MORNINGSTAR®

Operational Risk Assessment

Midland Loan Services, a division of PNC Bank, N.A.

January 2012

Ranking Classifications: Commercial Mortgage Primary, Master, and Special Servicer

Assigned Rankings: Primary Servicer: MOR CS1
Master Servicer: MOR CS1
Special Servicer: MOR CS1

Forecast: Stable (All Rankings)

Analysts: Mary Chamberlain, mary.chamberlain@morningstar.com, 347-632-5471
Michael S. Merriam, michael.merriam@morningstar.com, 347-632-1662

Rationale

Morningstar Credit Ratings, LLC (Morningstar) has assigned Midland Loan Services, a division of PNC Bank, N.A. (Midland) its 'MOR CS1' rankings as a commercial mortgage primary, master, and special servicer. The assigned rankings reflect our assessment of Midland's operational infrastructure and portfolio administration capabilities for its respective duties as a primary, master, and special servicer.

In particular, our assessment and assigned rankings consider the following composite factors:

- Our favorable view of Midland's capabilities regarding data accuracy, responsiveness to investor requests, and its investor website functionality. We based our feedback on CMBS investor comments, our review of Morningstar's published DealView® CMBS surveillance reports, and our review of Midland's updated investor website, "CMBS Investor Insight®, which includes detailed rent roll information on all leasing activity within Midland's CMBS portfolio. We believe it is one of the few investor websites to provide information on each tenant rather than just the top ten tenants, which is a feature that can serve to increase market transparency by helping investors and rating agencies determine the exact extent of leasing activity when they measure bond performance.

Investor Feedback/DealView Comments	
Overall Favorable	84%
Overall Unfavorable	16%

- Our positive opinion of Midland's CMBS primary and master servicing capabilities and expertise. In our view, Midland, as a master servicer, has the capacity to meet its ongoing advancing responsibilities based on the company's representations regarding its financial resources. In addition, we believe that Midland has a high degree of experience and an overall successful performance record as a CMBS master servicer with respect to its reporting ability, controlled advance determination procedures, proactive sub-servicer oversight and audit practices, and handling of master

servicing duties for a range of large and complex transactions. The company did not disclose any reporting errors and restatements during the first half of 2011.

- Midland's overall effective technology tools, high level of automation, and centralized data management to accommodate a diverse and large servicing portfolio while also yielding a high degree of operating efficiency.

- Midland's overall operational stability, as demonstrated by its consistently low turnover rate since January 1, 2010, and its high levels of industry experience and tenure among personnel within the organization. In general, Midland does not outsource servicing functions and it centralizes primary and master servicing in one location.

- 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. In addition, as a vendor on several agency transactions, Midland has successfully passed audits under the National Institute of Standards and Technology (NIST), with respect to the company's technology security measures.

- The servicer's effective practices and procedures for proactive asset-level management and portfolio oversight to monitor collateral performance, track compliance and trigger events, and respond to borrower requests and consents. We also believe that Midland's procedures cover its asset administration duties in a thorough manner, including pooling and servicing agreement (PSA) and CMBS-related compliance.

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

- A continually successful track record of asset resolution results for CMBS and other investors.

- Our belief that Midland has effective policies and procedures to manage conflicts of interest. A subsidiary of Midland's parent, PNC Financial Services Group, Inc., does have an approximate 20% ownership interest in Blackrock, Inc., which invests in CMBS. With respect to conflicts of interest, Midland stated that, as part of a regulated bank, it must comply with Federal regulations in its interaction with affiliates, and as a result, must treat BlackRock the same as any other non-affiliated entity. Overall, we view Midland as a special servicer that operates essentially without the potential conflicts of interest inherent in transactions in which the special servicer has a close affiliation with the CMBS B-piece investor. In addition, Midland does not use affiliates to purchase or sell assets within securitization trusts as Midland's business model is to act as an independent, third party special servicer without any investment in subordinate CMBS.

As of June 30, 2011, Midland's total commercial mortgage portfolio was approximately $254.2 billion by unpaid principal balance (UPB) and 27,079 by loan count, and it was the named master servicer on 70 CMBS transactions and primary servicer on 163 CMBS transactions. As of December 31, 2010, its total portfolio was $252.9 billion by UPB and 26,993 by loan count and it was the named master servicer on 75 CMBS transactions and primary servicer on 168 CMBS transactions. Midland has consistently increased its servicing volume by both UPB and loan count. In particular, we note that Midland, in contrast to almost all other servicers, was able to increase its servicing volume during the past year which is noteworthy given the very challenging market conditions. Midland has replaced the runoff in CMBS servicing by diversifying its client base and by obtaining two large-scale FDIC servicing contracts and other distressed debt portfolios in the past year.

Forecast

Stable for all rankings

We expect the assigned rankings to remain unchanged during the next 12 months. We believe that Midland is fully capable of serving as an effective primary, master, and special servicer for its investor clients.

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Company Profile and Organizational Structure

Midland is a division of PNC Bank National Association (PNC), which is a wholly owned subsidiary of The PNC Financial Services Group Inc. Midland is an integral part of PNC's real estate finance business, and has more than a 20-year history as a commercial mortgage servicer and special servicer. As of June 30, 2011, the Mortgage Bankers Association (MBA) ranked Midland as the second largest master and primary servicer based on dollar volume and third-largest based on loan count.

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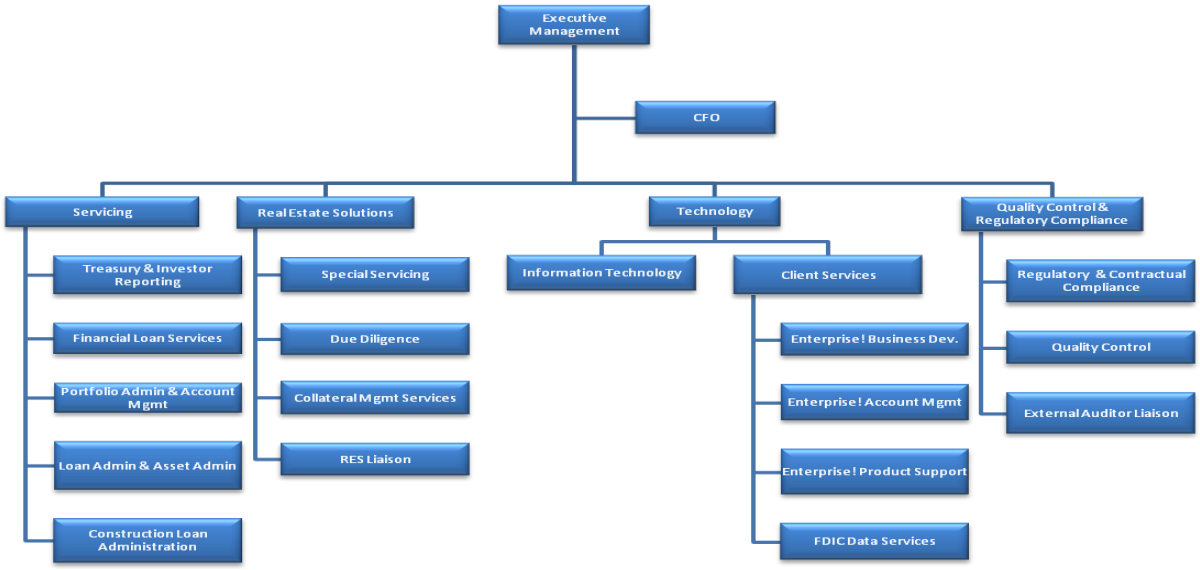
Core to its growth strategy, Midland has expanded its complementary business as an outsource provider of technology solutions and Shared Servicing® through its *Enterprise!*® servicing system, which its client servicers use within a hosted environment. It also provides third party construction loan administration services and it has achieved a substantial presence as a special servicer predominantly through its numerous relationships with third-party B piece buyers rather than by becoming a B piece buyer itself. We note that a subsidiary of Midland's parent, The PNC Financial Services Group, Inc., owns a minority interest of approximately 20% in BlackRock, a major investor in both investment grade and below investment grade bonds. Midland acts as a master servicer and/or special servicer for several transactions in which BlackRock has an investment position. With respect to conflicts of interest, Midland stated that as part of a regulated bank it must comply with Federal regulations in its interaction with affiliates, and, as a result, must treat BlackRock in an arms-length manner as it would any other non-affiliated entity.

As of June 30, 2011, Midland employed 373 people in its primary and master servicing functions, and 63 people in its special servicing area, with an overall increase of 32 people since January 1, 2011. Primary, master, and special servicing personnel are centrally located in Overland Park, Kansas while special servicing personnel are located in Dallas, Texas and Atlanta, Georgia.

Chart 1: Midland Loan Services Organizational Structure



Midland comprises three main divisions: *Servicing, Real Estate Solutions, and Technology.* Additionally, the servicer has teams dedicated to information technology and to quality control.

Servicing
The Servicing division comprises five teams that handle treasury and investor reporting, financial loan services, portfolio administration and account management, loan and asset administration, and construction loan administration.
The treasury team handles investor reporting, bank account reconciliations, cash management, sub-servicer oversight, and special servicer interaction. Financial loan services is comprised of the transaction processing department, which is responsible for processing transactions on *Enterprise!*, and the arm/accrual department, which is responsible for financial data integrity on *Enterprise!*. Portfolio administration and account management is responsible for servicing insurance company, bank, agency, portfolio, and government services assets. Loan and asset administration handles tax and insurance administration, releases, payoffs, UCCs, borrower requests, performing loan asset management, reserve and covenant administration, servicing transfers, payment processing, document management, collateral surveillance and CMBS surveillance. The construction loan administration team provides construction loan administration and advisory services.

Real Estate Solutions
This division comprises special servicing, collateral management and a servicing liaison group. Special servicing is comprised of three teams headed by special servicing managers who oversee 40 asset managers, while another team of five asset managers and a credit analyst reports to the head of the collateral management unit. Overall, the real estate solutions division provides CMBS special servicing, special credits resolution services, investment due diligence, and collateral management services such as asset reviews and valuations, portfolio surveillance and risk management, and asset management.

Technology
This division is responsible for *Enterprise!* business development, account management, product support, and handling shared servicing technology issues. In addition, it handles data services for an FDIC contract.

Table 1: Historical Servicing Volume

	6.30.11		12.31.10		12.31.09	
	UPB (000s)	# of Loans	UPB (000s)	# of Loans	UPB (000s)	# of Loans
Total Primary and Master Servicing	254,252,690	27,079	252,916,161	26,993	261,996,201	25,422
Active Special Servicing	6,422,650	617	6,540,539	454	11,737,731	719

Operational Infrastructure (MOR CS1)

Staffing, Turnover, and Experience
As of June 30, 2011, Midland had a total of 436 employees, of which 373 people were dedicated to primary/master servicing functions and 63 to special servicing. The company also had an 82-person technology group supporting its operations. Between January 2010 and June 2011, the company hired 99 employees, of which 89 were allocated to primary/master servicing and 10 to special servicing.

Midland's organizational structure reflects a hybrid functional and portfolio-driven design to match the nature of its business. We do note that Midland conducts the majority of loan administration tasks within its functional servicing operations departments. The servicer acknowledged that the multifamily agency operations department also conducts some of the same tasks (such as payment processing and tax administration) for the GSE, FHA, and shared servicing portfolios, as well as servicing for insurance and bank portfolios. The servicing organization also maintains contracts with a select group of external firms to assist with certain borrower request and credit analysis related tasks.

Staff Workload Ratios
Primary/Master Servicing: We calculated that Midland had a 73:1 ratio of loans per employee for its primary/master servicing portfolio as of June 30, 2011, compared to a ratio of 79:1 at December 31, 2010. In our view, the primary/master servicer staffing ratio may be higher than that of many other servicers due to its significant volume of smaller balance assets attributed to two large FDIC contracts.

Special Servicing: We calculated that Midland had approximately a 16:1 ratio of specially serviced loan and REO assets per asset manager as of June 30, 2011. In our view, this ratio is in line with that of many other special servicers given the fact that it assigns both loan and REO assets to asset managers. The servicer informed us that asset managers handle assets from loan transfer to REO disposition in order to maintain continuity and acquired asset knowledge when assets transition from loan to REO status.

Table 2: Average Years of Experience (June 30, 2011)

Position/Level	Overall Industry	Tenure at Servicer
Senior Management	29	19
Middle Management	20	13
Professional Staff (Primary/Master)	9	6
Portfolio Management Staff Only*	19	10
Special Servicing Asset Managers	18	9

*Primary or master servicing positions involving credit/collateral performance or borrower request analysis.

Table 3: Staff Turnover Rates*

	January- June 2011		January- December 2010	
	Primary/Master Servicing (%)	Special Servicing (%)	Primary/Master Servicing (%)	Special Servicing (%)
Total Staff - Beginning of Period (#positions)	341	62	331	60
Total Turnover	5.9 (20 positions)	4.8 (3 positions)	6.6 (22 positions)	6.6 (4 positions)
Involuntary	2.6	1.6	0.6	0
Voluntary	3.2	3.2	6.0	6.6
Management Only	0	0	0.3	0
Staff Only	5.8	4.8	6.3	6.6
Total Staff - End of Period (# positions)	373	63	341	62

*Staff departures divided by number of staff at beginning of period.

Assessment: We believe that the servicer operates with an overall highly experienced management and professional team and has a well-designed organizational structure that addresses the company's complex servicing portfolio requirements. In our view, the company has maintained overall stability based on very low employee turnover during the past 18 months and its low turnover, coupled with the retention of highly experienced personnel, have helped to control overall workloads and maintain high operational quality and efficiency. Midland has a higher ratio of loans per employee compared to other large servicers. We believe that in Midland's case, its higher ratio is the result of Midland's efficient use of technology and highly experienced staff that are capable of handling higher workloads than less experienced personnel. In addition, Midland services a sizable portfolio of small balance assets which has the effect of increasing the ratio.

In our experience, and in contrast to Midland's current structure, we also observe that servicers usually centralize all loan administration processes (such as payment processing and tax administration) for the whole portfolio through a singular operations department based on the common view that this is an optimal approach to yield higher efficiency.

Within special servicing, we believe the company's asset manager ratio is in line with its current portfolio volume and may even indicate some excess capacity. In addition, special servicing asset managers average 18 years of experience, and we believe this may be a higher average relative to certain other special servicers. Furthermore, we believe that in Midland's case, having asset managers handle workouts from loan transfer to REO disposition has proved to be effective because its asset managers are highly experienced, and because it may contribute to efficiency by maintaining continuity and acquired asset knowledge when a loan becomes REO. We also note that REO assets comprised only 5% of Midland's overall special servicing portfolio as of June 30, 2011, which we believe is a relatively modest percentage compared to some other special servicers.

Training

The company provides a variety of ongoing, formalized training activities for all servicing personnel. Rather than dedicating a training coordinator to oversee the training function, Midland relies on a committee of department heads from each servicing unit to formulate training requirements and to coordinate training programs and events. Managers and staff use an intranet-based learning site to register for programs and classes, and to track completed training hours. The company requires staff to complete at least 20 hours of training per year, while employees actually averaged 45 training hours during 2010. Management is required to complete at least 30 hours per year. Midland's Employee Enrichment Training Program (MEET) provides a structured and sequenced series of courses and activities. The goal is to develop employees with a broad industry knowledge base, provide a good understanding of the overall operations of Midland outside the associate's immediate department, and build core technology skills while providing a path for career advancement.

> **Assessment:** We believe that Midland maintains an effective training function based on its allocation of resources, its well-developed formalized curriculum, and its high degree of employee participation. However, we have observed that other large servicers dedicate a training coordinator to oversee this function.

Audit, Compliance, and Procedural Completeness

Midland's quality control department manages the company's documented policies and procedures, and coordinates all of the auditing activities performed by its parent Bank, external consultants, and government agencies. Midland annually undergoes platform-wide Regulation AB attestations, which did not cite any exceptions for calendar year 2010. The parent's independent audit division also conducts annual operational audits of Midland. The last such audit that we reviewed, dated November 2010, assigned its highest rating. The quality control division also performs supplemental internal audits to test management, financial and regulatory compliance controls. It also tracks servicing timeliness and accuracy metrics and reports on monthly and quarterly performance trends. The last quarterly audit (third quarter 2011) of the portfolio servicing department revealed an increase in exceptions over the past two quarters related to unapplied/suspense account volume related to delinquent loans. The company stated that the increase in exceptions was due to an increase in servicing volume and the addition of several new staff members. As such, the company stated that it will continue to provide training for them and that the quality control department will continue to monitor the control results each month, as well as assess training documentation, and revise procedures to address the issue.

Midland also recently underwent a Statement of Auditing Standards No. 70 (SAS 70) level audit (now superseded by the Statement on Standards for Attestation Engagements No. 16) covering the period between October 2010 and September 2011 and the results were satisfactory. Lastly, as a vendor on several agency transactions, Midland was one of only a few servicers to be certified by the National Institute of Standards and Technology (NIST), a stringent test of security measures within Midland's technology systems.

> **Assessment:** Based on our review, we find that Midland has a robust audit function that thoroughly tests servicing functions and technology, as well as management, financial and regulatory compliance controls within the organization. Additionally, we believe that Midland effectively safeguards security protocols and access to its technology systems as supported by the company attaining NIST certification. We also find that Midland's internal audit function and its monthly and quarterly performance metrics tracking and reporting process demonstrate proactive oversight in order to minimize operational risks within servicing. Additionally, we believe that Midland has properly addressed the increase in exceptions surrounding suspense account volume with delinquent loans. In our view, Midland's documented body of policies and procedures addresses all of the servicer's core processes and functions with a high degree of clarity and detail, including how its responsibilities and actions relate to PSA and CMBS reporting compliance.

Legal Liability and Corporate Insurance

Midland reported that it was not involved in any material 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 servicer or special servicer, the company reported that it has not received any notices of PSA default or citations related to performance.

> **Assessment:** We have reviewed the company's insurance coverage limits and determined that they meet 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 material servicing lawsuits.

Technology and Disaster Recovery

The company uses the most recent version of the *Enterprise!* servicing system, which it owns and supports, and which is widely used in the commercial mortgage servicing industry. The system operates in an ASP (application service provider) hosted environment and interfaces to the company's general ledger. Midland uses its servicing system for all servicing functions and does not rely on any supplemental applications with the exception of its special servicing unit, which uses the servicing system in conjunction with a relational database for data management and internal reporting, and its treasury unit, which uses a third party treasury management system. The company scans legal and loan documentation, stores it in an electronic file management system, and can access all scanned documents through the servicing system.

Midland offers dedicated websites for its borrowers and investors. The investor website, called "CMBS Investor Insight", also caters to rating agencies and external special servicers. The company's technology initiatives completed in 2011 included some new features, such as providing a multiple document download by portfolio with automatic email notification when reports become available, a rent roll tenant report that is produced in Excel to enable sorting by square footage, lease expiration or tenant name, a "Current Insights" link featuring current and relevant news stories, and a feature which allows investors to save "favorite" portfolios for easier reference.

Midland stated that it conducts semi-annual disaster recovery testing and that its last tests were successfully completed in April and October 2011. Alternate sites for data and business recovery are located more than 25 miles away and operate on separate power grids from the respective primary sites. The company backs up and moves data offsite daily and replicates data on nearly a real-time mirrored basis to alternate servers at multiple data recovery sites. The company stated that its disaster recovery capabilities should enable it to restore core servicing processes within 24 hours.

Assessment: We believe the technology platform offers a substantial degree of process automation and centralized data management and that recent investor website upgrades will likely improve Midland's investor reporting efficiency and provide more transparency to CMBS participants. We also believe that the company has sound data back-up protocols.

Primary and Master Servicing Portfolio Administration (Primary: MOR CS1, Master: MOR CS1)

Detailed Servicing Volumes as of June 30, 2011(Tables 4 through 7):

Table 4: Primary and Master Servicing Volumes

	6.30.11		12.31.10		12.31.09	
	UPB(000s)	# of Loans	UPB(000s)	# of Loans	UPB(000s)	# of Loans
Primary Servicing	241,159,238	26,210	239,137,574	26,058	248,901,105	24,586
Master Servicing	13,093,451	869	13,778,585	935	13,095,205	836
Average Loan Size ($)*	9,389		9,370		10,306	
TOTAL	254,252,689	27,079	252,916,159	26,993	261,996,310	25,422

*Primary and Master combined.

Table 5: Servicing Concentration by State (Primary and Master Excluding Defeased Loans)

State	# of Properties
California	8,456
Florida	3,702
Texas	2,997
Pennsylvania	1,679
Michigan	1,508
Remaining States/Territories	19,400
TOTAL	37,742

Chart 2: Servicing Concentration Percentage by State

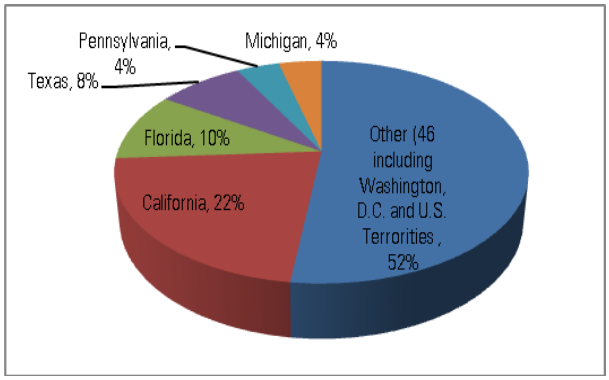


Table 6: Total Servicing Volume by Investor Type (Primary and Master)

Investor Type	UPB (000s)	# of Loans	Average Loan Size (000s)
Balance Sheet (excludes CRE CDO)	0	0	0
Banks/Financial Institutions	4,846,837	2,866	1,691
CMBS: Primary/Master Combined - 67 Deals	96,281,192	8,780	10,966
CMBS: Primary Only - 163 Deals	15,866,396	2326	6,821
CMBS: Master Only - 70 Deals*	13,093,451	869	15,067
CRE CDO – 11 Deals	2,952,765	190	15,541
Fannie Mae	41,215,311	4,851	8,496
FHA & Ginnie Mae	10,628,617	1,929	5,510
Freddie Mac	15,801,967	1110	14,236
Life Insurance Companies	35,334,757	1347	26,232
Other Third Party Investors	13,915,478	2637	5,277
Held in Warehouse (Pre-securitization)	4,315,918	174	24,804
TOTAL	254,252,689	27,079	9,389

* All sub-serviced by others.

Chart 3: Percentage of Servicing by Investor (UPB)

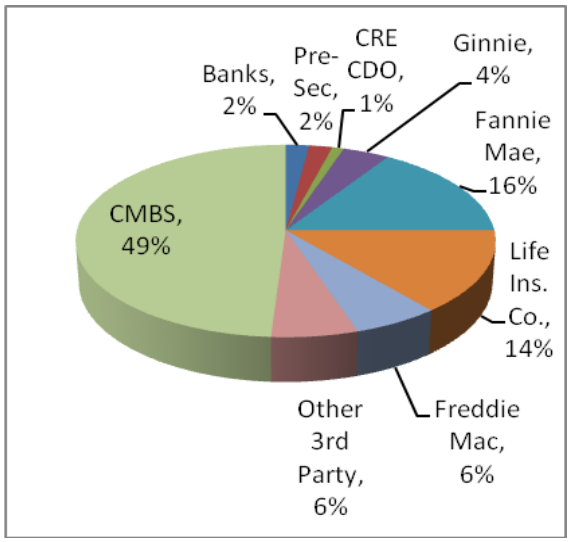


Chart 4: Percentage of Servicing by Investor (# Loans)

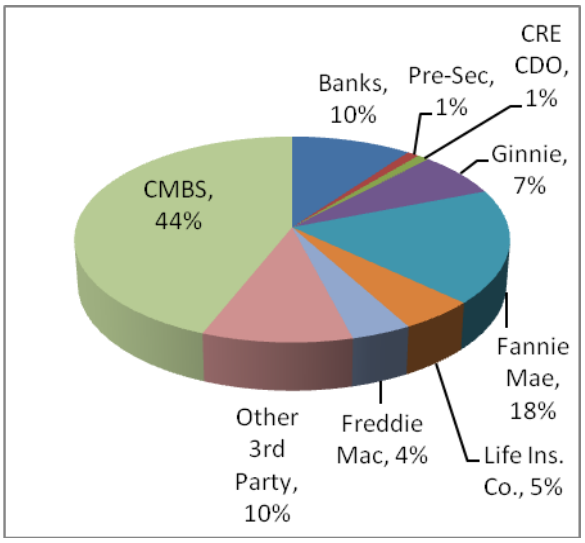


Table 7: Servicing by Property Type (Primary and Master Including Defeased Loans)

Property Type	UPB(000s)	# of Properties	Average Size (000s)
Healthcare	3,857,019	607	6,354
Industrial	7,152,563	1,620	4,415
Lodging	15,138,665	1,079	14,030
Mixed Use	5,473,872	672	8,146
Mobile Home Park	3,406,504	1433	2,377
Multifamily	86,146,602	13,793	6,246
Office	45,810,037	3,689	12,418
Retail	47,760,545	6,406	7,456
Self Storage	2,376,172	850	2,795
Warehouse	2,675,841	558	4,795
Defeased Loans	5,245,037	875	5,994
Other	29,209,832	7,035	4,152
TOTAL	254,252,689	38,617	6,584

Chart 5: Percentage of Servicing by Property Type (UPB)

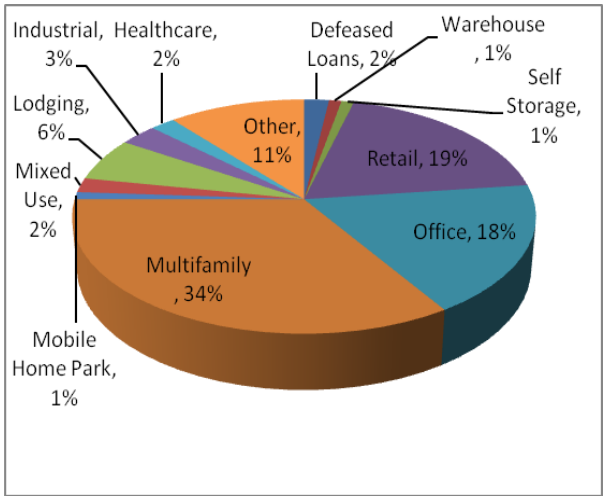
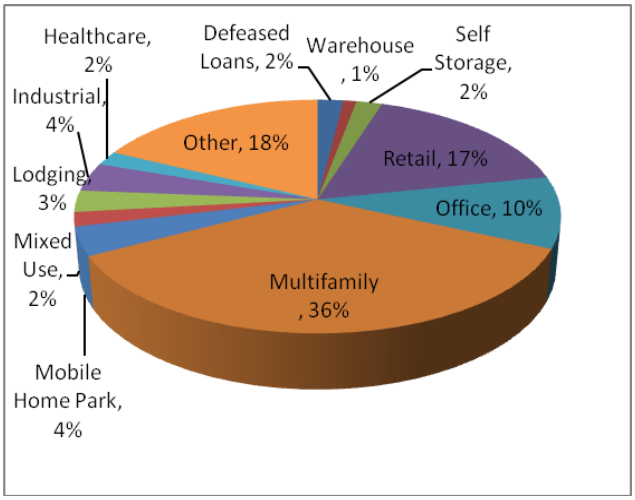


Chart 6: Percentage of Servicing by Property Type (#)



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

During the first half of 2011, Midland boarded 802 new loans as a primary and master servicer. By comparison, for all of 2010, the company boarded 365 new loans as a primary and master servicer. Midland re-boarded 462 loans during the first half of 2011. As a practice, Midland stated that it targets a maximum no later than the first determination date to board new loans with data necessary to conduct payment processing and investor reporting. The company reported that it re-boards corrected and modified mortgage loans onto the loan servicing system within three to five business days of receipt to facilitate correct reporting to the trust at the next determination date unless there is conflicting information that requires instructions or clarification from the special servicer.

During the boarding phase, the company creates and then centrally maintains summaries of deal-specific key servicing and related PSA requirements. 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 three days of closing and provide compliance requirements. The servicing system automatically generates borrower welcome letters and tracks borrower compliance items, covenant triggers, and missing documents. Midland reported that none of the new loans boarded before January 2011 had incomplete or missing file documentation as of June 30, 2011.

As of June 30, 2011, the company stated that it does service some loans with interest rate cap or hedge agreements. It also services many loans with letters of credit (LOC) as supporting collateral, which are stored on-site in a vault. The company has staff dedicated to monitoring these tasks and centrally tracks credit rating changes of counterparties and LOC expirations. It reported that it successfully renewed all 100 letters of credit that were due to expire in the first half 2011. Midland staff track UCC filing expiration dates via the servicing system and the company uses a third party vendor to assist with filing UCC continuation statements. The company reported no lapsed UCC filings during 2010 and 2011. As a master servicer, Midland monitors UCC filing compliance through quarterly reports submitted by its sub-servicers.

> **Assessment:** Loan boarding practices are, in our view, overall efficient and controlled. We believe that the servicer's targeted maximum timeframe to board core data on new loans is in line with industry norms. We also believe that Midland's targeted timeframe to re-board modified loans is generally in line with industry norms given that re-boarding a loan modification can have added complexities and the servicer's ability to re-board swiftly can be contingent on the quality and timeliness of the file information submitted by the special servicer. Loan administration for hedge agreements, letters of credit and UCC filings also are, in our opinion, well-controlled.

Payment Processing

Within primary servicing, Midland stated that approximately 98% of all loan payments are received, deposited, and system-posted electronically (lockbox, wire, ACH or received at an affiliated bank branch and then electronically posted). Approximately 2% are live checks received at the servicer's street address. All payments are first deposited to a central clearing account and automatically swept to investor custodial accounts, unless flagged as a suspense or hold item. The payment receipts lockbox (operated through PNC Bank) interfaces directly with the servicing system. When the company receives live checks it centrally logs them at their entry point and balances them daily to system entries. The company also segregates payment posting, depositing, and system balancing tasks among the staff. The servicing system balances payment receipts daily and management reviews reconciliations. As of June 30, 2011, the servicer also handled almost 678 loans (UPB of $28.2 billion) with cash management agreements, with the corresponding cash movement routines largely automated through interfaced banking software. The average loan size for loans requiring cash management was $41.6 million. The primary serviced portfolio included 6,479 floating rate loans at June 30, 2011 (approx. 25% by loan count), and the average loan size of floating rate loans was approximately $4.4 million. As a master servicer, Midland maintains current balances and paid-to dates of sub-serviced loans on its servicing system.

As of June 30, 2011, Midland did not report any un-reconciled items aged more than two days in its clearing account, or report any non-special servicing related suspense items aged more than 60 days. The servicer held 65 items in suspense (approx. $7.5 million) in connection with specially serviced loans pending directions or resolution from the corresponding external special servicers. We recognize that persisting special servicer-related suspense balances are not in the direct control of a primary servicer to resolve, but are nonetheless a troublesome and systemic industry issue.

> **Assessment:** Payment processing is, in our opinion, highly automated, efficient, and overall well-controlled as demonstrated by the lack of un-reconciled items or aged suspense items, excluding items related to specially serviced loans, in the clearing account.

Real Estate Tax and Insurance Administration

Within primary servicing, as of June 30, 2011, Midland had 15,319 loans, or approximately 59% of all loans escrowed for taxes. During 2010 and the first half of 2011, it incurred relatively minimal tax penalties related to 28 loans in 2010 and 17 in the first half of 2011, which corresponded to only 0.11% of all tax escrowed loans. Tax payments are generally remitted within early pay discount periods. The servicing system tracks tax payment due dates and the payment status for all loans whether escrowed or not. A tax service tracks and remits tax payments to tax authorities for escrowed loans, and reports unpaid taxes on non-escrowed loans. For non-escrowed loans, Midland sends a delinquent tax notice to the borrower and tracks the delinquent tax until paid although the servicing system does not auto-generate the request for verification of tax payment on non-escrowed loans. As a master servicer, Midland reviews tax payment exception reports from sub-servicers quarterly.

Within primary servicing, at June 30, 2011, the company had 9,870 loans, or 38% of all loans escrowed for insurance. Midland manages insurance administration completely in-house and does not use external insurance consultants to assist with policy reviews. The servicing system tracks expirations and coverage requirements. Midland stated that it sends out the first reminder letter 30 days prior to expiration and the second one within 15 days of expiration. The company also stated that the issuance of

the notice is auto-generated. The company reviews insurance carrier ratings prior to renewal for compliance and it reported 101 loans (0.4% of all primary serviced loans) on its force placed policy, which provides for 360 days of retroactive coverage. The servicer noted that during the past 12 months only 1.5 % of loans with expiring policies have required force placed coverage. The forced placed insurer is American Modern Life Insurance Company, and it received a financial strength rating of 'A-' and an issuer credit rating of 'a-' by A.M. Best. The company also reviews insurance exception reports from its sub-servicers quarterly.

> **Assessment:** Tax administration, in our opinion, is soundly managed and proactive based on Midland having overall low tax penalties and its effective use of a tax service to monitor tax payment activity. We also believe that Midland has an overall effective insurance administration function. As a master servicer, Midland follows standard industry practices by reviewing quarterly tax and insurance payment exception reports from its sub-servicers. We also believe that Midland's retroactive coverage period on its forced policy is significantly longer than that of other servicers we have observed. In our view, the long retroactive period serves as an additional safeguard to mitigate the risk of non-coverage in the event of property loss.

Capital Expenditure Reserve Management

The servicing operations department works in conjunction with asset managers to review and release capital reserve requests. The company uses the servicing system to track and re-analyze reserve activity at least annually, with disbursement requests controlled through its servicing system. Management must review and approve releases from reserve accounts.

> **Assessment:** In our opinion, Midland has sound oversight controls for capital expenditure reserve management.

Investor Reporting and Accounting

Investor remittance and reporting tasks require management approval. The company tracks custodial banks' credit ratings for servicing agreement compliance. It segregates investor report preparation from investor remittance and 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 Midland noted that the investor reporting and custodial bank account reconciliation processes are entirely automated. Midland balances bank account activity daily, with reconciliations performed more formally at every month end. For 2010 and the first half of 2011, the company reported no unidentified items in custodial accounts aged more than 60 days. As a master servicer, Midland reconciles sub-servicer remittances to trustee remittance reports monthly and sub-servicers also submit a monthly projected remittance report. During the first two months of a new transaction, Midland reviews the whole report to verify a sub-servicer's data against Midland's own system records.

The company reported that it complies fully with SEC Rule 17g-5 relative to sharing deal information with nationally recognized statistical rating organizations (NRSROs). Midland handles communications relating to transactions affected by Rule 17g-5 through a dedicated email address, with the response channeled through the 17g-5 Information Provider identified in the applicable PSA. The Midland CMBS surveillance team serves as liaison between Midland business groups and the 17g-5 Information Provider, with the Information Provider responsible for posting the communication to its Rule 17g-5 website.

During 2010 and the first half of 2011, Midland reported that it did not experience any occurrences involving CMBS late or erroneous reporting, or cases requiring restatements of reports to trustees. The company also disclosed that it did not experience any remittance or reporting penalties in 2010 or during the first half of 2011.

> **Assessment:** Overall, the investor accounting and reporting function are, in our view, highly automated and well controlled as demonstrated by the company's lack of remittance errors and entirely automatic process for reconciling investor accounts. We also believe that the company has a very effective investor website and overall provides accurate surveillance data and proper communication protocols. In particular, we note that Midland's investor website provides highly detailed tenant rent roll information to a degree typically not found in other investor websites, which we believe will significantly aid rating agencies and investors in determining the exact extent of leasing activity within CMBS portfolios. Finally, investor feedback has been favorable overall, although some DealView reports noted that current information regarding property rent rolls and modifications was lacking.

CMBS Advancing and Non-Recoverability Analysis

As a master servicer, Midland provides advances on CMBS transactions. The servicer centrally tracks each loan's cumulative advances versus its current value or net liquidation amount. The company stated that generally once outstanding advances reach

65 to 70 percent of estimated collateral market value or the expected liquidation proceeds, it will typically stop advancing. It also noted that the advance rate decreases substantially for portfolios with five or fewer remaining assets. As advances increase relative to value, decisions to continue advancing require additional approvals as delineated in the servicer's approval authorization matrix. Senior management reviews all advancing decisions monthly. The company also formally monitors special servicers' appraisal update efforts through a monthly advance analysis report.

Midland's total advancing activity (advances for principal, interest, and property protection expenses) increased by 9% (by UPB) and 63% (by loan count) between December 31, 2010 and June 30, 2011. While the dollar volume increased somewhat, the number of loans requiring advances increased significantly. Further, the average advance amount per loan decreased from $352,545 as of December 31, 2010, to $235,348 as of June 30, 2011. It appears that the increase in assets requiring advances for debt service and property protection expenses is attributed to the high volume of smaller balance loans serviced by Midland. Broken down further, advances for principal and interest increased by dollar volume yet decreased by loan count during the same period. It appears that the average loan size of loans requiring advancing of principal and interest increased from approximately $329,613 as of December 31, 2010 to approximately $406,205 as of June 30, 2011. It appears that Midland tends more frequently to fund property protection advances on smaller balance assets while funding principal and interest advances for larger assets.

Table 8: Midland Advancing Activity

	6.30.11	12.31.10
Total Advances (P&I and PPA*) Outstanding ($ Volume)	437,275,677	401,900,832
Total Advances (P&I and PPA) Outstanding (# of Loans)	1,858	1,140
Average Advance Per Loan ($)	235,348	352,545
Outstanding Advances- P&I Only ($ Volume)	353,804,737	314,120,908
Outstanding Advances- P&I Only (# of Loans)	871	953
PPA (non P&I related) ($ Volume)	83,470,939	87,779,924
Average Age of First P&I Advance (Days)	268	241

*P&I - principal & interest. PPA- property protection advances.

Assessment: In our opinion, Midland maintains effective, controlled advancing and non-recoverability determination practices. Its stated advancing threshold, which we realize is a blended guideline for all property types and loan situations, is generally in line with other master servicers, although it could be on the higher side compared to some. The company did note that it had to re-assess and re-state its reimbursement of outstanding advances by spreading out the recoupment period for three liquidated loans in 2011, so that the investment grade securities would not be negatively affected. It further noted that it had to spread out advances because disposition proceeds were unexpectedly lower than the most recent property valuations. We believe that master servicers, as a standard practice, should determine how their method of recapturing advances will affect the trust cash flows before submitting their reimbursement requests in their realized loss statements.

Financial Statement Analysis and Property Inspections

The company outsources (although it does not offshore) a portion of its property financial statement data input work, but it retains all quality control review, credit decisions, and analytical accountability. The collateral surveillance group within the servicing division analyzes financials and completes OSARs. All financial statements are imaged upon receipt, and in-house credit analysts and the outsource vendor share responsibility for entering data into the servicing system and performing an initial compliance review. Midland uses the servicing system for tracking and reporting the receipt of financial statements. By May 31, 2011, the company as a CMBS primary servicer received 95.7% of required financial statements and analyzed 95.8% of them. For loans in which it acts as both a primary and master servicer, it received 92.5% of required financials and analyzed 94.7% of them. In addition, the company reported that as a master servicer, it generally will re-analyze 75% of financial statements submitted from sub-servicers.

Midland uses property inspection vendors to perform most of its inspections, but completes approximately 500 inspections per year using internal staff. Midland stated that it follows the terms of its PSAs to determine the frequency of inspections. During the first half of 2011, the company stated that 1,997 properties were due for inspection, and that it received 89% of those property inspection reports by or within 30 days of their due dates. Midland noted that this percentage takes into consideration small balance loans, which can present more difficulties for obtaining inspections as these borrowers can sometimes be less cooperative. The servicing system tracks and maintains inspection reports. It also tracks deferred maintenance issues and their resolution status. As a master servicer, the company routinely reviews all inspections received from sub-servicers, and stated that it will follow up with sub-servicers on inspection items.

Watchlist, Trigger Events, and Early Stage Collections

The collateral surveillance department is responsible for creating and managing loan watchlists. Members of the watchlist committee include representatives from the collateral surveillance, CMBS surveillance, and collection departments. The committee meets monthly to review the status and course of action of all loans on the watchlist and to determine whether to take an asset off the watchlist. Furthermore, CMBS surveillance and portfolio analysts review the watchlist items in their assigned portfolios for accuracy and for updates to the list. Midland utilizes its own internal watchlist criteria in addition to the CREFC IRP watchlist in order to identify for itself those loans that it believes are of the greatest concern.

As of June 30, 2011, Midland reported that 2,129 primary and master serviced loans were on its CREFC watchlist, representing approximately 17.8% of all CMBS loans that Midland services. Midland also reported 1,285 loans on its own internal watchlist as of June 30, 2011, representing approximately 4.7% of all primary and master serviced loans. It assigns and maintains a risk rating for all loans, including CMBS assets, and the servicing system flags loans for the watchlists resulting from property inspections. Midland also subjects all sub-serviced loans to its watchlist criteria. The servicing system also tracks loan level covenants, exceptions and trigger events.

During the first half of 2011, the company reported that 69 loans triggered a springing lockbox and it also reported that it was able to implement springing lockbox provisions within 30 days of the trigger date. In general, Midland issues its first notice to borrowers regarding delinquent payments via its servicing system one day after the grace period ends and again 30 days after the payment due date if payment remains delinquent. The company also reported that it will contact the borrower by phone five days after the scheduled payment due date but will generally not contact borrowers for payment prior to the end of the grace period. Midland maintains the chronology of collection efforts and borrower comments on the servicing system, and the system provides daily delinquency reporting to staff.

During the first half of 2011, Midland averaged about 48 delinquent loans requiring monthly collections efforts. It also reported that an overall 10% of the loans that were 30 days delinquent in this period then paid current the following month, and that 1% of those same 30-day delinquent loans paid off in full the following month.

Table 9: Midland Delinquency Migration (January - June 2011)

	30 Days Delinquent	Status of Same Loans the Following Month				
Month	**# of Loans**	**Paid Current**	**30 + Days**	**60 + Days**	**Paid Off**	**Transferred to Special Servicer**
January	45	9%	18%	18%	0%	55%
February	28	18%	36%	4%	0%	42%
March	120	3%	12%	69%	1%	15%
April	30	13%	27%	13%	3%	44%
May	29	24%	38%	0%	0%	38%
June	35	17%	37%	3%	0%	43%
TOTAL	287	10%	23%	34%	1%	32%

Assessment: We consider that Midland, as a primary and master servicer, has effective portfolio management practices covering financial statement analyses, property inspection reviews, and trigger event and watchlist management. In our view, the company's policy of re-analyzing a high percentage of financial statements from sub-servicers indicates proactive portfolio management and is essential given that Midland is accountable for determining the recoverability of advances on its sub-serviced loans. We also believe that the company's practice of routinely reviewing all the inspections submitted from sub-servicers demonstrates proactive oversight. Midland's cure rate (loans reaching current status) appears to be lower than that of some other servicers we have recently ranked. However, we believe that this may be due to Midland's high percentage of smaller balance CMBS loans, which tend to experience more severe delinquencies than larger balance borrowers and as shown by the high incidence of loans transferring to special servicing rather than paying current.

Table 10: Midland CMBS Portfolio Delinquency

	30 Days		60 Days		90+ Days (Including REO)	
	UPB (000s)	# Of Loans	UPB (000s)	# Of Loans	UPB (000s)	# Of Loans
Midland Delinquency Volume*	735,833	72	562,823	37	10,688,229	895
Midland Delinquency (%)	0.29	0.27	0.22	0.14	4.43	3.40

* CMBS only and excludes loans sub-serviced by others.

Chart 7: Midland CMBS Delinquency vs. Morningstar CMBS Delinquency (By UPB)

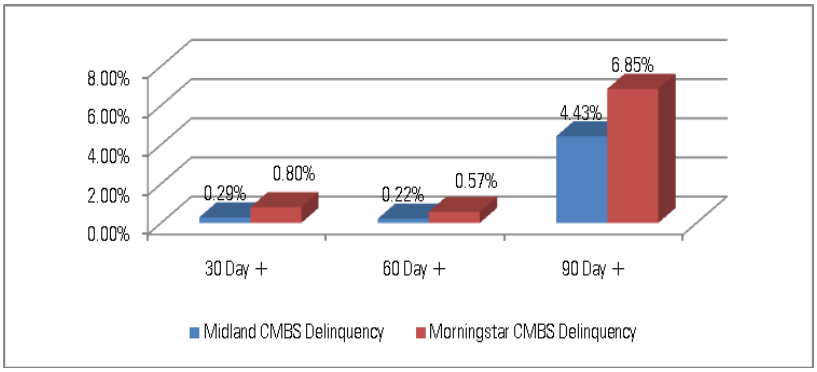
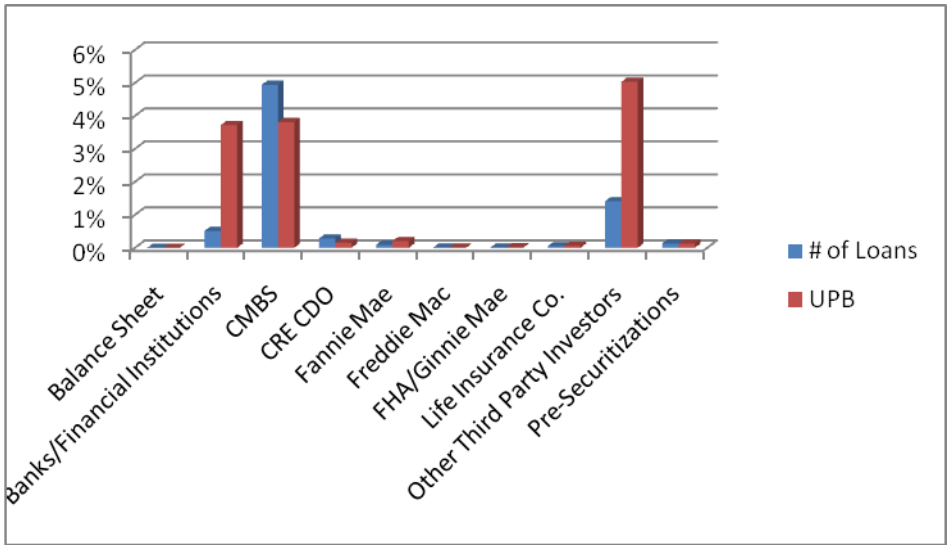


Table 11: Delinquency Percentages by Investor Type

	30 Days		60 Days		90+ Days (including REO)	
	UPB	# of Loans	UPB	# of Loans	UPB	# of Loans
Balance Sheet	0	0	0	0	0	0
Banks/Financial Institutions	0.04	0.2	0.02	0.2	0.45	3.32
CMBS Primary & Master Combined)	0.24	0.21	0.09	0.13	3.97	3.05
CMBS (Primary Only)	0.01	0.03	0.13	0.01	0.24	0.26
CMBS (Master Only)	0.03	0.02	0	0	0.23	0.1
CRE CDO	0.01	0.01	0	0	0.27	0.14
Fannie Mae	0.01	0.02	0.01	0.02	0.07	0.16
Freddie Mac	0	0	0	0	0.01	0.01
FHA/Ginnie Mae	0.01	0.01	0	0	<0.01	0.01
Life Insurance Companies	0	0	0.01	0.01	0.04	0.05
Other Third Party Investors	0.05	0.48	0.03	0.15	1.33	4.4
Pre-Securitization	0	0	0	0	0.13	0.13
TOTAL	0.4	0.98	0.29	0.52	6.74	11.63

Chart 8: Total Delinquency by Investor Type (UPB and Loan Count)*



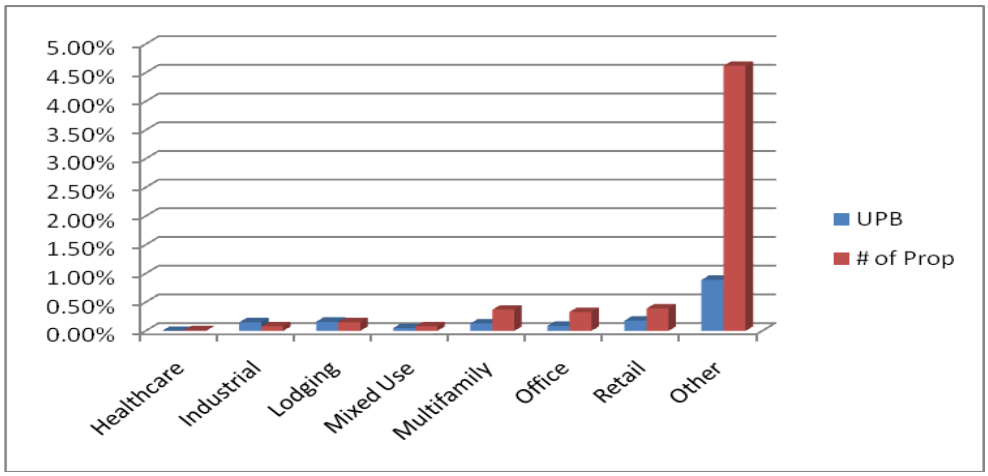
* Midland services a number of loans for distressed debt investors.

Table 12: Delinquency Percentages by Property Type*

	30 Days		60 Days		90 + Days (including REO)	
	UPB	# of Prop	UPB	# of Prop	UPB	# of Prop
Healthcare	0	0	0	0	<0.01	0.01
Industrial	0	0	0.13	<0.01	0.02	0.08
Lodging	<0.01	0.01	<0.01	0.01	0.16	0.13
Mixed Use	0.02	<0.01	<0.01	0.01	0.03	0.07
Multifamily	0.01	0.03	<0.01	0.02	0.12	0.32
Office	0.01	0.05	0.01	0.05	0.07	0.23
Retail	0.01	0.03	0.01	0.04	0.16	0.32
Other	0.01	0.23	0.01	0.2	0.87	4.19
TOTAL	0.07	0.36	0.17	0.32	1.43	5.35

*Excludes loans sub-serviced by others.

Chart 9: Total Delinquency by Property Type (UPB and Loan Count)



Master Servicing: Sub-Servicer Auditing and Compliance

As a master servicer, Midland dedicates one person to sub-servicer auditing and compliance oversight. In addition to the sub-servicer audit function, three staff members in the investor accounting group handle other oversight functions such as balancing remittances, reviewing required periodic compliance certifications and reports, and tracking receipt of financial statements. As of June 30, 2011, the company monitored 31 sub-servicers and bases audits on each sub-servicer's past performance and servicing volume. In general, Midland performs annual on-site audits on its largest sub-servicers, which tend to be sub-servicers associated with the top ten CMBS loans in the respective transactions. Midland stated that on average it conducts sub-servicer audits on a 12-month cycle, although for sub-servicers with consecutive clean audits and no top ten CMBS loans, it will conduct audits on a 36-month cycle. Midland provides sub-servicers with a pre-audit questionnaire, uses an audit checklist, and provides sub-servicers with a summary report of findings. It also reviews each sub-servicer's performance monthly and communicates its findings through a sub-servicer oversight committee.

During the first half of 2011, the company conducted two on-site audits and ten desk-type audits. During 2010, it completed 22 on-site and desk-type audits. Of these 34 audits performed between January 2010 and June 2011, on-site audits represented approximately 41% of sub-servicing by loan count and 51% by UPB, which we believe indicates very good coverage.

> **Assessment:** We believe that the company effectively monitors sub-servicer performance through a proactive audit program, based on its scope and frequency, as well as an ongoing review process to track sub-servicer performance regarding reporting accuracy and timeliness.

Borrower Consents and Requests

Midland handles a high volume of consent requests, especially leasing consents, emanating directly from borrowers, sub-servicers, or other special servicers. It tracks requests via the servicing system and will periodically use a vendor to assemble and validate request packages for its review. Asset managers within the servicing division analyze and prepare written cases and obtain approvals through a formal committee process.

During the first half of 2011, overall consent activity decreased on an annualized basis compared to full year 2010 activity. During the first half of 2011, Midland processed 563 consent requests covering: assumptions (13%), defeasances (3%), leasing (82%) and partial releases of collateral (2%). During 2010, it processed 1,291 consent requests covering: assumptions (9%), defeasances (2%), leasing (87%), and partial releases of collateral (2%).

As of June 30, 2011, the overall average time to process consents increased slightly compared to the overall average time to process consents as of December 31, 2010. The overall average time to process all four consent types was 39 days as of June 30, 2011 and 37 days as of December 31, 2010.

Table 13: Borrower Consent Average Processing Times (Days)

	January – June 2011			January – December 2010		
Consent Type	**# Processed**	**Internal Time Only**	**Total Time**	**# Processed**	**Internal Time Only**	**Total Time**
Assumptions	75	40	68	119	42	77
Leasing	460	27	33	1,119	28	33
Defeasance	16	11	14	28	10	27
Partial Releases	12	43	98	25	31	71

> **Assessment:** In our opinion, the company has effective control practices to analyze and approve borrower consents. We do observe that the lengthier total processing time for partial releases was skewed by three requests that took between 261 days to 356 days to process according to Midland because of a borrower's difficultly completing the transaction, another request involved a special servicing issue related to cross collateralization, and another request involved a complex transaction requiring Midland to order environmental and appraisal reports. The average total time to process partial releases would be 25 days, excluding those three requests. Other than the average total time to process partial releases, we believe that Midland's reported averages are generally in line with other servicers.

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 initial asset status reports (ASRs) generally within 60 days of a loan transfer and the company stated that ASRs are required for all loans regardless of loan size. Asset managers submit an updated ASR or asset business plan, which includes a net present value (NPV) analysis of each alternate resolution scenario, to obtain approval for specific terms of negotiated resolutions. When a loan becomes an REO asset, asset managers update ASRs within 60 days. The company's delegations of authority require asset managers to obtain approval of business plans through a formal committee approval process. Asset managers do not prepare ASRs on the asset management system. However, the asset management system tracks portfolio resolution progress and stores all versions of ASRs. For CMBS assets, Midland formally monitors master servicers' outstanding advances against property values and expected recovery amounts, and the company stated that it will routinely caution and consult with master servicers on their advancing decisions.

As a third party special servicer, Midland has a relatively large portfolio of specially serviced assets yet asset managers handle both loan and REO dispositions. We have observed that other special servicers with large portfolios tend to dedicate separate asset managers for loan and REO assets. The company stated that it has achieved efficiencies by having the same asset managers handle the entire process from loan transfer through REO disposition because it believes they are able to resolve assets in a timelier manner since there is no disruption when transferring a loan to REO status. According to Midland, senior management monitors workloads and assigns more complex workouts to senior asset managers, and all asset managers are supported by the RES liaison group. Midland also reported that assignments are based not on property type or geographic location but on the company's requirement that asset managers have or develop expertise in managing all property types. In all, three teams of asset managers located in Atlanta, Dallas, and Kansas City manage assets in special servicing.

> **Assessment:** Midland has, in our opinion, overall proactive and controlled asset analysis and recovery practices based on its stated procedures. We believe that the asset management system tracks portfolio activity in a generally effective manner. In our view, Midland also takes proactive measures by actively discussing advancing decisions with master servicers and requiring committee approval for asset resolutions. We also believe that Midland's decision to assign both loan and REO resolutions is reasonable given Midland's focus to reduce disruptions that may occur when a loan transfers to REO status and given Midland's overall asset resolution times. We believe that the special servicer mitigates risks inherent in its ability to manage assets as transfer activity increases by assigning more complex workouts to senior managers and by providing all asset managers with support from the RES liaison group. We further note that approximately 95% of Midland's special servicing inventory consisted of loans rather than REO assets as of June 30, 2011. As such, REO asset resolutions have been a relatively smaller portion of total workout activity.

REO Property Management

As of June 30, 2011, Midland had 32 unsold REO equaling approximately five percent of its overall special servicing portfolio, which we view as a relatively modest percentage compared to some other special servicers we have observed. Midland's active special servicing portfolio is highly diverse in terms of property types and it has managed some large properties involving extensive property management oversight. Midland uses single trust accounts rather than separate rent collection and expense accounts for REO property management. Midland reported that instead of using staff in its accounting department to reconcile property management reports, it uses a team of analysts in an equivalent manner to review the reports each month for accuracy, quality control, and for variance/exception identification. The analysts work with the asset managers and property managers to clear any outstanding questions or exceptions. Property management reports, budgets and reconciliations are uploaded to the servicing system and made available for investors to view. Midland requires its own standardized engagement agreement for property managers and issues a standard reporting procedure manual. Midland reported that it conducted four independent audits of its property managers during the first half of 2011.

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

Vendor Oversight

Midland maintains a centralized list of approved vendors such as appraisal firms, engineering firms, attorneys, property managers, and brokers. It also conducts a request-for-proposal (RFP) bidding process for engagements and typically requests bids from three or more vendors on each engagement. It also uses its own form agreements for all vendors. Midland reported that asset managers are responsible for interviewing prospective brokers or property managers and selecting the most qualified candidates based on expertise, knowledge and experience in the local market and product type, and cost. In addition, asset managers are responsible for ordering and reviewing appraisals and environmental reports, with an external law firm assisting in the review of environmental reports. The asset management system tracks pending engagements, including the status of appraisals, and vendor performance. Midland's in-house legal department coordinates engagements with outside counsel while asset managers, along with their team leaders, review and approve legal invoices prior to payment.

> **Assessment:** Midland demonstrates, in our view, an effective and controlled process for qualifying and engaging vendors, including its use of standardized forms for all vendors and tracking vendor assignments and performance on its asset management system. While Midland requires asset managers to coordinate most vendor engagements, we have sometimes observed other special servicers using a dedicated staff to centrally manage all vendor engagements to maintain efficiency and control.

Managing Conflicts of Interest

As a practice, the company reported that it may selectively engage in fee sharing arrangements in order to obtain or retain assignments. Furthermore, it stated that these arrangements are documented in a written agreement that is provided to the trustee for dissemination through its website or to the controlling certificateholder. In addition, it stated that these agreements are made available for review and inspection by any party to the transaction, and that it provides full disclosure in the offering documentation of the agreement between Midland as special servicer and the controlling certificateholder.

Midland also reported that it does not have or use affiliated brokers on note sales or REO sales, nor does it use affiliates or related parties for property management. The company stated that it does not collect special servicing fees from the trust that it also collects from borrowers or other sources. It reported that it does not collect in excess of the trust contractual fee as outlined in the related PSA. Midland's parent entity owns a minority interest in BlackRock, a major investor in CMBS transactions. However, Midland stated that, as a regulated bank, it must comply with Federal regulations in its interaction with affiliates, and as a result, must treat BlackRock in an arms-length manner, and therefore does not consider this relationship to have any potential conflicts of interest. Midland, as special servicer, is required to pursue the resolution strategy that results in the highest recovery on a net present value basis for all of the investors in a transaction, and not just for the subordinate bondholder, which has the special servicer appointment authority. This requirement is intended to mitigate any potential conflict of interest between the special servicer and its directing certificateholder or controlling classholder. Midland also stated that it further mitigates potential conflicts of interest by disclosing the amount of fees it earns as special servicer and the sources of its fees. It also stated that it does not use affiliates with respect to resolution and liquidation strategies.

> **Assessment:** Midland, in our view, has effective controls for managing conflicts of interest relative to using third party affiliates, for passing through fees to CMBS trusts, and for conducting its overall asset resolution activities.

Asset Resolutions

As of June 30, 2011, Midland was the named special servicer on 202 CMBS transactions with a total UPB of approximately $79.8 billion covering 9,248 loans. It was also the named special servicer on nine CRE CDO deals with a UPB of $5.3 billion covering 207 loans. The company principally serves as a third party special servicer for B-piece investors and other parties in CMBS transactions as well as a third party special servicer on several FDIC distressed portfolios. Midland also provides special servicing asset management for private equity firms that purchase non performing loan portfolios and require default management services.

Table 14: Loan Portfolio Activity (January – June 2011)

	Total $ Vol (Mil)	Total # of Loans	Total # of Props	CMBS $ Vol (Mil)	CMBS # of Loans	CMBS # of Props
Loan Portfolio at Beginning of Period	6,541	454	572	6,213	440	568
Loans Transferred Into Portfolio:						
Pre-existing Loans Specially Serviced Loans From Another Special Servicer	0	0	0	0	0	0
Non-monetary/Imminent Default Loan Transfers	1,116	270	167	679	56	63
Monetary Default Loan Transfers	282	64	66	281	62	65
Total Transfers Into Special Servicing	1,398	334	233	960	118	128
Loans Resolved or Transferred Out of Portfolio:						
Restructured or Modified Loans	(827.4)	(79)	(74)	(827.4)	(79)	(74)
Completed Foreclosures and Converted to REO	(32)	(12)	(12)	(32)	(12)	(12)
Individual Note Sales	(89.3)	(13)	(17)	(89.3)	(13)	(17)
Bulk Note Sales	0	0	0	0	0	0
Discounted Payoffs (Excludes Note Sales)	(182.3)	(33)	(33)	(182.3)	(33)	(33)
Full Payoffs	(78.4)	(26)	(25)	(58.9)	(14)	(15)
Other Transfers Out of Special Servicing	(197.6)	(8)	(28)	(194.6)	(7)	(28)
Resolved Through Rep and Warranty Settlement	0	0	0	0	0	0
Total Loans Resolved or Transferred Out of Portfolio	(1,407)	(171)	(189)	(1384.5)	(158)	(179)
Other Adjustments	0	0	0	0	0	0
Loan Portfolio at End of Period	6,532	617	616	5,788.5	400	517

Table 15: REO Portfolio Activity (January – June 2011)

	Total $ Vol (Mil)	Total # of Props	CMBS $ Vol (Mil)	CMBS # of Props
REO Portfolio At Beginning of Period	159.4	37	130.4	36
Assets Already REO when Acquired	44	14	0	0
Completed Foreclosures	32	12	32	12
REO Sold During Period	(73.2)	(31)	(68.8)	(28)
Other REO Transferred Out and Adjustments	(6.4)	0	(5.6)	0
REO Portfolio At End of Period	155.8	32	88.0	20
Net Sale Proceeds/Market Value (%)		92		93

Table 16: Asset Resolution Performance (January – June 2011)

Resolution Type	Net Proceeds/Value (%)	Actual Net Proceeds vs. Projected Amount (%)	Average Resolution Time (Months)
Restructured or Modified Loans	N/A	N/A	14.1
Individual Note Sales	134	112	14.5
Discounted Payoffs	105	106	21.6
Full Payoffs (Based on Proceeds-to-UPB)	104	103	5.7
REO Dispositions	92	196	10.4
Completed Foreclosures (Converted to REO)	N/A	N/A	13.3

Chart 10: Percentage of Total Resolutions (Including Foreclosures) (January - June 2011)

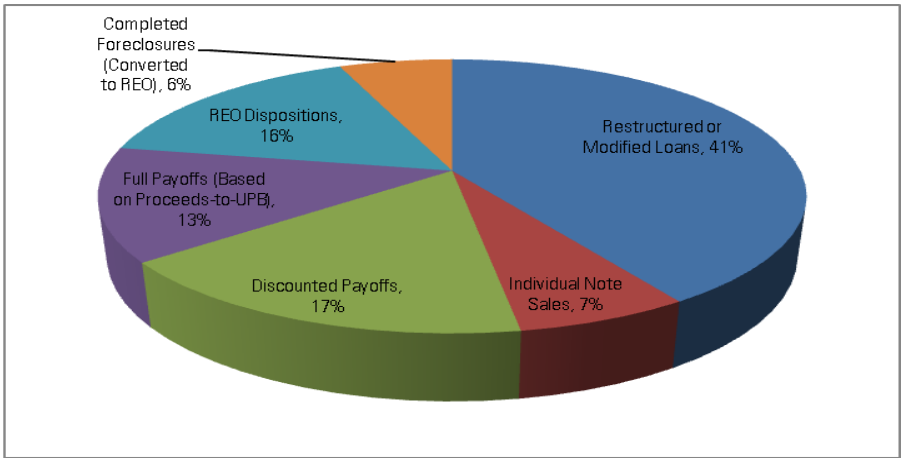
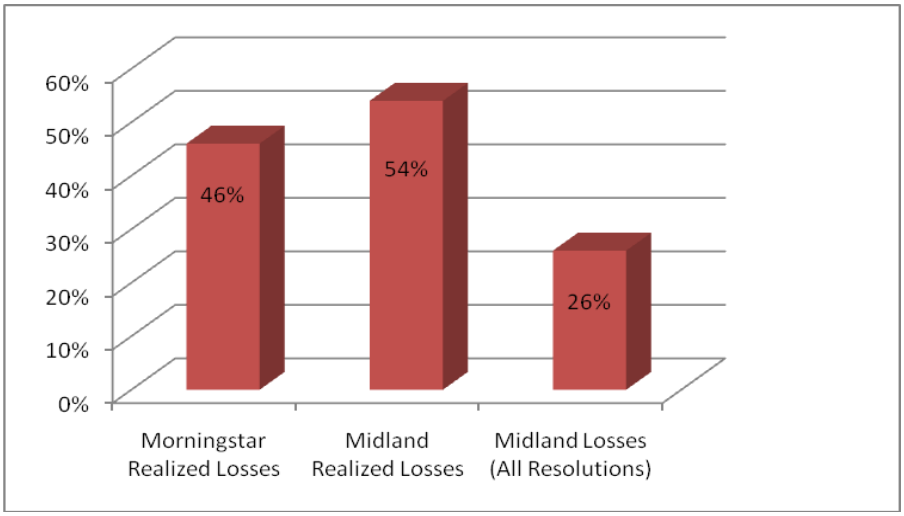
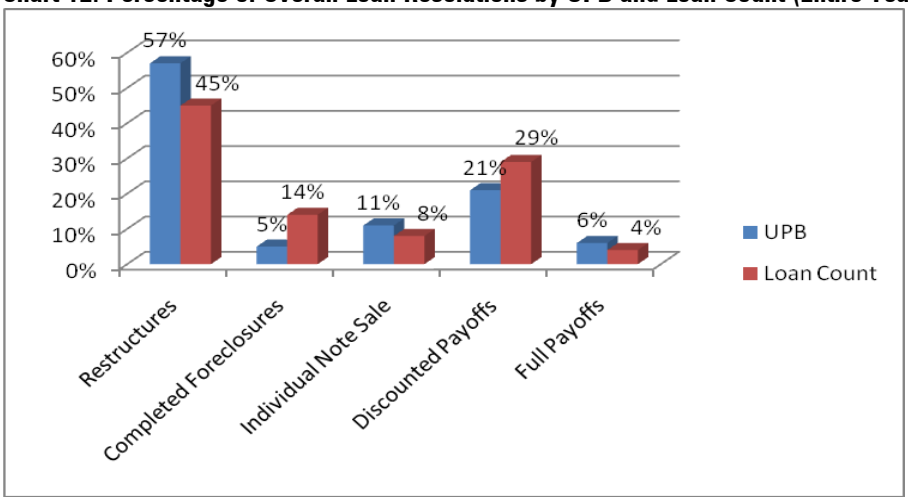


Chart 11: Average Realized Losses on Liquidated Assets vs. Morningstar Data (January - June 2011)*



*Source: Morningstar Monthly CMBS Delinquency Report July 2011. Realized Loss calculation includes only liquidated loans, sold REO, and full payoffs with trust losses, and excludes both restructured loans and full payoffs having no trust losses.

Chart 12: Percentage of Overall Loan Resolutions by UPB and Loan Count (Entire Year 2010)



Summary of 2010 Resolution Activity

- During 2010, Midland resolved 194 loans: 45% as restructures, 4% as full payoffs, 8% through note sales, and 29% through discounted payoffs (DPO).
- In general, restructures, note sales and full payoffs had larger loan balances while foreclosures and discounted payoffs had smaller balances.
- It completed 28 foreclosure actions and 18 REO sales.
- The DPO and note sale recoveries on its CMBS loans yielded net proceeds of 78% of the estimated collateral value. We believe the net proceeds to value ratio may have been skewed by smaller balance non-CMBS assets.
- It averaged 14.5 months for loan resolutions and 10 months for its REO sales after converting the loan to REO.
- Net proceeds on REO sales averaged approximately 92% of the collateral value.
- Overall Midland's average percentage loss on all resolutions (including restructures and full payoffs) was 28% (REO only was 62%).

Overall Asset Recovery Performance

Assessment: In our view, Midland has achieved excellent asset recovery results based on its overall low loss percentage on all resolutions and a high percentage of net proceeds to value on CMBS resolutions. While it experienced higher realized losses on liquidated assets compared to Morningstar's average for the first half of 2011, we believe that Midland's percentage may be skewed higher by a concentration of REO liquidations and by a number of smaller balance assets. We believe that resolution hold times are reasonable based on the overall characteristics of its portfolio. In addition, the company's actual recovery amounts generally exceeded its projected net recoveries, indicating that it accurately monitors the recovery potential of its assets. Additionally, the company reported that, on average, legal fees incurred on resolved specially serviced loans were 0.6% of net recovery proceeds, which is in line with our benchmark of 1% or less based on our assessment of some other special servicers and our view of industry norms. Overall, we believe that the company has a solid track record of successfully resolving many complex and large scale assets nationwide.

Investor and Master Servicer Reporting

Midland's procedures cover its formal reporting requirements as a CMBS special servicer with respect to reporting property protection advances, realized losses, pursuing updated appraisals, and communicating with other master servicers on asset management decisions. The company's procedures also address its special servicing reporting responsibilities for its GSE portfolios. As a CMBS special servicer, Midland provides its initial ASR to the trustee as well as subsequent releases of the final asset resolution plans containing the specific terms and details of a completed workout or liquidation.

Assessment: We believe that Midland is highly experienced with and has highly effective special servicer-related reporting capabilities to address CMBS and other investor type requirements. We believe that it also provides transparency by making asset resolution plans for completed workouts available to eligible investors through the trustee.

Ranking Definitions

The numerical scale of 'MOR CS1' to 'MOR CS4' is defined as follows:

'1'	Exceeds prudent loan servicing standards in key areas of risk
'2'	Demonstrates proficiency in key areas of risk
'3'	Demonstrates compliance in key areas of risk
'4'	Demonstrates lack of compliance in one or more key areas of risk

A servicer assigned a ranking of at least 'MOR CS3' is deemed to comply with what we view as the minimum prudent loan servicing standards and requirements for the servicer's operational category and role. To access Morningstar's *Operational Risk Assessments of Commercial Servicers: Methodology and Process*, please visit http://ratingagency.morningstar.com.

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Morningstar Credit Ratings, LLC, 410 Horsham Road, Suite A, Horsham, PA 19044 (800) 299-1665