

# Operational Risk Assessments News Bulletin

## Wells Fargo Commercial Mortgage Servicing

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### **Morningstar Assigns 'MOR CS2' Rankings to Wells Fargo Commercial Mortgage Servicing as a Primary, Master, and Special Servicer**

Morningstar Credit Ratings, LLC ("Morningstar") has assigned its 'MOR CS2' ranking to Wells Fargo Commercial Mortgage Servicing (WFCMS) as a commercial mortgage primary servicer, commercial mortgage master servicer, and commercial mortgage special servicer. The forecast for each ranking is *Stable*.

WFCMS, which is a wholly owned operating division of Wells Fargo Bank, N.A., represents the combined commercial mortgage servicing platforms of Wells Fargo Bank and the former Wachovia Bank. Each assigned ranking is based on our assessment of WFCMS's operational infrastructure and portfolio administration capabilities for its respective duties as a primary, master, and special servicer.

In particular, our assessment is based on our view of the following:

- Our generally favorable view of WFCMS's capabilities regarding data accuracy and particularly its website functionality based on CMBS investor comments and our review of Morningstar's published DealView CMBS surveillance reports (although a few reports noted some outdated or incomplete information). Additionally, we believe that WFCMS is seeking to improve its overall responsiveness to information requests.
- Our opinion that the company has successfully consolidated the two legacy servicing units into a singular platform comprising East and West Coast teams and has addressed its myriad of servicing and asset management responsibilities under a unified reporting structure. 2012 will be the first full calendar year in which WFCMS operates under its fully integrated structure.
- The company's retention of a well-experienced staff and management team along with the ongoing recruitment of other industry professionals to broaden the level of servicing expertise to address complex transaction structures and reporting requirements primarily for CMBS, but also for other investor clients.
- WFCMS's revised and consolidated set of documented policies and procedures, which we believe cover all of its asset administration duties in a thorough manner, including PSA and CMBS-related compliance.
- The company's steadily expanding use of off-shored staff (Wells Fargo India Solutions) in recent months to assist with a wider range of non-decision oriented servicing tasks that exclude direct borrower contact. Accordingly, Morningstar will monitor WFCMS's ability to maintain high quality servicing over the next 12-18 months as the servicer expands and integrates more servicing tasks with its off-shored staff.
- An overall effective technology environment to accommodate a diverse and extremely large servicing portfolio. The company stated that it expects to complete the conversion of its two legacy and separate servicing systems to a single upgraded application by late 2012. WFCMS has acknowledged that moving to one servicing system along with a corresponding reduction in duplicative side applications should yield a higher degree of operating efficiency and streamline data management.
- WFCMS did not provide Morningstar with copies of its technology disaster recovery and business continuity plans, although the servicer has made affirmative representations regarding its level of preparedness and data redundancy practices. The servicer has noted that it is working to arrange a better defined alternate office site arrangement to strengthen its West Coast business continuity planning.

- WFCMS's sound internal audit function and its self-administered quality control program. However, WFCMS stated that its parent's internal audit division decided to extend the interval between audits beyond two years. Additionally, we also note that the company has not undergone a Statement of Auditing Standards No. 70 (SAS 70) level audit (now superseded by the Statement on Standards for Attestation Engagements No. 16), which, in our experience, is generally part of the audit program for a highest ranked servicer.
- 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, including a program catering to the company's largest institutional borrowers.
- WFCMS's high degree of experience and overall successful performance as a CMBS master servicer with respect to its reporting ability, controlled advance determination procedures, proactive sub-servicer oversight and audit practices, and handling master servicing duties for a range of large and complex transactions. The company did incur some reporting errors and re-statements in the past 18 months, but noted that it has since addressed some of the associated procedures and technology issues.
- Our belief that as a special servicer, the company, while handling a moderate amount of portfolio volume, has generally controlled operating procedures, a solid track record of asset recovery achievement with larger and complex structures, and experienced asset managers. In our view, WFCMS's technology tools for special servicing are not the most extensive relative to some of its peers, but do accommodate the tracking and reporting requirements for a moderate level of activity.
- WFCMS stated that it usually serves as a CMBS special servicer only for the portfolios in which it serves as master or primary servicer, and that it does not have any affiliated investment interests in the controlling classes of the bonds. As such, we do not believe that WFCMS operates with any ostensible conflicts of interest in this regard.

WFCMS had the largest volume of any commercial mortgage servicer in the U.S. according to the June 2011 Mortgage Bankers Association's mid-year survey. As of June 30, 2011, WFCMS's combined primary and master servicing portfolio had approximately \$442.9 billion in unpaid principal balances (UPB) and 39,613 loans, representing a 2% decrease in UPB and a 0.14% decrease in loans compared to December 31, 2010. Its active special servicing portfolio had approximately \$3.4 billion in UPB and 135 assets, representing a 206% increase in UPB and 170% increase in assets from December 31, 2010. During the first half of 2011, WFCMS resolved approximately 43% of its inventory of specially serviced loans and REO assets that it had as of the beginning of the calendar year.

## Ranking Forecast

Our forecast for each ranking is *Stable*. We believe that WFCMS is fully capable of serving as an effective primary, master, and special servicer for its investor clients.

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

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