

Operational Risk Assessments News Bulletin

Prudential Asset Resources, Inc.

Morningstar Affirms Prudential Asset Resources, Inc.'s 'MOR CS1' Commercial Mortgage Primary Servicer Ranking and 'MOR CS2' Commercial Mortgage Master Servicer Ranking; Forecast for Rankings Remains Stable

Morningstar Credit Ratings, LLC (Morningstar) has affirmed its 'MOR CS1' commercial mortgage primary servicer ranking and its 'MOR CS2' commercial mortgage master servicer ranking on Prudential Asset Resources, Inc. (PAR), a subsidiary business unit of Prudential Mortgage Capital Company (PMCC). The affirmed rankings reflect our assessment of PAR's operational infrastructure and portfolio administration capabilities for its respective duties as a primary and master servicer. The forecast for each ranking remains Stable.

Our assessment and affirmed rankings are based on the following composite factors:

Primary Servicing

- Diligent Portfolio Management - Morningstar's continuing high opinion of PAR's capabilities to service complex CMBS portfolios. We believe that PAR has a very distinguished track record of providing high quality asset administration, portfolio management, and reporting for other investor clients, such as government-sponsored entities and life insurance companies. The primary servicer ranking particularly acknowledges PAR's proactive, well-designed credit monitoring capabilities and its thorough insurance monitoring practices.
- Highly Effective Technology - Our view that PAR's technology tools provide a high level of automation, centralized data management, and operating efficiency to accommodate a diverse and large servicing portfolio. The company expects its entire servicing portfolio to be fully upgraded to the latest version (17) of the McCracken Strategy system by the end of 2013. The company's proprietary asset management and reporting application, called LoanConnect, is quite effective for workflow management, tracking loan level covenants and trigger events, and managing all essential servicing work with many customized features to address CMBS and other investor reporting requirements covering the life cycle of every loan and portfolio. PAR also maintains sound data security and disaster preparedness protocols.
- Cohesive Organizational Structure/Strong Management and Professional Depth - PAR's demonstrated overall operational stability, generally low employee turnover, and a high average years of industry experience among management and professional staff. In late 2012, the head of the asset management and surveillance department became the new president of PAR. The new president, who also has managed PAR's servicing operations department, has been with PAR since 2002. Morningstar believes that PAR executed this succession plan in a very seamless manner and the organization continues to have strong, well-experienced leadership, managers, and professional staff. PAR also noted that it has been re-organizing and re-deploying staff within its asset management and surveillance department to increase efficiency and develop career paths. It recently created associate asset manager positions and is centralizing all cash-managed loan oversight and certain borrower requests covering the highest volume, less-credit intensive types of transactions to a dedicated, expanded group in this department by the end of 2013. Correspondingly, PAR expects individual asset manager workload ratios for performing loans to decline.
- Well Structured Training Function - Morningstar's belief that the company maintains a very well designed and comprehensive training function for all professional staff.
- Controlled Use of Off-Shore Personnel - Our view that PAR maintains a carefully measured, controlled, and effective approach toward using off-shore and outsourced personnel to assist with certain servicing functions.
- Robust Internal Audit Function and Quality Control Practices - Our view that PAR has a comprehensive and independent, risk-based internal audit function that examines a broad range of loan administration and portfolio management processes. Its audit regimen includes regularly scheduled audits conducted by the parent insurance company, an annual

Regulation AB attestation, and a well-designed, thorough performance metrics monitoring program. The program is administered by PAR's quality control department, which tracks a broad range of compliance items using data extracted from PAR's asset management system. Recently completed audit reports through 2012 disclosed no material exceptions or any items classified as a moderate or high risk. Prudential's internal audit department was still concluding its 2013 PAR audit at the time of our assessment; however, the audit department indicated that it expects its finalized audit report to be fully satisfactory and free of moderate or high risk exceptions.

Master Servicing

- Sound CMBS Reporting and Compliance Knowledge/Capabilities - Our view that PAR has the capacity as a master servicer to meet its ongoing advancing responsibilities based on the company's representations regarding its financial resources. Additionally, PAR has a solid degree of experience, sound controls, and an overall successful performance record as a CMBS master servicer with respect to accurate and timely trustee remitting and reporting; payment advancing determination procedures; pooling and servicing agreement (PSA) compliance; and handling all other requisite master servicing duties for a range of large and complex transactions. For 2012, the company had a reporting/remittance error on two CMBS loans, which PAR readily cured. Morningstar, based on PAR's disclosures and explanations, views these occurrences as minor in nature and not indicating any systemic deficiencies.
- Reduced Portfolio Volume, Yet Effective Sub-Servicer Oversight Procedures - PAR's sound track record with CMBS sub-servicer oversight. However, as a strategic move, PAR has been reducing its CMBS sub-servicing contracts in recent years. As a result, PAR had only three remaining CMBS loans with a single external sub-servicer at the end of 2012. Consequently, PAR has not conducted any on-site sub-servicer audits since 2009. Nevertheless, we believe that PAR remains suitably equipped with the requisite resources, procedures, and expertise to provide proactive CMBS sub-servicer compliance oversight should its business strategy and opportunities change. Additionally, PAR continues to serve as the master servicer for a number of general account and third party investor-owned loans that are handled through local banks acting as sub-servicers.

As of December 31, 2012, PAR's total primary and master serviced portfolio had 5,405 loans with an unpaid principal balance (UPB) of approximately \$70.1 billion. It was the named servicer on 26 CMBS transactions containing 769 loans (3 loans with an external sub-servicer) having a total UPB of \$8.3 billion. PAR also serviced another 129 loans with a total UPB of approximately \$1.7 billion in 29 other CMBS transactions as a sub-servicer.

Forecast

Stable for both rankings

Based on our assessment, we expect PAR to continue providing its CMBS and other clients with high quality servicing and expect our assigned primary and master servicer rankings to remain unchanged during the next 12 months.

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

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