Operational Risk Assessments
Torchlight Loan Services, LLC

Morningstar DBRS
April 2024

Contents

Michael S. Merriam
Senior Vice President, Operational Risk
U.S. Structured Finance Ratings
+1 203 883-5780
michael.merriam@morningstar.com

Kathleen Tillwitz
Managing Director
Credit Ratings Operational Risk
Global Structured Finance Ratings
+1 212 806-3265
kathleen.tillwitz@morningstar.com

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

Rationale

DBRS, Inc. (Morningstar DBRS) 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). Morningstar DBRS also changed the trend for the ranking to Negative from Stable.

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' portfolio managers have also worked out large-scale distressed non-CMBS assets held in Torchlight Investors' investment funds.

Torchlight is a smaller-scale special servicer and may have some key-person risk compared with some higher-volume and larger special servicers. However, the Company has solid professional depth when considering the personnel resources of Torchlight Investors. The well-experienced senior management team oversees a cohesive platform that covers all essential functions, including resources 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.

The confirmed ranking also recognizes Torchlight's diligent asset analytics, well-delineated policies and procedural controls, and strong technology, which centers on the vendor-hosted CMBS-centric Backshop application. The Company's sound audit function consists of comprehensive operational audits conducted biennially and annual Regulation AB attestations. The most recently issued audit report, issued in April 2023, and February 2024 Regulation AB letter were clear of any material exceptions. For selected REO properties, Torchlight commissions independent property manager audits as well. The features of the asset management application system, an integrated vendor invoice-processing application, and monthly management compliance reports further support the Company's efforts to maintain prudent controls.

Portfolio Volume

As of December 31, 2023, Torchlight was the named special servicer on 311 loans (including some note positions on the same collateral) with an aggregate remaining unpaid principal balance (UPB) of $8.19 billion involving 19 CMBS securitizations, of which four were issued between 2004 and 2007. It was affiliated with the controlling bondholder class in seven of these transactions. By comparison, as of December 31, 2022, Torchlight was the named special servicer for 302 loans with an aggregate remaining UPB of $6.68 billion involving 17 CMBS securitizations.

As of December 31, 2023, the active CMBS special servicing portfolio contained 30 loans (13 properties) and nine REO assets with a combined UPB of approximately $2.51 billion. Based on note positions tied to the same collateral, the active portfolio contained eight loans (revised from Morningstar DBRS' March 14, 2024, press release) and three REO assets.

By comparison, as of December 31, 2022, 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. Consolidated by note positions tied to the same collateral, the active portfolio contained four loans and four REO assets.

In 2021–22, Torchlight resolved 28 loans consisting of 21 modifications/corrections and seven liquidations through discounted payoff, 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 the estimated value. In 2003, the Company's asset resolutions consisted of two REO sales that each had net sales proceeds well above 100% of their estimated collateral values.

Trend

Morningstar DBRS changed the trend for the ranking to Negative from Stable. The trend change considers that Torchlight has resolved only a few assets since mid-2022, while receiving some new loan transfers in recent months. Torchlight also has some assets that have been in special servicing for an extended period. The Company's relatively moderate portfolio volume by asset count and the fact that it did not receive any loan transfers in 2022 are no doubt contributing factors to the reduced asset resolution activity. The portfolio also has a concentration of large-scale office and retail properties fraught with legal impediments and other problems in troubled major metropolitan real estate markets. Torchlight appears to be well engaged with proactive action plans for every asset. However, Morningstar DBRS will monitor the Company's progress and ability to successfully resolve assets, especially for its longest-held loans.

Additionally, highly ranked special servicers typically undergo more frequent internal audits, aside from their Regulation AB attestations. To the extent that Torchlight's special servicing activity continues to increase this year, Morningstar DBRS will assess if the Company's audit cycle remains commensurate with its portfolio volume.

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 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. Torchlight Investors is currently sourcing capital commitments for a new tactical distressed debt fund to invest in nonperforming loans.

As of December 31, 2023, Torchlight Investors had approximately $6.5 billion in assets under management, including investments in CMBS, up from $5.7 billion as of YE2022. 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. The company's CMBS investment portfolio has decreased over the past few years; however, it continues to very selectively 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 several external directing certificateholders/controlling classholders as well. Although Torchlight's named special servicing portfolio has decreased compared with a few years ago, it has added six single-asset/single-borrower transactions with an aggregate $3.1 billion UPB to its named special servicer portfolio since 2021, including two in 2023.

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 2023, Torchlight resolved more than 740 specially serviced assets with an aggregate par balance of approximately $11.7 billion and managed 251 real estate equity assets valued at approximately $2.8 billion.

As of December 2023, Torchlight Investors had 59 total employees across its business lines of real estate investment and asset management, special servicing (through Torchlight), 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, 2023		December 31, 2022		December 31, 2021		December 31, 2020	
	UPB ($ Millions)	**Assets**	**UPB ($ Millions)**	**Assets**	**UPB ($ Millions)**	**Assets**	**UPB ($ Millions)**	**Assets**
Loan Portfolio	2,315.7	32	290.7	6	408.4	10	774.0	38
REO Portfolio	239.9	10	170.8	5	237.6	7	146.7	6
Total Active Portfolio (All CMBS)*	2,555.6*	42*	461.5	11	646.0	17	920.7	44
Named Special Servicer (Volume)	8,187.4	311	6,677.0	302	9,110.5	398	7,550.6	417
Named Special Servicer (Transactions)*	-	19	-	17	-	24	-	22

*If consolidated by shared collateral, eight loans (including a multi-state office portfolio with 21 note positions) and three REO assets. As of December 31, 2020, included a 2005 vintage commercial real estate collateralized debt obligation with one remaining loan that paid off in 2021.

Operational Infrastructure

Organizational Structure

Torchlight Investors' management team consists of the 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 resources from the parent, Torchlight's platform encompasses the following:

- 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 consists of the head of special servicing (who is a Torchlight Investors partner), two officer-level asset managers, and a senior analyst.
- Torchlight Investors' compliance unit, which consists of a recently hired deputy chief compliance officer and counsel and a chief compliance officer, who serves the company on a contract basis. The unit, while focusing on Torchlight Investors' fiduciary and regulatory responsibilities for its investment funds, supports special servicing on servicing agreement issues and provides related compliance monitoring.

- Shared resources from the parent including an in-house attorney, a four-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 2023, the three officer-level members of the special servicing team averaged 17 years of experience, including the head of special servicing, who had 20 years of experience. Additionally, the asset management division head had 26 years of experience. Torchlight Investors' 10-person credit and asset management team averaged 19 years of experience. The six members of Torchlight's special servicing credit committee averaged 23 years of experience.

Exhibit 2 Management and Staff: Average Years of Experience

	December 31, 2023		December 31, 2022		December 31, 2021	
	Industry	**Company Tenure**	**Industry**	**Company Tenure**	**Industry**	**Company Tenure**
Senior Management	25*	13*	24	12	22	10
Middle Management	15	13	14	12	12	9
CMBS Asset Managers**	14	7	13	6	12	6
Other Asset Managers‡	16	10	14	8	14	7

*Excludes business development manager hired in December 2023. **Includes one analyst position. ‡Torchlight Investors' debt fund team.

Management and Staff: Additions and Turnover

For 2020–23, Torchlight's employee turnover for CMBS special servicing 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 late 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*

	2023	**2022**	**2021**
Total Employees—Beginning of Period	17	18	21
Total Turnover Rate (%)	0.0	11.1	0.0
		2 Positions	
Management Only (%)	0.0	0.0	0.0
Staff Only (%)	0.0	11.1	0.0
Intracompany Transfers (# of Positions)	0.0	1**	4**
New Hires (# of Positions)	1 (Business Development)	2 (Staff Level)	1 (Staff Level)
Total Employees—End of Period	18	17	18

*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, 2023, Torchlight had an approximate 10:1 ratio of assets per asset manager, based on 32 loans and nine REO properties. When consolidating notes tied to the same collateral, the ratio drops to about 3:1. By property count, the ratio was 6:1. Although not included in these workload ratios, the asset management division head may be involved in some asset deliberations and participates as a voting member of Torchlight's credit committee.

Assessment: The Company demonstrates stability based on its low to near-zero employee turnover rates over the past few years and its demonstrated ability to redeploy skilled asset managers from the fund management side. Torchlight Investors' lower exposure as a named special servicer relative to past years also facilitates 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. Torchlight has a well-experienced special servicing team, although it may have a bit more key-person risk compared with some larger-scale special servicers. To the extent its special servicing activity continues to increase, Torchlight indicated that it may add another senior asset manager, which should help to lessen that risk.

Training

Torchlight's training activities principally involve internally held sessions led by invited guest speakers and Torchlight managers covering CMBS and pooling and servicing agreement (PSA) issues, compliance, and other special servicing-related topics. Two members of the asset management team manage training session planning, logistics, and the tracking of 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 2023, Torchlight sponsored 26 training sessions equating to approximately 50 training hours, with every employee partaking in the majority of the sessions.

Assessment: Based on the content and calendar of scheduled sessions, Torchlight has a sound employee training function. Its required minimum and achieved annual training hours are solid and higher than some other Morningstar DBRS-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 reports, issued in 2021 and 2023, each examined 52 control items tested over the respective preceding calendar year. The 2023-issued audit did not cite any exceptions although it did contain a control-improvement opportunity that Torchlight has implemented. The prior audit cited three low-risk exceptions that Torchlight addressed but did not identify any high-risk or material control weaknesses. Annual Regulation AB attestations have not contained any exceptions for the past 12 calendar years through 2023.

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. A six-person special servicing committee, which includes four Torchlight Investors partners, and well-defined delegations of authority control approvals for asset resolution recommendations.

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. 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 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, sufficient 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 System and Organization Controls (SOC 1) examination. The 24-month cycle for the audits (aside from its annual Regulation AB compliance reviews) is commensurate with the size of the active portfolio. To the extent that Torchlight's special servicing activity continues to increase this year, Morningstar DBRS will assess if the Company's audit cycle remains commensurate with its portfolio volume.

The depth of policies and procedures, along with the workflow processes embedded in the 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, Morningstar DBRS 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. As Torchlight has done in previous years, in 2023, the Company, as an added control test, successfully used the source coding to recreate the Backshop technology environment for itself.

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.

Through Backshop, 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. Torchlight noted that one of its projects this year with Backshop is to streamline and enhance its surveillance reporting with more ad hoc functionality.

Torchlight Investors and Torchlight have automated vendor invoice processing through the purchased SAP Concur Technologies application, which is integrated with Torchlight Investors' corporate accounting system. A few years ago, electronic document signatory software was added for use across all business areas. 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. A Torchlight Investors office manager helps coordinate technology needs as well.

ECI also provides Torchlight with disaster recovery services and conducts recovery testing twice per year. The most recent tests occurred in April and November 2023 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 virtual desktop technology software. 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.
The Company leverages ECI's Security Information and Event Management 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 annual 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, with a solid degree of process automation, 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. Morningstar DBRS also recognizes Torchlight's expanded practices over the past few years for managing cybersecurity risk.

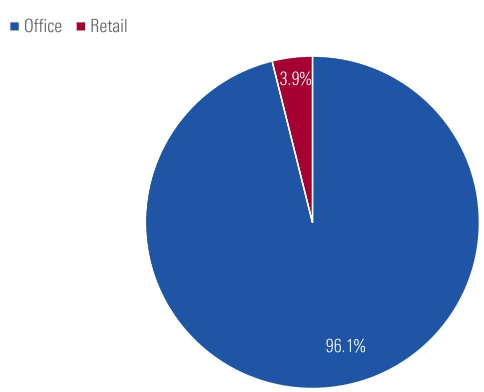
Special Servicing Administration

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. The Company has shown proficiency managing highly distressed larger-scale retail, office, and lodging properties fraught with legal impediments and collateral deficiencies.

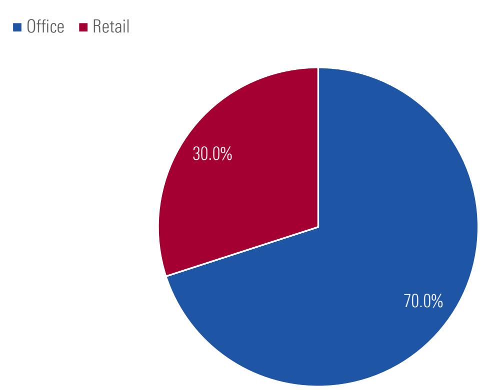
As of YE2023, Torchlight Investors held a first-loss bond position and was the controlling classholder in approximately one-third of the CMBS transactions in which Torchlight was the named special servicer. Torchlight does not use affiliates for its special servicing work. Its parent has acquired a few assets from CMBS trusts using permitted purchase options, with the most recent par-level purchase occurring in February 2021. Torchlight Investors' chief compliance officer also monitors investment fund activities and data access for potential conflicts between business lines.

As of YE2023, the active portfolio contained assets in nine states: Arizona, California, Georgia, Illinois, Massachusetts, New Jersey, New York, Rhode Island, and Texas. By UPB, a substantial portion of the portfolio was in San Francisco and Chicago. 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)*



Active Special Servicing by Property Type (Asset Count)*



*Loans and REO as of December 31, 2023. Based on consolidated positions secured by common collateral. Range of asset vintage years: 2007–22.

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’s authority delegations require senior management sign-off and a committee-type approval structure for asset business plans and most resolution cases.

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 to discuss activity tracked through corresponding progress/open items reports. 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 for the property manager to pay based on approved budgets. The Company uses Positive Pay's check fraud detection tool and a debit file review process to prevent unauthorized automated clearing house 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 one audit in 2023, two in 2022, and three 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 so that Torchlight can revise its approved lists based on 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. 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. Torchlight Investors, through a technology consulting firm, also requires vendors to complete an extensive data security questionnaire with the responses risk-rated.

Although principally supporting the Company's investment management business, in-house counsel may advise on CMBS asset management matters. Torchlight uses external 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.

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.

Assessment: The Company has sound controls and proactive procedures for consent management. With moderating exposure as a named special servicer compared with several years ago, Torchlight's average processing times for lease reviews and assumptions, given the variables involved and aside from an occasional outlier situation, are quite reasonable.

Asset Resolution and Recovery Performance

Asset Resolution Volume and Disposition Methods

Torchlight's resolutions in 2023 consisted of two REO property sales with aggregate net recovery proceeds of approximately $23.0 million. In 2022, Torchlight 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 in New York'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.

Asset Resolution Hold Times and Portfolio Age

As of June 30, 2023, the average age of all unresolved assets, excluding the one that transferred in H1 2023, was 43 months, up from 37 months at YE2022. The average was skewed longer by about nine months because of one loan that has been in special servicing for more than eight years. The average age of assets held as REO at Torchlight was 19 months, up from 14 months at YE2022.

As of YE2023, the average age of all unresolved loans decreased to 30 months. However, when excluding the new transfers in H2 2023, the average had increased to approximately 46 months. The average age of unsold REO at YE2023 was down slightly at 18 months, which reflects one asset sale and another that transferred to Torchlight as a pre-existing REO in H2 2023. Torchlight's portfolio concentration of older vintage and large loans with protracted legal, tenancy, and other collateral issues has no doubt been a factor extending the average age of its unresolved assets.

Exhibit 5 Torchlight: Average Asset Resolution Times (Months)*

	2023	2022	2021
Modified/Corrected Loans	n/a	16 (1)	14 (20)
Individual Note Sales	n/a	23 (1)	16 (1)
Discounted Payoffs	n/a	n/a	15 (2)
Full Payoffs	n/a	n/a	10 (2)
Completed Foreclosures	n/a	9 (1)	16 (6)
Full Payoff at Foreclosure Sale	n/a	n/a	12 (1)
REO Sales (Time Held as REO by Torchlight)	19 (2)	18 (4)	17 (5)

*Rounded to nearest whole month. Asset counts shown in parentheses.

Asset Resolution Recovery Proceeds

Torchlight's recovery proceeds relative to collateral values have been high for most liquidations. Net proceeds from most REO sales for the past few years were above 90% of the estimated value.

Exhibit 6 Torchlight: Asset Recovery Proceeds Relative to Collateral Values and UPB*

	2023	2022	2021	2020	2019
Net Recovery Proceeds-to-Value (%)					
Note Sales	n/a	106.8 (1)	135.4 (1)	n/a	98.6 (3)
Discounted Payoffs	n/a	n/a	100.7 (2)	n/a	n/a
Paid Off at Receivership Sale	n/a	n/a	n/a	n.m. (1)	n/a
REO Sales	115.9 (2)	97.8 (4)	100.3 (5)	118.1 (5)**	91.4 (8)
Net Proceeds-to-UPB (%)					
Individual Note Sales	n/a	84.5	96.7	n/a	53.9
Discounted Payoffs	n/a	n/a	79.9	n/a	n/a
Full Payoffs	n/a	n/a	101.8	n/a	100.0 (2)

*Number of assets shown in parentheses. **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 7 Torchlight: Total Special Servicing Loan Activity (all contained in CMBS transactions)

	2023		2022		2021		2020	
	Volume ($ Millions)	**Loans**	**Volume ($ Millions)**	**Loans**	**Volume ($ Millions)**	**Loans**	**Volume ($ Millions)**	**Loans**
Loan Portfolio at Beginning of Period	290.7	6	408.4	10	774.0	38	268.2	9
Loans Transferred Into Portfolio:								
Retransferred/Redefaulted Loans	0.0	0	0.0	0	1.7	1	7.2	1
Pre-Existing From Another Special Servicer	1,717.8	21	0.0	0	0.0	0	0.0	0
New Nonmonetary/Imminent Default Transfers	67.2	3	0.0	0	110.2	2	690.8	40
New Monetary Default Transfers	240.0	2	0.0	0	0.0	0	171.8	7
Total Transfers	**2,025.0**	**26**	**0.0**	**0**	**111.9**	**3**	**869.8**	**48**
Loans Fully Resolved:								
Modified or Corrected Loans	0.0	0	(10.1)	(1)	(265.9)	(20)	(160.5)	(11)
Individual Note Sales	0.0	0	(58.4)	(1)	(9.5)	(1)	0.0	0
Discounted Payoffs (Excludes Note Sales)	0.0	0	0.0	0	(13.1)	(2)	0.0	0
Full Payoffs	0.0	0	0.0	0	(36.0)	(2)	0.0	0
Loans Paid Off at Foreclosure or Receivership Sale	0.0	0	0.0	0	(5.0)	(1)	(1.3)	(1)
Other Cash Recoveries	0.0	0	0.0	0	0.0	0	(18.5)	
Total Loan Resolutions and Recoveries	**0.0**	**0**	**(68.5)**	**(2)**	**(329.5)**	**(26)**	**(180.3)**	**(12)**
Completed Foreclosures	0.0	0	(18.0)	(1)	(212.5)	(6)	(136.3)	(4)
Net Adjustments and/or Other Loans Transferred Out	0.0	0	(31.2)	(1)	64.5	1	(47.4)	(3)
Loan Portfolio at End of Period (Total Note Positions)	**2,315.7**	**32**	**290.7**	**6**	**408.4**	**10**	**774.0**	**38**
Property Count at End of Period		21		8		10		40

Exhibit 8 Torchlight: REO Portfolio Activity (all contained in CMBS transactions)

	2023		2022		2021		2020	
	Volume ($ Millions)	**Properties**	**Volume ($ Millions)**	**Properties**	**Volume ($ Millions)**	**Properties**	**Volume ($ Millions)**	**Properties**
REO Portfolio at Beginning of Period	170.9	5	237.6	7	146.7	6	129.4	7
Asset Already REO When Transferred	115.3	7	0.0	0	0.0	0	0.0	0
Completed Foreclosures	0.0	0	18.0	1	212.5	7	136.3	4
REO Sold During Period	(46.2)	2	(103.8)	(4)	(45.0)	(5)	(69.8)	(5)
Other REO Transferred Out	0.0	0	0.0	0	0.0	0	0.0	0
Other Adjustments	(0.1)	0	19.1	1	(76.6)	(1)	(49.2)	0
Total REO Portfolio at End of Period	**239.9**	**10***	**170.9**	**5***	**237.6**	**7***	**146.7**	**6***

*Consolidated by assets that share the same real estate — three REO as of December 31, 2023, four REO as of December 31, 2022, six REO as of December 31, 2021, and four REO as of December 31, 2020.

Exhibit 9 Torchlight Investors: Non-CMBS Distressed Asset Resolutions and Pending Workout Activity (2021–23)

Property Type	**State**	**UPB at Resolution ($ Millions)**	**Original Investment Type**	**Resolution Method**
2021 –22 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
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**		
2023 Resolutions				
Hotel	OR	37.5	Senior Secured Loan	Modification
Student Housing	MI	18.0	Preferred Equity	Modification
Retail	Multiple	27.32	Senior Secured Loan	Modification
Multifamily	TX	40.63	Senior Secured Loan	Modification
Multifamily	GA	51.0	Senior Secured Loan	Modification
Multifamily	NC	37.5	Senior Secured Loan	Modification
Total Resolved 2023		**211.93**		

Workouts Pending				
Property Type	**State**	**Original UPB ($ Millions)**	**Original Investment Type**	**Current Status**
Retail	NY	41.98	Distressed First Mortgage Note	Torchlight purchased a defaulted senior loan at a discount and took title to the subject via a deed in lieu. Torchlight is in the process of stabilizing the asset.
Retail	OH	56.0	Senior Note Purchase	Torchlight purchased a senior loan at a discount, which was subsequently restructured as a preferred equity investment with a third-party first mortgage senior to Torchlight's position. The third-party loan matured on March 1, 2023, and Torchlight and the sponsor are currently negotiating an extension with the third-party lender.
Multifamily	TX	51.8	Preferred Equity	Torchlight provided preferred equity on a multifamily portfolio. Torchlight is in the process of removing the managing member.
Office	PA	30.0	Mezzanine	Torchlight originated a mezzanine loan on a Class A office building. The borrower has defaulted and Torchlight has initiated foreclosure.
Total Active at YE2023		**179.78**		

Assessment: Although Torchlight has completed only a few CMBS asset resolutions in the past two years, it continues to demonstrate expertise in managing complex, large loans and REO assets. 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 named special servicing portfolio transfers arising from CMBS classholder control 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 Morningstar DBRS views as the minimum prudent loan servicing standards and requirements for the servicer's operational category and role.

Disclaimer

Morningstar DBRS commercial mortgage servicer rankings are not credit ratings. Instead, they are designed to evaluate the quality of the parties that service or conduct master servicing on commercial mortgage loans. Although the servicer's financial condition contributes to the applicable ranking, its relative importance is such that a servicer's ranking should never be considered as a proxy of its creditworthiness.

While Morningstar DBRS obtains information for its servicer ranking from sources it believes are reliable, Morningstar DBRS relies on the factual accuracy of the servicer's information and the servicer's own representations about its operations, practices, and business. Accordingly, the servicer ranking itself is not an audit as it does not entail examining individual asset files, testing procedures, and technology applications, or conducting any other testing that may be construed as an audit. Certain assumptions, including, but not limited to, an assumption that the information received from third parties is complete and accurate, in connection with its ranking, may have been made by Morningstar DBRS in preparing the servicer ranking. For more information about Morningstar DBRS' servicer ranking methodology, please visit dbrs.morningstar.com.

This report, and the rankings and trends contained herein, represent Morningstar DBRS' opinion as of the date of this report, and thus are subject to change and should not be viewed as providing any guarantee. Morningstar DBRS performs surveillance of the servicer and, as a result, may place a servicer ranking Under Review with the appropriate Implications designation: Positive, Negative, or Developing. However, Morningstar DBRS expects servicers to supply certain information over the life of the ranking(s). The maintenance of a ranking is conditional upon the ongoing timely receipt of this data and/or information, which may be obtained from reasonably reliable sources as part of the surveillance process.

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

About Morningstar DBRS
Morningstar DBRS is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

Morningstar DBRS is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why Morningstar DBRS is the next generation of credit ratings.

Learn more at dbrs.morningstar.com.

The Morningstar DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GMBH (Frankfurt, Germany) (EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). Morningstar DBRS does not hold an Australian financial services license. Morningstar DBRS credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. Morningstar DBRS does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the Morningstar DBRS group of companies please see: https://dbrs.morningstar.com/research/highlights.pdf.

The Morningstar DBRS Group of companies are wholly-owned subsidiaries of Morningstar, Inc.