Servicer Evaluation: National Cooperative Bank N.A.

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Related Criteria And Research
### Servicer Evaluation: National Cooperative Bank N.A.

#### Ranking Overview

**Commercial primary**

<table>
<thead>
<tr>
<th>Overall ranking</th>
<th>ABove Average</th>
</tr>
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<tbody>
<tr>
<td><strong>Subrankings</strong></td>
<td></td>
</tr>
<tr>
<td>Management and organization</td>
<td>Above Average</td>
</tr>
<tr>
<td>Loan administration</td>
<td>Above Average</td>
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<tr>
<td>Outlook</td>
<td>Stable</td>
</tr>
</tbody>
</table>

**Commercial master**

<table>
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<th>Average</th>
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<tr>
<td><strong>Subrankings</strong></td>
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<tr>
<td>Management and organization</td>
<td>Above Average</td>
</tr>
<tr>
<td>Loan administration</td>
<td>Average</td>
</tr>
<tr>
<td>Outlook</td>
<td>Stable</td>
</tr>
</tbody>
</table>

**Commercial special**

<table>
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<tbody>
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<td><strong>Subrankings</strong></td>
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<tr>
<td>Management and organization</td>
<td>Above Average</td>
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<td>Loan administration</td>
<td>Average</td>
</tr>
<tr>
<td>Outlook</td>
<td>Stable</td>
</tr>
</tbody>
</table>

**Financial position** Sufficient

#### Key Ranking Factors

- High experience levels for senior, middle management, and asset managers;
- Expertise in servicing blanket mortgage loans for cooperative properties;
- High average experience levels and low turnover rate among servicing personnel;
- Solid loan administration and portfolio management practices across all asset types;
- Formalized approach to employee training;
- Modest volume of oversight of third-party servicers; and
- Limited property type and geographic diversity.

#### Opinion

Standard & Poor’s Ratings Services’ overall ranking on National Cooperative Bank N.A. (NCB) as a commercial loan servicer is ABOVE AVERAGE. On Aug. 12, 2015, we affirmed our ABOVE AVERAGE ranking on NCB as a commercial mortgage primary loan servicer and our AVERAGE overall rankings on NCB as a commercial mortgage master and special servicer. The ranking outlooks are all STABLE.
As a mortgage loan servicer with pool-advancing and direct trustee reporting duties, NCB continues to operate with suitable loan administration and asset surveillance practices led by a well-experienced professional staff. Its annual Regulation AB compliance testing bolsters the internal audit function, which is supplemented by NCB's own performance metrics process, regulator examinations, and other periodic audits. Over time, NCB has implemented automation enhancements to its numerous functional system applications.

As a master servicer, NCB covers subservicer compliance and related pool reporting duties. NCB's master servicing activity remains limited, overseeing only four subservicers with a portfolio of 32 loans as of June 30, 2015. The company's routine oversight and subservicer audit practices are adequately designed to ensure compliance, proactive loan management, and reporting accuracy. NCB's strong track record and knowledge of trustee and investor accounting requirements—involving a number of commercial mortgage-backed securities (CMBS) pools for which it performs full servicing without reporting to other master servicers—further support the master servicer ranking.

NCB serves as the special servicer for CMBS and other third-party-owned cooperative loans, as well as 45 securitized transactions, including CMBS deals of non-cooperative loans. NCB's special servicing experience is based on averting losses related to its distressed underlying cooperative mortgage loans and commercial real estate (CRE) loans, which still account for most of the servicing portfolio. NCB's historically low portfolio delinquency rates have limited its special servicing activity, largely because of its niche role as a cooperative housing lender. NCB has seven special servicing employees, including three seasoned managers with solid expertise in handling the bank's underperforming commercial real estate loans and cooperatives. It maintains acceptable overall staffing depth for special servicing relative to its portfolio needs.

**Outlook**

The outlooks for all rankings are STABLE. We expect NCB to meet its primary, master, and special servicing obligations in a fully competent manner for CMBS, agency, and other third-party investor structures (see table 1).

### Table 1

<table>
<thead>
<tr>
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<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Primary loans</td>
<td>5,644.0</td>
<td>3,879</td>
<td>5,663.4</td>
<td>3,923</td>
<td>5,708.6</td>
<td>4,027</td>
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<tr>
<td>Master (SBO) loans</td>
<td>107.7</td>
<td>32</td>
<td>92.3</td>
<td>23</td>
<td>56.3</td>
<td>16</td>
</tr>
<tr>
<td>Total servicing</td>
<td>5,751.6</td>
<td>3,911</td>
<td>5,755.7</td>
<td>3,946</td>
<td>5,764.9</td>
<td>4,043</td>
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<tr>
<td>Average loan size</td>
<td>1.5</td>
<td>--</td>
<td>1.5</td>
<td>--</td>
<td>1.4</td>
<td>--</td>
</tr>
<tr>
<td>Special servicing</td>
<td>Loans</td>
<td>98.0</td>
<td>45</td>
<td>65.5</td>
<td>33</td>
<td>84.2</td>
</tr>
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Table 1

<table>
<thead>
<tr>
<th>REO properties</th>
<th>3.5</th>
<th>1</th>
<th>3.5</th>
<th>1</th>
<th>7.8</th>
<th>3</th>
<th>5.2</th>
<th>2</th>
<th>0.0</th>
<th>1</th>
<th>0.9</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total special servicing</td>
<td>101.5</td>
<td>46</td>
<td>69.0</td>
<td>34</td>
<td>92.0</td>
<td>41</td>
<td>78.8</td>
<td>35</td>
<td>53.2</td>
<td>24</td>
<td>53.6</td>
<td>2</td>
</tr>
</tbody>
</table>

SBO—Serviced by others. REO—Real estate owned.

Key Changes Since The Last Review

- Servicing entity name changed to National Cooperative Bank N.A. (NCB) from NCB, FSB.
- NCB has leveraged the user functionality of its Backshop origination system. The system is now used for workout tracking by the Special Servicing department and produces asset summary reports.
- The servicer has also worked with the vendor to migrate PSA abstracts to Backshop from a proprietary system.

Profile

Table 2

<table>
<thead>
<tr>
<th>Servicer Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servicer Name</td>
</tr>
<tr>
<td>Primary servicing location</td>
</tr>
<tr>
<td>Parent holding company</td>
</tr>
<tr>
<td>Servicer affiliates</td>
</tr>
<tr>
<td>Loan servicing system</td>
</tr>
</tbody>
</table>

Historically, Standard & Poor's has ranked NCB, FSB as a primary master and special servicer. On Dec. 31, 2014, NCB, FSB converted to a national bank and now operates as National Cooperative Bank N.A. (NCB).

NCCB

National Consumer Cooperative Bank (NCCB), NCB's parent company, was organized in 1978 via the National Consumer Cooperative Bank Act. Since 1980, NCCB and NCB have provided financial services to eligible cooperative enterprises. NCCB, acting through NCB, makes loans to entities and individuals other than eligible cooperatives.
NCB

NCB is a federally chartered commercial bank, with retail branches in Southwestern Ohio and non-retail branches in New York and Washington, D.C., that provides mortgage banking services as well as deposit products and cash management to its national customer base.

NCB is the largest U.S. servicer of CMBS backed by cooperative housing loans. In addition to servicing loans in rated CMBS transactions, NCB is a Fannie Mae seller/servicer. In all of its pooling and servicing agreements (PSAs), NCB is the appointed special servicer for the cooperative mortgage loans in the pool. It is also the appointed CMBS special servicer for non-cooperative loans in three separate transactions.

NCB originates, refinances, and sells (underlying and individual units) cooperative loans to Fannie Mae, with servicing retained (see tables 3 and 4). It also has U.S. Small Business Administration (SBA) loan origination and servicing operations and continues to originate other CRE loans for its own balance sheet.

Table 3

Portfolio Breakdown By Property Type And State(i)
### Table 3

<table>
<thead>
<tr>
<th>Type</th>
<th>Unpaid principal balance (mil. $)</th>
<th>Unpaid principal balance (%)</th>
<th>No. of properties</th>
<th>Properties (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying co-operative</td>
<td>4,906.6</td>
<td>85.3</td>
<td>3,470</td>
<td>88.7</td>
</tr>
<tr>
<td>Retail</td>
<td>266.5</td>
<td>4.6</td>
<td>96</td>
<td>2.5</td>
</tr>
<tr>
<td>Office</td>
<td>208.4</td>
<td>3.6</td>
<td>52</td>
<td>1.3</td>
</tr>
<tr>
<td>Multifamily</td>
<td>86.2</td>
<td>1.5</td>
<td>38</td>
<td>1.0</td>
</tr>
<tr>
<td>Defeased loans (see Notes)</td>
<td>52.1</td>
<td>0.9</td>
<td>20</td>
<td>0.5</td>
</tr>
<tr>
<td>All other</td>
<td>231.9</td>
<td>4.0</td>
<td>235</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Total(ii)</strong></td>
<td><strong>5,751.6</strong></td>
<td><strong>100.0</strong></td>
<td><strong>3,911</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

(i) As of June 30, 2015. (ii) Percentage totals may not add up to 100.0 due to rounding.

### Management And Organization

Our subranking for management and organization is ABOVE AVERAGE.

The subranking reflects:

- High average experience levels for the staff and management, including personnel experienced with non-cooperative mortgage loans;
- Solid organizational depth; and
- An internal audit function that centers on Regulation AB compliance and monthly performance benchmark tracking across selected servicing tasks.

### Staffing, training, and organizational effectiveness

The organizational structure is designed to support loan production, sales, and servicing, as well as deposit production, credit oversight, compliance, and accounting. On average, management team members’ experience levels (both within the industry and NCB tenure-wise) are comparable to those of many other servicers we rank (see table 4). As of June 30, 2015, NCB had 48 employees involved in primary, master, and special servicing; 42 have direct primary and master servicing responsibilities, and the remaining six are responsible for special servicing functions. These figures translate into loan-per-employee rates of roughly 92 for primary and seven for special servicing.

### Table 4

<table>
<thead>
<tr>
<th>Industry Experience/Company Tenure(i)</th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
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</table>
We believe that, given its predominately well-experienced personnel, NCB's program for ongoing employee training is sensibly organized by training development personnel within the human resources department, and staff participation is adequately monitored by a web-based system. Sessions cover servicing-related topics and involve a combination of internally and externally held events. For the first six months of 2015, average training hours per servicing personnel were approximately 35 hours, which is very good considering average level of industry experience and company tenure.

Technology

NCB uses the Strategy servicing system through an application service provider (ASP) agreement with McCracken Financial Solutions Corp. The majority of core tracking and reporting is managed through Strategy and the Supplemental Servicing System (S3), a proprietary web-based application used to view and submit financial statements, track loan-level covenants, monitor insurance renewals, and track inspections. Data from the S3 system are used to monitor a variety of loan-level details related to site inspections, insurance requirements, financial statement tracking and spreading, UCC filing statement expirations, and borrower covenants. The system automatically generates borrower reminder/exception notices and meets the latest Commercial Real Estate Finance Council (CREFC) investor reporting package (IRP) standards. Each software application has an individual assigned to it for technology-related support.

Other key components of NCB's information technology framework include:

- NCB Investor Covenant Compliance System (NICCS): a proprietary system used to abstract terms and conditions per the respective PSAs.
- Secondary Market Accounting and Reporting Tool (SMART): a proprietary system designed to integrate pool information from Strategy and S3 into a single data warehouse. It facilitates report creation and data verification in preparation for loan sales.
- PRISM: A proprietary read-only application that consolidates data from NICCS, SMART, S3 (Covenant Tracking), and Strategy. It allows data to be viewed in segments such as at the loan level, pool level, by geographic location, customer accounts tied to the loan, borrower accounts held at NCB, prepayment information, and deal/securitization participants.
- Credit Memo Database (referred to internally as the Post-Approval Database, PAD): This tracks credit memos, subordinate debt requests, payoff letter preparation, etc.
- NCB uses a Lotus Notes-based application to automate research requests and track the correction of any loan-level discrepancies. Users create a request that is delivered directly to the appropriate working group.
- Portfolio and loan-level performance data, including monthly CREFC reports, are available to investors via a...
A dedicated borrower website provides access to loan activity information and covenant compliance status.

A disbursement database for funding new loans or advances is integrated with the servicing and accounting general ledger.

Document imaging and file management software captures all credit and legal files starting at loan inception.

The business continuity plan for servicing operations is tested quarterly. Overall disaster readiness is controlled by a designated incident management team overseeing response and recovery activities. Appropriate data backup protocols are in place along with annually tested, detailed disaster recovery, and business continuity plans. The most recent plan test was in December 2014, with no material issues.

Internal Controls

Policies and procedures
The quality and content of NCB's policies and procedures (available online via a shared network drive) are acceptable; however, we believe additional task-specific details may increase effectiveness in guiding new hires. Managers, including those from loan accounting and risk management, review and update the servicing procedures annually and as policy changes arise. NCB's online PSA abstract database supplements the written procedures, a tool to ensure borrower and deal-level compliance.

Currently, subservicer management includes a detailed pre-audit questionnaire, the completion of annual subservicer audits, and other representations from NCB's management that signify prudent oversight practices.

NCB has adequate special servicing policies and procedures to address its handling of any non-cooperative and cooperative mortgage loans. The special servicing policies emphasize proactive asset management strategies.

As part of the Enterprise Risk Management Program, NCB has implemented an operational risk management committee, represented by senior management from all operational departments. An operational risk scoring model is reviewed monthly by the committee to rank the quantity of operational risk in each area and the quality of managing those risks. The risks identified were obtained from the Comptrollers Handbook for Community Bank Supervision and include:

- Annual operational losses;
- Intrusive attacks or viruses;
- Changes in operational infrastructure;
- Business continuity management;
- Dependency on outsourced vendors;
- Operational exposure from fraud, errors, processing disruptions;
- Employee turnover; and
- Exposure to noncompliance to laws and regulations.

Operational risk in each category and for each department is considered, tracked, and, when necessary, reserves are established for expected losses.
Internal audit
We believe NCB maintains an internal audit program that shows its internal controls are functioning as planned, that assets are adequately safeguarded, and that the organization is operating by the established policies. NCB's internal audit department is responsible for coordinating with public accounting firm Crowe Horwath to provide various audits and reviews according to individual servicing agreements. Internal audit results are reported directly to the organization's audit committee, which determines the frequency of audit testing and the scope of procedures via a comprehensive risk assessment process.

NCB's Operational Risk Management Committee meets monthly to review a performance report focusing on approximately 20 timeliness and accuracy metrics covering selected servicing processes. The committee reviews statistics on responsibilities such as account reconciliation, financial and regulatory reporting compliance, investor remittances, payment processing, system availability, and new loan setup.

In February 2015, Grant Thornton LLP issued annual Regulation AB and USAP compliance certifications for calendar-year 2014; each denoted full compliance without any cited exceptions. The U.S. Treasury Department's Office of the Comptroller of the Currency also performs an annual safety and soundness examination of NCB.

Loan Administration

Primary servicing
The ranking for primary servicing loan administration is ABOVE AVERAGE.

We believe NCB has very effective loan administration operations. Our ranking takes into account:

- A high level of process automation to maintain efficiency;
- The portfolio remains highly concentrated in cooperative housing loans, but has some diversification with other CRE collateral types of smaller to moderate size;
- CMBS transaction experience that includes servicing some non-cooperative housing loans;
- NCB's implemented payment processing changes to increase efficiency by working with its cooperative managing agents and lockbox agent to reduce the still relatively high volume of payments received by check delivered to its street address;
- Proactive portfolio surveillance and reporting practices for CMBS and other investor types; and
- An effective process for managing borrower consents and requests, such as assumptions and releases.

### Table 5

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<thead>
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</thead>
<tbody>
<tr>
<td>Unpaid principal balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary loans</td>
<td>5,751.6</td>
<td>3,911</td>
<td>5,663.4</td>
<td>3,923</td>
<td>5,708.6</td>
<td>4,027</td>
</tr>
<tr>
<td>Unpaid principal balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average loans size</td>
<td>1.5</td>
<td>--</td>
<td>1.4</td>
<td>--</td>
<td>1.4</td>
<td>--</td>
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</tbody>
</table>

Table 5
Table 5

<table>
<thead>
<tr>
<th>Delinquent (%)</th>
<th>30 days</th>
<th>60 days</th>
<th>90+ days</th>
<th>Total</th>
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<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.71</td>
<td>0.71</td>
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<tr>
<td></td>
<td>0.22</td>
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<td>1.00</td>
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<tr>
<td></td>
<td>0.12</td>
<td>0.03</td>
<td>1.21</td>
<td>1.36</td>
</tr>
<tr>
<td></td>
<td>0.11</td>
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<td>1.04</td>
<td>1.41</td>
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<tr>
<td></td>
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<td>0.01</td>
<td>1.27</td>
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<tr>
<td></td>
<td>0.30</td>
<td>0.13</td>
<td>1.55</td>
<td>1.97</td>
</tr>
</tbody>
</table>

For the primary servicing portfolio, the number of loans serviced per employee was roughly 92 as of June 30, 2015. The portfolio's concentration of cooperative loans (90% of the portfolio) drives this high ratio. In general, servicing responsibilities for the primary serviced portfolio tend to be less labor-intensive relative to other CRE loan types. Cooperative housing loans typically require annual rather than quarterly financial statement collection and reviews, generally do not have property insurance escrow accounts, and rent roll analysis is not conducted.

NCB assigns servicing staff administrators (asset managers), portfolios, and borrower relationships according to investor types, such as for Fannie Mae or CMBS. This enables the staff to specialize in the reporting and task management requirements for each investor.

New loan setup
For the 6 months ended June 30, 2015, NCB boarded roughly 220 new loans into servicing (all as a master servicer). It has sound, well-detailed procedures for boarding new loans, which have not changed since our last review. Asset managers are responsible for ensuring that each loan is set up on the loan accounting system within four days of its closing date. An internal setup sheet is used to capture all of the loan and borrower information profiles for each new setup.

- After setting up a loan on the servicing system, an asset manager reviews the system edit reports and passes the loan to a separate team member to undergo a secondary review of the input data against the loan documents.
- To spot errors, the servicing supervisor reviews all daily system and new loan setup exception reports. In addition, the supervisor also performs a quality control review of all new loan setup transactions on a quarterly basis.
- In conjunction with new loan boarding, key borrower compliance requirements and document inventories are boarded to the covenant tracking system for ongoing exception monitoring.
- NCB requires that all new loans are boarded by month-end to simplify reporting and minimize reconciling issues. Additionally, its goal remains to board new loans within four days of their closing date and by month end.
- As a control safeguard, an asset manager must board 10 consecutive loans without any errors to establish and maintain loan-passing authority. Asset managers can lose loan-passing authority if they do not maintain a 95% accuracy rate.
- NCB images all credit and document files into a document repository at loan inception and throughout the loan's life.

Payment processing
We consider NCB's payment processing unit to have a suitable level of automation compared with other same-ranked servicers.
NCB requires all new borrowers to process monthly debt service payments via automated clearing house (ACH) direct debit payments. Consequently, its percentage of borrowers remitting by ACH has continued to increase and stands at roughly 70% as of June 30, 2015. The servicer continues to discourage sending checks to its street address. However, it still received approximately 15% of payments in this form as of June 30, 2015, reflecting a common practice among managing agents for major cities cooperatives.

NCB is working to establish a banking arrangement so that it can directly debit managing agents' cooperative association maintenance accounts to pay required debt service and any other escrowed amounts. Once implemented, NCB expects payment processing efficiency to substantially improve.

- Approximately 84% of all payments were posted to the servicing system electronically, through a bank lockbox (about 8% of payments), wire transfer (6%), or ACH (70%). The remaining 15% of payments are paper checks mailed to NCB's offices, and deposited via remote deposit capture machines. These require manual posting.
- Live checks are deposited electronically through imaged copies, which obviate the need for a bank courier.
- A mechanism is in place for the electronic transfer funds between clearing and custodial accounts. The posting of payment from the lockbox to the servicing system is also an electronic process.
- Checks received on site are handled with sufficient controls for payment posting.
- Daily clearing account balancing, payment posting, and all cash deposit preparation tasks are properly allocated among the staff.
- NCB demonstrates sound payoff procedures and associated approval controls to ensure accuracy. NCB prepares a payoff/refinance worksheet and exercises additional control measures to ensure that all requests are reviewed and approved by management before distribution to the borrower.
- NCB has a critical accounts team review major bank accounts weekly for processing accuracy and timely reconciliations.
- NCB has sound controls to administer approximately 12 cash-managed or hard lockbox loans, in which it receives gross rental income to apply toward debt service and escrows. The servicer also monitors trigger events for 16 springing lockbox loans. The covenant tracking system monitors these funding and cash management requirements with a senior asset manager overseeing these loans.

Investor accounting and reporting

NCB's investor compliance and credit team includes 12 people dedicated to investor reporting, consent processing, insurance monitoring, inspection monitoring, financial statement analysis, credit monitoring and other compliance matters. (The company has separate loan accounting personnel responsible for the associated remitting and account reconciliation work.) For investor reporting, the team has three dedicated members that ensure timely reporting of the IRP according to CREFC standards across 72 transactions with an approximate unpaid principal balance (UPB) of $4.94 billion. The department displays sound control practices for meeting the company's monthly reporting and cash remittance requirements.

As of June 30, 2015, NCB serviced 3,879 loans with an approximate UPB of $5.7 billion that required CREFC IRP reporting standards. The company reports directly to the trustee on some deals, and alternately to third-party master servicers on others. NCB completes all reporting and remitting functions electronically. CREFC reporting requirements are built into the company's investor reporting system applications in conjunction with its data warehouse. In addition, the servicer is firmly experienced with Fannie Mae reporting formats. Other factors reflecting good overall investor reporting capabilities are:
• NCB’s procedures demonstrate an appropriate segregation of duties among the staff for investor reporting, remitting, and custodial bank account reconciliations;
• Its investor website provides functionality on par with like-ranked servicers;
• NCB uses a manual process for the daily transfer of funds from the central clearing account to transaction-specific custodial accounts;
• It had no unidentified items in its custodial bank accounts aged greater than 60 days as of Jun. 30, 2015; and
• No wire remittance errors took place during the year ended Jun. 30, 2015.

Asset administration: tax, insurance, reserves, and UCC tracking
NCB has staff dedicated to asset administration functions; we believe it follows a set of thoroughly documented procedures dictating a proactive approach toward the monitoring of taxes, insurance, and account reserves, especially insurance administration. As of June 30, 2015, NCB escrowed approximately 22% of its servicing portfolio for real estate taxes. Given that cooperative loans (the vast majority of NCB’s loans) typically do not have insurance escrow requirements, less than 5% of the portfolio had insurance escrow requirements at June 30, 2015. Cooperatives typically include insurance costs as a component of the monthly maintenance fee. However, for nearly all non-cooperative real estate loans, NCB escrows real estate taxes, insurance, replacement reserves, and tenant improvement (TI) leasing reserves. While replacement reserve escrows are not required for cooperative housing loans, monitoring procedures are in place to ensure each cooperative borrower maintains an adequately funded reserve account. In some cases, the servicer may require a capital improvement/repair escrow that is released when the borrower completes specific repairs. Other aspects regarding asset administration include:

• All escrow accounts are managed through the servicing system through which asset managers can directly and efficiently order escrow disbursement checks.
• For a significant portion of the portfolio, escrowed taxes are paid quarterly to the New York City Department of Finance. NCB connects electronically with the New York City tax authority to have immediate access to tax records.
• A third-party tax service is used to ensure timely tax payments on all serviced loans even if they are not escrowed.
• NCB incurred $795 in tax penalties during the six month period ended June 30, 2015 (based on total taxes paid of roughly $63 million), indicating a well-controlled tax process.
• The covenant tracking system provides substantial detail on each loan’s insurance coverage requirements and policy information, including a compliance checklist.
• Insurance notices regarding noncompliance items are automatically generated based on system ticklers.
• The official policy expiration notice is issued 30 days in advance, but a covenant letter reminder is provided at least 60 days before policy expiration. We believe initiating reminder notices as early as 45-60 days before expiration is a prudent practice, followed by many other servicers.
• A force-placed policy is available with an acceptable 60-day retroactive coverage provision, although a number of other servicers have policies with longer retroactive coverage periods;
• NCB manages reserve account and insurance loss draft disbursements with acceptable approval procedures.
• The covenant tracking system tracks UCC expirations and filings for continuations are made with sufficient lead time. NCB monitors outstanding UCC filings through vendor-purchased software. NCB reported no instances of lapsed filings during the six month period ended June 30, 2015.

The escrow analysis calendar for the entire portfolio was traditionally designed around New York City’s billing practices, because that is where the majority of NCB’s serviced cooperative loans are located. While a large percentage
of the portfolio's properties are located in New York City, the timing of yearly escrow analyses are coordinated in conjunction with the assessment and billing practices of multiple taxing authorities.

**Portfolio performance management**

NCB's investor compliance team includes dedicated staff members to monitor portfolio and loan-level performance. Related procedures and reporting practices dictate an overall proactive approach to the information gathering process. The group's responsibilities include investor communications, related reporting, borrower consent processing, financial statement collection and analysis, and credit reviews. The group includes specialists managing property inspections and insurance coverage compliance. Except for a third-party inspection vendor, NCB does not outsource any aspects of its surveillance functions.

A loan-level risk rating process is in place along with a watchlist function that adheres to CREFC requirements. It includes criteria addressing the distinct features of noncooperative and cooperative properties. When asset managers uncover covenant compliance and other issues, a separate loan review staff overseeing the watchlist function reviews them. They conduct regular credit reviews during which loans are either added to or deleted from the watchlist. NCB's loan risk rating system uses a 10-point rating scale that meets Office of The Comptroller of the Currency (OCC) and FDIC guidelines to track repayment risk and determine loan loss reserves. The loan review staff adjusts risk ratings based on new inspection results, financial statement reviews, or other collateral issues.

Systems automatically flag certain watchlist trigger events because of financial statement reviews and site inspections. In addition, the covenant-tracking system incorporates data elements from both inspections and financial statements. Asset managers use the system to track the receipt of these items and to normalize the data. For CMBS portfolios, NCB spreads the statements according to CREFC file formats.

Financial statement collection rates at year-end 2013 were lower than industry norms, because cooperative loans traditionally submit financial statements later in the year. However, as of Dec. 31, 2014, it posted a 97% total portfolio collection rate and 95% analyzed for 2013 year-end statements inclusive of all real estate loans, an improvement over the prior year's totals.

For portfolio-held, CMBS, or Fannie Mae loans, all properties with loan balances exceeding $2 million are inspected annually. Loans with balances of less than $2 million are inspected every other year. Regardless of the balance, all Fannie Mae loans are inspected according to Fannie Mae's mandated schedule based on its own internal risk rating system.

While a third-party vendor performs the majority of inspections, NCB servicing personnel engaged a separate engineering firm to re-inspect a representative sample of properties and compared it to the third-party inspections received during the year as a quality control measure and vendor assessment. For all properties that were scheduled for inspection during 2014, virtually all of the inspections were received within 30 days of the due date.

NCB follows acceptably proactive collection procedures for loans up to 60 days past the due date. Cooperative housing loans typically have a 10-day grace period, while other loans in the portfolio have no grace period. Phone calls to borrowers begin one day after the due date or grace period, if one exists. A default letter is sent 30 days after the missed payment date. This differs from what we consider the customary servicing practice of sending a first notice.
within a few days of a missed payment. NCB says the vast majority of cooperative housing loan delinquencies are administrative in nature and not the result of a chronic financial problem; they typically are cured within 30 days. Overall, internal reporting and collection tracking practices appear sound.

**Borrower requests and consents**

NCB handles borrower requests and consents in a controlled, effective manner. Servicing team members assist in the processing of consent requests, which include subordinate debt, defeasance, assumptions, negative pledge agreements, lease reviews, development rights, and subordinate non-disturbance agreements. As needed, NCB consults with its general counsel to interpret PSA language and obtain real estate mortgage investment conduit opinions. A consent tracking database tracks pending requests and the elapsed time for processing each request.

**Master Servicing**

Our subranking for master servicing loan administration is AVERAGE.

**Sub-servicer accounting, cash management, and investor reporting**

NCB uses cash management and investor reporting controls that are similar to the primary serviced loans to oversee its subserviced loans. Using the servicing system, the assigned asset manager monitors subserviced loan payments and escrow balances and disbursements. In conjunction with NCB’s loan accounting staff, the asset manager reviews for accuracy subservicer monthly IRPs and remittances. Functions include:

- Asset managers review subservicer remittance reports for completeness, accuracy, and compliance and resolve any discrepancies directly with the subservicer.
- The investor compliance staff also review subservicers' CREFC IRPs for accuracy and completeness and then electronically uploads them into NCB’s own systems for trustee pool-level reporting and remitting.
- The loan accounting staff is responsible for reviewing subservicer custodial bank reconciliations.
- Subservicers are required to submit quarterly certifications regarding the status of the taxes, insurance, reserve accounts, and UCC filings. After reviewing these quarterly certifications, asset managers discuss necessary resolutions with subservicers.
- The system tracks tax payment due dates and insurance expiration dates for master serviced loans.

**Table 6**

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Unpaid principal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Master (SBO) loans</td>
<td>107.7</td>
<td>32</td>
<td>92.3</td>
<td>23</td>
<td>56.3</td>
<td>16</td>
</tr>
<tr>
<td>Subservicers</td>
<td>--</td>
<td>4</td>
<td>--</td>
<td>3</td>
<td>--</td>
<td>2</td>
</tr>
<tr>
<td>Average loan size</td>
<td>3.4</td>
<td>--</td>
<td>4.0</td>
<td>--</td>
<td>3.5</td>
<td>--</td>
</tr>
</tbody>
</table>

*SBO—Serviced by others.*

One level of control NCB has not undertaken is the reconciling of its monthly investor remittances to the trustee's own
waterfall calculations. To ensure receipt of accurate remittance reports and wires, other master servicers we rank have formal procedures to validate expected remittance amounts with subservicers prior to remittance dates.

**Escrow administration oversight**
Subservicers are required to submit quarterly certifications regarding the status of the taxes, insurance, reserve accounts, and UCC filings. Asset managers review submissions and follow up with subservicers as necessary.

**Portfolio management oversight**
NCB adheres to proactive portfolio management procedures similar to those for its primary serviced loans. Its written policies and procedures covering subservicer oversight and reporting requirements for handling financial statement collections and re-analyses, site inspection tracking and reviews, deferred maintenance follow-up, and watchlist/risk rating management are the same as those for its primary serviced portfolio. NCB shadow services all third-party subserviced loans from payment posting to financial statement analysis. Its master-serviced loans are subject to the same watchlist criteria applied to its primary serviced loans. During the first half of 2015, it re-analyzed 100% of the financial analyses and reviewed all property inspections its subservicers performed.

NCB's subservicing agreements do not provide the subservicer with the ability to process consents on its behalf. Corresponding policy dictates the requests, including explanations of their nature and supporting documentation, must be delivered to NCB within five business days after the borrower submits the requests.

NCB does have advancing responsibility on CMBS deals for which it does not report through another master servicer. NCB's current deals require advancing at the investor rather than loan level, although the servicer does maintain a scheduled and actual balance for each loan. The Strategy servicing system is used to track and monitor the advance process. The special assets department leads recoverability determinations along with other senior managers. NCB's policies and procedures contain the templates addressing the CREFC appraisal reduction and net liquidation formula for realized loss determinations as exhibits. The servicing and accounting senior management meet quarterly to reconcile all outstanding advances between the Investor Compliance, Loan Accounting, and Accounting departments. Special Servicing is represented and all decisions regarding nonrecoverability are communicated at a monthly operations risk management meeting.

**Sub-servicer audit and compliance**
There is one staff member dedicated to managing the subservicer audit function, and the investor compliance staff conducts on-site or desktop audits for all subservicers at least annually; given the portfolio volume, we believe this frequency is sustainable. The scope of the audits broadly covers each subservicer's compliance across various servicing functions and includes:

- History;
- Financial statement collection and analysis;
- Organization;
- Late charges;
- Staff/Training;
- Servicing system;
- Policies and procedures;
- Disaster recovery plan;
• PSA/reference tools;
• Payment processing;
• Watchlist delinquency;
• Bank reconciliation;
• UCCs/taxes/insurance;
• Bank ratings/accounts;
• Reserves completion;
• Investor reporting and compliance;
• Letter of credit;
• Property inspections;
• Escrow analysis;
• Payoffs/releases;
• Special loan requirements;
• Consent processing;
• Trigger-event monitoring; and
• Customer service.

In addition, the subservicer must complete a detailed questionnaire covering its servicing organization and practices before an audit, and they must provide remediation plans for cited deficiencies within seven business days after the audit is performed.

Special Servicing

Our ranking for special servicing loan administration is AVERAGE.

We based the ranking collectively on the workout staff's experience, adequate special servicing policies and procedures, satisfactory internal control practices covering transaction approvals, sufficient reporting tools, and a limited, but successful track record of curing default situations. The NCB portfolio primarily comprises cooperative housing and, to date, has been characterized by low delinquencies and few asset transfers to special servicing. The assets that have been transferred to special servicing are primarily CRE or cooperatives where there has been fraudulent activity.

NCB's special servicing experience directly correlates with its success in minimizing losses within its cooperative and commercial loan portfolio (which contains real estate collateral in addition to business assets). The staff has considerable experience managing CRE loans involving bankruptcy. Borrower bankruptcies have included retail businesses, wholesalers, and business loans. As of June 30, 2015, NCB was named special servicer on 31 transactions, with 548 CMBS loans, and an outstanding principal balance of approximately $1.4 billion (see tables 7-9). To date, NCB has never needed to complete a foreclosure on a market rate cooperative.

Table 7

| Special Servicing Portfolio |
### Table 7

**Special Servicing Portfolio (cont.)**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Unpaid principal balance (mil. $)</strong></td>
<td>98.0</td>
<td>45</td>
<td>21.5</td>
<td>65.5</td>
<td>33</td>
</tr>
<tr>
<td><strong>Average time in special servicing (months)</strong></td>
<td>3.5</td>
<td>1</td>
<td>41.1</td>
<td>3.5</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>101.5</td>
<td>46</td>
<td>23.7</td>
<td>69.0</td>
<td>34</td>
</tr>
</tbody>
</table>

Note: Average time reflects time in months from the date the loan first became specially serviced to the reporting date.

### Table 8

**Total Special Servicing Portfolio--Loan Resolutions**

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</thead>
<tbody>
<tr>
<td><strong>Unpaid principal balance (mil. $)</strong></td>
<td>3.6</td>
<td>3</td>
<td>68.0</td>
<td>32.7</td>
<td>5</td>
</tr>
<tr>
<td><strong>Average time in special servicing (months)</strong></td>
<td>6.5</td>
<td>3</td>
<td>10.5</td>
<td>17.5</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3.6</td>
<td>3</td>
<td>68.0</td>
<td>32.7</td>
<td>5</td>
</tr>
</tbody>
</table>

Resolution breakdown

- **Returned to master**
  - 6.5
  - 3
  - 10.5
  - 17.5
  - 5
  - 16.8
  - 2.9
  - 4

- **Full payoffs**
  - 2.1
  - 1
  - 19.6
  - 13.2
  - 3
  - 8.5
  - 1.3
  - 1
  - 8.6
  - 12.2
  - 8

- **DPO or note sale**
  - 1.5
  - 2
  - 92.0
  - 26.2
  - 2
  - 19.3
  - 1.4
  - 1
  - 16.1

- **Foreclosed loans**
  - 0.2
  - 1

Total/average

- **Returned to master**
  - 3.6
  - 3
  - 68.0
  - 32.7
  - 5
  - 16.9
  - 14.6
  - 4
  - 9.2
  - 18.7
  - 6
  - 16.2
  - 15.3
  - 13

DPO--Discounted payoff.

### Table 9

**Total Special Servicing Portfolio--Real Estate-Owned Sales**

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td><strong>Amount (mil. $)</strong></td>
<td>0.0</td>
<td>0</td>
<td>--</td>
<td>1.3</td>
<td>1</td>
</tr>
<tr>
<td><strong>Average age (months)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Estimated market value</strong></td>
<td>0.0</td>
<td></td>
<td></td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td><strong>Net sales</strong></td>
<td>0.0</td>
<td></td>
<td></td>
<td>1.2</td>
<td></td>
</tr>
</tbody>
</table>
Table 9

<table>
<thead>
<tr>
<th>Sales/market value (%)</th>
<th>0</th>
<th>--</th>
<th>94</th>
<th>--</th>
<th>93</th>
<th>--</th>
<th>90</th>
<th>--</th>
<th>79</th>
<th>--</th>
</tr>
</thead>
</table>

The ranking affirmation reflected the following factors:

- Effective asset tracking systems;
- Procedural documentation for handling special serviced assets; and
- NCB's still limited experience handling foreclosed properties.

The special servicing staff is a seven-person team responsible for overseeing defaulted loans across all business units. It reports to NCB's managing director of special assets.

NCB's special servicing assignments not involving housing cooperatives have primarily involved small-balance CRE collateral. Additionally they are the named special servicer on seven CMBS deals containing NCB contributed CRE loans). The company also has some experience with assisted living workouts.

Asset managers are assigned approximately three CMBS assets based on the nature of default and asset complexity. Driven by NCB's cooperative concentration and other portfolio characteristics, this is a much smaller asset workload ratio than that of other CMBS special servicers. NCB's special servicing tasks have predominantly been preventative in nature or addressing nonmonetary default issues. When not managing defaulted loan situations, the staff monitors higher risk-rated loans and assists with resolving watchlist issues. It has been able to work with managing agents, sponsors, and cooperative board members to find solutions to cash flow problems that are typically short-term or administrative.

**Loan recovery process**

NCB takes an acceptably proactive approach toward analyzing and resolving troubled loans:

- Within 30 days of a loan's transfer to special servicing, the assigned asset manager completes a file review, assesses the issues, arranges a borrower meeting, documents the status, and evaluates the bank's position.
- Policies require the formal documentation of an initial asset resolution business plan for all specially serviced loans including CMBS, and portfolio loans. The plans are then submitted for approval to a senior manager.
- For all loans held in the portfolio, the asset managers prepare resolution recommendations send them to the managing director of special assets for review and approval.
- NCB produces asset status reports according to PSA requirements.
- Overall, NCB has limited experience with foreclosure management because of the nature of cooperative housing lending. However, the senior managers have experience (via commercial loan and SBA portfolios) resolving loans in litigation during their tenures with NCB. They are also familiar with managing external counsel and leading borrower negotiations.
- The special servicing managers have also handled workouts of some commercial loans in bankruptcy situations. These loans covered retailers, wholesalers, developers, and commercial office buildings.
- We believe a committee approach to transactional approval is the best possible control mechanism; in contrast, NCB's process involves delegating authority such that the managing director of special assets has signature authority for credits up to $3 million. Recommendations for loans greater than $3 million require approval from more senior bank management. We believe this process could benefit from more explicit treatment in the policy
Real estate management and dispositions
Given its historical concentration of cooperative housing lending activity, NCB has had relatively few real-estate owned (REO) management and disposition opportunities. Consequently, policies and procedures for REO management lack the degree of specificity covering property management company reporting, REO bank account management, and broker oversight normally found among more active and experienced CMBS special servicers.

Subcontracting and vendor management
NCB has an approved list for appraisers, environmental assessors, legal counsel, property management agents, and other vendors. Vendors are chosen based on experience, track record, proximity to the property, and local market knowledge, to minimize costs and maximize recoveries.

In-house general counsel is currently in place. NCB maintains on-staff legal representation, and engages outside counsel as needed. Currently, outside counsel is engaged for new loan closings, secondary-market loan sales administration, consent processing, and borrower default. For consistency, NCB uses a standard legal services engagement letter.

Financial Position
The 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

Related Research
- Select Servicer List, Sept. 11, 2015
- National Cooperative Bank N.A. Primary, Master, And Special Servicer Rankings Affirmed; Outlooks Are Stable, Aug. 12, 2015