

Operational Risk Assessments News Bulletin

Bank of America, N.A. (BofA Merrill Lynch)

Morningstar Assigns Bank of America, N.A. (BofA Merrill Lynch) 'MOR CS2/Favorable' Commercial Mortgage Primary and Master Servicer Rankings; 'MOR CS2/Stable' Commercial Mortgage Special Servicer Ranking

Morningstar Credit Ratings, LLC (Morningstar) has assigned Bank of America, N.A. (BofA Merrill Lynch) its 'MOR CS2' rankings as a commercial mortgage primary, master, and special servicer. The forecast is Favorable for the primary and master servicer rankings and Stable for the special servicer ranking. The assigned rankings reflect our assessment of BofA Merrill Lynch's operational infrastructure and portfolio administration capabilities for its respective duties as a primary, master, and special servicer. The Favorable forecast for the primary and master servicer rankings reflects BofA Merrill Lynch's overall solid performance, professional experience, and effective practices combined with our belief that BofA Merrill Lynch will maintain organizational stability, provide high quality servicing, and gain additional operating efficiencies, especially from a recent system upgrade, as it continues its efforts this year to re-build portfolio volume.

In particular, Morningstar's assessment and assigned rankings are based on these factors:

Primary and Master Servicing

- *Proven Client and Investor Reporting Capabilities* - Our positive opinion of BofA Merrill Lynch's CMBS servicing capabilities. Morningstar believes that the company has an overall successful performance record as a CMBS master servicer with respect to trustee reporting, advance determination procedures, and handling portfolio administration duties for many complex transactions. It also believes the company has sound sub-servicer oversight and auditing practices.
- *Excellent Technology* - Effective technology tools yielding a high level of automation and centralized data management to accommodate a large portfolio with a high degree of efficiency.
- *Solid Professional Depth/Well-Experienced Staff* - BofA Merrill Lynch's generally low employee turnover and high levels of industry experience among its professional staff. In our view, BofA Merrill Lynch, which operates from Charlotte, NC, uses staff in its offshore facility, BA Continuum Partners, in a sound and controlled manner to assist with certain servicing tasks. Morningstar did observe, however, that senior management's average years of experience at mid-2012 appeared to be slightly lower than that of some other servicers it has ranked.
- *Sound Audit Program* - Our view that BofA Merrill Lynch has an active internal audit program, which encompasses independent audits by its parent bank, USAP and Regulation AB attestations, and GSE reviews. As part of a bank, BofA Merrill Lynch's operations are also subject to OCC examinations. BofA Merrill Lynch maintains quality control and regulatory compliance departments that oversee audit activities and examine certain loan administration processes. The company reported no material findings in any of these recent audits. The latest corporate-led audit was satisfactory in all categories, with no significant issues identified. BofA Merrill Lynch supplements its auditing activities with various performance monitoring and compliance routines embedded in daily workflows. BofA Merrill Lynch expects that the added functionality of its upgraded servicing system version should further facilitate quality control oversight.

Special Servicing

- *Well-Controlled Asset Management Practices* - Morningstar believes that BofA Merrill Lynch has sound practices and procedures for controlled asset management. In our view, the company's technology tools specifically 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 relatively modest-sized volume of specially serviced assets.

- *Effective Conflicts of Interest Management* - Our belief that BofA Merrill Lynch has effective policies and procedures to manage conflicts of interest. The company stated that it usually serves as a CMBS special servicer only for the portfolios in which it serves as master or primary servicer. Furthermore, BofA Merrill Lynch does not have any affiliated investment interests in the controlling classes of the bonds, and does not have an affiliated brokerage entity to market special serviced assets. Based on BofA Merrill Lynch's representations and control practices, we believe that it operates without the inherent conflicts of interest found among some CMBS special servicers.
- *Solid Performance Record* - Based on our assessment, BofA Merrill Lynch has a successful record of asset recovery achievement that includes a number of large and complex structures. The company also has sound practices to monitor CMBS asset valuations and track advance recoverability based on conservative thresholds.
- *Well- Experienced Management Team* - BofA Merrill Lynch handles its special servicing function through a collective effort involving a senior management oversight committee that includes the head of the commercial real estate servicing group. In our view, this is a reasonable organizational approach given that BofA Merrill Lynch has a relatively low volume of specially serviced assets and that it has retained well-experienced senior managers and asset managers.

As of June 30, 2012, BofA Merrill Lynch's combined primary and master servicing portfolio was approximately \$110.2 billion based on unpaid principal balance (UPB) and 9,497 by loan count, representing a 13% decrease by UPB and 8.4% decrease by loan count compared to June 30, 2011. As of June 30, 2012, BofA Merrill Lynch served in the combined role of primary and master servicer on 94 CMBS transactions, and served as a primary servicer on 40 CMBS transactions. The master servicing portfolio included 18 sub-servicers handling 1,100 loans with a combined UPB of approximately \$10.7 billion. As of June 30, 2012 and 2011, BofA Merrill Lynch was the named special servicer on 13 CMBS transactions.

Forecast

Favorable - Primary and Master Servicer Rankings

Stable - Special Servicer Rankings

Morningstar believes that BofA Merrill Lynch is fully capable of serving as an effective primary, master, and special servicer for its investor clients. The Favorable forecast for the primary and master servicer ranking is based on our belief that BofA Merrill Lynch will maintain organizational stability, provide high quality servicing, and recognize additional performance efficiencies as it continues its efforts to stabilize and re-build portfolio volume.

Our full assessment report on BofA Merrill Lynch is forthcoming and will be made available on our website.

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