

# Global Credit Portal RatingsDirect®

June 20, 2011

## Servicer Evaluation: Midland Loan Services

#### **Servicer Analysts:**

Mark I Goldberg, New York (1) 212-438-7779; mark\_goldberg@standardandpoors.com Thomas Merck, New York (1) 212-438-2547; thomas\_merck@standardandpoors.com

### **Table Of Contents**

Opinion

Outlook

**Profile** 

Management And Organization

Loan Administration – Primary Servicing

Loan Administration - Master Servicing

Loan Administration - Special Servicing

**Financial Position** 

Related Criteria And Research

### Servicer Evaluation: Midland Loan Services

### **Opinion**

Standard & Poor's Ratings Services' rankings for Midland Loan Services (Midland), a division of PNC Bank N.A., as a commercial mortgage primary, master, and special servicer are STRONG. The outlook is stable for all three rankings.

The rankings reflect, in our opinion, the company's very experienced management and staff, well-written manuals and internal controls, audit regimes, and comprehensive and integrated servicing technology.

### Outlook

The outlook for both rankings is stable. Given the company's track record of managing complex servicing structures, sound technology, servicing efficiencies, and ongoing procedural diligence, we expect the company to remain a highly effective and proactive servicer for all of its serviced portfolios.

**Key Statistics Table 1** 

Servicing Po	ortfolio(i)									
	Dec-2	010	Dec-20	009	Dec-20	008	Dec-2	007	Dec-20	006
	UPB (mil. \$)	Loans (No.)								
Primary	239,138	26,058	248,901	24,586	220,885	23,001	202,145	21,352	166,615	18,536
Master (SBO)	13,779	935	13,095	836	14,194	1,055	14,759	1,376	14,194	1,439
Total servicing	252,916	26,993	261,996	25,422	235,079	24,056	216,905	22,728	180,809	19,975
Avg. loan size	9.4		10.3		9.8		9.5		9.1	
Special servicing	6,700	491	11,850	745	2,890	450	935	218	797	144
Avg. asset size	13.6		15.9		6.4		4.3		5.5	

<sup>(</sup>i) Excludes PNC and government non-real estate loans to foreign governments. UPB--Unpaid principal balance. SBO--Serviced by others.

### **Profile**

Midland, as of year-end 2010, is a division of PNC Bank N.A., which is a wholly owned subsidiary of The PNC Financial Services Group Inc. (PNC). Servicing activities are headquartered in Overland Park, Kan. Midland has a 20-year history in commercial mortgage and special servicing industries.

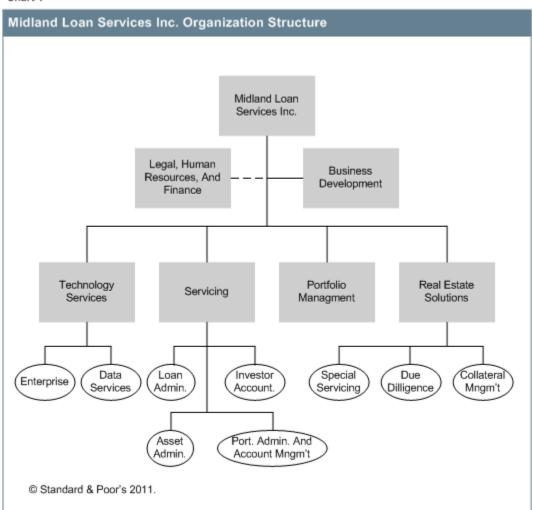
### Management And Organization

The subranking for management and organization is STRONG.

### Staffing depth and organizational effectiveness

As of December 2010, Midland's servicing organization encompassed over 410 employees with approximately 355 positions devoted to primary/master servicing and approximately 55 positions in special serving. As part of PNC, Midland leverages selected activities (i.e., human resources {HR}, corporate legal, and finance) from its parent through dotted line reporting relationships. Total staffing levels at year-end 2010 were slightly higher than year-end 2009 levels with some re-allocation between primary/master servicing to special servicing positions. While commercial mortgage-backed securities (CMBS) servicing continues to represent a large portion of Midland's business, agency and other third-party investor relationships offset CMBS runoff.

Chart 1



In our opinion, Midland's organizational structure fully covers all relevant servicing functions with logical and effective reporting lines that provide accountability and process efficiencies. The structure also:

- Segregates duties between payment processing, accounting, and reporting.
- Uses portfolio- and functionally-aligned departments.
- Addresses complex portfolio management tasks and reporting requirements.

Table 2

Industry Experien	ce And Comp	oany Ten	ure			
As of December 2010						
	Senior ma	nagers	Middle ma	nagers	Staf	f
	Experience	Tenure	Experience	Tenure	Experience	Tenure
Primary/master	28	18	21	13	10	7
Special	22	14	15	9	14	7

Tenure and experience levels for Midland's staff are commensurate with those among Standard & Poor's other highly ranked servicers, and turnover during 2010 was under 6%, which is also consistent with our highest ranked servicers. In terms of efficiencies, the loans-per-employee (LPE) ratio for primary/master servicing is approximately 75:1, while loans/real estate owned (REO) per employee for special servicing is approximately 10:1.

### **Training**

Midland's overall employee training is on par with other highly ranked servicing organizations.

- Employee training goals are 45 hours per year, which is slightly higher than the target level reported by other Standard & Poor's ranked servicers.
- The company uses its intranet to provide courses and schedules and track completion hours.
- The Midland Employee Enrichment Training (MEET) program is diverse, well-focused, and incorporates internal and external programs such as various Mortgage Banker Association courses.
- Senior managers and external subject-matter experts provide many of the course offerings, and we believe the programs address job-specific needs across most positions and departments.

In our opinion, Midland offers an extensive training curriculum. Midland relies on a committee of senior managers within the servicing department to manage the company's formal professional development training curriculum and scheduling in conjunction with department managers. Corporate HR assists with these efforts. However, most of the larger, and similar sized, servicers that Standard & Poor's has reviewed provide a full-time on-staff position for the design, development, and review of training programs.

### Internal controls

In our opinion, Midland has sound internal controls that aid in mitigating risks within its servicing operation. Midland has multiple levels of quality control, regulatory compliance, and risk management oversight, including a quality control department. Quality control reports independently from servicing operations and monitors the compliance with internal controls and regulatory and contractual requirements; conducts quality control compliance reviews; and serves as a liaison with external auditors. Midland's quality control efforts also include a quarterly management certification process for departmental controls, using the workflow management system to monitor accuracy and timeliness across functional areas.

External auditors conduct the following audits within the company's internal control structure:

- USAP (Uniform Single Attestation Program) and Regulation AB attestation letters.
- Statement on Auditing Standards Audit No. 70 (SAS 70).
- Government-sponsored enterprise (GSE) regulatory audits.
- Periodic audits performed by PNC.

All recently completed audit reports, including the SAS 70 and Regulation AB attestation, were satisfactory overall

in our opinion.

### Policies and procedures

We believe Midland's policies and procedures are comprehensive, easily navigable, and cover all aspects of servicing activities. Each function provides a descriptive narrative, as well as directions, system screen displays, and step-by-step instructions. The company's policies and procedures are also:

- Accessible to all employees via a shared network drive.
- Written employing a standardized electronic format or template.
- Updated by a manager in the loan servicing group who incorporates all necessary changes from the business units, compliance, and legal groups.
- Updated and electronically communicated via the company intranet for consistent dissemination.

### **Technology**

Midland's technology platform centers on a data management system that promotes automation and efficiency and is scalable to accommodate an increase in servicing volume.

- Enterprise is the loan servicing/asset management system and provides centralized loan administration, portfolio and loan-level data management, and investor reporting functionality for multiple formats including GSE and CMBS-IRP (Investor Reporting Package) requirements. Midland's special servicing asset management system provides full special servicing administration and reporting and is integrated with Enterprise.
- The servicing system is integrated with the general ledger, the corporate treasury functions, and an internally
  developed bank account reconciliation program, all of which facilitate accounting, loan boarding, and advancing
  functions.
- A borrower and investor Web site is supported through Enterprise, and the investor Web site provides portfolio, asset, and property level information to assess pool and loan performance.
- A separate module provides automated data downloads from subservicers as well as oversight of administrated tasks.

Overall, we believe Midland's data management and reporting tasks are highly automated as evidenced by the company's high LPE ratio.

### Disaster recovery

In our opinion, Midland's disaster recovery and business continuity plans include well-detailed and daily data back-up routines, off-site data storage and retrieval, and fail-over mechanisms. The plans address all core systems and operational areas and are tested at least annually. The last test was successfully conducted in April 2011. In addition, the plans call for:

- All servicing processes to be restored within one day or less.
- A redundant servicing site and a third-party hot site.

Overall, we believe that Midland's daily data backup and storage procedures are sound. Midland's recovery strategy features the use of contingency (hot site) and alternate work sites. Midland uses its parent's Pittsburgh-based data center for its hot site data center. Midland's software development office in Little Rock, Ark., serves as an alternate work site.

### Additional items

Midland maintains sufficient levels of corporate insurance coverage based on:

- Errors and omissions and directors and officers (E&O and D&O) insurance and fidelity bond coverage are from companies rated 'A-' or higher by Standard & Poor's.
- Coverage amounts that exceed GSE guidelines.

The company also indicated that it is not subject to any material lawsuits.

### Loan Administration – Primary Servicing

The subranking for primary servicing loan administration is STRONG.

The subranking is based on our assessment of the company's staff and active portfolio management processes and low delinquency rate compared with the industry average. The subranking also reflects the company's asset management abilities associated with its sizable portfolio of cash-managed loans.

Table 3

Servicing Port	folio										
	Dec-2	010	Dec-2	009	Dec-2	008	Dec-2	007	Dec-2006		
	UPB (mil.\$)         Loans (No.)           239,138         26,058		UPB Loans (mil.\$) (No.)		UPB (mil.\$)			Loans (No.)	UPB (mil.\$)	Loans (No.)	
Primary servicing	239,138	26,058	248,901	24,586	220,885	23,001	202,145	21,352	166,615	18,536	
Avg. loan size	9.2		10.1		9.6		9.5		9.0		
Delinquencies (	%)										
30 days	0.62	1.06	0.83	0.72	0.80	0.93	0.12	0.48	0.13	0.42	
60 days	0.42	0.76	0.56	0.60	0.49	0.50	0.07	0.18	0.08	0.18	
90-plus days	6.09	10.34	3.59	6.41	1.25	1.53	0.77	1.43	0.42	1.03	
Total	7.13	12.16	4.98	7.73	2.53	2.97	0.97	2.10	0.63	1.62	

### New loan setup and data integrity

Midland continues to effectively administer the loan setup process and protects against data input errors. Characteristics of the loan boarding function include:

- Document imaging procedures and error checking features within the servicing system facilitate the boarding process.
- Borrower welcome letters are issued within five business days of loan activation.
- Abstracts of key pooling and servicing agreement (PSA) requirements and trigger events are integrated into ticklers throughout the Enterprise platform.
- Data integrity controls include a secondary review by a senior file review specialist to verify documentation against the servicing system.
- Formal tracking and pursuit of missing documents results in 0% trailing documents.
- The company also uses the setup area to re-board loan modifications and to track documents for loans returned from special servicers.
- The company noted that it tracks boarding timeliness metrics and confirms accuracy through a quality control

process that verifies all entered data against source documents.

Separately, Midland's CMBS administration group oversees the negotiation and administration of PSA requirements. We believe that this group continues to be integral to the portfolio conversion process because it reviews CMBS servicing agreements to create online abstracts that identify compliance covenants and key reporting and remittance dates for system tracking. In our opinion, the use of the setup area for adjusting and tracking returned special servicing loans also provides a sound control point for data verification.

### Payment processing

Overall, we believe that Midland has a well-established track record processing complex payment structures in a highly automated manner. Midland's transaction processing unit oversees loan payment processing in conjunction with the treasury group.

- Electronic payment capture rate is 99%, of which 80% are received through the usual sources (ACH {automated clearing house}, 36%; wires, 13%; and lockbox, 31%) and 19% are received through loan specific (hard) lockbox collections. Loan specific hard lockbox collections are electronically posted to the servicing system through integrated banking and imaging software.
- The 1% of payments received as live checks at the servicer's street address are handled through what we consider to be acceptable control procedures such as logging and tracking of bank batch deposits.
- Over 1,300 accounts are cash-managed (hard lockbox) loans, which are handled through efficient automation routines and personnel reviews within the complex loan administration group.
- Duties for the receipt and deposit of funds, batch processing, and payment posting are appropriately segregated.
- The company uses online bank account access to balance the daily payment clearing account and perform a complete daily reconciliation, including aging of open items.
- Floating-rate index changes are automatically system-processed for the entire portfolio, and annual portfolio adjustable-rate audits are conducted.

Management indicated that a portion of its servicing portfolio, specifically small-balance and specially serviced loans, often present account identification and payment allocation problems, respectively, leading to slightly higher percentages of payment suspense items until they are identified. Additionally, in our opinion, the company effectively monitors loan covenants for the activation of springing lockboxes and has established processes from its loan/portfolio asset management activities to its loan boarding/modification and payment processing to accomplish changes as needed.

#### **Investor reporting**

Midland increased its staff for its investor reporting, remitting, and related accounting processes since our last review. The company has, in our opinion, an experienced and specialized staff and sound internal controls for this function, including:

- Segregating reporting, remitting, and bank account reconciliation tasks.
- A servicing system that is interfaced with the general ledger.
- Outgoing wires that are processed within 24 hours under dual signatory control.
- A fully automated nightly process for sweeping funds from payment clearing to investor custodial accounts.
- Automatic generation of investor reports from its servicing system.

Overall, Midland has a good record of investor reporting and remitting, even though restatement of reports

occurred during 2010 primarily due to special servicers and subservicers revising data at subsequent reporting dates. The company has a high level of asset-specific knowledge and responsiveness in handling investor and other inquiries. Midland also competently handles complex portfolio accounting and reporting requirements.

### **Escrow** administration

Midland has dedicated teams for tax and insurance administration, and asset managers handle loan-level reserve monitoring and analysis for other escrowed events such as tenant improvement and leasing commissions (TI&LCs) and replacement reserves. In our opinion, the company has sound controls for all escrow administration activities.

- The system tracks taxes and insurance. Loans escrowed for taxes and insurance were 60% and 35%, respectively, based on December 2010 data.
- The company uses a tax service for both escrowed and non-escrowed loans and reviews insurance policies internally for compliance.
- Renewal notices are automatically system generated for insurance policies, and letters are sent on non-escrowed tax accounts.
- A forced-placed policy is in effect with a suitable carrier rating, which provides for an extensive look-back period, and the company had a small number of loans on forced-placed coverage.

Although the company automatically generates insurance notices and new loan welcome letters through the servicing system, it does not automatically produce reminder notices for evidence of non-escrowed tax payments. Also, Midland only generates renewal insurance notices 30 days prior rather than the usual 60-, 45-, and 30-day campaigns practiced by many other servicers. Overall, we believe that Midland is well-experienced and efficient in handling tax, insurance, and other escrow reserves.

### Asset and portfolio administration

Midland, in our opinion, has an experienced staff and diligent procedures covering asset and portfolio administration tasks including loan performance monitoring, covenant tracking, and collateral review. Portfolio management includes 13 dedicated staff members who are responsible for monitoring loans on the watchlist, as well as performing loan asset management; 17 employees for reserve account and covenant administration; and two employees for collections. The portfolio management staff comprises credit analysts aligned with asset managers. Our assessment of the company's portfolio management characteristics are as follows:

- Policies and procedures that are well-designed and include processes for monitoring very complex loan and portfolio structures.
- Staff that have expertise in credit and collateral performance monitoring.
- A detailed and centrally controlled watchlist process with triggers that automatically place loans on the watchlist due to selected covenant conditions.
- Individual loan-level credit risk ratings.
- Proactive procedures to obtain and review annual property inspections and financial statements.
- Dedicated collateral surveillance staff members who participate in portfolio performance reviews and the watchlist process and review collateral surveillance exception reports.
- Monthly calls with master and special servicers to discuss loan performance issues.
- Automated tracking of property statements and inspections through the servicing system with the inspection team responsible for engaging, monitoring, and reviewing third-party property inspection work.
- In-house credit analysts and the outsource vendor that share responsibility for entering data into the servicing

system and performing an initial compliance review for imaging and analyzing financial statements.

Midland maintains dedicated staff for the above activities and has separate staff assigned for monitoring UCCs, rate changes for adjustable-rate mortgage loans, and loan documents/lien releases. In our opinion, and consistent with our ranking criteria, the company handles loan and portfolio administration activities in a well-controlled and thorough manner.

### Borrower requests Chart 2

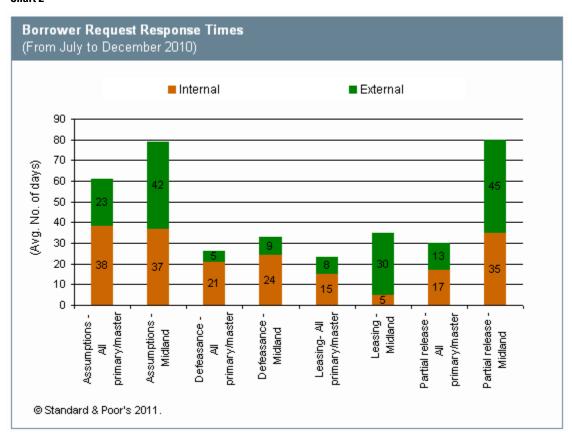


Table 4

No. Of Borrower Reque	sts	
(As of second-half 2010)		
Request type	Midland	All primary/masters
Assumptions	55	370
Defeasance	17	99
Leasing	543	4,513
Property/collateral releases	22	110

Midland's average times for handling borrower requests during the second half of 2010 were minimally higher than other servicers for most requests with the exception of collateral partial releases. The extended overall average times for collateral releases, in Standard & Poor's opinion, were driven by a number of larger loans and/or cross-collateralized properties (20% of the volume), as well as loans where Midland as the master servicer received

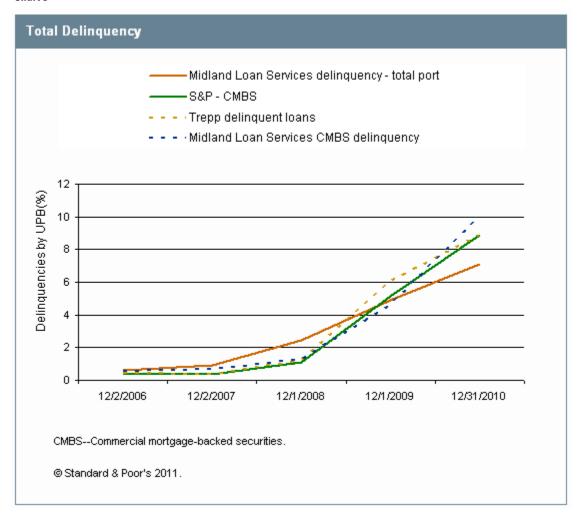
the request directly from borrowers (80%). In many cases, borrower delays in providing sufficient documentation caused the extended times.

The company tracks requests via the servicing system and periodically uses a third-party vendor to process/underwrite the request for Midland's review and approval. In addition, Midland facilitates borrower communications through its borrower Web site.

- For borrower requests and consents, an asset manager is responsible for the analysis and preparation of the written proposals, while approvals are controlled through a formal committee process.
- Midland has acceptable internal reporting mechanisms in place, in our view, to track outstanding requests.
- The special servicing department also has staff to manage borrower requests and consents as applicable.

Notwithstanding the longer times for partial collateral releases, it is our opinion that Midland has a very well-controlled, well-tracked, and responsive operation for handling borrower requests.

### Early stage collections Chart 3



Midland dedicates two staff members within its loan asset management area to handle early stage collections of past

due loans. We believe that Midland takes proactive measures to minimize delinquencies by making the collections process highly automated.

- The servicing system provides an automated collection queue and progress tracking management.
- All collection letters are system-generated. Reminder letters are automatically issued within one day of the payment due date or expiration of the grace period.
- Borrower telephone contact is initiated within two days of the due date or when the grace period expires.

Midland's overall total delinquencies for its entire servicing portfolio (primary and master servicing--approximately 7.5%) is better than industry averages for CMBS servicing. However, the company's CMBS servicing was slightly higher than industry averages. In our opinion, the higher CMBS delinquency average is related to the increase in the company's special servicing assignments, and to some extent, a few small-balance portfolios that it services, which tend to have higher one- and two- payment defaults before returning to current status.

### Loan Administration - Master Servicing

The subranking for master servicing is STRONG.

The subranking is based on our assessment of the company's strong subservicer relationship management, conservative advancing policies and track record in advancing decisions involving many large-scale and complex assets, and well-diversified investor base including CMBS, GSEs, banks, and LifeCos (life insurance companies), as well as other public and private investors. One area of concern, however, is the few instances of monthly investor report restatements that occurred in 2010 and first-quarter 2011.

Table 5

	Dec-20	010	Dec-20	009	Dec-20	008	Dec-20	007	Dec-2006		
	UPB (mil. \$)	Loans (No.)									
Master (SBO)	13,779	935	13,095	836	14,194	1,055	14,759	1,376	14,194	1,439	
No. of SBOs		41		27		34		62		41	
Avg. Ioan size	14.7		15.7		13.5		10.7		9.9		
Delinquenci	es (%)										
30 days	0.08	0.21	1.33	1.08	0.76	0.28	0.00	0.00	0.00	0.00	
60 days	0.35	0.32	0.26	0.24	0.07	0.09	0.03	0.15	0.00	0.00	
90+ days	6.99	7.49	2.01	1.67	0.24	0.38	0.20	0.29	0.10	0.07	
Total	7.42	8.02	3.61	2.99	1.07	0.76	0.23	0.44	0.10	0.07	

SBO--Serviced by others.

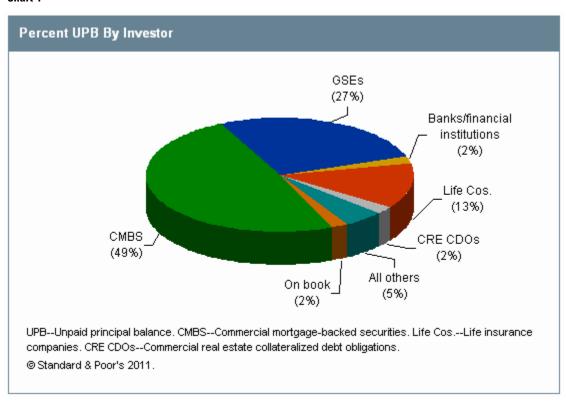
Table 6

Portfolio Br	eakdown By Pro	perty And Stat	е						
		Dec-	2010				Dec-2	2010	
Туре	UPB (\$)	No. of properties	% of UPB	% of No. of properties	State	UPB (\$)	No. of properties	% of UPB	% of No. properties
Office	45,387	3,637	18	9	CA	71,297	9,045	28	23

Table 6

Portfolio Break	cdown By Prope	erty And State	(cont.)						
Multifamily	83,873	13,964	33	36	NY	19,643	1,301	8	3
Retail	47,713	6,577	19	17	TX	19,001	2,876	8	7
Lodging	14,428	1,035	6	3	FL	15,561	3,552	6	9
Industrial and warehouses	9,564	2,095	4	5	VA	9,242	753	4	2
All other	51,951	11,648	21	30	All other	118,172	21,429	47	55
Total	252,916	38,956	100	100	Total	252,916	38,956	100	100

#### Chart 4



#### Loan setup and data integrity

Loans serviced by others (SBO), also know as subservicing, are boarded onto the company's servicing system via file downloads. Midland controls the process through the conversions department, and loan administration checks the loan records using the same internal controls standards used for its primary serviced loans. Imaged documents are received from subservicers and incorporated into the loan record through the imaging system. Online investor deal summaries/PSAs help the company monitor subservicer and primary-serviced activities to ensure that investor reporting procedures are handled correctly.

### Subservicer reporting and accounting

In our opinion, Midland has appropriate controls for subservicer accounting and reporting. Midland is well-experienced in overseeing a large number of subservicers (see table 5 above). Aspects of subservicer accounting

#### include:

- Midland's subservicer oversight staff provides subservicers with monthly calendars that note all critical reporting and remittance deadlines.
- Accounting staff reconcile incoming subservicer remittances to the servicing system and perform bank account reconciliations.

### **Investor reporting**

The servicing system automatically incorporates subserviced and primary serviced loans for reporting to investors. The system handles advancing and recovery. The company has good oversight procedures, which in our opinion are conservative, for approving advances. The company reported a small number of monthly report re-statements during 2010 and one in 2011. While restatements can be caused by a number of issues, the issue in the 2011 case (Merrill Lynch Mortgage Trust 2004-BPC1) was related to spreading interest shortfalls over a number of reporting periods to avoid impacting investment-grade bondholders. As noted earlier, it is not unusual for master servicers to receive revised data from special servicers or subservicers that cause restatements.

### **Escrow** administration

In our opinion, Midland takes proactive measures to monitor subservicer activity relating to the tracking of real estate taxes, insurance, UCC filings, and reserve account receipts and disbursements.

- Monthly subservicer electronic downloads update expiration and paid-to dates on Midland's system, and the company uses exception reports to resolve open items with subservicers.
- Midland requires that subservicers provide quarterly officer certifications in compliance with the subservicing contract.
- The company uses subservicer on-site audits and desk reviews to confirm correctness of the data and quarterly certifications.

### Subservicer administration and portfolio management

Midland's surveillance operations include reviewing subservicer property inspections, re-analyzing property financial statements, and monitoring watchlist triggers for subserviced loans.

- When reviewing property financial statements submitted by subservicers, Midland compares the subservicer's debt service and cash flow calculations with the borrower's actual property operating statements.
- Midland staff notes computation errors, deferred maintenance issues, and cash flow questions, and makes follow-up calls to the subservicer.
- Master-serviced loans are placed on the watchlist using the same criteria that is applied for primary-serviced loans.
- Midland's asset managers also identify performance issues on assigned subserviced loans, which are discussed during watchlist committees.
- Several Midland departments review the subservicers' monthly collection activities and the status of workout activities from special servicers.

Overall, we believe that Midland's procedures denote sound practices for subservicer loan and portfolio monitoring, special servicing transfers, and approvals relating to borrower consent requests.

### Subservicer compliance

Midland conducts either on site or desk audit reviews of selected subservicers annually. As of December 2010, Midland oversaw 28 subservicers. Midland bases its audit schedule on the past performance and portfolio volume of each subservicer.

- Midland generally performs annual on-site audits for its largest subservicers, which are typically those subservicers associated with the top 10 loans in the corresponding CMBS transaction.
- On-site audits of each subservicer occur at least every three years regardless of servicing volume.
- A desk-audit may also occur on a 12-36 month cycle, which in our opinion is acceptable.
- The company uses a detailed audit template to review subservicer performance for all core functional areas.
- The subservicer audit procedure comprises both detailed loan testing and a review of the operational procedures.
- Before initiating an audit, the quality control and regulatory compliance group manager completes a quality control checklist, and the subservicer completes a subservicer compliance questionnaire.

Midland reviews the findings of each audit and assigns an overall ranking of either acceptable or unacceptable. Each subservicer receives a letter containing exception items and recommendations.

### Advancing and special servicer interaction

Midland has conservative advancing policies that attempt to avoid interest shortfalls and reduce loss severity. The company has a track record of advancing decisions involving large scale and complex assets. Aspects of advancing and special servicer interaction include:

- A servicing advance credit committee monitors advance activity on a monthly basis and is responsible for all loan-level recoverability decisions.
- The company monitors advances through a series of monthly system-generated advance reports that highlight the advance type (delinquent payments and property protection), valuations, and the ratio of advances to appraised values and unpaid balances.
- The investor accounting area calculates the servicer fees and any appraisal subordinate entitlement reduction (ASER) adjustments.
- All advances are calculated and reconciled through the servicing system.
- Midland's advance determination criteria involve a four-tiered analysis based on the magnitude of the advance amount, the advance-to-value ratio, and the delinquency of the loan. Notably, the criteria classify advances exceeding 50% of the appraised value as level III, indicating that they require closer scrutiny to determine whether a declaration of nonrecoverability might be required.

### Loan Administration - Special Servicing

The subranking for special servicing loan administration is STRONG.

Table 7

Special Se	ervicing														
	Do	ec-2010	UPB	De	c-2009 l	JPB	Do	ec-2008	UPB	De	ec-2007	UPB	Do	ec-2006	UPB
Active inventory	(Mil. \$)	(No.)	Avg. age (mos.)	(Mil. \$)	(No.)	Avg. age (mos.)	(Mil. \$)	(No.)	Avg. age (mos.)	(mil. \$)	(No.)	Avg. sge (mos.)	(mil. \$)	(No.)	Avg. age (mos.)
Loans	6,541	454	14	11,738	719	9	2,724	415	7	683	170	8	563	99	13

Table 7

Special	Servicing	(cont.)													
REOs	159	37	8	112	26	13	166	35	13	252	48	31	235	45	33
Total	6,700	491		11,850	745		2,890	450		935	218		798	144	

UPB--Unpaid principle balance. REO--Real estate owned.

Midland is not a B-piece owner, and its special servicing activities are exclusively a fee-for-service business. Special servicing assignments have generally been based on relationships with third-party B-piece buyers, and more recently the company has obtained special servicer appointments on behalf of a number of CMBS subordinate tranche and non-CMBS investors. Those newer assignments, together with existing contracts and a general increase in nonperforming loans, are reflected in the growth of Midland's special servicing volume from 2008 to 2009 (see table 7). The decrease in total special servicing from 2009 to 2010 is reflected in the resolutions (see table 8) and REO liquidations (see table 9). Several portfolios were transferred due to a change in control for the securities. As of December 2010, Midland was the named special servicer on \$62.6 billion remaining principal balance for 136 CMBS and CRE-CEO transactions combined.

As mentioned earlier in this report, the special servicing group encompasses approximately 55 staff, resulting in a 10:1 problem asset to employee ratio. This ratio is well-in-line with other highly ranked servicers, and we believe this indicates a reasonable workload per employee. The company has asset manager offices in Dallas and Atlanta, as well as its Overland Park, Kan., headquarters.

Loan recovery and foreclosure management Table 8

	D	ec-2010	) UPB	Dec-2009 UPB			Dec-2008 UPB			D	ec-200	7 UPB	Dec-2006 UPB		
	(Mil. \$)	(No.)	(Mos.)(i)	(Mil. \$)	(No.)	(Mos.)(i)	(Mil. \$)	(No.)	(Mos.)(i)*	(Mil. \$)	(No.)	(Mos.)(i)	(Mil. \$)	(No.)	(Mos.)(i)
Returned to master	4,927	224	12	720	99	9	290	70	6	151	57	9	118	39	6
Full payoffs	303	23	10	106	34	7	76	46	7	114	31	11	308	49	10
DPO and/or note sale	1,229	146	9	156	72	13	100	41	10	60	7	26	56	11	12
Foreclosed loans	267	57	14	36	30	13	42	25	10	87	27	10	113	19	11
Total	6,726	450		1,018	235		508	182		412	122		596	118	

(i)Avg. time in months.

The subranking for special servicing recognizes our assessment of Midland's:

- Resolution track record for both loans and REO assets based on recovery proceeds measured against collateral values and timeframes relative to other Standard & Poor's ranked STRONG special servicers.
- The high degree of experience in foreclosure and bankruptcy management, including complex and large-scale workouts.
- The thorough asset analysis and controlled committee approval processes for initial asset business plans and resolutions including real estate mortgage investment conduit (REMIC) compliance.
- The efficient technology, standardized template, and centralization of all workout plans and investor reporting.
- The highly controlled, centralized, and efficient engagement and oversight of third-party vendors and legal

#### matters.

In our opinion, Midland's real estate solutions group, which is the department name for its special servicing activities, continues to display an effective and well-disciplined special servicing function. The real estate solutions group comprises three functional departments:

- A traditional special servicing unit that handles nonperforming loan and REO workouts.
- A contract liaison unit that coordinates investor, rating agency, and external (master) servicer communications; vendor management; and as needed borrower requests having credit implications.
- A management services unit that oversees surveillance, annual asset reviews, and various third-party due diligence work.

The special servicing asset managers are assigned both loan and REO assets to manage. Asset managers with particular expertise in hotel and healthcare properties, which tend to be more complicated with respect to achieving a resolution, are assigned these cases. Asset managers work with the contract liaison unit to procure appraisals, environmental reports, and other services from external vendors based on an approved vendor list. Asset managers regularly update business plans/asset status reports for senior management and committee review. Foreclosure and REO disposition recommendations are handled under delegated authority for final approval.

REO management and dispositions Table 9

REO Sales															
	I	Dec-201	0	Dec-2009			Dec-2008			I	Dec-200	)7	Dec-2006		
	UF	UPB T		UPB		Time	UPB		Time	UPB		Time	UF	UPB	
	(mil. \$)	(No.)	(mos.)	(mil. \$)	(No.)	(mos.)	(mil. \$)	(No.)	(mos.)	(mil. \$)	(No.)	(mos.)	(mil. \$)	(No.)	(mos.)
Est. market value	67	43	10	26	31	8	40	25	24	67	24	11	133	26	13
Net sales	53			24			31			65			135		
% sale/mkt. value	80%			93%			77%			97%			102%		

Midland demonstrates a proactive REO oversight function. Property manager and broker selection are controlled through approved vendor lists. The company uses standard contacts, and once engaged, tracks the reporting within its servicing systems.

- Asset managers monitor property managers' adherence to a Midland-issued procedure manual for reporting and compliance.
- Asset managers must prepare an REO business plan and budget within 30 to 60 days of the acquisition. The approval process for the plan and budget is similar to that used for loan business plans.
- All sale bids must be submitted to the appropriate delegated authority, which typically requires a credit
  committee for final approval. The asset managers, in conjunction with Midland's legal department, coordinate
  the closing process.

Disposition activity over the last several years has been consistent with other highly ranked servicers and reflective of the current market cycle and recent difficulty in valuations. However, in our opinion, a key attribute is the relatively short hold time that Midland was successful in achieving combined with the relative sale-to-market value ratios.

### REO accounting and reporting

Midland has sound REO accounting and reporting procedures in which the asset managers monitor monthly property management operating account activity. The quality control group conducts periodic reviews of the REO property managers throughout the year and focuses on the cash receipt and disbursement processes.

- Property managers submit monthly reporting packages to the asset managers, and a large majority are received electronically and uploaded to the company's tracking systems.
- Property incomes and expenses are controlled through a single trust account that is reconciled monthly.
- On-site audits of property managers are detailed within the company's procedures, a number of which were conducted during 2010.

Given the relatively short holding time (eight months on average; see table 7) and the average size of the REO assets at year-end 2010, in Standard & Poor's opinion the on-site audit program is effective in ensuring accurate and proper reporting by property managers.

### Subcontracting management

Midland's systems provide tracking of all contracting bids and work products for appraisals, environmental work, and engineering studies. In our opinion, Midland has a soundly controlled contracting process to monitor the quality and timeliness of work product from third-party vendors.

### Legal department

Servicing and special servicing staffs have access to Midland's five-person legal staff. The legal staff controls the engagement process and oversees case management involving external law firms. Midland tracks asset-level legal costs within the servicing system to facilitate the monitoring of actual legal costs for special servicing and budgets within asset status reports.

### **Financial Position**

We consider Midland's financial position to be Sufficient.

This assessment reflects the 'A+' credit rating assigned to PNC Bank N.A., Midland's direct parent, and the 'A' credit rating on PNC Financial Services Group, PNC's bank holding company. For further information on this credit rating, please visit www.ratingsdirect.com.

### Related Criteria And Research

- Revised Criteria For Including RMBS, CMBS, And ABS Servicers On Standard & Poor's Select Servicer List, published April 16, 2009.
- Servicer Evaluation Ranking Criteria: U.S., published Sept. 21, 2004.
- Select Servicer List.

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

The **McGraw·Hill** Companies