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Servicer Evaluation: CBRE Loan Services Ltd.

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

N/A--Not applicable.

Rationale

S&P Global Ratings' rankings on CBRE Loan Services Ltd. (CBRELS) are STRONG as a U.K. commercial mortgage primary servicer and ABOVE AVERAGE as a U.K. commercial mortgage special servicer. On Nov. 29, 2018, we affirmed the rankings (please see "Rankings Affirmed On CBRE Loan Services As A Primary And Special Commercial Servicer In The U.K.; Outlook Stable"). The outlook for both rankings is stable.

Our rankings reflect:

- A solid servicing model and long track record of servicing commercial loans backed by various property types.
- Seasoned and experienced senior management team, which continues expanding the servicer's client base and overall assets under management (primarily comprising performing loans).
- A downsized loan advisory team managing a relatively-small scale active special servicing portfolio as a result of a slowdown in the special servicing market due to favorable market conditions, along with a growing named special servicing portfolio.
- Sufficient internal controls environment given the servicer's size, which includes an operational internal audit review under the business development director's responsibility since late 2017. His experience and the oversight of the CBRE's U.K. compliance function mitigates the risk of lack of full independence from the servicing business.
- A reliable and regularly enhanced loan servicing platform.
- Being part of the CBRE group, CBRELS can leverage on the group's support functions, real estate resources, and expertise, while controls are in place to minimize any conflicts of interest.

Since our prior review (see "Servicer Evaluation: CBRE Loan Services Ltd.," published on Sept. 8, 2017), CBRELS reported the following key changes:

- An increase in the European and U.K. primary servicing portfolios to £28.47 billion and £17.06 billion, respectively year-to-date in September 2018.
- Notwithstanding a largely resolved special servicing book, CBRELS replaced the previous special servicer on one U.K. commercial mortgage-backed securities (CMBS) deal with a gross book value of £0.263 billion and was named as special servicer on 21 loans accounting for nearly £2.8 billion.

- Two transfers to the CBRE Capital Advisors division, including the previous team head, and two departures occurred in 2018 within the loan advisory team, currently accounting for four members. The promotion of a senior team member as team head and two external appointments followed.
- The launch of a training tool at the group level, which aggregates all learning and development resources, reinforcing the servicer's comprehensive training program.
- The introduction of a monthly internal audit review of servicing operations (see above).

The outlook is stable on both rankings. CBRELS has demonstrated its ability to deliver robust servicing activity over a growing primary portfolio including different product types. The servicer expects this growth trend to continue into 2019. At the same time, the servicer has reported successful past workout activity and retained special servicing expertise by redeploying its special servicing staff in advisory services.

In addition to conducting an on-site meeting with servicing management, our review includes current and historical data collection templates through June 2018, as well as other supporting documentation provided by the company.

Profile

Company Overview	
Servicer name	CBRE Loan Services Ltd.
Date formed and name at incorporation	2005, CB Richard Ellis Loan Servicing Ltd.
Assets under management (overall)	£28.772 billion (of which £28.472* billion in primary servicing)
Assets under management (under assessment)	£17.358 billion (of which £17.058* billion in primary servicing)
Total staff	35 (including five employees based in EU)
Servicing staff	17 U.K. based/five EU based
Servicing centers	3 (London, Frankfurt, and Madrid)
Client types	Investment funds, insurance companies, investors, special-purpose entities, commercial lenders, etc.

*These figures exclude the amount of loans in special servicing for which CBRELS receives a primary servicing fee.

CBRELS was established in July 2005 as a primary and special servicer of commercial loans in the U.K. We have been ranking CBRELS as a primary servicer since 2006, and as a special servicer since 2008.

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

The CBRE Group is a global real estate services company, with over 450 offices in more than 100 countries. The CBRE Group provides services in brokerage, property and facilities management, mortgage banking and financial services, appraisal and property tax, and real estate market research.

The CBRE Group is also a significant player in the U.S. loan servicing market through its servicing subsidiary. In early 2016, the CBRE Group announced the launch of CBRE Loan Services--a global loan management business formed following the transfer to CBRE of GE Capital's interest in GEMSA Loan Services, L.P., which was a U.S. commercial loan-servicing joint venture between CBRE and GE Capital. The European head of CBRELS is the global head of CBRE

Loan Services. Although the two operations continue to work as separate entities, they share a common global business vision.

While CBRELS in the U.K. has a cooperation agreement with CBRE Ltd., it is an autonomous business unit and there are appropriate policies in place to avoid any conflict of interest. Under this structure, CBRELS retains independence while benefiting from the advantages of belonging to a large parent company such as access to support functions and real estate expertise.

CBRELS manages a pan-European portfolio of performing and nonperforming commercial loans as primary and special servicer from three servicing centers: its head office in London and two more offices in Madrid and Frankfurt. In addition, the company provides services in Milan, Dublin, Paris, and Amsterdam utilizing CBRE Group offices and resources.

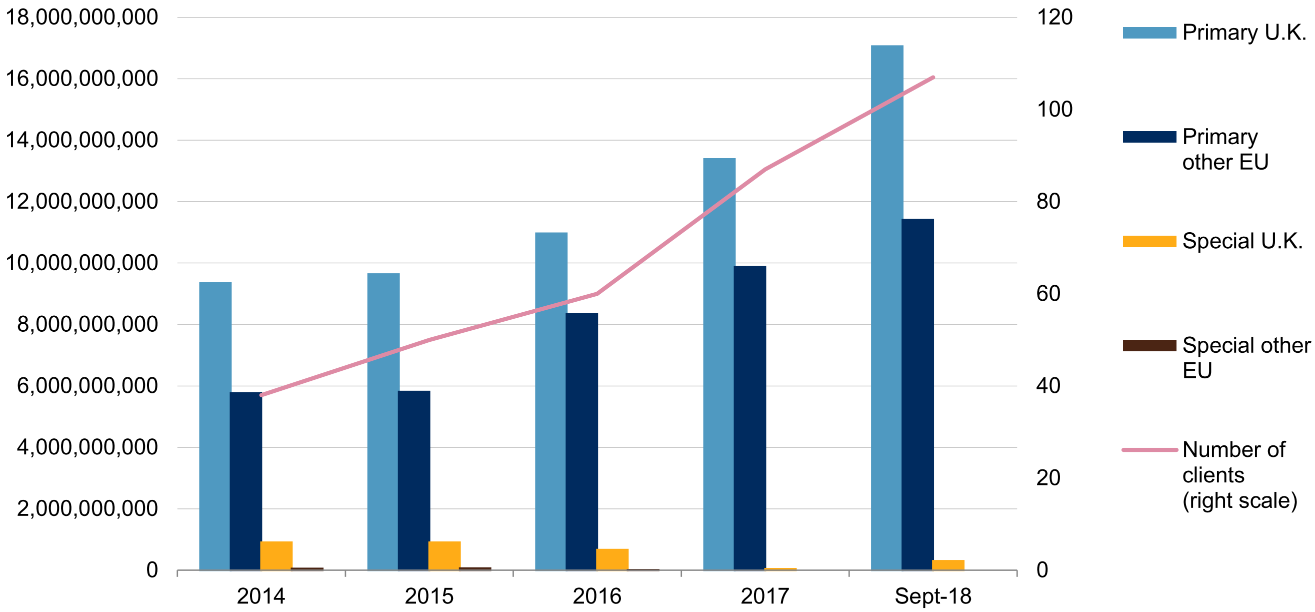
CBRELS' European portfolio consists of both securitized and non-securitized loans. The commercial real estate (CRE) backing the loans is primarily located in the U.K. and Germany, and the rest spread around Europe. Our rankings are limited to CBRELS' ability to manage U.K. loans.

CBRELS' portfolio under management has continued growing since our last review, notwithstanding portfolio amortization. As of September 2018, CBRELS' European portfolio accounted for £28.772 billion from £23.306 billion in 2017 and £19.995 billion in 2016 (see chart 1). This includes the overall U.K. portfolio, which increased to £17.358 billion from £13.428 billion and £11.637 billion, representing 60% of the overall European primary servicing business and 100% of the overall European special servicing business as of September 2018.

CBRELS has a well-diversified client base which expanded to 107 as of September 2018 from 87 in 2017 and 60 in 2016.

Chart 1

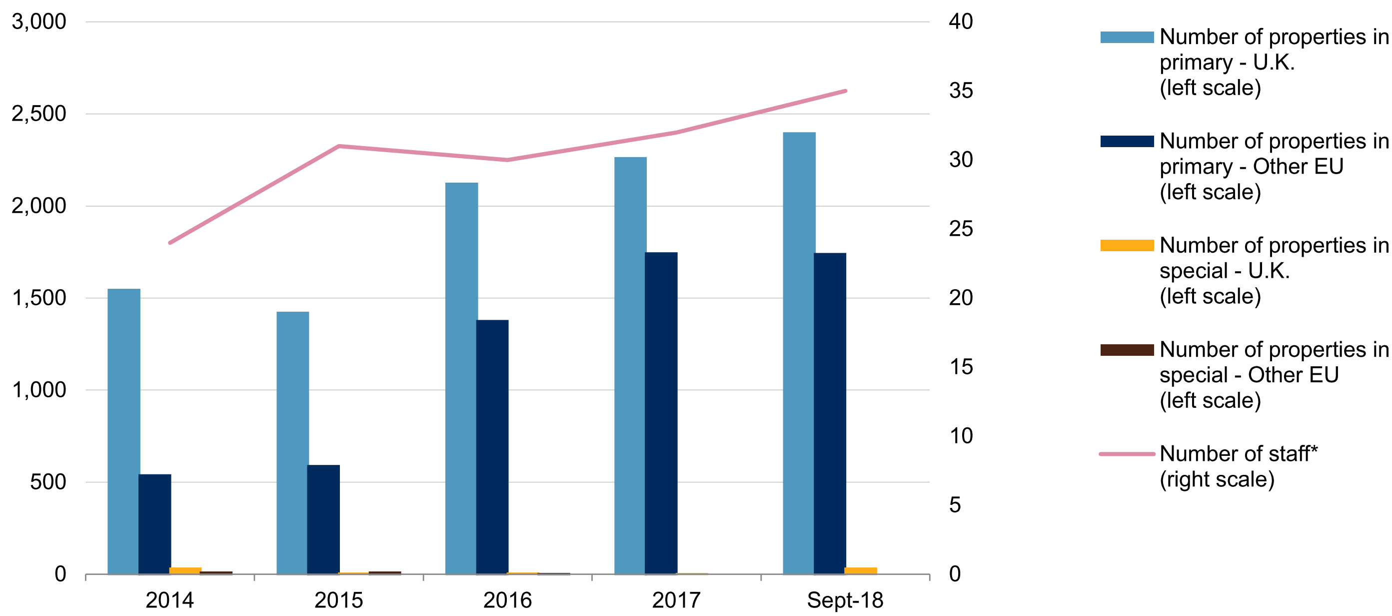
Portfolio Outstanding Balance Versus Number Of Clients



Source: CBRELS, S&P Global Ratings.

Chart 2

Overall Number Of Properties Versus Number Of Staff



Source: CBRELS, S&P Global Ratings. *Excluding loan recovery team in 2014.

Given the reduced opportunities in the CMBS market, CBRELS has diversified in the management of non-securitized loans over the last few years. Yet, the servicer boarded two CMBS transactions (one of which was backed by U.K. assets accounting for £0.347 billion) with a gross book value (GBV) of £0.476 billion in 2017 and five CMBS transactions (two of which were backed by U.K. assets accounting for £0.518 billion) with a GBV of £1.4 billion year-to-date in September 2018.

In addition, CBRELS was exclusively mandated to provide primary servicing and fund portfolio management services on a debt fund. Similarly, the servicer entered into a servicing agreement with another new client to service all future loan origination.

Despite the portfolio in active special servicing remaining minimal due to a general reduction in U.K. special servicing opportunities, CBRELS acquired a new special servicing mandate, with a GBV of £0.263 billion since our last review, replacing the previous special servicer. The servicer has "named special servicer" mandates on 25 loans, including nine CMBS deals, while CBRELS does not expect any of them to go into special servicing in the medium term. The overall named special servicer portfolio accounted for £2.939 billion as of September 2018 (£1.456 billion related to U.K. only) from £0.693 billion (£0.265 billion related to U.K. only) at our last review. In 2017, CBRELS was appointed as a named special servicer on a portfolio of loans totaling £0.837 billion for a new client. Moreover, the special servicing team continues providing loan advisory and valuations services.

Table 1

Servicing Portfolio Evolution					
	2014	**2015**	**2016**	**2017**	**September 2018**
Overall European business					
Overall European portfolio (GBV)- £	16,073,452,279	16,421,036,245	19,995,022,022	23,306,336,756	28,772,236,269
Overall European portfolio (loans)	276	334	393	377	456
Overall European portfolio (properties)	2,122	2,024	3,502	4,006	4,166
Overall European commercial mortgages clients	38	50	60	87	107
Overall European staff	24	31	30	32	35
Overall primary servicing staff	13	12	13	16	20
Overall special servicing staff	6	5	5	6	4
Loan recovery staff*	12	8	7	6	6
Overall U.K. business					
U.K. primary portfolio (GBV) - £	9,343,275,995	9,637,136,563	10,968,945,424	13,388,709,995	17,058,109,769
U.K. primary portfolio (loans)	215	237	282	273	326
U.K. primary portfolio (properties)	1,545	1,420	2,122	2,261	2,395
U.K. special portfolio (GBV)- £	909,100,298	908,416,608	668,006,195	38,862,748	300,221,747
U.K. special portfolio (loans)	4	4	4	2	3
U.K. special portfolio (properties)	31	5	4	1	31

*The team, formed of CBRE Group employees, became part of CBRELS in 2016. N/A--Not applicable.

CBRELS has a clear process to draft and approve its annual business plan. The CBRELS department heads draft the annual business plan which is submitted to the head of CBRELS for additional comments and presented to the board of directors for final approval. The business plan then becomes part of the larger Capital Advisors division business plan.

The servicer achieved its business plan goals in 2017, demonstrating its ability to further grow assets under management and expand its client base. CBRELS reported that the company is on track to meet its 2018 targets too. The servicer expects additional portfolio growth, mainly in primary servicing in line with the current economic environment in the U.K., and has reported a busy pipeline. In our view, CBRELS has the right competencies and structure in place to achieve those targets.

Moreover, the servicer collaborates with the CBRE Group on new debt-servicing product line opportunities, such as infrastructure loans.

Management And Organization

The management and organization subranking is STRONG for primary and special servicing.

Organizational structure, staff, and turnover

As of September 2018, CBRELS employed 35 staff overall--20 of them working on primary and four on special servicing--including 30 U.K.-based staff and five EU-based staff. As of the same date, CBRELS had three employees in Frankfurt, and two employees in Madrid. In addition, the servicer is supported by two CBRE Group employees in Milan working from the CBRE office.

All lines of business report to CBRELS' Chief Operating Officer (COO). CBRELS' COO and global head of CBRE Loans Services reports to the CBRE's head of Capital Advisors department, composed of 120 employees. The head of CBRE's Capital Advisors department is a member of the CBRELS board of directors, together with the Managing Director (MD) of CBRE U.K. and the COO of CBRE U.K.

CBRELS has a functional structure with four separate departments: loan servicing focused on the primary servicing of performing loans and watchlist management; loan advisory focused on special servicing and a range of advisory services including restructuring of mainly defaulted loans, buy and sell side portfolio advisory and loan valuations; loan recovery concentrated on real estate advisory; and business development led by a senior director responsible for new business acquisition and client relationship management.

The loan recovery team was created in 2014 by CBRE Group employees and became part of CBRELS in 2016. It provides in-house real estate advisory related to both primary and special servicing, attends credit committees and surveillance meetings. The loan recovery team can provide underwriting services too, whether or not linked to loan servicing, and works on receivership mandates.

In line with business growth, the loan servicing department increased by seven since our last review, including one in Madrid and one in Frankfurt. In the first half of 2018, the previous head of loan advisory, who has extensive industry experience, undertook a new role on Capital Advisors level, together with another loan advisory employee. CBRELS promoted a senior team member, with 13 years of experience, to manage the team, now composed of three. In addition, two team members left the organization during the same period and have been duly replaced. Nevertheless, according to management, the team remains appropriately staffed and team experience and tenure rates are high compared to peers.

CBRELS receives support from the parent company on supporting functions, such as HR, IT, marketing and compliance. The CBRE U.K. compliance department oversees CBRELS' internal and external audit assessments.

We find the current organization well-defined and able to support further business growth, since the company can leverage CBRE Group's network and resources.

As reported in table 2, CBRELS' corporate governance includes several meetings at the corporate and loan level, including an internal audit meeting since our last review.

Table 2

Corporate Governance Committees

Committee	Purpose	Members	Frequency
Operational check-in meeting	The scope is to address operational issues	Team associates	Weekly
One–to-one manager meeting	The scope is to discuss management priorities and issues faced	Managers within the company	Monthly
One-to-one staff meeting	The scope is to address employee queries and concerns	Team associate and line manager	Monthly
Staff appraisals	The scope is to review employees' performance against objectives	Team associate and line manager	Bi-annually
Business development meetings	The scope is to discuss new business opportunities	Business development manager and department heads	Weekly

Table 2

Corporate Governance Committees (cont.)

Committee	Purpose	Members	Frequency
Team meeting	The scope is to discuss team priorities and tasks' progress	Team associates and team leader	Monthly
Town hall meeting	The scope is to communicate company strategy and objectives	All staff	Quarterly
Credit committee meetings	The scope is to review loan performance	Team associates and team heads	Ad hoc
Client on-site portfolio reviews	The scope is to discuss forward looking portfolio strategy	Clients and CBRELS representative	Quarterly
Senior strategy meetings	The scope is to discuss company strategy	Senior management	Quarterly
Staff newsletter	The scope is to communicate monthly company updates	All staff	Monthly
Deal Board	The scope is to review completed deals	Senior management	Quarterly
Management review	The scope is to review any issues identified by external/internal auditors	Board of directors	Bi-annually
Internal audit meeting	The scope is to discuss findings from internal audits	Managers within the company	Monthly/ bi-annually

The company turnover rate increased to 20% in 2017 from 16% in 2016. CBRELS registered an overall turnover of 19% in the first half of 2018, which is higher than peers' turnover rates. Yet, two of the departures in 2018 related to internal moves while several of the 2017 and 2018 departures were associated to change in personal circumstances. Therefore, given the solid management experience and tenure, we believe the company effectively manages its staff.

The special servicing operative staff turnover rate increased significantly to 100% in the first half of 2018 due to several departures in the loan advisory team. This is counterbalanced by senior and middle management's experience and tenure.

Table 3

Staff Evolution

	H1-2018	2017	2016	2015
Staff at beginning of period	32	30	31	32
Number of joiners	6	8	4	3
Number of staff leaving voluntarily	6	5	4	3
Number of staff leaving not voluntarily	0	1	1	1
Number of expired contracts	0	0	0	0
Number of staff redundant	0	0	0	0
Staff at end of period	32	32	30	31*

Source: CBRELS, S&P Global Ratings.

We consider the CBRELS team to have wide industry experience. Similarly, CBRELS has reported tenures that exceed its peers (see table 4).

Table 4

Staff Experience And Tenure (H1 2018)

	Experience	Tenure
Senior management	30	13
Middle management	13	5
Staff primary	11	3
Staff special	17	10

Source: CBRELS, S&P Global Ratings.

In our opinion, CBRELS does not face any major key man dependency risk. The company is supported by a reasonable number of senior managers who can easily take over leadership responsibility in critical circumstances. Following the parent company's best practice, the servicer has an official succession plan identifying who could run the business in the short and long term up to five years from now. CBRELS successfully tested its succession plan in 2018 with the change of the loan advisory head.

Training

CBRELS receives full support from its parent company for hiring, training, and staff development. There are 160 employees on CBRE's HR team, and one HR employee works exclusively for CBRE's Capital Advisors division, which CBRELS is part of. The head of CBRELS works directly with the HR associate to tailor HR support to the company's needs. Those include CBRELS' specific training requirements, which CBRELS' senior and middle managers are responsible to identify and CBRELS proposes to the CBRE U.K. board of directors to approve the related budget.

Moreover, CBRELS' staff has access to all of CBRE's internal and external training programs. Through CBRE's group intranet, they access their personal profile to book training courses and track the outcome of performance reviews. CBRE training includes a range of business skills development-related courses while CBRELS' training courses are focused on servicing activity. Since our last review, the CBRE group launched the Advantage Academy, which stores all available training courses, including new management induction, talent programs and virtual learning. The talent and learning team, composed of eight, organizes the training offering.

In line with the CBRE group's strategy, CBRELS remains proactive in its talent development. The company offers a range of training courses, including leadership coaching and top talent development. Since our last review, CBRELS created an internal training on consent requests as well as organized an external refresher training on securities, delivered by a legal firm.

Table 5

Average Training Hours

	2017		H1-18	
	Average annual training hours	Induction	Average annual training hours	Induction
Internal	10.0	15.0	4.0	7.0
External	24.0	0.0	14.0	0.0
On the job	10.0	24.0	3.0	15.0
Online	8.0	10.0	4.0	8.0
Total	52.0	49.0	25.0	30.0

Source: CBRELS, S&P Global Ratings.

All staff complete at least 40 hours of business-relevant mandatory training per year. In 2017, the average annual training hours per employee increased to 52, which is on the high end compared to peers. At the same time, the company shows a high level of staff expertise. The servicer provides an average of 49 hours of induction training for new joiners. During the first week, senior staff introduce policies and procedures, as well as the IT and compliance system. During the remaining onboarding period, ongoing training on the loan servicing system is provided. At the same time, specific training needs for each new joiner are identified and provided as required.

In addition, staff has access to CBRE Group international mobility programs, including the swap and learn program, which offers the chance to work from a foreign office for one week, and the CBRE talent program, which supports two to 12-month secondment opportunities for high-performing employees. The CBRE Group provides mentoring opportunities to its employees.

CBRELS follows the CBRE Group compensation system, which aims to retain staff through recognition of individual performance. At the beginning of each year, line managers communicate new corporate objectives to their teams and meet each employee for assessment of year-end personal results, and to set up new goals for the coming year. CBRELS applies a talent matrix, that has been updated, and employees are encouraged to discuss their career aspirations with their line managers. The promotion process is very rigorous, including several interviews with people from the wider business. CBRELS had three promotions in 2017 and one in 2018.

Monthly newsletters and team meetings, as well as quarterly town halls keep staff informed of relevant company initiatives.

Systems and technology

CBRELS uses the same technology as the CBRE Group. This allows for access to a wide range of resources, as CBRELS uses the latest IT systems available at the CBRE Group level. CBRE's IT team and helpdesk service also supports CBRELS, which comprises 150 staff who provide the full range of IT functions across the U.K. CBRE teams, including infrastructure, software development, application support. Two technology resources directly support CBRELS.

CBRELS' loan management system, Fairways Debt, is provided by Finance Active. The servicer has been using Fairways Debt since 2016.

Fairways Debt is a web-based centralized loan management system that supports all aspects of the servicing activity, including loan agency and servicing, asset management, and financial reporting with multicurrency capabilities. The servicing system provides increased functionality with regard to the management of more complex loans. CBRELS continues investing in its IT platform, aiming to achieve further efficiencies. Since our last review, the system has been enhanced to include development loans. In addition, interest rates are automatically boarded on the new system and payment reports can be easily downloaded. When a loan is set up on the system, the system calculates the interest rate throughout the life of the loan, and the asset manager can see a detailed view of the calculations as well as extract them in Excel with a single click.

Fairways Debt, which is cloud-hosted by the vendor, streamlines all aspect of real estate servicing and has the flexibility to perform more calculations, reducing the level of operative tasks. The system can load up to 100% new loans without requiring any software upgrade. Moreover, it has an audit trail that tracks all changes applied. In our opinion, the loan servicing system is user-friendly and easy to navigate, which should contribute to more efficient operations.

CBRELS uses several complimentary applications that are external to the core loan management system, such as the loan compliance solution which supports cash flows and asset valuation, and the compliance diary that facilitates loan compliance with covenants. Similarly, CBRELS produces reports outside the loan management system, extracting information from the company reporting database. The loan compliance solution, which calculates loan financial compliance and produces current and future cash flows has been enhanced to include additional client data and create reporting efficiencies since our last review. It offers a consistent model format and capabilities to include all types of loans. The loan compliance diary is a SharePoint based workflow solution with appropriate approval processes that tracks compliance with all loan documentation. The tool is linked to Fairways Debt and provides robust management oversight and efficient workflow management for staff.

CBRELS has an intrusion detection system in place, which was tested in November 2017. CBRE servers support CBRELS' systems. A specialist tape-storage company backs up the servers daily and stores them offsite. CBRE has four computer rooms: three in London and one in Madrid. The core data for each office, including network files and pivotal applications, can be replicated at an alternative site. CBRE's state of the art data center is in Romford, England which is around 20 miles away from London and on a different power grid. The failover site of the UK data center is in Madrid.

Business continuity and disaster recovery

The CBRE Group has a business continuity (BC) plan for each local office, including the London office, where CBRELS is located. The CBRE compliance team, supported by the global risk management team, developed the BC plan. The CBRE Group's BC officers for EMEA and the U.K. are responsible for keeping the BC plan up-to-date. The U.K. BC officer reviews and updates the London BC plan semiannually while the IT team works on the technical aspects of it. Moreover, there are local crisis management and incident response teams.

The BC plan, based on business impact analysis, is aligned with the CBRE Global Practice guidelines. The BC plan is tested annually, and the most recent test took place in November 2017, including full system test and relocation to test site. The CBRE Group utilizes a notification system to update staff on any incidents or BC issues, tested annually.

The most recent disaster recovery test was in December 2017. It took four hours to restore information and there were no major issues. CBRELS can use the second CBRE office in London, which is five to six kilometers away and connected to a different power grid, as an alternative site. The company has 10 seats assigned there, but all staff can work from home, accessing the company systems and servers remotely and securely via a virtual network. Other CBRE offices throughout U.K. can also be utilized. Although we would normally anticipate an alternative site to be further apart, the proximity between sites is mitigated by the staff's ability to work from home and other CBRE offices. If both the London sites became unavailable, the data stored on the storage area network would be accessible from the U.K. data centers or the Madrid data center.

The CBRE Group is ISO 27001 Information Security certified. The CBRE Group also follows the principles of the ISO 22301 Business Continuity standard and aims to get certified in the near future.

Cyber security

The CBRE group, including CBRELS, has a comprehensive cyber security policy covering single sign-on and two form factor authentication, regular penetration testing, phishing campaigns, staff security awareness programs and data leakage prevention. CBRE UK also has the Cyber Essentials Plus certification.

Internal controls

CBRELS leverages on the internal controls regime of the CBRE Group. The U.K. compliance officer heads a team of three compliance associates who manage the compliance and risk management functions, and coordinate the internal audit review for CBRE U.K. CBRELS is subject to more frequent audit reviews than other CBRE Group businesses because the parent company recognizes a higher operational risk embedded in the servicer activity. Consequently, CBRELS is subject to monthly and two semiannual internal reviews and an annual external audit. In our opinion, this audit practice provides a sufficient level of assessment of the risk that is rooted in CBRELS' activity, given the servicer's size.

The compliance officer oversees the internal audit and compliance checks, and trains 90 audit champions from the business. CBRE confirmed that it carefully selects (usually based on seniority), trains, and monitors each auditor, to mitigate the risk of conflict of interests that could arise (as each area is essentially assessing its own operations). This risk is further mitigated as the final audit responsibility lies with the CBRE compliance team that drafts the audit program and oversees the completion of audit reviews and associated findings. CBRELS' head of loan administration is the company's audit champion in charge of internal data quality and compliance reviews of the CBRELS boarding process.

The servicer is subject to the following internal and external audit reviews:

- Since 2017, the CBRELS business development head performs monthly audit reviews of different servicing procedures. The review consists of checking whether a certain process has been followed while reviewing five loan cases. The audit review may result in updates to procedures, which the business development head coordinates. Results of the monthly reviews are reported to the head of CBRELS and the compliance department. The business development director's extensive experience and the oversight of the compliance function mitigate the risk of lack of full independence from the servicing business.
- CBRELS' audit champion and head of loan administration runs data quality and compliance checks focusing on the servicer's boarding activity twice a year, which are subsequently reviewed by CBRE's compliance officer. The activity is completed online and is focused on compliance with transaction documents and internal policies and procedures;
- The CBRE U.K. Compliance Director performs a audit review on CBRELS operations twice a year;
- Lloyds Register Quality Assurance (LRQA) is in charge of the external audit review and gives the CBRE Group an ISO 9001:2015 certification and independent reviews of various functions. LRQA selects areas to audit based on its own criteria. Usually, LRQA reviews each area over a cycle of a maximum three years, but has reduced the cycle to one year for CBRELS. The most recent external audit of CBRELS was in February 2018, which covered areas such as loan administration, servicing system, compliance diary.

The board of directors reviews internal and external audit results as part of the bi-annual management review. There were no CBRELS issues reported since our last review. The central audit and compliance system stores audit and compliance reports and findings.

Policies and procedures

CBRE applies a business management system that sets out the servicer structure, policies, and procedures, and it is certified by LRQA as meeting the requirements of the ISO 9001:2015 standard. Company policies and procedures can be found on the CBRE intranet and are accessible to all staff. CBRELS' manual, which covers the company's full range of servicing activities, can be found on the compliance and best-practice section of the intranet. The contents of the CBRELS manual are reviewed quarterly and the business development director coordinates any required changes. The head of either Loan Servicing or Loan Advisory approve changes to procedures, which are disseminated to staff via email or team meetings. In our view, the CBRELS manual is clear and fit for purpose.

Compliance

The compliance department is in charge of anti-money laundering (AML) regulations, the financial services act and codes of conduct imposed by CBRE, and other relevant regulatory requirements. In addition, staff undertake regular training relating to compliance matters. The compliance officer reports any compliance issues to the head of CBRELS and completes monthly compliance reports that feed into the management review. AML activity is part of the best-practice officer's responsibilities who reports to the compliance officer. CBRE uses specific software to support this function, in line with best market practice. Moreover, CBRE U.K. coordinated GDPR compliance, establishing appropriate controls on a country level, including CBRELS.

Risk management

The compliance officer undertakes a risk review reported into the CBRE EMEA risk register and then feeds this into the global risk register that holds the overall group risks. In our opinion, this increases the risk of concentration of pivotal roles into a single position. The compliance director discusses identified risks with senior management and business line heads, which results in the creation of action plans. The CBRE Group risk register is reviewed every two years following extensive interviews with department heads, resulting in a detailed action plan for the next two business cycles.

The business development senior director reviews the CBRELS-level risk register at least annually while presenting all findings and recommendations to the head of CBRELS. For each area, the register reports the related risk description, classification of the potential impact, risk likelihood, risk progress, and recommendations. On average, CBRE's management considers all the reviewed areas as low to medium risk. In addition, a monthly risk report is sent to the management board and all risks are reported in the management review. The compliance department oversees the CBRELS risk management process and any high risks would be duly escalated to the CBRE EMEA risk register.

Complaint management

CBRELS has a complaints procedure whereby all complaints received are logged on the servicer's complaints file and referred to the portfolio manager with overall responsibility for the loan. The servicer has not received any complaints since our last review.

Vendor management

The company uses CBRE experts or external companies, depending on each case, for legal, tax and valuation-related issues. The servicer uses panels of lawyers and brokers on CMBS transactions while CBRELS follows the external provider choice of the relevant counterparty on non-securitized loans. Finally, CBRELS can rely on CBRE's restructuring specialists in Frankfurt, Madrid, and London.

Insurance and legal proceedings

CBRELS has represented that its directors and officers as well as errors and omissions insurance coverage is in line with the requirements of its business. As of October 2018, there were no material servicing-related pending litigation items against CBRELS.

Loan Administration– Primary And Special Servicing

The loan administration subranking is STRONG for primary servicing and ABOVE AVERAGE for special servicing.

As of September 2018, 95% (down from 98% at our last review) of the U.K. primary servicing portfolio comprised syndicated and balance sheet loans, while 98% (down from 99% at our last review) of the special servicing portfolio comprised CMBS transactions. CBRELS does not directly own any portion of the portfolio under management.

The average U.K. loan size increased to £52.8 million as of September 2018 compared to £48.83 million in 2017 and £40.69 million in 2016.

Table 6

Portfolio Breakdown

GBV as of September 2018	Performing (Primary)	Nonperforming	Total
	European overall portfolio (£)		
<15 million	1,182,019,631	5,631,842	1,187,651,473
>15 million	27,289,994,890	294,589,905	27,584,584,795
Total	28,472,014,521	300,221,747	28,772,236,268
CMBS	2,237,244,358	294,589,905	2,531,834,263
Balance sheet/syndicated	26,234,770,163	5,631,843	26,240,402,006
Total	28,472,014,521	300,221,748	28,772,236,269
	U.K. overall portfolio (£)		
<15 million	887,605,515	5,631,842	893,237,357
>15 million	16,170,504,254	294,589,905	16,465,094,159
Total	17,058,109,769	300,221,747	17,358,331,516
CMBS	910,775,686	294,589,905	1,205,365,591
Balance sheet/syndicated	16,147,334,083	5,631,843	16,152,965,926
Total	17,058,109,769	300,221,748	17,358,331,517

Note: Totals may not add due to rounding.

The U.K. portfolio under management contains all major property types, though nearly half of the portfolio by GBV consists of offices and mixed use properties.

Table 7

U.K. Portfolio Breakdown By Property Type

Type	GBV	GBV (%)	No. properties	Properties (%)
Development loan	211,142,476	1	31	1
Healthcare	319,118,176	2	13	1
Hotels	2,458,097,772	14	260	11
Industrial/warehouse	1,107,761,089	6	283	12
Leisure	7,665,060	0	5	0
Mixed use	3,173,923,713	18	833	34
Office	5,195,914,783	30	116	5
Retail	2,400,919,152	14	438	18
Other	2,483,789,297	14	447	18
Total	17,358,331,517	100	2,426	100

New-loan boarding

In 2017, CBRELS boarded 189 new loans with a GBV of £11.752 billion, £6.190 billion in the U.K., and backed by 2,029 properties. In addition, the servicer has boarded 138 loans equivalent to £8.98 billion year-to-date in September 2018.

Based upon its stated practices and written procedures, CBRELS has a sound boarding process. The head of loan administration and five loan servicing analysts take care of the administrative work related to the boarding activity. On average, it takes five days to board a new portfolio and one day to review the loan documentation in full.

Once a new loan has been boarded, the portfolio manager assigns an asset manager and a loan servicing analyst who work together to upload it onto the system and on surveillance tasks throughout the life of the loan. Upon acquisition, the loan servicing analyst and the asset manager set up Fairways Debt and make sure all loan and collateral information is available online. They scan all loan transaction documentation and upload an electronic copy to a designated area of the company intranet. The asset manager liaises with the lender on all documentation required to start the servicing process and completes a thorough review of it. The asset manager chases any missing information and organizes documents into lender- and loan-specific files (which are only accessible to loan servicing staff). Similarly, the asset manager creates covenant entries within the loan compliance diary, ensuring that all key document covenants are monitored. Iron Mountain, an external archive provider, stores original loan documents. Moreover, the asset manager is in charge of completing a loan setup template and loan closing checklist.

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

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

Payment processing

The company is entitled to manage all borrowers' rent accounts but there is no direct management of any cash flow for loans in primary servicing. All payments take place electronically. There are six staff members trained to manage the payment process and all of them are actively working on this task. CBRELS has robust segregation of duties in place as two authorizations are required before making any payment. The servicer reconciles bank accounts on a monthly basis.

The six staff members run payment calculations for all loans through the Fairways Debt system, as are calculations of amounts due to or receivable by the borrowers from interest-rate hedges. Each interest payment date is recorded in the system as part of the loan setup. When a loan administrator requests a payment advice on the system, the information feeds into Excel where the data is formatted, saved in PDF form, and forwarded to the asset and portfolio manager for approval. After the asset and portfolio managers have checked the calculations, they forward them to the borrowers, with a hard copy retained on the loan file.

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

Three days following the interest payment date (IPD), or as per the servicing agreement, CBRELS produces a cash manager report detailing the payments made on the loan portfolio on the IPD.

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

Client management and investor reporting

CBRELS has a senior director in charge of business development and strategy.In our view, CBRELS senior managers also promote CBRELS' service and are committed to improve its client relationships at a higher level. Even though CBRELS does not have account directors, each loan and portfolio manager is always available to the company's clients. CBRELS also holds weekly business development meetings and quarterly client meetings.

At the time of our last review, the business development director put a client care program in place that has enhanced client management. The servicer uses a group-wide business intelligence tool which tracks all client interactions globally.

CBRELS provides a secure online client portal, created on SharePoint, to facilitate clients' access to live information on every portfolio, associated loans, and the CBRE research portal.

The servicer schedules the reporting process, when it boards the loan, to comply with the required timetable. Reporting duties remain within the primary servicing function, so the two teams agree on which data the special servicer has to provide to the primary servicer for compilation of reports. The special servicer will also issue strategy and performance reports as appropriate. All asset and portfolio managers have been trained on producing investor reports and eight team members currently work on this task. The system provides automated reminders to the asset and portfolio managers. The portfolio manager has overall reporting responsibility, while the asset managers ensure that data is current and accurate. The asset manager creates an initial draft report, automatically extracting data from the unique database and uploading it into the system to generate the report. A portfolio manager or senior staff member reviews the draft report and approves it before release.

CBRELS produces comprehensive, standardized, and bespoke reports on a loan and portfolio level to provide investors with insights on the quarterly movements and performance of investments, highlighting any issues and concerns. Report production usually takes between three and five days. In the first quarter of 2019, the servicer plans to launch a standard client report template, covering all generic reporting requirements.

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

Primary servicing (commercial mortgages)

The primary servicing team comprises a team head and 20 team members, up from 13 at our last review. The primary servicing employees are cross trained and work on both CMBS and balance sheet/syndicated loans. Each employee in primary servicing manages 25 loans, on average, compared to 24 loans in 2017.

The loan recovery team members work as consultants for the loan servicing and loan advisory teams. They review all real estate-related aspects of the performing loan, including inspections, providing surveillance and reviews of the same topics. Consequently, loan recovery team members attend all credit committees and surveillance meetings.

CBRELS has effective procedures covering asset and portfolio administration tasks. The primary servicing duties typically involve managing the assets backing the loans, accounting, administration, monitoring transaction triggers, producing reports, and maintaining a watchlist based on the Commercial Real Estate Finance Council guidelines. The services provided for balance sheet and syndicated loans may be the same or less extensive than the typical CMBS actions depending on the client's requirements. Over the last two years, CBRELS has further expanded its offering of bespoke services.

The Fairways Debt management system fully supports the analytical work. The asset manager can organize the working agenda and priorities as they see fit, although they have to accomplish a minimum set of actions within certain deadlines. Enhancements to the loan servicing system have brought efficiencies to the primary servicing function such as management of more complex loans. The compliance diary tracks all loan covenants and associated asset managers' tasks.

Right after boarding, the asset manager checks property insurance adequacy, missing documentation, property reviews, financial controls, and other information to verify completeness and compliance with transaction documentation and to ascertain any additional requirements. CBRELS' asset manager ensures that adequate and appropriate insurance is maintained on the property collateral in accordance with the loan documentation. The asset manager obtains evidence of continuing cover from the borrower or insurer as appropriate. The diary system records all renewal dates.

As part of the asset manager's information-gathering process, they undertake an initial inspection of properties, if required by respective servicing mandate. This inspection should take place within 12 months of the servicer appointment. The asset manager carries out future inspections in accordance with the transaction documents. CBRELS keeps detailed reports on the loans, which include the condition and location of properties, and any issues likely to affect value or demand. With regards to property valuations, when CBRELS manages balance sheet loans, there may be a requirement for an annual valuation or an option for the lender to call for a valuation. In the first scenario, CBRELS obtains at least three quotes from reputable valuation firms and sends them to the borrower to approve and confirm who to instruct. In the second scenario, the servicer advises the lender of the valuation option. If the lender decides to request a valuation, the aforementioned valuation firm selection process applies. With respect to CMBS loans, a similar process applies while the primary servicer decides whether to call for a valuation or not. CBRELS reports that there is no conflict of interest if the CBRE valuation team is chosen as the two are separate legal entities and CBRELS is not involved in the selection process.

When required, CBRELS performs annual credit reviews that may encompass summary activity, check of covenant compliance, property inspection, and borrower financial review.

The servicer addresses borrower requests in a well-controlled manner. Borrower consent requests are typically reviewed between 24 and 48 hours of receipt, depending on the nature of the request.

For CMBS transactions, it is key for CBRELS to ensure compliance with the financial covenants under the loan documentation. This requires monitoring properties' financial performance against relevant loan obligations. To this end, the system automatically calculates results of actual numbers compared to financial covenants to assess covenant compliance. This feature of the system helps to monitor loans' future performance and to assess critical situations, due to their constant review of factors such as tenant profiles, outstanding and prospective rent reviews, lease expiries/renewals, and lease breaks.

The asset manager reports any critical loans to the watchlist committee. CBRELS operates a three-stage watchlist process that is designed to allow for a degree of flexibility and capture potential issues on time to ensure early resolution. Upon receiving any information that may negatively affect the asset's credit quality, the asset manager tests each loan against CBRELS' watchlist criteria. If any test fails, the asset manager prepares a watchlist recommendation and submits it to the portfolio manager who, in turn, jointly approves any watchlist with the departmental head. Similarly, the portfolio manager circulates a quarterly copy of the watchlist to each asset manager for comment. In our opinion, CBRELS' detailed watchlist process is robust. We note that each loan in special servicing was previously on the watchlist, which would suggest that the process functions as it should. There are currently no loans on the watchlist.

Special servicing (commercial mortgages)

The special servicing team comprises a team head and three team members. Similar to our previous review, the team continues to be focused on providing more advisory services while retaining the special servicing expertise in-house. The new loan advisory head has extensive loan advisory experience. The loan recovery team supports the special servicing activity with reviews of business plans and restructuring proposals, as well as exit strategies.

In August 2018, CBRELS was appointed as special servicer on the Debussy DTC securitization, replacing the previous special servicer. In the following month, CBRELS filed a legal claim, on behalf of the noteholders, against the previous special servicer to achieve several objectives such as transparency of information and appointment of own receiver. We will closely monitor the case progress.

The loan advisory team advises on the sale, acquisition, valuation, and workout of both performing and nonperforming loans (NPLs). The team worked on two NPL sale mandates since our last review. In addition, CBRELS was appointed as controlling class representative on one securitization in 2017.

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

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

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

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

The special servicing manager undertakes a full review of the loan and the assets in order to formulate an action plan and budget required to implement it. The special servicing manager submits the workout strategy to the special servicing committee for approval. The committee comprises a managing director as chair, the heads of primary and special servicing, and special servicing senior directors. The required quorum of the special servicing committee guarantees full independence of the workout strategy. The plan is then reviewed regularly, and any variations require approval of the special servicing committee.

In our opinion, CBRELS has demonstrated a robust track record of its ability to manage a variety of workout scenarios. CBRELS has transferred over €2.8 billion of European CMBS loans from other special servicers since 2009. During 2017 and 2018, the servicer resolved one loan, with a recovery rate of over 100%. The loan resolution involved consensual sale of the largest asset and refinancing of the two smaller properties.

Financial Position

The financial position is SUFFICIENT.

Related Criteria

- Criteria - Structured Finance - Servicer Evaluations: Revised Criteria For Including RMBS, CMBS, And ABS Servicers On Standard & Poor's Select Servicer List, April 16, 2009
- Criteria - Structured Finance - Servicer Evaluations: Servicer Evaluation Ranking Criteria: U.S., Sept. 21, 2004

Related Research

- Rankings Affirmed On CBRE Loan Services As A Primary And Special Commercial Servicer In The U.K.; Outlook Stable, Nov. 29, 2018
- Select Servicer List, Sept. 26, 2018
- Summary: CBRE Services Inc., April 12, 2018
- Servicer Evaluation: CBRE Loan Services Ltd., Sept. 8, 2017