



# Operational Risk Assessments News Bulletin

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

KeyBank Real Estate Capital

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## **Morningstar Places Bank of America, N.A. (BofA Merrill Lynch) Commercial Mortgage Primary, Master, and Special Servicer Rankings on Alert Following Announced Portfolio Sale to KeyBank Real Estate Capital (KBREC); KBREC Rankings Unchanged**

Morningstar Credit Ratings, LLC (Morningstar) today placed on Alert its 'MOR CS2' commercial mortgage primary, master, and special servicer rankings on Bank of America, N.A. (BofA Merrill Lynch).

The placement of our BofA Merrill Lynch rankings on Alert status follows BofA Merrill Lynch's recently announced sale (through its Global Mortgages & Securitized Products business) of substantially all of its third party CMBS servicing and special servicing rights to KeyBank Real Estate Capital (KBREC). Morningstar also understands that the transaction may include other non-CMBS servicing portfolios, subject to investors' consent.

Morningstar believes that this announced portfolio sale transaction immediately presents heightened operational risk and challenges for BofA Merrill Lynch to maintain staffing attentiveness, contain staff turnover, and proactively and thoroughly meet all of its ongoing service-level agreements and duties while these CMBS and other loan pools transition out of the company.

Morningstar's 'MOR CS1' rankings on KBREC as a primary, master, and special servicer remain unchanged by the BofA Merrill Lynch announced sale transaction and by KBREC's concurrently announced plan to acquire Berkadia Commercial Mortgage's (Berkadia) CMBS special servicing business. Based on our recently completed assessment of KBREC and our understanding of its operational plans related to these acquisitions, we maintain a favorable view of KBREC's overall preparedness and capabilities, including its technology efficiencies, controlled practices, and organizational depth and stability, combined with its long-term sub-servicing agreements with Berkadia that extend to all of the transferring BofA Merrill Lynch portfolios. We believe that KBREC has been managing this sub-servicing relationship quite effectively. Morningstar's assessment also considers KBREC's successful track record and expertise integrating other large portfolio and whole platform acquisitions in recent years. Additionally, we believe that Berkadia ('MOR CS1' primary, master, and special servicer rankings) maintains the capabilities and has the expanding capacity, along with a sound organizational approach, to effectively system-convert and administer the substantial influx of new sub-servicing volume, although we will continue to monitor its overall execution and performance.

Morningstar plans to obtain frequent updates from all involved servicers as the transaction proceeds to closing and all corresponding portfolios subsequently transfer out of BofA Merrill Lynch.

As of February 28, 2013, BofA Merrill Lynch's total combined primary and master servicing portfolio was approximately \$110.6 billion based on unpaid principal balance (UPB) and 9,375 by loan count. The company's CMBS servicing portfolio was approximately \$70 billion based on UPB and 4,180 by loan count. As of February 28, 2013, BofA Merrill Lynch was the named special servicer on 14 CMBS transactions and had 17 active specially serviced assets (CMBS and non-CMBS) with a UPB of approximately \$1.3 billion.

As of December 31, 2012, KBREC's total primary and master serviced portfolio was approximately \$101.6 billion by UPB and 10,972 by loan count, and it was the primary and/or master servicer on 146 CMBS transactions. CMBS loans accounted for approximately 62% and 63% of KBREC's total primary and master serviced portfolio based on UPB and loan count, respectively. As of December 31, 2012, KBREC was the named special servicer on 25 CMBS transactions. Its total active special servicing portfolio was approximately \$1.17 billion by UPB and 610 by asset count. The CMBS component comprised 97 active assets with an approximate UPB of \$394.7 million.

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