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## Servicer Evaluation: CBRE Loan Services Inc.

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# Servicer Evaluation: CBRE Loan Services Inc.

## Ranking Overview

### Commercial primary

Overall ranking	STRONG
Management and organization	STRONG
Loan administration	STRONG
Outlook	Stable
Financial position	Sufficient

## Key Ranking Factors

- An experienced senior management team;
- A solid audit and compliance environment;
- Institutional backing and financial support of its parent company, CBRE Services Inc.;
- Various systems used to effectively service the portfolio even though the main servicing system has not been updated for an extended period of time;
- A lengthy track record of servicing loans from multiple capital sources and of various property types and locations;
- A change in the company ownership interest led to multiple changes to the platform, which in our opinion have been effectively managed (though all of the changes have not been fully implemented yet); and
- Significant use of outsourcing servicing tasks to an overseas third party, Genpact, under a service-level agreement currently in place through 2017.

## Opinion

S&P Global Ratings' ranking on CBRE Loan Services Inc. is STRONG as a U.S. commercial mortgage primary servicer. The outlook is stable. On May 16, 2016 we affirmed our STRONG ranking (see "CBRE Loan Services Inc. STRONG Commercial Loan Servicing Ranking Affirmed; Outlook Is Stable").

CBRE Loan Services was formerly known as GEMSA Loan Services L.P. (GEMSA). GEMSA was formed as a joint-venture between CBRE Capital Markets and GE Real Estate (GE). In December 2015, CBRE Capital Markets assumed full control of the company by acquiring GE's ownership interest and subsequently, rebranded the company in March 2016.

The ranking reflects our view of the CBRE Loan Services' experienced senior management team and staff, solid audit and control environment, institutional backing, and lengthy track record of servicing loans from multiple capital sources. In our opinion, the effects of the ownership interest change on CBRE Loan Services' operations are mitigated by the fact that CBRE Capital Markets previously held a 50% ownership interest in the company.

## Outlook

The outlook for the ranking is stable. Despite the sale of approximately \$32 billion of GE's assets serviced by CBRE Loan Services, the volume of CBRE Loan Services' portfolio has increased since our last review. It benefits from a diverse set of loan products that should enable it to continue to grow in a controlled manner. As previously noted, CBRE Loan Services outsources a significant amount of servicing tasks to Genpact, a business process service provider with operations in India. In our opinion, a termination of this 15-plus-year relationship could lead to instability in CBRE Loan Services operations and could pressure our current ranking.

## Key Changes Since Our Last Review

- GE transferred its ownership interest to CBRE Capital Markets, which now runs the company as a wholly owned subsidiary;
- The servicing company was rebranded as CBRE Loan Services Inc.;
- A new senior managing director with 23 years of industry experience now leads the company in the Americas;
- CBRE Loan Services underwent a reduction in force of 19 employees, which included the CEO, the managing director of operations, and the chief legal counsel. After this reduction, the company had 106 employees as of Dec. 31, 2015;
- GE sold \$32 billion in assets, the vast majority of its portfolio that was serviced by CBRE Loan Services;
- CBRE Loan Services transitioned from GE's information technology platform to CBRE Capital Markets' platform, which included obtaining a direct license for McCracken Strategy;
- Under the new ownership structure, there are no longer marketing restrictions that prohibit CBRE Loan Services from marketing its services directly to third parties;
- CBRE Loan Services now has better access to CBRE Services Inc. shared services groups, which include audit and finance, risk management, compliance, legal, marketing, and IT;
- After the change in ownership interest, CBRE Loan Services was launched as a global business and an individual in London was appointed as the global head who manages the non-U.S. based servicing portfolio; and
- CBRE Capital Markets was approved as a designated seller/servicer of Freddie Mac's small balance loan platform in second-quarter 2015, which provides an additional source of subservicing volume to CBRE Loan Services.

In addition to conducting an onsite meeting with servicing management, our review includes current and historical SEAM data up to and including the period ending Dec. 31, 2015, as well as other supporting documentation provided by the company.

## Profile

### Servicer Profile

Servicer name	CBRE Loan Services Inc.
Primary servicing location	Houston
Parent holding company	CBRE Services Inc.
Loan servicing system	STRATEGY

CBRE Loan Services is a wholly owned subsidiary of CBRE Capital Markets Inc., which in turn, is a wholly owned indirect subsidiary of CBRE Services Inc. Before a December 2015 ownership change, CBRE Loan Services was a joint-venture limited partnership between CBRE Capital Markets and GE. CBRE Capital Markets assumed full control of the company in December 2015 after acquiring GE's ownership interest.

According to management, CBRE Services Inc. is the world's largest commercial real estate services and investment firm (as measured by 2015 revenue). The company employs more than 70,000 worldwide. CBRE Services Inc. offers a variety of commercial real estate services, including investment management, appraisal and valuation, and property, facilities, and project management.

As of year-end 2015, approximately \$107 billion of commercial real estate loans were serviced globally by CBRE Loan Services. The vast majority (approximately \$102 billion) of this portfolio is currently being serviced in the U.S, making CBRE Loan Services the fifth largest U.S. primary and master servicer by unpaid principal balance (UPB), according to the Mortgage Bankers Association (MBA). We note that the MBA survey ranked servicers by their combined primary and master servicing volumes, even though CBRE Loan Services does not currently have any master servicing volume. In the U.S., the company services commercial mortgage loans for life companies, government-sponsored entities (GSEs), banks, pension funds, and third-party investors. The company's servicing operations are headquartered in Houston, with additional offices in Atlanta and Seattle.

**Table 1**

<b>Total Servicing Portfolio</b>					
	<b>Unpaid principal balance (mil. \$)</b>	<b>YOY change %</b>	<b>No. of loans</b>	<b>YOY change %</b>	<b>No. of staff</b>
<b>Primary/master servicing</b>					
Dec. 31, 2015	101,465.6	1.6	4,987	(10.8)	106
Dec. 31, 2014	99,847.8	6.3	5,593	(6.5)	132
Dec. 31, 2013	93,967.9	(0.1)	5,981	(31.1)	129
Dec. 31, 2012	94,075.8	0.5	8,685	(12.6)	130
Dec. 31, 2011	93,642.2		9,935		130

**Table 2**

<b>Total Portfolio by Investor Product Type</b>			
<b>Loan Type</b>	<b>UPB (mil. \$)</b>	<b>Loan count</b>	<b>UPB (%)</b>
Life insurance companies	46,907.4	1,954	46.2
CMBS/CDO/ABS	26,872.1	1,423	26.5
Fannie Mae	11,987.4	596	11.8
Freddie Mac	7,867.3	531	7.8
On own or parent's balance sheet	6,679.6	374	6.6
Other third-party investors (REITs, investment funds, etc.)	711.2	70	0.7
Warehouse/held for sale	440.6	39	0.4
<b>Total</b>	<b>101,465.6</b>	<b>4,987</b>	<b>100.0</b>

UPB--Unpaid principal balance. CMBS--Commercial mortgage-backed securities. CDO--Collateralized debt obligation. ABS--Asset-backed securities.

**Table 3**

<b>Portfolio Breakdown By Property Type And State(i)</b>				
	<b>UPB (mil. \$)</b>	<b>UPB (%)</b>	<b>No. of properties</b>	<b>Properties (%)</b>
<b>Type</b>				
Multifamily	52,414.0	51.7	2,776	34.6
Office	15,854.8	15.6	423	5.3
Retail	10,305.5	10.2	587	7.3
Industrial	2,638.1	2.6	278	3.5
Lodging	2,292.0	2.3	57	0.7
All other	17,961.2	17.7	3,909	48.7
<b>Total</b>	<b>101,465.6</b>	<b>100.0</b>	<b>8,030</b>	<b>100.0</b>
<b>State</b>				
CA	17,285.6	17	979	12.2
TX	16,638.2	16.4	1,237	15.4
NY	7,255.0	7.2	151	1.9
FL	6,979.5	6.9	747	9.3
WA	5,886.0	5.8	408	5.1
All other	47,421.3	46.7	4,508	56.1
<b>Total</b>	<b>101,465.6</b>	<b>100.0</b>	<b>8,030</b>	<b>100.0</b>

(i)As of Dec. 31, 2015. UPB--Unpaid principal balance.

## Management And Organization

The subranking for management and organization is **STRONG**. The subranking is based on our view of the company's experienced senior management team, good leverage of technology, and solid internal control environment.

### Organization structure, staff, and turnover

A new senior managing director with 23 years of industry experience leads the company's U.S. operations of 106 employees. The previous CEO departed as part of a reduction in force after the ownership interest change. Before assuming his current role, the new senior managing director represented CBRE Capital Markets' legal interest in GEMSA when it was a joint venture.

Four managing directors who lead CBRE Loan Services' operations, commercial mortgage-backed securities (CMBS) portfolio management, institutional/agency portfolio management, and compliance departments report to the recently installed senior managing director. In addition to these four departments, CBRE Loan Services now also better utilizes CBRE shared services available to CBRE Capital Markets' affiliates, including the audit and finance, IT, HR, marketing, legal, compliance, and risk management groups.

CBRE Loan Services currently outsources various servicing related tasks to Genpact, a third-party service provider with operations in India. As part of the current service-level agreement with Genpact, which runs until the end of 2017, the company plays a substantial role in hiring and management of the Genpact team. CBRE Loan Services has worked with Genpact since 1998. There are approximately 60 dedicated Genpact employees assisting with a variety of tasks

including bank reconciliations, operating statement analysis, new loan set-up, and escrow analysis. CBRE Loan Services employees regularly visit Genpact in India and bring Genpact employees to Houston for training when there is a significant process migration. CBRE Loan Services utilizes other vendors for commonly outsourced servicing processes such as property inspections, uniform commercial code (UCC) tracking, and real estate taxes.

CBRE Loan Services' senior managers average 26 years of industry experience, while middle managers and staff average approximately 17 and 12 years of industry experience, respectively. Average senior and middle management industry experience is slightly below, while average staff experience is above that of ranked peers. Company tenure for senior and middle management and staff is on par with or greater than ranked peers (see table 4).

**Table 4**

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	26	20	17	12			12	7

(i)As of Dec. 31, 2015.

For the six months ended Dec. 31, 2015, CBRE Loan Services had an elevated turnover rate--approximately 22% overall and 7% for senior management--compared with its peers. These high turnover rates were largely due to a planned reduction in force as a result of the change in ownership interest. Over the full-year 2015, there was only a 13% voluntary turnover rate, which management attributed to employee comfort with CBRE Loan Services' corporate culture. We will continue to monitor turnover at CBRE Loan Services under the new ownership structure and management team.

### Training

CBRE Loan Services has a dedicated trainer/manager to work with senior staff to develop, implement, and track numerous training programs. Employees completed an average of 42 hours of training during 2015, compared to a 40 hours per employee target. Employees of servicers that track training hours average between 40-50 hours of training a year.

Training courses include both corporate-level training on topics such as ethics, harassment, and data privacy, along with industry-specific courses such as GSE and MBA-sponsored courses. CBRE Loan Services also holds job-specific training on internal systems and processes. General education courses are also offered for Microsoft Office products.

### Systems and technology

CBRE Loan Services demonstrates effective use of technology, and has a broad array of automated servicing processes including loan/portfolio surveillance and managerial compliance tracking. It conducts loan servicing in-house using an older version of the Strategy servicing system and a variety of proprietary ancillary systems, supported by a nine-person IT group. According to management, system upgrades were not implemented because the GE loans that were previously in the portfolio were more complex and not easily supported by more recent Strategy versions. Now that the majority of GE's assets were sold, management plans to either upgrade or replace the Strategy servicing system. Features of CBRE Loan Services' current systems and technology include:

- The system of record is maintained on McCracken Financial Corp.'s Strategy software, which is also used by several of our other ranked servicers; however, the company has not implemented updates since versions 12B and 14B;
- GFAST and IFAST are proprietary applications used for property financial statement capture and analysis, and insurance monitoring and analysis, respectively;
- Additional proprietary applications are used for property reserves, bank reconciliations, borrower requests, and compliance tracking;
- A data warehouse integrates all systems, provides feeds for investor reporting (both investor reporting package [IRP] and ad hoc for private clients), and facilitates exception tracking and measurement;
- A borrower website provides access to loan-level details including billing statements, payment histories, escrow, and draw information;
- Investor DataMine is an investor website that provides data and reports on loans across CBRE Loan Services' portfolio; and
- Information Steward is used to quickly and effectively monitor and improve data integrity.

CBRE Loan Services' disaster recovery process is undergoing changes following GE's exit from the business. Presently, annual testing is performed on the SQL database servers that feed CBRE Loan Services' systems, which are housed in Dallas with a backup in Atlanta. A third-party vendor provides disaster recovery testing for a separate iSeries server. CBRE Loan Services has designated a backup servicing location in Dallas where employees will have access to servicing systems. Notebook workstations are provided to key staff members in the event of an actual emergency. Targeted recovery timeframes for all servicing functions are within industry norms, with virtually no interruption in payment processing.

The most recent disaster recovery test was completed in November 2015 with only a few minor issues identified; however, this was only a limited test of business continuity procedures since CBRE Loan Services was in the process of switching from GE's to CBRE Capital Markets' IT infrastructure. A more thorough test is planned for June 2016.

### **Internal controls**

CBRE Loan Services has an internal control program that is expected to be buttressed by CBRE Capital Market's audit and finance, risk management, compliance, and legal departments now that the company is wholly owned by CBRE Capital Markets. Policies and procedures (P&Ps), supplemented by detailed process maps, are tailored to various transactional and functional activities based on investor requirements. According to management, the process maps are reviewed annually or ad-hoc if significant process changes occur. Unlike most STRONG-ranked primary servicers, CBRE Loan Services does not track the dates the P&Ps were reviewed and updated. In 2016, CBRE Loan Services plans to eliminate all GE loan process steps in the P&Ps and process maps.

The company is subject to numerous external audits throughout the year including Regulation AB and Uniform Single Attestation Program (USAP), Freddie Mac and Fannie Mae, master servicers, and regular audits for other third-party servicing assignments. The 2015 USAP and Regulation AB certifications noted no exceptions and the 2015 Freddie Mac audit contained only minor findings.

Currently, CBRE Loan Services has a compliance group of three employees who perform internal audits as a part of its quality control program. The scope includes a quarterly review of various servicing functions using a small sampling of loan files and system records to ascertain adherence to procedures. The audit staff oversees the dissemination of the quarterly measurement reports to senior management and monitors corrective actions. The most recent internal audit

was completed in third-quarter 2015 and only a few low-level findings were reported. Cash, investor reporting controls, and bank reconciliations will be examined independently at least annually by the corporate CBRE Capital Markets audit team. The compliance team is scheduled to perform a full scope audit of CBRE Loan Services during 2016 or early 2017.

CBRE Loan Services uses the Compliance Tracking System (CTS), a technology tool, to abstract all investor/deal reporting requirements including calendaring, advancing principal and interest (P&I) and corresponding advance interest calculation methodology, and remitting dates. IFAST and GFAST can also track investor reporting requirements.

### Corporate insurance and litigation

The company has represented that its director and officers (D&O) and errors and omissions (E&O) insurance coverage is sufficient for the size of its servicing portfolio. There are no pending servicing related lawsuits.

## Loan Administration

The subranking for loan administration is STRONG.

The loan administration ranking is based on a diverse servicing portfolio with many different investor and property types, documented processes that involve a high level of automation, and the use of compliance tracking software and metrics to help ensure that loans are being serviced according to investor and regulatory requirements.

CBRE Loan Services' primary servicing portfolio has grown in terms of UPB over the past five years; however, the number of loans has decreased significantly over the same time period (see table 4). This is in large part attributable to CBRE Loan Services previously servicing a portfolio of small-balance commercial loans which have since run-off. The average loan size increased from \$9.4 million as of year-end 2011 to \$20.3 million as of year-end 2015. The portfolio is geographically dispersed and contains all major property types, though a little more than half of the portfolio by UPB is multifamily. Overall and compared to its ranked peers, CBRE Loan Services' delinquency rates have been low. Approximately 0.1% of loans were 30 or more days delinquent in terms of UPB as of Dec. 31, 2015 (see table 4).

**Table 4**

Primary Servicing Portfolio											
	Dec. 31, 2015		Dec. 31, 2014		Dec. 31, 2013		Dec. 31, 2012		Dec. 31, 2011		
	Unpaid principal balance (mil. \$)	No.	Unpaid principal balance (mil. \$)	No.	Unpaid principal balance (mil. \$)	No.	Unpaid principal balance (mil. \$)	No.	Unpaid principal balance (mil. \$)	No.	
Primary loans	101,465.6	4,987	99,847.8	5,593	93,967.9	5,981	94,075.8	8,685	93,642.2	9,935	
Average loans size	20.3	--	17.9	--	15.7	--	10.8	--	9.4	--	
<b>Delinquent (%)</b>											
30 days	0.0		0.0		0.0		0.0		0.1		
60 days	0.0		0.0		0.0		0.0		0.4		



**Table 4**

Primary Servicing Portfolio (cont.)										
	Dec. 31, 2015		Dec. 31, 2014		Dec. 31, 2013		Dec. 31, 2012		Dec. 31, 2011	
	Unpaid principal balance (mil. \$)	No.	Unpaid principal balance (mil. \$)	No.	Unpaid principal balance (mil. \$)	No.	Unpaid principal balance (mil. \$)	No.	Unpaid principal balance (mil. \$)	No.
90+ days	0.1		0.0		0.1		0.5		0.6	
Total	0.1		0.0		0.1		0.5		1.1	

**New loan setup**

CBRE Loan Services maintains sound procedures for new loan setup and data integrity.

- A highly automated process is in place for new loan setup, including verification of key factors, including all dollar, rate and index fields, along with file documentation.
- Data capture and input is facilitated via direct download from originator/investor systems (i.e., CBRE Loan Services' pipeline systems).
- Pre-closing and post-closing checklists are used.
- Third-party tax service vendor data are checked and uploaded to the servicing system, and file imaging systems are validated against setup sheets.
- System error reports are run and the operations area performs internal document-to-system checks to confirm accuracy of the information.

**Payment processing**

The cash operations departments both onshore at CBRE Loan Services and at Genpact handle the payment processing function with a high degree of efficiency and automation.

- CBRE Loan Services has multiple lockbox accounts that are interfaced to the servicing system at defined times throughout the day, and the lockbox bank provides imaged copies of all checks and wires, facilitating research efforts if needed.
- The daily payment clearing account reconciliation is well-controlled with dual sign off.
- The daily cash operation, including all receipt and funds transfer activities, is detailed within the procedure manual.
- As of Dec. 31, 2015, CBRE Loan Services received 100% of borrower payments electronically via wire transfer, ACH or lockbox.
- We note that CBRE Loan Services has had a higher percentage of unidentified items in suspense accounts for 90 or more days in terms of total outstanding UPB than its STRONG ranked peers. These items totaled \$472,271 as of June 30, 2015, and decreased to \$126,916 as of Dec. 31, 2015.

**Investor reporting**

CBRE Loan Services appear to have implemented appropriate segregation of duties, along with managerial oversight and approval requirements for investor reporting and remitting activities.

- Separate dedicated units within the operations group handle investor reporting, and remittance wire transfers.
- Investor/deal abstracts are established in the CTS, which aids in monitoring requirements and with reporting and remitting calendars.
- Reporting teams are assigned to each investor group. A Genpact team does most of the remittance reports and wires for CMBS, which is highly automated, while CBRE Loan Services analysts handle Fannie Mae and Freddie

Mac reporting

- All reporting is electronic and there appears to be proper controls over cash movement with remittances handled via the cash department's wire desk.
- An online bank account and integrated account reconciliation program facilitates custodial account reconciliation.

### **Escrow administration**

The global operations group has separate teams that administer tax and insurance payments. Also, a third-party tax service assists by monitoring the tax status of escrowed and nonescrowed loans. These tax data from the service provider are integrated into the Strategy servicing system. Genpact works with the tax service to update the servicing system records to reflect the annual tax escrow analysis. They then inform CBRE Loan Services' tax administrators of potential future shortages on escrowed loans.

The dedicated insurance group administers property insurance reviews with Genpact helping with data capture. System-generated insurance renewal notices for escrowed and non-escrowed loans are sent 45 and 30 days before renewal, and post expiration, respectively. Insurance analysts contact borrowers directly to clear escrow deficiencies. CBRE Loan Services images all insurance renewal certificates, invoices, and file correspondence. Force-placed insurance coverage, through an appropriately rated carrier, has a 120 day look-back provision. CBRE Loan Service force-places insurance for deficient loans immediately upon notification from the borrower that the deficiency won't be cleared or no later than 60 days after the policy expires, a decrease from 90 days at the time of our last review. As of Dec. 31, 2015, CBRE Loan Services had three loans that were force-placed.

A separate department tracks UCC filings subsequent to setting them up in iLien, a third-party vendor web-based system. As of Dec. 31, 2015, there were no lapsed continuation filings for the 3,713 loans requiring UCC filings.

### **Early stage collections**

CBRE Loan Services has proactive procedures for early-stage collections:

- Daily delinquency reports are automated and reviewed by management.
- CBRE Loan Services calls borrowers on the 10th day of delinquency.
- System generated payment reminders are sent on the 11th and 21st days of delinquency.
- The servicing system maintains current and historical collection information.

The managing director of portfolio management reviews weekly delinquency reports to ensure that collection efforts are appropriate and follow procedure.

### **Asset and portfolio administration**

Genpact helps spread monthly borrower operating statements using the proprietary GFAST system. Through the second half of 2015, CBRE Loan Services received 99% of 2014 year-end operating statements and reviewed nearly all of the operating statements that were received.

CBRE Loan Services outsources property inspections to third party vendors. Per internal policy, any property with a UPB greater than \$2 million must be inspected annually. During the second half of 2015, CBRE Loan Services had 1,365 properties inspected and all inspection reports were received no later than 30 days past the due date. Genpact records deferred maintenance items and CBRE Loan Services and Genpact analysts follow-up with borrowers as necessary.

Portfolio management and surveillance is administered by both the CMBS and institutional/agency portfolio management groups. The Strategy system is used to generate a watchlist for CMBS loans that follows Commercial Real Estate Finance Council standards. Depending on the type of watchlist trigger, a GENPACT or CBRE Loan Services analyst will reach out to the borrower to obtain more information if necessary. If the borrower is unresponsive, the portfolio manager will ultimately try to make contact. Genpact or CBRE Loan Services analysts update watchlist comments every 60-90 days depending on the issue.

A dedicated CBRE Loan Services team, with the assistance of two Genpact analysts, monitors adherence to loan covenants by creating ticklers in the Strategy system. Monthly automated reports provide analysts and portfolio managers with a list of upcoming loan trigger events. Depending on complexity, either a CBRE Loan Services or Genpact analyst contacts the borrower to obtain proper documentation when necessary to determine if a loan trigger event has occurred.

### **Borrower consents**

CBRE Loan Services has dedicated customer service representatives, a main toll-free phone number, and an e-mail address for borrower inquiries. Customer service representatives directly respond to informational requests; however, requests requiring credit approvals are forwarded to the portfolio management groups. A proprietary database application tracks borrower requests. For the full year 2015, CBRE Loan Services reported 48 assumptions and four property releases and four leasing consents for CMBS loans. The average internal time spent on these borrower consents was approximately 31, 18, and six days, respectively, though we noted a small sample size for property releases and leasing consents.

## **Financial Position**

CBRE Loan Services' financial position is SUFFICIENT.

## **Related Criteria And Research**

### **Related Criteria**

- Revised Criteria For Including RMBS, CMBS, And ABS Servicers On Standard & Poor's Select Servicer List, April 16, 2009
- Servicer Evaluation Ranking Criteria: U.S., Sept. 21, 2004

### **Related Research**

- Select Servicer List, May 12, 2016
- CBRE Loan Services Inc. STRONG Commercial Loan Servicing Ranking Affirmed; Outlook is Stable, May 16, 2016

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