

## Morningstar DBRS Confirms CMLS Financial Ltd.'s Servicer Rankings

### CMBS

DBRS, Inc. (Morningstar DBRS) confirmed its MOR CS2 commercial mortgage primary servicer ranking and its MOR CS3 commercial mortgage master servicer and special servicer rankings for CMLS Financial Ltd. (CMLS or the Company), which operates in Canada. The trend for all three rankings remains Stable.

On June 20, 2024, nesto, Inc. acquired CMLS and its affiliates. CMLS noted that it has not had, nor does it foresee, any material changes to its commercial servicing operations resulting from its new ownership.

CMLS has an experienced senior management team and an acceptably designed organizational structure. Employee turnover continues to be relatively low. To address increased portfolio volume, the Company has been proactively adding staff as well.

The effective technology platform centers on a current version of a well-recognized commercial mortgage servicing application integrated with other purchased and proprietary asset management, reporting, and workflow tools. The applications suite addresses CMLS' reporting requirements, including those for its commercial mortgage-backed securities (CMBS) transactions and for the Canada Mortgage and Housing Corporation (CMHC). The Company continues to add enhancements and is currently developing a borrower portal. Data backup routines, recovery testing, and cybersecurity defenses appear to be thorough.

The Company has adequately documented procedures and demonstrates proactive portfolio management and a record of timely and accurate investor reporting. The solid audit and compliance-monitoring regimen includes a risk and control self-assessment process and annual Type II Service Organization Controls (SOC 1) examinations (also known as Canadian CSAE 3416 reports). The most recent SOC 1 was satisfactory. A quality assurance team also samples files for completeness and accuracy and to identify processes that could be strengthened.

As a master servicer, CMLS has a successful performance record with CMBS trustee reporting and handling a modest amount of advancing. The ranking also considers the Company's limited activity with subservicer oversight, which continues to involve only one subservicer. However, tracking and auditing practices are commensurate with the level of required oversight.

Corresponding to CMLS' low loan delinquency rates, its special servicing volume has been light year over year, although activity has increased in the past 18 months. CMLS has acceptably controlled and attentive practices, along with sufficient staffing and technology, to address this work. Loan resolution outcomes have been successful and have mostly involved full payoffs.

As of June 30, 2024, CMLS' total primary and master servicing portfolio contained 2,713 loan positions with an aggregate \$35.27 billion unpaid principal balance (UPB). The portfolio was up 29% by loan count and 40% by UPB from one year earlier. The Company was the primary and/or master servicer on four CMBS transactions that contained 107 loans with an aggregate \$1.46 billion UPB, including one transaction added in 2024. The balance of CMLS' servicing clients were financial institutions, the CMHC, insurance companies, and other third-party investors. Although multifamily loans make up about two-thirds of the portfolio, CMLS services loans of various other property types and across most of the provinces.

As of June 30, 2024, CMLS was the named special servicer on the same CMBS transactions in which it serves as master and primary servicer. The active special servicing portfolio contained 10 loan positions with a combined \$128.8 million UPB, including one CMBS loan.

All rankings are subject to surveillance, which could result in rankings being raised, lowered, placed under review, confirmed, or discontinued by Morningstar DBRS.

Morningstar DBRS North American commercial mortgage servicer rankings are not credit ratings. Instead, they are designed to evaluate the quality of the parties that service commercial mortgage loans. Although the servicer's financial condition contributes to the applicable ranking, its relative importance is such that a servicer's ranking should never be considered as a proxy of its creditworthiness.

Notes:

All figures are in Canadian dollars unless otherwise noted.

The principal methodology is North American Commercial Mortgage Servicer Rankings (August 23, 2024), <https://dbrs.morningstar.com/research/438283>. For more information on this industry, visit [dbrs.morningstar.com](https://dbrs.morningstar.com) or contact us at [info-DBRS@morningstar.com](mailto:info-DBRS@morningstar.com).

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