CMLS Financial Ltd.

Commercial Mortgage Servicer / North America

November 2018

Fitch Ratings

Content

Servicer Summary

CMLS Financial®

CMLS Financial Ltd. (CMLS) is a privately owned nonbank lender and servicer that acts primarily as a mortgage broker, placing capital from institutional and fund investors into commercial mortgages across Canada for which it retains servicing on the majority of loans. CMLS has been originating and servicing commercial real estate (CRE) loans since 1974 and is an active participant in government-sponsored and private Canadian securitization markets.

The servicing team is responsible for a growing portfolio of 1,889 loans totaling $13.9 billion and the company continues to make investments in technology and operations to improve efficiency and internal controls. As of June 30, 2018, CMLS's total servicing portfolio has grown 23% by balance and 5% by loan count since 2015. CMLS originates CRE loans for institutional investors and multifamily loans under a government-insured program and is also an active participant in the CMBS market, having performed five securitizations since 2012, with the most recent in 2015.

Servicer Ratings

- Fitch rates primary and master servicers, which protect the interests of the certificateholders in the trust, by servicing and administering the mortgage loans. The primary servicer is responsible for day-to-day servicing functions, while the master servicer is responsible for monitoring the activities of the primary servicers, investor reporting, and timely remittance of funds to trustees.
- Fitch also rates special servicers, which are key to maintaining the credit quality of a pool containing nonperforming commercial mortgages and real estate-owned assets. The special servicer is responsible for working out loans, foreclosing, and liquidating assets.
- In assessing and analyzing the capabilities of primary, master, and special servicers, Fitch reviews several key factors, including the management team, organizational structure and operating history, financial condition, information systems, and, with respect to the special servicer, workout and asset disposition experience and strategies.
- Fitch rates commercial mortgage primary, master, and special servicers on a scale of 1 to 5, with 1 being the highest rating. Within each of these rating levels, Fitch further differentiates ratings by plus (+) and minus (–) as well as the flat rating.

Ratings

Commercial Primary Servicer	**CPS2–**
Commercial Master Servicer	**CMS3**
Commercial Large Loan Special Servicer	**CLLSS3**

Related Research

- Fitch Affirms CMLS Financial Ltd.'s Commercial Servicer Ratings (October 2018)
- Canadian CMBS Default and Loss Study (October 2013)

Related Criteria

- Criteria for Rating Loan Servicers (February 2017)
- Criteria for Rating North American Commercial Mortgage Servicers (February 2017)

Note:

All currencies in this report are Canadian dollars unless noted otherwise.

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Key Rating Drivers

Company and Management: The servicing group is integral to the overall CRE lending platform, retaining servicing on approximately 90% of loans it originates on behalf of clients as well as providing third-party servicing for clients separate from origination services. The non-CMBS servicing portfolio is weighted toward multifamily properties, consistent with prior years (39% by loan count), and the CMBS portfolio is more diversified, spread evenly among hotel, retail, multifamily and industrial.

Procedures and Controls: CMLS's internal control resources consist of dedicated quality assurance and quality control employees as well as a director of compliance. CMLS also maintains a monthly operations committee and two employees dedicated to improving operational effectiveness. CMLS does not have an internal audit function; it tests compliance with policies and procedures through management oversight and quality control resources and undergoes annual external audits to independently test controls.

Staffing and Training: CMLS maintains strong employee training and development practices and a deep bench of experienced middle and senior managers. Turnover at the primary and master servicing staff level was particularly high at 52%, up from 23% the prior year and 36% at Fitch's previous review. However, internal transfers represented 46% of staff-level departures; excluding internal transfers, staff-level turnover would have been 28%. Management turnover declined to 6% from 12% the prior year; however, overall turnover increased to 33% from 18% the prior year. Whereas servicing employees often transition to other roles within the company by design, CMLS traditionally has elevated turnover as a result of internal transfers.

Financial Condition: Fitch's Financial Institutions group performed a financial assessment of CMLS and determined that the company's short-term liquidity and financial viability are adequate to support the servicing platform. Advancing capacity is a concern due to the company's limited balance sheet and access to external funding. Advancing risk is mitigated by low historical Canadian CRE mortgage defaults, as well as the presence of acceptable investment-grade-rated backup advancing agents.

Technology: CMLS uses SS&C Technologies Precision Loan Management system (Precision LM) Version 3, having upgraded from Version 1. CMLS is moving to annual system upgrades for Precision LM after having previously upgraded every two years. The company has developed internal applications that have enhanced servicing capabilities over automated reporting and portfolio asset management. CMLS has also built out a new originations system that it expects to go live in first-quarter 2019.

Loan Administration: CMLS has been servicing CRE loans since 1974 and has grown its servicing capabilities through the creation of proprietary technology. The experienced and stable management layer forms a core component as the company continues to grow its CRE lending and servicing operations.

Defaulted and Nonperforming Loan Management: While the company is similar to all Fitch-rated Canadian CRE servicers in that it has limited experience with liquidations such as real estate owned (REO), Fitch believes the experience of the staff is appropriate given the context of low numbers of defaults in the Canadian market. In the past 12 months, CMLS worked out two CMBS loans totaling $14.9 million through a foreclosure sale and a full loan payoff.

Company Experience Since

CRE Servicing	**1974**
CMBS Servicing	**2012**
Overseeing Primary Services	**2014**
CRE Loan Workout	**1974**
CMBS Workout	**2012**

Operational Trends

Business Plan	Growth in portfolio with demonstrated sponsor support investing in servicing infrastructure	▲
Servicing Portfolio	Year-over-year loan count change of approximately 10%	■
Financial Condition	Outlook/Trend	■
Staffing	Staffing changed less than 12% +/-	■
Technology	Stable technology platform	■
Internal Controls	Stable control environment; no material audit findings	■
Servicing Operations	Stable operations, no material changes year over year	■

Note:

Historically CMLS retains servicing for approximately 90% of commercial mortgages the company originates.

Company Overview

Through predecessor entities, CMLS has been originating and servicing commercial mortgage loans since 1974 in the Canadian market, primarily for multifamily properties. The company is an independently owned nonbank lender acting primarily as a mortgage broker, placing capital from institutional and fund investors into commercial mortgages across Canada. The company provides conventional mortgages for most commercial property types as well as less conventional, higher loan-to-value ratio loans and high-yield second mortgages. The company's two largest servicing clients remain an investment firm for which CMLS services on behalf of the firm's clients and a financial institution where CMLS originates and services multifamily loans for the NHA MBS program.

Similar to U.S. government-sponsored enterprise (GSE) programs, CMLS originates and services government-insured loans on multifamily properties for investors participating in the National Housing Act (NHA) mortgage-backed securities (MBS) program, administered and guaranteed by the Canada Mortgage and Housing Corporation (CMHC).

In 2017, CMLS originated $3.6 billion of commercial loans, the majority of which were part of the conventional loan program. CMLS originated $310 million through the NHA MBS program during 2017, which CMLS expects to come down in 2018; CMLS projects $3.8 billion to $4 billion of commercial mortgage originations in 2018.

CMLS was selected by CMHC in 2017 to provide the underwriting, funding and servicing services for the agency's multiyear $2.5 billion rental construction program, which aims to provide low-cost, long-term loans to encourage the construction of rental housing across Canada.

CMLS is growing its originations and credit risk management teams and with a focus on niche markets, including smaller balance loans and construction loans, which, along with the expanding commercial real estate books of its existing clients, will continue to help grow the portfolio. CMLS recently opened a new originations office in Winnipeg, its first new office since 2012. CMLS is also an active CMBS originator in Canada. CMLS established its CMBS group in 2011 and participates in securitizations through two main programs: the Canadian Commercial Mortgage Origination Trust shelf and its own conduit program, CMLS Financial Assets LP, started in December 2013.

The company participated in its first securitization in 2012, transacting a total of $250 million, followed by two securitizations in 2013 totaling $794 million, one securitization in 2014 totaling $284 million and one securitization in 2015 totaling $570 million. The latest securitization occurred in March 2018 and totaled $550 million.

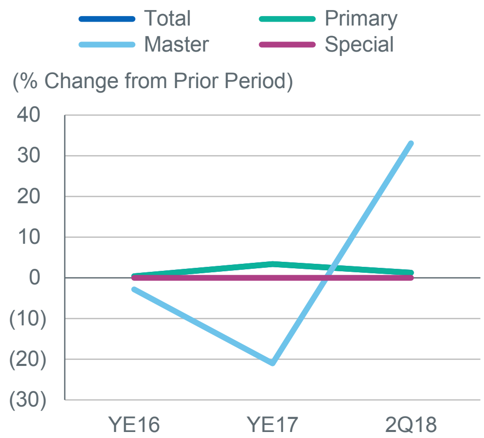
CMBS transactions represent 8% of the servicing portfolio by loan count, which continues to run off with the noted slowdown in the Canadian CMBS market. As of June 30, 2018, the company served as primary, master and special servicer for four CMBS transactions with a total unpaid principal balance (UPB) of $1.6 billion and also acted as primary servicer with an external master servicers for one transaction totaling $175.8 million.

CMLS started its mortgage analytics group (MAG) in 2009 to provide valuation and credit risk services to the market and currently oversees a portfolio of mortgage assets totaling $16.5 billion for third-party clients. Not all loans overseen by MAG are serviced by CMLS and, therefore, there remains a degree of separation between MAG and CMLS. However, MAG is actively involved in recommending if CMLS serviced-loans should be placed on the watchlist. MAG has been engaged by clients to review loans annually to determine current risk rating scores, representing 90% of the servicing portfolio.

CMLS is a member of the CREFC and sponsor of the CREFC Canadian Chapter, Mortgage Bankers Association (MBA) and Mortgage-Backed Securities Issuer Association and regularly attends CREFC and MBA conferences in the U.S. and Canada. The company remains an active participant in CMBS industry initiatives and events, participating in the ongoing development of the CREFC IRP.

CMLS maintains offices across Canada in Vancouver, Calgary, Toronto, Ottawa, Montreal, Winnipeg and Halifax, with primary servicing functions for commercial mortgages located in the Vancouver office. Special servicing functions are performed primarily in the Toronto office.

Servicing Portfolio Growth



Note: Special is defined as actively specially serviced loans.
Source: CMLS Financial Ltd.

Office Locations

Note:

While CMLS's active participation in the Canadian CMBS market provides for a complementary source of servicing assignments, Fitch notes that the CMBS market in Canada has experienced a slowdown.

Company Overview *(Cont'd)*

All Servicing Types

	3/31/18	% Change	2017	% Change	2016
Total Servicing					
UPB ($ Mil.)	208,607.5	1	205,911.9	(8)	224,183.1
No. of Loans	16,693	0	16,769	(17)	20,126
Primary Servicing					
UPB ($ Mil.)	207,895.3	1	205,186.5	(7)	221,251.1
No. of Loans	16,606	0	16,677	(16)	19,880
Master Servicing					
UPB ($ Mil.)	11,314.7	(4)	11,795.8	(47)	22,444.1
No. of Loans	1,481	(6)	1,576	(41)	2,676
Special Servicing — Named					
UPB ($ Mil.)	13,868.1	4	13,371.1	12	11,980.9
No. of Loans	1,889	1	1,865	3	1,803
Special Servicing — Active[a]					
UPB ($ Mil.)	9.7	0	9.6	(1)	9.7
No. of Loans	2	—	2	—	2.0

[a]Including REO.
Source: CMLS Financial Ltd.

"Unique among Canadian commercial mortgage servicers rated by Fitch, CMLS is predominately an originator and servicer of commercial loans that account for 66% of total assets under management (AUM) as of June 30, 2018. Total AUM was $20.6 billion as of the same date. Fitch typically finds rated servicers to be predominately an originator and servicer of prime single-family residential mortgages."

Financial

Fitch does not publicly rate CMLS. However, Fitch's Financial Institutions group performed a financial assessment of the company and noted CMLS's market presence as one of the largest Canadian commercial lenders as a strength as well as its established and longstanding strategic relationships with the NHA MBS program and residential and commercial brokers, low leverage ratios, profitability trends and experienced management team.

Fitch also noted CMLS's limited access to external funding as the company is classified as a nondeposit-taking institution, which inhibits the development of an additional funding source; this is somewhat mitigated by the access to the NHA MBS program, although CMLS noted volume declines thus far in 2018 versus the prior year due to changing market conditions. Fitch noted that CMLS's expansion into residential lending carries additional risks and that the small amount of high-volume mortgage investors in Canada leads to potential concentration risks for originators, and CMLS could see increased competition as demand for both RMBS and CMBS products increases.

While Canadian CMBS transactions typically have backup advancing agents, similar to trustee advancing responsibilities in U.S. CMBS, Fitch performed a stressed advancing analysis to understand the company's ability to meet potential advancing obligations relative to existing liquidity and default rates in a stressed scenario of up to 5%. The company's current liquidity is sufficient to meet expected advancing responsibilities.

Employees

Primary and Master Servicing

CMLS's servicing group continues to grow in line with overall growth in the servicing portfolio. As of June 30, 2018 CMLS maintains 39 employees for primary, master and special servicing, up from 26 at Fitch's prior review.

The servicing team is supported by specialized groups such as the credit risk management team and MAG, which handle functions such as analyses and approvals of borrower consent requests and internal loan risk ratings for a portion of the portfolio, respectively. MAG functions partly as the company's surveillance department, with six employees, a decrease from nine at Fitch's prior review, supporting servicing. In addition, the credit risk management team of four (a decrease from 10) is led by a senior manager with over 29 years of experience. The reduction in staff for both the MAG and credit risk management groups were mainly due to internal transfers to other parts of CMLS and remain as resources.

The servicing group is led by a senior manager with over 15 years of experience and who is supported by a newly hired senior manager who has over 16 years of experience in the industry. Additionally, a senior manager with 41 years of experience who serves on a part-time basis and a senior manager with 18 years of experience (who transitioned from the credit risk group) oversee the account management group and renewals group.

Within the servicing group, eight middle managers average 14 years of experience in credit underwriting, asset administration and commercial mortgage servicing, providing solid management depth.

The account management group of three middle managers who average 14 years of experience are responsible for interfacing with investors and borrowers on various loan issues (for example, insurance claims, loan renewals, loan undertakings and assumptions) and handling loan documentation reviews and analyses of recommendations for release of escrow funds. The renewals group, which previously was part of originations, consists of one middle manager with eight years of experience and four staff-level employees who average 13 years of experience. The renewals group is responsible for managing maturing loans.

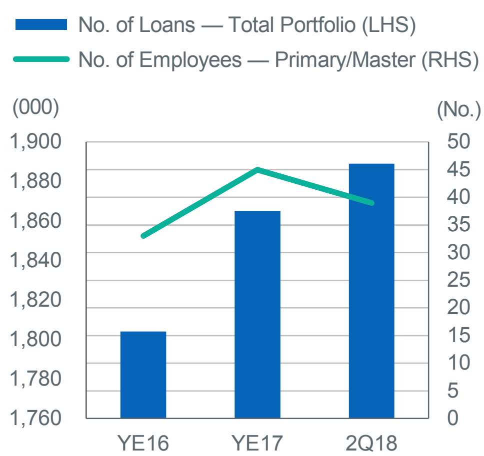
CMLS previously created a new quality assurance role to complement the quality control function. The position was filled via an internal promotion and is responsible for chairing the company's new policies and procedures committee, which reviews and implements updates, as well as ensuring compliance with file maintenance guidelines and sampling testing done by the quality control function. CMLS also recently hired a new compliance officer who is focused on corporate wide regulatory issues and reports to the vice president of finance.

CMLS maintains a partnership with the University of British Columbia's real estate program to source entry-level positions as the company's staffing plan is focused on developing and retaining junior-level staff. As the partnership has matured, it has become an effective means to provide CMLS with a steady flow of new employees as the company continues to grow. CMLS also has a history of hiring experienced employees.

Staff-level turnover increased to 52% from 23% at Fitch's last review and encompassed seven voluntary departures, one due to medical leave, and six internal transfers. Management turnover in the past 12 months was 6% as one middle manager in the credit risk management group departed voluntarily. The company's staffing model typically results in higher turnover ratios at the staff level compared with servicers that rely less on junior staff as new employees are often initially placed in the servicing group and, in some instances, subsequently transferred to other areas of the company based on experience and performance.

CMLS maintains a very proactive approach to monitoring staffing workloads and bench strength. Monthly, staffing needs are determined by the company's operating committee, which consists of senior managers across CMLS. The company uses a skills inventory tracking tool that identifies a set of skills deemed important for each functional area and tracks employee development through a scored matrix. The Excel-based system allows CMLS to monitor staff and management development and identify potential future skill shortfalls and training needs by department. The skills inventory tool is integrated into formal employee performance reviews, which are conducted annually with written assessments, as well as management feedback throughout the year and helps determine potential management candidates.

Loan and Employee Counts



Source: CMLS Financial Ltd.

Note:

While turnover at the staff level continues to be high, it is mitigated by the stable middle and senior management teams, as well as CMLS's commitment to employee development and training. Additionally, internal transfers represented 46% of staff-level departures; excluding internal transfers, staff-level turnover would have been 28%.

Employees *(Cont'd)*

Special Servicing

The special servicing group consists of six senior managers, including the head of servicing, who average 29 years of experience, and one middle manager who has over nine years of experience. The group is led by the president of CMLS, who is responsible for oversight and approval of workouts and has over 35 years of workout experience at CMLS and CMHC. The group also consists of the senior vice president of risk, with 25 years of experience, and servicing vice president of credit risk management serving as an asset manager located in Toronto with 29 years of broad experience in commercial property sales, property management, underwriting, securitization and asset management.

Members of the special servicing management team have experience in the management and liquidation of CRE loans across Canada during the country's real estate collapse of the 1990s. Senior managers of the servicing group are also involved to assist in the surveillance and transfer of assets to special servicing. The special servicing group experienced no turnover in the past 36 months.

The company has only one dedicated asset manager, which compares less favorably with other Fitch-rated special servicers in the U.S. but is similar to other Fitch-rated Canadian servicers. The Canadian commercial mortgage market has historically experienced significantly fewer defaults due to more conservative underwriting standards. Special servicing is also able to leverage the larger CMLS platform, drawing on an analyst pool for administrative functions and origination teams for market and borrower information as well as asset valuations.

Note:

While the special servicing group is smaller than other Fitch-rated servicers, Fitch believes CMLS's servicing staff is adequate for the limited number of Canadian defaults, expected servicing responsibilities and more lender-friendly judicial system.

Training

CMLS places a high degree of emphasis on employee training and development. CMLS assesses training needs continuously throughout the year and during the annual performance review period based on skill gaps and performance required for specific positions in servicing. New hires are subject to a hands-on approach with internal, one-on-one training sessions from managers on industry topics including the company's organizational roles and processes and procedures and benchmarks. These sessions average approximately 30 hours of instructor-led training. Employees also undergo a blend of on-the-job training, internal instructor-led sessions and external training from vendors, as well as classes in the University of British Columbia's real estate program and are cross-trained in various functional areas.

CMLS's stated goal is to require staff to obtain between 25 hours and 30 hours of annual training. Over the past 12 months, servicing employees completed an average of 30 hours, not including one-on-one training and mentoring. Training hours include monthly procedures updates/refreshers, specific functional training as well as industry hot topics. Over the past 12 months, CMLS has also added HR downloads on a variety of topics as a Web-based training option and anticipates launching this with employees during 2018.

CMLS also developed a complementary training program, which combines external training on developing business skills and job-specific training from internal experts. CMLS created a mortgage 101 course comprising 12 weekly sessions covering mortgage origination and underwriting basics. Taught by a CMLS subject matter expert, it involves case studies, class discussions and formal testing.

CMLS launched a rotation program for new hires in July 2016 that over a 12-month period rotates employees in the credit risk, servicing, MAG, business development and capital markets groups. Senior management stated that the program was created to help assess employee skills and fit within the organization to help address potential turnover. Servicing department employees are trained across several functions within their respective groups and are also cross-trained against the functions of other groups. Specialists complete a short rotation in each servicing function to have a broad understanding of each role prior to commencing on-the-job training for their primary function. Generally, there is a minimum of three additional subject experts for each functional role for backup and vacation coverage to avoid business interruption.

Note:

CMLS has a stated goal of requiring staff to obtain between 25 hours and 30 hours of training annually. In the past 12 months, employees averaged 30 hours of training, which is consistent with the average at Fitch's last review and in line with the average for Fitch-rated servicers.

Employees *(Cont'd)*

Employee Statistics

	2018				2017			
	No. of Employees	Avg. Years Industry Experience	Avg. Years Tenure	% Turnover	No. of Employees	Avg. Years Industry Experience	Avg. Years Tenure	% Turnover
Primary and Master Servicing								
Senior Management	5	24	7	0	4	25	7	0
Middle Management	12	14	6	8	13	16	6	15
Servicing Staff	22	5	4	52	28	4	3	23
Total	**39**	—	—	**33**	**45**	—	—	**18**
Special Servicing								
Senior Management	6	29	11	0	6	28	10	0
Middle Management	1	9	7	0	1	8	6	0
Servicing Staff	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total	**7**	—	—	**0**	**7**	—	—	**0**

N.A. – Not applicable.
Source: CMLS Financial Ltd.

Operational Infrastructure

Outsourcing

Similar to other Fitch-rated servicers, CMLS outsources property inspections, appraisals, environmental assessments, legal counsel and property management agents. CMLS does not outsource any core primary, master or special servicing functions and retains the requisite core servicing capabilities in-house.

Vendor Management

CMLS does not maintain a centralized vendor management function. Vendor management is monitored on an ongoing basis by the vice president and managing director of servicing.

Information Technology

In June, CMLS upgraded to SS&C Technologies' Precision LM Version 3, which functions as a life-of-the-loan system with the ability to approve, track and service loans from funding or acquisition to disposition. Precision LM performs servicing and accounting functions such as billing, collections, taxes and insurance and disbursements and manages collateral items such as inspections, appraisals, rent rolls, occupancy rates and debt service coverage. Precision LM is integrated with Microsoft SQL Server Reporting Services (SSRS) and SAP Crystal Reports, which are used for reporting purposes.

CMLS maintains a proprietary underwriting system run on a Microsoft SQL Server and SharePoint framework named Compass. Compass is used by the servicing group and provides reporting, information-sharing and automation capabilities and maintains property and current financial information to capture all CREFC IRP reporting data points.

For rent rolls, Compass is able to edit tenants and comments, summarize rent amounts and occupied square footage and perform lease rollover analyses in intervals of 12 months and 24 months. Rent rolls can be exported electronically. Compass is also used to spread financial statements, and the application is capable of producing Operating Statement Analysis Reports (OSAR) and NOI Adjustment Worksheets (NOIWS). Compass stores appraisal information as well as property inspection information, and is used to monitor deferred maintenance issues, which feed into CREFC IRP reporting. The system is flexible and can add new fields as reporting requirements change.

CMLS has also developed a robust Web-based portfolio asset management tool, named Target Asset Management, which is maintained by MAG. The portfolio asset management system functions strongly as a surveillance tool but is limited as a defaulted loan workout system when compared to systems used by highly rated special servicers. The system's main dashboard displays portfolio metrics, a summary of the top five loans, a summary of upcoming maturities, as well as tenant exposure. Target's loan page provides loan and collateral detail, as well as valuation detail and electronically stores key loan documents.

The property accounting page allows for asset managers to see historical and current rent rolls and property financial statements and provides the ability to spread financial statements. Target allows CMLS to be proactive regarding maturities, aiding in monitoring lease expirations and allowing asset managers to see potential tenant rollover and upcoming vacancies. Target has stress testing functionality at the portfolio, loan and property level to help identify loans of concern. The system grants flexibility to select multiple scenarios to stress various factors such as interest rates, capitalization rates, rents and vacancies.

While not all loans are currently on the system, the vast majority of the servicing portfolio is on Target (94%). The number of loans added to Target is driven by the servicing contracts and scope of work the company engages clients in. Target is expected to house a greater percentage of the servicing portfolio, which Fitch views as a positive, as CMLS promotes the system to more clients and builds out its data warehouse to more easily add loans to the system.

CMLS does not currently maintain a data warehouse; data sharing between Precision LM and Target is performed through downloaded reports, somewhat limiting CMLS's ability to automatically load data. Compass is updated at the time of loan origination. Data extracts from Precision LM are provided to MAG to update loan activity in the Target portfolio asset management system.

Note:

Recent upgrades to the Target Asset Management tool included two factor authentication for improved security during login; loan tagging for amortization schedule events; watchlist functionality; and a new dashboard that monitors loan activity and generates alerts for properties that trip certain rules such as declining vacancies or property cash flows. CMLS expects to implement construction loan functionality into the system within the next 12 months and to integrate Target Asset Management with its new originations system.

Disaster Recovery and Business Continuity

CMLS has three externally hosted data centers in Vancouver, Kelowa and Toronto hosting all key systems and applications and serving as alternate disaster recovery sites. Additionally, regional offices serve as backup locations, and employees have the ability to work from home through VPN and remote desktop connections, allowing cash and transactions to be processed remotely. CMLS maintains uninterruptible power supply devices at each office, and all servicing-related applications are hosted on servers in Vancouver with daily backups of systems and data stored in Toronto. CMLS has a maximum possible data loss of four hours, which compares favorably to highly rated servicers. CMLS fully outsources its annual disaster recovery test to two firms, and the most recent test was conducted in November 2017 was deemed successful.

"Fitch views CMLS's dedication to technology development as a strength. The company has developed internal applications that have enhanced servicing capabilities over automated reporting and portfolio asset management."

Internal Control Environment

Internal controls primarily consist of management oversight of servicing operations via weekly, monthly and annual reports from the servicing system, dedicated quality control efforts and oversight from an operations committee that meets monthly. CMLS uses Crystal Reports and SSRS, which are integrated with Precision LM, to monitor the servicing platform for changes to loan data, validation of loan information, financial statement collections, insurance requirements, policy coverage, expirations, payoff activity, bank reconciliations and outstanding remittances. Reports used in quality control by managers require initialing to verify they have been reviewed.

CMLS maintains a compliance committee, a subset of the operations committee, consisting of the CEO, president, head of risk and head of servicing. The compliance committee is responsible for reviewing any issues of noncompliance with policies and procedures, servicing agreements or external audits. The committee meets monthly, with any findings reported up to the company's governance committee, comprising shareholders of the company. CMLS does not have an internal audit function, which Fitch finds more common among smaller firms.

Policies and Procedures

CMLS's policies and procedures are available to all employees through the company's intranet. Fitch reviewed the policies and procedures and found them to be thorough in scope, with detailed, step-by-step and comprehensive descriptions of servicing procedures including illustrations of related systems. A policies and procedure committee, made up of the vice president of servicing, team managers, quality control analyst, quality assurance analyst and team leads, meets approximately every six weeks to address recommended changes, clarifications or documentation gaps. The manager of operational effectiveness is responsible for communicating any changes to existing manuals to all staff via e-mail bulletins and at staff meetings. There have been no material changes in the past 12 months.

The company also maintains CMBS policies and procedures describing roles and responsibilities of parties to the transaction as well as examples of CREFC reporting. New policies and procedures are communicated during regular monthly staff meetings. Training on policies and procedures are extensive for new hires, performed through a mix of formal instruction and on-the-job shadowing. More seasoned employees receive training through management coaching and feedback from quality control and performance reviews.

Controls and Compliance

CMLS's commercial operations have one manager dedicated to quality control who has over 29 years of experience and reports to the head of servicing. High-risk functions in servicing, such as new loan boarding, borrower requests, payouts, modifications, collections and remittances, are subject to 100% transaction review.

Components of the quality control program include reviews of all transactions including boarding, payouts, loan modifications, reserve releases, borrower requests and consents, collections and remittances; a daily audit report to detect any changes that were made in error or not approved; and monthly data validation reports.

A quality assurance analyst with over five years of experience also reports to the head of servicing and on a monthly basis reviews files for completeness, accuracy, timeliness and compliance with CMLS policies and procedures. The quality assurance analyst also provides a quarterly summary of the findings, recommendations and servicing management's responses directly to the president.

Servicing processes covered by the quality assurance function on a sampled basis are: insurance monitoring to ensure there's sufficient evidence of coverages required to be maintained; the timeliness of tax payments for escrowed and non-escrowed loans prior to the property tax due dates; completeness of financial statements, including rent rolls, collected; the setup of loans compared to terms in the commitment letter; collections; remittances and reporting; and payoffs.

Internal Control Environment *(Cont'd)*

Managers also review these processes on a daily basis for thoroughness, accuracy and timeliness. While Fitch views the presence of dedicated quality control and assurance functions as a strength, Fitch noted as a concern the lack of independence of these functions from servicing operations.

Through Precision LM, the servicing department runs automated exception reports, which cover items such as insurance, Personal Property Security Act (PPSA), loan covenant triggers and cash processing. The quality control manager, vice president of servicing and the assistant manager of servicing also run monitoring reports on a daily, weekly and monthly basis to ensure completeness, timeliness and accuracy of servicing data and compliance with servicing agreements and policies and procedures. Middle and senior managers in the servicing group also perform random quality control checks as part of management's day-to-day oversight.

The director of compliance is responsible for ensuring compliance with applicable laws around securities, mortgage brokerage and anti-money laundering as well as other legislation affecting the company. The company also employs a manager of operational effectiveness who is responsible for reviewing CMLS's compliance with policies and procedures and introducing process improvements. The manager of operational effectiveness works with a business analyst who focuses on core servicing areas such as insurance, taxes, investor relations, borrower services and financial statements.

Internal Audit

CMLS does not maintain an internal audit function; the company relies on management oversight and quality control and assurance resources to monitor compliance with policies and procedures.

External Audit

CMLS is reviewed by Deloitte LLP under the Canadian Standard on Assurance Engagements for an annual external audit called Reporting on Controls at a Service Organization (CSAE 3416). The audit's standards are designed to provide guidance regarding controls at a service organization and incorporate components from the Committee of Sponsoring Organizations of the Treadway Commission framework on operational and financial controls. Fitch reviewed an audit performed for the period spanning November 2016 to October 2017 that covered aspects of commercial mortgage funding, servicing, default management, IT and human resources and found it to be extensive in its coverage and review of CMLS's operational controls. The audit did not contain any material findings, consistent with Fitch's prior review.

CMLS was not required to undergo a Reg AB audit. However, it was subject to a uniform single attestation program audit by Deloitte LLP dated March 1, 2018, which found the company to be in compliance with the minimum servicing standards.

Note:

Fitch finds the lack of an internal audit department more common among smaller firms. CMLS tests compliance with policies and procedures through management oversight and quality control resources and undergoes an external audit that independently tests the company's operational controls. Fitch noted that the CSAE 3416 audit is extensive in its coverage of operational controls, and CMLS has consistently received clean audits with few minor findings.

Primary Servicing

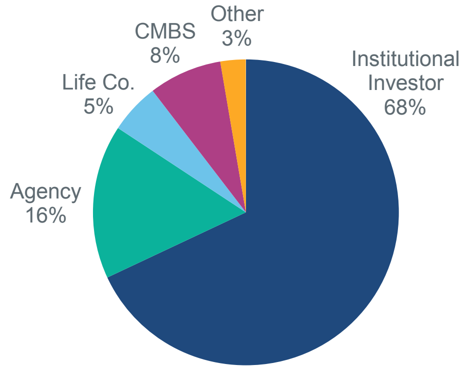
As of June 30, 2018, CMLS was the named master and primary servicer for 145 CMBS loans totaling $1.5 billion and was also the named primary servicer, reporting to an external master, for one CMBS loan totaling $175.8 million in one transaction, which continues to run off.

Primary Servicing Portfolio Overview

	6/30/18	% Change	2017	% Change	2016
CMBS					
No. of Transactions — Primary Servicer	4	—	4	(33)	6
UPB — Primary Servicing ($ Mil.)	1,556.4	32	1,177.9	(25)	1,574.1
No. of Loans — Primary Servicing	133	37	97	(24)	127
Non-CMBS					
UPB ($ Mil.)	12,218.3	1	12,098.6	17	10,312.3
No. of Loans	1,743	(1)	1,755	5	1,664

UPB – Unpaid principal balance.
Source: CMLS Financial Ltd.

Primary Servicing Product Type
(As of June 30, 2018)



Note: Percentages based on number of loans.
Source: CMLS Financial Ltd.

Note:

Boarding times for new loans are not tracked; the company estimates it takes approximately 45 minutes to set up a new loan, which compares favorably to other highly rated Fitch servicers.

New Loan Setup

While new loan setup is a manual process, CMLS maintains controls over it with dual reviews of loan data entered into Precision LM and exception reporting to monitor changes to and help validate loan data. CMLS's funding group passes loan information to the servicing group via a loan summary document, which is used by servicing analysts to manually enter loan information into Precision LM. Data entry rights in Precision LM are restricted to authorized personnel, and each loan setup entered into Precision LM is verified by a servicing analyst as well as the quality control manager against legal mortgage documents. Loan files are all maintained electronically, and the company contracts an external consultant to review electronic loan files for completeness.

CMLS does not regularly perform bulk loan transfers but participated in one portfolio purchase in October 2017 consisting of 21 loans with a $155.7 million balance. Precision LM has the capability to load a substantial portion of loan information automatically, and CMLS has a test environment that is used to validate processes, such as a bulk transfer, before performing in a production environment. CMLS has procedures in place to upload bulk loan information that would also be subject to a full audit by the quality control manager.

Loan covenants are identified by CMLS's funding group and are contained in commitment letters as well as the loan summaries. Covenants are stored in Precision LM's tickler system by the servicing group and monitored through weekly and monthly reporting. Missing documentation is identified in Precision LM against a system-generated checklist,and Precision LM is also used to monitor the status and receipt of missing information.

Accounting and Cash Management

All cash processing is handled through the Precision LM system. Nearly 98% of payments are collected via pre-authorized debit while post-dated checks, wires or reserves make up the balance. For pre-authorized debits, CMLS interfaces with financial institutions through an electronic fund transfer (EFT) preparation program and scheduler, which communicates posting instructions prior to the collection date, while payments via all other methods are reconciled against an upcoming payment report from Precision LM.

Note:

The majority of loans serviced by CMLS, 98% of the current portfolio, are set up on a pre-authorized debit (consistent with the prior year), allowing for a mostly automated collection process. The percentage of loans set up on a pre-authorized debit is higher than that of typical Fitch-rated servicers in the U.S.

Primary Servicing *(Cont'd)*

CMLS maintains good controls around the collections and processing of payments. The company reconciles the EFT file against reports generated from Precision LM, which are reviewed and approved by management, and then the EFT file is uploaded to CMLS's online banking system by two senior managers. Payments by other methods are reconciled against an upcoming payment report from Precision LM, and post-dated checks for each borrower are monitored in Precision LM via ticklers. Pre-authorized debits are automatically processed by Precision LM during a nightly processing procedure, while remaining collections are manually posted.

The company runs a weekly arrears report from Precision LM to confirm payments are received and processed. Late or returned payments are reported to the team manager and if the outstanding payment cannot be resolved timely, arrears are escalated to senior management. In the past 12 months, CMLS stated that there have been approximately four to six non-sufficient fund payments per month, nearly all of which were resolved within a few days. Bank accounts are reconciled at least monthly with reports from Precision LM. Reconciliations prepared by the accounting group are reviewed and signed off by the vice president of finance and are audited annually. All banking activities are subject to authorization from two senior managers.

CMLS has limited experience with loans containing cash management features and only services one loan with features such as lock boxes and complex waterfalls, neither of which is generally present in Canadian commercial mortgage loans. Processes in place would be followed relying on the Precision LM system to process cash distributions and monitor compliance through reports and event tracking ticklers.

Investor Reporting

CMLS does not maintain a separate investor reporting group as is common among smaller servicers; reporting is handled by servicing analysts with approval from the servicing manager. For non-CMBS investors, reports are generated from Precision LM using Crystal Reports and SSRS and can be tailored by investor and format. CMLS provides investors with reports on items such as remittances, arrears, portfolio reports for investor funds and upcoming maturities. Through Compass, CMLS has strong controls over CREFC IRP reporting as reporting is now largely automated by the underwriting system. As the system matures, CMLS has implemented new quality control reports to help ensure the completeness and accuracy of the investor reporting data.

Escrow Administration

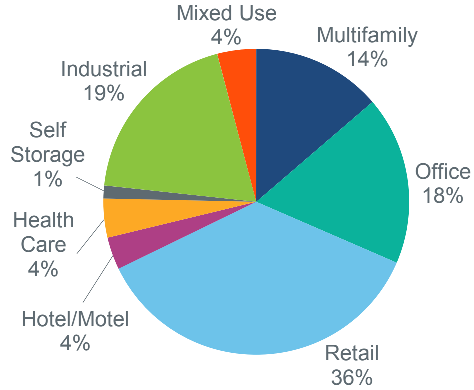
For escrowed loans, CMLS collects monthly tax installments along with the principal and interest mortgage payment and due dates and escrow shortfalls are tracked in Precision LM via monthly reports. Although tax payments are processed in Precision LM, remittances to municipalities are a manual process, as CMLS relies on couriers. Monthly tax installments are recalculated annually and are determined by actual taxes due in the current year plus an inflation factor. Currently, taxes are escrowed for 17% of loans in CMLS's servicing portfolio; no loans require escrow for insurance or ground rents.

For non-escrowed loans, CMLS monitors the payment of taxes in regions where taxes are collected annually and semi-annually. Tax confirmation requests are sent to borrowers and are tracked through Precision LM; where tax confirmation letters are not received, CMLS orders a tax certificate from the municipality with fees charged to borrowers. Loans identified with tax arrears are placed on the watchlist.

CMLS uses an external insurance consultant to perform an initial property insurance coverage review prior to loan funding, which is monitored by CMLS's credit risk group. Insurance requirements entered into Precision LM by servicing analysts are verified against the original loan commitment letter, the consultant's report and insurance certificates and policies. Upcoming insurance renewals are monitored with monthly reports from Precision LM, and renewed policies are examined to verify coverage with deficiencies monitored weekly until resolved.

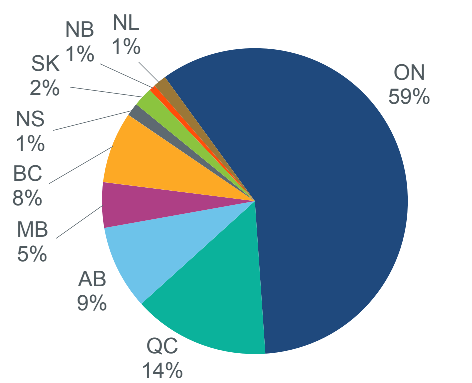
PPSAs, the Canadian equivalent of Uniform Commercial Code, are entered into Precision LM, and expiration dates are tracked using the system's tickler function. Additionally, CMLS uses an auto-scheduled monthly PPSA expiry report from Precision LM to track renewals. The company stated that there has not been any lapse in PPSAs.

CMBS Primary and Master Servicing Property Type
(As of June 30, 2018)



Source: CMLS Financial Ltd.

CMBS Primary and Master Servicing Geographic Distribution
(As of June 30, 2018)



Source: CMLS Financial Ltd.

Note:

In the past 24 months, there have been no incidents of restatements or errors; there was one instance of a late remittance.

Note:

CMLS paid no tax penalties in the past 12 months.

Primary Servicing *(Cont'd)*

Asset Administration

CMLS has a dedicated payments team that monitors collections daily, relying mostly on automated reconciliation reports for loans with pre-authorized debits. For payments collected by check, the bank notifies CMLS by fax of late payments. For loans deemed to have nonsufficient funds (NSF), CMLS issues an NSF letter within 24 hours and a follow-up call is made within 24 hours. Loans with a history of late payments or instances of NSF or where the borrower is unresponsive are placed on the watchlist. CMLS reviews an arrears report weekly and monthly to monitor the history of late or NSF payments for trends and watchlist updating. Unresponsive or noncooperative borrowers are placed on the watchlist and escalated for further oversight and direction. Historically, CMLS's servicing portfolio has a low delinquency rate (0.2%) and few NSF instances (approximately four to six monthly).

CMLS maintains a watchlist for the entire servicing portfolio. It is similar to the CREFC format and criteria and is maintained on Precision LM. The watchlist is updated upon trigger events and through monitoring collections and arrears reports, as well as noted deterioration in a property's financial position during the analysis of operating statements. Senior management and CMLS's credit risk group are notified of new additions, and the watchlist is also reviewed monthly by the company's operations committee.

For CMBS loans, the OSAR and the NOIWS are prepared in accordance with the pooling and servicing agreement (PSA) and CREFC guidelines by an analyst in CMLS's servicing group and are reviewed by a manager. CMLS developed the underwriting system to automatically populate data into the CREFC reporting format.

Nearly all site inspections are performed by three third-party inspectors. For non-CMBS loans, CMLS performs site inspections only where it has been engaged by clients; site inspections for CMBS loans are governed by the PSA. Generally, inspections are annual and deferred maintenance items are noted in Precision LM and followed up on by servicing analysts under management supervision. CMLS has an assigned analyst responsible for tracking inspections.

Maturity reports are run regularly through the month, notifying of upcoming maturities. Where a borrower has not already reached out to CMLS regarding a renewal, a minimum of 120 days prior to the renewal date a CMLS renewal analyst (reporting to the director, credit risk) will send out a renewal notice letter.

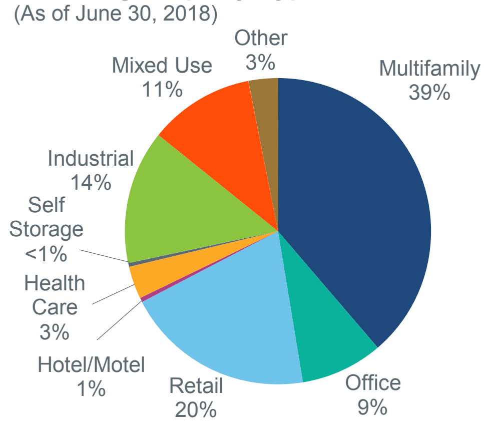
Customer Service

Modifications, assumptions and other borrower requests are all subject to approval from CMLS's credit risk group. CMLS does not maintain a formal system of measuring borrower request volumes and processing times. The company relies mainly on feedback from business development members and staff self-reporting to monitor customer service. CMLS does not maintain a borrower website; the company recently began developing an investor portal to facilitate document exchanges with clients and allow for portfolio data mining.

Note:

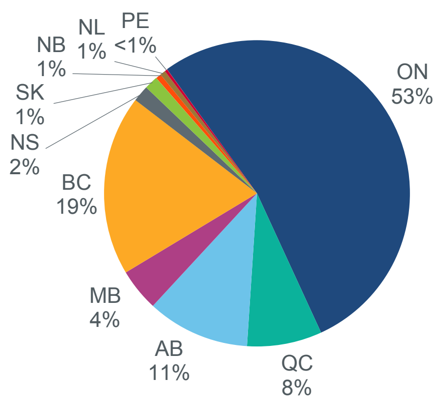
MAG has been engaged by clients to review loans annually to determine current risk rating scores, representing 70% of the servicing portfolio. CMLS uses Target for over 94% of the servicing portfolio.

Non-CMBS Primary and Master Servicing Property Type
(As of June 30, 2018)



Source: CMLS Financial Ltd.

Non-CMBS Primary and Master Servicing Geographic Distribution
(As of June 30, 2018)



Source: CMLS Financial Ltd.

Master Servicing

As of June 30, 2018, CMLS was the named master and primary servicer for 132 CMBS loans totaling $1.4 billion in four CMBS transactions and was also the named master servicer with an external primary servicer for 13 CMBS loans totaling $ 93.3 million, which continues to run off. This represents CMLS's first assignment overseeing an external primary servicer; the external servicer was appointed on the loans the company contributed to CMLS's CMLSI 2014-1 transaction.

Master Servicing Portfolio Overview

	6/30/18	% Change	2017	% Change	2016
No. of Transactions — Master Servicer	4	—	4	—	4
UPB — Master Servicing ($ Mil.)	1,473.9	35	1,094.8	(20)	1,365.0
No. of Loans — Master Servicing	145	33	109	(21)	138
No. of Primary Servicers Overseen	1	—	1	—	1

UPB – Unpaid principal balance.
Source: CMLS Financial Ltd.

Primary Servicer Oversight

CMLS mostly acts as master servicer where the company is also serving as primary servicer, contributing to the company's historically limited experience overseeing third-party servicers.CMLS has only overseen one external primary servicer; given the number of loans subserviced and CMLS's long history with the subservicer, CMLS has not performed an onsite review. A desktop audit was performed in February 2018.

CMLS maintains policies and procedures based on CMLS's experience and interaction with external master servicers, which Fitch reviewed and found to be sufficient in scope and detail covering various aspects of subservicer oversight. The director of servicing is responsible for CMLS's oversight program, which includes establishing an onsite review schedule to assess key operational areas and collection of three years of financial statements, audit reports, insurance certificates and a questionnaire focusing on servicing operations. CMLS reviews the monthly and quarterly reporting, financial statements and property inspection reports submitted by subservicers for miscalculations, incomplete information, deferred maintenance items or issues. Follow-up communication occurs where questions or concerns arise or if there are any instances of noncompliance.

Note:

While Fitch is concerned with potential capacity issues regarding external primary servicer oversight should third-party master servicing assignments be pursued, CMLS expressed that it is not the company's intention to become a third-party master servicer.

Asset Administration

Consistent with other full primary and master servicers, CMLS has a comprehensive surveillance function as information flow between servicing functions is centralized. Issues discovered during primary servicing for financial analysis, collections and monitoring of taxes and insurance are elevated and loans are placed on the company's watchlist, which is reviewed monthly by the operations committee, composed of members of primary servicing, special servicing and the credit risk group. MAG provides loan risk ratings and pricing services for CMLS mortgage investors, as well as performing internal risk rankings for a substantial portion of the servicing portfolio, which are used in escalating loans to the company's watchlist. Loan reviews for the remainder of the portfolio are handled by the servicing group following guidelines requested by clients or by analysts reporting to the credit risk group for CMHC-insured loans.

Additionally, communication between master servicing and special servicing regarding advances and appraisal subordinate entitlement reductions (ASER) is consolidated in CMLS's credit risk group, which is responsible for making advancing recommendations and supporting ASER adjustments.

CMLS created a role within the servicing team dedicated to CMLS's master servicing responsibilities. The role handles functions such as reporting, and it reports to the director of servicing. CMLS has developed a reporting tool to produce CREFC reports using information from Precision LM and the company's proprietary underwriting system. CMLS verifies the accuracy of the reports in two steps: with quality control measures at the data entry stage and a management review by the director of servicing of the reports prior to release of the reports.

Master Servicing *(Cont'd)*

Advancing

CMLS retains responsibility for advancing in the four CMBS transactions where the company serves as master servicer. While the capacity of CMLS to advance was found to be a potential concern under stressed scenarios due to the company's limited balance sheet and access to external funding, Fitch notes that the Canadian commercial mortgage market has historically seen low delinquency and default rates comparable to more conservatively underwritten and stable asset types, such as those found in U.S. GSE MBS programs.

Additionally, existing Canadian securitizations require a backup advancing agent that must carry investment-grade ratings. Wells Fargo Bank, N.A. (rated AA–/Stable by Fitch) is the designated backup party to CMLS's transactions as well as a majority of securitized transactions in the Canadian market. Advancing recommendations are made by the company's credit risk management team, and final decisions are the responsibility of the company's executive management team. CMLS has had to make advances for one loan in the past 24 months.

Note:

In October 2013, Fitch conducted a review of all Canadian CMBS transactions issued over the past 15 years, comprising 70 securitizations with an original loan count of 3,699 and original balance of $25.4 billion, to identify default frequencies and loss severities. Fitch identified 71 loans that had been or were delinquent and/or transferred to the special servicer, resulting in a cumulative default rate of 1.9% of issuance by balance. CMLS stated it is the company's intention to continue to maintain a backup advancing agent in future securitizations.

Special Servicing

Special Servicing Portfolio

As of June 30, 2018, CMLS was named special servicer for 146 CMBS loans totaling $1.6 billion for four transactions. Also as of June 30, CMLS was named special servicer for 1,743 non-CMBS loans totaling $12.2 billion. CMLS had two non-CMBS loans in special servicing totaling $9.6 million.

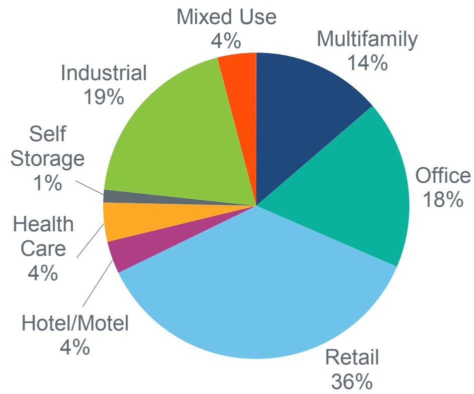
In the past 12 months, CMLS has resolved two CMBS loans, an office loan with a $1.8 million balance as of its transfer to special servicing which was sold at foreclosure and a $13.1 million multifamily loan with a balance of $13.1 million at transfer which was paid in full. CMLS has not resolved any non-CMBS loans over the same time period. While the company has limited experience with liquidations such as REO, Fitch believes the experience of the staff is appropriate given the context of low numbers of defaults in the Canadian market.

Special Servicing Portfolio Overview

	6/30/18	% Change	2017	% Change	2016
CMBS					
No. of Transactions — Special Servicer	5	—	5	—	5
UPB ¾ Special Servicer ($ Mil.)	1,649.7	30	1,272.5	(24)	1,668.5
No. of Loans — Named Special Servicer	146	33	110	(21)	139
UPB — Actively Special Servicer (Non-REO) ($ Mil.)	—	0	—	0	—
No. of Loans — Actively Special Servicer (Non-REO)	—	0	—	0	—
UPB — REO Assets ($ Mil.)	—	0	—	0	—
No. of REO Assets	—	0	—	0	—
Non-CMBS					
UPB — Named Special Servicer ($ Mil.)	12,218.3	1	12,098.6	17	10,312.3
No. of Loans — Named Special Servicer	1,743	(1)	1,755	5	1,664
UPB — Actively Special Servicing (Non-REO) ($ Mil.)	9.7	0	9.6	(1)	9.7
No. of Loans — Actively Special Servicing (Non-REO)	2	—	2	—	2
UPB — REO Assets ($ Mil.)	—	0	—	0	—
No. of REO Assets	—	0	—	0	—

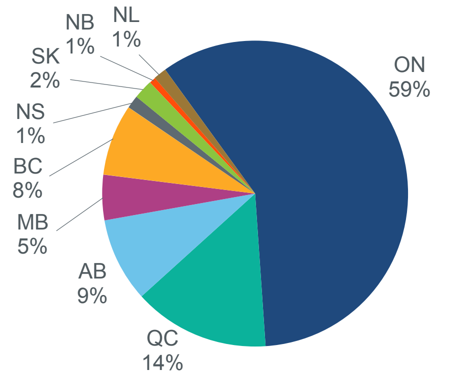
UPB – Unpaid principal balance.
Source: CMLS Financial Ltd.

Named CMBS Special Servicing Property Type
(As of June 30, 2018)



Source: CMLS Financial Ltd.

Named CMBS Special Servicing Geographic Distribution
(As of June 30, 2018)



Source: CMLS Financial Ltd.

Special Servicing *(Cont'd)*

Defaulted/Nonperforming Loan Management

Asset status reports (ASRs) are prepared by analysts in the underwriting group and reviewed by the director of special servicing within 30 days of the transfer from master servicing, or earlier if required. ASRs provide fundamental overviews and typically include summaries of the status of the loan, discussions with the borrower, the current rent roll, operating statement, appraised value and market conditions.

Site inspections are arranged by the VP of special servicing to confirm information contained in ASRs, and the director also incorporates third-party research and information from appraisers and brokers as well as the company's valuations group. ASRs form the business plan, typically containing addendums with resolution options such as power sale, foreclosure or loan modifications. ASRs are reviewed and updates given during weekly commercial management meetings consisting of the president, credit risk group and members of servicing and securitization. In addition to the ASR, asset management uses a checklist to monitor workout strategy progress that is also reviewed weekly by the operating committee. Fitch reviewed sample business plans, which were basic in composition, corresponding to the nature of the Canadian commercial mortgage market.

MAG provides annual loan-level risk ratings for client mortgage portfolios and monthly market value calculations for individual mortgages; the group also provides ratings for a substantial portion of CMLS's servicing portfolio. The valuation group also serves as a market intelligence resource for asset management.

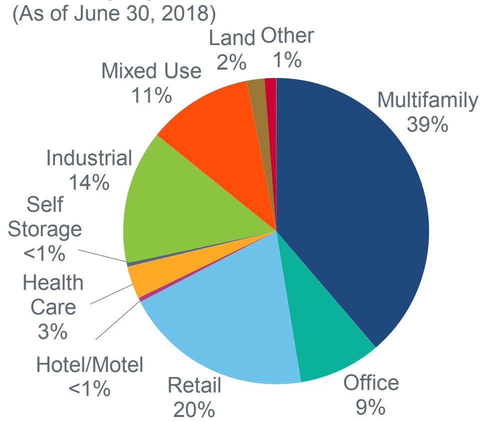
REO Management

The Canadian commercial mortgage market has experienced few foreclosures, and as defaulted assets are typically resolved through power sales, management of REO properties is rare compared with the U.S. commercial mortgage market. Power of sale provisions in Canada provide relatively faster disposal of distressed properties compared with in the U.S.

Note:

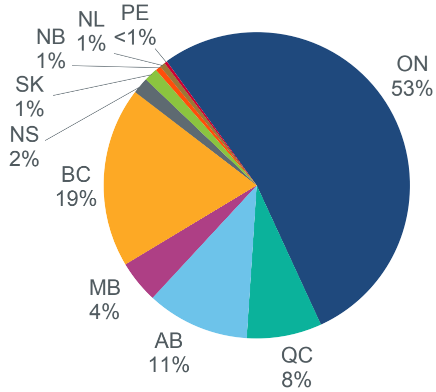
The Target portfolio asset management system captures market information including comparable property values and lease information, providing CMLS with strong market research capabilities.

Named Non-CMBS Special Servicing Property Type
(As of June 30, 2018)



Source: CMLS Financial Ltd.

Named Non-CMBS Special Servicing Geographic Distribution
(As of June 30, 2018)



Source: CMLS Financial Ltd.

Governance and Conflict of Interest

Managing Conflicts of Interest

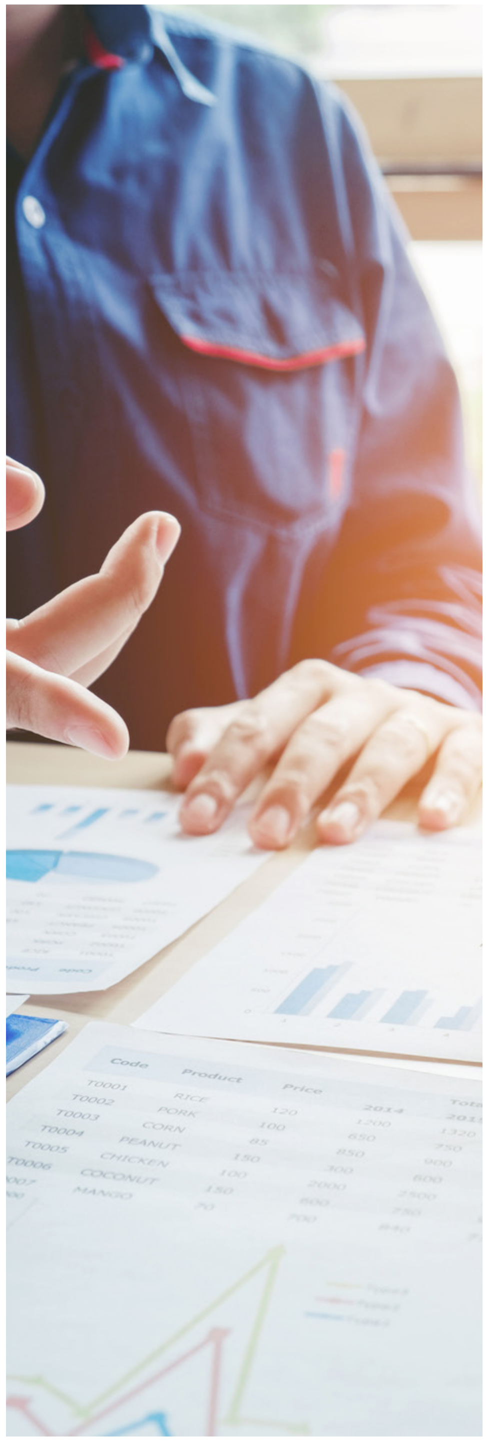
Potential for conflicts of interest in CMBS special servicing can arise when servicer actions or a particular workout strategy financially benefits the special servicer or the controlling class relative to alternative actions. Canadian CMBS transactions are similar to U.S. deals in that the controlling class has the right to approve workouts and retain or replace the special servicer.

For the five transactions where the company serves as special servicer, CMLS is not affiliated with the controlling class representative and stated there are no plans to become an active B-piece investor. Additionally, each resolution is approved by the company's separate credit risk group. Nevertheless, the potential for influence by the controlling class holder over potential workout strategies exists.

CMLS has a formal code of business conduct and ethics, a copy of which was provided to Fitch for review. The code's purpose is to reinforce and enhance the company's commitment to an ethical way of doing business. Fitch found the code specifically addressed potential conflicts of interest that may arise through various means in detail, as well as entertainment, gifts and gratuities. Employees are required to review and acknowledge their understanding of the code annually.

Affiliated Companies

CMLS does not engage any affiliated companies.



FitchRatings