Operational Risk Assessment
Berkadia Commercial Mortgage, LLC

October 2011

Ranking Classifications:	Commercial Mortgage Primary, Master and Special Servicer
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Assigned Rankings:	Primary: MOR CS2 Master: MOR CS2 Special: MOR CS1
Forecast:	Favorable: Primary and Master Servicer Rankings Stable: Special Servicer Ranking

Rationale

Morningstar Credit Ratings, LLC (Morningstar) has assigned Berkadia Commercial Mortgage, LLC (Berkadia) a 'MOR CS2' ranking as a commercial mortgage primary servicer, a 'MOR CS2' ranking as a commercial mortgage master servicer, and a 'MOR CS1' ranking as a commercial mortgage special servicer.

Each ranking is based on our assessment of Berkadia's operational infrastructure and portfolio administration capabilities. In general, the rankings reflect our view of the following:

- Our independent poll of CMBS investors and reviews of Morningstar's published DealView CMBS surveillance reports to obtain feedback on Berkadia's performance in connection with its responsiveness to information requests, information accuracy, and quality of its website, for which we found the overall comments from these sources to be largely positive.

Investor/DealView Feedback	Favorable %	Unfavorable %
Information Completeness/Responsive to Investor or Surveillance Requests	84	16
Accuracy of Information	84	16
Quality of Investor Website	100	0

- The company's shift in its organizational approach, which has generated higher staff turnover within its U.S. operations, as it concurrently has moved a significant portion of primary and master servicing functions to operations in India and its vendor in the

Philippines, and hired significantly more staff in those locations. Berkadia stated that this organizational re-design, known as its Operational Excellence Program (OPEX), is steadily building process efficiencies while lowering the costs of servicing.

- To support the program, Berkadia recently expanded its offshore training programs to acclimate staff with their new primary and master servicing responsibilities, which now include direct borrower contact involving a range of portfolio management tasks. Berkadia has empowered its off-shore staff as the initial point of contact to address a range of portfolio management tasks for loans up to $30 million, which we view as a high threshold. The company reported that subject matter experts within its U.S. operations still directly handle larger and more complex assets, and provide quality control over any work conducted by offshore personnel. We also believe that the company may benefit from the second shift in operating hours provided by its offshore operations to address the large volume of information requests from borrowers, investors, and rating agencies. However, we will monitor the effectiveness of this sharply changed organizational approach and Berkadia's concurrent ability to maintain servicing quality.

- Our positive opinion of Berkadia's CMBS master servicing capabilities and expertise. In our view, Berkadia as a master servicer has the capacity to meet its ongoing advancing responsibilities based on the company's representations regarding its financial resources and current funding vehicles including a new and substantial bank credit facility. However, Berkadia may have fewer resources dedicated to sub-servicer auditing and compliance compared to some other master servicers, although it did conduct a number of audits in recent months.

- Berkadia's overall effective technology tools, high level of automation and centralized data management. However, we note that it currently uses a much older version (Release 12B) of McCracken Financial Solutions Corp.'s Strategy system.

- An independent and intensive internal audit function that encompasses not only a Regulation AB attestation, but also an annual Statement of Auditing Standards No. 70 (SAS 70) review (now superseded by the Statement on Standards for Attestation Engagements No. 16), ongoing internally-managed audits, and other audits conducted by external parties.

- Proactive portfolio management processes and procedures to monitor portfolio performance.

- Well-designed CMBS advancing procedures based on conservative thresholds and proactive special servicer oversight particularly with respect to monitoring valuations.

- Successful asset resolution activity within special servicing along with special servicing policies and practices that indicate effective controls to manage conflicts of interest.

As of June 30, 2011, Berkadia's combined primary and master servicing portfolio was approximately $182.7 billion based on unpaid principal balances (UPB) and 24,648 by loan count, representing a 6% decrease by UPB and a 5% decrease by loan count compared to the year ended 2010. Its active special servicing portfolio was approximately $2.2 billion by UPB and 288 by loan count, representing a 19% decrease by UPB and a 12% decrease by loan count from the 2010 year end. During the first half of 2011, it resolved approximately 32% of its beginning-year inventory of specially serviced loan and REO assets.

Forecast

Favorable for primary and master servicer rankings
Stable for special servicing ranking

We expect the forecast for the assigned primary and master servicing rankings to be *Favorable* based on our view that recent expansions in offshore operations may result in maintaining and possibly building even greater process and operational efficiencies. Overall, we believe that Berkadia will likely continue to be a highly effective primary, master, and special servicer for its investor clients.

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Company Profile & Organizational Structure

Berkadia is a Delaware limited liability company formed in August 2009 as a joint venture between Berkshire Hathaway Inc. (NYSE: BRK-A) and Leucadia National Corporation (NYSE: LUK). As part of its formation, Berkadia acquired the loan origination, servicing businesses, and certain other assets of Capmark Financial Group and its subsidiaries on December 11, 2009. The Board of Managers of Berkadia includes Warren Buffett among others. In addition Hugh Frater, who is a founding partner and former managing director of BlackRock, Inc., the largest publicly traded investment manager, became the Chief Executive Officer (CEO) in 2010. Mark McCool, who has more than 17 years of experience in commercial mortgage servicing, was appointed Executive Vice President (EVP) of all servicing and special servicing operations. The executive committee is comprised of six senior officers, including the CEO, Chief Operating Officer, Chief Financial Officer, EVPs for loan originations and servicing, and Berkadia's general counsel.

Berkadia is recognized as the third largest servicer of commercial and multifamily real estate loans and second largest FHA/GNMA servicer as well as the third largest Fannie Mae/Freddie Mac servicer. Berkadia is also an active special servicer for CMBS investors and provides asset management for third parties. Berkadia has seven servicing locations within the U.S.: Horsham, PA; New York, NY; Salt Lake City, UT; Atlanta, GA; Irvine, CA; San Francisco, CA; and Dallas, TX, which is the principal office for special servicing. In addition, it has operations in India and outsources specific functions to its operations in the Philippines to assist with servicing administration. It originates loans for Freddie Mac, FHA, Fannie Mae, insurance companies and third party correspondents through 23 production offices in the US.

Table 1: Historical Primary and Master Servicing Volume

	6.30.11		12.31.10		12.31.09	
	UPB (000s)	**# of Loans**	**UPB (000s)**	**# of Loans**	**UPB (000s)**	**# of Loans**
TOTALS	182,708,979	24,648	193,258,584	25,940	220,270,147	30,398

Operational Infrastructure
(Primary and Master Servicing: MOR CS2, Special Servicing: MOR CS1)

Staffing, Turnover, Experience

The total number of servicing employees as of June 30, 2011 was 652, of which Berkadia dedicated 603 to primary and master servicing and 49 to special servicing. This represents a slight decrease from the 656 total servicing employees it had as of December 31, 2010. During the first half of 2011, the company terminated 117 positions and added 115 employees. Berkadia's total turnover rate for the first half of 2011 was 19%, which we believe is high. The company reported that after its acquisition by Leukadia and Berkshire Hathaway, it began to implement its OPEX program in an effort to streamline operations by transferring more positions within primary and master servicing to its operations in India and in the Philippines. Over the coming year, the company expects to steadily increase workflow efficiencies through its expanding offshore operations to meet the increasing demands of borrowers, investors, and rating agencies.

As of June 30, 2011, within primary and master servicing, the company reported an average of 41 loans per employee. In addition, within special servicing, Berkadia had 22 asset managers and 413 unresolved assets in inventory, for a 19:1 ratio of assets to asset manager. It had 14 loan asset managers and eight REO asset managers, with loan asset managers handling 21 loans each and REO asset managers handling 16 assets each. Broken down further, the loans per asset manager ratio consisted of 12 non-performing loans per asset manager. In addition, the average size of unsold REO assets was $5.2 million, of which 37% had a UPB of less than $2 million.

Senior management has an average of 20 years of industry level experience and 13 years with the company, while mid-level management has an average of 18 years of industry level experience and nine years with the company. Senior management within special servicing has an average of 27 years of industry experience and 20 years with the company. Mid-level management within special servicing has an average of 26 years industry experience and 12 years with the company. Within primary and master servicing, remaining professional staff members on average have six years of industry experience and four years tenure, while the remaining professional staff members within special servicing have an average of 11 years of industry experience and five years with the company. Further, portfolio managers within primary and master servicing have an average of 10 years of industry experience, and asset managers within special servicing have an average of 26 years of industry experience.

> **Assessment:** We believe that the company's high turnover rate relates largely to the implementation of its OPEX program designed to maximize the performance of available resources. In addition, we believe the company replaced the majority of eliminated positions with well-experienced personnel, as demonstrated by its high average experience levels for senior and mid-level management, as well as for its professional staff. In addition, the primary/master servicing staffing ratio is generally aligned with or somewhat below industry averages, which appears to indicate sufficient capacity. The company's overall loans-per-loan asset manager ratio may be slightly at the higher end of the range of what we believe to be industry norms. However, we believe that this is influenced by the fact that asset managers handle some performing as well as non-performing loans. In addition, the company's special servicing volume appears to be declining and the company expects to see further declines next year. As such, we expect asset manager capacity may increase or at least hold steady.

Training

The company provides on the job training and a formal training program for servicing personnel. It also dedicates a training coordinator to oversee the training program and track training hours. The company requires at least 45 hours of training per year, and employees may take courses via the company's "university", which offers servicing related courses. They are also encouraged to attend conferences, monthly "lunch and learn" meetings, and receive external training from vendors and law firms. During 2010, employees averaged 47 hours per year of training and the curriculum included topics such as property inspections, loan workout strategies, state foreclosure statutes, financial statement analysis, and property valuation.

The recently implemented OPEX program has moved additional portions of client services to offices in the Philippines and India. As such, the company stated that it has dedicated additional training resources for off-shored personnel who continue to expand their knowledge and responsibilities for the servicing functions that they have been performing for several years; including, but not limited to: cash management, inspection report collection and reviews, investor reporting, tax administration, reserves, loan boarding, trigger management, data center tasks, and portfolio surveillance. The company also reported that its U.S. offices maintain subject matter experts who handle the largest and most complex assets directly, and provide quality assurance and guidance to off-shored staff, inclusive of regular site visits for ongoing training and staff development.

> **Assessment:** Overall, we believe Berkadia has a well-developed, formalized training function. We also believe that it will be critical for Berkadia to maintain an intensive training program for offshore personnel who are now interacting with borrowers and performing higher level servicing functions. In our view, the actual training hours completed by Berkadia employees are at the higher range among most servicers.

Audits, Compliance, and Procedural Completeness

During 2010 and the first half of 2011, the company underwent a number of operational audits. It is subject to annual USAP and Regulation AB testing and undergoes SAS 70 testing, now to be superseded by the SSAE 16, which covers its full operating platform and its proprietary technology. Furthermore, the company's audit program includes its own independent internal audits, quality control, and performance metric tests. The USAP, Regulation AB, SAS 70, and other internal audits covering calendar year 2010 did not cite any material exceptions.

The company has documented policies and procedures that are available on a shared drive, and are in place for all core functional areas and tasks. The company stated that its manuals serve as a reference tool for training new employees, and as a resource for other staff and auditors. The company regularly updates its manuals through a defined management, compliance, and legal review process that also checks for adherence to servicing agreements and other regulatory requirements. Procedures combine statements of policy as well as information on how to perform a particular task and include the requisite forms, exhibits and computer screen shots.

> **Assessment:** The extent of its audit regimen and the completed audit results indicate that the company mitigates operational risks in an effective manner. In addition, policies and procedures appear to be thorough, well-designed to address all of Berkadia's servicing duties, and effectively managed to control content revisions.

Legal Liability and Corporate Insurance

Berkadia reported that it was not involved in any pending litigation related to its servicing operations. It also reported to us that it has directors and officers (D&O), errors and omissions (E&O) and mortgage impairment insurance coverage in place. As a special servicer, the company reported that it did not receive any notices of PSA default or citations related to special servicing performance.

> **Assessment:** We have reviewed the company's insurance coverage limits and determined that they exceed the insurance requirements set forth by GSE seller/servicer guides. Overall, we believe that the servicer, based on its representations, effectively addresses its corporate insurance requirements and is not subject to any outstanding servicing lawsuits.

Technology and Disaster Recovery

The company uses an earlier version of the Strategy servicing system, but its technology platform does include proprietary applications for portfolio management and special servicing functions, a document imaging and workflow system, and borrower and investor web portals. The servicing system is available via a remote hosted interface and is integrated with the file management system, proprietary applications, and general ledger system, although it is not integrated with the originations pipeline system. The borrower website now includes a "chat" feature so that borrowers may communicate in real time and in writing to obtain information on their loans and to initiate the process for obtaining lender consents.

The company backs up and moves data offsite daily. It also replicates data on a real time "mirrored" basis. It uses a disaster recovery vendor for this service. The approximate distances between the hardware hot site and main data center, and the operations recovery site from the primary servicing site, are both 18 miles, respectively. Both the hardware hot site and operations recovery sites are located on a separate power grid from the primary servicing site. The company tests its disaster recovery processes semi-annually. The last test was conducted on May 1, 2011, and the servicer stated that it was fully successful. In the event of a disaster, the company stated that it can fully recover cash management and investor reporting functions within 24 hours and all other remaining servicing functions within 72 hours.

> **Assessment:** The technology platform is, in our view, well-integrated overall. However, upgrading the servicing system to the latest version of Strategy and also integrating it with the originations pipeline application could yield increased efficiency. We believe that integration between the servicing system and originations pipeline helps to eliminate data entry redundancy when servicers board loan level information. We believe the supplemental portfolio management and asset management systems provide a high degree of property level information. Effective tickler systems monitor trigger events and overall document compliance along with the functionality for full CMBS reporting. Disaster recovery protocols appear to be soundly designed. Although the respective distances between the primary and hot sites for data recovery and servicing operations are both less than 25 miles (a minimum distance that we believe generally mitigates power outages and other localized risks), the proximity of locations is largely offset by having these sites located on separate power grids.

Primary and Master Servicing Portfolio Administration (MOR CS2)

Detailed Servicing Volume as of June 30, 2011 (Tables 2 through 5)

Table 2: Total Servicing Volume

	6.30.11 UPB	# of Loans	12.31.10 UPB	# of Loans
Total Primary	169,844,395,434	22,709	179,922,190,352	24,736
Total Master	12,864,583,164	1,939	13,336,393,390	1,204
Total Primary and Master	182,708,978,598	24,648	193,258,583,742	25,940

Table 3: Servicing Concentration by State (Top 5)

State	(Prop Count %)
California	16
New York	10
Texas	8
Florida	6
Illinois	5

Table 4: Total Servicing Volume by Investor Types (Primary and Master)

	UPB	# of Loans	% (UPB)
Balance Sheet (Excluding CRE CDO)	13,000,000	1	<0.01
Banks/Financial Institutions	2,466,246,515	175	1.3
CMBS (429 Deals)	103,178,787,649	13,235	56.5
CRE CDO (6 Deals)	783,161,540	48	0.4
Fannie Mae	9,666,330,534	810	5.3
FHA & Ginnie Mae	8,346,664,585	2,695	4.6
Freddie Mac	17,327,883,555	1,806	9.5
Life Insurance Co.	3,494,218,445	848	1.9
Third Party Investors	37,432,685,775	5,030	20.5
TOTAL	182,708,978,598	24,648	100.0

Table 5: Total Primary and Master Servicing Volume by Property Types (including defeased loans)

	UPB	# of Properties	% (UPB)	% (# of Properties)
Healthcare	10,998,100,929	1,448	6.0	4.2
Industrial	6,745,948,935	1,310	3.7	3.8
Lodging	13,117,188,217	1,621	7.2	4.8
Multifamily	52,073,863,294	11,039	28.5	32.4
Office	35,838,078,960	3,135	19.6	9.2
Other	21,553,074,445	10,369	11.8	30.4
Retail	36,161,437,810	4,310	19.8	12.6
Defeased Loans	6,221,286,008	880	3.4	2.6
TOTAL	182,708,978,598	34,112	100.0	100.0

Loan Boarding, Hedge Agreements, Letters of Credit, and UCCs

The number of loans boarded increased from 492 during 2010 to 648 for the first half of 2011. The number of modified loans re-boarded also increased from 192 to 216 between these two periods. As a practice, Berkadia stated that loan data necessary to conduct payment processing and investor reporting is boarded within seven days of closing. Loan boarding procedures require staff to compare system inputs to source data and there is a secondary level of review of loan set-up input data. The servicing system provides exception reporting for timeliness and accuracy and the company conducts a post-boarding audit to sample loan data integrity. Borrower welcome letters are issued within two days of loan boarding and provide borrowers with their compliance requirements. Additionally, phone calls are made to the borrowers welcoming them to Berkadia and to address any questions they may have about the servicing of their loan. The servicing system issues borrower welcome letters, houses compliance and covenant triggers, and tracks missing documentation. Berkadia reported that none of the loans boarded before January 2011 had any incomplete or missing documentation outstanding as of June 30, 2011.

As of June 30, 2011, the company did not service any CMBS loans with hedge agreements but did service 542 loans backed by letters of credit. It tracks credit rating changes of counterparties and expirations of letters of credit. The company reported that it successfully extended all letters of credit that were due for renewal between January 2010 and June 2011, and that it stores any original letters of credit that are required to be maintained in an on-site vault. The company tracks UCC expiration dates via the servicing system and uses a third party vendor to monitor, renew, and terminate UCC filings. The company reported no lapsed UCC filings during 2010 and through the first half of 2011.

> **Assessment:** Loan boarding procedures are, in our view, sound and well-controlled. However, as noted, the company's loan origination pipeline and servicing systems are not integrated. We believe that servicers can generally realize increased loan boarding efficiency when the two systems are integrated. We also believe that the company has very effective quality controls that have minimized inaccuracies in data entry and we believe that the loan servicing system is used effectively to monitor and track upcoming trigger events and other credit issues. Loan administration for letters of credit and UCC filings are, in our opinion, well-controlled.

Payment Processing

Within primary servicing, approximately 100% of payments are automatically processed. Approximately 17% of payments are wire transfers, 57% are auto debited via the Automated Clearing House, and 26% are processed through a lockbox. Unlike most other servicers, the company has a self-managed lockbox processing capability on-site to receive, post, and deposit checks. All payments are automatically deposited to a central clearing account and transferred to investor custodial accounts. The company also reported that it has essentially consolidated all of its clearing and custodial accounts, which it believes will increase overall processing efficiency. Payment posting, depositing, and system balancing tasks are segregated among the staff. Berkadia uses the servicing system to balance payment receipts daily, and account reconciliations are reviewed by management. As of June 30, 2011, Berkadia did not report any un-reconciled items aged more than two days in its clearing account, nor did it report any suspense items aged more than 60 days excluding items related to specially serviced loans. It reported that it held in suspense approximately $221 million in connection with 728 loans pending direction from the special servicer, which represented all items in the total suspense account.

> **Assessment:** Payment processing is, in our opinion, highly efficient and well-controlled, as indicated by the company's ability to process 100% of all loan payments automatically and by its lack of un-reconciled or suspense items in the clearing account, excluding items held in suspense pending special servicer direction.

Investor Accounting and Reporting

Within primary and master servicing, investor remittance and reporting tasks are subject to management approval. The company tracks custodial banks' credit ratings for servicing agreement compliance, and segregates investor report preparation, investor remittance, and bank account reconciliation tasks. It also requires a secondary level of review and sign off for custodial account reconciliations. Employees may access on-line custodial account activity, and the investor reporting and custodial bank account reconciliation processes are largely automated. Bank reconciliations are performed monthly and the company reported no unidentified items in custodial accounts aged more than 60 days. During the first half of 2011, the company reported that it had to revise a remittance report because the trustee discovered that the company miscalculated an ASER (appraisal subordination entitlement reduction) that would have resulted in a $13,000 over-remittance. Berkadia returned the revised report to the trustee in time to report the proper amounts in the current month. As a result of Berkadia's prompt corrective action in this matter, the trustee did not have to provide a restatement of the report to bondholders. The company did not report any remittance errors during 2010.

Within master servicing, employees reconcile sub-servicer remittances to trustee remittance reports each month and the company confirms expected remittance amounts with sub-servicers. The company reported that it complies fully with SEC Rule 17g-5 relative to sharing deal information with nationally recognized statistical rating organizations (NRSROs).

> **Assessment:** Investor accounting and reporting functions are, in our view, well-automated and controlled. We believe that Berkadia rectified its only remittance error during the first half of 2011 sufficiently and that it properly monitors subservice remittances. We also believe that the company is responsive to Morningstar's requests for deal level information related to CMBS surveillance.

Real Estate Tax and Insurance Administration

Within primary servicing, at June 30, 2011, Berkadia had 12,105 loans, or 53% of all loans, escrowed for taxes. It incurred tax penalties in connection with 25 escrowed loans during the year, representing only 0.21% of all loans with escrows and the total penalty dollar amount was only 0.003% of total dollars disbursed. A tax service tracks and remits tax payments to tax authorities, and verifies payment on non-escrowed loans. The servicing system tracks the status and tax payment due dates for all escrowed and non-escrowed loans. Tax payments are generally remitted within early pay discount periods. As a master servicer, Berkadia reviews tax payment exception reports from sub-servicers quarterly.

Within primary servicing, at June 30, 2011, Berkadia had 11,067 loans, or 49% of all loans, escrowed for insurance and uses external insurance consultants to assist with policy reviews, which we view as a customary practice. The servicing system tracks expirations and coverage requirements, and generates renewal notices beginning within 60 days of expiration. The company reviews insurance carrier ratings prior to renewal for compliance. At June 30, 2011, it reported 257 loans on its force placed policy, of which 143 of the loans were in special servicing. Berkadia's force placement policy allows for 90 days of coverage from the original expiration date of the borrower's policy.

Assessment: Tax and insurance functions are, in our opinion, soundly managed as demonstrated by minimal tax penalties and the servicer's effective use of a tax service to monitor tax payment activity. As a master servicer, we believe that Berkadia demonstrates sound oversight of sub-servicers by reviewing their quarterly tax and insurance payment exception reports.

Capital Expenditure Reserve Administration

Berkadia uses a proprietary application to track and re-analyze reserve activity semi-annually. It is a workflow application that allows Berkadia to track the status of all reserve requests at any given time, outline investor and loan level requirements, monitor required turn around times and identify loans that require an analysis of their reserve constants or required balances. Management must review and approve disbursements from reserve accounts.

Assessment: In our opinion, Berkadia has sound oversight over capital expenditure reserve accounts.

Portfolio Management:
Financial Statement Analysis and Property Inspections

The company expanded operations in India this year with that office now handling a significant portion of financial statement collection. In addition, the company reported that personnel in India are empowered to interact with borrowers and can make certain processing decisions, although they typically will work with subject matter experts in the U.S. offices for more complex situations.

The servicing system tracks the receipt of financial statements and servicing personnel use a supplemental portfolio management application to analyze financials. By June 30, 2011, the company received 96.3% of annual financials due and analyzed 97.35% of all financials due for its entire primary serviced portfolio. For CMBS primary serviced loans only, it received 97.0% of financials and analyzed 98.65% of those financials by June 30. By June 30, 2011, Berkadia, as a CMBS master servicer (primary/master combined), received 97.1% of required financials and analyzed 96.25% of all financials due, excluding those loans sub-serviced by others. The company reported that as a master servicer, it does not re-analyze financials submitted from sub-servicers until the sub-servicer's audit review is completed.

Within primary servicing, most property inspections are performed by an outside vendor. As a practice, loan originators are not permitted to inspect properties securing loans they originated. During the first half of 2011, 6,905 properties were due for inspection, and almost 99% were completed by their due dates. The servicing system tracks and maintains inspection reports. It also tracks the status and resolution of deferred maintenance issues raised in reports. As a master servicer, the company stated that it reviews 100% of inspections it receives from sub-servicers and routinely follows up with sub-servicers on inspection resolution issues.

The company reported that staff in India work in two shifts so that financial statement and property inspection analysis functions are performed continually in order to meet the growing volume of requests for financial information from interested parties. In addition, Berkadia believes the expansion of hours in India has aided the company in monitoring assets for watchlist and potential early stage collections.

Watchlist, Trigger Events, Early Stage Collections

Within primary and master servicing, the company reported 3,342, or 14% of all loans, on its Commercial Real Estate Finance Council (CREF-C) watchlist at June 30, 2011. It also maintains its own internal watch list which assigns a risk rating to all watchlisted loans. The servicing system monitors loan level covenants, exceptions, and trigger events. The system automatically tracks certain watchlist triggers resulting from financial analyses and inspections. The company also uses a supplemental application for financial statement analysis. Sixty-three loans on the watchlists had springing lockboxes triggered during 2011, and the company reported that it was able to implement lockbox provisions within 30 days of the trigger date in every case. Upon expiration of grace periods, Berkadia sends collection notices to borrowers although Berkadia stated that the servicing system is not able to automatically generate the notices. Berkadia also contacts borrowers one day after the due date and again after 10 days.

As of June 30, 2011, Berkadia's 30-day CMBS delinquency rate by UPB was less than the average reported by Morningstar (0.07% vs. 0.80%). However, the company's 60 and 90-day CMBS delinquency rates by UPB were both higher than the averages reported by Morningstar (0.74% vs. 0.57% for 60 days, 9.12% vs. 6.85% for 90 days).

Assessment: We believe that, as a primary servicer, the company has sound portfolio management practices covering financial statement analyses, property inspection reviews, trigger event tracking, watchlist management, and early stage collections. We also believe that it has sound measures for monitoring credit and property level performance risks. We will monitor the effectiveness of the company's recent decision to migrate more portfolio management-related tasks and analytics to its operations in India. Although Berkadia validates the accuracy of sub-servicers' financial statement analysis as part of its compliance audit program, we believe that its policy of not routinely re-checking any financial statement analysis calculations from sub-servicers is contrary to those of some other master servicers and what we believe to be a best and common industry practice.

Tables 6-8: Detailed Delinquencies

Table 6: Servicer Delinquency vs. Morningstar Rates (CMBS loans only) June 30, 2011

	30 Days		60 Days		90 Days (incl REO)	
	UPB(000s)	# of Loans	UPB (000s)	# of Loans	UPB (000s)	# of Loans
Berkadia CMBS Delinquency Volume*	59,448	13	664,771	73	8,243,445	898
Berkadia CMBS Delinquency (%)	0.07	0.12	0.74	0.65	9.12	7.95
Morningstar CMBS Delinquency (%)	0.80		0.57		6.85	

*excludes loans sub-serviced by others

Table 7: Delinquency Percentages by Property Type*

	30 Days		60 Days		90 Days (incl REO)	
	UPB	# of Prop	UPB	# of Prop	UPB	# of Prop
Healthcare	0	0	0.00	0.01	0.05	0.05
Industrial	0.01	0.00	0.08	0.03	0.19	0.24
Lodging	0.01	0.01	0.15	0.06	1.18	0.41
Mixed Use	0.20	0.03	0.14	0.04	0.55	0.25
Multifamily	0.17	0.09	0.07	0.09	1.13	1.14
Office	0.37	0.05	0.17	0.11	1.37	0.82
Retail	0.08	0.03	0.17	0.11	1.17	0.94
Other	0.01	0.02	0.10	0.10	0.29	0.67
TOTAL	0.85	0.23	0.88	0.55	5.93	4.52

*excludes loans sub-serviced by others

Table 8: Delinquency Percentages by Investor Type*

	30 Days		60 Days		90 Days	
	UPB	# of Loans	UPB	# of Loans	UPB	# of Loans
Balance Sheet	0.00	0.00	0.00	0.00	0.00	0.00
Banks/Financial Institutions	0.01	0.00	0.00	0.00	0.23	0.08
CMBS	0.03	0.05	0.36	0.30	4.51	3.64
CRE CDO	0.00	0.00	0.00	0.00	0.07	0.04
Fannie Mae	0.00	0.00	0.00	0.00	0.01	0.02
Freddie Mac	0.00	0.00	0.00	0.00	0.02	0.02
FHA/Ginnie Mae	0.00	0.00	0.01	0.02	0.05	0.06
Insurance Co.	0.00	0.00	0.01	0.03	0.08	0.12
Pension Funds	0.00	0.00	0.00	0.00	0.00	0.00
Other Third Party	0.81	0.18	0.51	0.21	0.96	0.62
Warehouse (Pre-CMBS)	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	0.85	0.23	0.88	0.56	5.93	4.60

*excludes loans sub-serviced by others

Advancing and Non-Recoverability Analysis for CMBS Assets

As a master servicer, Berkadia is required to provide advances on CMBS transactions. In our view, it maintains detailed procedures to approve advances and determine the recoverability of each advance. It centrally tracks each loan's cumulative advances versus its current value or net liquidation amount. Berkadia stated that it generally may very likely decide to stop advancing once outstanding advances reach 45% of estimated market value or the expected liquidation proceeds. As a practice, senior management must review all advances, with a credit committee approval process required once advances reach a certain threshold. The company also monitors special servicers' appraisal update efforts. Advancing activity decreased slightly during the first half of 2011. As of December 31, 2010, the company's outstanding advances totaled $499.1 million, and, as of June 30, 2011, its outstanding advances totaled $496.9 million. The number of associated loans with advances also decreased 16% from 1,947 at December 31, 2010 to 1,637 at June 30, 2011. Although total advances decreased during the first half of 2011, advances of principal and interest actually increased from $404.5 million at December 31, 2010 to $413.7 million at June 30, 2011. However, the loan count associated with advances of principal and interest decreased from 1,210 at December 31, 2010 to 1,026 at June 30, 2011. As such, it appears that the company made principal and interest advances on larger loan sizes during the first half of 2011 compared with the 2010 year end. Property protection advances decreased during the first half of 2011 from the 2010 year end. At December 31, 2010, property protection advances outstanding were $94.6 million (737 loans) and at June 30, 2011, they were $83.1 million (611 loans). The average aging of principal and interest advances (based on the first advance) increased from 261 days at December 31, 2010 to 304 days at June 30, 2011.

> **Assessment**: Advancing and non-recoverability policies are, in our opinion, conservative. We also believe that Berkadia has well designed procedures to analyze and implement advancing and non-recoverability actions.

Sub-servicer Oversight

As a master servicer, Berkadia dedicates two staff members to oversee 31 sub-servicers. The company conducted four on-site audits and six desk-type audits on its larger sub-servicers during the first half of 2011. Of these 10 audits, on-site audits represented 44% of sub-servicing by loan count and 80% by UPB. The average loan size for on-site audits was $28.3 million compared with $5.4 million for desk audits. On-site sub-servicer audits are conducted every two years. Berkadia uses detailed checklists for all audits and provides sub-servicers with grades on performance. Audit exceptions are tracked on the servicing system.

Assessment: We believe that the company's criteria thresholds to trigger on-site reviews based on loan sizes and portfolio exposure are in line with accepted industry best practices. We also believe that the company's effective use of its servicing system and supplemental applications for tracking sub-servicer performance, as well as the thoroughness of its sub-servicer audit scope both serve to mitigate risks related to sub-servicing errors. However, Berkadia may have fewer resources dedicated to sub-servicer auditing and compliance compared with some other master servicers.

Borrower Consents

During the second half of 2010, Berkadia handled 786 borrower consents consisting of 94 assumptions, 686 leasing consents, and six partial releases. During the first half of 2011, it handled 824 consents consisting of 88 assumptions, 731 leasing consents, and five partial releases. During the first half of 2011, borrower consent hold times increased for partial releases and for assumptions, while leasing consent hold times remained unchanged. The company reported that the borrower consent function is handled primarily in India and Manila, and that it has added a second shift in India to assist with borrower requests. The company has also enhanced its borrower website by including a "chat" feature, which enables borrowers to request information in "real time" and communicate directly with staff in the Philippines and India.

Table 9: Borrower Consent Processing Times

Request Type	Average Total Hold Time (Days) Full Year 2010 vs. First Half 2011
Assumption	76 (2010) 86 (2011)
Leasing	21 (2010) 21 (2011)
Partial Release	62 (2010) 73 (2011)

Assessment: In our opinion, the company has effective control practices and procedures to analyze and approve borrower consents. However, we believe that more time is required to determine whether Berkadia will reach and maintain optimal quality and efficiency levels through the expanded use of its offshore operations that now largely handle this function.

Special Servicing Administration (MOR CS1)

Asset Review Process

Upon transfer to special servicing, loan asset managers contact borrowers and require them to sign pre-negotiation letters prior to workout discussions. Asset managers prepare asset plans (for all loans regardless of size) on Berkadia's proprietary asset management system. The asset plans include a net present value (NPV) analysis for the recommended action and the alternative resolution scenarios. Berkadia will typically pursue an asset recovery strategy based on a dual path of foreclosure and working out an alternative resolution. Loan and REO asset managers each have 90 days upon transfer of a loan to complete and obtain approval for their respective business plans. They also draft updated case memos seeking approval for specific terms of negotiated resolutions. Policies generally require committee approval for most loan and REO actions. For CMBS assets, Berkadia formally monitors master servicers' outstanding advances against property values and expected recovery amounts, and will caution and consult with master servicers on their advancing decisions. The company also segregates loan and REO asset management functions.

Assessment: Berkadia has, in our opinion, sufficient capacity to manage loan and REO resolutions. We also believe having a dedicated REO unit is an effective approach. Overall, in our view, the company has very proactive asset recovery practices based on its stated procedures and successful resolutions. We believe that Berkadia, as a special servicer, also takes measures to protect the interests of the securitization trust by actively participating in advancing decisions.

REO Property Management

Berkadia uses single trust accounts rather than separate rent collection and expense accounts for REO property management. A separate accounting department within the organization reconciles monthly REO bank account activity, and, as a practice, the company conducts formal audits of property management companies. During the first half of 2011, Berkadia was in the process of completing eight property management audits, although it did not conduct any audits in 2010. Berkadia also maintains its own property and liability coverage for REO assets.

> **Assessment:** REO property management oversight is, in our view, diligent and well-controlled, as demonstrated by the company's audit program, monthly accounting oversight, and overall proactive asset management practices.

Vendor Oversight

Berkadia maintains a centralized list of approved vendors such as appraisal firms, engineering firms, attorneys, property managers, and brokers. It also conducts a RFP bidding process for engagements. It uses its own form agreements for all vendors, and has dedicated staff to coordinate engagements with property managers, attorneys, and brokers. It does not have an in-house appraiser and engineer to order and review appraisals and engineering/environmental reports, respectively. The asset management system tracks pending engagements, appraisals, and performance of vendors. Asset managers, along with their team leader, review and approve legal invoices prior to payment.

> **Assessment:** Berkadia demonstrates, in our view, sound property controls and thorough vendor oversight along with experienced asset managers to analyze vendors' work products and recommendations.

Post Transfer to Special Servicing: Letters of Credit, Springing Lockboxes

As a special servicer, Berkadia monitors expiration dates on letters of credit and stated that it makes every effort to get them extended or renewed. For loan transfers with cash flow lockboxes in place, Berkadia maintains the existing lockbox requirements. For loans transferred with un-activated springing lockboxes, Berkadia stated that it makes every attempt to establish a lockbox once the provisions are triggered.

> **Assessment**: In our view, Berkadia, as a special servicer, demonstrates effective controls to monitor and renew letters of credit and proactively act on lockbox triggers.

Managing Conflicts of Interest

As a practice, the company reported that it may engage in fee sharing arrangements with third parties. It also stated that it may use affiliated brokers on REO sales. However, it also reported that it only uses affiliated brokers on REO sales after undergoing a bidding process and having an independent party validate that the affiliate is the most qualified choice to sell the asset. Berkadia does not use affiliates or related parties for property management. Berkadia reported that, for CMBS loan resolutions, it was not affiliated with any controlling class holders. It also reported that it has not acquired assets out of any pools by exercising fair market value purchase options. No loan resolutions involved rent receivers' sale of the property to a party that assumed the underlying debt. The company reported that it did pass through to the trust equivalent fees already received and earned from the borrower in connection with two General Growth Properties(GGP) loans in 2009, and that it was permitted to do so under the PSA. However, Berkadia stated that this was a singular occurrence, and, as a practice, it does not pass through fees to the trust if such fees were already received from the borrower.

> **Assessment**: Berkadia, in our view, has effective controls for managing conflicts of interest relative to using third party affiliates, and conducting its overall asset resolution activities. However, we believe that highly ranked special servicers should not pass through fees to CMBS trusts if already earned from other sources. We will continue to monitor Berkadia's actions in this regard.

Special Servicing Resolution Results (Tables 10 -12, Chart 1)

Table 10: Total Special Servicing Loan Activity (January 1- June 30, 2011)

	Total $ VOL (MIL)	Total Loans	Total Props	CMBS $ VOL (MIL)	CMBS Loans	CMBS Props
Loans Transferred Into Portfolio:						
Loan Portfolio at Beginning of Period	2,701	329	389	2,551	318	380
Transfers of Re-defaulted Loans Previously Worked Out	0	0	0	0	0	0
Pre-existing Specially Serviced Loans Received From Another Special Servicer	.775	1	1	.775	1	1
Non-monetary/Imminent Default Loan Transfers	43.6	3	3	43.6	3	3
Monetary Default Loan Transfers	532.4	95	93	527.4	94	92
Total Transfers Into Special Servicing	576.8	99	97	571.7	98	96
Loans Resolved or Transferred Out:						
Restructured, Modified or Corrected Loans	188.2	27	25	150.5	24	22
Completed Foreclosures and Converted to REO	290	42	56	288.4	40	55
Individual Note Sales	25.6	4	4	5.6	3	3
Bulk Note Sales	0	0	0	0	0	0
Discounted Payoffs(Excludes Note Sales)	39.1	10	12	39.1	10	12
Full Payoffs	412.4	50	62	412.4	50	62
Other Loans Transferred Out	7.03	7	7	7.03	7	7
Removed Through Rep and Warranty Settlement	0	0	0	0	0	0
Other Adjustments	93.6	0	0	52.04	0	0
Total Loans Resolved or Transferred Out of Special Servicing	1,056	140	166	955	134	161
Loan Portfolio At End of Period	2,222	288	320	2,168	282	315

Table 11: REO Portfolio (January 1- June 30, 2011)

	Total $ VOL (MIL)	Total Props	CMBS $ VOL (MIL)	CMBS Props
REO At Beginning of Period	551.1	117	475.8	112
REO Sold During the Period	154.9	43	154.9	43
Completed Foreclosures	290.0	56	288.4	55
Other REO Transferred Out	38.1	5	6.1	3
Other Adjustments	4.6	0	4.6	0
REO Assets At End of Period	643.5	125	598.6	121
REO Sales				
Market Value (Based On Last Appraisal If < One Year Old)	99.6		99.6	
Gross Sale Proceeds	89.3	43	89.3	43
Net Proceeds	87.5		87.5	
Net Proceeds/Market Value (%)	88.0		88.0	

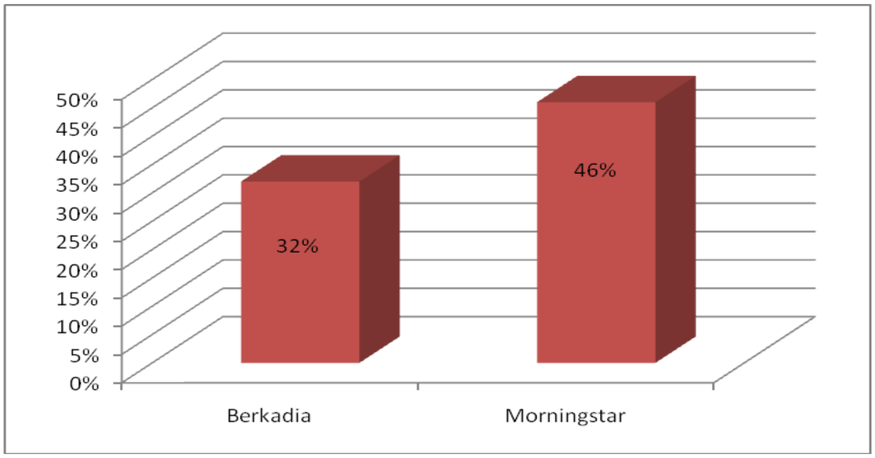
Table 12: Resolution Performance First Half 2011

	Net Proceeds to Value (%)	Overall Hold Time (Days)	% Of All Resolutions
Converted to REO	N/A	444	22
Discounted Payoff	92.1	468	8
Full Payoff (Based on Proceeds to UPB)	102.4	243	27
Individual Note Sale	91.2	509	2
Restructure/Modified/Corrected	N/A	373	14
REO Disposition	88	417	26

Table 13: Resolution Performance First Half 2011

	Initial Recovery Estimate vs. Actual Proceeds	% Above/(Below) Actual Proceeds
Discounted Payoff	89%	(11)
Individual Note Sale	88%	(12)
REO Disposition	87%	(13)

Chart 1: Berkadia Realized Losses vs. Morningstar Realized Loss Data (as of June 30, 2011)



Summary of 2010 Resolutions

- Berkadia resolved a total of 148 assets, of which 27 (18%) were restructures, 16 (11%) were discounted payoffs, 51 (34%) were full payoffs, and 50 (34%) were REO dispositions. There were four (3%) note sales. In addition, the company completed 42 foreclosures.
- The average hold time for each resolution type was: 492 days for discounted payoffs, 242 days for full payoffs, 372 days for restructures, 444 days for foreclosures, and 417 days for REO dispositions.
- The net proceeds to value were: 92% for discounted payoffs and 90% for REO dispositions.

Overall Asset Recovery Performance

Assessment: In our view, Berkadia has achieved excellent asset recovery results based on its lower realized losses than the industry averages reported by Morningstar and a high percentage of net proceeds to value on CMBS loan resolutions. We believe that resolution hold times are reasonable based on the overall characteristics of its portfolio. In addition, the company's internal calculations of estimated recoveries tended to underestimate actual proceeds in many cases, which, in our view, is an indication of the company's ability to accurately assess the recovery potential of its assets. Additionally, the company reported that, on average, legal fees incurred on resolved specially serviced loans amounted to less than 1% of net recovery proceeds.

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