

Operational Risk Assessments News Bulletin

Prudential Asset Resources, Inc.

Morningstar Assigns Prudential Asset Resources, Inc. 'MOR CS1/Stable' Ranking as a Commercial Mortgage Primary Servicer and a 'MOR CS2/Stable' Ranking as a Commercial Mortgage Master Servicer

Morningstar Credit Ratings, LLC (Morningstar) has assigned Prudential Asset Resources, Inc. (PAR) a 'MOR CS1' ranking as a commercial mortgage primary servicer and a 'MOR CS2' ranking as a commercial mortgage master servicer. The forecast for both rankings is Stable. The assigned rankings reflect our assessment of PAR's operational infrastructure and portfolio administration capabilities for its respective duties as a commercial mortgage primary and master servicer.

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

- Our high opinion of PAR's capabilities to service complex CMBS portfolios. Additionally, we believe PAR has a very solid and successful track record of providing high quality servicing and asset management for other investor clients such as agencies and life insurance companies. The primary servicer ranking particularly acknowledges PAR's proactive and well designed credit monitoring capabilities and its thorough insurance monitoring practices which we regard among the company's strengths.
- PAR's capacity as a master servicer to meet its ongoing advancing responsibilities based on the company's representations regarding its financial resources. In addition, we believe that PAR has a high degree of experience, sound controls, and an overall successful performance record as a CMBS master servicer with respect to trustee remitting and reporting, advance determination procedures, overall PSA compliance, and handling all other requisite master servicing duties for a range of large and complex transactions.
- The company's sound track record with CMBS sub-servicer oversight although PAR had only a few remaining CMBS loans with external sub-servicers as of mid-2012. As a strategic move, PAR may not have any remaining CMBS sub-servicing contracts by the end of 2012. Accordingly, PAR, as a result of declining sub-servicer activity, has not conducted any sub-servicer audits since 2009. However, we believe that PAR remains suitably equipped with the requisite resources, procedures, and expertise to provide proactive CMBS sub-servicer compliance oversight should its business strategy and opportunities change. Additionally, PAR continues to serve as the master servicer for a portfolio of general account agri-business loans that are almost all handled through local banks acting as sub-servicers.
- PAR's excellent technology tools, sound data security and disaster preparedness protocols, 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. In particular, we believe the company's proprietary asset management and reporting application, called LoanConnect, is highly effective for workflow management, tracking loan level covenants and trigger events, and managing all essential servicing work with many customized features to address CMBS and other investor reporting requirements covering the life cycle of every loan and portfolio.
- PAR's overall operational stability, low employee turnover and high average years of industry experience among management and professional staff.
- What we consider to be PAR's carefully measured, controlled and effective approach toward using off-shored and outsourced personnel to assist with certain servicing functions.
- Our view that PAR has a comprehensive independent, risk-based internal audit function that examines a broad range of loan administration and portfolio management processes. The audit regimen includes regularly scheduled audits conducted by the parent insurance company, an annual Regulation AB attestation, and a well-designed performance metrics monitoring program administered by PAR's quality control department that tracks a broad range of compliance items using data extracted from PAR's asset management system. Additionally, recent audit reports disclosed no material exceptions or any items classified as moderate or high risk.

As of December 31, 2011, PAR's total primary and master serviced portfolio was approximately \$ 68.4 billion by unpaid principal balance (UPB) and 5,529 by loan count. It was the named servicer on 26 CMBS transactions with a total UPB of \$9.5 billion consisting of 878 loans (25 transactions as a combined primary/master role and one transaction as a master servicer only). It also serviced another 92 CMBS loans with a total UPB of approximately \$1 billion in 18 other transactions as a primary servicer.

By comparison, as of December 31, 2010, PAR's total primary and master serviced portfolio was approximately \$ 66.6 billion by (UPB) and 5,821 by loan count. It was the named servicer on 27 CMBS transactions with a total UPB of \$11.4 billion and consisting of 1,048 loans (26 transactions as a

combined primary/master role and one transaction as a master servicer only). It also serviced another 123 CMBS loans with a total UPB of approximately \$1.2 billion in 11 other transactions as a primary servicer.

Forecast

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

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

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