FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms CMLS's Commercial Primary, Master and Special Servicer Ratings

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Fitch Ratings - Austin - 21 Oct 2024: Fitch Ratings has affirmed CMLS Financial Ltd.'s (CMLS) commercial primary, master, and special servicer ratings, while concurrently revising the primary servicer Rating Outlook to Positive from Stable:

--Primary servicer rating affirmed at 'CPS2-'; Outlook revised to Positive from Stable;

--Master servicer rating affirmed at 'CMS3+'/Stable;

--Loan level special servicer rating affirmed at 'CLLSS2-'/Stable.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
CMLS Financial Ltd.			
CMBS Loan Level Special Servicer	CLLSS2- Rating Outlook Stable	Affirmed	CLLSS2- Rating Outlook Stable

CMBS Primary Servicer	CPS2- Rating Outlook Positive Affirmed	CPS2- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

KEY RATING DRIVERS

The affirmation of the primary and master servicer ratings reflects CMLS's strong market position and brand reputation, its commitment to maintaining and expanding its core servicing architecture, it's continued focus on expanding French language offerings due to recent growth within the region, the servicer's experienced and tenured management team with its core proficiency in multifamily and conventional servicing, the servicer's recent release of enhanced training programs and platforms, and the company's demonstrated governance architecture with a demonstrated lack of material non-compliance findings in its external audits over the past few years.

The revision of the primary servicer's Outlook to Positive from Stable reflects recent and expected staffing growth, improved internal controls, continued demonstrated proficiency within primary servicing, and the expectation of a new borrower portal within two years.

The affirmation of the loan level special servicer rating reflects CMLS's continued demonstrated proficiency in resolving commercial mortgage loans, evidenced by six non-securitized loan resolutions over the past 12 months, five of which fully paid down, the company's dedication to maintaining its asset management technology infrastructure, the servicer's stable and consistent management and asset management teams, and the company's brand recognition within the Canadian markets.

The rating also considers recent management departures within the special servicing group, as well as staffing structure with potential key person risk, and the nature of the Canadian commercial mortgage market. Fitch noted that the number of active specially serviced assets increased to 10, totaling CAD 128.8 million, up from zero loans as of the previous review, noted to be high compared to historic levels for the servicer. CMLS continues to maintain a low asset-to-asset-manager ratio of 3:1, which is noted to be low when compared to other servicers, indicating additional capacity should the need arise.

business functions, with the recent acquisition being nesto's first entry into commercial real estate and servicing. Concurrently, all three ratings have a stable or positive rating outlook, reflecting Fitch's views that the ratings will continue to be consistent or improve within the next 12 months to 24 months given current conditions within the servicer.

CMLS is a privately-owned nonbank lender and servicer that acts primarily as a mortgage broker, placing capital from institutional and fund investors into commercial mortgages across Canada for which it retains servicing on the majority of loans. The company has been originating and servicing CRE loans since 1974 and is an active participant in government-sponsored and private Canadian securitization markets. CMLS affiliate companies Intellifi and CMLS Asset Management (CMLS AM) provide software and mortgage valuation services, as well as fund asset management services to investors.

On June 21, 2024, nesto announced that it acquired CMLS Group, the parent company of CMLS. Nesto is a residential focused Canadian mortgage lender that does not have commercial lending origination or servicing operations. Following nesto's acquisition of CMLS, commercial servicing operations are not expected to be materially impacted given a lack of business function redundancy between both companies.

The servicing group is integral to the overall CRE lending platform, retaining servicing on over 50% of originated loans. CMLS continues to expand originations focusing on conventional loans and other CMHC-insured products, including high yield construction loans. In late 2023 the servicer onboarded a large servicing mandate, followed by the issuance of a securitization (CCMOT 2024-6) in 2024, with expectations to continue to issue securitizations in the coming years as financial markets continues to improve.

As of June 2024, CMLS maintained 44 servicing employees for primary, master and special servicing, consistent with Fitch's prior review. All employees are fully dedicated to servicing functions. There were five new staff members added to the team to offset departures, averaging six years of commercial real estate experience. Consistent with the servicer's initiative to further bolster its multilingual capabilities, three of the new team members were in Montreal while the residual two were in Vancouver.

The company expects to continue to add staff through the end of the year with potentially six additions. The primary and master servicing management team of 12 collectively

Overall turnover in primary and master servicing decreased to 9%, down from 12% as of Fitch's prior review. Turnover was concentrated at the staff level and consisted of four departures, three of which were voluntary while one was an internal transfer within CMLS, adjusting for the internal transfer, turnover was 7%. The special servicing function experienced senior management turnover of 40% given the retirement of one of its three senior managers, who had been with the company for 27 years.

The manager's duties and responsibilities have been distributed amongst the remaining two senior managers, as well as the four middle managers within the function. Fitch identified three asset managers, averaging a tenure of six years with CMLS, while averaging nine years of workout experience. An asset to asset management ratio of 3:1 was calculated for the team indicating excess capacity.

CMLS uses SS&C Technologies' Precision LM Version 6 as its primary servicing system of record. Dedication to technology is a strength, with CMLS consistently investing in updating and enhancing its servicing technology, evidenced by CMLS' intention to upgrade to Version 7 in 2024, its plans to develop and deploy a dedicated borrower website, the continued push to automate the loan boarding process, as well as other ongoing technology objectives. The company also plans to continue refining the use of its upload utilities while concurrently seeking solutions to automate the loan boarding process, a key feature of servicers rated highly by Fitch.

The servicing team is responsible for a growing portfolio of 2,713 loans totaling CAD35.3 billion. As of June 30, 2024, CMLS's total servicing portfolio has grown 51% by balance and 29% by loan count since 2022 as it continues to add larger balance loans and new clients, including the new servicing mandate previously noted. The servicing portfolio, backed primarily by CMHC loans (65% of the total loan count), reflects the company's core strength of multifamily-based lending, followed by retail (11%), industrial (8%) and mixed use (5%), with the remainder secured by other property types.

Geographically, the portfolio's loans are secured by CRE properties primarily based in Ontario, followed by Quebec and British Columbia (40%, 20% and 19%, respectively). CMLS currently has approximately 50 investor clients for which it provides commercial servicing functions for. The company continues to focus on multilingual servicing staff given the increasing demand for French speaking CRE professionals within Canada, indicated by

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Global Structured Finance Rating Criteria (pub. 19 Jan 2024)

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CMLS Financial Ltd.	-

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