

Operational Risk Assessments News Bulletin

Sabal Financial Group, L.P.

Morningstar Affirms Sabal Financial Group, L.P. 'MOR CS3' Commercial Mortgage Special Servicer Ranking; Ranking Forecast Changed to Favorable

Morningstar Credit Ratings, LLC (Morningstar) has affirmed its 'MOR CS3' ranking on Sabal Financial Group, L.P. (Sabal) as a commercial mortgage special servicer. Concurrently, Morningstar has revised its forecast for the ranking to Favorable from Stable. The affirmed ranking with the revised forecast reflects our assessment of Sabal's operational infrastructure and portfolio administration capabilities as a special servicer.

In particular, Morningstar's ranking and revised forecast are based on these factors:

- Enhanced Audit and Training Programs - Our view that Sabal operates with a soundly administered and strengthened audit function that currently centers on the FDIC Compliance Monitoring Contractor program in which a third party audit firm examines Sabal's compliance with FDIC and related investor requirements, and with Sabal's own policies and procedures. The latest audit performed in 2013 did not cite any material exceptions. Sabal recently enhanced its audit program by forming an independent, in-house audit department to perform internal reviews. Sabal also recently hired a training coordinator to oversee the company's training program.
- Expanding Operational History and Entry into CMBS Special Servicing - Since it began managing assets in 2010, Sabal has been significantly increasing its assets under management by acquiring more non-performing loan portfolios directly from banks and through FDIC structured sales. It also gained its first assignment as a named special servicer on a non-performing loan securitization in September 2012, and it expects to become the named special servicer on a second securitization later this year. Sabal continues to increase its asset management activities geographically, although it has yet to manage assets in all regions of the U.S.
- Well-Controlled Asset Management Practices - Morningstar believes that Sabal has sound practices and procedures for controlled asset management. In our view, the company's technology tools specifically for special servicing provide a high level of automation and centralized data management with the capability to address CMBS reporting requirements.
- Effective Conflicts of Interest Management - Our belief that Sabal has effective policies and procedures to manage conflicts of interest. Based on Sabal's representations and control practices, we believe that Sabal operates without the inherent conflicts of interest found among some CMBS special servicers.
- Positively Trending Performance Record - In our view, Sabal is steadily building a very successful record of asset recovery results. Largely reflecting the characteristics of its FDIC and acquired bank portfolios, Sabal's average loan size is smaller than what we typically see in CMBS transactions. However, the company has resolved some higher balance assets involving more complex workout structures and property types. The company stated that it achieved average net recoveries exceeding 115% of value for REO sales during 2011 and 2012. Morningstar believes this is a noteworthy achievement given the generally smaller balances and correspondingly distressed nature of these properties, which, in our opinion, can more often result in worse recovery results than found with larger balance assets. Morningstar also expects to see Sabal's resolution activity increasingly involve more securitized assets given that approximately 35% of Sabal's active portfolio consisted of securitized non-performing loans as of March 31, 2013, and that Sabal expects to soon become the special servicer for a second, similar transaction. Morningstar will continue to assess Sabal's performance as it builds its resolution and reporting record within these securitized transactions.
- Well- Experienced Management and Asset Management Teams - In Morningstar's opinion, Sabal has retained well-experienced senior managers and asset managers for special servicing functions.

- **Sufficient Capacity to Perform Special Servicing Functions** - Based on Morningstar's calculation of Sabal's assets-to-asset manager ratio, the company appears to have sufficient staff resources to keep pace with its recent acquisitions. Although Sabal's ratio of assets-to-asset manager is higher than that of many CMBS special servicers, Morningstar attributes Sabal's higher ratio to the preponderance of small balance assets in Sabal's portfolio. Morningstar has observed that special servicers handling predominantly smaller balance assets can operate with higher workload ratios than special servicers that mainly handle larger balance assets. Furthermore, the company stated that it plans to hire an REO disposition manager and a transaction coordinator this year to assist asset managers and facilitate the overall asset recovery process.

As of December 31, 2012, Sabal's special servicing portfolio was approximately \$2.5 billion based on unpaid principal balance (UPB) and 1,766 by asset count (1,340 loans and 426 REO properties), representing a 4% increase by UPB and 25% increase by asset count compared to December 31, 2011. As of March 31, 2013, Sabal was the named special servicer on one CMBS non-performing loan transaction and expects to be the named special servicer on at least one more transaction this year. During 2012, Sabal resolved approximately 30% of its specially serviced portfolio volume based on the number of assets that it held as of January 1, 2012.

In addition to acquiring non-performing real estate debt portfolios, Sabal provides bank credit advisory services, portfolio management, services more than \$3 billion in commercial real estate and construction/land development loans, and recently established business lines for due diligence services, and homebuilder construction and commercial real estate bridge lending.

Forecast

Favorable

Morningstar believes that Sabal is fully capable of serving as an effective special servicer for its investor clients. The Favorable forecast for the special servicer ranking reflects Morningstar's opinion of Sabal's positively trending performance results, steadily expanding platform and operational improvements, and developing experience as a special servicer for liquidating CMBS trust structures. We also hold a positive view of Sabal's recent and planned personnel additions within its organizational structure to address critical operational areas as the company continues to acquire bank portfolios and become more active as a special servicer in securitized transactions.

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

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