity that contain refinance risk. Responsibilities include:

- Preparing a weekly internal watchlist report to identify and prioritize loans with an above-average default probability. The watchlist categories include transfer (to special servicing), pursue, monitor, and general.
- Evaluating loan and property-level data to establish a loan credit risk rating to identify high risk loans for increased surveillance.
- Conducting monthly conference calls with master servicers to discuss loans of concern to create a better understanding of ongoing asset and portfolio issues, which are documented in the CAMS system.
- Assimilating monthly portfolio reporting information for senior management, including a 65-field performing loan report that gathers data from Intex, CREFC IRP reports, and other market sources, as well as a maturity report that provides detail on loans that mature within six months.
- Assisting with the transfer of information to CWCAM special servicing personnel.

We believe CWCAM's active surveillance allows for early detection of property issues, which enhances timely action to help mitigate or lessen potential loan losses.

Borrower requests

CWCAM integrates the processing of performing loan consent requests within the same asset management team that handles active specially serviced assets, with the MD of special servicing overseeing the declining volume of pre-crisis transactions and a team leader responsible for loans originated post-crisis.

A CAMS module is used to track all consent requests received. P&P's indicate that CWCAM endeavors to process the various requests within 15 days of receipt of the required documentation from the borrower. Consent requests are underwritten according to established P&Ps, which vary by consent type (loan assumption, lease approval, partial release of collateral, etc.) and a case recommendation is prepared according to standardized templates. The approval process follows well-controlled and established delegations of authority procedures.

In 2017, CWCAM reported that it processed 179 borrower requests as a special servicer. Leasing consent activity represented 57% of all request types, while loan assumptions comprised 28% and partial releases of collateral the remaining 15%. Average internal processing time was largely consistent with its internal target.

Legal department

CWCAM has a full-time, three-person dedicated legal team that is fully integrated in the day-to-day special servicing and loan management process and is managed under sound controls. Highlights of key processes are noted below.

CWCAM selects outside counsel from an approved counsel list that groups the attorneys by geographic location and specialty. While asset managers may recommend outside counsel from the approved list, the legal department makes the final decision on engagements. In all cases, the asset manager will provide the legal department with information to avoid conflicts of interest, including the exact name of the borrower, the name and address of the collateral property, and the names of any guarantors or principals. The legal department will contact the law firm and request that it perform a conflict check. If the firm passes the conflict check, the legal department will issue CWCAM's standard engagement letter. The engaged firm will then provide a legal budget, which the asset manager must approve. The asset manager also reviews all invoices the fee counsel submits for conformance with the engagement letter. The legal team also reviews and approves (or revises, as needed) each legal invoice. Approvals are tracked in CAMS.

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

- CWC Capital Asset Management LLC STRONG Commercial Mortgage Loan Special Servicer Ranking Affirmed; Outlook Is Stable, July 11, 2018
- Select Servicer List, June 18, 2018

- Servicer Evaluation: CWCapital Asset Management LLC, Nov. 3, 2016

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