Operational Risk Assessments

Prudential Asset Resources, Inc

October 2016

Operational Classifications:	Commercial Mortgage Primary Servicer, Master Servicer, and Special Servicer
Rankings:	Primary Servicer: MOR CS1 (Affirmed) Master Servicer: MOR CS2 (Affirmed) Special Servicer: MOR CS2 (Assigned)
Forecast:	Stable – All Rankings
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Rationale

Morningstar Credit Ratings, LLC affirmed its MOR CS1 commercial mortgage primary-servicer ranking and its MOR CS2 commercial mortgage master-servicer ranking for Prudential Asset Resources, Inc. (PAR), a subsidiary of Prudential Mortgage Capital Company. Morningstar also assigned its MOR CS2 commercial mortgage special-servicer ranking to PAR. Morningstar based its affirmed primary-servicer and master-servicer rankings and its assigned special-servicer ranking on the following factors:

Primary and Master Servicing:

- Staff Experience and Operational Stability: PAR has a well-experienced staff and a soundly designed organizational structure. PAR has realigned some operational functions in the past two years to increase efficiency. The company has maintained organizational stability through management promotions and moderate employee turnover rates in the past 18 months. PAR's well-designed and comprehensive training function promotes career advancement and further strengthens the operation.
- Loan Administration and Portfolio Management: PAR demonstrates high-quality asset administration, portfolio management, and reporting for commercial mortgage-backed securities transactions and other investor clients, such as government-sponsored enterprises and life insurance companies. PAR has proactive credit-monitoring and insurance-administration practices. The primary-servicer ranking also reflects PAR's attentiveness to borrower satisfaction.
- Technology: PAR's technology provides the automation, centralized data management, and operating efficiency to service a diverse and large portfolio. The company's servicing system, McCracken Financial Solution Corp.'s Strategy, and a proprietary asset-management application are integrated for effective reporting and workflow management, including loan-covenant, trigger-event, and borrower-consent tracking. PAR maintains sound data-security and disaster-preparedness protocols.
- Offshore Personnel: PAR has sound controls to oversee personnel in its Ireland-based affiliate and two vendors, both with India-based staff, which assist with some loan-administration functions. In the past year, PAR has expanded the duties of its Ireland group to include additional servicing tasks.

- Internal-Audit and Quality-Control Practices: PAR's comprehensive internal-audit function examines a range of loan-administration and portfolio-management processes. The audit regimen includes a Regulation AB attestation, examinations by the parent insurance company, GSE audits, and a compliance program that includes performance-metrics tracking and process-improvement initiatives. All audit reports completed in the past three years were clear of material operational exceptions or items classified as high-risk. As part of a designated nonbank systemically important financial institution, PAR also must comply with the corresponding control standards.
- CMBS Master-Servicing Duties: PAR's CMBS master-servicing portfolio continues to shrink and may entirely run off by the end of 2017. However, PAR remains an adept CMBS master servicer regarding trustee reporting/remitting accuracy, advancing practices, and servicing-agreement compliance.
- Subservicer Oversight Procedures: Although PAR has not had any CMBS subservicers since 2013, it is equipped with the resources and procedures for subservicer oversight should the need arise. Additionally, PAR oversees some local banks acting as subservicers on approximately 400 loans for its parent's general account, the Federal Housing Administration, and other agencies.

Special Servicing:

- Portfolio Volume and Results: PAR's special-servicing volume consisted of only a few loans as of June 2016, although the portfolio was larger a few years ago. PAR demonstrates successful recovery results, including large assets of various property types. Although resolutions since mid-2014 have involved only loans, PAR sold 30 real estate owned properties between 2010 and 2014, with high average recovery/value rates.
- CMBS Activity: PAR's special-servicing work has consisted mostly of balance-sheet or general-account assets. However, the company has resolved a few older-vintage CMBS assets, including two large-scale lodging loans in 2011-13.
- Asset-Manager Staffing Depth and Experience: PAR's core special-servicing staff consists of three asset managers with an average of more than 20 years of experience. PAR also can leverage experienced personnel from other groups, including some who were asset managers at larger-volume CMBS special servicers.
- Asset-Management Practices: PAR has acceptably documented procedures and sound analytical practices and controls to manage and resolve specially serviced assets. PAR's technology addresses CMBS special-servicer reporting and, as an active CMBS servicer, the company has sufficient expertise to meet those requirements.

As of June 30, 2016, PAR's servicing portfolio comprised 4,925 loans with an unpaid principal balance of $85.13 billion. It served in a combined role as primary and master servicer on 21 CMBS transactions containing 270 loans with a total UPB of $2.99 billion. PAR served as a primary servicer for 36 other CMBS transactions and 69 Freddie Mac securitizations. Collectively, these 105 transactions contained 456 loans with a UPB of $6.96 billion. As of June 30, 2016, PAR had nine specially serviced loans (no CMBS) with a combined UPB of $163.3 million. PAR was the named special servicer on four legacy CMBS transactions that collectively consisted of four loans (two properties) with a UPB of $159.1 million.

Forecast

The forecast for all three rankings is Stable. Morningstar expects PAR to remain an effective servicer for CMBS and other investors. The company also is soundly positioned for CMBS special servicing. Although PAR's activity as a CMBS master servicer is declining, PMCC's recently launched investment fund may offer new master-servicing, as well as special-servicing, opportunities.

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Company Profile and Business Overview

Prudential Asset Resources, based in Dallas, is a wholly owned operating subsidiary of Prudential Mortgage Capital Company, which is part of PGIM, Inc., the investment and asset-management division of Prudential Financial, Inc., the parent company. PAR was founded in 2000 to combine Prudential's general account commercial real estate loan portfolio and CMBS servicing portfolio with Fannie Mae, the Federal Housing Administration, and third-party life insurer portfolios held by the former WMF Group. In 2002, Prudential Mortgage Capital formed the "PWR" brand of CMBS with Wells Fargo and Bear Stearns. PAR continues to service 16 of its 18 original PWR transactions. As of June 30, 2016, the Mortgage Bankers Association ranked PAR as the sixth-largest commercial mortgage servicer by dollar volume and loan count. PAR was the recipient of the Fannie Mae Delegated Underwriting and Servicing Excellence in Asset Management Award in 2011 and 2014.

The company's servicing focus is its parent's general account portfolio (which includes a number of agricultural-based, real estate-secured business loans), GSE portfolios (Fannie Mae, Freddie Mac, and FHA) and loans contained in CMBS. PAR also services loans for private investor clients, some of whom are based outside the United States. PAR has not been bidding for CMBS master-servicing rights, although it has acquired some new mortgage-servicing rights in the past few years. Instead, PAR's growth strategy centers on loan originations through its own capacity or with investment partners, whole portfolio acquisitions purchased from agencies or other financial institutions, and the expansion of third-party investor relationships that offer retained servicing. Through FHA-sponsored and other acquisitions in recent years, PAR stated that it is one of the largest hospital-loan servicers in the U.S. In January 2013, PAR acquired the servicing for a $700 million commercial real estate mortgage-loan portfolio from the Hartford Financial Services Group in connection with Prudential Financial Inc.'s acquisition of the Hartford's life insurance business.

As a result of PAR's diversified lending and servicing strategy, CMBS loans, through 57 transactions, accounted for only 10.3% of the total servicing portfolio, and Freddie Mac loans accounted for 8.7% of the portfolio as of June 30, 2016. Approximately half of the serviced Freddie Mac loans were contained in 69 securitizations. PAR became a primary servicer for 14 new Freddie Mac securitizations in 2015 and became the servicer for another 11 new Freddie Mac securitizations in the first half of 2016. In March 2015, PAR acquired a $1.5 billion servicing portfolio of Freddie Mac loans that included a pool of securitized loans with mortgage-servicing rights.

One of PAR's channels for new business was Prudential Mortgage Capital Company's Liberty Island Group conduit lending program, a five-year joint venture with Perella Weinberg Partners L.P., to originate CMBS with retained primary servicing. Through this program, which concluded on June 30 of this year, PAR cumulatively contributed 225 loans to 28 CMBS transactions. As the successor investment vehicle to the Liberty Island venture, PAR's mortgage capital parent established the PGIM Real Estate Structured Income Venture to originate conduit loans, buy the first-loss positions in the corresponding securitizations in compliance with the Dodd-Frank risk-retention rules, and appoint PAR as the primary and special servicer. The PGIM fund, which has an initial equity-raising goal of $750 million, may also provide mezzanine financing and originate short-term loans on transitional properties.

PAR continues to expand its lending and servicing activities outside the U.S. In 2010, it established a Tokyo office and serviced 54 yen-denominated loans through that office as of June 30, 2016. In 2011, PAR opened a London-based office specifically to underwrite and originate loans in Europe for Prudential's general accounts and for other insurance companies. As of June 30, 2016, PAR serviced 31 European loans (collateral property in England, The Netherlands, France, Germany, and Spain), four Australian loans, and one Canadian loan through its U.S.-based operations with PAR's Ireland-based Pramerica unit providing support and acting in a lead role for many of the servicing tasks.

Table 1 – Historical Total Servicing and Special-Servicing Volume

	June 30, 2016		Dec. 31, 2015		Dec. 31, 2014	
	UPB (000s)	Loans	UPB (000s)	Loans	UPB (000s)	Loans
Primary Servicing*	83,073,522	4,497	81,766,163	4,507	79,788,864	4,643
CMBS Servicing**	5,893,201	507	6,655,617	569	8,157,881	713
Master Servicing***	2,061,238	428	1,962,206	471	1,600,304	512
CMBS Master Servicing	0	0	0	0	0	0
Total	85,134,760	4,925	83,728,370	4,978	81,389,168	5,155
Active Special Servicing (All Loans)	163,273	9	119,109	8	252, 670	27

* As of June 30, 2016, included 54 loans in Japan, 31 in England and Europe, four in Australia, and one in Canada.
** Combined primary/master serviced loans without subservicers: 270 loans in 21 deals as of June 30, 2016; 337 in 21 deals as of Dec. 31, 2015; and 520 loans in 25 deals as of Dec. 31, 2014.
*** Loans subserviced by others. June 30, 2016 non-CMBS subserviced loans consisted of 356 agribusiness loans, 12 FHA/HUD loans, three Freddie Mac loans, 15 general-account loans, and 42 single-family residential loans from a legacy lending program.

Operational Infrastructure

Organizational Structure

As of June 30, 2016, PAR had 122 people in its U.S. offices for primary and master servicing. In addition, PAR had 14 people in Prudential's Ireland-based Pramerica unit to assist with servicing tasks. PAR also sends some asset-administration tasks to two vendors that have staff in India. One vendor handles insurance-administration data entry, and the other focuses on financial-statement and rent-roll data input and initial analysis. These vendors had 50 people in total allocated to PAR assignments as of June 2016.

PAR uses a team-based approach to conduct servicing through four main departments: servicing and operations, asset management, accounting and treasury, and business support services/quality control. In addition to core servicing, PAR's infrastructure includes an information-technology group, a loan-closing group, and a legal department. Since 2015, the company has leveraged its Ireland-based personnel to assist with more loan-administration activities and assume more daily responsibilities for the European loan portfolio.

Servicing Operations

This department consists of teams aligned by investor type to manage new loan setup, general borrower requests and customer service, payment billing, payoff quotes, and reserve-account disbursement reviews in conjunction with the asset-management department. As a change enacted in 2015, PAR centralized all cash-management processing to this department. The servicing-operations department has one team for Prudential's general-account loans, one for CMBS and agency (Freddie Mac and Fannie Mae) loans, and another team for FHA permanent loans. Servicing operations handles tax contract set up, real estate tax administration, escrow analysis, Uniform Commercial Code filing statements, letters-of-credit monitoring, lien-release processing, and collateral/document management. The servicing department includes a specialized team for insurance administration. The Pramerica team assists other PAR departments with tasks that include payment processing, investor-report preparation, financial statement quality-control reviews, and other support work.

Asset Management

This department has five units, including PAR's special-servicing unit, to address borrower credit and capital expenditure requests, lender consents, collateral reviews, financial-statement and property-inspection analysis, watchlist management, covenant compliance and trigger-event management, cash-managed loan payment waterfall/structural compliance, and general loan-level and portfolio-level surveillance. Since Morningstar's last review in 2015, PAR refined GSE asset management by having separate teams for FHA permanent, Freddie Mac, and Fannie Mae loans. PAR indicated that, although the company has certain CMBS specialists, it combines CMBS and general-account asset management to one team as part of its efforts to manage CMBS assets to the high standards PAR stated that it maintains for the general-account portfolio. The portfolio surveillance unit has specialists for CMBS, agency, and general account loans. The surveillance staff also has responsibility for managing quality-risk ratings on PAR's general-account and agency loans.

Accounting and Treasury Operations

This department manages all CMBS trustee and other investor remittances, bank account relationships and reconciliations, and cash-management oversight in conjunction with the operations department. This department also has responsibility for the valuation of mortgage-servicing rights. As a change enacted in 2015, PAR consolidated all investor reporting to this department, albeit with a segregation of duties to facilitate the coordination of reporting, remitting, and account-reconciliation tasks.

Business-Support Services and Quality Control

This department manages PAR's formal policies and procedures, coordinates training events, monitors system security and business continuity in conjunction with information-technology staff, monitors performance levels of PAR's Pramerica platform and third-party vendors, and liaises with external auditors. The business-support services staff also administers the key performance indicator quality-control program that examines PAR's compliance with and performance against a set of established metrics across various servicing areas and processes.

Information Technology

Prudential Mortgage Capital has an information-technology group in Dallas to oversee PAR's system applications, manage programming and development needs, and conduct data backup, disaster-recovery, and system-security testing in conjunction with quality-control personnel.

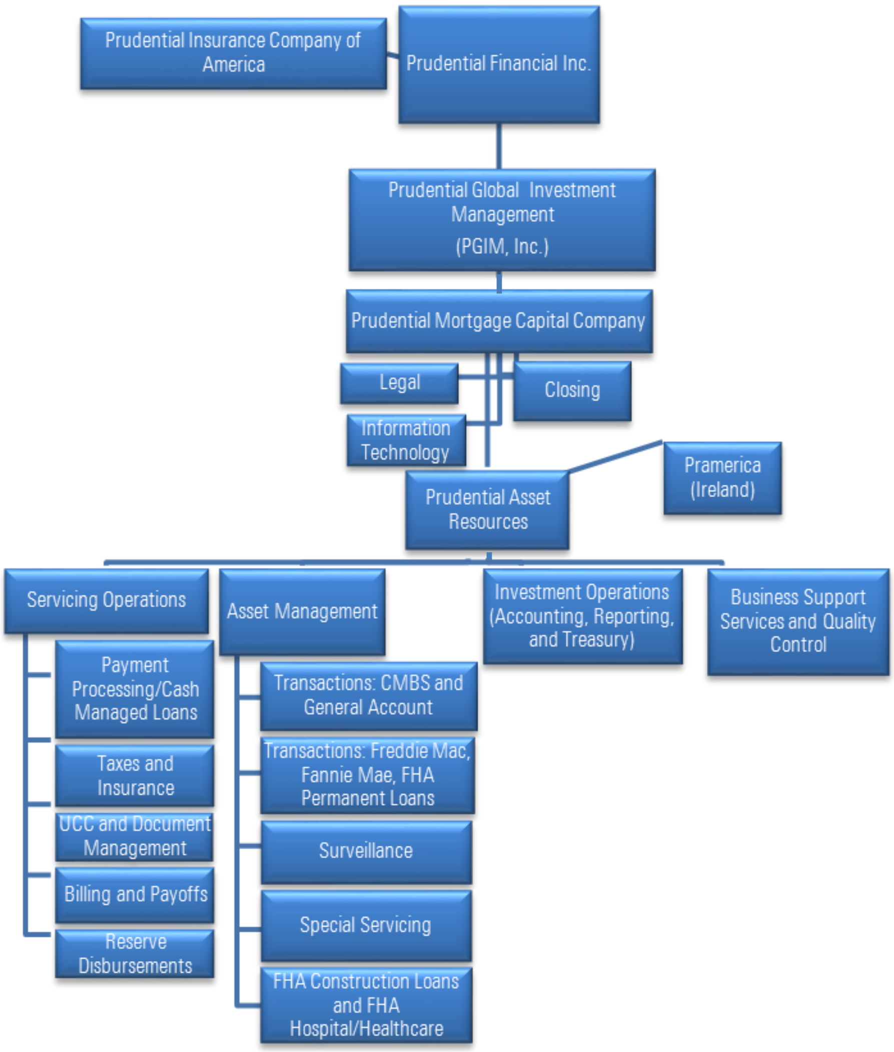
Legal

Prudential Mortgage Capital's legal department includes a four-person team dedicated to PAR to assist with borrower transactions, issues concerning pooling and servicing agreements, specially serviced assets, portfolio acquisitions, and legal and regulatory developments that may affect servicing practices. The department also provides general legal support for all other departments.

Closing

Prudential Mortgage Capital's loan-closing unit manages and coordinates the loan-origination closing process with PAR's servicing department using PAR's integrated system applications and a standardized loan agreement designed to facilitate the loan setup and boarding process.

Chart 1 – Organizational Structure



Management and Staff Experience

As shown in Table 2, the average experience of managers and portfolio-management staff for primary/master servicing is high. Additionally, PAR has an experienced, albeit small, special-servicing team. To support special servicing, PAR has other available personnel possessing loan-workout experience gained at some larger-volume CMBS special servicers.

Table 2 – Management and Staff: Average Years of Experience

	June 2016		December 2015	
	Industry	Company Tenure	Industry	Company Tenure
Primary/Master Servicing				
Senior Management	24	4	29	5
Middle Management	18	10	17	10
Staff	17	8	16	8
Portfolio Management Staff Only*	18	8	16	6
Special Servicing				
Senior Management	22	4	25	4
Middle Management	25	14	31	14
Asset Managers	20	5	8	8

*Servicing positions involving credit, collateral performance, or borrower-request analysis.

Workload Ratios

Primary/Master Servicing

As of June 30, 2016, PAR had a 40/1 ratio of loans per servicing employee exclusive of its Ireland staff and a 36/1 ratio when including the Ireland-based staff. These ratios, which were nearly the same as of June 30, 2015, become slightly higher when excluding certain accounting positions associated with PAR's general account, staff positions and corresponding loans related to FHA construction-loan servicing, and one position supporting insurance reviews for loan originations. PAR's workload ratios remain lower than that of some other large-volume servicers.

Special Servicing

PAR had a three-person special-servicing team as of June 30, 2016, which corresponded to a 3/1 ratio of assets (all loans) per asset manager.

Management and Staff Turnover

Compared with a nearly 18% employee-turnover rate for 2014, PAR experienced a lower 11% primary/master-servicing turnover rate in 2015, although the annualized rate increased during the first half of 2016. PAR noted that most of the turnover since 2014 has been associated with retirements, family reasons, intracompany transfers, or planned reductions related to shifting more work to offshore-based personnel.

Table 3 – U.S. Management and Staff Turnover Rates*

	January-June 2016		Full-Year 2015	
	Primary/Master	Special Servicing	Primary/Master	Special Servicing
Total U.S. Staff - Beginning of Period (# of Positions)	129	3	129	3
Total Turnover Rate (%)	8.6 (11 positions)	0.0	10.8 (14 positions)	66.6 (2 positions)
Involuntary	0.8	0.0	3.1	0.0
Voluntary	7.8	0.0	7.7	66.6
Management Only	3.9	0.0	2.3	33.3
Staff Only	4.7	0.0	8.5	33.3
Turnover Rate Net of Internal Transfers (%)	7.8	0.0	9.3	33.3
New Hires (# of Positions)	4	0	14	2 (Internal transfers)
Total U.S. Staff - End of Period (# of Positions)	122	3	129	3
Plus: Offshore Staff- End of Period (# of Positions)**	14	0	14	0
Plus: Third-Party Vendors' Staff (# of Positions)	52	0	52	0

* Staff departures divided by number of staff at beginning of period.
**Allocated PAR staff in Ireland-based Prudential affiliate.

Assessment: PAR has an organizational structure that effectively addresses its servicing duties for CMBS and other clients. Although PAR has had elevated employee turnover at times since 2014, its management-level turnover has been relatively low despite hiring a new president and chief financial officer in 2015. Through promotions, retention of experienced staff, and some external hiring, the company has maintained operational continuity and strong professional depth. PAR also has experienced personnel resources for special servicing. PAR's in-house legal and information-technology units are operational strengths and elements not always found at servicers. PAR's focus on succession planning and career-path development is another factor contributing to the company's organizational stability.

While PAR's loans/employee ratio may be lower than that of other large-volume servicers, we believe that this reflects the high-touch requirements for many of its general-account loans rather than any technology shortcomings. We also take into consideration that PAR performs a combined primary- and master-servicing role for most of its portfolio, outsources tasks only moderately, and allocates considerable resources to insurance administration and to labor intensive asset-level management activities.

Training

The business-support and quality-control department, in conjunction with department managers, oversees formalized training activities. Last year, PAR established a planning committee for curriculum development with a liaison from each department serving on the training committee. Employees use an intranet application to view the training calendar, register for classes, monitor completed training hours, and manage progress toward meeting required training sessions. The intranet portal also serves as the central location for reference materials and webinar recordings. The company has a 40-hour annual training requirement. Although training hours may include some time at industry conferences, many employees exceed the minimum. Employees averaged 51 training hours in 2014, 44 hours in 2015, and 25 hours in the first half of 2016.

Employees receive training through classroom sessions, online courses, and other web-based sessions, led by external and internal subject-matter experts. Training topics cover skills development, process improvement, system applications, and industry issues. The company stated that it continues to add and modify courses. A few employees have completed the Mortgage Bankers Association's Certified Commercial Mortgage Servicer program, and all employees who have been with the company at least 12 months have completed Level I of that program. Additionally, PAR has a leadership training program for selected employees.

> **Assessment:** PAR has a comprehensive training function for all levels of staff, including its Pramerica affiliates, with dedicated resources, web-based training-management tools, required hours, curriculum, and supplemental programs.

Audit, Compliance, and Procedural Completeness

PAR maintains operating manuals covering its primary- and master-servicing duties, including asset management and accounting. It also has documented policies and procedures for specially serviced assets. PAR's policies and procedures include a delegations of individual authority matrix for credit-related and special-servicing approvals. The company's intranet-based, proprietary asset-management application, called LoanConnect, houses its policy and procedure manuals along with PSA abstracts of critical reporting requirements and covenant triggers. The company's quality-control unit has responsibility for the documented policies and procedures, with any additions or revisions approved by senior managers working through the quality-control staff. The primary/master-servicing policies and procedures address many reporting and portfolio-management elements specific for CMBS and for PAR's other investors.

The business-support services/quality-control department has an audit-coordination unit to liaise with external auditors and manage their information requests. PAR annually undergoes a platformwide Regulation AB attestation, which has not cited any exceptions for calendar years 2010-15. Prudential's internal-audit department conducts operational audits of PAR's loan-servicing and asset-management processes based on a dynamic risk-based review of PAR's business activities. The internal auditors usually review at least one functional area or core process annually as part of Sarbanes-Oxley compliance reporting, with full-scope audits conducted every two to three years. However, the audit department may shift to annual reviews that concentrate on selected areas in each cycle. All parent company audits conducted since 2010, including the most recent audit completed in August 2016, received the highest rating, and none cited any moderate or high-risk findings. PAR also undergoes operational audits of its GSE portfolios including quarterly audits mandated by the Department of Housing and Urban Development. PAR indicated that none of its GSE audits contained any material findings, although PAR addressed a few minor findings cited by Freddie Mac and the internal audit department's recommendation to enhance aspects of Ginnie Mae reporting to obtain higher scorecard results. In total, PAR noted it underwent nearly 18 independent audits or operational reviews in 2014 and another 18 in 2015, including some audits conducted by other master servicers.

PAR's quality-control department's performance-metrics and compliance-tracking program supplement its internal-audit processes. This is a formal, ongoing process, consisting of approximately 300 performance indicators, which examines and quantifies PAR's success in meeting its established timeliness and accuracy goals across the servicing platform. PAR indicated that the performance-monitoring program uses a 20% portfolio sample each month, with the program conducted largely through automated system triggers and queues. The quality-control staff provides monthly performance reports to PAR's management, with results examined at regularly scheduled staff meetings. The metrics and performance reports show month-to-month changes and include the requisite monitoring components to comply with the minimum standards of the Regulation AB attestation and the Sarbanes-Oxley Act.

> **Assessment:** PAR's documented policies and procedures address the company's primary- and master-servicing processes and functions, including CMBS and other investor-reporting requirements. However, Morningstar has observed more-detailed subservicer oversight procedures among some other master servicers. PAR has adequately documented policies and procedures for special servicing, although the procedures do not explicitly reference the required special-servicing components of the CREFC investor reporting package. Considering all its elements, PAR's audit function is robust. The servicer's quality-control practices, which center on the well-designed performance-metrics tracking program, effectively monitor procedural compliance and serve as a supplement and an offset to the less frequently occurring audits conducted by the parent.

Legal Liability and Corporate Insurance

PAR reported that it was not involved in any pending litigation that would materially and adversely affect its servicing operations. The company reported that it did not receive any notices of PSA default or citations related to special-servicing performance. Furthermore, it reported that it has directors and officers (self-insured and supported through the financial strength of its parent), fidelity bond, errors and omissions, and mortgage impairment insurance coverages in place.

> **Assessment:** PAR's corporate insurance coverage limits are substantial and exceed the formulaic GSE guidelines for the CMBS and third-party-owned portion of the portfolio. Based on PAR's representations, the servicer is not subject to any material lawsuits related to, or which could negatively affect, its operations.

Technology and Disaster Recovery

PAR uses a later version of McCracken Financial Solutions' Strategy servicing system as an application service provider client. The servicing system is integrated with PAR's general ledger accounting system and a number of other core applications that support loan originations, servicing, and related asset management. Last year, PAR made portions of the servicing system available to its vendor-supported staff in India.

To address portfolio-management and asset-tracking tasks beyond the functionality of the Strategy system, PAR uses LoanConnect to support the loan-management lifecycle from loan origination through disposition. LoanConnect's capabilities include credit and covenant-compliance monitoring, operational performance metrics tracking, and workflow management for performing and nonperforming assets. LoanConnect's functionality includes work-item notifications and reminders based on automated features that detect noncompliance or when trigger-event thresholds are met. The application has a financial-statement and automated cash flow-analysis module and features to coordinate pending requests using electronic approvals and to identify specific servicing-agreement compliance requirements. LoanConnect has an integrated document-imaging and storage capability. Asset managers use LoanConnect to prepare, submit for electronic approval, and store most consent requests, asset status reports, and loan-resolution cases. PAR uses its general ledger, a customized Oracle application integrated with LoanConnect, for investment accounting and reporting for owned real estate.

Both the servicing system and LoanConnect feed nightly to a relational data warehouse to produce various canned and ad hoc management and operational reports, including the latest formats and content for the Commercial Real Estate Finance Council investor-reporting package. PAR maintains a borrower website, BorrowerConnect, and an investor website, InvestorView, and each receives daily downloads from the central data warehouse. External special servicers can use InvestorView to receive daily refreshed loan-level information. PAR has an integrated application called PruXchange, which is a secure web portal to exchange documents with borrowers, vendors, attorneys, and others. PAR also uses PruXchange to track and manage required loan documents. PAR does not use PruXchange for documents related to borrower credit requests and consents but indicated that it could use the application for such purposes. PAR continues to make improvements to LoanConnect and other integrated applications. In particular, PAR completed automation and application-control enhancements since 2015 in the areas of investor reporting, new-loan boarding for FHA and international loans, payment-receipts and disbursement processing, reserve disbursements, surveillance-oriented email notices, and approvals for advancing taxes and insurance. As one of its major technology projects this year, PAR has been retooling LoanConnect's insurance module.

The business-support/quality-control department is responsible for managing the application-security controls and employee-access rights. The parent company's information-technology staff has programming-development personnel assigned to PAR. The company stated that it replicates data every 30 minutes from its primary data center in New Jersey to its secondary data center in Pennsylvania. It also moves data backup to an offsite facility weekly. PAR stated that its disaster-recovery/business-continuity capabilities should enable it to restore all core servicing processes within 24 hours. The company conducts disaster-recovery testing approximately every year and stated that it successfully completed the most recent test with its disaster-recovery vendor in March 2016. PAR maintains a local operations recovery site through a vendor-supported facility that is about 22 miles away from its headquarters. While this is not a great distance and the majority of Texas operates on a single power grid, PAR noted that it could relocate certain staff to other Prudential offices if necessary. Additionally, PAR noted that most employees have secure, remote access to core applications to complete critical functions.

> **Assessment:** PAR's technology platform offers process automation and centralized data management to address primary and master servicing for CMBS and other institutional investors. PAR's technology suite, particularly through LoanConnect and the purchased real estate accounting system, provides the requisite asset-management functionality for specially serviced loans and real estate, including CMBS-oriented reporting. The company has sound data backup protocols and disaster-recovery planning. Being an ASP client for the servicing system also can facilitate PAR's disaster-recovery capabilities. PAR's in-house technology resources reflect the company's commitment to process integration and operational efficiency.

Primary- and Master-Servicing Portfolio Administration

PAR services a diverse portfolio in terms of property type, geography, borrower profile, transaction structure, and investor-reporting requirements. As of June 30, 2016, PAR's U.S.-based servicing portfolio contained 5,763 properties with collateral in 48 states plus Washington, D.C. Although California had the largest concentration of properties at 23% by property count, the portfolio included substantial concentrations of properties in Texas, Georgia, New York, and New Jersey. As noted earlier in the Table 1 footnote, the servicing portfolio also contained 90 loans outside the U.S.

Chart 2 – Total Servicing by Investor Type (UPB)
June 30, 2016

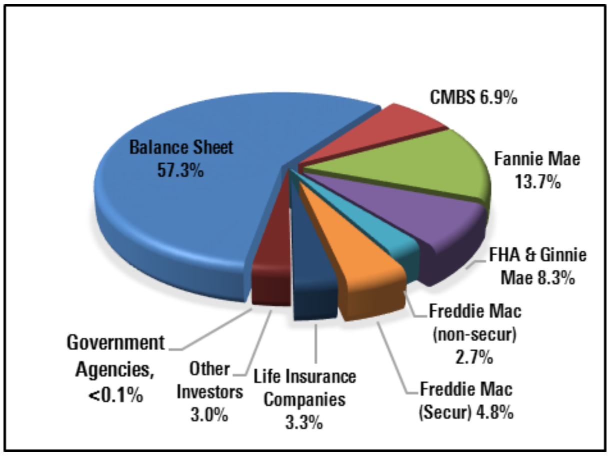


Chart 3 – Total Servicing by Investor Type (# Loans)
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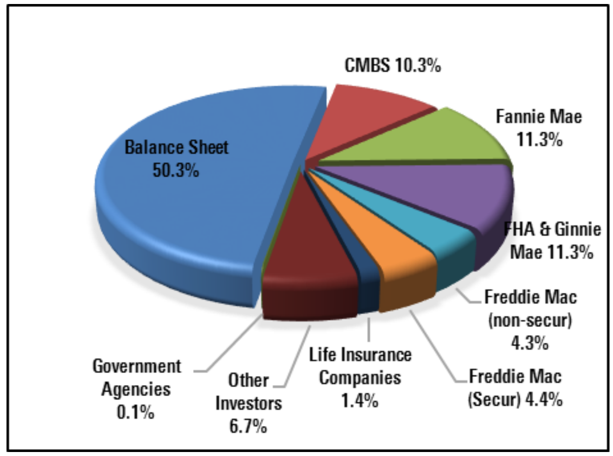


Chart 4 – Total Servicing by Property Type (UPB)
June 30, 2016

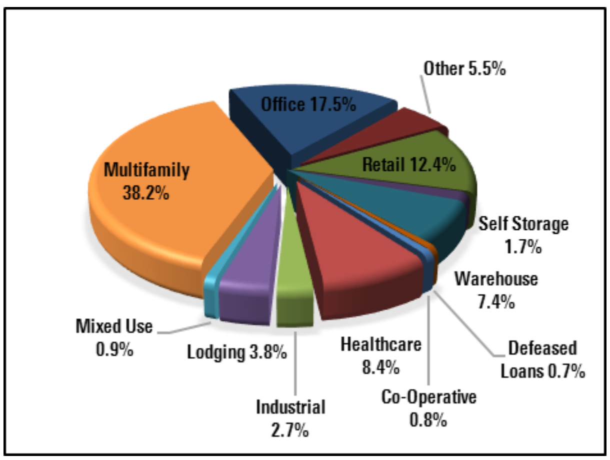
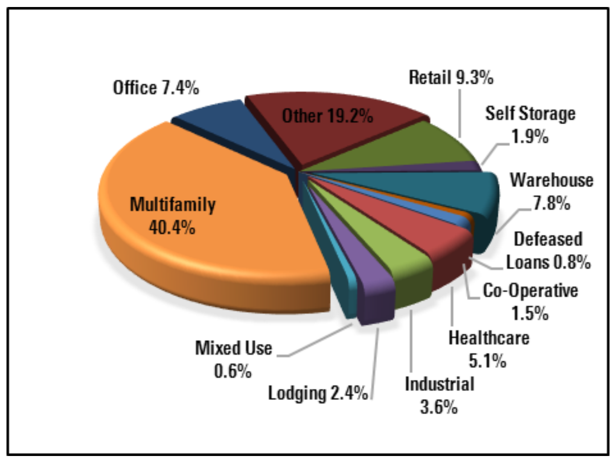


Chart 5 – Total Servicing by Property Type (# Loans)
June 30, 2016



Loan Boarding, Hedge Agreements, Letters of Credit, and UCCs

During the first half of 2016, PAR, as a primary servicer or in a primary/master servicer-combined role, boarded 276 new loans with a total UPB of approximately $18.72 billion. This volume included five loans placed into CMBS and 40 loans placed into Freddie Mac CME transactions. For all new loans boarded, 99% based on loan count came from Prudential Mortgage Capital's own originations. PAR also performed file maintenance or "reboarded" another 11 modified FHA loans.

In 2015, PAR, as a primary or primary/master servicer, boarded 774 new loans with a total UPB of approximately $14.11 billion. This volume included 20 loans placed into CMBS and 41 loans placed into Freddie Mac CME transactions. For all new loans boarded, 99% based on loan count came from Prudential Mortgage Capital's own originations. PAR also performed file maintenance or "reboarded" for 45 modified FHA loans. As a practice, PAR stated that it generally boards new loans with data necessary to conduct payment processing and investor reporting within two days. It stated that most loans can be boarded within one day of closing. The company noted that it can generally reboard modified CMBS loans within five business days of receiving a complete package from the special servicer.

PAR uses LoanConnect for its loan-origination and underwriting pipeline management with most loan closing data uploaded directly to the servicing system once validated. As part of the portfolio-conversion process, the company extracts all key PSA and unique servicing requirements, deal contacts, and critical dates into LoanConnect along with excerpts from the PSA. PAR's servicing staff uses the workflow features of LoanConnect, which includes electronic approvals, to track every step of loan boarding and to address tasks related to compliance triggers and loan covenants. The closing team inputs loan covenants and triggers, or reviews items already input during the origination and underwriting process, with the asset-management team performing another review and validation. Loan-boarding procedures require staff to compare system inputs to source data and to conduct a secondary level of review. The servicing system, in conjunction with LoanConnect, provides exception reporting metrics for loan setup timeliness and accuracy. PAR stated that it activates loans on the system only after its quality-assurance process is successfully completed. The servicer also conducts postboarding audits of loan data. Within 15 days of closing and in advance of the first billing date, the servicing-system automatically generates a task for the servicing team to electronically issue borrower welcome packages that contain compliance requirements. Through the LoanConnect application in conjunction with PruXchange, the company's document-transfer application, PAR tracks borrower compliance items, covenant triggers, and missing documents. PAR reported that no loans boarded during 2015 had incomplete or missing file documentation as of June 30, 2016. The company also uses its borrower web portal to alert borrowers of any outstanding document or compliance issues. PAR noted that approximately 53% of all borrowers and 62% of CMBS borrowers were registered users of the web portal as of September 2016.

PAR serviced some loans with interest-rate swap, cap, or hedge agreements. PAR stated that it centrally tracks interest-rate changes and rate-cap expirations that may affect the terms of such agreements. PAR tracks credit-rating changes of counterparties supporting these agreements. It also services many loans with letters of credit as supporting collateral, which are stored onsite in a vault and centrally tracked through the servicing system for upcoming expiration with borrower notices issued at 90, 60, and then 30 days before expiration. PAR noted that it would prepare for a draw down on the fifth day before expiration.

PAR tracks UCC filing expiration dates via the servicing system, and files UCC continuation statements through a vendor website. As of June 2016, the company reported that approximately 86% of its primary- and master-servicing portfolio by loan count had UCC filing requirements. As a result of discovering some lapsed UCC statements in late 2014, PAR strengthened this function through added staff oversight and improved system tracking. PAR successfully reinstated all lien positions involving the expired filings and reported no additional UCC statement lapses from July 2015 through June 2016. As a master servicer, PAR monitors UCC compliance through quarterly reports received from general-account and FHA subservicers.

> **Assessment:** PAR's loan-boarding practices are efficient and controlled. The company is experienced in converting both whole portfolios and single loans. Having an integrated loan-origination pipeline management module within the asset-management system, which feeds data to the servicing system, promotes efficiency and data integrity. The servicer's targeted maximum time frame to board core data on new loans is shorter than some other servicers we have assessed. The company's 15-day time frame to issue borrower welcome letters is, however, longer than that of some other servicers. PAR appropriately controls loan administration for hedge agreements, letters of credit, and UCC filings. Morningstar believes that PAR's actions in 2015 to improve its UCC renewal management have resulted in a much better controlled process.

Payment Processing

PAR has approximately 98% of all incoming loan payments, including most cash-managed loans and subservicer remittances, set up for electronic processing, depositing, and direct system posting. As of June 30, 2016, PAR received 18% of payments via lockbox, 62% via automated clearing house, and 17% via wire, with the remainder processed as checks received onsite. PAR noted that most payments can be processed automatically without any further intervention. The payment receipts lockbox interfaces directly with the servicing system for automated posting. Rejected payments are usually corrected within one day. The small percentage of payments received as live checks at the street address are logged, scanned and deposited onsite, and balanced daily to system entries. PAR deposits all payments first to a central clearing account and has an automated process to move the funds to investor custodial accounts using system-generated reports and after review by treasury staff, unless it flags a payment as a suspense or hold item. The company segregates payment posting, depositing, and system balancing tasks among the staff. The servicing system balances receipts daily and management reviews reconciliations. Through LoanConnect, PAR can compare daily bank receipts with servicing-system receivables.

PAR services a number of loans with cash-management agreements and has dedicated personnel to administer them. PAR stated that the corresponding cash movement routines are largely automated through interfaced banking software. PAR conducts system audits to check the accuracy of its floating-rate loan indexes.

As of June 30, 2016, PAR disclosed it had no unidentified clearing account items aged more than two days. It had a relatively low dollar volume ($32,452) of non-special-servicing-related funds involving 10 items held in its suspense account that were aged more than 90 days. All of these items have since been cleared. As of June 30, 2016, the servicer had 37 suspense account items (approximately $6.2 million in funds) in connection with specially serviced loans pending directions from the corresponding external special servicers. By comparison, the servicer had 45 suspense account items (approximately $7.0 million in funds) in connection with specially serviced loans as of Dec. 31, 2015.

Table 4 – Primary-Servicing Floating-Rate and Cash-Managed Loans

	June 30, 2016		**Dec. 31, 2015**	
	UPB(000s)	Loans	UPB(000s)	Loans
Floating-Rate Loans	5,508,554	228	5,083,732	202
Component of Primary Servicing (%)	6.6	5.1	6.2	4.5
Cash-Managed Loans*	592,512	28	671,546	29
Component of Primary Servicing (%)	0.7	0.6	0.8	0.6

*Active hard lockbox agreements.

Assessment: PAR has automated and efficient payment-processing administration. The company's track record of clean internal audits and Regulation AB attestations corroborates that the function is well-controlled. PAR demonstrates experience with and has effective automation tools to administer loans and reconcile accounts with complex cash-management structures.

Real Estate Tax, Insurance, and Capital-Expenditure Reserve Administration

As of June 30, 2016, PAR had approximately 34% of its primary-serviced loans escrowed for taxes. PAR uses a national tax service to track and remit tax payments and to report unpaid taxes on nonescrowed loans. PAR remits tax payments within early-pay discount periods. The servicing system tracks tax payment due dates and the payment status for all loans whether escrowed or not. For nonescrowed loans, PAR, through its tax service, sends borrowers delinquent tax notices and tracks a delinquent tax until paid. Consistently for the past few years, PAR's tax-payment penalties have been zero or of negligible amounts. PAR's master-servicer procedures require subservicers to submit quarterly tax payment exception reports and annual tax-administration compliance certifications.

As of June 30, 2016, the company had approximately 30% of its primary-serviced loans escrowed for insurance. PAR principally manages insurance administration through its own staff, although it may use an external consultant to review coverage provisions during new-loan boarding or occasionally for policy renewals. The company also uses a vendor, which has offshore operations, to assist with insurance policy data entry and exception tracking. PAR's insurance procedures address Fannie Mae reporting and compliance requirements, although PAR monitors its entire portfolio to the Fannie Mae insurance compliance standards. PAR noted that a technology project is under way and is expected to be finished by mid-2017 to enhance the insurance module in its LoanConnect application, which tracks expirations and coverage requirements. PAR sends out the first reminder letter 45 days prior to expiration and the second one at 10 days. Its system automatically generates the reminder notices. The company reviews insurance company ratings for compliance every quarter for its largest volume carriers and annually prior to policy renewal for all others. As of June 30, 2016, PAR had two loans on its forced-placed policy, which provides for 45 days of retroactive coverage for flood and 365 days of retroactive coverage for all other perils. It had no loans on its forced-placed policy as of Dec. 31, 2015. The forced-placed insurer is principally through Great American Assurance Company, which had an A+ financial strength rating by A.M. Best Company, Inc. as of May 2016. PAR also maintains a supplemental forced-placed policy for excess coverage through Lloyd's, which had an A financial strength rating from A.M. Best as of July 2016. PAR's insurance staff also reviews insurance exception reports from subservicers quarterly and obtains annual subservicer certifications.

The servicing-operations department works in conjunction with asset managers to review expenditure requests and release funds escrowed in capital-reserve accounts. The company uses the servicing system in tandem with LoanConnect to track and analyze reserve activity at least annually, with disbursement requests controlled through the servicing system. Disbursements require management approval based on PAR's defined delegations of authority, with a secondary level of management approval required for higher dollar amounts. During 2015, PAR completed staff training and transitioned the reserve-account disbursement review process to its Pramerica group.

> **Assessment:** PAR soundly manages tax administration based on its tracking procedures, avoidance of tax penalties, and its use of a tax service to monitor tax payment activity for the entire portfolio. Morningstar views insurance administration as one of PAR's core strengths and believes the company gives substantial attention to this area based on its staff expertise, diligent procedures, and controlled vendor-oversight practices. PAR expects the enhanced LoanConnect's insurance module to produce further processing and data-management efficiencies. As a master servicer, PAR follows standard industry practices by reviewing quarterly tax and insurance payment exception reports from its subservicers. PAR's retroactive coverage period on its forced-placed policy exceeds industry standards. PAR has sound practices for capital-expenditure reserve management.

Investor Reporting and Accounting

Through the servicing and LoanConnect systems, PAR produces the most current version of the CREFC-compliant investor-reporting package for its CMBS loans. The company has reporting procedures and customized reports to address Fannie Mae, Ginnie Mae, and other specific investor requirements. All investor remittances and reporting content require management approval. The company tracks custodial banks' credit ratings for servicing-agreement compliance. Although PAR conducts all investor-accounting and reporting work through a consolidated unit within the investment-operations department, the servicer maintains a segregation of duties for executing remittances, performing bank account reconciliations, and approving/issuing investor reports. PAR's procedures also stipulate a secondary level of review and signoff for custodial bank account reconciliations. PAR noted that the investor-reporting and the reconciliation processes for custodial, reserve, and cash-managed bank accounts are predominantly automated. PAR balances bank account activity daily and reconciles accounts monthly. The company reported no unidentified items in custodial accounts aged more than 60 days as of June 30, 2016. For CMBS master servicing, PAR will reconcile monthly subservicer scheduled remittance amounts to trustee remittance reports and custodial account balances, confirm expected remittance amounts with subservicers prior to their remittance dates, and validate the accuracy of each subservicer remittance posting to the servicing system.

The company reported that it shares deal information with nationally recognized statistical rating organizations according to Rule 17g-5 of the Securities Exchange Act of 1934, as may be required in newer CMBS transactions. PAR has a dedicated email address for each rating agency to coordinate and comply with communications relating to CMBS transactions governed by Rule 17g-5, with the response channeled through the 17g-5 information provider identified in the applicable PSA. PAR's CMBS surveillance team serves as a liaison with rating agencies and the 17g-5 information provider; however, the information provider remains responsible for posting the communication to its Rule 17g-5 website.

As of June 30, 2016, PAR, as a combined master/primary servicer, issued approximately 215 monthly investor remittances, including 24 CMBS remittances. PAR monitors the accuracy and timeliness of investor-reporting data through its validation and quality-control performance metrics program. The LoanConnect system also has a calendar feature to track servicing-agreement requirements. Accounting personnel in conjunction with CMBS asset managers validate realized loss and appraisal-reduction calculations.

For 2015, PAR disclosed one late-reporting occurrence involving a non-CMBS loan and did not have any late or erroneous investor remittances or reports in its CMBS transactions. During the first half of 2016, PAR did not incur any late-reporting or CMBS errors causing restatements or remitting corrections.

> **Assessment:** PAR's investor-accounting and reporting functions are automated and soundly controlled based on its stated processes for reconciling investor accounts and its expertise with CMBS and other types of complex reporting requirements. Additionally, the company's investor website further supports the reporting function.

CMBS Advancing

As a named master servicer for a number of older CMBS transactions, PAR has payment-advancing and recoverability-determination responsibilities. The servicer centrally tracks each loan's cumulative advances versus its collateral's current value or net liquidation amount. A few years ago, PAR lowered its loan-level advancing guideline to 36% from 45% of the latest appraised value or the expected liquidation proceeds. At that percentage, PAR stated that it conducts an additional assessment of the asset and may stop advancing altogether. A decision to continue advances at that point requires additional management approval as delineated in the servicer's approval-authorization matrix. The asset-management and investor-reporting departments, in conjunction with senior management, monitor advancing decisions through monthly reports and portfolio-review meetings. The company also tracks special servicers' appraisal update efforts. PAR noted that the uptick in outstanding advances between December 2014 and June 2016 corresponded to some matured CMBS loans. PAR noted that its volume of outstanding advance has since receded.

Table 5 – PAR CMBS Advancing Activity

	June 30, 2016	Dec. 31, 2015	Dec. 31, 2014
Total Advances Outstanding ($ Volume)*	16,778,925	18,703,236	10,767,967
Total Advances Outstanding (# Loans)	65	74	85
Average Advanced Per Loan ($)	258,137	252,746	126,682
Total Outstanding Advances to CMBS Servicing Volume (%) **	0.56	0.49	0.19

*Includes principal and interest and property-protection advances.
** CMBS Servicing Volume- UPB of primary/master combined.

Assessment: PAR's advancing and nonrecoverability-determination practices are sound. Its stated advancing threshold, which is a blended guideline for all property types and loan situations, appears conservative and may be slightly lower compared with the thresholds of some other master servicers. PAR's stated policy of assessing the timing and cash flow impact to the trust before recapturing all advances at once on a particular loan is a customary best practice.

Portfolio Management and Surveillance

Financial-Statement Analysis

The surveillance team within the asset-management department collects and analyzes operating statements, rent rolls, and inspection reports. Surveillance analysts prepare CREFC-compliant operating-statement and analysis reports, along with portfolio-performance reports customized for PAR's agency and other clients. To support its surveillance function, PAR uses its Pramerica unit and one vendor, with India-based operations, for certain tasks involving statement scanning, data input, and first-level analysis and compliance testing. The vendor performs data entry and initial quality-control checks, while the Pramerica unit conducts the initial cash flow performance analysis. The U.S.-based team further analyzes each loan's credit quality and watchlist eligibility using the work obtained from its affiliate and vendor. PAR permits its own Pramerica staff to communicate directly with borrowers but does not permit the vendor to do so.

PAR uses LoanConnect to track financial-statement submissions and analysis. Financial-statement collection procedures include a series of reminder letters and phone calls. As shown in the table below, the company has consistently achieved high financial-statement collection and analysis rates, with the results for CMBS loans higher than for the entire servicing portfolio. The company noted that as a master servicer, its policy is to reanalyze all financial statements submitted from subservicers.

Property Inspections

PAR usually engages vendors to perform inspections. The company's loan-origination staff is not involved with inspections, except occasionally for some general-account loans. PAR stated that it follows the terms of its servicing agreements to determine the frequency of inspections, which usually require annual inspections for loan balances of $2 million or greater and biannual inspections for loans with balances of less than $2 million. During the first half of 2016, the company stated that 364 CMBS properties were due for inspection and that it received 97.3% of these inspection reports by, or within 30 days of, their due dates. PAR's corresponding inspection-completion rate for the entire portfolio was 94% based on a total of 1,201 properties due for inspection. During 2015, the company reported that 250 CMBS properties were due for inspection and that it received all of these inspection reports by, or within 30 days of, their due dates. PAR's corresponding inspection-completion rate for the entire portfolio was 81% in 2015 based on 1,537 properties due for inspection. PAR experienced a significant delay from one of its vendors during the second quarter of 2015. In response, PAR terminated the vendor and redirected the affected inspection assignments to two other existing vendors. PAR stated that it met all agency-loan deadlines and submitted the remaining CMBS inspections during October 2015.

Surveillance analysts and asset managers review inspection results and record them in the LoanConnect system, which also produces inspection schedules and delinquent-inspection reports. Surveillance analysts are responsible for tracking inspection results and issuing letters to borrowers concerning deferred maintenance or other findings. As a system-programming enhancement completed last year, PAR is able to issue deferred-maintenance notices through bulk emails. As a master servicer, the company's stated practice is to review all inspections received from subservicers and to follow up with subservicers on inspection items.

Table 6 – Full-Year Financial Statement Collection Rates (%)

	By May 31, 2016	By May 31, 2015	By May 31, 2014
Entire Primary-Servicing Portfolio:			
Statements Received	88.1	90.7	93.2
Statements Spread and OSARs Reported*	88.1	90.7	93.2
CMBS Servicing Portfolio:			
Statements Received	98.1	94.1	95.3
OSARs Reported*	98.1	94.1	95.3

*Based on total number of required statement submissions. OSAR- operating statement analysis reports.

Watchlist, Trigger Events, and Early-Stage Collections

Surveillance analysts develop asset status report content and manage any related borrower discussions. The servicer uses its own criteria, CREFC guidelines, and other investor requirements, along with corresponding system triggers based on inspections, financial-statement spreads, and other acquired asset information, to determine which loans meet CREFC and other watchlist criteria. PAR has dedicated surveillance analysts who recommend and monitor credit-quality ratings for general account, agency, and certain non-CMBS loans. PAR stated that, as part of a watchlist report update process, it refreshes watchlist comments monthly, although the process is quarterly for general account loans, and that analysts manually review loans added to the watchlist based on LoanConnect's daily automatic validation process, which identifies tripped criteria triggers. The LoanConnect application includes a "deficiencies dashboard," which displays loan and property noncompliance issues. Items noted in the dashboard feed to PAR's borrower website as another way to alert borrowers and request responses, which PAR tracks for resolution. PAR also uses a "closely monitored" loan module in LoanConnect, which provides results from automated queries that scan the entire system for approximately 120 risk items. Should PAR manage any subserviced loans, they would be subject to the same watchlist criteria and monitoring protocols.

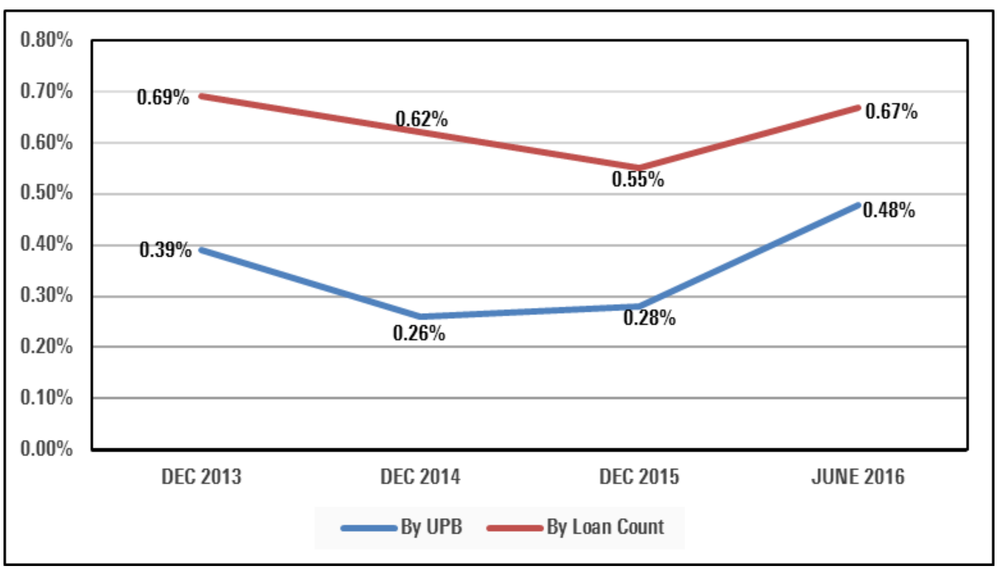
PAR's CMBS loan watchlist has been trending lower in recent years. As of June 30, 2016, PAR reported 120 CMBS loans on its CREFC watchlist, or approximately 24% of all CMBS loans it serviced. By comparison, as of Dec. 31, 2015, PAR reported 134 CMBS loans (23.5%) on its CREFC watchlist, and, as of June 30, 2015, it had 142 CMBS loans (22.1%)on its CREFC watchlist.

LoanConnect includes a module to track various loan-level compliance covenants and trigger events. The system contains criteria that it checks against abstracted loan document provisions to identify and validate potential exceptions. PAR issues a borrower notice within five days of determining that a trigger event or breach has occurred and generally has been able to activate the lockbox structure in less than 30 days. During the first half of 2016, PAR had three loans with a triggered springing lockbox provision. During 2015, it had only one loan with a triggered springing lockbox, and, in 2014, PAR had seven loans with triggered springing lockboxes.

The servicing teams handle delinquent loan collections during the first 30 days and then hand off collections work to the asset-management department. As it determines appropriate, and usually by the 60-day mark, the asset-management department transfers delinquent accounts to either PAR's special-servicing team or to an external special servicer. In general, PAR issues its first notice to borrowers regarding delinquent payments within two business day of the end of the grace period and issues a second notice 10 days later. The company contacts borrowers by telephone within two days of the grace period payment due date. PAR maintains a centralized chronology of collection efforts and borrower comments on LoanConnect, with the servicing system providing a daily delinquency report. PAR creates collection notices through the servicing system.

> **Assessment:** PAR has diligent credit and portfolio-management practices covering financial-statement analysis, property inspections, trigger-event and covenant-compliance tracking, and watchlist management. The covenant-compliance and trigger-event tracking module in its system, combined with its automated workflow functions, serves as an effective portfolio-management tool. The company's policy of reanalyzing all financial statements and reviewing all inspection reports received from subservicers is a best practice. Collection practices for delinquent loans are sound. Finally, the company's total portfolio delinquency rates are much lower compared with some other large-volume servicers. PAR's uptick in its delinquency rates this year may be attributable to some matured loans that did not refinance on time and moved to special servicing.

Chart 6 – PAR Historical Primary-Servicing Portfolio Delinquency Percentages*



*Based on all primary-only or combined primary/master-serviced loans 30+ days delinquent plus REO.
As of June 30, 2016, PAR's total CMBS delinquency rates were 3.96% by UPB an 4.34% by loan count.

Master Servicing: Subservicer Auditing and Compliance

At its peak in 2001, PAR monitored four CMBS subservicers. As a strategic move, PAR has not pursued CMBS mortgage servicing rights and new CMBS assignments requiring or involving external subservicers in recent years. As a result, the company has not had any subserviced CMBS loans since 2013.

PAR oversees a number of local banks that report to PAR as subservicers handling more than 400 non-CMBS loans. The banks predominantly serve as primary servicers on Prudential's general-account loans, although some of them handle FHA and other third-party investor-owned loans.

The CMBS servicing team manager is responsible for conducting CMBS subservicer audits with assistance from other PAR staff as needed. PAR bases the frequency of audits on each subservicer's reporting performance and servicing volume. In general, PAR will perform either onsite or desk audits of CMBS subservicers annually for any subservicer handling more than 20 loans. PAR provides subservicers with a preaudit questionnaire 60 days in advance, and subservicers must submit them within 30 days. Based on a review of the completed questionnaires, PAR determines whether it should conduct a site visit or desk audit. PAR requires all subservicers, regardless of volume serviced, to submit quarterly loan status tracking reports covering various areas of loan administration and provide annual USAP (or Regulation AB) attestations and tax-status and insurance certifications.

> **Assessment:** PAR has a sound subservicer oversight and audit program based on its described scope and frequency and based on the company's monthly, automated key performance measurement procedures across servicing processes that incorporate subservicer performance regarding reporting accuracy and timeliness. However, we have observed more-detailed and better-defined subservicer auditing criteria and procedural specificity at other master servicers, although those other servicers have subserviced CMBS loans, whereas PAR does not. With PAR's historical experience, proactive practices, and retained expertise, the servicer is suitably positioned to reactivate its subservicer auditing program when needed.

Borrower Consent Requests

Borrowers may communicate and exchange information with PAR for general inquiries or for credit-related requests through a number of channels: PAR's toll-free telephone number, the BorrowerConnect web portal, or through direct email to servicing administrators and asset managers. PAR has the ability to track the number and nature of calls, and the telephone-response system, which routes calls to the appropriate team, is integrated with LoanConnect. The LoanConnect workflow module tracks not only event-driven triggers but also borrower or client requests, pending credit actions, and almost 200 other workflow types.

PAR's asset-management department coordinates and underwrites all borrower consent requests. In 2014, PAR centralized certain borrower requests covering the highest volume, less-credit-intensive types of transactions to a dedicated, expanded group in this department. Asset managers prepare written cases through LoanConnect using standard formats submitted for electronic approval based on established authority delegations that may require a management committee approval process for larger, more complex transactions. The case templates include prepopulated property and loan data downloads. Borrowers also receive a satisfaction survey on all processed consents.

Although servicers may handle a myriad of consent request types, Morningstar primarily examines four consent types to assess performance: assumption, leasing, defeasance, and partial releases. PAR's total consent volume principally involves leasing-related requests, although the servicer has been handling a moderate volume of other consent types. Among its consent work, PAR also processes a sizable volume of capital expenditure reserve-account disbursements. For 2015, PAR's 66-day average for assumptions requiring external-party consent was below Morningstar's 73-day average for other master servicers. PAR also was below Morningstar's 46-day master-servicer average for leasing consents and 70-day average for property releases.

Table 7 – Borrower Consent Average Processing Times (Days)

	First-Half 2016			Full-Year 2015			Full-Year 2014		
Consent Type	Processed (#)	Internal Time Only	*Total Time	Processed (#)	Internal Time Only	*Total Time	Processed (#)	Internal Time Only	*Total Time
Assumptions	7	16	75	41	10	66	33	10	40
Leasing	97	6	29	210	6	15	290	4	13
Defeasance	11	39	--	17	25	--	32	16	--
Partial Releases	21	5	16	43	4	33	47	4	12
Total Volume	136			311			402		

*Servicer's internal time plus third-party review time only for those transactions requiring external party consents.

Assessment: PAR has experienced staff, effective control practices, and efficient workflow procedures to analyze and approve borrower consents. Morningstar believes that PAR's average turnaround times, and especially its internal review times, to process consents have generally been better than the averages of other large-volume servicers whose overall results are likely more affected by their greater level of consent activity involving CMBS transactions.

Special-Servicing Administration

PAR's special-servicing volume has significantly declined since 2011. As of June 30, 2016, the active portfolio consisted of only nine loans with a UPB of $163.3 million of which four loans with a total UPB of $17.4 million, or 11%, were nonperforming. The company managed a much larger special-servicing portfolio in past years and especially during 2009-10 when the special-servicing team comprised 20 people. Over the past few years, despite shrinking volume, PAR has resolved some large nonperforming assets involving all major property types across many U.S. real estate markets.

PAR's asset resolution in recent years included workouts of two large CMBS hospitality loans, one in 2011 and one in 2013. Both resolutions, including one completed through a receivership sale, resulted in full recoveries. PAR does not have any CMBS loans in its active portfolio although it is the named special servicer in four CMBS transactions involving four loans secured by two properties.

Between December 2009 and June 2014, the company sold 31 REO properties producing an aggregate 83.6% recovery of the corresponding loans' principal balances and invested capital. The aggregate net recoveries were 116% of PAR's collateral values at the time of foreclosure. These REO sales included a CMBS retail asset in 2011 (which incurred a high loss severity after a long hold period), a general-account owned golf course in June 2014, and various multifamily, office, and lodging properties.

Chart 7 – Total Active Portfolio by Property Type (UPB)*

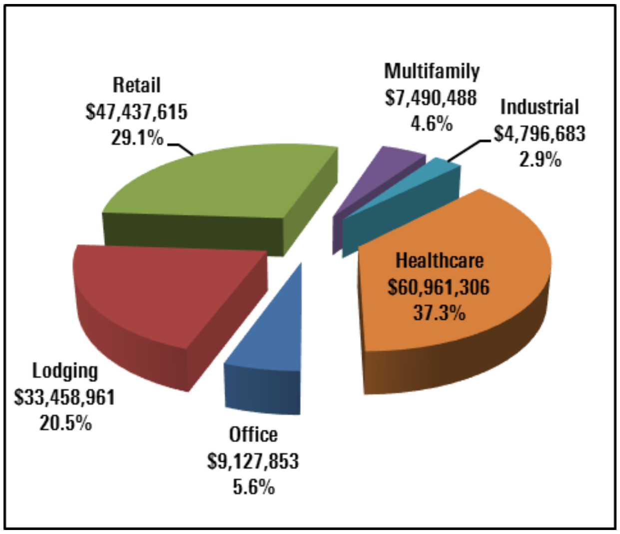
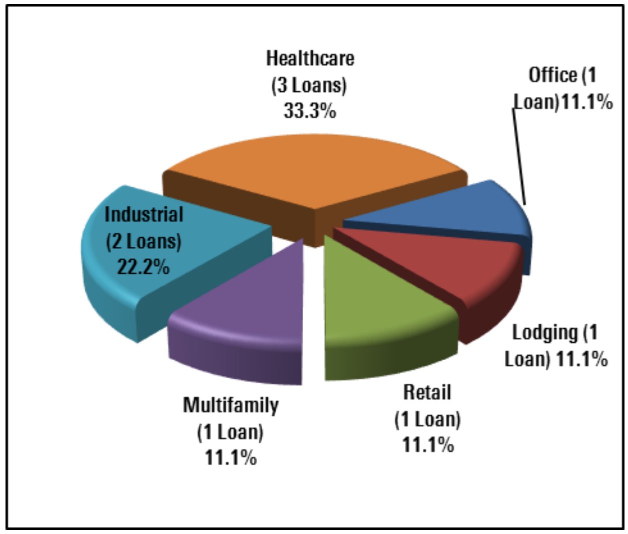


Chart 8 – Total Active Portfolio by Property Type (Asset Count)*



*As of June 30, 2016. May not total 100% because of rounding.
Geographic Dispersion By Loan Count: Arizona -1; California -3; Connecticut -1; Indiana -1; Louisiana -1; N. Carolina -1; Texas -1
Four nonperforming loans (11% by UPB).

Asset-Review Process

PAR requires borrowers to sign prenegotiation letters before commencing workout discussions. Upon receiving a newly transferred loan, asset managers prepare loan resolution plans, which are usually in the form of updated asset status reports. However, PAR does not have a set policy to complete ASRs within a certain time frame unless the loan is governed by a servicing agreement's mandated submission deadline. Asset managers submit an updated asset status report, or business case, which includes a net present value analysis of alternative resolution strategies, to obtain approval for foreclosure sale bids and for specific terms of negotiated resolutions. Within 60-90 days of acquiring an REO property, the asset manager completes a property strategic plan, or otherwise updates the existing ASR, to include a valuation, marketing, and sales analysis along with an operating budget and sale-price target for internal approval. PAR uses a matrix of delegated authority in which most resolution plans and cases, based on asset size and request type, require team leader and additional management approval. However, PAR does not use a formal committee process to approve special-servicing related actions. As noted, asset managers can prepare, submit, and obtain approvals for their ASRs and resolution cases through LoanConnect, which also tracks the status of approved and pending resolutions. For CMBS assets, PAR monitors master servicers' outstanding advances against property values and expected recoveries and stated that it will routinely consult with them on their advancing decisions. As noted, an asset manager is usually accountable for the entire life cycle of an assigned asset from initial loan transfer through REO sale.

> **Assessment:** PAR has controlled and thorough asset-analysis and asset-recovery practices based on its stated policies and procedures, although Morningstar believes that a formal committee-style approval process and a set time frame to complete an initial ASR are best practices. LoanConnect has solid asset-management functionality for CMBS and other third-party assets. Having the same asset manager handle loans and REO properties is reasonable given PAR's declining and light portfolio volume consisting mostly of loans and its success with this organizational approach.

REO Property Management

Before PAR takes title to an REO property, the company's insurance group prices and secures coverage. Preforeclosure due diligence includes procuring an environmental assessment and, for CMBS assets, obtaining an updated appraisal or broker opinion of value. Asset managers select property managers through a proposal-bidding process in advance of taking title and engage them using PAR's own form of agreement that outlines monthly reporting requirements. The finance and accounting department and the asset manager also have a process review/planning call with the property manager. The finance group establishes single custodial trust accounts rather than separate rent collection and expense accounts for REO property managers. An engaged property manager must provide a property operating budget in the first 60 days. In addition to the asset manager, the finance and accounting staff reviews property managers' GAAP-compliant financial reports, including bank account activity and reconciliations. PAR uploads the property-manager operating statements to its Oracle accounting system to track budget variances and to prepare a monthly REO portfolio activity and cash-flow report. The business-support/quality-control department, through its compliance program, will also monitor elements of REO asset management. PAR does not have a property-manager audit program, although it has not managed any REO properties since June 2014.

> **Assessment:** PAR has a sound REO management function as demonstrated by the company's monthly reporting standards for property managers, asset managers' oversight procedures, and the finance department's controls over property-manager bank accounts, reconciliations, and reporting standards.

Vendor Oversight

PAR maintains a list of approved firms for environmental and engineering assessments and for legal counsel. It does not maintain a list of approved property managers, appraisers, or brokers. However, PAR does have a formal vendor-performance review process, conducts a request-for-proposal bidding process for most engagements, and uses its own form agreements. A Prudential Mortgage Capital environmental-risk manager reviews the assessment reports for the asset managers. The asset-management system does not track completed and pending vendor assignments, although asset managers use the system to submit law firm engagement requests to PAR's four-person legal department, which also assists the special-servicing team with its loan-workout deliberations and closings. Asset managers and the team leader approve legal invoices prior to payment.

> **Assessment:** PAR has acceptable controls to engage and monitor vendors for special-servicing work. The company's use of standardized agreements, its performance-monitoring practices, and its in-house legal resources reflect best practices. As the company pursues new assignments, especially CMBS appointments, it may consider building approved lists for property-management companies and other major service providers for added control. Being able to track all pending and completed vendor activity within LoanConnect could facilitate asset-status tracking and further strengthen vendor management.

Managing Conflicts of Interest

The recently launched PGIM Real Estate Structured Income Venture plans to invest in new-issue CMBS first-loss positions and may appoint PAR as a special servicer in some or all of the transactions. As a result, PAR, as an affiliated special servicer, will have some conflicts of interest to manage. PAR stated it will adhere to awall policy prohibiting the sharing of nonpublic information between itself and the venture. Also, PAR, as a division of a regulated insurance company and one recognized as a SIFI, must comply with federal regulations in its interaction with affiliates, and as a result, must treat the PGIM fund as it would any third-party client. PAR does not have or use affiliated brokers, nor does it have or use affiliated property managers. Its stated practices are not to collect special-servicing fees from the trust that it also collects from borrowers or other sources, and not to collect amounts in excess of trust contractual fees as outlined in the corresponding servicing agreements.

> **Assessment:** PAR has sound policies to manage potential conflicts of interests if it becomes a special servicer for CMBS transactions affiliated with its parent-sponsored investment fund.

Asset-Resolution and Recovery Performance

Asset-Resolution Volume and Disposition Methods

During 2014, PAR resolved 15 loans with an aggregate balance of $185.5 million. These resolutions consisted of seven modified/corrected loans, five full payoffs, and three discounted payoffs (including a partial recovery of a B note). The full payoffs accounted for approximately 40% of the resolutions by UPB. PAR also foreclosed on and sold a golf course with the sales proceeds equal to 127% of PAR's estimated collateral value.

During 2015, PAR resolved 28 loans with an aggregate balance of $411.4 million. These resolutions consisted of five modified or corrected loans, 22 full payoffs, and one discounted payoff. The full payoffs accounted for approximately 86% of the resolutions by UPB. In the first half of 2016, PAR special-servicing activity consisted of one discounted payoff and one corrected loan with a combined $20.5 million UPB.

Chart 9 – Special-Servicing Resolution Type Percentages by Asset Count (2014-June 2016)

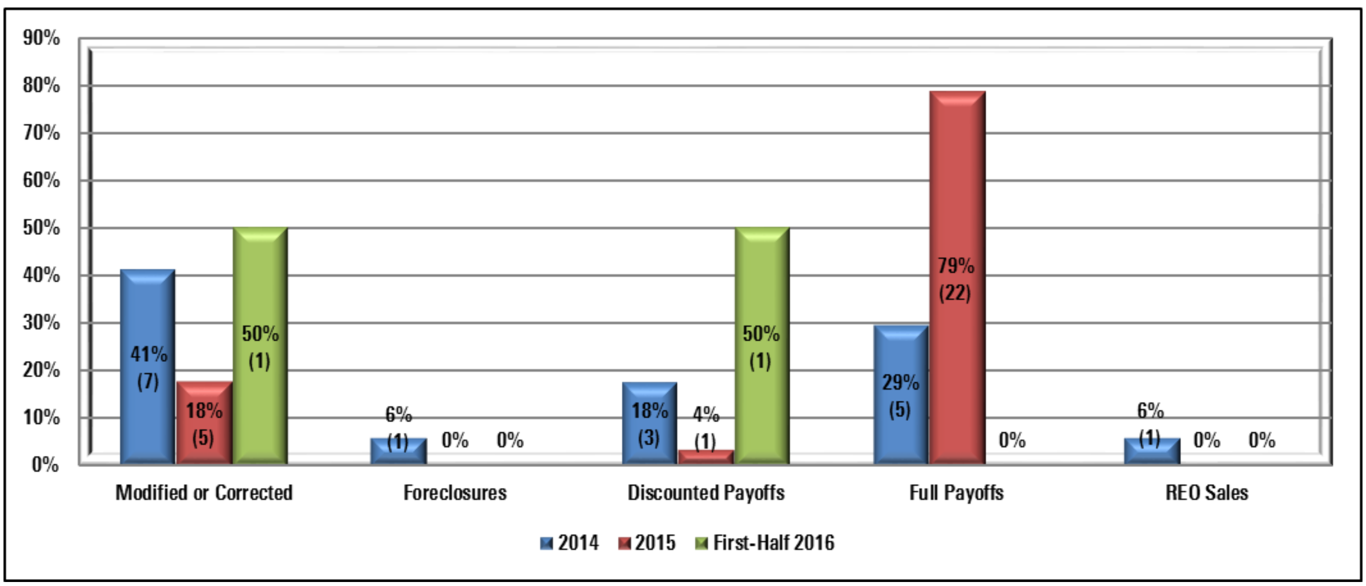


Table 8 – Special-Servicing Loan Resolutions by Count (January 2007-June 2016)*

Property Type	Modified/Corrected	Foreclosures/DIL	Note Sales	Discounted Payoff	Full Payoff	Other
Multifamily	159	44	5	20	58	0
Office	19	7	3	5	17	1
Retail	22	4	7	9	10	0
Industrial	9	2	2	7	5	1
Hospitality	21	1	5	3	12	0
Other	21	4	2	6	13	9
Total Loans	251	62	24	50	115	11

*CMBS Activity: 2011-13 – Two loan resolutions (Hilton and Sheraton properties)

Table 9 – Special-Servicing REO Sales (2009-14)

Year	REO Sold (#)	Average REO Hold Time (months)*	Net Recovery Proceeds ($ mil)	PAR's Book Value at Foreclosure ($ mil) **	Average Recovery/Sale ($ mil)	Recovery Proceeds/ Book Value (%) **
2009	1	1	52.6	42.8	52.6	122.9
2010	14	6	155.0	139.9	11.1	110.8
2011	8	14	89.2	75.0	11.2	118.9
2012	6	13	85.3	75.3	14.2	113.4
2013	1	8	2.7	2.3	2.7	117.4
2014	1	3	14.9	10.8	14.9	138.0
Total/Average	31	8	399.7	346.1	17.8	120.2

*Rounded to nearest whole month. *Recovery proceeds/value percentages may be overstated because they are based on PAR's book values at the time of foreclosure. Values above also do not factor impact of PAR's total $20.2 million capital investment to position these properties for sale.

Asset-Resolution Hold Times

PAR's average resolutions times shown in the table below were based on 13 modified/corrected loans, five discounted payoffs, 27 full payoffs, and one REO property sale. The longer average for the five loan modifications completed in 2015 reflects one loan held more than six years and another held more than three years in special servicing. PAR averaged nine months to modify/correct the three other loans. As reflected in the table above, PAR averaged eight months to sell 31 REO properties between 2009 and 2014.

Table 10 – PAR Average Asset-Resolution Times (Months)*

	2014	2015	First-Half 2016
Modified/Corrected Loans	17	29	12
Individual Note Sales	N/A	N/A	N/A
Discounted Payoffs	26	13	3
Full Payoffs	11	18	N/A
REO Sales	**3	N/A	N/A
Completed Foreclosures	**35	N/A	N/A

*Rounded to nearest whole month. Based on time PAR managed the asset.

**Same asset- three months as an REO and 35 months total time in special servicing.

Asset-Resolution Recovery Proceeds

As shown below, PAR achieved high net recoveries relative to UPB or estimated collateral value for discounted payoffs and REO sale since 2014.

Table 11 – Asset Recovery Net Proceeds Versus Collateral Values and Unpaid Principal Balances*

	2014 Entire Portfolio	2015 Entire Portfolio	First-Half 2016
Net Recovery Proceeds-to-Value (%)			
Individual Note Sales	N/A	N/A	N/A
Discounted Payoffs	112.1 (3)	90.7 (1)	111.0 (1)
REO Dispositions**	127.1 (1)	N/A	N/A
Net Proceeds-to-UPB (%)			
Individual Note Sales	N/A	N/A	N/A
Discounted Payoffs	64.6	94.1	71.1

*Asset counts in parentheses. **Based on PAR's estimated value near the time of sale.

Table 12 – Total Special-Servicing Loan Portfolio Activity (First-Half 2016)*

	Total Vol ($ Mil)	Total Loans	Total Properties	CMBS Vol ($ Mil)	CMBS Loans	CMBS Properties
Loan Portfolio at Beginning of Period	119.1	8	8	0	0	0
Loans Transferred Into Portfolio:						
New Nonmonetary/Imminent Default	51.9	2	2	0	0	0
New Monetary Default	13.1	1	1	0	0	0
Total Transfers Into Special Servicing	65.0	11	11	0	0	0
Loans Fully Resolved:						
Modified or Corrected Loans	(7.5)	(1)	(1)	0	0	0
Discounted Payoffs (Excludes Note Sales)	(13.1)	(1)	(1)	0	0	0
Total Loan Resolutions	(20.6)	(2)	(2)	0	0	0
Adjustments or Other Loans Transferred Out	(0.2)	0	0	0	0	0
Loan Portfolio at End of Period	163.3	9	9	0	0	0

*No active REO properties during this period.

Table 13 – Total REO Portfolio Activity (2014-15)

	Total Vol ($ Mil)	Total Properties	CMBS Vol ($ Mil)	CMBS Properties
REO Portfolio at Beginning of Period				
Completed Foreclosures	17.8	1	0	0
REO Sold During Period*	(17.8)	(1)	0	0
Other REO Transferred Out	0	0	0	0
Other Adjustments	0	0	0	0
REO Portfolio at End of Period	0	0	0	0

*Occurred in June 2014.

Table 14 – Total Special-Servicing Loan Portfolio Activity (2014-15)

	Total Vol ($ Mil)	Total Loans	Total Properties	CMBS Vol ($ Mil)	CMBS Loans	CMBS Properties
Loan Portfolio at Beginning of Period	301.9	30	29	0	0	0
Loans Transferred Into Portfolio:						
New Nonmonetary/Imminent Default	448.2	23	17	0	0	0
New Monetary Default	12.8	5	5	0	0	0
Total Transfers Into Special Servicing	461.0	28	22			
Loans Fully Resolved:						
Modified or Corrected Loans	(145.8)	(12)	(11)	0	0	0
Discounted Payoffs (Excludes Note Sales)	(31.0)	(4)	(3)	0	0	0
Full Payoffs	(420.2)	(27)	(21)	0	0	0
Total Loan Resolutions	(597.0)	(43)	(35)	0	0	0
Completed Foreclosures*	(37.5)	(4)	(3)	0	0	0
Adjustments or Other Loans Transferred Out**	(9.3)	(3)	(5)	0	0	0
Loan Portfolio at End of Period	119.1	8	8	0	0	0

* Completed foreclosures included two Fannie Mae loans with loss-settlement agreements in 2014 with Fannie Mae subsequently managing the REO properties. PAR foreclosed on two loans secured by a golf course in 2014 and sold the REO property in the same year.
**Included write off of one mezzanine loan and two B notes after another special servicer completed foreclosures.

Assessment: Although its portfolio volume is now a modest level as a result of resolutions and fewer transfers, PAR demonstrates solid recovery results for a low level of activity during the past two years. It had reasonable hold times for most resolutions, and recovery proceeds were high relative to UPB or collateral value. PAR had successful REO sales outcomes for the 2009-14 period.

Investor and Master-Servicer Reporting

As an experienced CMBS servicer, PAR is familiar with CREFC investor-reporting requirements for special servicers, including CMBS special servicers' duties to communicate with master servicers on asset-management decisions and to monitor, calculate, and report on property-protection advances, realized losses, and appraisal subordination entitlement reductions. Although it has not had any active CMBS specially serviced loans since 2013, PAR produced the CREFC-compliant reports for transactions in past years.

Assessment: As an active CMBS master/primary servicer and having managed two specially serviced CMBS loans in recent years, PAR is sufficiently experienced with CMBS special-servicer reporting. While PAR's asset-management and reporting procedures and experience address GSE requirements, the company may consider enhancing its special-servicing procedures to increase its preparedness for renewed CMBS special-servicing and related CREFC reporting.

Ranking Definitions

The numerical scale of MOR CS1 to MOR CS4 is defined as follows:

1	Exceeds prudent loan servicing standards in key areas of risk
2	Demonstrates proficiency in key areas of risk
3	Demonstrates compliance in key areas of risk
4	Demonstrates lack of compliance in one or more key areas of risk

A servicer assigned a ranking of at least MOR CS3 is deemed to comply with what we view as the minimum prudent loan servicing standards and requirements for the servicer's operational category and role. For access to Morningstar's Operational Risk Assessments of Commercial Servicers: Methodology and Process and other published reports, please visit www.morningstarcreditratings.com.

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