



# Operational Risk Assessments News Bulletin

## C-III Asset Management LLC

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### **Morningstar Assigns 'MOR CS1' Ranking to C-III Asset Management LLC as a Commercial Mortgage Special Servicer**

Morningstar Credit Ratings, LLC ("Morningstar") has assigned C-III Asset Management LLC ("C-III") a 'MOR CS1' ranking as a commercial mortgage special servicer. Our assigned ranking reflects C-III Capital Partners LLC's, the parent company of C-III, August 30, 2011 acquisition of the commercial real estate special servicing and CDO management businesses of JER Partners (JER), a private real estate investment management company that was the named special servicer on 17 CMBS deals with an aggregate balance of \$35.5 billion, including \$4 billion in active special servicing.

The ranking is based on our assessment of C-III's operational infrastructure and portfolio administration capabilities. In general, the ranking reflects our view of the following:

- Our very favorable view of C-III's performance in connection with its responsiveness to data requests and information accuracy based on CMBS investor comments and our review of Morningstar's published DealView CMBS surveillance reports. Based on the forgoing, we believe that C-III is highly responsive and provides a high degree of accuracy in reporting to investors and Morningstar CMBS surveillance analysts.
- As a special servicer, C-III is affiliated with the controlling class bondholder on transactions for which it is the named special servicer. We believe that C-III has a transparent process for informing interested parties of its potential conflicts of interests. Additionally, in the few cases in which it exercised a purchase option or used an affiliate entity to liquidate an asset, the net recovery results as stated by C-III may have minimized realized losses to the trust.
- Our belief that C-III has a transparent process for informing interested parties of its potential conflicts of interests. As a special servicer, C-III is affiliated with the controlling class bondholder on transactions for which it is the named special servicer. Additionally, in the few cases in which it exercised a purchase option or used an affiliate entity to liquidate an asset, the net recovery results as stated by C-III may have minimized realized losses to the trust.
- C-III's successful progress thus far in integrating JER's personnel and portfolio. Post acquisition, C-III became the named special servicer for more than 14,000 loans with an aggregate balance in excess of \$149 billion, of which approximately \$16 billion is currently in special servicing. C-III expects to hire nearly all of JER's 35 employees located in Chicago, Illinois; McLean, Virginia; and Dallas, Texas in conjunction with the transaction, and plans to integrate them into C-III's special servicing operation and CDO management activities.
- The company's highly experienced management and asset management teams. In particular, after its recent acquisition of JER, C-III appointed the former head of JER's special servicing operation to run one of C-III's special servicing teams.
- Sufficient capacity to meet current special servicing volumes. We also believe the company, particularly through the JER acquisition, is positioned with some excess capacity if portfolio volume should increase.
- Successful asset resolution activity within a complex and diversified portfolio, including average realized losses that are lower than the year-to-date CMBS average realized losses reported by Morningstar as of June 30, 2011.
- Overall effective technology tools that provide a high level of automation and centralized data management.

- An extensive audit function that encompasses Regulation AB and USAP attestations, and an independent, self-administered internal audit program that tests special servicing compliance with pooling and servicing agreements and C-III's own policies and procedures each quarter.
- Proactive practices and procedures governing special servicing administration.
- A relatively high degree of securitization reporting accuracy and experience with complex transaction structures.
- Policies and procedures that indicate effective controls to manage conflicts of interest.

As of June 30, 2011, C-III's active special servicing portfolio was approximately \$12.9 billion consisting of 850 assets, which represented a 9% decrease by unpaid principal balance and a 6% decrease by asset count from the year ended 2010. Inclusive of the acquired JER portfolio, C-III's currently active special servicing portfolio is approximately \$16.4 billion consisting of 1,059 assets. During the first half of 2011, C-III resolved approximately 38% of the specially serviced loans by loan count and 46% of the specially serviced REO assets by property count that it had as of the beginning of the year. During the first half of 2011, JER resolved approximately 34% of the specially serviced loans by loan count and 33% of the specially serviced REO assets by property count that it had as of the beginning of the year.

### **Ranking Forecast**

Stable. We believe that C-III will continue to be a highly effective special servicer for its investor clients. We will also continue to monitor the integration of the JER special servicing platform.

Our full assessment report on C-III Asset Management LLC is forthcoming and will be made available on our website.

### **Analysts**

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