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## Servicer Evaluation: Midland Loan Services

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# Servicer Evaluation: Midland Loan Services

Ranking overview				
Servicing category	Overall ranking	Subrankings		
		Management and organization	Loan administration	Ranking Outlook
Commercial mortgage loan primary servicer	STRONG	STRONG	STRONG	Stable
Commercial mortgage loan master servicer	STRONG	STRONG	STRONG	Stable
Commercial mortgage loan special servicer	STRONG	STRONG	STRONG	Stable
Financial position				
SUFFICIENT				

## Rationale

S&P Global Ratings' rankings on Midland Loan Services (Midland) are STRONG as a commercial mortgage loan primary, master, and special servicer. On Sept. 5, 2023, we upgraded each of these rankings from ABOVE AVERAGE (see "Midland Loan Services Rankings Raised To STRONG From ABOVE AVERAGE; Ranking Outlooks Are Stable"). The ranking outlook is stable for each ranking.

Our rankings reflect Midland's:

- Seasoned and experienced senior and middle management;
- Strong technology platform, including its Enterprise!™ servicing system, which is widely used across the industry;
- Detailed policies and procedures, which are reviewed or updated at least annually;
- Comprehensive quality control and audit environment;
- Industry leadership in primary, master, and special servicing, buttressed by a lengthy operating history and track record;
- Diverse property types in its primary and master servicing portfolio, accompanied by strong geographic and investor diversity; and
- Substantial institutional commitment to the servicing platform and the CMBS business, accompanied by financial backing and shared resources provided by The PNC Financial Services Group Inc. (PNC).

Since our prior review (see "Servicer Evaluation: Midland Loan Services," published July 13, 2022), the following changes and/or developments have occurred:

- In mid-2022, the external special servicer liaison team, which manages Midland's interactions as a master servicer with external special servicers and was formerly a part of servicing operations, moved to the real estate solutions (RES) group.
- A long-tenured senior manager joined the business development team to focus on special servicing (and alternative

ABS business) after spending 15 years within the special servicing group in a variety of functions.

- All policies and procedures documents and guides were updated by the risk compliance and quality assurance (RCQA) group and homogenized to improve transparency.
- Midland continued development of the Advanced Investor Reporting (AIR) platform to reduce risk and enhance operational efficiencies.
- The company enhanced automation processes within RES, including incorporating optical character recognition for property financial statement data extraction and entry and rent roll data extraction.
- In the third quarter of 2022, Midland deployed a new borrower portal with improvements in functionality and servicer contact options and decommissioned its old borrower portal.
- The company enhanced procedures requiring special servicing business plans (ASRs) be updated within 12 months of the prior approved ASR.
- It transitioned to the Midland Learning and Development iLearn plan in August 2022 from its previous curriculum. iLearn and Midland-specific learning is now the primary vehicle for learning offerings and reporting across the business.
- In conjunction with implementing the iLearn plan, training course completions are tracked (as opposed to hours of training), and employee targets have been shifted to 70 completions annually from 30 hours annually.
- Primary and master servicing turnover totaled only 6.0% during the first half of 2023 and 15.3% during the full year 2022, improvements from the 19.5% experienced during 2021.
- Conversely, Midland reported elevated special servicing turnover, which totaled 38.1% during 2022 and was followed by a 22.2% six-month turnover rate during the first half of 2023, resulting in a 25.6% staffing decline in this area. At the same time, the active portfolio asset count declined 38.5%, albeit only 10.4% by unpaid principal balance (UPB).
- Midland's primary/master serviced portfolio UPB declined by 4.8%. Increases in CMBS (8.1%), Freddie Mac Capital Markets Execution (CME) (7.7%), and financial institution investor clients (86.9%) UPB were more than offset by drops in life insurance (-61.4%) and third-party investor (-13.0%) UPB as of June 30, 2023, compared with year-end 2021.
- Midland's aggregate volume of named special servicing appointments--CMBS, CME, single family rentals (SFR), and commercial real estate-CLO (CRE-CLO)--transactions decreased to \$122.6 billion of UPB from \$152.7 billion of UPB as of year-end 2021 as a \$53.0 billion decline in CMBS appointments was only partially offset by a \$25.0 billion gain in SFR assignments.

The overall ranking upgrades are largely driven by Midland's improved audit results across the enterprise, accompanied with continued investments in technology enhancements and human capital while maintaining management stability. In particular, the servicer's 2022 Regulation AB (Reg AB) certification contained no material instances of noncompliance, similar to the prior two years, and the various operational audits conducted across the platform all received the highest of its internal ratings. Further, the 2022 Service Organization Controls 1 (SOC 1) report received a clean opinion.

While Midland's portfolio growth has been sluggish in recent years, particularly in primary servicing, it remains an industry leader in primary, master, and special servicing. Further, despite a decline of more than \$30 billion in special

servicing appointments since our last review, Midland remains amongst the largest named special servicers of securitized loans with a named portfolio that exceeded \$122 billion as of June 30, 2023.

The ranking outlooks are stable for each ranking. As commercial real estate market conditions face the headwinds associated with heightened interest rates and challenging lending conditions, servicers are likely to face increased workloads. To that end, Midland has fortified its staffing since our last review, increasing full-time equivalent employees (FTEs) in primary/master servicing at a rate of 11.3%, despite a 13.5% decline in loan count. While staffing within special servicing declined 25.6% during the same period, its special servicing asset-to-asset manager ratio dropped to 11.0, compared with a relatively high level above 13.6 as of our last review. As a result, we believe that Midland's staffing levels are adequate across the platform.

In addition to conducting an onsite meeting with servicing management, our review includes current and historical Servicer Evaluation Analytical Methodology data through June 30, 2023, as well as other supporting documentation provided by the company.

## Profile

Servicer profile	
Servicer	Midland Loan Services
Primary servicing location	Overland Park, Kan.
Parent holding company	A division of PNC Bank N.A.
Loan servicing system	Enterprise v20230.1.1.45

Midland, founded in 1991, is a division of PNC Bank N.A. and headquartered in Overland Park, Kan. It is a leading third-party provider of loan servicing, asset management, and technology solutions for the commercial real estate finance industry while also providing servicing, infrastructure, and technology to support PNC Real Estate and other PNC Bank N.A. business activities. PNC, which acquired Midland in 1998, is one of the largest diversified financial services institutions in the U.S., with assets of \$558 billion as of June 30, 2023, and has businesses engaged in retail banking, corporate and institutional banking, asset management, and residential mortgage banking. In addition to its Overland Park headquarters, Midland has offices in Birmingham, Ala., Dallas, and Pittsburgh.

From a business strategy perspective, Midland is focused on three key drivers for new and existing business: strategic fit, scalability, and profitability. Management expects to exit non-profitable and non-scalable engagements and focus on core lines of business for future growth, which include purchased securitized servicing (CMBS, agency, and CLO), balance sheet servicing, single borrower SFR servicing, alternative ABS servicing, special servicing, and its technology (i.e., Enterprise!) business.

As noted, Midland's commercial loan servicing business activities include its investment in the Enterprise! loan management system, a widely used commercial mortgage servicing platform. Including the Midland and PNC affiliate portfolios, management reports there are 20 company users with approximately \$1.6 trillion in UPB serviced on Enterprise! across 113,000 loans.

Midland's primary and master servicing volume has declined 4.8% by UPB since our last review and stands at \$490.9

billion as of June 30, 2023, compared to \$515.8 billion as of Dec. 31, 2021 (see tables 1-4). Loan count declined 13.5% to 21,069 from 24,358 as lending activity has slowed.

Midland is amongst the largest named special servicers of CMBS/CME loans, with an appointed special servicing portfolio of commercial real estate loans (CMBS, CME, CRE-CLO, and SFR) that exceeded \$122 billion as of June 30, 2023. We note, however, that its special servicing appointments declined more than \$30 billion since our last review. The decline was largely attributable to the transfer of servicing of the bulk of appointments from what was formerly its largest client following that investor establishing its own special servicing operation in early 2023. Further, several legacy B-piece clients shifted certain CMBS pools to another special servicer that also offers co-investment opportunities through its affiliate.

We note that the portfolio statistics throughout this report and the scope of this review excludes whole business ABS and other specialized asset classes that Midland also services.

**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>						
June 30, 2023	490,941.8	(11.7)	21,069	(14.0)	464	(0.6)
Dec. 31, 2022	555,718.6	7.7	24,509	0.6	467	12.0
Dec. 31, 2021	515,841.2	4.1	24,358	(13.1)	417	(4.4)
Dec. 31, 2020	495,290.3	(7.9)	28,019	(27.3)	436	(0.5)
Dec. 31, 2019	537,788.0	18.9	38,556	25.5	438	9.5
<b>Special servicing</b>						
June 30, 2023	5,280.5	8.3	176	0.6	32	(11.1)
Dec. 31, 2022	4,878.0	(17.2)	175	(38.8)	36	(16.3)
Dec. 31, 2021	5,894.3	(29.0)	286	(27.2)	43	(2.3)
Dec. 31, 2020	8,306.1	431.0	393	214.4	44	41.9
Dec. 31, 2019	1,564.1	67.1	125	98.4	31	19.2

(i) June 30, 2023, 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, 2023</b>		<b>Dec. 31, 2022</b>		<b>Dec. 31, 2021</b>		<b>Dec. 31, 2020</b>		<b>Dec. 31, 2019</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	362,709.8	15,780	428,281.7	19,232	396,798.3	19,371	399,415.6	23,877	460,969.0	35,012
Master (SBO) loans	128,231.9	5,289	127,436.9	5,277	119,042.9	4,987	95,874.7	4,142	76,819.0	3,544
Total servicing	490,941.8	21,069	555,718.6	24,509	515,841.2	24,358	495,290.3	28,019	537,788.0	38,556
Average loan size	23.3	--	22.7	--	21.2	--	17.7	--	13.9	--
<b>Special servicing</b>										
Loans	5,165.8	171	4,743.8	169	5,730.3	277	8,069.4	383	1,405.2	115
REO properties	114.7	5	134.3	6	164.0	9	236.6	10	158.9	10

**Table 2**

Portfolio overview (cont.)										
	Jun. 30, 2023		Dec. 31, 2022		Dec. 31, 2021		Dec. 31, 2020		Dec. 31, 2019	
	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.
Total special servicing	5,280.5	176	4,878.0	175	5,894.3	286	8,306.1	393	1,564.1	125

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

**Table 3**

Primary/master portfolio breakdown by property type and state(i)				
	UPB (mil. \$)	UPB (%)	No. of properties	Properties (%)
<b>Type</b>				
Multifamily	160,041.5	32.6	9,818	3.5
Office	86,506.3	17.6	8,650	3.0
Single-family rental	49,966.3	10.2	233,931	82.3
Retail	44,965.7	9.2	5,248	1.8
Mixed use	35,344.8	7.2	1,816	0.6
All other	114,117.2	23.2	24,731	8.7
Total	490,941.8	100.0	284,194	100.0
<b>State</b>				
CA	70,969.2	14.5	6,165	2.2
NY	50,636.3	10.3	3,697	1.3
TX	35,965.6	7.3	2,276	0.8
FL	27,721.8	5.6	2,571	0.9
IL	19,303.7	3.9	2,924	1.0
All other	286,345.2	58.3	266,561	93.8
Total	490,941.8	100.0	284,194	100.0

Amounts may not add to totals due to rounding. (i)As of June 30, 2023. UPB--Unpaid principal balance.

**Table 4**

Primary/master portfolio by investor product type(i)				
Loan Type	UPB (mil. \$)	UPB (%)	Loan count	Loan (%)
CMBS/CDO/ABS	228,819.4	46.6	9,726	46.2
Other third-party investors (REITs, investment funds, etc.)	97,805.7	19.9	2,713	12.9
Freddie Mac K-Series	96,112.9	19.6	3,695	17.5
Life insurance companies	25,615.7	5.2	1,889	9.0
Banks/financial institutions	22,426.6	4.6	355	1.7
On own or parent's balance sheet (excluding issued CRE CDO/CRE CLO)	9,755.3	2.0	1,765	8.4
Warehouse/held for sale	6,898.1	1.4	315	1.5
FHA and Ginnie Mae	3,460.7	0.7	584	2.8
Fannie Mae	47.4	0.0	27	0.1

**Table 4**

Primary/master portfolio by investor product type(i) (cont.)				
Loan Type	UPB (mil. \$)	UPB (%)	Loan count	Loan (%)
Total	490,941.8	100.0	21,069	100.0

Amounts may not add to totals due to rounding. (i)As of June 30, 2023. UPB--Unpaid principal balance. CRE--Commercial real estate. FHA--Federal Housing Authority.

## Management And Organization

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

### Organizational structure, staff, and turnover

Midland's commercial mortgage loan servicing operation is led by a highly experienced executive vice president who serves as the head of Midland. This position reports to the head of PNC Real Estate and has five senior vice presidents (SVP) that report directly to it, including a chief operating officer (COO), a servicing operations group manager (SOGM) and the head of RES. The two other SVPs are responsible for client technology solutions (a department of 42 employees) and client account management and business development (a department of eight employees), respectively. The business is managed using a combination of functional and portfolio approaches to perform the particular servicing contract requirements. As a division of PNC, Midland leverages selected activities (e.g., technology, human resources, RCQA, corporate legal, and finance) from PNC.

Five VPs report directly to the SOGM, and they each oversee approximately 60 employees on average. These managers oversee investor reporting and treasury and operational accounting; institutional and portfolio servicing; financial services; tax and collateral services and insurance; and complex loans, SFR account management, and CMBS servicing and borrower services, respectively.

The RES group performs traditional special servicing tasks for both CMBS and non-CMBS clients, as well as asset management activities. Four managers report directly to the head of RES, and each oversees approximately 45 employees on average. These managers are an SVP who oversees special servicing; an SVP responsible for collateral surveillance and covenant administration; an SVP of asset management and reserve administration; and a seasoned operations manager who oversees a team that supports performing asset management and special servicing asset managers on various duties.

Midland subcontracts a limited amount of CMBS financial statement analysis and data entry activities to a vendor in India, primarily within the collateral surveillance area, and since our last review expanded the scope of this relationship to include SFR partial-release payoff quotes.

As of June 30, 2023, Midland's servicing organization comprises 496 employees, with 464 positions devoted to primary and master servicing and 32 within special servicing. Since our last review, Midland staffing levels have increased in primary/master servicing at a rate of 6.4%, while its loan count declined 13.5%. Staffing within special servicing declined 25.6% in tandem with a 38.5% decline in asset count. Nonetheless, its special servicing asset-to-asset manager ratio dropped to 11.0 from a relatively high level above 13.6 as of our last review. We believe

that current staffing levels are adequate across the platform.

Within primary/master servicing, senior management industry experience and tenure levels remain strong and are similar to our prior review with reported average experience and tenure of 27 years and 20 years, respectively (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	27	20	20	17	N/A	N/A	9	6
Master	27	20	20	17	N/A	N/A	9	6
Special	21	21	20	14	16	9	11	5

(i)As of June 30, 2023. N/A--Not applicable.

Primary and master servicing turnover totaled 6.0% (12.0% annualized) during the first half of 2023 compared with 15.3% during 2022 and 19.5% during 2021. The trend of lower turnover rates is consistent with what we have observed throughout the industry. Conversely, since our last review, special servicing headcount declined to 32 from 43 as Midland experienced elevated turnover in this area. Such turnover reached 38.1% during 2022, followed by a 22.2% six-month turnover rate during the first half of 2023, which resulted in a 25.6% special servicing staffing decline. Nonetheless, this high turnover has not led to any degradation in the group's experience and tenure metrics and is generally in line with the previously noted portfolio decline.

## Training

Training is the responsibility of Midland's COO, who oversees a dedicated learning and development manager.

Aspects of training considered in our assessment include that:

- Midland transitioned from its previous curriculum to the Midland Learning and Development iLearn plan in August 2022. iLearn, PNC's on-demand learning experience platform, and Midland-specific learning are now the primary vehicles for learning offerings and reporting across the business.
- In conjunction with the curriculum transition, beginning in 2023, employee training goals, which were formerly 30-40 hours per year, are now measured in course completions, with 70 being the target. In 2022, the actual average training fulfilled was approximately 63 and 58 hours for primary/master servicing and special servicing employees, respectively. During the first half of 2023, actual average course completions were 57 for all employees.
- Midland uses Workday Learning, PNC's learning management system, to track required and risk-based training.
- iLearn has over 300 learning offerings within the platform, which fall into categories that are an intentional blend of business foundations, industry insights, mentorship, skill development, and networking opportunities.
- iLearn also provides access to thousands of skill building courses ranging from customer service, communication, and decision making, as well as courses targeted to the financial services on topics, including fixed income, derivatives, interest rate options, economics, treasury management, and sales. iLearn also includes resources to support diversity and inclusion, remote work, and mental well-being.



- Midland has required compliance training in a variety of areas, including ethics, money laundering, privacy and security, handling of inside information, identity theft, and customer complaint management, among others.
- Midland's learning and development expectations are included in every employee's annual performance goal for accountability and visibility to management.
- Midland is an active participant in industry trade groups such as the Mortgage Banker's Association (MBA) and Commercial Real Estate Finance Council (CREFC). It provides the MBA's Commercial Certified Mortgage Servicer Level I and II courses on-demand to all staff through iLearn.
- RES also participates in training and presentations offered by outside legal counsel and service providers on topics relevant to certain jurisdictions or of interest to the asset managers.

## **Systems and technology**

Midland's technology platform centers on its Enterprise! servicing system that promotes automation and efficiency, is scalable to accommodate its substantial servicing volume, and is integrated with AM Insight™ for special servicing. Midland has well-designed data backup routines and disaster recovery (DR) preparedness and has established robust cybersecurity protocols. We considered key elements of its systems and applications, business continuity (BC) and DR programs, and security environment in our assessment.

### ***Servicing system applications***

- Enterprise! version 20220.1.1.45 is the loan servicing and asset management system. Enterprise! integrates loan accounting, servicing, asset management, borrower customer service, and investor reporting into a single system. Its investor reporting functionality meets CMBS investor reporting package requirements and includes formats for other investors, including government-sponsored enterprise and life insurance companies. Enterprise! is integrated with the general ledger and corporate treasury functions.
- Midland uses AM Insight, which is fully integrated with Enterprise!, as the special servicing asset management system. The system, a proprietary browser-based application, offers case management, electronic approvals, and additional workflows and alerts to address recent industry and regulatory requirements, and it provides efficiencies in managing defaulted assets.
- Midland uses a host of applications outside of Enterprise! that were developed in-house, all of which facilitate accounting, loan boarding, and advancing functions, including those used in the administration of treasury processes (Cash Workstation); bank custodial and clearing account reconciliation (Bank Account Reconciliation System); transaction processing and remittance data calculations (Automated Transaction Processing [ATP], which contains the AIR system); and cash managed/waterfall loan administration (Waterfall Loan Management).
- Other applications include Document Insight®, a document management portal; Borrower Insight®, a web portal that provides borrowers self-service functionality; CMBS Investor Insight® and Portfolio Investor Insight®, secure websites that provide portfolio, asset, and property-level information to assess pool and loan performance for CMBS and private-loan portfolio investors, respectively; Dimensions, an internally developed data warehouse and reporting solution; and Midland Document Exchange, a secure Microsoft SharePoint environment to facilitate the exchange of documents with outside parties.
- Additionally, Midland uses optical character recognition to facilitate financial statement data extraction and entry, as well as the extraction of rent rolls. Bots are also used to automate certain tasks within flood determination, tax payment processing, document forwarding, and investor reporting.

Midland's Enterprise! loan servicing system has been widely adopted throughout the industry and, as of our visit, was used by approximately 20 other commercial mortgage servicers (including Midland affiliates) with more than 113,000 loans comprising \$1.6 trillion in assets under management, according to the company. Midland provides technical support for the system and leadership in system developments. As a major application system provider to the commercial mortgage industry for the Enterprise! application, the overall corporate organization ensures data backup and redundancy for all its clients.

A strategic multi-year investment into Enterprise! was initiated in 2020. The ongoing development of Enterprise! remains tightly integrated within the broader fabric of the bank's technology teams. The long-term Enterprise! strategy is centered around moving the entire platform to a multi-tenant, software-as-a-service solution capable of running in PNC's private data center or a public cloud provider. Management believes this will allow Midland to seamlessly address the user experience, create improvements to key functional areas of the platform, and manage the evolving regulatory and reporting requirements associated with a modern technology platform.

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

Midland's DR and BC plans include well-detailed and daily data backup routines, off-site data storage and retrieval, and fail-over mechanisms.

PNC has established a technical environment supported by three data centers, which are replications of one another and located in Richmond, Va., Ashburn, Va., and Pittsburgh, for quick system failover and recovery of business processes should a disaster occur. Data is replicated in a near real-time/asynchronous manner to the secondary data centers, which will allow for continuous access in the event of primary data center loss. The latest DR test was conducted remotely in March 2023, with no material issues reported. The plan calls for all critical servicing applications to be restored within 24 hours.

The Midland BC plan addresses all core systems and operational areas; it is tested at least annually and is reviewed and approved by business process owners. The PNC office in Little Rock, Ark., which is located more than 300 miles from the main office location in Overland Park, serves as an alternate work site for Overland Park employees. The Overland Park office, in turn, serves as a reciprocal office for employees in Birmingham, Little Rock, Atlanta, Dallas, and Pittsburgh. Likewise, staff remain fully capable to work from home, which is the main BC strategy, after the changes made responding to the COVID-19 pandemic.

#### ***Cybersecurity***

Management reported that it maintains a formal cybersecurity plan. Employees are sent phishing emails at least quarterly (employees in high-profile, high-risk positions receive them more frequently) to test awareness. Midland uses a third-party company to handle both internal and external network penetration testing on a recurring basis, and there were no significant issues reported during the most recent testing, which was completed in July 2023. In addition, a policy is in place to remediate any issues identified with timelines established for addressing them. Certain vendors (depending upon risk level) receive a cybersecurity review, which includes an assessment of specific information security and related policies. Midland also has specialized legal counsel available for cybersecurity matters and maintains a stand-alone cyber insurance policy.

## **Internal controls**

Midland maintains strong internal controls that include extensive and well-documented policies and procedures, internal and external audits, and a dedicated RCQA group that supports strong and responsive risk avoidance and correction procedures.

### ***Policies and procedures***

Midland's policies and procedures are comprehensive, easily navigable, and cover all aspects of servicing activities. Each functional area also maintains a process workflow chart accompanied by a descriptive narrative. The company's policies and procedures:

- Are accessible to all employees via a shared network drive;
- Have a standardized electronic format template;
- Are updated by a staff member in the loan servicing group, who coordinates the annual updating with department managers from the business units, compliance, and legal groups;
- Are reviewed by senior managers for change authorization;
- Indicate the date of the most recent change/update; and
- Are updated and electronically communicated via the company intranet for consistent dissemination.

As noted, since our last review, all policies and procedure documents and guides were updated by the RCQA group and homogenized to improve transparency.

### ***Compliance and quality control***

The RCQA group is led by an SVP/director who reports directly to the COO of PNC Real Estate and indirectly to the head of Midland. The director is dedicated to the function, which includes 18 FTEs. The RCQA group operates independently from servicing operations and provides guidance and support on PNC risk programs, policies, and procedures. The group works closely with Midland to maintain the risk and control self-assessment (RCSA), which is the book of record for all internal controls that are in place to mitigate risk. Quality assurance efforts include quarterly reporting on control effectiveness along with associated risk tiering of the controls.

The RCQA department also performs testing of the RCSA controls to ensure they are designed properly and operating effectively. When issues are identified, the group coordinates with the issue owner to determine the remediation plan, tracking remediation efforts, and validating completion prior to closure. The department also acts as the liaison for both internal and external audits, as well as regulatory reviews.

The group also provides BC oversight, which includes planning, maintenance, and testing for Midland, as well as coordinating with clients when necessary. The RCQA group provides physical security oversight and support and technology audit support and is a liaison to PNC's BC management organization.

### ***Internal and external audits***

Midland is subject to an annual Reg AB (platform-wide) certification. The 2022 certification contained no material

instances of non-compliance. SOC 1 and SOC 2 reports are also conducted annually, with the most recent reports covering the period from Oct. 1, 2021, through Sept. 30, 2022. The 2022 SOC 1 report received a clean opinion, with minor exceptions identified. Minor exceptions, which were self-identified, were noted in the 2022 SOC 2 report pertaining to Midland's Enterprise! system, which otherwise contained a clean opinion.

PNC's internal audit (IA) department also conducts annual operational reviews. During 2022, the IA department conducted operational process audits that included a March review of loan servicing and an application review in December. The overall audit opinions noted in each case were satisfactory. Further, IA assisted the independent accounting firm with the SOC 1 review by testing operational controls and noted no issues in testing.

For the Midland internal audits, no significant issues were identified.

### **Vendor management**

Midland adheres to an enterprise third-party management program. The program requires the completion of various risk assessments for each third-party vendor relationship, both initially and on an ongoing basis. The breadth and depth of the risk assessments are influenced by various factors, including the statement of work, data, and technology maintained by the third-party vendor. These risk assessments are jointly completed by both PNC/Midland and the vendor, as required. A portal provides management and RCQA tools to own relationships while mitigating and managing risk. The line of business owns the ongoing monitoring and oversight of the contract relationship.

The company engages several outside firms for various servicing and special servicing activities, such as taxes, Uniform Commercial Code-1 filings (UCC-1s), insurance, financial statement analysis, inspections, appraisals, environmental review, property management and brokerage, and legal services. Engagements are handled by senior management for platform-wide services (i.e., taxes, UCC-1s, and financial statement analysis/data entry), while asset-level vendor assignments are recommended by assigned asset managers and approved by department heads for special servicing activities. For environmental site assessments, Midland uses environmental legal counsel to engage firms from a pre-approved list and then reviews their work product for quality and accuracy.

Vendor performance ratings are completed monthly, quarterly, or annually, based on the respective vendor risk level as scored by the servicer's vendor management system. We believe Midland's third-party vendor processes are well-monitored and enable the company to have appropriate controls over its vendors.

### **Insurance and legal proceedings**

Midland has represented that it maintains adequate directors and officers, as well as errors and omissions, insurance coverage given the size of its servicing portfolio. Management analyzes the effectiveness of purchased insurance coverage on an annual basis at each policy renewal and makes changes where it deems appropriate. As of the date of this report, management has indicated no servicing litigation matters other than those in the ordinary course of business. Management believes none of these matters will have a material adverse effect on its ability to perform under the related servicing agreement.

## Loan Administration--Primary Servicing

The loan administration subranking is STRONG for commercial mortgage loan primary servicing.

Strong geographic (all U.S. states are represented) and property-type diversity is evident in the primary/master servicing portfolio, with an emphasis on multifamily (32.6% of UPB; see table 3). However, since our last review, Midland's primary/master serviced portfolio UPB declined by 4.8%. Increases in CMBS (8.1%), CME (7.7%), and financial institution investor clients (86.9%) UPB were more than offset by drops in life insurance (-61.4%) and other third-party investor (-13.0%) UPB as of June 30, 2023, compared with year-end 2021 for each of these investor types.

Nevertheless, investor diversity is broad (see table 4), with the largest concentrations evident in CMBS (46.5% of UPB), other third-party investor types (19.9% of UPB), and Freddie Mac CME loans (19.6% of UPB). On the delinquency side, after declining to 1.4% at year-end 2022 from 2.4% at year-end 2021, the June 30, 2023, delinquency rate has again increased, reaching 2.3% as market stress from the rising interest rate environment has impacted the portfolio.

**Table 6**

Primary servicing portfolio										
	Jun. 30, 2023		Dec. 31, 2022		Dec. 31, 2021		Dec. 31, 2020		Dec. 31, 2019	
	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.	UPB (mil. \$)	No.
Primary loans	362,709.8	15,780	428,281.7	19,232	396,798.3	19,371	399,415.6	23,877	460,969.0	35,012
Average loan size	23.0	--	22.3	--	20.5	--	16.7	--	13.2	--
<b>Delinquent (%)</b>										
30 days	0.3		0.2		0.1		0.5		0.1	
60 days	0.2		0.1		0.1		0.4		0.1	
90+ days	1.7		1.1		2.2		3.2		1.0	
Total	2.3		1.4		2.4		4.1		1.2	

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

### New loan setup

Midland effectively administers the loan setup process through its conversions group. Most new loan setups are accomplished via electronic file downloads, and the data validation process is facilitated by document imaging procedures and error checking features within the servicing system. New loan setup features include that:

- Borrower welcome letters are system-generated and issued within three business days of loan activations.
- A dedicated CMBS servicing group oversees the negotiation and administration of pooling and servicing agreement (PSA) requirements and is an integral part of setup activities. Abstracts of key servicing requirements and trigger events are integrated into reminders throughout the Enterprise! platform.
- For CMBS loans, the financial loan services group performs the review of financial Enterprise! fields, including maturity date, loan and amortization terms, interest accrual method and interest adjustment frequency within 90 days of loan boarding (or upon receipt of the necessary documents).
- Bank, insurance, and government servicing groups each perform an independent post-conversion review (similar to that for CMBS loans) within 30 days of loan boarding (or receipt of the loan documents), using a similar segregation

of duties.

- Data integrity controls include a secondary review by a senior file review specialist to verify documentation against the servicing system.
- Formal tracking and the pursuit of missing documents resulted in Midland reporting no trailing documents outstanding on CMBS loans boarded more than six months prior, as of June 30, 2023.
- Midland's quality control process tracks boarding timeliness metrics and confirms accuracy.

### **Payment processing**

Midland is highly experienced with processing complex payment structures in a well-automated manner. Highlights considered in our assessment include that:

- Payments are processed within ATP where possible, with exceptions handled by the responsible servicing group. The treasury group is responsible for the receipt and transmission of wire transfers.
- As of June 30, 2023, the electronic payment capture rate is nearly 100%, with wire transfers making up approximately 62%, Automated Clearing House approximately 31%, and lockbox approximately 4%.
- Of the remaining 3% of payments, 1% is payments by check, which are deposited electronically via remote deposit and an internal system.
- The portfolio contains more than 2,500 cash-managed (hard lockbox) loans as of June 30, 2023, with an aggregate UPB of \$135 billion. In addition, Midland monitors loan covenants for activating springing lockboxes across its entire portfolio, of which 210 were triggered during the first half of 2023, compare with 420 during 2022 and 570 during 2021.
- Midland reported 313 suspense items aged more than 60 days (down from 338 as of our prior site visit but still relatively high) existed as of June 30, 2023. Management indicated that the amount of suspense items, which totaled \$3 million, largely included upfront fee deposits for consent work, legal fees for recently completed LIBOR transition activity, and holdback funds from loans returned from special servicing to be used for any trailing expenses.
- Midland services nearly 2,500 adjustable-rate loans within its CMBS portfolio and performs regular adjustable-rate audits on those loans. It indicated that it has successfully handled LIBOR to SOFR conversions as applicable.

### **Investor reporting**

Midland has 70 dedicated staff members for the various investor reporting and operational accounting activities that are properly segregated for reporting, remitting, and related account reconciliation processes. The company also has a high level of asset-specific knowledge and responsiveness in handling investors and other inquiries, including for highly structured credits.

Other highlights include that:

- The servicing system is interfaced with the general ledger to facilitate ledger entries and balance reconciliations.
- Outgoing wires are processed under dual controls.
- Automated fund transfers from payment clearing to custodial accounts occur nightly by the servicing system.
- Midland performs daily bank reconciliations of its disbursement and clearing accounts, which is similar to most highly ranked servicers. Custodial bank reconciliations of accounts held by PNC are also performed daily, which is

more frequent than most servicers we rank.

- Midland reported no unidentified custodial account items aged more than 60 days; it also reported six occurrences of CMBS reporting errors requiring restatement during the first half of 2023, compared with 13 during each of the prior two full years.

### **Escrow administration**

Midland has sound controls for all escrow administration activities, which include dedicated teams for tax and insurance. Asset managers within RES handle loan-level reserve monitoring and analysis for other escrowed events such as tenant improvement and replacement reserves. Other features include that:

- Taxes and insurance are tracked in Enterprise! Loans escrowed for taxes and insurance were approximately 65% and 29%, respectively, of the portfolio.
- A tax service is used for escrowed and non-escrowed loans.
- Insurance policies are annually reviewed internally for compliance.
- Renewal notices are system-generated for insurance policies. Enterprise! also automatically generates letters on non-escrowed tax accounts to send to borrowers to verify payment.
- Forced-placed policies provide for 120-day and 180-day look-back periods, respectively, for property and flood. As of June 30, 2023, 79 loans had force-placed coverage.

### **Asset and portfolio administration**

Midland has an experienced staff and diligent procedures covering asset and portfolio administration tasks. Notable features considered in our assessment include that:

- Policies and procedures are well-designed, including processes for monitoring complex loan structures.
- A detailed, centrally controlled watchlist process has automated triggers for CMBS and non-securitized loans using CREFC watchlist criteria.
- Servicing analysts review principal and interest (P&I), property protection advance needs, and watchlists. They also monitor specially serviced loans.
- The tracking of operating statements is automated through Enterprise!, and Midland maintains proactive procedures to obtain and review these reports.
- As of June 30, 2023, Midland had collected 95.7% (vs. 96.9% of June 30, 2022) and reviewed 94.3% (vs. 96.4% of June 30, 2022) of the prior year-end operating statements of its CMBS loans.
- The covenant administration team monitors a delinquency report and maturing loan report for springing lockbox loans, indicating when a lockbox needs to be sprung. The covenant administration team also confirms that financial statements have been collected and associated collateral level covenant tests are completed.
- Midland's offshore vendor provides financial comments on a portion of the CMBS portfolio, which are subject to an onshore quality control (QC) review of at least 40% of the work product.
- For the remainder of the portfolio, an onshore vendor performs the data entry, and Midland surveillance analysts are responsible for the analysis and quality control.
- Tracking inspections are automated through Enterprise! It received approximately 11,500 inspections during 2022,

with most portfolio reports typically second-half loaded as evidenced by the portfolio requiring approximately 2,300 inspections during the first half of 2023.

- UCCs are tracked through Enterprise! During the second half of 2022, the portfolio had nearly 12,600 filings occurring, with one lapse reported. One lapse was also experienced among the 12,150 portfolio filings during the first half of 2023. In each case, these lapses were caused by incorrect information loaded to Enterprise! Both were corrected, and new filings were put into place when the error was identified and no loss of lien position occurred.

### **Borrower requests**

Midland addresses borrower requests in a proactive and efficient manner. Highlights include that:

- A team of 39 within the performing loan asset management area handles borrower consents for Midland in its capacity as a primary and master servicer.
- Midland tracks the requests on the servicing system with notations of issues or delays in completing requests.
- A third-party vendor occasionally processes or underwrites the request for Midland's review and approval (primarily loan assumptions, transfers of interest, and leasing matters).
- Approvals are based on delegations of authority, and larger credit matters are controlled through a working group review process and may involve review by the special servicing area for approvals.
- Midland leverages a PNC-wide system to track customer complaints.
- Midland's borrower consent activity in its role as a primary and master servicer was substantial during 2022 and during the first half of 2023. Specifically, in 2022, Midland reported that it processed 1,475 CMBS consent requests aggregating \$41 billion of UPB. Of the consents, 45.0% (664) pertains to leasing activity, 32.5% (479) was defeasance-related, 11.0% (162) was related to assumption requests, and 9.8% (145) pertains to property management changes. In the first half of 2023, Midland processed 829 CMBS consent requests aggregating approximately \$22 billion of UPB, with 47.5% (394) of the consents pertaining to leasing activity, 24.5% (203) to defeasance, 13.9% (115) to property management changes, and 11.8% (98) to assumption requests.

### **Early-stage collections**

Midland's CMBS servicing group has five dedicated staff members to handle early-stage collections. Noteworthy features considered in our assessment include that:

- All collection letters are system-generated. Notice letters are automatically issued when the grace period expires.
- Borrower telephone contact is initiated within two days after the due date or grace period expires, and a chronology of time-stamped collection comments is centrally maintained in Enterprise!
- Delinquency reports are produced no less than monthly.

## **Loan Administration--Master Servicing**

The loan administration subranking is **STRONG** for commercial mortgage loan master servicing.

Within its total servicing portfolio of \$490.9 billion (21,069 loans), Midland oversees 31 subservicers, who service \$128.2 billion in UPB, consisting of 5,289 CMBS and CME loans. Since our last review, the portfolio delinquency level



has remained stable, declining minimally to 0.47% as of June 30, 2023, from 0.48% as of Dec. 31, 2021 (see table 7).

**Table 7**

<b>Master servicing portfolio</b>										
	<b>Jun. 30, 2023</b>		<b>Dec. 31, 2022</b>		<b>Dec. 31, 2021</b>		<b>Dec. 31, 2020</b>		<b>Dec. 31, 2019</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	128,231.9	5,289	127,436.9	5,277	119,042.9	4,987	95,874.7	4,142	76,819.0	3,544
Subservicers	--	31	--	31	--	29	--	29	--	29
Average loan size	24.2	--	24.1	--	23.9	--	23.1	--	21.7	--
<b>Delinquent (%)</b>										
30 days	0.03		0.06		0.02		0.68		0.00	
60 days	0.08		0.00		0.03		0.24		0.00	
90+ days	0.36		0.40		0.43		0.93		0.18	
Total	0.47		0.46		0.48		1.84		0.18	

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

Subservicer oversight is handled jointly by an allocated staff of 10 FTEs from the RCQA and subservicing oversight departments. The subservicing oversight department handles day-to-day transactional activities, while the RCQA group oversees subservicers' compliance requirements and audits. As a master servicer, borrower requests are channeled through servicing within the operations group's borrower services or the RES team, depending on the source and nature of the request.

### New loan setup

The company follows the same protocols to set up new subserviced loans as it does with those that it primary services. Because these loans are all serviced by other servicers, the setup process occurs via electronic file downloads.

- After the file download, the loan records are checked by loan administration using the same standard of internal controls that is used for primary serviced loans.
- Subservicers distribute imaged documents and they are incorporated with the loan record through the imaging system.
- Online investor deal summaries and PSAs assist in monitoring subservicer reporting procedures.
- Loans are set up for "shadow servicing" to record loan-level P&I payment records, while tax and insurance information is monitored via quarterly officer certificates and monthly subservicer reports.
- All loans are boarded so that payments can be processed no later than the first determination date.

### Subservicer accounting and reporting

Midland has appropriate controls for recording subservicer remittances and is well-experienced in overseeing a high volume of subservicers. Additionally, accounting staff in investor reporting reconcile incoming subservicer remittances monthly to the servicing system and perform daily bank account reconciliations.

### Subservicer oversight

### ***Escrow administration***

Midland takes proactive measures to monitor subservicer activity relating to the tracking of real estate taxes, insurance, UCC-1s, and reserve account receipts and disbursements.

- Monthly subservicer electronic downloads update expiration and paid-to dates on Enterprise!, and Midland uses quarterly exception reports to resolve open items with subservicers.
- Subservicers are required to provide quarterly officer certifications in compliance with subservicing agreements.

### ***Asset and portfolio administration***

Midland's subservicer asset administration oversight activities are proactive and include reviewing subservicer property inspections, reanalyzing property financial statements, and monitoring watchlist triggers for serviced loans. Furthermore, Midland:

- Reviewed 100% of the inspection reports received from its subservicers during the first half of 2023 and maintains formal procedures to follow up with subservicers to resolve inspection issues.
- Uses a third-party vendor to enter data into operating statement analysis reports (OSAR) and upload the reports to the Document Insight portal. Midland's serviced OSAR bot automates the process of retrieving the OSARs from the portal and uploading it into Enterprise! The bot performs QC rollups to confirm accurate sums have been entered.
- Collected and reviewed 91.4% of the prior year-end financial statements of its CMBS loans as of June 30, 2023, above the 87.5% level reported as of the prior year comparable period.
- Places master serviced loans on the watchlist following the same criteria used for primary serviced loans.

### ***Audit and compliance***

Overall, Midland's procedures denote sound subservicer review practices through a combination of desk and on-site reviews. Highlights include that:

- Subservicer reviews are accomplished annually by the RCQA group through either an on-site or desk review. During 2022, Midland performed 31 reviews of its subservicers, with 15 of those on-site and 16 desk. Further, during the first half of 2023, Midland performed nine reviews of its subservicers, with five of those on-site and four desk.
- Before initiating an audit, the RCQA manager completes a QC checklist, and the subservicer completes a subservicer compliance questionnaire.
- A detailed review template is used for reviewing subservicer performance for all core functional areas. Subservicer review results are used to designate either acceptable or unacceptable performance, and the subservicer receives a conclusion summary communicating observations, exception items, and recommendations.

### **Investor reporting, CMBS advancing, and special servicer interaction**

The servicing system automatically incorporates serviced and primary serviced loans for reporting to investors, and all reporting is handled through electronic file delivery or a secured investor website and corresponding wire transfers for the remittance. Advancing and recovery are also handled through the servicing system with good

oversight procedures.

- Monthly investor reporting and remitting occurs in the investor reporting department, which is aligned by investor type.
- The reporting analyst reviews the monthly reports (primary and subserviced loans) for accuracy and other information, such as complete watchlist information.
- The review also determines whether loans are transferred to the special servicer.
- Advances are monitored through a series of monthly system-generated advance exposure reports that highlight the advance type (P&I, property protection, etc.), valuations, and the ratio of advances to appraised values and unpaid balances.
- Midland maintains procedures to monitor special servicers' appraisal updates and regularly conducts calls with special servicers regarding advancing decisions. It noted that existing market conditions have led to challenges for special servicers to obtain updated asset values.
- A nine-member advance review committee meets monthly and monitors and controls the amount and recoverability of advances for trusts where Midland is master servicer. Its advance determination criteria involve a four-level analysis based on the magnitude of the advance amount, the advance-to-value ratio, and the delinquency of the loan, along with an analysis of the remaining portfolio. When a loan is assigned a level above one, closer scrutiny of the loan is received monthly. A variety of thresholds are used as a basis to determine non-recoverability; such loans are classified at a level four rating.
- Midland's CMBS advancing procedures attempt to avoid interest shortfalls and reduce loss severity.

## Loan Administration--Special Servicing

The loan administration subranking is STRONG for commercial mortgage loan special servicing.

Midland has a demonstrated track record of resolution activity and continues to invest in its AM Insight special servicing system. According to management, Midland has resolved approximately 3,700 specially serviced assets since 2005 on approximately \$40 billion of UPB. Since our last review, active special servicing UPB volume declined 10.5% to \$5.3 billion (171 loans; five real estate-owned [REO] properties) from \$5.9 billion (277 loans; nine REO) as of Dec. 31, 2021 (see table 8). The active total asset count declined 38.5%, a meaningfully greater rate than the UPB.

**Table 8**

Special servicing portfolio															
June 30, 2023				Dec. 31, 2022				Dec. 31, 2021				Dec. 31, 2020		Dec. 31, 2019	
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															
5,165.8	171	18.2	4,743.8	169	20.0	5,730.3	277	18.4	8,069.4	383	9.0	1,405.2	115	11.8	
Real estate-owned															
114.8	5	69.3	134.3	6	56.7	164.1	9	43.0	236.6	10	32.1	158.9	10	18.7	

Table 8

Special servicing portfolio (cont.)															
	June 30, 2023			Dec. 31, 2022			Dec. 31, 2021			Dec. 31, 2020			Dec. 31, 2019		
	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)
Total	5,280.5	176	19.7	4,878.1	175	21.3	5,894.3	286	19.2	8,306.1	393	9.6	1,564.1	125	12.4

Amounts may not add to totals due to rounding. (i)Avg. age reflects the time in months from the date the loan first became specially serviced to the reporting date. UPB--Unpaid principal balance.

In aggregate, as of June 30, 2023, Midland was the named special servicer on more than \$122.0 billion of UPB contained across 311 transactions, including 199 CMBS transactions, 82 SFR, 26 CME, and four CRE-CLO. Special servicing assignments have historically been based on relationships with unaffiliated B-piece buyers. We note that Midland's formerly largest B-piece client formed its own special servicing operation since our last review and replaced Midland as special servicer on trusts aggregating \$33.5 billion in UPB.

As of June 30, 2023, the special servicing group included 32 FTEs, a decline of 25.6% since our last review in tandem with the 38.5% decrease in active asset count. The number of asset managers who work on both defaulted loans and REO assets declined during this same period to 16 from 21. Nonetheless, the resulting assets per asset manager dropped to a more manageable 11.0 from 13.6.

During 2022, resolution activity was at a multi-year high, exceeding \$3.0 billion. The 2022 average resolution period was 22.4 months (see table 9), also a multi-year high. More than 54.0% of the resolution activity by loan count (74.9% by UPB) was returned to master servicer and had an average hold time of 20.9 months. Further, 24.5% of the loans were discounted payoff/note sale, which averaged 27.2 months to resolve.

During the first half of 2023, resolution activity has slowed meaningfully and totaled only \$597.5 million of UPB, with half of the loans by unit volume and 61.5% of the UPB resulting in full payoffs. The average resolution time declined to 19.3 months (from 22.4 months in all of 2022), which is generally in line with other special servicers we rank.

Table 9

Total special servicing portfolio--loan resolutions															
	2023(ii)			2022			2021			2020			2019		
	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>Resolutions</b>															
Loans	593.3	31	18.8	3,035.7	153	22.5	2,774.2	154	13.4	2,045.7	107	7.9	467.3	43	13.7
Foreclosed loans	4.2	1	34.5	38.0	2	14.2	55.9	4	25.3	101.3	5	24.6	149.9	8	15.4
Total	597.5	32	19.3	3,073.7	155	22.4	2,830.0	158	13.7	2,147.0	112	8.6	617.1	51	13.9
<b>Resolution breakdown</b>															
Returned to master	139.3	8	27.1	2,303.4	84	20.9	2,095.9	88	12.0	1,637.7	66	6.2	240.1	20	7.3
Full payoffs	366.0	16	13.5	306.6	31	21.2	417.1	39	13.1	102.6	22	4.4	137.5	10	12.4

Table 9

Total special servicing portfolio--loan resolutions (cont.)															
	2023(ii)			2022			2021			2020			2019		
	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)
DPO or note sale	88.0	7	21.4	425.7	38	27.2	261.1	27	18.6	305.4	19	17.9	89.6	13	24.6
Foreclosed loans	4.2	1	34.5	38.0	2	14.2	55.9	4	25.3	101.3	5	24.6	149.9	8	15.4
Total/average	597.5	32	19.3	3,073.7	155	22.4	2,830.0	158	13.7	2,147.0	112	8.6	617.1	51	13.9

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

### Loan recovery and foreclosure management

Midland displays effective, well-disciplined, and proactive loan recovery and foreclosure management protocols.

Highlights include that:

- Asset managers complete file reviews and property inspections, assemble local market data, and develop a loan resolution plan within a relatively concise 45-day target (or earlier when required by the PSA).
- Midland requires borrowers/guarantors to sign pre-negotiation letters before entering workout discussions with them.
- Valuation and net present value analyses are integrated within AM Insight, which maintains all workout plans.
- Asset managers engage vendors, which are tracked within the asset management application, and provide for timeline monitoring. Vendor tracking also provides for feedback regarding quality of work.
- Plans are presented to a special servicing working group for approval, per Midland-delegated authority.
- Workout plans are updated as negotiations dictate.

The company's foreclosure process is controlled and well-managed. Recommended foreclosure actions are followed by an REO resolution plan, which includes a bidding process for property management and brokers. Detailed pre- and post-foreclosure checklists ensure that all time-sensitive issues surrounding the asset, such as environmental and appraisals, are completed before taking title.

### REO management and disposition

Midland demonstrates proactive REO management and sales oversight. Property manager and broker selection is controlled through approved vendor lists. Standard contracts are used (with limited exceptions for leasing brokers), and the engagement of the manager/broker is tracked and administered within the company's servicing systems.

Other notable aspects include that:

- Asset managers monitor property managers' adherence to the Midland-issued procedure manual for reporting and compliance.
- Asset managers prepare an REO business plan and budget within a relatively concise 45-day period (or, if shorter, the timeframe established in the PSA) from acquisition. The approval process is completed per Midland's delegated authority and may include working group review.

- The company has a well-controlled broker engagement process and performs periodic REO revaluations to monitor advances and non-recoverability determinations.
- All sale disposition cases are required to be submitted to the appropriate delegated authority, which may require a credit committee for final approval. The asset managers, in conjunction with engaged external counsel and Midland's legal department (if needed), coordinate the closing process.

REO disposition activity was moderate since our last review (albeit comparable to recent historical levels), with only five sales completed, all of which occurred during 2022 (see table 10). Gross sales proceeds relative to market value of these assets totaled 129.4%; we note, however, that Midland stated that reduced market transaction activity has made obtaining accurate appraisals more challenging than in the past. The average REO hold period of these assets of 16.0 months compares generally favorably to peers.

The REO inventory as of June 30, 2023, was \$114.8 million of UPB across five REO assets. This remaining active REO portfolio has been in special servicing a relatively lengthy period, averaging 69.3 months. However, this unfavorable metric is mitigated by its remaining small inventory and recent track record of generally faster REO dispositions than peers. Further, the remaining assets in the REO portfolio have either been actively marketed for sale (but not yet sold) or have benefited from leasing efforts to improve occupancy.

**Table 10**

Total special servicing portfolio--REO															
	2023(i)			2022			2021			2020			2019		
	Amount (mil. \$)	No.	Avg. REO hold period (mos.)	Amount (mil. \$)	No.	Avg. REO hold period (mos.)	Amount (mil. \$)	No.	Avg. REO hold period (mos.)	Amount (mil. \$)	No.	Avg. REO hold period (mos.)	Amount (mil. \$)	No.	Avg. REO hold period (mos.)
Estimated market value	0.0	0	N/A	29.4	5	16.0	35.8	5	10.7	9.3	3	12.4	38.3	6	16.6
Gross sales proceeds	N/A	--	--	38.0	--	--	34.0	--	--	9.3	--	--	37.7	--	--
Gross sales proceeds/market value (%)	N/A	--	--	129.4	--	--	94.8	--	--	99.4	--	--	98.3	--	--

(i)Data only includes the first six months of the year. REO-- Real estate-owned. N/A--Not applicable.

### REO accounting and reporting

Midland has a properly controlled REO property management accounting function, including sound monthly bank account reconciliation procedures.

Midland's REO accounting and reporting procedures are primarily overseen by the asset managers who monitor monthly property management operating account activity. In addition, the RES collateral management services group provides a second review of the property management operating account activity. Also, the RCQA group conducts reviews of the REO property managers throughout the year with focuses on the cash receipt and disbursement processes. Furthermore:

- Property managers electronically submit monthly reporting packages to the asset managers, which are received and

uploaded to AM Insight.

- Property incomes and expenses are controlled through dual operating accounts that are reconciled monthly.
- On-site audits of property managers are detailed within the company's procedures. However, no audits have been conducted in several years as on-site reviews were restricted due to PNC's travel policy during the pandemic and have yet to resume.

### **Borrower requests**

Midland addresses borrower requests in a proactive and efficient manner for loans that require special servicer consent. Highlights include that:

- Borrower consents that are handled by the special servicer are reviewed and processed by the collateral management services (CMS) team within the RES group.
- The CMS team works closely with the performing asset management team for loans where Midland is both master and special servicer and where the consent request will require both special servicer and directing certificate holder (DCH) approval.
- The review and approval processes for all borrower consents and specially serviced loans are subject to the same delegations of authority to ensure consistency for the level of review required for asset management and default management activities.
- In its capacity as special servicer, Midland's borrower consent activity declined during 2022 to 520 from 959 in 2021. Borrower consents during 2022 were primarily focused on leasing consent activity (44.0%) and "other" (43.5%). In the first half 2023, volume totaled 169 borrower consents, which was concentrated in the "other" category (45.0%) and leasing consent activity (42.0%).

### **Performing loan surveillance**

Midland has proactive surveillance procedures to effectively monitor its named special servicing portfolio by the CMS team. Notable features include that:

- Midland receives a nightly feed of all publicly available CMBS and CME portfolios from Trepp, which includes loan, property, financial, and watchlist commentary. That feed is loaded into a series of tables in Enterprise! As noted, a browser-based surveillance module is used to monitor the named special servicing portfolio.
- Midland has designed reports to identify watchlist loans, loans of concern identified by the B-piece investor during the due diligence process, maturing loans, covenant compliance issues, and loans with deteriorating conditions to facilitate proactive surveillance and also quickly assess the impact of major credit events, such as natural disasters, tenant bankruptcies, store closings, etc.
- Asset managers use the various reports and information to conduct monthly surveillance calls with master servicers and the relevant DCH to review changes within the portfolio and discuss loans of concern.

### **Legal department**

Servicing and special servicing staffs have access to Midland's five-attorney legal department. The legal staff controls the engagement process and case management oversight involving external law firms. Asset-level legal costs, which must be approved for payment by the assigned asset managers, are tracked within the servicing system to facilitate monitoring of special servicing's actual legal costs to budgets within asset status plans.

## **Financial Position**

The financial position is SUFFICIENT.

## **Related Research**

- Midland Loan Services Rankings Raised To STRONG From ABOVE AVERAGE; Ranking Outlooks Are Stable, Sept. 5, 2023
- Select Servicer List, July 18, 2023
- Outlooks On Four Large U.S. Banks Revised To Stable From Positive On Uncertain Operating Conditions; Ratings Affirmed, March 31, 2023
- Servicer Evaluation: Midland Loan Services, July 13, 2022
- Servicer Category Descriptions Expanded And Revised, Feb. 28, 2022
- Analytical Approach: Global Servicer Evaluations Rankings, Jan. 7, 2019

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