Operational Risk Assessments
Torchlight Loan Services, LLC

DBRS Morningstar
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Contents

Michael S. Merriam
Senior Vice President, Operational Risk
North American CMBS
+1 203 929-4007
michael.merriam@dbrsmorningstar.com

Richard Carlson
Managing Director
North American CMBS
+1 312 332-9451
rich.carlson@dbrsmorningstar.com

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. The Company has also successfully worked out other large-scale distressed non-CMBS assets held in Torchlight Investors' investment funds.

- **Organizational Stability and Professional Depth:** Having become a smaller-scale special servicer in recent years, 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 highly experienced executive team and senior managers oversee a cohesive organizational framework that covers all essential functions and includes shared resources from Torchlight Investors for compliance, centralized reporting and accounting, portfolio surveillance, and legal oversight. Employee turnover in the past few years has been negligible, and no managers have departed. It also redeployed several asset managers back to investment fund management during 2021–22 because of decreased CMBS 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 decreased exposure as a named CMBS special servicer, contingent resources from its funds management business, and low special servicing volume as of YE2022, the Company should have enough excess capacity to handle new loans transfers over the next year.

- **Technology:** Torchlight operates in a mostly cloud-based computing environment. For special servicing and broader portfolio management, it uses the vendor-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. Supported through vendors, Torchlight also has a sound cybersecurity testing program and defensive protocols.

- **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, which is a reasonable frequency for the Company's portfolio size. The latest audit report, issued in August 2021, did not identify any medium- or high-risk control weaknesses. Annual 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 has a compliance function to guard against potential conflicts with its special servicing work.

  As of December 31, 2022, Torchlight was a named special servicer on 302 loans with an aggregate remaining unpaid principal balance (UPB) of $6.68 billion involving 17 CMBS securitizations (including five single-asset/single-borrower transactions). Five 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, 2022, excluding some non-CMBS completed and in-process workouts in affiliated debt funds, the active special servicing portfolio contained 11 assets (six loans and five REO assets, including some secondary notes on the same collateral) with a combined UPB of approximately $461.5 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. Based on asset surveillance and prospectively becoming a named special servicer on more transactions, Torchlight forecasts its active special servicing portfolio volume to increase moderately over 2023–24.

In 2021–22, Torchlight resolved 28 loans consisting of 21 modifications/corrections and seven liquidations through discounted payoff (DPO), note sale, and full payoff. It also sold nine REO assets, including an especially complex New York City-based property assemblage, which generated aggregate net proceeds above 95% of estimated value. By comparison, during 2020, Torchlight 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. This asset resolution activity excludes its interaction with master/primary servicers to grant more than 70 nontransfer payment relief requests between April and September 2020.

Trend

The trend for the ranking remains Stable based on Torchlight's expertise and strong results resolving complex assets in CMBS transactions, overall operational stability, extended staffing depth from its fund management business, excellent 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, Debt Fund VIII, which launched in late 2022, is structured to hold a mix of asset types including B-pieces in CMBS and Freddie Mac-sponsored transactions.

As of December 31, 2022, 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. On a very selective basis, 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. As a third-party special servicer, Torchlight works with seven external directing certificateholders/controlling classholders as well. Although Torchlight's named special servicing portfolio has been shrinking overall (mainly because its older deals have concluded), it did add five SASB transactions to its named special servicer portfolio in 2021, and one more SASB in 2022.

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 2022, Torchlight resolved 747 specially serviced assets with an aggregate par balance of approximately $11.7 billion and managed 243 real estate equity assets valued at approximately $2.7 billion.

As of December 2022, Torchlight Investors had 58 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.

Exhibit 1 Torchlight Special Servicing Portfolio Summary

	December 31, 2022		December 31, 2021		December 31, 2020		December 31, 2019	
	UPB ($ Mil)	**Loans**	**UPB ($ Mil)**	**Loans**	**UPB ($ Mil)**	**Loans**	**UPB ($ Mil)**	**Loans**
Loan Portfolio	290.7	6	408.4	10	774.0	38	268.1	9
REO Portfolio	170.8	5	237.6	7	146.7	6	129.4	7
Total Active Portfolio (All CMBS)*	461.5	11	646.0	17	920.7	44	397.5	16
Named Special Servicer (Volume)*	6,677.0	302	9,110.5	398	7,550.6	417	11,880.4	690
Named Special Servicer (Transactions)*		17		24		22		26

* Not consolidated by common collateral but rather based on total debt positions. 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 has sixteen partner-level executives and a management team consisting of the co-chief executive officers/co-chief investment officers, the head of asset management, the head of special servicing, the chief credit officer, and the chief operating officer. 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.

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 servicer 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 encompasses:

- The asset management division head, who oversees all private sector (fund portfolio management) and public sector (CMBS) transactions. The division includes asset managers for non-CMBS assets held in Torchlight Investors' funds.
- The CMBS special servicing team, which, as of February 2022, consisted of the head of special servicing, two officer-level asset managers, and a senior analyst. During 2020, the team included other asset managers from Torchlight Investors to assist with the pandemic-triggered asset management surge.
- 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 six-person client services team, and a four-person portfolio surveillance team.
- Torchlight Investors' 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.

Management and Staff Experience

As of December 2022, the three officer/partner-level members of the special servicing team averaged 16 years of experience, including the head of special servicing who averaged 19 years of experience. Additionally, the asset management division head had 25 years of experience. Torchlight Investors has several debt fund asset managers with an average 14 years of experience who are contingently available to support CMBS special servicing as well. The six members of Torchlight's special servicing credit committee averaged 22 years of experience.

Exhibit 2 Management and Staff: Average Years of Experience

	December 31, 2022		December 31, 2021		December 31, 2020	
	Industry	**Company Tenure**	**Industry**	**Company Tenure**	**Industry**	**Company Tenure**
Senior Management	24	12	22	10	23	10
Middle Management	14	12	12	9	15	9
CMBS Asset Managers*	13	6	12	6	12	6
Other Asset Managers**	14	8	14	7	11	6

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

Management and Staff: Additions and Turnover

For 2020-22, Torchlight's employee turnover in its special servicing platform consisted of three staff-level departures: one involuntary in H1 2020 and two voluntary in H1 2022. The two departures in 2022 were an asset management assistant vice president and an accounting associate. The most recent manager-level departure occurred in H2 2019.

The Company did have four asset managers transfer back to the debt fund side in later 2021 and another in early 2022, as special servicing portfolio volume eased. All hires into the CMBS special servicing team during 2020 to support the pandemic-related surge involved internal transfers.

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

	2022	2021	2020
Total Employees – Beginning of Period	18	21	16
Total Turnover Rate (%)	11.1	0.0	6.3
	2 Positions		1 Position
Involuntary (%)	0.0	0.0	6.3
Voluntary (%)	11.1	0.0	0.0
Management Only (%)	0.0	0.0	0.0
Staff Only (%)	11.1	0.0	6.3
Intracompany Transfers (# of Positions)	1**	4**	0
New Hires (# of Positions)	2 (Staff Level)	1 (Staff Level)	6 (2 Managers)
Total Staff – End of Period	17	18	21

* 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, 2022, Torchlight had an approximate 3:1 ratio of assets per asset manager, based on the four-person special servicing team. Although not included for the workload ratio, the asset management division head is involved in some asset deliberations and participates as a voting member of Torchlight's credit committee.

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 CMBS positions and its corresponding lower exposure as a named special servicer relative to past years also facilitate resource management. Having the special servicing team well integrated with Torchlight Investors helps with operating 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. Two members of the asset management team coordinate training event logistics and track employees' participation hours. The head of special servicing 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 2022, Torchlight sponsored 21 training sessions equating to approximately 42 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. 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 start of the audit is scheduled for Q2 2023, and to follow the same scope as the previous one. Additionally, an annual Regulation AB attestation has not contained any exceptions for the past 11 calendar years through 2022.

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 conducts a formal review and update of its documented policies and procedures almost every calendar year, with another set to be issued this year. Policies and procedures 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 separate policy for data security risk. 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. 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 Company expects to conduct another simulation 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.

Backshop, with Torchlight's input, continues to periodically roll out functional enhancements. During 2020-21, enhancements included improved ad hoc reporting, further customizations of surveillance modules, and further customization of dashboard content when receiving loans for special servicing.

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 East Coast private cloud-based servers, handles network access, and performs real-time data backups to a West Coast data recovery center.

ECI also provides Torchlight with disaster recovery services and conducts recovery testing twice per year. The most recent test occurred in April and October 2022 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. Employees currently use the Citrix virtual desktop technology software. However, the Company may change to a virtual private network protocol for remote file server access. 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. Torchlight also uses another technology vendor for ongoing IT security monitoring, which includes real-time alerts and annually performing in-depth vulnerability testing. Furthermore, ECI engages a vendor to perform recurring external vulnerability assessments of ECI's own systems.

Assessment: Torchlight's technology platform 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. DBRS Morningstar also recognizes Torchlight's expanded practices over the past two years for managing cybersecurity risk.

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 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, 2022, the active portfolio contained assets in only four states: Illinois, New York, Texas, and Rhode Island. By comparison, as of December 31, 2020, Torchlight had active assets in 17 states. However, the Company has handled assets in nearly every major U.S. real estate market over the years.

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

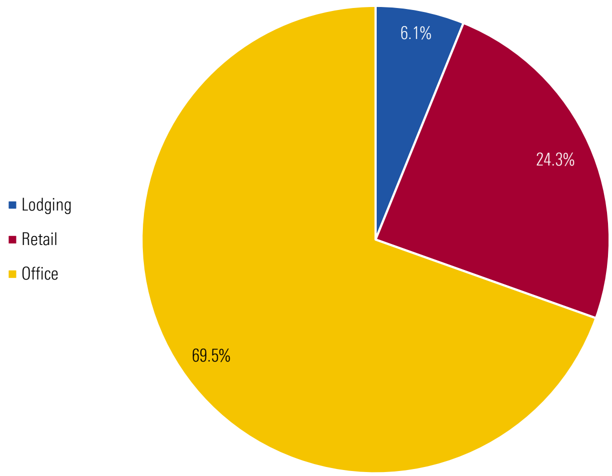
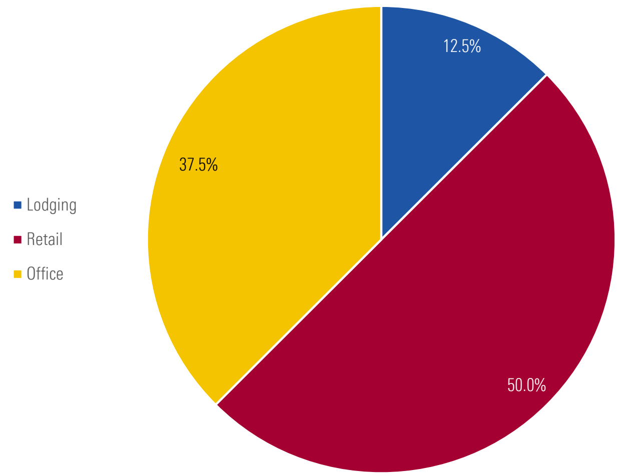


Exhibit 5 Active Special Servicing by Property Type (Asset Count)*



* Loans and REO as of December 31, 2022. Based on consolidated positions secured by common collateral. Range of asset vintage years: 2007-16. Percentages may not equal 100% because of rounding.

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 six-person special servicing credit committee includes Torchlight Investors' Co-CEO, the head of asset management, in-house counsel, the head of special servicing, and two other officer-level special servicing asset managers.

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. As recent process enhancements, the Company added Positive Pay's check fraud detection tool and a debit file review process to prevent unauthorized automated clearing house (ACH) transactions.

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 conducts property manager audits covering about 25% to 33% of its active REO portfolio. Commensurate with actual portfolio volume and property profiles, it obtained two audits in 2022 and three audits in 2021.

Assessment: Torchlight has diligent practices for transitioning loans to REO status, overseeing property managers and brokers, and formulating and executing property resolution plans. The Company 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 a technology consulting firm, established an annual practice of requiring all vendors to complete an extensive data security questionnaire with the responses risk rated.

A Torchlight Investors' partner-level manager oversees all legal activities. 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. Asset managers and the special servicing department head, along with accounting staff, review and approve legal and all other vendor invoices.

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 legal departments.

Managing Conflicts of Interest

As of YE2022, Torchlight Investors held a first-loss bond position and was the controlling classholder in approximately 40% of the CMBS transactions in which Torchlight was the named special servicer. Torchlight does not use affiliates for its special servicing work. Its parent has acquired a few assets from CMBS trusts using permitted purchase options, with the most recent par-level purchase occurring in February 2021. 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

	2022		2021		2020	
	Processed (#)	**Internal Review Time (Days)**	**Processed (#)**	**Internal Review Time (Days)**	**Processed (#)**	**Internal Review Time (Days)**
Assumptions	2	7	7*	47*	5	22
Leasing	12	18	19	20	29	25
Property Management Changes	1	13	1	7	2	29
Partial Releases	0	--	7	20	0	--
Defeasance	1	4	0	--	0	--
Total	**16**		**34**		**36**	

*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 special servicing transfers.

During the peak period of April through September 2020, Torchlight assessed 71 relief requests with an aggregate $1.1 billion UPB mostly involving lodging and retail assets. 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).

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 quite reasonable.

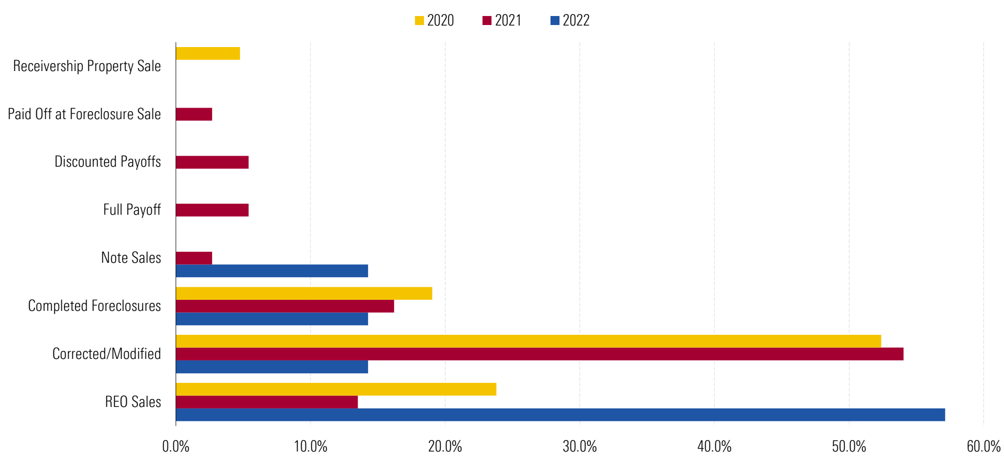
Asset Resolution and Recovery Performance

Asset Resolution Volume and Disposition Methods

In 2022, while Torchlight did not receive any new loans for special servicing, it resolved six assets (all CMBS) consisting of a loan restructure, note sale, and four REO property sales. One of the REO sales involved an especially complex asset located in New York City's Times Square area. It also transitioned a retail-secured loan to REO status through a deed-in-lieu of foreclosure. The aggregate resolution proceeds for the note and REO sales totaled approximately $153.1 million.

In 2021, Torchlight resolved 31 assets (all CMBS) consisting of 20 restructured/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 restructured/corrected loans, one severely impaired loan that liquidated via a receivership sale, and five REO sales. The proceeds for these resolved assets totaled approximately $231.7 million. Many loans returned to the master servicer were rescinded transfers and/or reinstatements. Torchlight resolved one lodging loan through a forbearance.

Exhibit 7 Resolutions by Disposition Methods (2020–22)*



*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 some older vintage and 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 resulted in Torchlight's average resolution times for REO assets to lengthen in 2019–2020.

The average age of unresolved assets did increase over 2021–22 as the Company resolved loans and had far fewer incoming transfers. As of December 31, 2022, all assets, except for one loan, were held longer than two years. The average age of unresolved loans was about 43 months, up from 25 months as of YE2021. The average age (total time in special servicing) for unresolved REO assets was 31 months, up from 22 months at YE2021. However, the average age of assets held as REO was 14 months.

Exhibit 8 Torchlight: Average Asset Resolution Times (Months)*

	2022	2021	2020	2019
Modified/Corrected Loans	16 (1)	14 (20)	2	8
Individual Note Sales	23 (1)	16 (1)	n/a	40
Discounted Payoffs	n/a	15 (2)	n/a	n/a
Full Payoffs	n/a	10 (2)	n/a	4
Completed Foreclosures	9 (1)	16 (6)	18	n/a
Full Payoff at Foreclosure Sale	n/a	12 (1)	n/a	n/a
REO Sales (Time Held as REO by Torchlight)	18 (4)	17 (5)	45	27

* Rounded to nearest whole month. n/a = Not applicable. Asset counts shown in parentheses for 2021–22.

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.

Exhibit 9 Torchlight: Asset Recovery Proceeds Relative to Collateral Values and UPB*

	2022	2021	2020	2019	2018
Net Recovery Proceeds-to-Value (%)					
Note Sales	106.8 (1)	135.4 (1)	n/a	98.6 (3)	n/a
Discounted Payoffs	n/a	100.7 (2)	n/a	n/a	129.1 (2)
Paid Off at Receivership Sale	n/a	n/a	n/m (1)	n/a	n/a
REO Sales	97.8 (4)	100.3 (3)	118.1 (5)‡	91.4 (8)	88.7 (11)**
Net Proceeds-to-UPB (%)					
Individual Note Sales	84.5	96.7	n/a	53.9	n/a
Discounted Payoffs	n/a	79.9	n/a	n/a	87.5
Full Payoffs	n/a	101.8	n/a	100.0 (2)	111.2 (2)

*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 and metric not meaningful.

Exhibit 10 Torchlight: Total Special Servicing Loan Activity (2019–22)*

	2022		2021		2020		2019	
	Volume ($ Mil)	**Loans**	**Volume ($ Mil)**	**Loans**	**Volume ($ Mil)**	**Loans**	**Volume ($ Mil)**	**Loans**
Loan Portfolio at Beginning of Period	408.4	10	774.0	38	268.2	9	174.3	10
Loans Transferred Into Portfolio:								
Retransferred/Redefaulted Loans	0.0	0	1.7	1	7.2	1	127.4	1
Pre-Existing from Another Special Servicer	0.0	0	0.0	0	0.0	0	0.0	0
New Nonmonetary/Imminent Default Transfers	0.0	0	110.2	2	690.8	40	69.3	4
New Monetary Default Transfers	0.0	0	0.0	0	171.8	7	25.4	4
Total Transfers	**0.0**	**0**	**111.9**	**3**	**869.8**	**48**	**222.2**	**9**
Loans Fully Resolved:								
Modified or Corrected Loans	(10.1)	(1)	(265.9)	(20)	(160.5)	(11)	(4.4)	(1)
Individual Note Sales	(58.4)	(1)	(9.5)	(1)	0.0	0	(100.1)	(3)
Discounted Payoffs (Excludes Note Sales)	0.0	0	(13.1)	(2)	0.0	0	0.0	0
Full Payoffs	0.0	0	(36.0)	(2)	0.0	0	(26.2)	(2)
Loans Paid Off at Foreclosure or Receivership Sale	0.0	0	(5.0)	(1)	(1.3)	(1)	0.0	0
Other Cash Recoveries	0.0	0	0.0	0	(18.5)		0.0	
Total Loan Resolutions and Recoveries	**(68.5)**	**(2)**	**(329.5)**	**(26)**	**(180.3)**	**(12)**	**(130.8)**	**(6)**
Completed Foreclosures	(18.0)	(1)	(212.5)	(6)	(136.3)	(4)	0.0	0
Net Adjustments and/or Other Loans Transferred Out	(31.2)	(1)	64.5	1	(47.4)	(3)	(2.5)	(4)
Loan Portfolio at End of Period (Total Note Positions)	**290.7**	**6**	**408.4**	**10**	**774.0**	**38**	**268.2**	**9**
Property Count at End of Period		8		10		40		9

*All contained in CMBS transactions.

Exhibit 11 Torchlight: REO Portfolio Activity (2019–22)*

Total REO Portfolio	2022		2021		2020		2019	
	Volume ($ Mil)	**Properties**	**Volume ($ Mil)**	**Properties**	**Volume ($ Mil)**	**Properties**	**Volume ($ Mil)**	**Properties**
REO Portfolio at Beginning of Period	237.6	7	146.7	6	129.4	7	463.4	28
Completed Foreclosures	18.0	1	212.5	7	136.3	4	0.0	0
REO Sold During Period	(103.8)	(4)	(45.0)	(5)	(69.8)	(5)	(107.1)	(8)
Other REO Transferred Out	0.0	0	0.0	0	0.0	0	(94.6)	(16)
Other Adjustments	19.1	1	(76.6)	(1)	(49.2)	0	(132.3)	3
Total REO Portfolio at End of Period	**170.9**	**5******	**237.6**	**7******	**146.7**	**6******	**129.4**	**7**
Average Asset Size (End of Period)	42.7**		39.6**		36.7**		18.5	

*All contained in CMBS transactions.

**By consolidated property count, four assets as of December 31, 2022, six assets as of December 31, 2021, and four assets as of December 31, 2020.

Exhibit 12 Torchlight Investors: Non-CMBS Distressed Asset Resolutions and Pending Workout Activity (2021–22)

Property Type	**State**	**UPB at Resolution ($ Mil)**	**Original Investment Type**	**Resolution Method**
2021 Resolutions:				
Hotel	FL	17.0	Distressed First Mortgage Note	Restructure (Borrower bankruptcy mediation resulted in loan reinstatement with recovery of expenses and $1.1 million of default interest)
Multifamily	GA	65.2	Senior Secured Loan	Modification
Office	PA	101.0	Senior Secured/Mezzanine	Modification
2022 Resolutions:				
Multifamily	TX	54.3	Senior Secured Loan	Modification
Multifamily	GA	43.0	Senior Secured Loan	Modification
Multifamily	TX	40.6	Senior Secured Loan	Modification
Multifamily	GA	51.0	Senior Secured Loan	Modification
Multifamily	TX	48.0	Senior Secured Loan	Modification
Multifamily	NC	37.5	Senior Secured Loan	Modification
Total Resolved 2021–22		**457.6**		

Workouts Pending:				
Property Type	**State**	**Original UPB ($ Mil)**	**Original Investment Type**	**Current Status**
Hotel	OR	37.5	Senior Secured Loan	Modification in process
Student Housing	MI	18.0	Preferred Equity	Torchlight Investors gained control of asset in 2016 and is negotiating an extension of matured third-party senior loan.
Retail	OH	56.0	Senior Note Purchase	Torchlight Investors converted its position to preferred equity and is negotiating an extension of matured third-party senior loan.
Retail	NY	42.0	Distressed First Mortgage Note	Torchlight Investors obtained a rent receiver and is negotiating to acquire the property through a deed-in-lieu of foreclosure.
Total Active at YE2022		**153.5**		

Assessment: Torchlight has continued to post solid asset resolution results demonstrating its expertise to work out complex, large 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.

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.

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 remains 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.

Disclaimer

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

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