

Key, Midland Jump Ahead of Wells in Master Servicing

KeyBank toppled Wells Fargo from its long-time perch as the top commercial MBS servicer in the first half, largely by capturing the majority of assignments on single-borrower deals.

Midland Loan Services won more mandates on conduit transactions than its rivals and moved into second place, while Wells — which has led the annual ranking since 2010 — fell to third at midyear, according to **Commercial Mortgage Alert's** CMBS Database.

While total first-half issuance dipped 4% to \$39.1 billion, Key increased its volume by 38%, handling the master-servicing duties on \$14.7 billion of transactions. Some \$12 billion of those were single-borrower deals, or 81% of Key's total, reflecting a three-year push by the bank to expand in that segment of the market.

Midland's tally grew by 37%, to \$12.4 billion in the first half, with 70% of its volume consisting of conduit deals.

Since CMBS issuance revived after the crash, Wells has taken more than 50% of the master-servicing business every year, while Key and Midland typically have battled for second place. But in the first half, Wells' market share plummeted to 30.2%. Meanwhile, Key was awarded 37.6% of mandates by dollar volume, up from 26.3% a year earlier. Midland took 31.8%, up from 22.4%.

Wells, however, maintained its position as the leading servicer for Freddie Mac deals and commercial real estate CLOs.

Freddie floated \$28.7 billion of multi-family securitizations in the first half, a 4% decline from last year. Wells was assigned 34.8% of the deals, with Midland claiming 26.3% and Key 22.7%. Freddie itself took on the master-servicing duties for 16.2% of its volume.

Competition picked up in the growing CLO market, where volume was up 32% over last year. Wells led with four assignments totaling \$2.8 billion, barely edging out SitusAMC, which also had four mandates, for \$2.7 billion. Five other firms won first-half assignments: Trimont Real Estate, Key, C-III Asset Management, Arbor Multifamily and Northmarq Capital.

Key's jump to the lead in the CMBS master-servicer ranking was fueled by a 40% increase in its single-borrower assignments. **Bryan Nitcher**, head of loan servicing and asset management, said that three years ago, the bank identified those transactions as a potential growth area and stepped up efforts there. "It's the [single-asset, single-borrower] deals where we



have our momentum," Nitcher said, predicting the bank would continue to take down the lion's share of those mandates. "We expect consistency in the second half."

Nitcher said servicing single-borrower deals has grown increasingly complex, because investors have pushed for numerous protections in deal documents that require careful tracking. He said Key has upgraded its technology so clients can more easily get status updates on collateral via a web-based portal.

Midland executive vice president Stacey Berger said that with CMBS master servicing already a challenging business, the floating rates, shorter terms, relatively small deposit income and higher prepayment risk that characterize many single-borrower deals make them less appealing. "Other servicers may use different assumptions," he said, "but we do not

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find the [single-borrower] servicing economics particularly attractive.”

Loan servicing is largely a fixed-cost operation, so the non-agency CMBS sector has long been dominated by a few companies that benefit from economies of scale when bidding for assignments. They seek to generate returns on the “float,” including interest earned on reserves and on loan payments held briefly before being forwarded to bondholders.

Despite the shuffling in the first-half rankings, staffers at Key, Midland and Wells all said they haven’t changed their bidding strategies. While Wells’ first-half volume was down 43% — and in the second quarter, it won mandates only on deals where it was a bookrunner — its rivals said it didn’t appear to be stepping out of the market, and was continuing to bid against them.

Since last year, Wells has been operating under an asset cap imposed by the Federal Reserve that prevents it from growing until it resolves management issues. But Wells executive vice president Alan Kronovet said the bank “continues to be com-

mitted” to commercial-mortgage servicing. “We all have our strengths and our focus,” he said, acknowledging Key’s surge in the single-borrowing sector. “Wells is the largest real estate lender in the U.S. Our commitment is strong.”

Kronovet noted his team has spent the last 18 months focusing on customer service, perhaps less so than growth, but said there have been no big changes in the business strategy. He specifically mentioned training efforts, a modest reorganization and technology upgrades.

Wells’ long-time dominance in master servicing is clear when it comes to outstanding balances. As of yearend, it held \$342.7 billion of master- and primary-servicing contracts on U.S. commercial mortgages in CMBS deals, CLOs and other private-label securitizations, according to the Mortgage Bankers Association. It was followed by Midland with \$182.1 billion and Key with \$82.2 billion.

Wells also ranked first, with \$675.3 billion of mandates, when all types of commercial mortgages were counted — including portfolio loans and agency debt. Next up were Midland (\$612.4 billion), Key (\$256.6 billion), Berkadia (\$235.9 billion), and CBRE Loan Services (\$189.4 billion). ❖

Master Servicers for CMBS and CLOs Issued in the First Half

US CMBS		Conduit/ Pooled (\$Mil.)	Single Borrower (\$Mil.)	1H-19 Total (\$Mil.)	No. of Deals	Market Share (%)	1H-18 Total (\$Mil.)	No. of Deals	Market Share (%)	'18-'19 % Chg.
1	KeyBank	\$2,737.9	\$11,962.4	\$14,700.3	37	37.6	\$10,667.2	24	26.3	37.8
2	Midland Loan Services	8,687.3	3,754.0	12,441.3	29	31.8	9,053.1	22	22.4	37.4
3	Wells Fargo	7,370.5	4,435.2	11,805.7	29	30.2	20,546.1	43	50.8	-42.5
4	NCB	120.3	0.0	120.3	2	0.3	216.5	3	0.5	-44.4
TOTAL		18,916.0	20,151.6	39,067.6	66	100.0	40,482.9	64	100.0	-3.5

Freddie Mac CMBS		1H-19 Total (\$Mil.)	No. of Deals	Market Share (%)	1H-18 Total (\$Mil.)	No. of Deals	Market Share (%)	'18-'19 % Chg.
1	Wells Fargo	\$9,969.2	9	34.8	\$8,426.1	7	28.2	18.3
2	Midland Loan Services	7,549.1	8	26.3	8,719.9	8	29.2	-13.4
3	KeyBank	6,496.6	6	22.7	7,872.3	7	26.4	-17.5
4	Freddie Mac	4,658.7	8	16.2	4,841.0	9	16.2	-3.8
TOTAL		28,673.6	31	100.0	29,859.3	31	100.0	-4.0

CRE CLOs		1H-19 Total (\$Mil.)	No. of Deals	Market Share (%)	1H-18 Total (\$Mil.)	No. of Deals	Market Share (%)	'18-'19 % Chg.
1	Wells Fargo	\$2,814.2	4	31.0	\$3,053.8	5	44.2	-7.8
2	SitusAMC	2,736.8	4	30.1	1,662.9	2	24.1	64.6
3	Trimont Real Estate	857.3	1	9.4	368.1	1	5.3	132.9
4	KeyBank	839.2	2	9.2	748.3	2	10.8	12.1
5	C-III Asset Management	687.2	1	7.6	514.2	1	7.4	33.6
6	Arbor Multifamily	650.0	1	7.2	560.0	1	8.1	16.1
7	Northmarq Capital	500.0	1	5.5	0.0	0	0.0	
TOTAL		9,084.7	14	100.0	6,907.3	12	100.0	31.5