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**FOR IMMEDIATE RELEASE****Morningstar Credit Ratings, LLC Assigns 'MOR CS2' Commercial Mortgage Primary Servicer Ranking and Affirms 'MOR CS1' Commercial Mortgage Special Servicer Ranking for C-III Asset Management, LLC**

NEW YORK, May 19, 2015—Morningstar Credit Ratings, LLC today assigned its 'MOR CS2' commercial mortgage primary servicer ranking and affirmed its 'MOR CS1' commercial mortgage special servicer ranking for C-III Asset Management, LLC. The forecast for both rankings is Stable. The commercial mortgage primary and special servicer rankings are based on the following factors:

**Primary Servicing:**

- Depth of experience as a primary servicer: C-III has a lengthy history as a primary servicer. Though C-III's primary servicing portfolio of agency assets, which were serviced for Hunt Mortgage Group, was transferred to KeyBank earlier this year and resulted in a significant decrease in C-III's overall primary servicing volume, Morningstar believes C-III has the depth of experience necessary to provide complex, high-touch servicing for third-party clients.
- Highly automated technology platform: C-III uses the most recent version of McCracken's Strategy servicing system, which is integrated with its surveillance and asset management systems.
- Sufficient workload capacity: Morningstar believes C-III has appropriate staffing to offset any operational effects related to attrition resulting from the transfer of agency assets to KeyBank.
- Strong management and professional depth: In Morningstar's view, C-III continues to operate with highly experienced management and professional staff.
- Investor-reporting expertise: Morningstar maintains a favorable view of C-III's responsiveness to information requests and its ability to provide accurate and timely reporting. Employees outside the investor reporting team perform quality control over investor-reporting functions to ensure accuracy.

- Extensive audit program: C-III's independent internal audit program includes a quarterly examination of a broad range of loan administration and portfolio management processes, supplemented with performance monitoring activities embedded in the company's daily workflow. The most recent audit results provided to Morningstar were satisfactory.
- In-depth monitoring of collateral performance: Morningstar believes C-III's portfolio management, surveillance, and special requests teams demonstrate best practices by monitoring the watchlist for asset-level collateral performance, loan covenant compliance, and borrower requests.

#### Special Servicing:

- Highly experienced senior management and asset management teams: C-III's asset management teams are experienced in managing complex distressed assets.
- Accurate and timely reporting: Morningstar has a favorable view of C-III's capabilities to provide accurate and timely reporting, its responsiveness to information requests, and the quality of its asset-level reporting.
- Excellent recovery results with challenging assets: During 2014, C-III resolved a high percentage of loans and real estate-owned (REO) assets held in its inventory while achieving successful net recoveries on loan and REO liquidations.
- Extensive audit function covering asset management practices: C-III's extensive audit practices comprise not only regulatory attestations, but also monthly and quarterly self-administered, independent, internal audits that test special servicing compliance with pooling and servicing agreements as well as C-III's own policies and procedures.
- Highly transparent asset resolution practices and sound conflict-of-interest management: Morningstar has a positive view of C-III's continued efforts to work with industry participants concerning investor reporting, resolution disclosures, and the effect of change-of-control transfer events on servicing. Morningstar believes C-III transparently discloses potential conflicts of interest to outside parties, as demonstrated by its continuous presentations to the investor/research analyst community. C-III is affiliated with the controlling bondholder class on certain commercial mortgage-backed securities (CMBS) transactions for which it is the named special servicer. Although C-III, through its affiliate, has exercised its option to purchase certain loans out of CMBS trusts and continues to use affiliated entities in the liquidation of some assets, Morningstar believes C-III's recovery results indicate that the company has minimized realized losses to affected trusts. C-III continues to fully disclose the rationale behind its business decisions that substantiate the exercise of such asset purchase options and use of affiliates to CMBS trustees, rating agencies, investors, research analysts, and other interested parties.

- Updated asset management system: C-III's asset management system provides highly centralized data management and automated reporting because of its integration with an existing due-diligence and surveillance system. C-III updated the system in 2014 to allow asset managers to directly prepare initial asset status reports. Morningstar believes this upgrade will facilitate the approval process for loan resolutions and REO dispositions.
- Lower workload ratios indicating sufficient capacity for special servicing: Although C-III has had a net reduction in staff primarily as a result of internal transfers and voluntary departures, the company's assets-to-asset manager ratio also has declined, indicating C-III has retained sufficient capacity to perform all special servicing functions. Morningstar believes C-III's current workload ratio is in line with the industry average and reflects an industrywide trend in declining special servicing volumes and increasing turnover.
- Lack of separation between REO asset management and REO account reconciliation functions: Morningstar has concerns about C-III's practice of allowing REO asset managers to reconcile REO bank accounts. However, Morningstar also believes C-III has an extensive property management audit program and segregated internal controls that help mitigate the risks of bank fraud and the potential for asset managers to set up fictitious accounts. C-III uses segregated accounts and employs a two-level approach in which the REO asset manager reviews and reconciles the accounts, and the team leader approves disbursements. In Morningstar's view, segregation of asset management and REO account reconciliation functions is a best practice.

During the first quarter of 2015, C-III transferred the primary servicing portfolio of agency assets, which were serviced for Hunt Mortgage Group, to KeyBank, resulting in decreased servicing volume between Dec. 31, 2014 and March 31, 2015. As of March 31, 2015, C-III's total primary servicing portfolio consisted of 193 loans with an aggregate unpaid principal balance (UPB) of approximately \$3.55 billion, and C-III was the primary servicer for two CMBS loans. As of March 31, 2015, CMBS loans accounted for approximately 0.8 percent of C-III's total primary servicing portfolio based on UPB.

As of Dec. 31, 2014, C-III's total primary servicing portfolio consisted of 1,767 loans with an aggregate UPB of approximately \$10.68 billion, and C-III was the primary servicer for 123 CMBS loans. As of Dec. 31, 2014, CMBS loans accounted for approximately 17.6 percent of C-III's total primary servicing portfolio based on UPB. As of March 31, 2015, C-III was the named special servicer on 124 CMBS transactions comprising 9,866 loans with a combined UPB of approximately \$107.28 billion. Its total active special servicing portfolio consisted of 448 loans involving 545 properties with a combined UPB of approximately \$6.68 billion.

The forecast for both rankings is Stable. Morningstar expects C-III to continue serving as an effective primary servicer for CMBS and third-party investors. Morningstar believes C-III will continue to be a highly effective special servicer for its investor clients. Given the extent to which the company uses affiliates to purchase and sell assets, Morningstar will continue to monitor C-III's involvement of affiliates in its asset resolution activities and how its use of affiliates affects the company's overall asset recovery results.

To access Morningstar's operational risk assessment methodology and all published reports, please visit <https://ratingagency.morningstar.com>.

### **About Morningstar Credit Ratings, LLC and Morningstar, Inc.**

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