

Operational Risk Assessments News Bulletin

1st Service Advisory Solutions

Morningstar Assigns 1st Service Advisory Solutions 'MOR TA3' Ranking as a Commercial Mortgage Trust Advisor; Forecast Stable.

Morningstar Credit Ratings, LLC (Morningstar) has assigned 1st Service Advisory Solutions a 'MOR TA3' ranking as a commercial mortgage trust advisor. The parent company of 1st Service Advisory Solutions is 1st Service Solutions. Our assigned ranking reflects the parent company's ample experience as an advocate for distressed borrowers in complex resolution scenarios, as well as the depth of asset management and commercial loan servicing experience of its personnel. The company provides distressed debt resolution consulting and negotiation services to borrowers on both bank-held and securitized commercial mortgages. The company plans to parlay this experience with distressed debt resolutions and its corresponding familiarity with a large number of special servicers into a role as a named trust advisor for commercial mortgage backed securities (CMBS). To date, 1st Service Advisory Solutions has not been engaged as a trust advisor on a transaction; however, it plans to begin actively bidding for such work in 2013. As a result, the assigned ranking also considers that the firm does not yet have an actual performance track record with trust advisory work. For this report, Morningstar will refer to the operating advisor entity and the holding company collectively, and within their respective contexts, as 1st Service.

Morningstar's 'MOR TA3' ranking is based on our assessment of 1st Service's operational infrastructure and portfolio administration capabilities. In particular, the ranking reflects our view of the following:

- *Highly Experienced Management* – First Service's highly experienced management and asset management teams.
- *Solid Track Record with Distressed Assets* - The company's solid track record in assisting borrowers with distressed, complex assets work through successful resolutions with a large number of special servicers in CMBS transactions. To date, the company has resolved 570 loans representing approximately \$8.5 billion of distressed or defaulted commercial real estate loans involving 13 of the largest special servicers in the CMBS industry. Management indicated that this work has provided its asset managers with in-depth knowledge of special servicers' default resolution methodologies and approaches to valuation.
- *Knowledge of CMBS Governance* - Familiarity with pooling and servicing agreements governing CMBS transactions and the reporting requirements for special servicers in such transactions.
- *Depth of Oversight Experience* - Experience in auditing and performance of compliance reviews derived from the work of its Compliance Solutions business unit. This work involves designing audit programs for commercial loan servicer clients, assisting with remediating findings, and strengthening those clients' policies and procedures to conform to their investors' required servicing standards.
- *Effective Policies and Procedures* - Practices and procedures that effectively govern the manner in which the company will perform its responsibilities as a named Trust Advisor.
- *Investor Reporting Capability* - Significant knowledge of the CREFC Investor Reporting Package, its numerous data points, and report templates required of the special servicers in CMBS transactions on a monthly basis.
- *Effective Conflicts of Interest Management* - Lack of any ownership interests in CMBS securities and a strict policy of not advocating for borrowers in any CMBS transaction for which the company is a named Trust Advisor.

As of November 1, 2012, 1st Service's actively managed borrower client loan portfolio was approximately \$4.1 billion consisting of 154 loans all of which were in CMBS transactions. Since 2010, approximately \$8.5 billion dollars in commercial real estate loans have been resolved by 1st Service representing 570 loans all of which were in CMBS transactions. In addition to its work assisting

borrowers in restructuring defaulted debt, the company has a large practice aiding borrowers through the assumption process with their lenders. There are also supplemental business lines to help borrowers secure financing, guide them through the note auction process, and assist borrowers who may need an IRS code 1031 tax exchange in a foreclosure action. The company also provides compliance oversight for several servicers and special servicers.

Forecast

Stable. We expect 1st Service will prove to be an effective trust advisor for any CMBS transactions for which it is engaged. We will monitor future special servicer audits, asset plan reviews, and reports to the trustee for transactions in which the company is appointed as the named Trust Advisor.

Our full assessment report on 1st Service is forthcoming and will be made available on our website.

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