

ISSUER COMMENT

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Mount Street

Servicer Update - Quality of services in line with our expectations of a medium-sized third party servicer

Executive Summary

- » Based on our review, the quality of services provided by Mount Street is in line with our expectations of a medium-sized third party servicer
- » The team has a breadth of commercial real estate (CRE) knowledge, with the senior management team possessing between 20 and 30 years of relevant CRE experience.
- » Mount Street is a primary servicer for commercial mortgage backed securities (CMBS) loans totalling £3.4 billion, which are secured by properties across a range of European jurisdictions.
- » The company has invested significant amounts into upgrading its IT infrastructure over the past year. Although this is still work in progress, it should help to increase the efficiency of its loan servicing and reporting.

Meeting Summary

We met with representatives of Mount Street for a servicer review in April this year. Whilst we do not rate servicers, as part of our on-going surveillance process, we aim to regularly meet with servicers to discuss any changes in their business strategy and responsibilities, staff turnover, potential modifications in internal procedures as well as any reporting issues. During the meeting, Mount Street's management team provided us with an update on their team composition, business development, IT systems as well as investor reporting.

The conclusion of the review is that the quality of services provided is in line with our expectations for a medium-size third party servicer.

Strengths

Key strengths of Mount Street include:

- » Very experienced and stable management team, who have been involved in providing loans, servicing and restructuring of over €100 billion of CRE across many European jurisdictions.
- » Significant business expansion since the company's foundation in December 2012 supported by the acquisition of two servicing platforms, Crown Credit Services and Morgan Stanley Mortgage Servicing (MSMS).

- » Broad range of services including primary and special servicing of CRE loans secured by various property types as well as facility agent and security trustee roles.
- » As at the end of February 2016, Mount Street had circa £17.75 billion of loans under management. For the bulk of these loans (£12.2 billion) they acted as Facility/Security Agent. A further £3.4 billion of loans was in primary servicing with the remainder in special servicing.
- » Dedicated property and asset management team, which provides support to both the primary and special servicing teams.
- » Comprehensive investor reporting comprising information on respective property market trends.
- » Major investment in a new IT platform due to become operational later in 2016.

Challenges

Areas of challenges include:

- » Relatively small size of the company compared to larger competitors. However, Mount Street successfully established various joint ventures, which helps them to expand into new business areas as well as develop a new IT platform.

Company History

Mount Street was established in December 2012 to provide specific services to the European CRE debt market. These services included:

- » Servicing, loan portfolio surveillance, valuation and loan restructuring to banks, non-bank lenders and owners of loan portfolios;
- » Underwriting, loan servicing, bond servicing, restructuring and workouts on behalf of CRE debt investors.

The company operates through three offices located in London, Frankfurt and Belfast. There are plans to open an office in Dublin.

Since inception, Mount Street have made two acquisitions. In 2013, they first acquired the Frankfurt platform of loan servicing operations of Crown Credit Services. The acquisition included a portfolio of German non-performing loan servicing contracts. This was followed up by a further acquisition of the Morgan Stanley servicing platform at the beginning of 2014, which resulted in the takeover of nine CMBS transactions with 75 loans in primary and 14 in special servicing.

Management Structure & Staffing

The company is headed up by three managing partners demonstrating a wealth of experience in the CRE market as well as experience in senior management. As of April 2016, Mount Street had 43 team members split across three locations. Turnover within the company has been very limited, with only three staff members leaving in the last three years. Mount Street trains its employees on the job and offers study support for relevant professional qualifications, e.g. MRICS.

The business is split across a number of business units including: Primary Servicing, Special Servicing, Property & Asset Management, Loan Administration, Investor Relations & Reporting, Legal and Support functions. Primary servicing is the largest team employing 13 people.

None of the team is considered junior or recently out of education. All team members have at least a few years' experience within the CRE market.

Each asset manager at Mount Street manages approximately 16 loans.

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Serviced Portfolio

As at the end of February 2016, the company serviced approximately £3.4 billion in primary servicing across 34 loans and £2.15 billion in special servicing across 18 loans in 11 different jurisdictions and property types. All of the primary servicing loans were in CMBS transactions, with only one specially serviced loan classified as non-CMBS. Out of the 17 CMBS specially serviced loans, 10 are a result of the MSMS acquisition.

Furthermore, Mount Street acts as Facility/Security Agent on a portfolio of 140 loans with a total size of approximately £12.2 billion.

Reporting

Mount Street's reporting package for CMBS transactions consists of two reports in line with associated servicing agreements:

- » Quarterly Investor Reports capturing loan status, relevant loan metrics, top 5 tenants and specific commentary at a loan and property level. For loans in special servicing, the report additionally provides updates on the proposed exit strategy accompanied by market commentary for the relevant jurisdiction;
- » Monthly Watchlist Reports commenting on latest developments on each of the watchlisted loans.

Based on its IT systems, Mount Street is able to provide bespoke reporting solutions for various types of clients.

Procedure & Control

Mount Street is externally audited every 12 months by Ernst & Young. The last audit was completed in December 2015 with no material risks being identified. As part of the external audit, manager responses are required in relation to errors or correcting/improving processes. Supplementing the external audit is the internal Mount Street audit undertaken by the Chief Operating Officer. The internal audit takes place bi-annually and focuses on reviewing individual loan files against transaction documents and comparing this against the relevant procedures manual. Any exceptions are flagged and reported to managers. We have been informed that no material issues were raised for both audits, however, we have neither been provided with the audit reports, nor with the procedure manuals.

It is our understanding that the procedures manual covers a range of topics including loan administration, investor reporting, servicing and special servicing.

IT Systems

Mount Street employed a consultant to review their current IT system and compare it with other loan platforms available in the market. They concluded that there was no system on offer in the market that met their specific needs. Therefore, in the middle of 2015, Mount Street decided to make a major investment in a bespoke new IT solution by forming a joint venture with a technology company.

The newly developed platform will have the capability of processing vast amounts of data and will be able to manage complex loan structures in order to produce reports that better capture the idiosyncrasies of individual loans or portfolios.

Key features of the new platform will, inter alia, include :

- » an accelerated boarding process for loans
- » account reconciliations
- » accurate processing of loan waterfalls
- » ability to process syndication, securitization and multi-tranche structures.

It is envisaged that the platform will be operational in Q2 2016. We view positively the investment in improving IT given that this is one of the main obstacles within the servicing sector.

Moody's Related Research

[Moody's Approach to Rating EMEA CMBS Transactions](#)

To access this reports click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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