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Servicer Evaluation: Prudential Asset Resources

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Servicer Evaluation: Prudential Asset Resources

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Overall ranking	AVERAGE
Subranking	
Management and organization	STRONG
Loan administration	AVERAGE
Outlook	Stable
Commercial special	
Overall ranking	ABOVE AVERAGE
Subranking	
Management and organization	STRONG
Loan administration	ABOVE AVERAGE
Outlook	Stable
Financial position	SUFFICIENT

Key Ranking Factors

- A strong audit, compliance, and quality control environment;
- Solid financial and resource commitment to the technology systems needed to effectively manage the loan portfolio;
- Institutional backing and financial support of its parent holding company, Prudential Financial Inc. (PFI);
- An experienced senior management team, though senior and middle management and asset manager tenure are below its peers;
- A lengthy track record of servicing loans from multiple capital sources and of various property types and locations;
- A dedicated focus on maintaining a high level of customer service; and
- Declining master and special servicing volume and a lack of commercial mortgage-backed securities (CMBS) subservicer oversight as a master servicer;

Opinion

Standard & Poor's Ratings Services' rankings on Prudential Asset Resources (PAR) are STRONG as a commercial mortgage primary servicer, AVERAGE as a commercial mortgage master servicer, and ABOVE AVERAGE as a commercial mortgage special servicer. The outlooks for all three rankings are stable. On April 22, 2016, we affirming the rankings (see "Prudential Asset Resources Primary, Master, And Special Servicer Rankings Affirmed; Outlooks

Stable").

Our rankings reflect our view of the company's experienced senior management team, solid audit and control environment, effective servicing systems, commitment to delivering superior customer service, and institutional backing. We note that master and special servicing volumes have declined since our last review in February 2015, and in our opinion, there appears to be limited near-term growth prospects in both areas, particularly in master servicing.

Outlook

Our outlooks for all three rankings are stable. PAR has a lengthy track record of servicing commercial and multifamily mortgage loans. The company has shown commitment to maintaining a strong risk control environment, a staff development program, and an environment of servicing technology enhancements.

PAR has exhibited controlled growth in primary servicing. Although master and special servicing volumes have declined, we believe that PAR maintains the resources and expertise to handle modest future volume increases in these portfolios.

Key Changes Since Last Review

- In June 2015, PAR hired a new president with over 25 years of industry experience to lead the servicing operations after the previous president transferred to another senior role within a PAR affiliate.
- The special servicing group now reports to the vice president who leads PAR's asset management department. Previously, special servicing had a dotted reporting line to PAR and a solid reporting line to Prudential Mortgage Capital Co. LLC (PMCC), the parent company.
- PAR formed a business support services department to focus on several tasks, including risk management support, quality control plan development, vendor management, and business continuity.
- PAR added staff in its offshore servicing operation.
- The surveillance group now performs the quality rerating process to monitor the general account, government-sponsored entities (GSEs), and balance sheet portfolios. This function was previously performed by another part of PMCC.

In addition to conducting an on-site meeting with servicing management, our review includes current and historical SEAM data, up to and including the period ended Dec. 31, 2015, as well as other supporting documentation provided by the company. Information contained in this report has also been reviewed by the servicer for factual accuracy.

Servicer Portfolio	
Servicer name	Prudential Asset Resources
Primary servicing location	Dallas, Texas and Atlanta, Ga.
Parent holding company	Prudential Financial Inc.
Servicer affliates	N/A
Loan servicing system	McCracken Strategy

N/A--Not applicable.

PAR was founded in 2000 to combine PFI general account and CMBS portfolio with newly acquired Fannie Mae, Federal Housing Administration (FHA), and other third-party life insurance company mortgage loans. In 2010, PAR began servicing Freddie Mac loans, and shortly thereafter, the company started servicing international loans. As of Dec. 31, 2015, PAR was the sixth-largest primary servicer in the U.S. according to the Mortgage Banker's Association, based on unpaid principal balance (UPB); it managed domestic assets of approximately $79.8 billion (see tables 1, 2, 3, and 4). PAR employs approximately 129 servicing and asset management professionals excluding a sizable offshore operation and also outsources several servicing functions that are not included in this headcount total. The international portfolio totaled approximately $3.2 billion of additional UPB as of Dec. 31, 2015, resulting in $83 billion of total managed UPB. Primary and master servicing operations are based in Dallas, and special servicing operations are based in both Atlanta and Dallas.

PAR is a subsidiary of PMCC and an indirect subsidiary of PFI, the parent holding company. In addition to servicing for GSEs and other third party investors, including CMBS, PAR administers all commercial mortgage servicing for PFI's life companies, including a growing international portfolio, along with interim (e.g., construction, bridge, and mezzanine financing) and permanent real estate loans. PAR also works closely with PMCC on special serviced loans relying on its parent for important tasks like real estate-owned (REO) asset accounting.

Table 1

Total Servicing Portfolio

	UPB (mil. $)	YOY change (%)	No. of loans	YOY change (%)	No. of staff	YOY change (%)
Primary/master servicing						
Dec. 31, 2015	79,814.4	(1.9)	4,895	(5.0)	129	0.0
Dec. 31, 2014	81,389.2	7.9	5,155	(0.4)	129	(15.7)
Dec. 31, 2013	75,410.6	7.5	5,177	(4.2)	153	2.0
Dec. 31, 2012	70,124.3	2.6	5,405	(2.2)	150	(3.2)
Dec. 31, 2011	68,371.3		5,524		155	
Special servicing						
Dec. 31, 2015	119.1	(52.9)	8	(70.4)	2	(33.3)
Dec. 31, 2014	252.7	(23.6)	27	(12.9)	3	(25)
Dec. 31, 2013	330.9	(58.6)	31	(32.6)	4	(33.3)
Dec. 31, 2012	798.8	(37.4)	46	(49.5)	6	(45.5)
Dec. 31, 2011	1,277.0		91		11	

UPB--Unpaid principal balance. YOY--Year-over-year.

Table 2

Portfolio Overview

	Dec. 31, 2015		Dec. 31, 2014		Dec. 31, 2013		Dec. 31, 2012		Dec. 31, 2011	
	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.
Primary loans	77,978.6	4,426	79,788.9	4,643	73,360.5	4,619	68,324.3	4,756	68,338.1	5,517
Master (SBO) loans	1,835.8	469	1,600.3	512	2,050.1	558	1,800.0	649	33.2	7
Total servicing	79,814.4	4,895	81,389.2	5,155	75,410.6	5,177	70,124.3	5,405	68,371.3	5,524
Average loan size	16.3	--	15.8	--	14.6	--	13.0	--	12.4	--
Special servicing										
Loans	119.1	8	252.7	27	301.9	30	798.8	46	1,203.3	88

Table 2

Portfolio Overview (cont.)

	Dec. 31, 2015		Dec. 31, 2014		Dec. 31, 2013		Dec. 31, 2012		Dec. 31, 2011	
	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.
REO properties	0.0	-	0.0	-	29.1	1	0.0	-	73.7	3
Total special servicing	119.1	8	252.7	27	330.9	31	798.8	46	1,277.0	91

UPB--Unpaid principal balance. SBO--Serviced by others. REO--Real estate owned.

Table 3

Primary/Master Portfolio By Investor Product Type

Loan type	Unpaid principal balance (mil. $)	Loan count	Unpaid principal balance (%)
On own or parent's balance sheet	44,195.3	2,382	55.4
Fannie Mae	11,075.5	565	13.9
Federal Housing Adiministration and Ginnie Mae	7,241.1	563	9.1
CMBS/CDO/ABS	6,655.6	569	8.3
Freddie Mac	6,173.2	411	7.7
Other third-party investors (REITs, investment funds, etc.)	2,471.3	343	3.1
Life insurance companies	2,002.3	62	2.5
Total	79,814.4	4,895	100.0

CBMS--Commercial mortgage-backed securities. CDO--Collateralized debt obligation. ABS--Asset-backed securities.

Table 4

Portfolio Breakdown By Property Type And State(i)

	Unpaid principal balance (mil. $)	Unpaid principal balance (%)	No. of properties	Properties (%)
Type				
Multifamily	30,650.6	38.4	1,949	33.1
Office	11,942.2	15.0	432	7.3
Retail	11,353.2	14.2	561	9.5
Health care	7,089.0	8.9	236	4.0
Warehouse	5,829.5	7.3	971	16.5
All other	12,949.8	16.2	1,746	29.6
Total	79,814.4	100.0	5,895	100.0
State				
CA	18,451.8	23.1	1,093	18.5
NY	8,982.3	11.3	299	5.1
TX	7,274.6	9.1	802	13.6
IL	3,608.0	4.5	255	4.3
WA	3,251.5	4.1	162	2.7
All other	38,246.4	47.9	3,284	55.7
Total	79,814.4	100.0	5,895	100.0

(i)As of Dec. 31, 2015.

Management And Organization

The subrankings for primary, master, and special servicing management and organization are STRONG.

Organization structure, staff depth, and turnover

A new president with over 25 years of industry experience now leads PAR. According to PAR, the transition to a new president has gone smoothly especially because the previous President moved to a new role at the affiliated PMCC.

Five vice presidents report to the president and lead each of PAR's functional departments--servicing and operations, asset management, investment operations, business strategy and quality, and the newly formed business support services. In 2015, the special servicing group was moved into PAR's asset management department. Special servicing was previously a part of PMCC and had a dotted reporting line to PAR. PAR receives legal, information technology, and offshoring support from PMCC. Special servicing also still works closely with PMCC for important tasks like REO accounting.

PAR's servicing and operations department performs a variety of tasks including overseeing non-credit-related borrower consents, tax and insurance, and investor reporting. The asset management department, among other responsibilities, conducts surveillance and watchlist monitoring, special servicing, and oversees credit-related borrower requests. Investment operations undertake loan fee accounting and bank reconciliations, while business strategy and quality oversees the offshoring staff, maintains PAR's policies and procedures (P&Ps), and performs quality assurance testing on the portfolio. Finally, the business support services department develops quality control and business continuity plans and helps with vendor management, among other responsibilities.

PAR utilizes both an offshoring and outsourcing strategy. Thirteen employees in Pramerica, a PMCC offshoring platform in Ireland, provide support on servicing tasks, such as new loan setup, investor reporting, and bank account reconciliations. They also help service the international portfolio. Offshore employees are not included in the overall headcount of 127 employees in primary and master servicing. PAR outsources other servicing and asset management functions to two secure third-party providers based in India, which perform insurance, property financial, and rent-roll data entry. PAR plans to explore offshoring and outsourcing additional servicing work in the future. We found the offshore processes and scope to be well-defined and thoroughly monitored.

PAR's senior managers in primary and master servicing average 29 years of industry experience, while senior managers in special servicing average 28 years of industry experience (see table 4). Industry experience of PAR's senior and middle managers, asset managers, and staff is generally in line with its peers (other ranked insurance companies). However, the tenure for all categories is below its peers, primarily because of the addition of the new president and the transfer of the chief financial officer to PMCC.

Table 5

Industry Experience/Company Tenure(i)

	Senior managers		Middle managers		Asset managers		Staff	
	Industry experience	Company tenure	Industry experience	Company tenure	Industry experience	Company tenure	Industry experience	Company tenure
Primary	29	5	17	9	N/A	N/A	16	7

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Table 5

Industry Experience/Company Tenure(i) (cont.)								
	Senior managers		Middle managers		Asset managers		Staff	
	Industry experience	Company tenure	Industry experience	Company tenure	Industry experience	Company tenure	Industry experience	Company tenure
Special	28	9	N/A	N/A	20	5	N/A	N/A

(i)As of Dec. 31, 2015. N/A--Not applicable.

Only two of PAR's 129 employees work full-time in the special servicing group, while the rest work in the primary and master servicing group The special servicing headcount does not include a vice president who oversees the entire asset management department, including special servicing, and an employee in the master servicing group who works part-time on specially serviced Fannie Mae loans. PAR adjusts its special servicing head count based on the number of assets in special servicing by utilizing the size of the PFI organization to move individuals in and out of the group (see table 1). According to PAR, even with its low head count, it can easily add staff if special servicing volume increases by transferring experienced employees from the origination department in PMCC and other departments within PFI. In our opinion, PAR benefits from this flexibility due to organizational depth; however, it can lead to high turnover and instability in special servicing personnel.

For the six months ended Dec. 31, 2015, the combined primary and master servicing turnover rate was 7.5%, while the turnover ratio for special servicing was 0%, in line with and below the average turnover rate of PAR's peers, respectively. However, special servicing turnover was 100% in the first half of 2015. The high special servicing turnover is mitigated by several factors including the fact that there was a small employee base (three full-time employees at the time), special servicing was moved from a PMCC division to PAR's asset management division, and a couple of the moves involved employees who stayed within the company taking a new role in the PMCC origination department.

Training

PAR continues to display a strong commitment to training and professional development. The program is centrally administered and includes curriculum covering soft skills, industry issues, and systems and business processes. PAR has historically exceeded its internal annual training goal of 40 hours per person; for full-year 2015, the company averaged 44 training hours per person in primary/master servicing. We note that training is not tracked for the two employees in special servicing, though any new employee who joined special servicing would need to take part in PFI's new employee training program.

PAR is highly engaged and knowledgeable about the various issues and trends affecting the commercial mortgage servicing industry. It actively participates in and leads a variety of initiatives through the Mortgage Bankers Association, Fannie Mae, Commercial Real Estate Women, Commercial Real Estate Finance Council, and other industry organizations. A training committee and training liaison determines the company's training needs and solicits feedback from employees on the training program. PAR utilizes TrainingConnect, a proprietary software system, which provides a comprehensive way to manage the training program for all personnel.

Systems and technology

PAR has continued to strengthen its technology platform by improving functionality and automation. There is a dedicated technology staff (26 full-time employees) that supports the servicing and origination operations. The platform is well-integrated, and system highlights include:

- McCracken Strategy version 17: a remote host vendor loan accounting and servicing system for the general account, Fannie Mae, FHA, Freddie Mac, international, and CMBS loan portfolios;
- LoanConnect: a proprietary pipeline and asset management system PAR uses to manage post-closing servicing and asset management activities;
- BorrowerConnect: a secure website for borrowers to access balance and payment information, billing statements, loan documents, and forms;
- DataConnect: a proprietary data warehouse for ad hoc reporting containing data from the servicing and asset management systems;
- TrainingConnect: a proprietary training management system;
- IBM Content Manager: document imaging and management;
- InvestorView: a secure website for investors, rating agencies, and special servicers to access loan and portfolio information; and
- PruXchange: a secure web portal for exchanging documents with internal/external parties.

PAR follows PMCC corporate procedures for disaster and business recovery. Detailed business continuity procedures and thorough daily, weekly, and monthly data backup protocols are maintained for its servicing operations. Target recovery time for cash remittance and investor reporting is one business day. In addition, PAR employees in asset management have remote system access using a virtual private network connection. PAR maintains separate secondary locations that house backup data servers for the technology applications. The annual disaster recovery testing is performed by a corporate infrastructure group. The last test was performed in March 2016, and no material issues were noted.

Internal controls

We believe PAR has solid controls to ensure compliance and mitigate operational risk. It is subject to numerous operational audits and reviews, including internal audit; Regulation AB (RegAB); CMBS master servicer reviews; Department of Housing and Urban Development/Ginnie Mae, Freddie Mac, Fannie Mae audits; and several other third-party audits including a Federal Reserve problem loan management examination. The RegAB audit for the year ended Dec. 31, 2015, did not report any exceptions For several years, Freddie Mac has only noted minor issues during its PAR audits. Also Fannie Mae designated PAR as good on their scale during their 2015 audit as they only noted a few minor issues. Typically, all business units meet to discuss results of third-party audit findings and to formulate a response and corrective action if necessary.

Prudential Investment Management, a subsidiary of PFI has an internal audit group that completes an annual risk assessment on PAR to determine the scope and frequency of operational audits; the most recent internal audit by this group was completed in 2013 with only a few minor exceptions noted. Internal audit does not deem PAR to be a high-risk area, so full-scale audits are scheduled every two to three years. PMCC has a risk group that reviews PAR on an annual basis with regard to cash activities. PAR is expected to have a full-scale corporate internal audit from the Prudential Investment Management group during 2016.

PAR's P&P manuals are accessible to all staff via LoanConnect, and each P&P has a designated owner. We note that several of PAR's P&Ps haven't been updated since 2009 or 2010, and some still have screenshots from an older version of McCracken Strategy. Most STRONG ranked servicers update their P&Ps on a more frequent basis. According to PAR, because it has been identified as a systematically important financial institution, it is working on a process to review all P&Ps every two years. Further in the future, PAR plans to track not only the dates the P&Ps are created and updated but also the dates that they are reviewed regardless if any updates were made. The manuals can currently be searched via queries on LoanConnect across departments, functions, and transactions and include an interactive question-and-answer feature that automatically routes employee questions to designated subject matter experts within PAR.

PAR maintains a proactive and diligent quality assurance process to measure performance, regulatory compliance (e.g., the Sarbanes-Oxley Act, Reg AB, etc.), compliance with servicing agreements, adherence to P&Ps, timeliness, and accuracy. The business strategy and quality team tracks more than 250 separate metrics and continuously performs testing and process monitoring. Results are reported monthly to senior management, and key performance metrics are reviewed at staff meetings.

Corporate insurance and litigation

The company has represented that it maintains adequate director & officers and errors and omissions insurance coverage given the size of its servicing portfolio. Management reported that PAR is not facing any servicing ligation matters as of Dec. 31, 2015.

Loan Administration--Primary Servicing

The subranking for primary servicing loan administration is STRONG.

The loan administration ranking for primary servicing is based on an emphasis on good customer service and high customer satisfaction, solid asset management surveillance, and a thorough quality control review of different processes through metrics. We note that PAR recently has had a higher percentage of 30-days or more past due date property inspections and lapsed Uniform Commercial Code-1 (UCC) refilings than its STRONG ranked peers. Management has taken both of these issues seriously and has made changes such as reappointing a new manager to be responsible for oversight and replacing vendors to lower the chance of the issue reoccurring.

PAR's primary servicing portfolio volume has been fairly steady over the past several years; as of Dec. 31, 2015, it totaled approximately $78 billion, consisting of 4,426 loans (see table 6). The portfolio is geographically dispersed and contains all major collateral property types. PAR also services loans for a diverse mix of investor types, including life insurance company mortgages, GSEs, FHA, and CMBS. Overall and compared with other ranked servicers, PAR's delinquency rates have been low, similar to its peers of ranked insurance companies. In primary servicing, approximately 0.3% of loans were 30 or more days delinquent as of Dec. 31, 2015 (see table 6).

Table 6

Primary Servicing Portfolio										
	Dec. 31, 2015		Dec. 31, 2014		Dec. 31, 2013		Dec. 31, 2012		Dec. 31, 2011	
	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.
Primary loans	77,978.6	4,426	79,788.9	4,643	73,360.5	4,619	68,324.3	4,756	68,338.1	5,517
Average loans size	17.6	--	17.2	--	15.9	--	14.4	--	12.4	--
Delinquent (%)										
30-days	0.0		0.0		0.0		0.1		0.2	
60-days	0.0		0.0		0.0		0.3		0.0	
90+-days	0.3		0.2		0.4		0.7		1.3	
Total	0.3		0.3		0.4		1.1		1.5	

UPB--Unpaid principal balance.

New loan setup and data integrity

We believe PAR has a well-controlled process that properly monitors timeliness and accuracy of new loan setup.

- Data is reviewed through system edit checks, and a quality review is conducted against source documents while imaging activities are well-conducted and monitored.
- PAR's offshoring and outsourcing partners have staff dedicated to loading new loan data into the system and to the quality review of new loan setup in the system.
- QC uses accuracy metrics to track data integrity.

Payment processing

We believe that PAR has appropriate controls in place to ensure accurate payment posting and reconciliation.

- Approximately 96% of payments are processed electronically through bank lockbox, automated clearing house, and wire transfer services.
- PAR keeps unprocessed checks in a fire-proof cabinet, has separate designated employees for check deposit preparation and payment posting, and uses check copies for payment posting and for research by another department.
- Adjustable-rate mortgage audits are periodically performed to ensure correct rate indices and changes.
- Strategy automatically reconciles the amount received against the amount due.

Investor reporting

We believe that the investor reporting functions are well-automated, administered, and controlled with proper separation of duties at PAR.

- Reporting activities involve a cooperative effort between the servicing and asset management departments.
- Reports are generated directly from LoanConnect and McCracken Strategy version 17.
- The accounting area is responsible for the actual cash release to trustees/investors via wire transfer.
- PAR is well-experienced with CMBS, GSE, and third-party reporting requirements.
- PAR has systems in place to handle account reconciliations.

Escrow administration

Separate dedicated groups within the servicing and operations department administer tax and insurance activities covering all portfolios, and they are assisted by a third-party vendor in India that performs insurance data entry. PAR maintains administrative, supervisory, and QC procedures for monitoring tax and insurance, including the reserve analysis. As of Dec. 31, 2015 33% of PAR's primary serviced loans were escrowed for taxes and 33% were escrowed for insurance.

Insurance notices are issued at 45 and 10 days before expiration with demand letters issued at 10 days post-expiration. PAR's lender-placed policy provision has a 365-day look-back period for all perils other than flood coverage, which has a 45-day look-back provision. Any nonflood claim-backed greater than 120 days provides coverage, however, for only the UPB of the loan. Properties added to the lender-placed policy are reviewed by the director of asset management. As of Dec. 31, 2015, PAR had eight loans on the forced-placed insurance policy. In PAR's provided quality insurance report dated Sept. 30, 2015, 29 loans received renewal insurance, but there was a discrepancy regarding the coverage amount. PAR's insurance team contacts the borrower to address any of these discrepancies.

PAR has nearly 5,000 loans requiring UCC filings. At the time of our last review, PAR noticed that it had not properly tracked the refiling date for some of its UCCs, and the filings had lapsed (197 as of December 2014). Oversight of the process was reassigned, and PAR worked through the lapsed UCC refilings in 2015. As of Dec., 31, 2015, there were 19 lapses of approximately 5,000 loans with UCC filings, a lapsed filing rate more in line with PAR's ranked peers.

Early stage collections

PAR has seven employees dedicated to early stage collections, which we believe is adequate especially given PAR's low delinquency rates (see table 6).

- Borrowers are called two days after the due date if the payment is not received.
- Written notices are system generated and sent 10 days after the payment date.

Asset and portfolio administration

Property-level operating statement and rent rolls are collected, analyzed, and reported with vendor assistance. Through the second half of 2015, asset management received 98% of 2014 year-end operating statements for the entire portfolio, and all operating statements received were reviewed.

PAR outsources the majority of its property inspections to third-party vendors and requires inspections for all of the properties in the portfolio regardless of loan size. In the first half of 2015, 252 reports of 821 (31%) inspections conducted during the period were received 30 days or more past the due date. According to PAR, the delays occurred because a vendor failed to complete the work in a timely manner, and in response, PAR has worked through most of the backlog and replaced the vendor. In the second half of 2015, this percentage declined to 5%.

PAR has well-defined and efficient operating procedures for portfolio surveillance. The watchlist is automated and monitored by a surveillance team, which provides relevant commentary for each watchlist loan, and escalates items to the assigned asset manager for further review when necessary. The surveillance team is now also in charge of the quality rerating process of the general account and GSE portfolios. This process involves identifying credit migration and problem loans that require closer monitoring.

Borrower loan covenants are captured in the system and closely monitored. PAR works closely with the PMCC origination team to standardize loan covenant terms and reporting in order to ease tracking and compliance.

Borrower consents

PAR continues to process borrower consent requests expeditiously. The company tracks both the time it takes to approve transactions internally and the total time it takes the request to be approved (external parties also may have approval requirements). We found PAR's borrower consent process to be diligent and efficient enough to facilitate credit quality and customer satisfaction. PAR processed 45 assumptions, 126 leasing consents, and 17 property re-leases during the second half of 2015. PAR has placed a lot of emphasis on customer satisfaction and created a committee to develop best practices in interacting with all customers. The company distributes borrower satisfaction surveys for the entire portfolio.

Loan Administration--Master Servicing

The subranking for master servicing loan administration is AVERAGE.

We based our opinion on PAR's written procedures for subservicer oversight and prudent advance monitoring procedures. PAR has experience as a master servicer, along with well-written P&Ps for advancing and subservicer oversight. However, the CMBS master servicing portfolio is running off, and PAR currently does not perform subservicer oversight on any commercial loans. PAR does, however, perform some limited subservicer oversight on agricultural loans in conjunction with agricultural field offices.

PAR does not conduct desktop or onsite reviews for agricultural loans, so in our opinion, PAR's oversight role on these loans is less involved than the typical oversight role needed on CMBS subserviced loans. Although PAR is not currently overseeing any subservicers, it is named both the primary and master servicer on 232 CMBS loans and, therefore, must make advances when necessary.

Table 7

Master Servicing Portfolio

	Dec. 31, 2015		Dec. 31, 2014		Dec. 31, 2013		Dec. 31, 2012		Dec. 31, 2011	
	UPB (mil. $)	**No.**	**UPB (mil. $)**	**No.**	**UPB (mil. $)**	**No.**	**UPB (mil. $)**	**No.**	**UPB (mil. $)**	**No.**
Master (SBO) loans	1,835.8	469	1,600.3	512	2,050.1	558	1,800.0	649	33.2	7
Subservicers	--	0	--	0	--	0	--	1	--	0
Average loan size	3.9	--	3.1	--	3.7	--	2.8	--	4.7	--
Delinquent (%)										
30-days	0.0		0.0		0.0		0.0		0.0	
60-days	0.0		0.0		0.0		0.0		0.0	
90+-days	0.0		0.1		0.0		0.1		27.4	
Total	0.0		0.1		0.1		0.1		27.4	

UPB--Unpaid principal balance. SBO--Serviced by others.

New loan setup and data integrity

PAR sets up new master servicing loans in the McCracken Strategy system the same way it sets up new primary serviced loans. The new loan setup P&P also has specific instructions on setting up subserviced agricultural loans in McCracken Strategy.

Subservicer investor reporting and accounting

We believe the investor reporting team has the resources and procedures in place to aggregate all reports and remittances from the subservicers. There are currently no nonagricultural subservicers in PAR's portfolio. Investor reporting remits, tracks, monitors exposure, and reports to senior management all required payment and property protection advances.

Escrow administration

According to PAR's P&Ps, subservicers are required to submit quarterly reports on tax and insurance payments and certifications, and the status of UCCs. The subservicer must provide documentation of the most recent escrow analysis and the current payment due dates as part of PAR's desktop review process. According to policy, quarterly reports from subservicers are reviewed by escrow administration to make sure that all taxes, insurance, and UCC filings are current and also to make sure that insurance coverage is adequate.

Subservicer audit and compliance

PAR staff members monitor subservicers to ensure the loans are administered according to the loan documents and servicing contracts. On-site or desktop reviews must be performed annually for subservicers with more than 20 loans. According to PAR's P&Ps, for subservicers with fewer than 20 loans, PAR monitors all transactions even though an audit is not conducted. The desktop reviews include analyzing a sample of 10% of the subserviced portfolio for compliance with servicing standards and verification of loan financial data and for adherence to loan documents.

Advancing interaction

An advancing review committee that is made up of senior management makes advance recoverability determinations based on several factors, including total outstanding UPB, collateral value, and remaining assets in the securitization. The advance limit is 36% of the most recent appraised value though the advancing review committee will evaluate each unique situation and make adjustments as necessary. Advances may be made for principal, interest, tax, insurance, legal, and special servicer expenses. An advancing report is prepared and reviewed by the committee.

Loan Administration--Special Servicing

The subranking for special servicing loan administration is ABOVE AVERAGE.

The special servicing team has two fully dedicated employees to handle problem assets for CMBS transactions, GSE loans, third parties, and all of the commercial real estate loans within the PMCC's and Prudential Insurance Co. of America's accounts.

As of Dec. 31, 2015, PAR's active special servicing volume contained general account, GSE, and collateralized debt obligation loans (eight loans with a $119 million UPB) and included a variety of different property types (see table 8). PAR does not have any active CMBS loans in special servicing as of Dec. 31, 2015; however, PAR was the named special servicer on four CMBS transactions totaling approximately $167 million (four loans and two properties). At the time of our review, the company was not actively pursuing any new CMBS special servicing business.

Because there are only eight loans/assets in special servicing, the workload is manageable among the two employees in our view.

The special servicing area use a series of reports that provide comprehensive loan-level listings of current and potential problem loans. These reports include a "closely monitored" report, a maturing loan report, a first-alert report, a Commercial Real Estate Finance Council watchlist, an aging report of advances, and a Fannie Mae Delegated Underwriting Servicing delinquent loan report. Additional computer applications and reports track in-process special servicing activity, as well as bankruptcy filings, legal actions, and expenses.

Table 8

Special Servicing Portfolio															
	Dec. 31, 2015			Dec. 31, 2014			Dec. 31, 2013			Dec. 31, 2012			Dec. 31, 2011		
	UPB (mil. $)	No.	Average age (months)(i)	UPB (mil. $)	No.	Average age (months)(i)	UPB (mil. $)	No.	Average age (months)(i)	UPB (mil. $)	No.	Average age (months)(i)	UPB (mil. $)	No.	Average age (months)(i)
Active inventory															
Loans	119.1	8	13.1	252.7	27	15.3	301.9	30	14.4	798.8	46	18.8	1,203.3	88	14.8
Real estate owned	0.0	0	0.0	0.0	0	0.0	29.1	1	18.8	0.0	0	0.0	73.7	3	25.7
Total	119.1	8	13.1	252.7	27	15.3	330.9	31	14.8	798.8	46	18.8	1,277.0	91	15.4

(i)Average age reflects time in months from date loan first became specially serviced to reporting date. UPB--Unpaid principal balance.

Loan recovery and foreclosure management

The company has a demonstrated history of loan resolutions that include modifications, full payoffs, foreclosures, and discounted payoffs. Features of loan recovery and foreclosure management include:

- Borrowers are required to sign prenegotiation agreements before entering into workout discussions.
- The company has detailed procedures for monitoring potential problem assets, compiling resolution strategies, and overseeing the foreclosure process.
- Detailed loan business plans (Asset Strategy Reports) are completed no later than 60 days after transfer to special servicing and require sign-off from senior management.
- Asset Strategy reports provide net present value analysis of different workout alternatives.
- A formal committee process, comprising the PMCC president, the appropriate portfolio manager or managing director, and the special servicing vice president, is in place for all major decisions and actions.

During full-year 2015, the special servicing group resolved 30 loans. There were two loans that were foreclosed upon, one discounted payoff/note sale, five loans that were returned to the master servicer, and 22 loans that were fully paid off (see table 9). We note that despite the two foreclosures, PAR has not handled any REO asset for more than a year. The foreclosures were on Fannie Mae loans, which Fannie Mae handles after foreclosure as a general practice.

Table 9

Total Special Servicing Portfolio--Loan Resolutions															
	Dec. 31, 2015			Dec. 31, 2014			Dec. 31, 2013			Dec. 31, 2012			Dec. 31, 2011		
	UPB (mil. $)	No.	Average age (mos.)(i)	UPB (mil. $)	No.	Average age (mos.)(i)	UPB (mil. $)	No.	Average age (mos.)(i)	UPB (mil. $)	No.	Average age (mos.)(i)	UPB (mil. $)	No.	Average age (mos.)(i)
Resolutions															
Loans	411.4	28	19.5	185.5	15	17.2	874.7	28	21.1	963.6	68	18.1	1,496.4	121	13.9

Table 9

Total Special Servicing Portfolio--Loan Resolutions (cont.)

	Dec. 31, 2015			Dec. 31, 2014			Dec. 31, 2013			Dec. 31, 2012			Dec. 31, 2011		
	UPB (mil. $)	No.	Average age (mos.)(i)	UPB (mil. $)	No.	Average age (mos.)(i)	UPB (mil. $)	No.	Average age (mos.)(i)	UPB (mil. $)	No.	Average age (mos.)(i)	UPB (mil. $)	No.	Average age (mos.)(i)
Foreclosed loans	19.7	2	6.7	18.2	2	40.3	93.1	7	18.3	124.6	6	11.4	85.1	6	16.4
Total	431.1	30	18.9	203.7	17	19.3	967.8	35	20.8	1,088.2	74	17.3	1,581.5	127	14.0
Resolution breakdown															
Returned to master	55.0	5	28.9	103.1	8	16.3	244.0	8	18.8	432.4	29	14.8	1,058.1	90	13.1
Full payoffs	352.2	22	18.1	61.1	5	15.7	486.9	15	25.1	330.8	25	18.6	291.9	13	14.0
DPO or note sale	4.2	1	12.8	21.3	2	25.9	143.8	5	11.2	200.4	14	24.1	146.5	18	19.2
Foreclosed loans	19.7	2	6.7	18.2	2	40.3	93.1	7	18.3	124.6	6	11.4	85.1	6	16.4
Total/average	431.1	30	18.9	203.7	17	19.3	967.8	35	20.8	1,088.2	74	17.3	1,581.5	127	14.0

(i)Average age reflects time in months from date loan first became specially serviced to reporting date. UPB--Unpaid principal balance. DPO--Discounted payoff. Mos.--Months.

REO management and dispositions

PAR historically has a low volume of REO assets and sales (see table 10). Moreover, the company's REO volume decreased to zero REO properties as of year-end 2015. The majority of the special servicing volume has been resolved via full payoff.

Table 10

Total Special Servicing Portfolio--Real Estate-Owned Sales

	2014			2013			2012			2011			2010		
	Amount (mil. $)	No.	Average REO hold period (mos.)	Amount (mil. $)	No.	Average REO hold period (mos.)	Amount (mil. $)	No.	Average REO hold period (mos.)	Amount (mil. $)	No.	Average REO hold period (mos.)	Amount (mil. $)	No.	Average REO hold period (mos.)
Estimated market value	15.0	1	3.0	22.9	2	3.0	2.3	1	8.4	97.7	6	11.2	69.6	7	14.7
Net sales	15.0	--	--	29.9	--	--	2.6	--	--	104.4	--	--	82.5	--	--
Sale/market value (%)	100.0	--	--	131.0	--	--	111.3	--	--	106.9	--	--	118.5	--	--

REO--Real estate owned. Mos.--Months.

REO business plans are required to be completed within 90 days of taking title of the property and are typically prepared by the same loan asset manager that was assigned before transfer to REO. The plans focus on active management, marketing strategy, ongoing operations, and the capital budget.

Real estate-owned accounting and reporting

Third-party property managers prepare monthly reporting packages that include REO financial statements, including an income statement, balance sheet, bank account reconciliations, and rent roll. PAR has a standard contract to engage approved property managers; once engaged, the property manager typically presents an operating budget for approval within 60 days of the asset becoming REO. PMCC Finance then reviews the reporting package and communicates with the special servicing asset manager as necessary. Separate receipt and disbursement accounts for incoming rents and outgoing expenses are used, which we view favorably.

Subcontracting management

PAR demonstrates sound internal controls over the selection and review of third-party vendors. Procedures for selecting and engaging third-property managers and brokers are properly controlled in situations where a foreclosure is foreseeable. An asset manager's property manager and broker selection recommendations are documented and subject to senior management approval to increase transparency. Approved vendor lists are also maintained for appraisers, engineering and environmental firms, and attorneys. A separate group within PMCC closely monitors the performance of engineering and environmental firms.

Legal department

The special servicing operations are supported by two dedicated in-house attorneys. The legal division maintains a list of approved outside attorneys and uses standard engagement letters. However, the assigned asset manager must review legal invoices prior to payment. We believe the legal function is adequately controlled.

Financial Position

PAR's financial position is SUFFICIENT.

Related Criteria And Research

Related Criteria

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

Related Research

- Prudential Asset Resources Primary, Master, And Special Servicer Rankings Affirmed; Outlooks Stable, April 22, 2016
- Select Servicer List, March 23, 2016
- Servicer Evaluation: Prudential Asset Resources, March 2, 2015