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Operational Risk Assessments News Bulletin
Wells Fargo Commercial Mortgage Servicing

Morningstar Affirms Wells Fargo Commercial Mortgage Servicing 'MOR CS2' Rankings as a Primary, Master, and Special Servicer; Forecast for Primary and Master Servicer Rankings Changed to Favorable from Stable.

Morningstar Credit Ratings, LLC (Morningstar) has affirmed its 'MOR CS2' commercial mortgage primary, master, and special servicer rankings on Wells Fargo Commercial Mortgage Servicing (WFCMS), a wholly owned operating division of Wells Fargo Bank, N.A., and changed the forecast for its primary and master servicer rankings to Favorable from Stable. The forecast for the special servicer ranking remains Stable.

The affirmed rankings reflect our assessment of WFCMS's operational infrastructure and portfolio administration capabilities for its respective duties as a primary, master, and special servicer. In particular, Morningstar's assessment and rankings are based on the following composite factors:

- An overall effective technology environment for primary and master servicing to accommodate a diverse and extremely large portfolio. The company stated that it remains on schedule to complete the conversion of its two legacy and separate servicing systems and go live to an upgraded singular application by mid-November 2012. Concurrently, as part of the servicing system conversion project, WFCMS will retire and consolidate a substantial number of its supplemental applications to a much more manageable number. Morningstar recognizes the enormity of WFCMS's technology integration effort and believes that it should lead to a higher degree of operating efficiency. During the next year, we will monitor WFCMS's ability to provide accurate, timely reporting and high quality servicing as it operates within the integrated technology platform and continues to streamline all of its technology applications.
- Our opinion that WFCMS effectively operates through a fully integrated organizational structure, consisting of East- and West Coast-based office hubs, that includes an off-shore support staff provided through the parent bank's subsidiary, Wells Fargo India Solutions (WFIS). During 2012, the servicer continued to increase its WFIS staff and expand their involvement to assist with more primary and master servicing-related tasks that generally remain non-credit decision-oriented and permit only very limited and scripted email communication with borrowers. Morningstar will monitor WFCMS's ability to provide quality servicing as all WFIS staff become further acclimated and trained in their respective duties and workflows, especially as more work migrates to WFIS and the company goes live on its new servicing system by year end.
- The company's retention of a well-experienced staff and management team along with its ongoing recruitment of other industry professionals to broaden the level of servicing expertise to address complex transaction structures and reporting requirements not only for CMBS, but also for other investor clients. As a result of portfolio runoff combined with some staff reductions in the U.S., we find that WFCMS's ratio of loans to employees has been steady overall and is in line with other large volume servicers especially when adding WFCMS's off-shored staff.
- The company's strengthened practices to address the timely and accurate re-boarding of loan modifications received from external special servicers. As a primary/master servicer, WFCMS has a dedicated loan modifications team that includes a legal specialist, loan boarding specialists and staff to liaison with external special servicers. WFCMS also held its first annual summit meeting with special servicers. Finally, the company has reported a steady reduction in its modification boarding turnaround times.
- Our favorable view of WFCMS's website functionality, and its capabilities with respect to data accuracy and surveillance reporting based on our review of selected Morningstar published DealView® CMBS surveillance reports (although a few of the reviewed reports noted some outdated rent roll or other incomplete information).
- The servicer's affirmative representations regarding its level of disaster recovery preparedness and data redundancy practices. Additionally, WFCMS noted that it has successfully invoked its business continuity plan, and has added a new, larger back-up facility to strengthen its data recovery and overall business continuity plan.
- WFCMS's sound internal audit program conducted by the parent bank's audit division, an annual Regulation AB attestation process, various client-led examinations, and a self-administered quality control program which examines approximately 400 control processes on a rolling basis. The latest audit results provided to Morningstar were overall satisfactory. While the recent parent bank audit cited a few exceptions, none were deemed high risk and WFCMS expects to have all remaining open items cleared before year end.

- The servicer's effective practices and procedures for proactive asset-level management and portfolio oversight to monitor collateral performance, tracking compliance and trigger events, and responding to borrower requests and consents, including a program catering to the company's largest institutional borrowers.
- WFCMS's high degree of experience and overall successful performance record as a CMBS master servicer with respect to its reporting abilities, controlled advance determination procedures, proactive sub-servicer oversight and audit practices, and handling a range of master servicing duties for a high volume of large and complex transactions. The company reported a number of remittance and reporting restatements this year, but it stated that most of these occurrences related to trailing items on specially serviced assets or other circumstances not in its direct control that affected final realized loss calculations and reconciliations. Overall, we believe that WFCMS has very diligent practices for accurate and timely CMBS reporting.
- As a special servicer, we believe that WFCMS has controlled operating procedures and a sound track record of asset management and recovery achievement involving a number of large and complex structures, including some large-scale resort property loans. We believe that WFCMS's asset managers are well-experienced although their average years of experience may be somewhat lower than some other higher volume CMBS special servicers. In our view, WFCMS's technology tools for special servicing are less extensive relative to some other CMBS special servicers, but do accommodate the company's tracking and reporting requirements for a still moderate, albeit increased, volume of specially serviced assets.
- WFCMS stated that it usually serves as a CMBS special servicer only for the portfolios in which it serves as master or primary servicer. Furthermore, WFCMS or its parent does not have any affiliated investment interests in the controlling classes of the bonds, and rarely has involved an affiliated brokerage entity to market special serviced assets. Therefore, based on its representations, control practices, and recent asset resolutions, we believe that WFCMS operates without the inherent conflicts of interest found among some other special servicers.

As of June 30, 2012, WFCMS's total primary and master serviced portfolio consisted of 36,704 loans with an unpaid principal balance (UPB) of approximately $430.5 billion. It served as a primary and/or master servicer on 371 CMBS transactions with 25,395 loans having a total UPB of $345.9 billion (323 transactions in a combined primary/master role, 26 transactions as a primary servicer only, and 22 transactions as a master servicer only). In addition, WFCMS served as the named servicer on 14 commercial real estate collateralized debt obligation (CRE CDO) transactions, and serviced 301 loans with a total UPB of approximately $4.4 billion related to these CRE CDO pools or involving other loans with CRE CDO components.

As of June 30, 2012, WFCMS was the named special servicer on 65 transactions (56 CMBS, 5 CRE CDO, and 4 Non-CMBS) containing 2,635 loans with an approximate UPB of $34.8 billion. The company's total active special servicing portfolio, inclusive of CMBS and non-CMBS, contained 113 assets consisting of 94 loans and 19 real estate owned properties (REO) with a combined UPB of approximately $5.3 billion.

Forecast

Favorable for the primary and master servicer rankings.
Stable for the special servicer ranking.

Based on our current assessment, we believe that WFCMS has the requisite operational strengths to continue serving as an effective primary, master, and special servicer for its CMBS and other investor clients. Our *Favorable* forecast for primary and master servicing reflects our expectation that the completion of WFCMS's servicing system conversion and integration project, the company's further training and acclimation of WFIS personnel, along with other pending technology and procedural initatives, should strengthen the servicer's overall efficiency, and potentially lead to enhanced practices and performance levels during the next 12 months.

Our full assessment report on WFCMS is forthcoming and will be made available on our website.

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