

Operational Risk Assessments News Bulletin

Midland Loan Services, a division of PNC Bank, N.A.

Morningstar Affirms Midland Loan Services 'MOR CS1' Rankings as a Primary, Master, and Special Servicer; Forecast for All Three Rankings Remains Stable.

Morningstar Credit Ratings, LLC (Morningstar) has affirmed Midland Loan Services, a division of PNC Bank, N.A. (Midland) 'MOR CS1' rankings as a commercial mortgage primary, master, and special servicer. The affirmed rankings reflect our assessment of Midland's operational infrastructure and portfolio administration capabilities for its respective duties as a primary, master, and special servicer. The forecast for each ranking is Stable. Our assessment and affirmed rankings are based on the following composite factors:

Primary and Master Servicing

- *High Degree of Investor Satisfaction* - Our highly favorable view of Midland's capabilities to provide accurate and timely reporting, its responsiveness to information requests, the overall quality of its asset-level reporting content, and its web site functionality. We based our opinion on investor feedback and on our review of selected Morningstar published DealView® CMBS surveillance reports.
- *Proven Client and Investor Reporting Capabilities* - Our positive opinion of Midland's CMBS primary and master servicing capabilities and expertise. In our view, Midland, as a master servicer, has the capacity to meet its ongoing advancing responsibilities based on the company's representations regarding its financial resources. In addition, we believe that Midland has a high degree of experience and an overall successful performance record as a CMBS master servicer with respect to its trustee reporting, controlled advance determination procedures, proactive sub-servicer oversight and audit practices, and handling of master servicing duties for a range of large and complex transactions. The company stated that it did not incur any material reporting errors or restatements during 2011 or first half of 2012.
- *Excellent Technology* - Overall effective technology tools, high level of automation, and centralized data management to accommodate a diverse and large servicing portfolio while also yielding a high degree of operating efficiency.
- *Solid Management Depth/Well-Experienced Staff* - Overall operational stability and high levels of industry experience among management and staff even though Midland experienced increased turnover among staff during 2011 and the loss of a senior manager during the first half of 2012. The company continues to maintain operations within the United States in a centralized location for primary, master and special servicing functions, and does not outsource servicing functions.
- *Comprehensive Audit Program* - An independent quality control and regulatory compliance department that examines a broad range of loan administration and portfolio management processes, and is supplemented with a number of performance monitoring activities and compliance routines embedded in the company's daily workflow practices. Audits encompass USAP and Regulation AB attestation, and Statement on Standards for Attestation Engagements No. 16. As a banking entity, the company also undergoes OCC and various GSE audits.

Special Servicing

- *Well-Controlled and Efficient Asset Management Practices* - Effective practices and procedures for proactive asset-level management and portfolio oversight, which include a number of reporting tools managed through a proprietary technology application, to monitor collateral performance, track compliance and trigger events, and respond to borrower requests and consents.
- *Effective Conflicts of Interest Management* - Our belief that Midland has effective policies and procedures to manage conflicts of interest. A subsidiary of Midland's parent, PNC Financial Services Group, Inc., does have an approximate 20% ownership interest in Blackrock, Inc., which invests in CMBS. With respect to conflicts of interest, Midland stated that, as part of a regulated bank, it must comply with Federal regulations in its interaction with affiliates, and as a result, must treat BlackRock the same as any other non-affiliated entity. Overall, we view Midland as a special servicer that operates essentially without the potential conflicts of interest inherent in transactions in which the special servicer has a close affiliation with the CMBS B-piece investor. In addition, Midland

interests, nor does it use affiliates to purchase or sell assets within securitization trusts as Midland's business model is to act as an independent, third party special servicer without any investment in subordinate CMBS.

- *Continually Positive Performance Record* - Continued successful asset resolution activity since our last review, and proactive special servicer oversight with respect to monitoring valuations and master servicers' advances.
- *Effective Succession Plan* - Our belief that the company has retained a very experienced special servicing management team and has effectuated a sound succession plan to mitigate "key man" risk associated with the departure of the head of special servicing this year. The company indicated that daily operations within special servicing have remained stable because it has had a senior manager in charge of special servicing operations in place since 2007.

As of June 30, 2012, Midland's combined primary and master servicing portfolio was approximately \$254 billion based on unpaid principal balances (UPB) and 31,092 by loan count, representing a slight decrease by UPB and 15% increase by loan count compared to June 30, 2011. During the first half of 2012, Midland resolved approximately 39% of its beginning-year inventory of specially serviced loans and REO assets compared to 39.5% as of June 30, 2011. As of June 30, 2012, Midland was the named master servicer on 67 CMBS transactions, named primary servicer on 161 CMBS transactions, and the named special servicer on 142 CMBS transactions compared to 70 CMBS transactions as the named master servicer, 163 CMBS transactions as the named primary servicer, and 105 CMBS transactions as the named special servicer as of June 30, 2011.

As of September 30, 2012, Midland's entire servicing portfolio consisted of 32,565 loans with a UPB of \$304.9 billion, of which CMBS assets represented 11,430 loans with UPB of \$113.5 billion, institutional assets represented 5,648 loans with UPB of \$59.8 billion, multifamily agency assets represented 7,631 loans with UPB of \$68.7 billion, government assets represented 943 loans with UPB of \$39.8 billion, distressed debt/FDIC assets represented 6,712 loans with UPB of \$10.2 billion and business securitization assets represented 201 loans with UPB of \$12.9 billion.

Forecast

Stable for all three rankings.

We expect the assigned primary, master, and special servicer rankings to remain unchanged during the next 12 months. We believe that Midland is fully capable of serving as an effective primary, master, and special servicer for its investor clients.

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

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