Operational Risk Assessments
Torchlight Loan Services, LLC

DBRS Morningstar
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Contents

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Operational Classification:	Commercial Mortgage Special Servicer
Ranking:	MOR CS1 (Confirmed)
Trend:	Stable

Rationale

DBRS, Inc. (DBRS Morningstar) confirmed its MOR CS1 commercial mortgage special servicer ranking for Torchlight Loan Services, LLC (Torchlight or the Company), a wholly owned subsidiary of Torchlight Investors, LLC (Torchlight Investors). The confirmed ranking reflects the following factors:

- **Asset Recovery Performance:** Torchlight has a lengthy track record as an adept special servicer for commercial mortgage-backed securities (CMBS) transactions. The Company demonstrates expertise with complex debt and real estate owned (REO) assets involving a range of property types across the United States. Torchlight Investors' investment fund portfolio managers also have experience working out large-scale distressed non-CMBS assets.

  After reducing its once sizable distressed CMBS portfolio to a low level at YE2019, the Company's active special servicing volume increased over 2020 because of the Coronavirus Disease (COVID-19) pandemic, albeit to a lesser degree than some other special servicers. It also coordinated with master servicers to grant payment relief requests associated with the pandemic. In 2021, Torchlight successfully resolved many of the pandemic-triggered loan transfers and several more legacy assets.

- **Organizational Stability and Professional Depth:** Torchlight has a highly experienced executive team and senior managers. The cohesive organizational framework covers all essential functions and includes shared resources from Torchlight Investors for compliance, centralized reporting and accounting, portfolio surveillance, and legal oversight. As a smaller-scale special servicer, Torchlight's personnel depth, by employee count, is not as extensive compared with some higher-volume special servicers but it continues to be commensurate with the Company's actual and projected portfolio volume. The Company has had minimal employee turnover in the past few years and no turnover in 2021. It also redeployed several asset managers back to investment fund management during 2021 because of easing special servicing activity.

- **Staffing Workloads and Capacity:** Throughout the pandemic, Torchlight addressed its increased CMBS loan transfer activity mostly through asset manager transfers from its investment management business, which enabled the Company to maintain reasonable workload levels. Considering Torchlight's exposure as a named CMBS special servicer, contingent resources from its funds management business, and easing special servicing volume in recent months, the Company should have enough excess capacity over the next year.

- **Technology:** Torchlight operates in a mostly cloud-based computing environment. For special servicing and broader portfolio management, it uses the remote-hosted Backshop application, which has strong asset tracking, investor reporting, and workflow control capabilities geared to CMBS requirements. An automated and integrated vendor invoice approval/processing application also facilitates special servicing controls and efficiency. Through another vendor, which undergoes security audits and Service Organization Controls (SOC 1 and 2) examinations, Torchlight effectively administers network management, data backup, user needs, and data recovery testing. Through its IT vendors, Torchlight has expanded its cybersecurity testing and defenses during the past two years as well.

- **Asset Analytics and Management:** Supported through the asset management application, Torchlight has diligent asset analysis practices and well-delineated policies and procedures for effective and controlled special servicing, including borrower consent requests. With continuing, albeit relatively moderate, REO activity, Torchlight commissions independent property manager audits as well.

- **Internal Audit and Compliance:** The Company has sound auditing and control practices. A national accounting/consulting firm conducts a comprehensive audit on a 24-month cycle. The latest audit report issued in August 2021 had only three low-risk exceptions and did not identify any medium- or high-risk control weaknesses. Regulation AB attestations have consistently been clear of exceptions. The features of the asset management system and the invoice processing application along with stringent vendor oversight and monthly management compliance reports further support the Company's efforts to maintain timeliness, accuracy, and tight controls.

- **Conflicts of Interest Management:** Torchlight is the named special servicer for several transactions in which Torchlight Investors holds first-loss bond positions and is the controlling classholder. Torchlight's asset management practices, asset recovery results, and handling of fees indicate that it strives to follow the servicing standard. As a Securities and Exchange Commission-registered investment advisor, Torchlight Investors also has a compliance function to guard against potential conflicts with its special servicing work.

Special Servicing Volume: As of December 31, 2021, Torchlight was a named special servicer on 398 loans with an aggregate remaining unpaid principal balance (UPB) of $9.11 billion involving 24 CMBS securitizations (including six single-asset/single-borrower transactions). Seven of these transactions were issued before 2011. Torchlight was the named special servicer for a 2005 vintage commercial real estate collateralized debt obligation (CRE CDO), whose one remaining loan paid off in early 2021.

As of December 31, 2021, excluding some non-CMBS completed and in-process workouts in affiliated debt funds, the active special servicing portfolio contained 17 assets (10 loans and seven REO assets, including some secondary notes on the same collateral) with a combined UPB of approximately $646 million. By comparison, as of December 31, 2020, the active special servicing portfolio contained 42 assets (38 loans and four REO assets) with a combined UPB of approximately $920.7 million.

During 2021, Torchlight received three loan transfers and resolved 26 loans consisting of 20 modifications/corrections and six liquidations through discounted payoff (DPO), note sale, and full payoff. It also sold five REO assets that generated aggregate net proceeds above 95% of estimated value. By comparison, during 2020, Torchlight received 48 loan transfers. It modified/corrected 11 loans, including one forbearance, and liquidated another loan through a receivership sale. It also sold five REO assets that generated aggregate net proceeds above 100% of estimated value.

The Company's resolution activity since the onset of the pandemic excludes its interaction with master/primary servicers to analyze more than 70 nontransfer payment relief requests between April and September 2020.

Trend

The trend for the ranking is Stable based on Torchlight's expertise and success record resolving assets in CMBS transactions, low employee turnover, proactive staffing management, solid control practices, and robust technology platform.

Company Profile and Business Overview

New York-based Torchlight is a wholly owned subsidiary of Torchlight Investors, which began in 1995 as Jones Lang Wootton Realty Advisors. In 2002, ING Group purchased a minority equity stake in Jones Lang Wootton Realty Advisors and changed the name to ING Clarion Capital. In 2010, the management team acquired ING Group's investment position, and Torchlight Investors assumed its current name. Torchlight Investors remains privately owned by a controlling principal and other key employees.

Torchlight Investors' core businesses are investment advisory, commercial real estate debt investment, and asset management which encompasses special servicing. To support its acquisitions and investment management businesses, the Company may provide senior or subordinated financing or preferred equity. Since 1995, Torchlight Investors has acquired investment positions in assets valued at approximately $30 billion. Torchlight Investors is a registered investment advisor and manages a series of closed-end, value-add investment funds. The latest Fund VII, launched in June 2020, is structured to hold a mix of asset types including B-pieces in CMBS and Freddie Mac-sponsored transactions. As of early October 2021, Fund VII had raised more than $2.0 billion, exceeding its capital raising target of $1.5 billion.

As of December 31, 2021, Torchlight Investors had approximately $5.7 billion in assets under management, including investments in CMBS, and up from $4.4 billion as of YE2020. Principally through its closed-end debt funds, it manages assets on behalf of approximately 80 investor relationships mostly comprising pension funds and other large institutional clients.

Torchlight Investors was one of the most active CMBS B-piece investors in the years immediately preceding the 2008 financial crisis. As a result, Torchlight became one of the larger-volume special servicers for legacy CMBS. Torchlight Investors continues to acquire subordinate bond positions in CMBS and Freddie Mac K-Series securitizations, and especially through secondary market purchases. For its non-Freddie Mac CMBS purchases, Torchlight Investors appoints Torchlight as the special servicer.

During 2021, Torchlight Investors through its fund VII acquired B pieces on three new K-Series transactions and another in the secondary market. As secondary market purchases, it also acquired positions in five single-asset/single-borrower CMBS transactions. Cumulatively, from the years 2002 through 2021 across all transactions, it has acquired 69 B-pieces with an approximate $2.0 billion acquisition value. As a third-party special servicer, Torchlight works with about 10 external directing certificateholders/controlling classholders as well.

Torchlight is an approved Freddie Mac special servicer and served in that capacity for a 2014 vintage securitization. Additionally, Torchlight is a consultant for its affiliate's positions as the directing certificateholder in several Freddie Mac transactions.

From inception through December 2021, Torchlight resolved 741 specially serviced assets with an aggregate balance of approximately $11.5 billion and managed 242 real estate equity assets valued at approximately $2.7 billion.

As of December 2021, Torchlight Investors had 57 total employees across its business lines of real estate investment and asset management, special servicing (through Torchlight Loan Services), and securitization structuring. The organization included a core four-person special servicing team, a 10-person investment management team, and approximately 25 people collectively for financial controls, legal, and compliance.

Financial Position: Torchlight Investors generates revenue principally from asset management and special servicing fees. For the past several years, the company has demonstrated solid revenue, profitability, and members' total equity. The company continues to self-fund its capital needs and has no third-party debt outstanding. Overall, Torchlight Investors displays a long-term commitment to asset management and special servicing and resources to support its business needs.

Exhibit 1 Torchlight Historical Special Servicing Volume

	December 31, 2021		December 31, 2020		December 31, 2019		December 31, 2018	
	UPB ($ Mil)	Loans	UPB ($ Mil)	Loans	UPB ($ Mil)	Loans	UPB ($ Mil)	Loans
Loan Portfolio	408.4	10	774.0	38	268.1	9	174.3	10
REO Portfolio	237.6	7	146.7	6	129.4	7	463.4	28
Total Active Portfolio (All CMBS)	646.0	17	920.7	44	397.5	16	637.7	38
Named Special Servicer (Volume)*	9,110.5	398	7,550.6	417	11,880.4	690	16,225.8	951
Named Special Servicer (Transactions)*		24		22		26		34

*As of December 31, 2020, included a 2005 vintage CRE CDO with one remaining loan that paid off in 2021. As of December 31, 2019, included one Freddie Mac securitization (FREMF 2014-K39).

Operational Infrastructure

Organizational Structure

Torchlight Investors' executive team consists of nine partners, which includes the chief executive officer (and co-chief investment officer), the co-chief investment officer, the head of asset management, two investment management heads, the chief credit officer, the chief operating officer, and two investor relations executives. Collectively, they oversee the principal business of real estate debt investment and asset management, which involves sponsored debt funds, the funds' related CMBS bond positions, and the operations of Torchlight, the special servicer subsidiary.

Torchlight Investors' chief operating officer oversees the financial control department, which has teams for corporate-level, fund-level, and special servicer accounting and finance. Among its duties for special servicing, the financial control staff manages REO property bank accounts and reconciliations, special-purpose entity management in conjunction with internal legal counsel, vendor invoice approvals and processing, master servicer reporting, and external auditor management.

The organization has dedicated personnel for legal, compliance, portfolio surveillance, and investment underwriting. It also has a client services team, which handles marketing and investor relations.

Torchlight, as the special servicing subsidiary operation for publicly rated CMBS, is part of Torchlight Investors' asset management division, which handles the underwriting and assets in private-placement debt funds.

Including other support staff from the parent, Torchlight's platform consists of the following:

- The asset management division head, who oversees all private sector (fund portfolio management) and public sector (CMBS) transactions.
- The special servicing team, which expanded to nine people from four people during 2020. As of February 2022, the team consisted of the head of special servicing, four officer-level asset managers, and one support analyst.
- Accounting personnel from Torchlight Investors' financial control department for portfolio-level and asset-level accounting, including property-level accounting oversight on REO assets.
- Torchlight Investors' chief compliance officer, who serves the company on a contract basis to provide counsel regarding servicing agreement issues and regulatory compliance, including risk mitigation for conflicts of interest.
- Shared resources from the parent including an in-house attorney, a five-person client services team, and a four-person portfolio surveillance team.
- A founding member of a Torchlight Investors' predecessor company who also continues to serve as a special advisor and member of the special servicing credit committee.

Management and Staff Experience

As of December 2021, the five officer-level managers in the special servicing team averaged 12 years of experience, including the head of special servicing who had 17 years of experience. Additionally, the asset management division head has 24 years of experience. Torchlight Investors has several debt fund asset managers with an average 14 years of experience who remain available on a contingency basis to support CMBS special servicing as well. The six members of Torchlight's special servicing credit committee averaged 27 years of experience.

Exhibit 2 Management and Staff: Average Years of Experience

	December 31, 2021		December 31, 2020		December 31, 2019	
	Industry	Company Tenure	Industry	Company Tenure	Industry	Company Tenure
Senior Management	22	10	23	10	22	9
Middle Management	12	9	15	9	13	8
CMBS Asset Managers*	12	6	12	6	13	5
Other Asset Managers**	14	7	11	6	10	3

*Includes one analyst position.
**Torchlight Investors' debt fund team.

Management and Staff: Additions and Turnover

In 2021, Torchlight had no employee turnover in its special servicing platform, although four asset managers transferred back to the debt fund side in the later months of the year as special servicing portfolio volume eased. The Company also hired one support analyst in 2021.

Employee turnover in 2020 was limited to one staff-level departure, which occurred in the first half of the year. The two employee departures in 2019 both involved positions in the financial control team, and those vacancies were subsequently filled. As noted, all hires for the CMBS special servicing team during 2020 involved internal transfers.

Exhibit 3 CMBS Special Servicing: Management and Staff Turnover Rates*

	2021	2020	2019
Total Employees – Beginning of Period	21	16	16
Total Turnover Rate (%)	0.0	6.3	12.5
		1 Position	2 Positions
Involuntary (%)	0.0	6.3	6.25
Voluntary (%)	0.0	0.0	6.25
Management Only (%)	0.0	0.0	6.25
Staff Only (%)	0.0	6.3	6.25
Intracompany Transfers (# of Positions)	(4)**	0	0
New Hires (# of Positions)	1 (Staff Level)	6 (2 Managers)	2 (Staff Level)
Total Staff – End of Period	18	21	16

* Turnover rates equal departures divided by the number of people at the beginning of the period.
** Asset managers redeployed from special servicing back to investment management for Torchlight Investors' funds.

Workload Ratios

As of December 31, 2021, Torchlight had an approximate 3:1 ratio of assets per asset manager, which includes five asset managers (two asset managers support private sector fund assets as well) and a support analyst. Although not included, the asset management division head is involved in some asset deliberations.

Assessment: Although Torchlight has become a smaller-scale special servicer in recent years with some corresponding key-person risk, the Company has maintained the requisite expertise and operating depth to proactively address its portfolio needs. It continues to demonstrate operational stability based on low to near-zero employee turnover and more than reasonable workload allocations. It handled a moderate uptick in asset volume arising from the pandemic especially well by redeploying asset managers from Torchlight Investors with minimal need to hire externally. Torchlight Investors' measured approach toward adding new CMBS positions and its corresponding lower exposure as a named special servicer relative to past years also have likely facilitated resource management. Having the special servicing team well integrated with Torchlight Investors has likely helped build synergies and efficiencies, especially regarding financial controls and reporting processes.

Training

Torchlight provides formalized training for all staff, with sessions led by external guest speakers and Torchlight managers covering CMBS-centric, compliance, and other special servicing-related topics. A designated asset management team member coordinates training event logistics and tracks employees' participation hours. The special servicing manager also oversees system training and serves as liaison to the vendor supporting the system. Torchlight's weekly asset review meetings further serve as a training forum for case studies and procedural issues.

Torchlight expects all personnel to complete approximately 40 hours of training annually, excluding participation at conferences. In 2021, Torchlight sponsored 21 training sessions equating to approximately 40 training hours.

Assessment: Based on the content and frequency of activities, Torchlight has maintained a sound employee training function. Torchlight's required minimum and achieved annual training hours are solid and in line with and even higher than some other DBRS Morningstar-ranked special servicers. The Company's 2021 training calendar indicates that the pandemic did not deter it from fulfilling its employee training agenda and targets. Torchlight may benefit from developing an intranet portal, integrated with specialized software or leveraging the asset management system, as feasible, to serve as a centralized tool for staff to gain access to training materials and recorded sessions, register for sessions, and track hours.

Audit, Compliance, and Procedural Completeness

Internal Audit and Compliance

The financial control department serves as liaison with firms engaged to perform internal audits. The department also monitors compliance with servicing agreements in conjunction with a corporate-level chief compliance and legal officer.

Torchlight uses a nationally recognized accounting firm to conduct operational audits on a 24-month cycle that examine cash management and accounting, special servicing and workflow processes, investor/master servicer reporting, and technology/security controls.

The most recent audit report, issued in August 2021, examined 52 control items tested over calendar year 2020. The audit cited three low-risk exceptions that Torchlight addressed; it did not identify any high-risk or material control weaknesses. The next audit is scheduled to begin in Q4 2022. Additionally, an annual Regulation AB attestation has not contained any exceptions for the past 10 calendar years through 2021.

The reporting, task-tickler, and workflow features of the asset management system further support Torchlight's quality control and compliance efforts. In particular, the system has compliance checklists for asset transfers to and from master servicers and other special servicers, and for loan-to-REO transitions. The Company also conducts self-monitoring in the form of monthly compliance management reports that track adherence to timeliness and accuracy across a range of tasks and require senior management review and sign-off.

Policies and Procedures

The financial control department, in conjunction with other senior management, oversees the company's policies and procedures. Torchlight updated and enhanced its documented policies and procedures in 2018, 2020, and in 2021. They include guidance with the asset management system and stress proactive, controlled practices for CMBS assets. The policies and procedures encompass vendor oversight protocols and authority delegations, including required committee approvals, for asset-level expenditures and most asset management/resolutions. Torchlight creates abstracts of pooling and servicing agreements (PSAs), which it uses to develop system-supported workflows and as reference tools to support asset management compliance. Additionally, employees must adhere to separately documented policies and procedures covering corporate compliance and governance.

Assessment: Torchlight has a sound internal audit function supplemented with solid practices, resources, and supporting technology to monitor operational risk and servicing agreement compliance. The scope of the internal audit also appears to have elements similar to that of a SOC 1 examination. The depth of policies and procedures, along with the workflow processes embedded in its asset management system, denote proactive and controlled practices geared to Torchlight's focus on CMBS transactions. The Company may benefit by further programming its abstracted deal-specific PSA requirements into Backshop's workflows and user dashboards.

Legal Liability and Corporate Insurance

Torchlight reported that it was not involved in any defensive litigation at the corporate level or related to its special servicing operations. It reported having directors and officers, errors and omissions, and fidelity bond insurance policies with highly rated carriers. Torchlight's corporate insurance program includes a data security policy providing a $5 million coverage limit. The Company reported that, as a special servicer, it has not received any notices of PSA default or citations related to performance.

Assessment: Torchlight's corporate insurance coverage limits should remain satisfactory based on asset volume and relative to other special servicers. Torchlight Investors' procurement of cybersecurity insurance also is a best practice that is now common among servicers. Based on Torchlight's representations, DBRS Morningstar is not aware of any material lawsuits related to, or which could potentially impair, the special servicer's operations.

Technology

Applications

Torchlight uses CMBS.com, Inc.'s Backshop special servicing/asset management system. Torchlight, as a licensee since 2015, uses the system in a hosted environment on Backshop's servers through a cloud-based computing structure. The vendor, with Torchlight's input, continues to periodically roll out functional enhancements. Additionally, Backshop provides Torchlight with its programming source codes, associated technology requirements for the entire application, and monthly updates that a third-party custodian holds in escrow. The custodian firm conducts usability testing to verify the integrity of the intellectual property and deposit agreement. In 2020, Torchlight, as an added control test, successfully used the 2019 report results and source coding to recreate the Backshop technology environment for itself. The next usability test is scheduled for later this year.

Torchlight stated that Backshop can produce the latest CMBS investor-reporting package requirements established by the Commercial Real Estate Finance Council (CREFC). The system has modules to prepare and store asset business plans, perform property cash flow modeling/valuation analysis and net present value recovery projections based on different scenarios, compare current performance with original underwriting, track property-level line item budgeted-to-actual income and expenses, produce asset-status reports, and shadow loan-administration activity such as payment histories, real estate tax payments, and insurance policy renewals using file downloads from master servicers.

The system can provide business volume forecasting/revenue tracking tied to expected losses and controlling classholder changes. The application provides cloud-based document storage, a menu of standard reports, and ad hoc reports based on database queries. To facilitate surveillance and asset transfers, the application's database includes every loan for which Torchlight is the named special servicer. Torchlight continues to work with CMBS.com/Backshop to implement more functionality enhancements.

Through the Backshop system, Torchlight can initiate and track work orders from vendors and track vendors' performance; conduct all essential loan-level tickler management; obtain automated realized loss, fee, and advancing calculations; populate information into form documents and notification letter templates; and track internal workflows and approvals. The system also has links to each asset's corresponding PSA and PSA abstraction, although, as noted, there is not a direct feed of the PSA requirements for each asset management task to the system's workflow features of action alerts and procedural checklists.

Torchlight Investors and Torchlight also use SAP Concur Technologies' automated vendor invoice processing application, which is integrated with Torchlight Investors' corporate accounting system. In 2020, electronic document signatory software was added for use across all business areas.

During 2020–21, Torchlight migrated its email to the Microsoft Exchange Cloud environment. It had previously moved to the web-based Microsoft Office 365 platform. The Company also uses an integrated document storage and file sharing application.

IT Staffing Support, Data Backup, and Disaster Recovery Preparedness

Torchlight operates in a mostly cloud-based IT environment. It uses Eze Castle Integration, Inc. (ECI) to provide IT support for all business lines. The vendor has offices in several U.S. cities, London, and Asia; a 24/7 help desk; and an on-site engineer at Torchlight's New York headquarters. The vendor provides a dedicated network through private cloud-based servers, handles network access, and performs real-time data backups to an alternate data center.

ECI also provides Torchlight with disaster recovery services and conducts recovery testing twice per year. The most recent test occurred in November 2021 with successful results. ECI's data centers (through other vendors) also are represented to be SOC 1 and 2 compliant.

Torchlight's business continuity plan is predicated on staff working remotely with access to all network applications through a virtual private network. The business continuity plan includes a formalized agreement with a third-party servicing operation to provide contingency office space, although Torchlight noted that most, if not all, functions can be performed remotely as the Company demonstrated during the pandemic. Through its technology vendors, Torchlight indicated that it should have access to all business-critical systems and data and resume all functions within one hour of a declared disaster event or business interruption.

Cybersecurity

Torchlight's data security protocols, managed through its financial control department in conjunction with the IT vendors, include required annual employee training modules, periodic phishing exercises, scheduled system penetration tests, and protocols for password resets and network folder access.

During 2021, Torchlight expanded its cybersecurity defenses by enrolling in ECI's Security Information and Event Management (SIEM) platform to detect, analyze, and respond to cybersecurity incidents. The SIEM platform also includes Dark Web monitoring. Torchlight also uses another technology vendor to review, assess, and strengthen its IT security environment. This vendor performs a series of weekly and annual vulnerability testing routines. ECI engages a vendor to perform external vulnerability assessments of ECI's own systems; the most recent test was performed in June 2021 with no material issues cited.

Assessment: Torchlight's technology platform, along with its ongoing enhancements, provides effective workflow management for detailed asset-level tracking and reporting geared for CMBS transactions and real estate fund investors. The Company's IT outsourcing, expansion of cloud-based computing, and data backup routines are sound based on stated procedures and vendors' represented capabilities and certifications. Torchlight's smooth transition to working remotely during the pandemic and its expanded practices for managing cybersecurity risk further indicate operational soundness and resiliency.

Special Servicing Administration

As an active CMBS special servicer for many years, Torchlight has managed large, complex assets involving a range of property types throughout the United States. Although the company is handling more assets in later-vintage CMBS pools, especially with the onset of the coronavirus pandemic, it has substantial experience with "CMBS 1.0" loans originated between before 2008. The Company has shown proficiency managing highly distressed larger-scale retail, office, and lodging properties fraught with legal impediments and collateral deficiencies.

As of December 31, 2021, the active portfolio contained assets in eight states with concentrations in New York, Texas, and Illinois. Three lodging and six retail properties composed 56% of the active portfolio by asset count and 45% by UPB, with 31% of the portfolio by asset count and 50% by UPB involving office assets. By comparison, as of December 31, 2020, Torchlight had active assets in 17 states. By property type, 18 lodging and 12 retail properties composed 79% of the active portfolio by asset count and 65% by UPB, with 27% of the portfolio by UPB and 8% by asset count involving office assets.

Exhibit 4 Active Special Servicing by Property Type (UPB)*

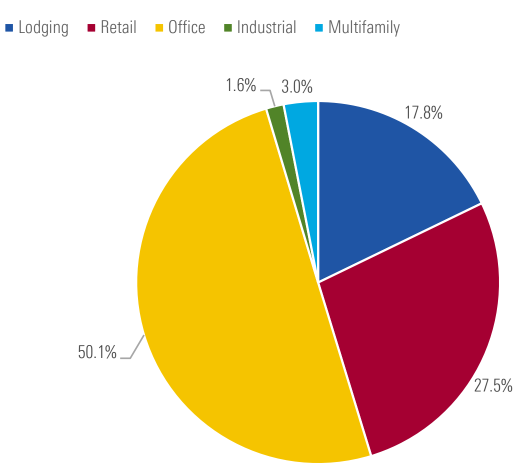
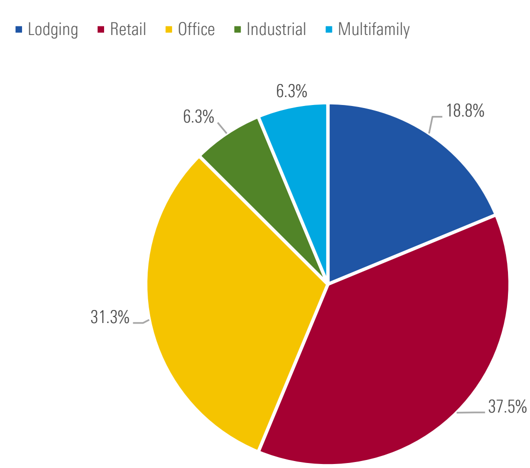


Exhibit 5 Active Special Servicing by Property Type (Asset Count)*



** Loans and REO as of December 31, 2021. Percentages may not equal 100% because they are rounded.

Asset Review Process

For newly transferred loans, the asset manager reviews the file records, examines PSA-related requirements and loan-level covenants, and orders a property inspection. If needed, the asset manager also may visit the property. As noted, the asset management system maintains information for all CMBS loans for which Torchlight is the special servicer. Through this due-diligence process, the asset manager formulates recovery options and strategies. Before engaging in workout discussions, Torchlight requires borrowers to sign prenegotiation agreements and pursues updated financial statements.

Asset managers generally prepare and obtain approval of an initial business plan within 60 days of an asset transferring to Torchlight for special servicing. For CMBS loans, asset managers also prepare an initial asset status report (ASR) for investor reports as required by PSAs. Asset managers must update their ASR comments twice a month. They must submit action approval cases to initiate foreclosure, when they have negotiated specific resolution terms, or before committing to other major asset decisions. Business plans and updated cases include a net present value analysis of each alternative resolution scenario. Asset managers prepare their business plans and approval cases directly in the asset management system. As noted, the system also serves as the central tracking, compliance, and asset analysis tool for the entire lifecycle of each specially serviced asset; its functionality includes cash flow modeling and workout scenario analysis.

The Company has delegations of authority that require senior management sign-off and a committee-type approval structure for asset business plans and most resolution cases. Torchlight's special servicing committee includes Torchlight Investors' head of asset management, its co-chief investment officer, in-house counsel, the head of special servicing, and another senior-level asset manager.

The asset management system tracks pending and approved asset plans and cases, issues alerts based on critical dates and trigger events, and provides for electronic signatures. Through the system, asset managers also can initiate email requests for updated appraisals and inspections based on tickler dates. Torchlight also holds weekly asset review meetings. Torchlight stated that it formally monitors outstanding advances against property values and expected recovery amounts through the asset management system and continually consults with master servicers, especially on advancing decisions. Through the asset management system, Torchlight uses checklists to manage loan transfers from master/primary servicers and portfolio transfers to and from other special servicers.

Assessment: Based on its stated policies and procedures, Torchlight has proactive and controlled loan transfer, asset analysis, and resolution management practices especially geared for CMBS special servicing. The asset management system's tracking and workflow features solidly support the Company's asset analytics and data management controls.

REO Property Management

Torchlight uses a property-takeover checklist when transitioning an asset to REO status. The REO asset manager addresses any immediate property issues and engages a property management company and listing broker. The selected companies must qualify for or already be on Torchlight's approved-vendor lists. Once a loan becomes an REO asset, the REO asset manager generally prepares and obtains approval of a business plan within 60 days, with subsequent business cases submitted to obtain approval of specific sales offer terms or other major decisions. In preparation for taking title, the manager must ensure that the property is added to Torchlight's blanket insurance program.

Torchlight's property management agreement contains specific monthly reporting requirements and procedures. The Company retains the property management reports on its shared drive and uploads the information to Backshop to track budget-to-actual property performance and to prepare operating statement analysis reports. Torchlight controls property-level cash management through dual operating accounts: one for rent collections and one to fund expenses based on approved budgets. Torchlight requires multiple levels of approval authorizations involving accounting and management personnel to establish REO property bank accounts, fund expenses, and move excess cash to investor-level custodial accounts. Although REO asset managers review monthly property manager reporting packages and the property manager's bank account reconciliations, they do not have access rights to view bank account activity. Torchlight's accounting staff independently reconciles property manager bank account activity.

Using an external auditing firm, Torchlight annually targets approximately 15% to 20% of its REO portfolio for property manager audits. Commensurate with actual portfolio volume and property profiles, it obtained three audits in 2021. It also commissioned one audit in 2020, three in 2019, and four in 2018.

Assessment: Torchlight has maintained diligent practices for transitioning loans to REO status, overseeing property managers and brokers, and formulating and executing property resolution plans. Torchlight demonstrates sound control procedures for monitoring property performance and reconciling monthly property manager receipts and expenditures. The Company's property manager audit program also is a best practice.

Vendor and Legal Oversight

Torchlight controls vendor selection through a centralized list of approved vendors for appraisals, environmental and engineering assessments, legal counsel, property management, and brokerage services. It also conducts a request-for-proposal bidding process to engage most vendors. Torchlight uses a designated external law firm to review environmental assessments. For most engagements, Torchlight requires vendors to use its own standardized agreements.

The asset management system tracks all pending and completed vendor work orders. The system's tracking features enable Torchlight to revise its approved lists based on vendors' delivery performance and work quality. As previously noted, Torchlight uses an invoice management application, which automates tracking, approvals, and payment processing; mitigates the risk of duplicate payments; and provides vendor performance metrics.

Torchlight's vetting, onboarding requirements, and monitoring practices for all third-party service providers include confirmations of vendors' legal, tax, and state business records; confirmations of electronic remittance instructions through a call-back procedure; and multilevel approvals from the financial control and special servicing departments for new engagements. Additionally, Torchlight assesses new vendors using a proprietary risk rating matrix and reviews available SOC reports from its largest and more critical vendors. The Company reviews the risk ratings and SOC reports annually as well. In 2020, Torchlight Investors, through its technology consulting firm, established an annual practice of requiring all vendors to complete an extensive data security questionnaire with the responses risk rated.

For monitoring legal needs, Torchlight Investors has a senior manager serving as in-house counsel. Although principally supporting the company's investment management business, the in-house counsel advises on CMBS asset management matters and, as noted, is a member of the credit committee that approves special servicing actions. Torchlight uses an external general counsel to assist with CMBS servicing agreement issues and to obtain legal opinions as needed on transactions. The senior asset managers approve law firm selections in consultation with the special servicing department head. The asset manager and special servicing department head, along with accounting staff, review and approve legal and all other vendor invoices before issuing payment.

Assessment: Torchlight demonstrates solid oversight practices for legal counsel and other vendors based on the tracking features of the asset management system, the integrated invoice processing application, and its stringent compliance requirements. For Torchlight's consideration, some special servicers have realized operational benefits by centralizing law firm engagements and fee arrangements through their in-house counsel.

Managing Conflicts of Interest

Torchlight is a special servicer for several CMBS transactions in which Torchlight Investors holds the first-loss bond positions and is the controlling classholder. Torchlight does not use affiliates for its special servicing work, but its parent has acquired a few assets from CMBS trusts using permitted purchase options. As an added control, Torchlight Investors' chief compliance officer monitors investment fund activities and data access for potential conflicts between business lines.

Assessment: Based on its stated compliance procedures and practices, Torchlight effectively manages its conflicts of interest. Its asset resolution results over the past several years are consistent with the Company's stated commitment to the servicing standard of working for the entirety of the CMBS trust and minimizing realized losses whenever possible.

Borrower Consent Requests

The special servicing team also underwrites consent requests and obtains approvals through delegations of management authority, which usually require sign-off from the head of special servicing and, for larger transactions, committee approval. Some legacy CMBS portfolios that Torchlight received because of controlling classholder changes have required Torchlight to coordinate the entire process directly with the borrower and underwrite the request as though it were the primary servicer. Supported through the asset management system, Torchlight uses underwriting and transaction closing checklists and approval case templates.

Exhibit 6 Borrower Consent Activity and Average Processing Time

	2021		**2020**		**2019**	
	Processed (#)	Internal Review Time (Days)	Processed (#)	Internal Review Time (Days)	Processed (#)	Internal Review Time (Days)
Assumptions	7*	47*	5	22	11	25
Leasing	19	20	29	25	40	26
Property Management Changes	1	7	2	29	0	--
Partial Releases	7	20	0	--	0	--
Total	**34**		**36**		**51**	

*Includes one request taking 88 days and another taking 166 days in which Torchlight managed the entire consent process. Torchlight's average review time for the other assumptions was 15 days.

Pandemic-Related Payment Relief Requests

Aside from conventional borrower requests for performing loans, Torchlight responded to payment relief requests arising from the pandemic. In a consultation and approval role with CMBS master servicers, it granted various payment relief solutions that included forbearances, redirecting reserve account funds, performance covenant waivers, and other remedies that in several cases avoided formal special servicing transfers. Of the 71 requests during the peak period of April through September 2020, Torchlight noted that about 20% of these requests were rescinded and another 10% involved forbearances or other relief measures granted without a loan transfer. During 2020–21, Torchlight, in conjunction with master servicers, also processed 12 requests for payment protection loans (eight in 2020 and four in 2021).

Exhibit 7 Borrowers' Payment Relief Requests: April Through September 2020

Property Type	**Requests (# Loans)**	**Requests (UPB $Mil)**
Lodging	28	374.5
Retail	35	534.3
Office	6	168.2
Mixed Use	2	19.9
Total	**71**	**1,096.9**

Assessment: The Company has sound controls and proactive procedures for effective consent management, including its participation with master servicers to manage and construct solutions to pandemic-related payment relief requests. With moderating exposure as a named special servicer, Torchlight should have enough personnel in the near term to manage the corresponding request volume. Torchlight's average processing times for lease reviews and assumptions, given the variables involved and aside from a couple of outlier situations, are reasonable.

Asset Resolution and Recovery Performance

Asset Resolution Volume and Disposition Methods

During 2021, Torchlight resolved 31 assets (all CMBS) consisting of 20 modified or otherwise corrected loans, two discounted payoffs, one note sale, two full payoffs, one loan paying off at foreclosure sale, and five REO sales. The resolution proceeds for all these resolved assets totaled approximately $374.5 million.

During 2020, Torchlight resolved 17 assets (all CMBS) consisting of 11 corrected or loans otherwise returned to the master servicer, one severely impaired loan that liquidated via a receivership sale, and five REO sales. The resolution proceeds for all these resolved assets totaled approximately $231.7 million. Most of the loans returned to the master servicer were rescinded transfers and/or reinstatements. Torchlight resolved one transferred lodging loan through a forbearance.

During 2018–19, Torchlight resolved 33 assets through two DPOs, three note sales, five modifications, four full payoffs, and 19 REO sales. The resolution proceeds for all these resolved assets totaled $381.1 million. All resolutions involved CMBS assets.

During 2014–17, when it managed a much larger portfolio, it fully resolved 269 assets (32 DPOs, 18 note sales, 31 modified or corrected loans, 77 full payoffs, and 111 REO sales) with total resolution proceeds of approximately $2.85 billion.

Exhibit 8 Resolutions by Disposition Methods (2020)*

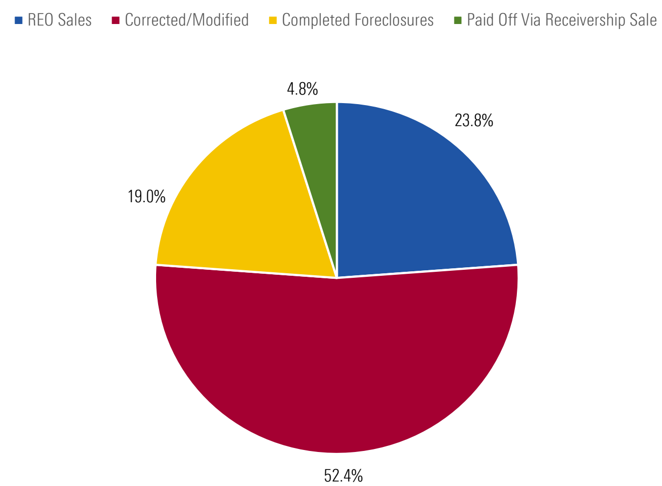
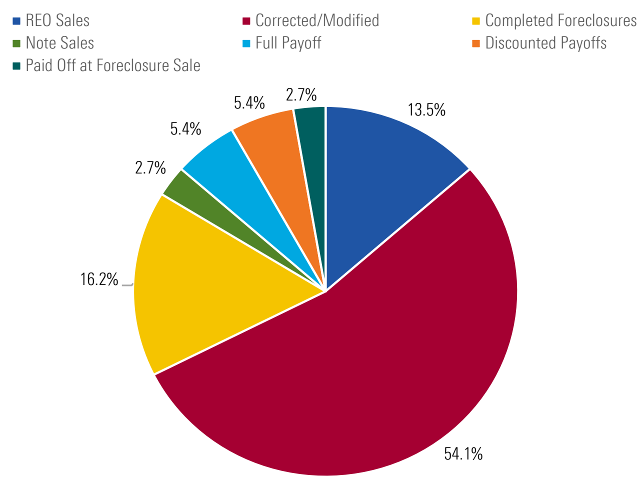


Exhibit 9 Resolutions by Disposition Methods (2021)*



*Percentages are by asset count. Although foreclosures are not final resolutions, they are included to account for all activity.

Asset Resolution Hold Times and Portfolio Age

Accounting for the concentration of 2004–07 vintage assets and several large assets with protracted legal and collateral issues, the Company's average resolution times have generally been in line with other special servicers contending with similar situations. Some especially impaired retail and office properties have caused Torchlight's average resolution and holding times for several REO assets to lengthen in the past few years.

The average age of unresolved assets did increase over 2021 as the Company resolved more loans and had far fewer incoming transfers. In turn, the remaining portfolio contains a higher concentration of the longest held and most problematic assets. As of December 31, 2021, approximately 77% of the unresolved assets were held less than two years. The average age of unresolved loans was about 25 months, and the average age (total time in special servicing) for unresolved REO assets was 22 months.

Exhibit 10 Torchlight: Average Asset Resolution Times (Months)*

	2021	2020	2019	2018
Modified/Corrected Loans	14 (20)	2	8	6
Individual Note Sales	16 (1)	n/a	40	n/a
Discounted Payoffs	15 (2)	n/a	n/a	11
Full Payoffs	10 (2)	n/a	4	10
Completed Foreclosures	16 (6)	18	n/a	22
Full Payoff at Foreclosure Sale	12 (1)	n/a	n/a	n/a
REO Sales (Time Held as REO by Torchlight)	17 (5)	45	27	30

* Rounded to nearest whole month. n/a = Not applicable. Asset count shown in parentheses for 2021.

Asset Resolution Recovery Proceeds

Torchlight's recovery proceeds relative to realizable collateral values have been high for most liquidations. Recoveries from most REO sales for the past several years were above 90% of estimated value. The Company noted that the net proceeds/value percentages for some REO sales reflect the last available appraisals or broker opinions that did not include subsequent collateral or other valuation considerations.

Exhibit 11 Torchlight: Asset Recovery Proceeds Relative to Collateral Values and UPB*

	2021	2020	2019	2018	2017
Net Recovery Proceeds-to-Value (%)					
Note Sales	135.4 (1)	n/a	98.6 (3)	n/a	64.0 (1)
Discounted Payoffs	100.7 (2)	n/a	n/a	129.1 (2)	103.2 (7)
Paid Off at Receivership Sale	n/a	n/m (1)	n/a	n/a	n/a
REO Sales	100.3 (3)	118.1 (5)‡	91.4 (8)	88.7 (11)**	90.7 (21)
Net Proceeds-to-UPB (%)					
Individual Note Sales	96.7	n/a	53.9	n/a	100.9
Discounted Payoffs	79.9	n/a	n/a	87.5	74.8
Full Payoffs	101.8	n/a	100.0 (2)	111.2 (2)	105.2 (10)

*Number of assets shown in parentheses. **99.3% based on gross proceeds. ‡118.1% from the sale transaction and 128.4% including all retained cash accounts. n/a = Not applicable. n/m = Full recovery of negligible realizable value, but metric not meaningful.

Exhibit 12 Torchlight: Total Special Servicing Loan Activity (2018–21)*

	2021		2020		2019		2018	
	Volume ($ Mil)	Loans	Volume ($ Mil)	Loans	Volume ($ Mil)	Loans	Volume ($ Mil)	Loans
Loan Portfolio at Beginning of Period	774.0	38	268.2	9	174.3	10	549.5	22
Loans Transferred Into Portfolio:								
Retransferred/Redefaulted Loans	1.7	1	7.2	1	127.4	1	0.0	0
Pre-Existing from Another Special Servicer	0.0	0	0.0	0	0.0	0	0.0	0
New Nonmonetary/Imminent Default Transfers	110.2	2	690.8	40	69.3	4	79.6	7
New Monetary Default Transfers	0.0	0	171.8	7	25.4	4	0.0	0
Total Transfers	**111.9**	**3**	**869.8**	**48**	**222.2**	**9**	**79.6**	**7**
Loans Fully Resolved:								
Modified or Corrected Loans	(265.9)	(20)	(160.5)	(11)	(4.4)	(1)	(49.8)	(4)
Individual Note Sales	(9.5)	(1)	0.0	0	(100.1)	(3)	0.0	0
Discounted Payoffs (Excludes Note Sales)	(13.1)	(2)	0.0	0	0.0	0	(6.8)	(2)
Full Payoffs	(36.0)	(2)	0.0	0	(26.2)	(2)	(6.5)	(2)
Loans Paid Off at Foreclosure or Receivership Sale	(5.0)	(1)	(1.3)	(1)	0.0	0	0.0	0
Other Cash Recoveries	0.0	0	(18.5)		0.0		(21.4)	
Total Loan Resolutions and Recoveries	**(329.5)**	**(26)**	**(180.3)**	**(12)**	**(130.8)**	**(6)**	**(84.5)**	**(8)**
Completed Foreclosures	(212.5)	(6)	(136.3)	(4)	0.0	0	(386.1)	(8)
Net Adjustments and/or Other Loans Removed	64.5	1	(47.4)	(3)	(2.5)	(4)	15.8	(3)
Loan Portfolio at End of Period	**408.4**	**10**	**774.0**	**38**	**268.2**	**9**	**174.3**	**10**
Property Count at End of Period		10		40		9		11

*All contained in CMBS transactions.

Exhibit 13 Torchlight: REO Portfolio Activity (2018–21)*

Total REO Portfolio	2021		2020		2019		2018	
	Volume ($ Mil)	Properties	Volume ($ Mil)	Properties	Volume ($ Mil)	Properties	Volume ($ Mil)	Properties
REO Portfolio at Beginning of Period	146.7	6	129.4	7	463.4	28	340.1	21
Completed Foreclosures	212.5	7	136.3	4	0.0	0	386.1	29
REO Sold During Period	(45.0)	(5)	(69.8)	(5)	(107.1)	(8)	(80.1)	(11)
Other REO Transferred Out	0.0	0	0.0	0	(94.6)	(16)	(69.9)	(11)
Other Adjustments	(76.6)	(1)	(49.2)	0	(132.3)	3	(112.8)	0
Total REO Portfolio at End of Period	**237.6**	**7****	**146.7**	**6****	**129.4**	**7**	**463.4**	**28**
Average Asset Size (End of Period)	39.6**		36.7**		18.5		16.6	

*All contained in CMBS transactions.
**By consolidated property count, six assets as of December 31, 2021, and four assets as of December 31, 2020.

Exhibit 14 Torchlight Investors: Non-CMBS Distressed Assets and Workout Activity (2016–21)

Property Type	State	Original Balance ($ Mil)	Original Investment Type	Outcome/Status
Industrial Portfolio	Various	149.1	Distressed First Mortgage Note	A performing asset through a third-party refinancing in 2016 with Torchlight Investors retaining a mezzanine loan and preferred equity. Both positions were realized in 2017–18, with warrants retained for potential further recovery.
Office Portfolio	Various	36.0	Mezzanine Loan	Loan modification in 2016 and subsequent deed in lieu of foreclosure and sale of a remaining property in 2018.
Hotel	Maryland	27.5	Senior/Mezzanine Loans	Became REO property in 2018 through foreclosure. Torchlight Investors is working toward stabilization.
Hotel	Florida	41.6	Senior/Mezzanine Loans	Equity real estate through a deed in lieu of foreclosure in 2016. Renovated and reflagged with a brand upgrade. Working toward stabilization.
Office	Ohio	24.6	Distressed First Mortgage Note	Negotiated a full payoff of the loan in 2019 while pursuing foreclosure.
Office	Delaware	42.6	Distressed First Mortgage Note	Became equity real estate through foreclosure in 2019. Obtained new senior loan and working toward stabilization.
Hotel	Louisiana	83.4	A and B Notes	Completed foreclosure in 2020. Rebranded remaining hotel (originally a three-property asset) and working to stabilize.
Hotel	Florida	17.0	Distressed First Mortgage Note	Hotel performance declined in 2020 resulting in monetary default. Torchlight Investors purchased the note at par value and negotiated a mediated full loan reinstatement in bankruptcy court that enabled Torchlight to recover its expenses and $1.1 million of default interest. Borrower is working to refinance the loan.
Retail	New York	24.8	Distressed First Mortgage Note	Torchlight obtained a court-appointed rent receiver to manage the asset and is pursuing foreclosure.
Total		**446.6**		

Fees Collected From CMBS Trusts Versus Borrowers

Torchlight stated that it does not charge a duplicative fee to the CMBS trust and a borrower with respect to the same transaction. The Company's collected and retained asset-resolution fees have continued to align with that policy. Moreover, Torchlight Investors' compliance officer must approve any material fees not specified in the governing PSA for all nonperforming loans. Torchlight's compliance policies require borrowers' loan-modification fees to be within the range of current market rates, which Torchlight tracks. If Torchlight executes a loan forbearance, it stated that it generally will not recognize its fee until the loan pays off.

Torchlight Investors' Asset Purchases from CMBS Trusts

Over the past few years, Torchlight Investors has exercised its right to purchase 16 assets out of legacy CMBS deals in which Torchlight was the special servicer. Ten purchases were at par and six were based on a fair market value determination. Most of these purchases occurred between 2014 and 2015. The latest asset purchase, which occurred in 2021, involved a hotel loan that resulted in a full payoff. Torchlight's stated recovery results for the trusts, based on net proceeds-to-value and realized losses, for all affiliate CMBS asset purchases exceeded its stated results for assets liquidated to unaffiliated parties. Torchlight noted that it obtained independent validations of the values for the assets purchased by its affiliate, as required by its servicing agreements.

Assessment: During 2021, Torchlight continued to post solid asset resolutions as it worked out complex loans and REO assets in CMBS transactions. During the past several years, the Company has liquidated some especially challenged assets, including several outcomes resulting in minimal or sometimes no realized losses. Although the Company has had large realized losses for some REO sales, and especially large-scale retail, the corresponding sales proceeds were generally high relative to the collateral values and Torchlight's estimates for recoverability. Torchlight also continues to reduce its legacy special servicing portfolio; its action plans indicate that it is committed to resolving its few remaining pre-pandemic assets with the best possible results.

Investor and Master Servicer Reporting

Torchlight's investor reporting practices involve oversight from the financial control team, resulting in three levels of review. An officer on the special servicing team, experienced with CMBS special servicer reporting requirements, prepares and verifies reporting content before the special servicing head reviews them. The financial control team then reviews the reports and all calculations before signing off on each pool. The special servicing head also formally approves the final reports. A separate sign-off sheet tracks the reviews and approvals.

Surveillance practices and reporting procedures address CREFC-compliant content including asset status reports, property protection advances, appraisal subordination entitlement reductions, and realized loss calculations. Torchlight noted that it routinely communicates with master servicers on loan watchlist activity, trigger events and covenant-compliance, advancing, transfers, and resolution decisions. As noted, Torchlight monitors all its deals as a named special servicer via the Backshop system, and it reviews monthly portfolio performance reports downloaded from a CMBS data provider. The designated special servicing team officer, in conjunction with the department head and financial control team, coordinates portfolio transfers arising from CMBS directing classholder changes.

Assessment: Torchlight's personnel resources, approval procedures, and technology indicate that the Company is soundly positioned to provide effective asset surveillance and reporting for CMBS trusts and investors in its affiliated debt funds.

Ranking Scale

- MOR CS1: Superior Quality—Exceeds prudent loan servicing standards. Unlikely to be significantly vulnerable to future credit events.
- MOR CS2: Good Quality—Demonstrates proficiency in loan servicing standards. May be vulnerable to future credit events, but qualifying negative factors are considered manageable.
- MOR CS3: Adequate Quality—Demonstrates satisfactory loan servicing standards. May be vulnerable to future credit events.
- MOR CS4: Weak Quality—Demonstrates lack of compliance with one or more key areas of risk. Vulnerable to future credit events.

A servicer assigned a ranking of at least MOR CS3 is deemed to comply with what we view as the minimum prudent loan servicing standards and requirements for the servicer's operational category and role.

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Note:
All figures are in U.S. dollars unless otherwise noted.

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