Servicer Evaluation: Prudential Asset Resources

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Ranking Overview

		Subrankings		
Servicing category	**Overall ranking**	**Management and organization**	**Loan administration**	**Outlook**
Commercial primary	STRONG	STRONG	STRONG	Stable
Commercial master	AVERAGE	STRONG	AVERAGE	Stable
Commercial special	ABOVE AVERAGE	STRONG	ABOVE AVERAGE	Stable
Financial position				
SUFFICIENT				

Rationale

S&P Global Ratings' rankings on Prudential Asset Resources (PAR) are STRONG as a commercial mortgage loan primary servicer, AVERAGE as a commercial mortgage loan master servicer, and ABOVE AVERAGE as a commercial loan special servicer. On March 25, 2019, we affirmed the rankings (please see "Prudential Asset Resources Commercial Mortgage Loan Servicing Rankings Affirmed," published March 25, 2019). The outlooks for all three rankings are stable.

Our rankings reflect PAR's:

- Experienced senior management team;
- Institutional backing and financial support from its parent holding company, Prudential Financial Inc. (PFI);
- Lengthy track record of servicing loans from a variety of capital sources;
- Strong audit and quality control environment;
- Good leverage of and investment in systems and technology;
- Dedicated focus on maintaining a high level of customer service;
- Declining volume and lack of commercial mortgage loan subservicer oversight in master servicing; and
- Low special servicing volume and decentralized special servicing organizational structure.

Since our prior review (see "Servicer Evaluation: Prudential Asset Resources," published Nov. 22, 2017), the following changes and/or developments have occurred:

- PAR made several enhancements to its proprietary pipeline and asset management system, including revamping the insurance tracking module and improving the efficiency and functionality of the loan trigger module.
- The company reappointed a former head of its investor services and operations department after the previous head left the company.
- PGIM Real Estate Finance (PGIM REF) information technology implemented MIMIX fail-over data replication technology of the McCracken Strategy (Strategy) servicing system, which facilitates more frequent and timely

system backups.

- PAR implemented robotics process automation to streamline some investment operation processes and procedures.

The outlooks on each of the rankings is stable. PAR has a lengthy track record of servicing commercial and multifamily mortgage loans. The company has shown a commitment to maintaining a strong internal controls environment and staff development program and is dedicated to developing servicing technology enhancements.

PAR has exhibited controlled growth in primary servicing. The company has recently started servicing loans from a PGIM and PGIM REF high yield debt fund and the international portfolio continues to grow. Although master servicing volume continues to decline and the special servicing portfolio remains at low levels, we believe that PAR maintains the resources, expertise, policies, and procedures to handle modest future volume increases in these portfolios.

In addition to conducting an on-site meeting with servicing management, our review includes current and historical servicer evaluation analytical methodology data through Dec. 31, 2018, as well as other supporting documentation provided by the company.

Profile

Servicer Profile	
Servicer name	Prudential Asset Resources
Primary servicing location	Dallas and Atlanta
Parent holding company	Prudential Financial Inc.
Loan servicing system	McCracken Strategy v. 19C

PAR is the commercial mortgage loan servicing arm of PGIM REF. PGIM REF is an indirect subsidiary of PFI, the parent holding company. PGIM finances domestic and international commercial mortgage and multifamily loans and had $96.2 billion in assets under management and administration as of Dec. 31, 2018.

PAR was founded in 2001 to combine the servicing of the PFI general account and commercial mortgage-backed securities (CMBS) portfolios with the newly acquired Fannie Mae, Federal Housing Administration (FHA), and other third-party life insurance company commercial mortgage loans. Later, PAR began servicing Freddie Mac and international loans and, in 2017, added loans from a PGIM and PGIM Real Estate Finance debt investment fund to its portfolio. PAR employs approximately 143 professionals, mostly in Dallas, but also in a PGIM REF office in Atlanta and a PFI affiliate offshore office in Letterkenny, Ireland. As of Dec. 31, 2018, PAR managed domestic assets of approximately $89.4 billion (see tables 1, 2, and 3) and an international portfolio of approximately $6.1 billion.

Table 1

Total Servicing Portfolio

	UPB (mil. $)	YOY change (%)	No. of assets	YOY change (%)	No. of staff	YOY change (%)
Primary/master servicing						
Dec. 31, 2018	89,432.5	6.8	4,391	(2.1)	143	(0.7)
Dec. 31, 2017	83,770.3	2.9	4,486	(2.8)	144	3.6
Dec. 31, 2016	81,443.9	2.0	4,614	(5.7)	139	(1.4)

Table 1

Total Servicing Portfolio (cont.)

	UPB (mil. $)	YOY change (%)	No. of assets	YOY change (%)	No. of staff	YOY change (%)
Dec. 31, 2015	79,814.4	(1.9)	4,895	(5.0)	141	1.4
Dec. 31, 2014	81,389.2		5,155		139	
Special servicing						
Dec. 31, 2018	99.0	(27.8)	8	(11.1)	2	0.0
Dec. 31, 2017	137.2	2.4	9	(10)	2	0.0
Dec. 31, 2016	133.9	12.4	10	25.0	2	0.0
Dec. 31, 2015	119.1	(52.9)	8	(70.4)	2	(33.3)
Dec. 31, 2014	252.7		27		3	

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

Table 2

Portfolio Overview

	Dec. 31, 2018		Dec. 31, 2017		Dec. 31, 2016		Dec. 31, 2015		Dec. 31, 2014	
	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.
Primary loans	87,899.6	4,123	82,238.4	4,197	79,659.4	4,213	77,978.6	4,426	79,788.9	4,643
Master (SBO) loans	1,532.8	268	1,531.9	289	1,784.5	401	1,835.8	469	1,600.3	512
Total servicing	89,432.5	4,391	83,770.3	4,486	81,443.9	4,614	79,814.4	4,895	81,389.2	5,155
Average loan size	20.4	--	18.7	--	17.7	--	16.3	--	15.8	--
Special servicing										
Loans	99.0	8	137.2	9	133.9	10	119.1	8	252.7	27
REO properties	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
Total special servicing	99.0	8	137.2	9	133.9	10	119.1	8	252.7	27

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

Table 3

Primary/Master Portfolio Breakdown By Property Type And State(i)

	UPB (mil. $)	UPB (%)	No. of properties	Properties (%)
Type				
Multifamily	38,948.8	43.6	1,968	38.2
Office	13,258.9	14.8	289	5.6
Retail	9,437.3	10.6	347	6.7
Warehouse	9,056.1	10.1	918	17.8
Healthcare	6,307.5	7.1	210	4.1
All Other	12,423.9	13.9	1,418	27.5
Total	89,432.5	100.0	5,150	100.0
State				
CA	25,310.7	28.3	1,176	22.8
NY	9,214.0	10.3	252	4.9
TX	8,944.5	10.0	628	12.2
FL	4,450.1	5.0	264	5.1

Table 3

Primary/Master Portfolio Breakdown By Property Type And State(i) (cont.)				
	UPB (mil. $)	**UPB (%)**	**No. of properties**	**Properties (%)**
NJ	3,505.4	3.9	145	2.8
All Other	38,007.7	42.5	2,685	52.1
Total	89,432.5	100.0	5,150	100.0

(i)As of Dec. 31, 2018. UPB--Unpaid principal balance.

Table 4

Primary/Master Portfolio By Investor Product Type(i)				
Loan Type	**UPB (mil. $)**	**UPB (%)**	**Loan count**	**Loan (%)**
On own or parent's balance sheet	51,099.6	57.1	2,143	48.8
Fannie Mae	14,721.0	16.5	631	14.4
FHA & Ginnie Mae	6,616.0	7.4	521	11.9
Freddie Mac K-Series	5,726.0	6.4	301	6.9
Other third-party investors (REITs, investment funds, etc.)	4,765.7	5.3	350	8.0
CMBS/CDO/ABS	2,796.8	3.1	256	5.8
Life insurance companies	2,310.6	2.6	59	1.3
Freddie Mac	1,396.8	1.6	130	3.0
Total	89,432.5	100.0	4,391	100.0

(i)As of Dec. 31, 2018. UPB--Unpaid principal balance. CMBS--Commercial mortgage-backed securities. CDO--Collateralized debt obligation. ABS--Asset-backed securities.

Management And Organization

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

Organizational structure, staff, and turnover

PAR's management team and staff exhibit levels of industry experience that are in line with similarly ranked servicers with STRONG management and organization subrankings, while tenure levels are slightly below levels reported by its peers (see table 5).

Table 5

Years of 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/Master	27	10	18	12	N/A	N/A	17	8
Special	29	10	N/A	N/A	21	6	N/A	N/A

(i)As of Dec. 31, 2018. N/A--Not applicable.

The heads of PAR's four functional departments, servicing, asset management, investor services and operations, and business strategy and support, report to the company president. PAR receives additional support from PGIM REF's human resources, compliance, vendor management, internal audit, legal, and finance departments as well as offshore operational support from a PFI offshore affiliate, Pramerica.

The servicing department's responsibilities include overseeing non-credit-related borrower consents, new loan setup, and tax and insurance monitoring. The asset management department, among other responsibilities, conducts surveillance, trigger management, property inspections, watchlist monitoring, and special servicing and oversees credit-related borrower requests. Investment operations responsibilities include investor reporting, loan fee accounting, and bank reconciliations, while the business strategy and support department oversees quality control and metrics, maintains PAR's policies and procedures (P&Ps), and performs quality assurance testing on the servicing portfolio.

PAR utilizes both an offshoring and outsourcing strategy. PFI's Pramerica affiliate provides offshore support on important tasks including investor reporting and surveillance. It also helps service the international portfolio, perform leasing consents, and provide corporate and investment accounting support. PAR outsources other servicing and asset management functions to two secure third-party providers based in India. One vendor performs insurance support, while the other performs property financial and rent-roll data entry and quality risk rating support. We found the offshore and outsource processes and scope to be well-defined and thoroughly monitored.

Recent turnover levels have generally been within industry norms. For full-years 2017 and 2018, the combined primary and master commercial mortgage loan servicing turnover rates were 16% and 13%, respectively. PAR experienced no special servicing turnover in 2018. In 2017, a junior asset manager who was fully dedicated to special servicing moved from special servicing to the origination department.

PAR's small special servicing headcount (see table 1) does not include a vice president who oversees the entire asset management department. The special servicing group works closely with PGIM REF, relying on its parent for important special servicing tasks, including real estate-owned (REO) asset accounting. According to PAR, it can also easily add special servicing staff if needed by transferring experienced employees from PGIM REF's origination department (some of whom already have special servicing experience) and other departments within PFI. In our opinion, PAR benefits from the flexibility afforded by organizational depth; however, a decentralized structure, while suitable for the current special servicing portfolio, is not suitable for high-volume CMBS portfolios.

Training

PAR provides its management and staff with a diversified array of ongoing, formal internal and external training programs. PAR targets 40 hours of training per employee annually, which we believe is a good training goal. In 2018 primary and master servicing employees averaged 54 hours of training, significantly exceeding the training goal, while special servicing fell just short, completing 36 hours of training. We note, however, that the two employees fully dedicated to special servicing have a high level of industry experience. Training is tracked through PAR's TrainingConnect system.

Other aspects of PAR's staff training program include:

- The business strategy and support department leads a training committee with senior leaders from PAR's other commercial mortgage loan servicing departments. The committee determines training needs and assists with training program development and implementation.

- Training material is centrally stored in a proprietary training system, TrainingConnect, and includes material on soft skills, industry issues, and systems and business processes.
- PAR actively participates in various employee training and development initiatives offered by the Mortgage Bankers Assn. (MBA), Fannie Mae, Commercial Real Estate Women, Commercial Real Estate Finance Council, and other industry organizations. Four senior managers maintain the MBA's commercial certified mortgage servicer designation.
- As part of a large organization, PAR employees take regular regulatory and compliance training courses, including privacy and information security awareness, anti-money laundering, and preventing workplace discrimination and harassment.
- New hires are provided with a list of training sessions that they must complete within their first 100 days.
- PAR offers leadership development training to team leads, directors, and vice presidents.

Systems and technology

We believe PAR has effective technology to meet its primary, master, and special servicing requirements. The company continues to focus on technology enhancement projects to further streamline and automate servicing tasks across various loan administration functions. A dedicated technology staff of 25 full-time employees supports PAR and PGIM REF's origination platform. PAR has well-designed data backup routines and disaster recovery preparedness.

Servicing system applications

PAR's key systems include:

- Strategy version 19C is a remote host vendor loan accounting and servicing system used as the main system of record. PAR participates in and chairs McCracken user-feedback committees.
- LoanConnect is a proprietary pipeline and asset management system that PAR uses to help manage post-closing servicing and asset management activities, including insurance, special servicing business plan management, and loan trigger monitoring;
- BorrowerConnect is a secure website for borrowers to access loan balance and payment information, billing statements, loan documents, and forms;
- DataConnect is a proprietary data warehouse that contains data from the asset management and servicing systems for ad hoc reporting;
- TrainingConnect is a proprietary training management system;
- IBM Content Manager is a document imaging and management system that allows users to search for documents by loan name, loan number, property name, etc.;
- InvestorView is a secure website for investors, rating agencies, and special servicers to access loan and portfolio information; and
- PruXchange is a secure web portal for exchanging documents with internal/external parties.

PAR continues to enhance its systems and technology environment. Since our last review, PAR upgraded Strategy from version 19 to 19C providing improved investor reporting functionality. Other system enhancements since our last review include an upgrade of LoanConnect's insurance and loan trigger modules. The new insurance module provides enhanced and customized tracking on multiple levels, including the policy level, and enhanced and timelier reporting on portfolio exposure to significant insurance events.

Business continuity and disaster recovery

PFI maintains a thorough disaster recovery (DR) and business continuity plan. The plan is reviewed semiannually and a full systems DR test is conducted annually. The last full systems test conducted in March 2018 cited no material issues. DR protocols for PAR's network and key systems include daily, weekly, and monthly data tape backups and hourly server replication from the primary to the back-up data center. All internally developed applications, including LoanConnect and DataConnect, are housed at a data center in Dresher, Pa. and replicated hourly to a back-up data center in Minneapolis, Minn. Both data centers have received tier III certification from the Uptime Institute, an advisory organization that provides independent DR certification. This is the second highest level on its four-tier scale.

We note that as part of the business continuity and DR plan, PAR has a business continuity site located within 25 miles of the primary servicing location. Typically, servicers have a backup site located more than 25 miles from the primary servicing location to minimize the chance that they are affected by the same natural disaster. Critical employees at PAR, however, have laptops to facilitate remote access in the event of a disaster.

Cybersecurity

The corporate information security office executes PFI's information security program. The program includes ongoing virus and malware protection, patch management and response readiness, and data protection and monitoring tools with 24/7 incident response capabilities. PAR's business support department reviews and re-certifies user access to servicing systems semi-annually. Employees receive regular phishing training emails to increase the awareness of phishing attacks. A third party performs annual network and penetration testing. Finally, PFI does not maintain cyber insurance.

Internal controls

PAR maintains strong internal controls, including comprehensive policies and procedures, a thorough quality assurance program, internal audits, and frequent external audits.

Policies and procedures

PAR's P&Ps are accessible via LoanConnect's user documentation module, and each P&P has a designated owner who is a subject-matter expert. Business strategy and support and the P&P's owner review and update P&Ps at least every two years. Most of PAR's peers review and update their P&Ps annually. We found that PAR's P&Ps are comprehensive and well-written.

Quality assurance

PAR maintains a proactive and diligent quality assurance program to measure regulatory compliance (e.g., the Sarbanes-Oxley Act, Regulation AB [RegAB], etc.), adherence to servicing agreements and P&Ps, timeliness, and accuracy. The business strategy and support department tracks more than 250 separate metrics and continuously performs testing and process monitoring. Results are reported monthly to senior management and are available for employees to review in LoanConnect.

Internal and external audits

An internal audit group that reports to the chief audit officer, who sits on PFI's board, completes an annual risk assessment to determine the scope and frequency of operational audits; PAR is currently rated medium-risk on a scale of high, medium, and low, which means that it requires an audit every two to three years. Internal audit completed its last full scope audit of PAR's primary and master servicing operations in 2016. PAR received an "effective" control condition rating and an "acceptable" control environment rating, the highest ratings on internal audit's scale. The audit's scope was broad and included loan servicing, asset management, investor reporting, information security, vendor management, and the overall design of the control environment. Three low-risk issues were identified, all of which have been addressed and closed.

PGIM REF and PFI risk groups also review PAR quarterly and semi-annually in regard to financial reporting and overall Sarbanes Oxley compliance.

PAR is subject to numerous external operational audits and reviews, including Reg AB; CMBS master servicer reviews; and Ginnie Mae, Freddie Mac, and Fannie Mae audits. The Reg AB audit for the year-ended Dec. 31, 2018, reported no findings. In 2018, for the first time, PAR received clean audits from both Freddie Mac and Ginnie Mae with no significant or minor findings. PAR also had satisfactory results on its most recent Fannie Mae audit, conducted in 2017. Typically, all business departments meet to discuss the results of third-party audits and formulate a corrective action response to address any findings if necessary.

Vendor management

PAR engages outside vendors for various primary/master and special servicing tasks, including financial statement processing, property inspections, insurance, appraisals, legal services, and property taxes. The enterprise vendor governance office (EVGO) must approve all new vendor relationships and review any existing vendor relationships when a material change occurs in the vendor's scope of work. The EVGO utilizes a risk rating tool that evaluates key factors, including financial loss, information security, and regulatory compliance.

The business strategy and support department ensures that process managers are upholding monitoring plans for their respective vendors. The monitoring plans include validating work completed by vendors, performing periodic quality control testing, holding periodic calls with vendors, and reviewing invoices. The vice president of the business strategy and support department oversees PAR's two large vendors in India, which includes on-site audits and continual monitoring of deliverables.

Special servicing maintains approved vendor lists for appraisers, engineering and environmental firms, and attorneys. A separate group within PGIM REF closely monitors the performance of engineering and environmental firms.

Insurance and legal proceedings

PAR has represented that its directors and officers, as well as its errors and omissions insurance coverage, is in line with the requirements of its portfolio size. As of Dec. 31, 2018, there were no material servicing-related pending litigation items.

Loan Administration – Primary Servicing

The loan administration subranking is STRONG for primary servicing.

PAR's primary servicing portfolio has grown steadily by unpaid principal balance (UPB) since our last review (see table 6). The portfolio is geographically dispersed and contains all major collateral property types, though there is a relatively high concentration of multifamily properties and properties located in California (see table 3). PAR has servicing experience with loans from a variety of different capital sources (see table 4). In 2017 PAR started servicing loans from a PGIM and PGIM REF high yield debt fund. These high touch loans require draw request and business plan reviews and extensive surveillance and reporting. The international portfolio has also grown from approximately $5.0 billion as of June 30, 2017, to approximately $6.1 billion in UPB as of Dec. 31, 2018. PAR's delinquency rates have been low over the last five years (see table 6).

Table 6

Primary Servicing Portfolio

	Dec. 31, 2018		Dec. 31, 2017		Dec. 31, 2016		Dec. 31, 2015		Dec. 31, 2014	
	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.
Primary loans	87,899.6	4,123	82,238.4	4,197	79,659.4	4,213	77,978.6	4,426	79,788.9	4,643
Average loan size	21.3	--	19.6	--	18.9	--	17.6	--	17.2	--
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	0.1		0.2		0.4		0.3		0.2	
Total	0.2		0.2		0.4		0.3		0.3	

UPB--Unpaid principal balance.

New-loan boarding

Based on its stated practices and written procedures PAR has an effective loan set up function. Control and other features of new loan setup include:

- A LoanConnect interface exports key loan data after loan closing to Strategy. LoanConnect is also used by PGIM REF's origination team.
- A servicing analyst reviews data imported automatically into Strategy and manually inputs any additional data if necessary.
- A second analyst performs a secondary review before the loan is passed to the Strategy production environment.
- PAR's offshoring and outsourcing partners have staff dedicated to loading new loan data into the system and performing quality assurance on new loans.
- Business strategy and support utilizes accuracy metrics to track data integrity.
- PAR targets the passing of loans to Strategy within two days of loan funding.
- Borrower welcome letters are issued 15 days after closing, which is longer than ranked peers.

- PAR boarded 549 loans during 2018.

Payment processing

PAR's practices and integrated technology tools efficiently address payment processing for cash-managed and other complex loan structures with proper segregation of duties. Highlights of payment processing include:

- As of Dec. 31, 2018, approximately 99% of payments were processed electronically through a bank lockbox, Automated Clearing House, and wire transfer services.
- Accounting personnel daily reconcile payments posted on Strategy against the general ledger.
- Adjustable-rate mortgage audits are performed semi-annually.
- The servicing department monitors suspense accounts daily. As of Dec. 31, 2018, PAR had minimal items in its suspense accounts aged more than 90 days.

Investor reporting

PAR is highly experienced with CMBS, government-sponsored entity (GSE), and customized third party reporting requirements. Investor reporting and operational accounting activities are properly segregated for reporting, remitting, and related account reconciliation processes. Other highlights include:

- Investor reports for PAR's variety of different investor types are generated directly from LoanConnect and Strategy version 19C.
- Monthly bank account statements are uploaded to LoanConnect for account reconciliation, which require review by a senior manager.
- The accounting area is responsible for releasing payments to trustees and investors via wire transfer.
- Disbursements are administered through LoanConnect. After setup, a designated approver must review and authorize the disbursement.

Escrow administration

We believe that PAR has effective controls for escrow administration activities. The servicing department administers tax and insurance activities covering all portfolios. It is assisted by a tax service vendor and a third-party vendor in India that performs insurance data entry. Key features of escrow administration at PAR include:

- As of Dec. 31, 2018, 32% of PAR's primary serviced loans were escrowed for taxes, and 29% were escrowed for insurance.
- A tax service vendor monitors taxes for any delinquencies while a past-due report provides a list of all escrowed loans with payments due within the next 30 days.
- The servicing department performs annual escrow account analysis utilizing Strategy.
- PAR reported that it had not paid any tax penalties during 2018.
- Insurance notices are issued 45 and 10 days before expiration with demand letters and threat of force place insurance issued 10 days post-expiration.
- The insurance module in LoanConnect provides timely significant event reporting in accordance with the specifications outlined by the MBA.

- PAR reviews life-of-loan flood insurance certifications at loan setup and changes flood coverage and maps annually.
- 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. PAR had one loan on lender-placed coverage as of Dec. 31, 2018.

Asset and portfolio administration

We believe PAR has extensive procedures covering asset and portfolio administration tasks. The asset management department, with the assistance of the offshore team and a vendor, performs asset and portfolio administration on the servicing portfolio.

PAR outsources the majority of its property inspections to third-party vendors and requires inspections for all properties regardless of loan size. On a semiannual basis, internal personnel perform quality reviews on a subset of the inspections performed by third parties, including an exterior inspection of the selected properties. Inspection reports are uploaded to, and deferred maintenance items are centrally tracked in, LoanConnect. Of the 895 property inspections performed on the portfolio in the second half of 2018, 25 were received 30 days past the due date, a higher amount of past-due inspections on a percentage basis than ranked peers.

System triggers capture borrower loan covenants in LoanConnect, which are monitored by asset management throughout the loan's term. PAR works with the PGIM REF origination team to standardize loan covenant terms and reporting to ease tracking and compliance.

PAR has well-defined P&Ps for portfolio surveillance. Property-level operating statements and rent rolls are collected and analyzed with vendor assistance. By year-end 2018, asset management received and analyzed 94% of the portfolio's year-end 2017 operating statements, slightly lower than the collection and analyzed rates of most ranked peers. Watchlists are generated in LoanConnect using automated criteria. Asset managers review watchlist loans, provide commentary, and escalate loans to portfolio managers as necessary.

The surveillance group now performs all of the quality re-rating process on loans in the servicing portfolio, which was previously performed by PGIM REF. This process involves identifying credit migration and problem loans that require closer monitoring. Since taking over the process, PAR has enhanced automation to improve the consistency and quality of the process.

The servicing team monitors Uniform Commercial Code (UCC) using Strategy and LoanConnect. PAR has over 4,000 loans requiring UCC filings and reported no lapsed re-filings during the last six months of 2018.

Borrower requests

PAR addresses borrower requests in a proactive manner.

The asset management department handles any borrower requests with credit implications and the servicing department handles any other requests. PAR processed 18 assumptions, 312 leasing consents, eight defeasance requests, and 19 property releases during 2018. Any request with credit implications must be approved per the internal delegation of authority (DOA).

PAR emphasizes customer satisfaction and maintains a committee to develop best practices for all customer interactions. The company distributes borrower satisfaction surveys for the entire portfolio and evaluates and tracks the results.

Early-stage collections

The servicing department handles early-stage collections. We believe that PAR's early-stage collections procedures are adequate, especially given PAR's low delinquency rates (see table 5). Features include:

- 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 due date.
- Collection comments are centrally stored in servicing systems.

Loan Administration – Master Servicing

The loan administration subranking is AVERAGE for master servicing.

We based our subranking on PAR's P&Ps for subservicer oversight, its prudent advancing procedures, and its ability to utilize primary servicing staff if there is any increase in the master servicing portfolio (due to shared skill sets). As of Dec. 31, 2018, PAR served as a CMBS master or combined primary/master servicer on 31 loans aggregating $172.4 million in UPB, a decrease from 88 loans and $726.2 million in UPB at the time of our last review. PAR does not have any CMBS loans where it only maintains master servicing responsibilities; however, as of Dec. 31, 2018, it had some subservicer oversight responsibilities on loans in its agriculture portfolio in conjunction with PFI agricultural field offices (see table 7).

Table 7

Master Servicing Portfolio										
	Dec. 31, 2018		Dec. 31, 2017		Dec. 31, 2016		Dec. 31, 2015		Dec. 31, 2014	
	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.	UPB (mil. $)	No.
Master (SBO) loans	1,532.8	268	1,531.9	289	1,784.5	401	1,835.8	469	1,600.3	512
Subservicers	--	0	--		--	0	--	0	--	0
Average loan size	5.7	--	5.3	--	4.5	--	3.9	--	3.1	--
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		0.0		0.0		0.0		0.1	
Total	0.0		0.0		0.0		0.0		0.1	

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

Subservicer accounting and reporting

We believe that PAR has the resources and procedures in place to monitor and aggregate remittances from subservicers and provide consolidated reporting. PAR currently monitors payments from agricultural subservicers.

Subservicer oversight

Escrow administration

According to PAR's P&Ps, subservicers must submit quarterly reports on tax and insurance payments. The subservicer must provide documentation on the most recent escrow analysis and the current payment due dates as part of PAR's desktop review process. Quarterly reports from subservicers are reviewed by collateral management to ensure that all taxes and insurance are current and to ensure that insurance coverage is adequate.

Asset and portfolio administration

Subservicers are required to submit quarterly reports on UCCs to the collateral management group and property and borrower financials to the surveillance group. PAR reviews the information from the subservicer and follows up to address any discrepancies.

Audit/compliance

According to company P&Ps, PAR staff members monitor subservicers to ensure that the loans are administered according to the loan documents and servicing agreements. On-site or desktop reviews must be performed annually for subservicers with more than 20 loans. The desktop reviews include analyzing a sample of 10% of the subserviced portfolio for compliance with servicing standards and verifying loan financial data and adherence to the loan documents.

Investor reporting, advancing, and special servicer interaction

An advancing review committee comprising senior management meets monthly to make 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 for CMBS loans, though the advancing review committee will evaluate each unique situation and make adjustments as necessary. PAR may advance for principal, interest, tax, insurance, legal, and special servicer expenses. An advancing report is prepared and reviewed by the committee. The accounting team reconciles the general ledger against reported advances, tracks the aging of advanced funds, and establishes reserves as necessary.

Loan Administration – Special Servicing

The loan administration subranking is ABOVE AVERAGE for special servicing.

PAR has built a track record of successfully managing and disposing of troubled assets nationwide while handling assets collateralized by multiple property types, though recent resolution activity has been modest (see table 9). PAR manages special servicing from Dallas and another PGIM REF office in Atlanta. As of Dec. 31, 2018, PAR's active special servicing volume contained general account, GSE, and life insurance company loans and included a variety property types. As of the same time, PAR did not have any active CMBS loans in special servicing; however, PAR was the named special servicer on three CMBS transactions and three loans totaling approximately $42.8 million.

Because there were only eight loans/assets in special servicing as of Dec. 31, 2018, the workload is manageable among the two employees fully dedicated to special servicing.

The special servicing area uses a series of reports that provide comprehensive information on current and potential problem loans. These reports, which are generated in LoanConnect, 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.

Loans with a risk rating of "closely monitored" or "not in good standing" are sent to special servicing. Closely monitored loans are included on special servicing's watchlist due to at least one of seven factors, including a high loan-to-value ratio or low debt service coverage, an uncooperative borrower, loans with a large insurance loss, and the breach of a material loan covenant. Loans that are not in good standing are in default or have an established reserve.

Table 8

Special Servicing Portfolio

	Dec. 31, 2018			Dec. 31, 2017			Dec. 31, 2016			Dec. 31, 2015			Dec. 31, 2014		
	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)
Active inventory															
Loans	99.0	8	15.5	137.2	9	16.4	133.9	10	16.4	119.1	8	13.1	252.7	27	15.3
Real estate owned	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A
Total	99.0	8	15.5	137.2	9	16.4	133.9	10	16.4	119.1	8	13.1	252.7	27	15.3

(i)Average age reflects the time in months from the date the loan first became specially serviced to the reporting date. N/A--Not applicable.

Loan recovery and foreclosure management

PAR displays effective and proactive loan recovery and foreclosure management protocols to efficiently resolve nonperforming loans across a variety of different property types. Highlights include:

- Borrowers are required to sign pre-negotiation agreements before entering into workout discussions.
- The company has detailed procedures for monitoring potential problem assets and compiling resolution strategies.
- Asset managers utilize a net present value analysis when considering resolution strategies that include sale of the collateral, litigation, note sale, loan restructure, and foreclosure.
- Loan business plans (known internally as asset strategy reports) are completed in the time frame outlined in the servicing agreement and require sign-off from senior management.
- Asset strategy reports include a description of the property, review of the borrower/guarantor, and cash flow analysis.
- Key decisions require sign-off from PAR, PGIM, and PGIM REF management through a DOA matrix outlined in the business plans.
- A risk committee comprising senior managers from PAR and PGIM meets quarterly to review specially serviced assets and associated asset strategy reports.
- Asset managers must complete a foreclosure asset strategy report that includes a foreclosure bid worksheet to request approval per the DOA.

- Prior to foreclosure, the asset manager begins interviewing possible property managers and makes a recommendation based on property type and location.
- Upon approval, special servicing notifies the master servicer, PAR's investor reporting group, and PGIM REF Finance that a foreclosure is imminent.

During 2018, the special servicing group resolved eight loans. There were seven returned to master and one full payoff (see table 9). In the previous five years PAR has completed seven foreclosures.

Table 9

Total Special Servicing Portfolio--Loan Resolutions

	2018			2017			2016			2015			2014		
	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)	UPB (mil. $)	No.	Avg. age(i)
Resolutions															
Loans	47.0	8	22.7	127.2	8	16.3	75.5	5	12.0	411.4	28	19.8	185.5	15	17.4
Foreclosed loans	0.0	0	N/A	11.1	1	2.9	0.0	0	N/A	21.5	4	12.2	18.2	2	40.3
Total	47.0	8	22.7	138.3	9	14.8	75.5	5	12.0	433.0	32	18.9	203.7	17	20.1
Resolution breakdown															
Returned to master	38.7	7	25.7	6.1	1	8.3	48.3	3	18.6	55.0	5	28.9	103.1	8	16.3
Full payoffs	8.3	1	1.8	120.8	6	14.3	14.1	1	1.8	352.2	22	18.1	61.1	5	15.8
DPO or note sale	0.0	0	N/A	0.4	1	36.8	13.1	1	2.5	4.2	1	12.8	21.3	2	25.9
Foreclosed loans	0.0	0	N/A	11.1	1	2.9	0.0	0	N/A	21.5	4	12.2	18.2	2	40.3
Total/average	47.0	8	22.7	138.3	9	14.8	75.5	5	12.0	433.0	32	18.9	203.7	17	20.1

(i)Average age reflects the time in months from the date the loan first became specially serviced to the reporting date. UPB--Unpaid principal balance. DPO--Discounted payoff. N/A--Not applicable.

REO management and dispositions

PAR demonstrates extensive REO management and sales oversight. Notable aspects include:

- REO business plans (known internally as property strategic plans [PSPs) are typically completed within 60 days of taking title of the property and are prepared by the same asset manager that was assigned before the REO transfer per general practice.
- PSPs focus on active management, marketing strategy, ongoing operations, and the capital budget.
- An REO committee comprising at least the PAR vice president of asset management and relevant PGIM REF portfolio manager meets quarterly to review progress on an REO asset.
- The PSP is reviewed at least once per quarter by the REO committee.
- Asset managers must obtain a proposal from at least two possible brokers before listing the property for sale.

PAR has historically had a low volume of REO assets and sales. The company completed its last REO sale in 2015.

REO accounting and reporting

PAR controls and procedures for property-level accounting and oversight are sound.

Third-party property managers prepare monthly reporting packages that contain 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. PGIM REF 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.

Legal department

Special servicing operations are supported by one dedicated in-house attorney. A list of approved third party vendors is maintained on LoanConnect and asset managers utilize standard engagement letters when hiring outside counsel. The asset manager consults PAR's legal counsel division to assist in estimating legal costs before commencing foreclosure or other legal action. Asset managers review legal bills before authorizing payment. Overall we believe that PAR's legal function is adequately controlled.

RELATED RESEARCH

- Prudential Asset Resources Commercial Mortgage Loan Servicing Rankings Affirmed, March 25, 2019
- Select Servicer List, Feb. 5, 2019
- Analytical Approach: Global Servicer Evaluations, Jan. 7, 2019
- Prudential Financial Inc. And Its U.S. Operating Subsidiaries, Dec. 18, 2018
- Servicer Evaluation: Prudential Asset Resources, Nov. 22, 2017