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## Servicer Evaluation: PGIM Real Estate Loan Services Inc.

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# Servicer Evaluation: PGIM Real Estate Loan Services Inc.

## Ranking Overview

Servicing category	Overall ranking	Subrankings		
		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
<b>Financial position</b>				
SUFFICIENT				

## Rationale

S&P Global Ratings' rankings on PGIM Real Estate Loan Services Inc. are STRONG as a commercial mortgage loan primary servicer, AVERAGE as a commercial mortgage loan master servicer, and ABOVE AVERAGE as a commercial mortgage loan special servicer. On Feb. 3, 2021, we affirmed the rankings (see "PGIM Real Estate Loan Services Inc. Commercial Mortgage Loan Servicer Rankings Affirmed; Outlook Stable"). The outlook for each ranking is stable.

Our rankings reflect PGIM RE Loan Services':

- Experienced senior management team and staff;
- Institutional backing and financial support from PGIM Real Estate (PGIM RE) and its parent holding company, Prudential Financial Inc. (PFI);
- Lengthy track record of servicing loans from a variety of capital sources;
- Comprehensive audit and quality control environment;
- Integrated and effective technology tools and systems;
- Declining volume and lack of commercial mortgage loan subservicer oversight in master servicing; and
- Decentralized special servicing organizational structure.

Since our prior review (see "Servicer Evaluation: Prudential Asset Resources" published April 10, 2019), the following changes and developments have occurred:

- The company changed its name from Prudential Asset Resources Inc. to PGIM RE Loan Services Inc. as part of an enterprise-wide rebranding.
- PFI altered its approach to internal audits by conducting more targeted, smaller-scope audits on a more frequent basis.
- PGIM RE Loan Services began using Microsoft Power BI for dashboard reports and ad hoc reporting.
- PGIM RE Loan Services implemented optical character recognition to automate insurance ACORD data abstraction.

- At the onset of the COVID-19 pandemic, PGIM RE formed a nine-person response team that included members from loan origination and special servicing to address the sudden increase in borrower relief requests.
- From Dec. 31, 2018, to June 30, 2020, the primary servicing portfolio grew 12% by unpaid principal balance (UPB) and 3% by loan count, while the special servicing portfolio grew 352% by UPB to \$448.5 million from \$99.0 million and 50% by loan count from eight to 12 loans. Master servicing volume continued to decline slowly by both UPB and loan count over this time period.
- In November 2020, PFI entered into a strategic agreement with Tata Consultancy Services (TCS) where TCS will continue to service and support PFI. The majority of employees at PFI's offshore business and technology solutions arm, Pramerica, will become employees of TCS. Pramerica will remain a wholly owned subsidiary of PFI, and the Pramerica employees that support PGIM RE Loan Services will remain employees of Pramerica at this time.

Our outlook on the rankings is stable. PGIM RE Loan Services 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. While PGIM RE Loan Services has faced some operating challenges arising from the COVID-19 pandemic, similarly to other ranked servicers, its delinquency rate has stayed low and special servicing volume has remained manageable despite a slight uptick in volume.

In addition to conducting an on-site meeting with servicing management, our review includes current and historical Servicer Evaluation Analytical Methodology data through June 30, 2020, as well as other supporting documentation provided by the company.

## Profile

Servicer Profile	
Name	PGIM Real Estate Loan Services Inc.
Primary servicing locations	Dallas and Atlanta
Parent holding company	Prudential Financial Inc.
Loan servicing system	Strategy v. 19D

PGIM RE Loan Services is the commercial mortgage loan servicing arm of PGIM RE and is a subsidiary of PGIM Real Estate Finance LLC. PGIM Real Estate Finance LLC is an indirect subsidiary of PFI, the parent holding company, and an affiliate of PGIM Inc. (PGIM), the global investment management business of PFI. PGIM RE is a fully integrated real estate equity and debt platform that offers global commercial mortgage origination, asset management, and loan servicing. It had \$182 billion in assets under management and administration as of June 30, 2020.

PGIM RE Loan Services' portfolio consists of loans from the PFI general account, government-sponsored entities (GSEs), other third-party life insurance companies, and commercial mortgage-backed securities (CMBS) portfolios. It also services a growing international portfolio with loans from 12 different countries across Europe and Asia and services loans for PGIM RE core plus and high-yield debt funds. The international portfolio is considered outside of the scope of this review. PGIM RE Loan Services employs approximately 137 professionals, mostly in the Dallas but also in a PGIM RE office in Atlanta and a PFI affiliate offshore office in Letterkenny, Ireland. As of June 30, 2020, PGIM RE

Loan Services managed a primary and master servicing portfolio of approximately \$100.2 billion and a special servicing portfolio of \$448.4 million (see tables 1 and 2).

**Table 1**

<b>Total Servicing Portfolio</b>						
	<b>UPB (mil. \$)</b>	<b>YOY change (%)<sup>(i)</sup></b>	<b>No. of assets</b>	<b>YOY change (%)<sup>(i)</sup></b>	<b>No. of staff</b>	<b>YOY change (%)<sup>(i)</sup></b>
<b>Primary/master servicing</b>						
Jun. 30, 2020	100,152.4	1.9	4,522	0.7	135	(2.2)
Dec. 31, 2019	98,330.6	9.9	4,492	2.3	138	(3.5)
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		4,614		139	
<b>Special servicing</b>						
Jun. 30, 2020	448.4	913.2	12	140.0	2	0.0
Dec. 31, 2019	44.3	(55.3)	5	(37.5)	2	0.0
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		10		2	

(i) June 30, 2020, YOY change based on the prior year end. UPB--Unpaid principal balance. YOY--Year-over-year.

**Table 2**

<b>Portfolio Overview</b>											
	<b>Jun. 30, 2020</b>		<b>Dec. 31, 2019</b>		<b>Dec. 31, 2018</b>		<b>Dec. 31, 2017</b>		<b>Dec. 31, 2016</b>		
	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	
Primary loans	98,803.3	4,307	96,851.4	4,253	87,899.6	4,123	82,238.4	4,197	79,659.4	4,213	
Master (SBO) loans	1,349.1	215	1,479.2	239	1,532.8	268	1,531.9	289	1,784.5	401	
Total servicing	100,152.4	4,522	98,330.6	4,492	89,432.5	4,391	83,770.3	4,486	81,443.9	4,614	
Average loan size	22.1	--	21.9	--	20.4	--	18.7	--	17.7	--	
<b>Special servicing</b>											
Loans	448.4	12	44.3	5	99.0	8	137.2	9	133.9	10	
REO properties	-	-	-	-	-	-	-	-	-	-	
Total special servicing	448.4	12	44.3	5	99.0	8	137.2	9	133.9	10	

Figures may not add up to total due to rounding. UPB--Unpaid principal balance. SBO--Serviced by others. REO--Real estate-owned.

**Table 3**

<b>Primary/Master Portfolio Breakdown By Property Type And State</b>				
<b>As of June 30, 2020</b>				
	<b>UPB (mil. \$)</b>	<b>UPB (%)</b>	<b>No. of properties</b>	<b>Properties (%)</b>
<b>Type</b>				
Multifamily	47,435.0	47.4	2,207	40.9
Office	13,203.6	13.2	254	4.7
Warehouse	9,397.8	9.4	936	17.4
Retail	8,455.4	8.4	297	5.5

**Table 3****Primary/Master Portfolio Breakdown By Property Type And State (cont.)**

**As of June 30, 2020**

	<b>UPB (mil. \$)</b>	<b>UPB (%)</b>	<b>No. of properties</b>	<b>Properties (%)</b>
Healthcare	6,387.6	6.4	218	4.0
All other	15,273.0	15.2	1,481	27.5
Total	100,152.4	100.0	5,393	100.0
<b>State</b>				
CA	28,460.3	28.4	1,228	22.8
TX	10,546.5	10.5	688	12.8
NY	9,788.2	9.8	268	5.0
FL	4,876.6	4.9	297	5.5
WA	4,026.7	4.0	160	3.0
All other	42,454.0	42.4	2,752	51.0
Total	100,152.4	100.0	5,393	100.0

Figures may not add up to totals due to rounding. UPB--Unpaid principal balance.

**Table 4****Primary/Master Portfolio By Investor Product Type**

**As of June 30, 2020**

<b>Loan Type</b>	<b>UPB (mil. \$)</b>	<b>UPB (%)</b>	<b>Loan count</b>	<b>Loan (%)</b>
On own or parent's balance sheet	54,178.3	54.1	2,115	46.8
Fannie Mae	18,540.9	18.5	756	16.7
Other third-party investors (REITs, investment funds, etc.)	7,712.0	7.7	390	8.6
Freddie Mac K-Series	6,734.4	6.7	335	7.4
FHA & Ginnie Mae	6,320.7	6.3	499	11.0
CMBS/CDO/ABS	2,548.2	2.5	237	5.2
Freddie Mac (excludes "K-Series" deals)	2,427.7	2.4	153	3.4
Life insurance companies	1,690.2	1.7	37	0.8
Total	100,152.4	100.0	4,522	100.0

Figures may not add up to totals due to rounding. UPB--Unpaid principal balance. CRE--Commercial real estate. CDO--Collateralized debt obligation. CLO--Collateralized loan obligation. FHA--Federal Housing Administration. CMBS--Commercial mortgage-backed securities. 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

The heads of PGIM RE Loan Services' five functional departments--servicing, asset management, loan reporting and operations, business strategy and support, and international servicing--report to the company president. PGIM RE Loan Services receives organizational support from PGIM RE's information technology, human resources, compliance, vendor management, internal audit, legal, and finance departments.

The servicing department's responsibilities include overseeing non-credit-related borrower consents, new loan setup, early stage collections for delinquent loans, and tax and insurance monitoring. The asset management department, among other responsibilities, monitors covenant compliance, orders and reviews property inspections, conducts watchlist monitoring and special servicing, and oversees credit-related borrower requests. Loan reporting and operations responsibilities include investor reporting, loan fee accounting, and bank reconciliations, while the business strategy and support department oversees quality control and metrics, administers the business continuity plan, maintains PGIM RE Loan Services' policies and procedures (P&Ps), and performs quality assurance testing on the servicing portfolio. Finally, international servicing oversees a \$7.8 billion portfolio from 12 different countries with seven different currency denominations. Though an important part of PGIM RE Loan Services operations, international servicing is considered outside the scope of this review because the review focuses on PGIM RE Loan Services' servicing portfolio in the United States.

PGIM RE Loan Services utilizes both an offshoring and outsourcing strategy. Pramerica 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. PGIM RE Loan Services outsources other servicing and asset management functions to two secure third-party providers based in India. One vendor performs insurance support, including data entry and verification, while the other performs property financial and rent-roll data entry, quality risk rating support, and investor reporting support, among other responsibilities. The outsourced servicing responsibilities to the two vendors do not include any borrower-facing activities and PGIM RE Loan Services provides quality control on a significant percentage of the work conducted by the vendors. Overall, we found the offshore and outsource processes and scope to be well-defined and thoroughly monitored.

PGIM RE Loan Services' 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). PGIM RE Loan Services' small special servicing headcount of two employees (see table 1) is comprised of a vice president, who oversees the entire asset management department and is not fully dedicated to special servicing, and a fully dedicated senior asset manager.

The special servicing group works closely with PGIM RE, relying on its parent for important special servicing tasks, including real estate-owned (REO) asset accounting. According to PGIM RE Loan Services, it can readily add special servicing staff if needed by adding experienced employees from PGIM RE's origination department (some of whom have prior special servicing experience) and other departments within PFI. In our opinion, PGIM RE Loan Services 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 special servicing portfolios.

**Table 5**

Years of Industry Experience/Company Tenure(i)								
As of June 30, 2020								
	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	32	14	22	13	N/A	N/A	20	10

**Table 5**

**Years of Industry Experience/Company Tenure(i) (cont.)**

As of June 30, 2020

	Senior managers		Middle managers		Asset managers		Staff	
	Industry experience	Company tenure	Industry experience	Company tenure	Industry experience	Company tenure	Industry experience	Company tenure
Special	29	10	N/A	N/A	21	6	N/A	N/A

N/A--Not applicable.

Recent reported turnover levels are within industry norms. During full-year 2019, the combined primary and master turnover rate was 13%, and it was 5% in the first half of 2020. PGIM RE Loan Services reported no special servicing turnover in 2019 or in the first half of 2020. We note that despite industry norm turnover rates, PGIM RE Loan Services did have a high concentration of turnover in the surveillance group within asset management during the first half of 2020, including the departure of a team lead. The group was able to hire four new analysts and promote a senior analyst to the team lead position.

**Training**

PGIM RE Loan Services provides its management and staff with a variety of ongoing, formal internal and external training. It has established training targets of 40 hours for employees with less than three years of tenure and 30 hours for all other employees. Primary and master servicing employees averaged 43 hours and 15 hours of training, respectively, during 2019 and in the first half of 2020. Unlike most other ABOVE AVERAGE ranked special servicers, PGIM RE Loan Services did not report the average number of training hours per special servicing employee. We note, however, that the two employees in special servicing have a high level of industry experience.

Other aspects of PGIM RE Loan Services' staff training program include that:

- Since our last review, PGIM RE Loan Services implemented a new third-party training system, myLearning, to replace its proprietary system, TrainingConnect. myLearning allows employees to personalize their training experience, providing a wide variety of training topics and pathways to improve skillsets. The system also allows social learning through the creation of training groups and the ability to follow a colleague in the system to see their training.
- Employee training hours are tracked through the training system.
- The business strategy and support department coordinates additional instructor-led cross training and virtual industry, process, and technology training.
- PGIM RE Loan Services actively participates in various employee training and development initiatives offered by the Mortgage Bankers Association (MBA), Fannie Mae, Commercial Real Estate Women, the Commercial Real Estate Finance Council, and other industry organizations. Several senior members of the team also maintain the MBA's commercial certified mortgage servicer designation.
- As part of a large organization, PGIM RE Loan Services employees take regular regulatory and compliance training courses, including privacy and information security awareness, anti-money laundering, and preventing workplace discrimination and harassment.
- In 2021 PGIM RE Loan Services plans to launch separate tailored training curriculums in myLearning for managers

and employees.

### **Systems and technology**

We believe PGIM RE Loan Services 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 24 full-time employees supports PGIM RE Loan Services and PGIM RE's origination platform. PFI has well-designed data backup routines and disaster recovery preparedness.

### **Servicing system applications**

PGIM RE Loan Services' key systems include:

- McCracken's Strategy version 19D, a third-party loan accounting and servicing system used as the main system of record. PGIM RE Loan Services participates in and chairs McCracken user feedback committees.
- LoanConnect, a proprietary pipeline and asset management system that PGIM RE Loan Services uses to help manage post-closing servicing and asset management activities, including insurance, special servicing business plan management, and loan trigger monitoring;
- BorrowerConnect, a secure website for borrowers to access loan balance and payment information, billing statements, loan documents, and forms;
- DataConnect, a proprietary data warehouse that contains data from the asset management and servicing systems for ad hoc reporting;
- IBM Content Manager, a document imaging and management system that allows users to search for documents by loan name, loan number, property name, etc.;
- InvestorView, a secure website for investors, rating agencies, and special servicers to access loan and portfolio information;
- PruXchange, a secure web portal for exchanging documents with internal/external parties;
- Microsoft Power BI, which is used for dashboard reporting and performing ad hoc queries; and
- myLearning, a third-party training system allows employees to personalize their training experience and promotes social learning through collaboration with colleagues.

PGIM RE Loan Services continues to enhance its systems and technology environment. Since our last review, technology enhancements include implementing optical character recognition to automate insurance ACORD data abstraction and implementing Microsoft Power BI. PGIM RE Loan Services also upgraded Strategy from version 19C to 19D, the latest version of the system.

### **Business continuity and disaster recovery**

PFI maintains a thorough disaster recovery (DR) and business continuity (BC) plan. The plan is reviewed semi-annually, and a full systems DR test is conducted annually. The last full systems test conducted in March 2020 cited no material issues. DR protocols for PFI's network and key systems include daily 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 production data center and replicated hourly to back-up data centers



that are more than 25 miles from the production data center. PFI 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.

PGIM RE Loan Services' DR and business sites continuity plan includes response procedures to address operational disruption as a result of a pandemic event. The company implemented its plan in March 2020 due to the COVID-19 pandemic. Management reported that there were no disruptions to the company's operations or data facilities. Most of the staff continues to work from home with a limited number of people reporting to the office at any given time, mostly to perform essential job functions that cannot be performed at home, like check processing and receiving mail and packages. At the onset of the pandemic, PGIM RE Loan Services also outsourced check production to a vendor with minimal reported interruptions to operations.

PGIM RE Loan Services primary BC plan is to have employees work from home and not report to an alternative work site. We do note, however, that as part of the BC plan, PGIM RE Loan Services maintains an alternative work site located within 25 miles of the primary servicing location, though it is on a separate power grid. The site is intended primarily for a small group of treasury employees. Typically, servicers have a backup site located further than 25 miles from the primary servicing location to minimize the chance that they are affected by the same natural disaster. However, this is a minor concern given that PGIM RE Loan Services employees have proven that they can work effectively from home during the COVID-19 pandemic and could do so again if another significant event kept employees from accessing their primary office location.

### **Cybersecurity**

The corporate information security office executes PFI's information security program. The program includes ongoing virus and malware protection and data loss prevention and monitoring tools with 24/7 incident response capabilities.

Other aspect of cybersecurity at PFI include that:

- A corporate password policy calls for periodic password changes in accordance with the policies guidelines.
- A third-party performs annual network and penetration testing. The last test was conducted in December 2020.
- Internal vulnerability scans occur on a daily basis for externally facing systems and infrastructure and on a monthly basis for internal infrastructure.
- PFI subscribes to alert/patch notification services for all major vendors. System patch deployment occurs monthly at a minimum; however, patches can be escalated and deployed within 24 hours in a "code red" situation.
- PGIM RE Loan Services' business support department reviews and recertifies user access to servicing systems semi-annually. Employees receive regular phishing training emails to increase the awareness of phishing attacks.
- PGIM RE receives electronic and computer crime policy insurance coverage through its Mortgage Bankers Bond policy.

### **Internal controls**

PGIM RE Loan Services maintains strong internal controls, including comprehensive policies and procedures, a thorough quality assurance program, internal audits, and frequent external audits.

## **Policies and procedures**

PGIM RE Loan Services' P&Ps are accessible via LoanConnect's user documentation module, and each P&P has a designated owner who is a subject-matter expert. The business strategy and support department and the P&P's owner review the P&Ps at least every two years. While we note that most of PGIM RE Loan Services' peers review their P&Ps annually, we believe that PGIM RE Loan Services' P&Ps are comprehensive and well-written.

## **Quality assurance**

PGIM RE Loan Services maintains a proactive and diligent quality assurance program to measure regulatory compliance (e.g., compliance with the Sarbanes-Oxley Act [SOX], Regulation AB [Reg AB], etc.), adherence to servicing agreements and P&Ps, timeliness, and accuracy. The business strategy and support department tracks more than 250 separate metrics on a monthly basis 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**

PFI has a large internal audit group with 25 members dedicated to PGIM. The internal audit group includes subject matter experts, and certain audits are co-sourced when additional expertise is needed. Since our last review, PFI modified its internal audits to occur more frequently with a smaller, more targeted scope. PFI also moved more of the SOX compliance testing away from the internal audit group to a dedicated SOX group. Internal audit conducted a Fannie Mae assessment and investor reporting review that ended in 2019 and noted three low-risk issues, which have all been remediated and closed. The internal audit team conducts an annual risk assessment to determine upcoming audits.

PGIM RE Loan Services is subject to numerous external operational audits and reviews, including Reg AB audits, CMBS master servicer reviews, and Ginnie Mae, Freddie Mac, and Fannie Mae audits. The Reg AB audit for the year-ended Dec. 31, 2019, reported no findings. PGIM RE Loan Services also received satisfactory results on its most recent Fannie Mae audit, conducted in 2019, with no issues noted. Additionally, in 2020 a Ginnie Mae audit noted no issues and the Freddie Mac Lender Assessment was rated satisfactory with no issues noted. We do note, however, that PGIM RE received a notice of violation from Ginnie Mae for a delayed guarantee fee remittance payment in September 2019. A corrective action plan was submitted and the notice was closed by Ginnie Mae in January 2020. 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**

PGIM RE Loan Services 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 reviews if 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 PGIM RE Loan Services' 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 RE closely monitors the performance of engineering and environmental firms.

### Insurance and legal proceedings

PGIM RE Loan Services 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 the date of this report, there were no material servicing related pending litigation items.

## Loan Administration--Primary Servicing

The loan administration subranking is STRONG for primary servicing.

PGIM RE Loan Services' delinquency rate has been low during the last five years, though it increased to 0.83% as of June 30, 2020, from 0.10% as of Dec. 31, 2019, due to the economic issues caused by the COVID-19 pandemic (see table 6). At the onset of the COVID-19 pandemic, PGIM RE formed a nine-person response team that included members from the originations department and a senior member from the special servicing team to handle the sudden increase in borrower relief requests. The team was able to successfully address the large wave of initial requests, providing a total of 110 loan modifications, mostly in the form of short-term principal payment deferments. In conjunction with this effort, PGIM RE Loan Services' loan reporting and operations created a comprehensive Microsoft Power BI dashboard to track all modifications and required advances.

PGIM RE Loan Services' primary servicing portfolio has grown steadily by UPB and loan count since our last review (see table 6). The portfolio has a high level of geographic diversity 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).

The servicing team has demonstrated experience with loans from a variety of different capital sources (see table 4). In 2017 PGIM RE Loan Services began servicing loans from PGIM RE core plus and high-yield debt funds, many of which require draw request and business plan reviews and extensive surveillance and reporting. Assets under administration from these funds had grown to \$4.2 billion as of Sept. 30, 2020.

**Table 6**

Primary Servicing Portfolio										
	Jun. 30, 2020		Dec. 31, 2019		Dec. 31, 2018		Dec. 31, 2017		Dec. 31, 2016	
	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.
Primary loans	98,803.3	4,307	96,851.4	4,253	87,899.6	4,123	82,238.4	4,197	79,659.4	4,213
Average loan size	22.9	--	22.8	--	21.3	--	19.6	--	18.9	--
<b>Delinquent (%)</b>										
30 days	0.1		0.0		0.0		0.0		0.0	
60 days	0.6		0.0		0.0		0.0		0.0	

**Table 6**

Primary Servicing Portfolio (cont.)										
	Jun. 30, 2020		Dec. 31, 2019		Dec. 31, 2018		Dec. 31, 2017		Dec. 31, 2016	
	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.
90+ days	0.1		0.1		0.1		0.2		0.4	
Total	0.8		0.1		0.2		0.2		0.4	

Figures may not add up to totals due to rounding. UPB--Unpaid principal balance.

### New loan boarding

Based on its stated practices and written procedures, PGIM RE Loan Services has an effective loan set up function. Control and other features of new loan setup include that:

- PGIM RE Loan Services boarded 273 loans during the first half of 2020 and 675 loans during 2019.
- A LoanConnect interface exports key loan data after loan closing to McCracken's Strategy. LoanConnect is also used by PGIM RE'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.
- The business strategy and support department utilizes accuracy metrics to track data integrity.
- It 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.
- The servicing team recently modernized the look of the welcome package and created a standard form to use across all capital sources. The welcome package was also redesigned to better entice borrowers to sign up for BorrowerConnect.

### Payment processing

PGIM RE Loan Services' 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 that:

- As of June 30, 2020, approximately 99% of payments were processed electronically through a bank lockbox and Automated Clearing House.
- Accounting personnel reconcile payments posted on Strategy against the general ledger daily.
- Adjustable-rate mortgage audits are performed semi-annually.
- Eight percent of the servicing portfolio has exposure to LIBOR. The team performed extensive analysis of existing contracts' fallback language and is following industry developments before taking specific action. PGIM RE Loan Services has indicated that LoanConnect will accommodate new indexes without any major programming changes.
- PGIM RE Loan Services is prepared to fund SOFR loans in conjunction with the GSE's decision to stop accepting LIBOR applications and to start using this new rate.
- The servicing department monitors suspense accounts daily. As of June. 30, 2020, the number of items in its

suspense accounts aged more than 90 days (excluding special servicing loans) was 14, an increase from seven at the time of our last review, which is in part due to an increase in forbearance repayments.

### **Investor reporting**

PGIM RE Loan Services is highly experienced with CMBS, 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 that:

- Investor reports for the variety of different investor types are generated directly from LoanConnect and Strategy version 19D.
- 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**

PGIM RE Loan Services 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 include that:

- As of June 30, 2020, 36% of loans in the servicing portfolio were escrowed for taxes, and 71% were escrowed for insurance.
- A servicing analyst reconciles a tax report from Strategy against the vendor's system for loans with tax payments due within the next 30 days.
- Tax payments are wired to the vendor for payment to the tax authority after approval from the director of servicing.
- PGIM RE Loan Services reported no tax penalties during the first half of 2020.
- Insurance notices are issued 45 and 10 days before expiration with demand letters and the threat of force-placed insurance issued 10 days post-expiration via certified mail.
- The insurance module in LoanConnect provides significant event reporting on properties in affected areas in accordance with the specifications outlined by the MBA.
- The insurance analyst reviews life-of-loan flood insurance certifications at loan setup and changes flood coverage and maps annually.
- PGIM RE Loan Services' force-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. There were two loans on force-placed coverage as of June 30, 2020.

### **Asset and portfolio administration**

PGIM RE Loan Services 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.

PGIM RE Loan Services outsources the majority of its property inspections to third-party vendors and requires inspections for all properties regardless of loan size. Inspection reports are uploaded to, and deferred maintenance items are centrally tracked in, LoanConnect for follow-up. Of the 410 property inspections performed on the portfolio in the first half of 2020, 102 (25%) were received 30 days past the due date, a higher amount of past-due inspections than in previous periods due to the vendor's difficulty in performing timely inspections in the first half of 2020 during the onset of the COVID-19 pandemic.

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

PGIM RE Loan Services has well-defined P&Ps for portfolio surveillance. Property-level operating statements and rent rolls are collected, inputted, and analyzed with vendor assistance. By mid-year 2020, asset management received and analyzed 75% of the portfolio's year-end 2020 operating statements, a lower percentage reported than ranked peers. PGIM RE Loan Services indicated that the majority of the missing financial statements were from borrowers from the general account. According to the company, the relatively low collection rate as of mid-year 2020 was due to delays caused by the COVID-19 pandemic and the sudden high turnover in surveillance staff during the first half of 2020.

Watchlists are generated in LoanConnect for different loan investor types based on predetermined criteria. Asset managers review watchlist loans, provide commentary, and escalate loans to portfolio managers as necessary. Once performance has improved, the asset manager recommends removing the loan from the watchlist, and the loan is then reviewed per PGIM RE Loan Services' delegation of authority (DOA).

The surveillance group now performs the quality re-rating process, a function previously performed by PGIM RE. This process involves identifying credit migration and problem loans that require closer monitoring. Since taking over, PGIM RE Loan Services has increased the automation of this process to improve consistency and quality.

The servicing team monitors Uniform Commercial Code (UCC) administration using Strategy and LoanConnect. PGIM RE Loan Services has over 4,000 loans requiring UCC filings and reported no lapsed refilings during the first six months of 2020.

### **Borrower requests**

PGIM RE Loan Services addresses borrower requests in a proactive manner.

The asset management department handles any borrower requests with credit implications, and the servicing department handles all other requests. PGIM RE Loan Services processed one assumption, 117 leasing consents, 11 defeasance requests, 24 property management changes, and 25 property releases during the first half of 2020. The asset manager completes a case plan for any request with credit implications, which must be approved per the internal DOA.

PGIM RE Loan Services 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

PGIM RE Loan Services' early-stage collections procedures are thorough. Features include that:

- The servicing department handles early-stage collections up to the 30th day of delinquency. After the 30th day, the loan is transferred to the asset management team for increased attention and review, except in the case of U.S. Department of Housing and Urban Development loans, which are transferred directly to the Federal Housing Administration.
- Borrowers are called two days after the due date or expiration of the grace period 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 Strategy.

## Loan Administration--Master Servicing

The loan administration subranking is AVERAGE for master servicing.

We based our subranking on PGIM RE Loan Services' 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 June 30, 2020, PGIM RE Loan Services served as a CMBS master or combined primary/master servicer on 20 loans aggregating \$96.1 million in UPB, a decrease from 31 loans and \$172.4 million in UPB at the time of our last review. PGIM RE Loan Services does not have any CMBS loans where it only maintains master servicing oversight responsibilities; however, as of June 30, 2020, it had certain subservicer oversight responsibilities on some non-CMBS loans, mostly in its agriculture portfolio in conjunction with PFI agricultural field offices, though there are also a few affiliated B-notes or co-investments where another company is the servicer (see tables 2 and 7 for the subserviced loan portfolio).

**Table 7**

<b>Master Servicing Portfolio</b>										
	<b>June 30, 2020</b>		<b>Dec. 31, 2019</b>		<b>Dec. 31, 2018</b>		<b>Dec. 31, 2017</b>		<b>Dec. 31, 2016</b>	
	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>	<b>UPB (mil. \$)</b>	<b>No.</b>
Master (SBO) loans	1,349.1	215	1,479.2	239	1,532.8	268	1,531.9	289	1,784.5	401
Subservicers	--	0	--	0	--	0	--	0	--	0
Average loan size	6.3	--	6.2	--	5.7	--	5.3	--	4.5	--
<b>Delinquent (%)</b>										
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		0.0	
Total	0.0		0.0		0.0		0.0		0.0	

Figurs may not add up to totals due to rounding. UPB--Unpaid principal balance. SBO--Serviced by others.

### **Subservicer accounting and reporting**

PGIM RE Loan Services has the resources and procedures in place to monitor and aggregate remittances from subservicers and provide consolidated reporting. It currently only monitors payments from agricultural subservicers.

### **Subservicer oversight**

#### *Escrow administration*

According to PGIM RE Loan Services' 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 PGIM RE Loan Services' 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. PGIM RE Loan Services reviews the information from the subservicer. An advancing review committee comprising senior management meets monthly to make advance recoverability determinations based on several factors, including the total outstanding UPB of, collateral value of, 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. 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.

PGIM RE Loan Service meets with external special servicers as necessary to discuss any problematic loans in its relatively small CMBS portfolio.

## **Loan Administration--Special Servicing**

The loan administration subranking is ABOVE AVERAGE for special servicing.

PGIM RE Loan Services has built a track record of successfully managing and disposing of troubled assets nationwide, though recent resolution activity has been modest (see table 9). PGIM RE Loan Services manages special servicing from Dallas and another PGIM RE office in Atlanta. As of June 30, 2020, the active special servicing portfolio contained general account, GSE, and life insurance company loans collateralized by retail, lodging, multifamily, and health care assets. As of the same time, PGIM RE Loan Services did not have any active CMBS loans in special servicing amongst its named special servicer portfolio of three CMBS transactions and three loans totaling approximately \$19.7 million.

We believe that, despite PGIM RE having one employee fully dedicated to special servicing and a manager who oversees special servicing, staffing is adequate given a portfolio of only 12 loans in special servicing as of June 30, 2020. When needed, management noted, PGIM RE Loan Services can draw resources from PGIM RE, including its originations team.



Loans with a risk rating of "closely monitored" or "not in good standing" are sent to special servicing. Closely monitored loans are included on the special servicing department'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 in default or that have an established loss reserve are classified as "not in good standing".

**Table 8**

Special Servicing Portfolio															
	Jun. 30, 2020			Dec. 31, 2019			Dec. 31, 2018			Dec. 31, 2017			Dec. 31, 2016		
	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)
<b>Active inventory</b>															
Loans	448.4	12	8.6	44.3	5	13.2	99.0	8	15.5	137.2	9	16.4	133.9	10	16.4
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	448.4	12	8.6	44.3	5	13.2	99.0	8	15.5	137.2	9	16.4	133.9	10	16.4

Figures may not add up to totals due to rounding. (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

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

- The company has detailed procedures for monitoring potential problem assets and compiling resolution strategies.
- Borrowers are required to sign pre-negotiation agreements before entering into workout discussions.
- Loan business plans (known internally as asset strategy reports) are completed in the time frame outlined in the servicing agreement but at any event no longer than 90 days.
- Asset strategy reports include a description of the property, review of the borrower/guarantor, cash flow analysis, and new present value analysis of different resolution strategies.
- Key decisions require sign-off from PGIM RE Loan Services, PGIM, and PGIM RE management through a DOA matrix outlined in the business plans.
- A risk committee comprised of senior managers 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 and post-REO book value 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, PGIM RE Loan Services' investor reporting group, and PGIM RE's Finance group that a foreclosure is imminent.

During 2019 and the first half of 2020, the special servicing group resolved six loans. There were three returned to

master, one full payoff, and two discounted payoffs/note sales (see table 9). The average resolution period was 15.6 months during the first six months of 2020, though we note that that was limited to one resolution after reaching an above-industry-norm five-year high of 22.7 months in 2018 with a small sample size of loan resolutions. In the past five years, PGIM RE Loan Services has only completed one foreclosure.

**Table 9**

Total Special Servicing Portfolio--Loan Resolutions															
	2020(i)			2019			2018			2017			2016		
	UPB (mil. \$)	No.	Avg. age(ii)	UPB (mil. \$)	No.	Avg. age(ii)	UPB (mil. \$)	No.	Avg. age(ii)	UPB (mil. \$)	No.	Avg. age(ii)	UPB (mil. \$)	No.	Avg. age(ii)
<b>Resolutions</b>															
Loans	7.9	1	15.6	76.2	5	22.0	47.0	8	22.7	127.2	8	16.3	75.5	5	12.0
Foreclosed loans	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A	11.1	1	2.9	0.0	0	N/A
Total	7.9	1	15.6	76.2	5	22.0	47.0	8	22.7	138.3	9	14.8	75.5	5	12.0
<b>Resolution breakdown</b>															
Returned to master	0.0	0	N/A	30.5	3	21.9	38.7	7	25.7	6.1	1	8.3	48.3	3	18.6
Full payoffs	7.9	1	15.6	0.0	0	N/A	8.3	1	1.8	120.8	6	14.3	14.1	1	1.8
DPO or note sale	0.0	0	N/A	45.7	2	22.1	0.0	0	N/A	0.4	1	36.8	13.1	1	2.5
Foreclosed loans	0.0	0	N/A	0.0	0	N/A	0.0	0	N/A	11.1	1	2.9	0.0	0	N/A
Total/average	7.9	1	15.6	76.2	5	22.0	47.0	8	22.7	138.3	9	14.8	75.5	5	12.0

Figures may not add up to totals due to rounding. (i)Data only includes the first six months of the year. (ii)Average age reflects the time in months from the date the loan first became specially serviced to the reporting date. UPB--Unpaid principal balance. N/A--Not applicable. DPO--Discounted payoff.

### REO management and dispositions

PGIM RE Loan Services maintains P&Ps that describe proactive REO management and sales oversight even though it has not handled any REO dispositions recently. Notable aspects include that:

- REO business plans, known internally as property strategic plans (PSPs) are typically completed within 60 days of title transfer of the property and are prepared by the same asset manager who worked on the asset before foreclosure.
- PSPs focus on active property management, marketing strategy, ongoing operations, and the capital budget.
- An REO committee comprising the PGIM RE Loan Services vice president of asset management and relevant PGIM RE portfolio manager (at a minimum) meets quarterly to review progress on REO assets.
- PSPs are 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.

PGIM RE Loan Services has historically had a low volume of REO assets and sales. The company completed its last REO sale in 2015. In accordance with the industry standard, PGIM RE Loan Services does not handle any GSE REO dispositions.

## **REO accounting and reporting**

PGIM RE Loan Services controls and procedures for property-level accounting and oversight are sound according to its P&Ps.

Third-party property managers prepare monthly reporting packages that include income statements, balance sheets, bank account reconciliations, and rent rolls. PGIM RE Loan Services has a standard contract to engage approved property managers, who typically present an operating budget for approval within 60 days of the asset becoming REO. The PGIM RE accounting department 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.

The special servicing asset manager keeps PGIM RE Loan Services' management and the PGIM RE finance group up to date on REO assets by providing various operating and sales reports from the property management and brokerage firms.

## **Performing loan surveillance**

PGIM RE Loan Services prepares and distributes a quarterly monitored report that serves as an early indicator of potential problem loans. Senior management also holds a quarterly call that includes the special servicing department to discuss risks to the servicing portfolio, including problem markets, sponsors, tenants, and internal valuations.

Furthermore, 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.

## **Legal department**

Special servicing operations are supported by one dedicated in-house attorney. A list of approved third-party law firms is maintained on LoanConnect, and asset managers utilize standard engagement letters when hiring outside counsel. The asset manager consults PGIM RE Loan Services' 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 PGIM RE Loan Services' legal function is adequately controlled.

## **Related Research**

- Select Servicer List, Feb. 3, 2021
- PGIM Real Estate Loan Services Inc. Commercial Mortgage Loan Servicer Rankings Affirmed; Outlook Stable, Feb. 3, 2021
- Environmental, Social, And Governance Factors Have Consistently Powered Our Servicer Evaluation Rankings, Nov. 16, 2020
- Servicer Evaluation Spotlight Report™: U.S. Commercial Mortgage Servicers Preparing For Impact From COVID-19, April 3, 2020
- Servicer Evaluation: Prudential Asset Resources, April 10, 2019

- Analytical Approach: Global Servicer Evaluations Rankings, Jan. 7, 2019
- Prudential Financial Inc. And Its U.S. Operating Subsidiaries, Dec. 18, 2018

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