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Servicer Evaluation: C-III Asset Management LLC

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Opinion

Standard & Poor's Ratings Services has ABOVE AVERAGE rankings on C-III Asset Management LLC (f/n/a Centerline Servicing Inc.) as a commercial primary and multifamily housing revenue bond servicer. At the same time, we affirmed our STRONG ranking on the company as a commercial mortgage special servicer. The outlook for all rankings is stable.

On March 5, 2010, C-III Capital Partners LLC, an affiliate of Island Capital Group, acquired Centerline Servicing Inc. and subsequently changed the name of the organization to C-III Asset Management LLC. The transaction resulted in a bifurcation of Centerline into two separate entities. As a result, C-III provides servicing, asset management, and fund management for ARCap's historical business line, and Centerline Holding Co. continues to operate under CharterMac historical business lines by originating low income housing tax credits (LIHTC) and providing agency lending. C-III also continues to service the revenue bonds associated with the LIHTC portfolio.

According to C-III, C-III Capital Partners wholly owns C-III, and Centerline's financial constraints no longer encumber the servicer. C-III maintains that as a result, the acquisition brought in new capital for further investment in servicing and fund management and has allowed C-III to retain key personnel and hire new asset managers in special servicing and REO management. As part of the acquisition, C-III senior management report to executive management within Anubis Advisors (Anubis), a wholly owned subsidiary of Island Capital Group. As such, Anubis is expected to provide strategic, restructuring, and general advisory services to C-III. Island's executive management team has commercial real estate securitization experience dating back to 1992 when it established the first multi-borrower non-cross-collateralized securitized transaction.

The rankings for commercial mortgage primary, revenue bond, and special servicing reflect our opinion of C-III's:

- Expanded servicing platform due to increased capital from the acquisition;
- Recent corporate reorganizations, with legal and primary servicing now reporting to the Chief Operating Officer.
- Recent special servicing reorganizations, with special servicing now divided into three separate teams that handle large loans, third party/legacy ARCAP assets, and small-balance/floating-rate assets, resulting in more client centric servicing and allowing for specialization among asset managers. Special servicing also added an attorney with substantial industry and company experience.
- An asset management system that provides intensive asset management functionality related to complex asset resolutions and allows asset managers to complete business plans, prepare budgets, and manage resolutions while effectively reporting to interested parties.
- Demonstrated ability to service a diverse portfolio and investor base and meet the reporting requirements of third-party portfolio owners, commercial mortgage-backed securities (CMBS) trusts, commercial real estate collateralized debt obligation (CRE CDO) investors, and government agencies. The portfolio includes small-balance assets, affordable-housing tax credit equity positions and related revenue bonds, and large loans with multiple parties from origination to loan payoff.
- Focus on intensive portfolio management rather than high volume servicing, which in our opinion, can present a

multitude of distractions for the servicer.

In our view, C-III's special servicing operation is presented with highly problematic properties and has made appropriate resolution decisions that follow the servicing standard with regard to the resolution of these assets. As a CMBS special servicer, C-III pursues the course of action that results in the highest net present value asset recovery benefiting the CMBS trust as a whole.

Outlook

The outlook for all servicer rankings is stable. Standard & Poor's expects C-III to demonstrate continued proficiency as a servicer for commercial mortgages and revenue bonds. The company has further solidified its special servicing administration and portfolio management capabilities through staffing, procedural, and technology enhancements.

Profile

In August 2006, CharterMac Corp. (CMC), a predecessor company, acquired a 100% ownership interest in ARCap Investors LLC and its affiliated entities and consolidated all serviced agency and revenue bond portfolios from CMC under the existing ARCap servicing operation. On April 3, 2007, CMC changed its name to Centerline Capital Group, and ARCap became Centerline Servicing Inc. (CSI).

On March 5, 2010, Island Capital Group (Island), a real estate merchant bank, founded in 2003 by Andrew Farkas, recapitalized Centerline Holding Co. (Centerline), the parent entity of CSI. The transaction eliminated more than $1.6 billion in Centerline debt and added $100 million in capital. Concurrently, C-III Capital Partners LLC, an affiliate of Island acquired all of Centerline's commercial mortgage primary and special servicing business and renamed the new entity C-III Asset Management LLC (C-III). C-III is the named special servicer on more than $116 billion of commercial real estate loans and at the time of the acquisition, managed a primary servicing portfolio of more than $19.5 billion. In addition, Island acquired all of Centerline's real estate debt fund management business, which manages five private investment funds containing more than $2 billion of invested capital and which owns commercial real estate debt and equity related securities. C-III Capital Partners also has a 40% equity ownership in Centerline, which continues to provide Low Income Housing Tax Credit (LIHTC) origination and syndication, affordable housing asset management, and agency lending. As a result of the acquisition, C-III has more than $120 billion of assets under management.

As part of the acquisition, C-III and Centerline entered into management and advisory agreements with Anubis Advisors (Anubis), a wholly owned subsidiary of Island. Consequently, Anubis will provide management oversight, as well as strategic, restructuring, and advisory services to C-III and Centerline.

The transaction, in effect, bifurcated Centerline into two separate entities and eliminated the 2006 CharterMac/ARCap merger.

Table 1

Centerline Structure	
C-III Capital Partners LLC (Privately Held)	Centerline Holding Company (Public)
Historical ARCap business lines	Historical CharterMac business lines
Loan servicing/asset management	LIHTC origination, syndication, asset management
Fund management	Agency lending

Table 1

Centerline Structure (cont.)	
Managing member ownership interests	Affordable housing subordinate debt interests
Wholly owned by Island Capital Group	40% owned by C-III Capital Partners/55% owned by existing preferred and common shareholders/5% owned by Natixis Financial Products
Managed by Island C-III Manager LLC, an Anubis Advisors affiliate	Advised by Island Centerline Managers LLC, an Anubis Advisors affiliate

As of June 30, 2010, C-III serviced approximately $20.1 billion in commercial real estate loans, approximately $8.5 billion of which were related to its agency originations, while the remaining amount were serviced on behalf of third-party parties, including three CRE CDOs.

Table 2

Total Primary And Special Servicing Portfolio*

	6/30/2010		Dec. 31, 2009		Dec. 31, 2007		Dec. 31, 2006	
	Loan volume ($000)	Loans (No.)	Loan volume ($000)	Loans (No.)	Loan volume ($000)	Loans (No.)	Loan volume ($000)	Loans (No.)
Primary servicing	20,087,973	1,974	19,651,263	1946	30,761,025	2,382	12,564,063	670
Primary servicing - Avg. loan size	10,176		10,098		12,914		18,752	
Active special servicing¶	11,183,252	695	7,825,144	573	329,184	57	172,161	39

*Includes affordable housing (revenue bond portfolio) ¶Includes loan and REO assets.

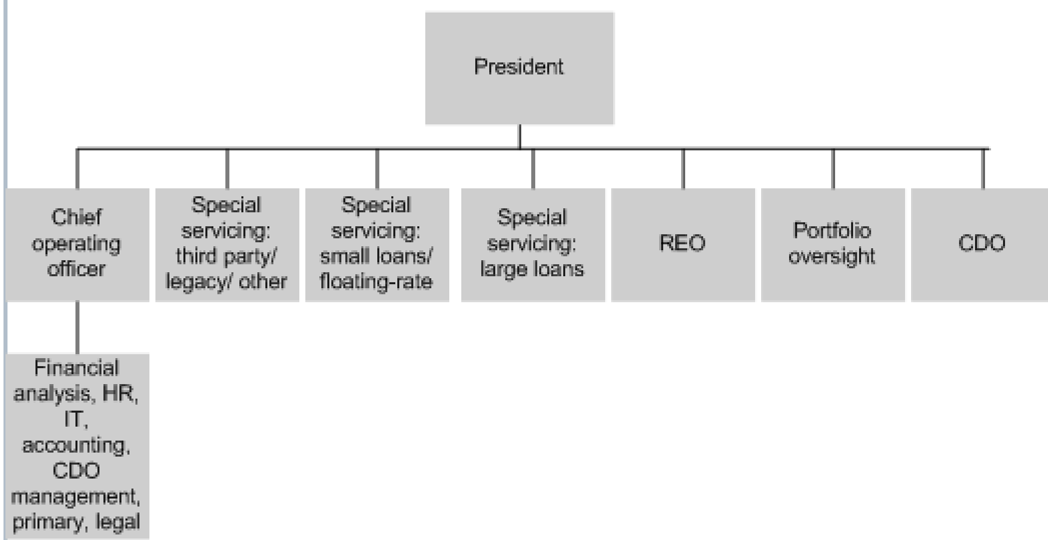
Management And Organization

The subranking for management and organization is STRONG.

Management depth, training, and organizational effectiveness

Chart 1

Management Structure



C-III reorganized its operation in September 2010 so that legal and primary servicing now report to the Chief Operating Officer. The servicer also divided special servicing into three separate teams that handle third-party and legacy assets, large loans, and small-balance, floating-rate assets. It also has separate REO and CDO departments.

C-III centralizes its servicing, technology, and legal departments in Irving, Texas. As of June 30, 2010, it employed 182 commercial real estate and servicing personnel with backgrounds in asset management, operations, loan servicing, and workouts. As the result of the recapitalization by Island, C-III was, in our opinion, able to retain its highly experienced management and professional team, many of which have worked together since the 1980s. The core executive management team averages 23 years experience, and members have significant FDIC/RTC disposition and workout experience.

The company indicates that many former asset managers have also returned to work for C-III in special servicing. In addition, C-III added an associate general counsel to assist with special servicing related legal matters. C-III has also added asset managers to handle the significant increase in special servicing activity. As of June 2010, C-III indicated that approximately 50 to 75 assets are transferred to special servicing per month and that the average workload per asset manager was approximately 17 depending on the size and complexity of the asset.

According to C-III, several organizational changes occurred as the result of the acquisition. Notably, CDO asset management was transferred back to C-III from Centerline, including two CDO asset administrators based in New York. In addition, accounting, human resources, systems, and legal departments have transferred to C-III in Irving from Centerline. The servicer also added three group leaders to the CMBS and CDO servicing staff. C-III indicated that the Irving-based management team is working closely with Island management to refine operations/reporting, initiate new business, and seek advice on asset and portfolio strategies.

Turnover within primary servicing dropped to 2.04% in the second half of 2009 from 7.68% during the first half of 2009 and within special servicing it increased from 0.00% to 5.66%. As of June 30, 2010, it climbed to an overall average of 6.57%, with 6.12% representing turnover within primary and master servicing and 7.02% representing turnover within special servicing. The slight increase in turnover was due to the reorganization due to CIII's acquisition, and much of the turnover was involuntary. We believe that an increase in overall experience levels for asset managers mitigates the turnover. Before the reorganization, asset managers averaged 13 years industry experience, and as of June 30, 2010, they now average 22 years of experience. In our opinion, significant industry experience is necessary for asset management.

At the beginning of 2009, C-III dedicated 52 full-time employees to primary servicing and 28 to special servicing, and at year-end had 49 and 53 dedicated to primary and special servicing, respectively. As of June 30, 2010, it dedicated 50 full-time employees to primary servicing and 88 to special servicing, 45 of which were asset managers. The special servicing area also includes a 10 person transactions team to handle assumptions, modifications, and other borrower consent requests. Since the beginning of 2009, C-III servicing groups grew to 138 as of June 30, 2010, from 80 full-time employees overall.

Table 3

Staffing Depth - Average Years Of Experience

	Overall industry experience	Company tenure
Primary servicing		
Senior management	23	8
Middle management	15	4
Remaining professional staff	12	4
Special servicing only		
Management	23	4
Asset managers only	22	4

C-III requires 100 hours of training for primary servicers and 60 hours for special servicers, both of which are high in relation to Standard & Poor's ranked servicers overall. We attribute this to the way C-III counts actual training hours, compared with other servicers. For example, some servicers may take a more conservative approach and count one day of training as one hour, while others may count eight hours of training for one day in training.

Training personnel provide ongoing training activities and continuing education for staff through industry conferences, CREF Council and master servicer conference calls, monthly and quarterly interdepartmental roundtable discussions, and some classroom-style sessions. Guest speakers and senior managers also conduct periodic training sessions on topical servicing and special servicing issues.

- The company formally tracks employees' participation in training.

- C-III also serves as a co-training center for Fannie Mae inspections in the Dallas area.

Technology and disaster recovery preparedness

As of June 30, 2010, C-III had a 10-person IT department, down from 22 at the time of our last review. The decrease in IT staffing, however, reflects the company's decision to dedicate an IT department solely for servicing and special servicing for the company. Previously, IT personnel handled technology for the parent company and other areas besides servicing. As a result, the company has dedicated a team of IT professionals that focus on improving existing applications related to servicing and special servicing.

In our opinion, C-III's technology platform provides a high level of automation and efficient data management. The company upgraded its McCracken Strategy servicing system to version 16 from version 14B for loan administration and transaction processing. C-III uses this system through an ASP hosting environment. The servicing system feeds to a proprietary Web-enabled relational database (LoanSSTAR TNG) that serves as the C-III data warehouse, with modules for acquisition due diligence and portfolio management surveillance, including comprehensive reporting features.

- The surveillance division uses the database to monitor loan performance in acquired CMBS deals, as well as to assess the risk of the portfolio each month to enable triage on loans that have not yet been transferred to special servicing.
- C-III also has a fully operational borrower Web site and maintains an investor Web site to provide portfolio performance data to interested parties.
- The servicer widely uses document imaging and electronic file retention for accessing credit, legal, and correspondence.

C-III still uses a separate Web-enabled special servicing application, LoanSSTAR, for tracking in depth asset and portfolio level information. Since our last review, C-III has integrated LoanSSTAR with LoanSSTAR TNG, the portfolio management system used for primary servicing. In our opinion, the integration of the two systems has enhanced efficiency because asset managers are no longer entering existing portfolio management data into the asset management system. As such, LoanSSTAR demonstrates a highly effective asset management system that facilitates special servicing functions. Highlights of the system include:

- Automatic production of the CREF Council investor reporting package and calculation of all fees and expense reimbursements for delivery to the primary or master servicer each month.
- A calendar of key reporting dates with automated delivery of daily task schedules, electronic asset approval tracking, links to approved asset resolution cases, asset-level phone logs, a vendor performance database, advancing-to-valuation tracking, and invoice tracking.

In our opinion, C-III has made improvements in its data backup protocols and disaster recovery preparedness. Procedures now include a daily backup of network data and transfer of data backups to an off-site storage facility. We have observed that among servicers, backup tapes are transferred offsite daily. This, in our experience, appears to result in improved data recovery controls.

C-III continues to use a national vendor facility as a hot site for its data backup storage and overall disaster recovery services. The hot site is located more than 25 miles from the primary servicing location and replicates all existing network hardware. It also serves as the company's business recovery site. C-III tests its disaster recovery plan each year and successfully completed its most recent test Oct. 15, 2009. The disaster recovery plan calls for the company to recover all cash remittance and investor reporting capabilities within one day.

Internal controls

In our opinion, C-III has policies that appear to comply with the servicing standard outlined in pooling and servicing agreements (PSAs) and nonsecuritized agreements. They cover both primary and special servicing and include a library of form documents, letters, and PSA specific requirements. Files are available via a shared network drive. The company also has supplemental policies and procedures specifically for reporting on Fannie Mae and Freddie Mac assets, which continue to represent a sizable portion of the serviced portfolio.

C-III maintains a robust internal audit function to monitor operational controls. The audit program consists of an annual USAP (Uniform Single Attestation Program) review, SEC Regulation AB attestation, GSE-led audits, and deal-specific compliance reviews as required by C-III's pooling and servicing agreements (PSAs).

- C-III's 2009 USAP and SEC Regulation AB (section 1122 platform level) attestation letters indicated no exception items.

At the time of our last review, the internal audit division within the company's parent organization conducted internal audits. CIII replaced the risk policy group with its own compliance audit manager, who reports to the Chief Operating Officer. The compliance manager is responsible for administering policies and procedures and performing quarterly reviews that supplement Reg AB tests.

The audit program also includes loan file samplings to test procedural and PSA compliance across a number of functional areas, with cash and accounting processes examined at least annually. The company's latest audit report completed in 2009, denoted overall satisfactory results and no material compliance issues. In addition, C-III undergoes GSE audits. The company reported that its GSE audits were satisfactory as well.

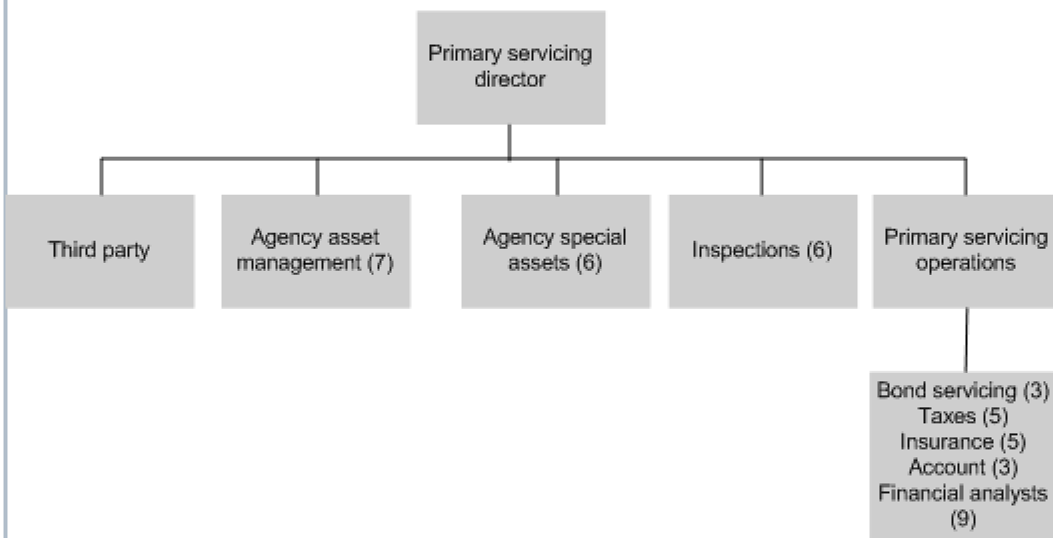
C-III has written procedures and staff training to safeguard and provide a firewall of confidential servicing information from parties not entitled to receive it.

Litigation

C-III reported no outstanding defensive lawsuits as of June 2010 that it deemed to be material. It also maintains levels of corporate insurance coverage (directors and officers liability and errors and omissions) within the Fannie Mae's Delegated Underwriting & Servicing (DUS®) guidelines for the size of the serviced portfolio.

Chart 2

Litigation Structure



Loan Administration - Commercial Mortgage Servicing

The subranking for commercial mortgage loan administration is ABOVE AVERAGE.

As of June 30, 2010, the primary servicing area managed approximately $20.1 billion in commercial real estate loans. Approximately $8.5 billion or 42% of the portfolio is C-III's agency originations, and third parties service the remainder, including three CRE CDOs. The volume of primary servicing has decreased by approximately $2 billion since our last review. The company is actively seeking up to $8 billion in servicing from several large financial institutions.

C-III's third-party servicing clients require high-touch servicing for its own internal and external auditors, some of which include government oversight entities. The decline in CMBS originations has not affected C-III's client base, however. It has retained relationships with its existing clients. Since our last review, C-III added an agency special asset management team dedicated to managing the watch list, property inspections, maturing loans, assumptions, and defaulted loans in order to adhere to new Fannie Mae requirements. In addition, the company plans to enhance

LoanSSTAR TNG to accommodate agency portfolio servicing.

The ranking recognizes what we consider to be C-III's strengths and weaknesses as follows:

Strengths

- Ability to meet the reporting requirements of a diverse investor base which includes third-party portfolio owners, CMBS trusts, CRE CDO investors, and government agencies.
- Ability to service a diverse portfolio, including small-balance assets, affordable-housing tax credit equity positions and related revenue bonds, and large loans with multiple parties from origination to loan payoff.
- Focus on intensive portfolio management rather than high volume servicing, which can present a multitude of distractions for the servicer.
- Improvements in policies governing approvals for nonrepetitive wire transfers so that all nonrepetitive payments require approval from at least two authorized personnel.

Weaknesses

- The company's limited look-back period on its forced-place insurance coverage. C-III's forced-place policy provides for only 30 days of retroactive coverage. In our opinion, force-placed policies that offer at least 90 days of retroactive coverage are more prudent and are a more customary practice.
- Although only 4% of payments are mailed directly to C-III, it does not log these checks at its point of entry nor does it balance that log against system entries and deposits daily. C-III is implementing a process to log in these checks and plans to add scanning and automatic deposit software to handle this.

The affirmed ranking also considers the company's somewhat limited number of property types. As of June 30, 2010, approximately 65% (by UPB) and 86% (by loan count) of the portfolio consisted of multifamily properties. The remaining property types (by property count) accounted for 8% office, 11% retail, 9% lodging, and 1% self storage. In our opinion, the high concentration of multifamily assets and low percentage of other property types would normally present fewer challenges for the servicer. However, C-III's multifamily properties have significant reporting requirements and many are problematic, i.e. deferred maintenance and higher-than-average delinquency.

In our opinion, the servicing department continues to promote accountability by assigning servicers to particular borrowers. In addition, the borrower relationship asset management teams cover agency loans, CMBS and other loan types. The borrower relationship managers handle work, such as operating statement reviews, follow-up on deferred maintenance, watchlist triggers, covenant compliance tracking, reserve disbursements, other draw requests, and payoff requests. Other teams in this department cover functions, such as payment processing, insurance, taxes, inspections, and loan setup/UCC filing. C-III has a dedicated team for borrower transactional requests, another team for CMBS investment surveillance, a portfolio reporting/bond reconciliation team, and a team for investor reporting.

As of June 30, 2010, C-III's ratio of loans serviced per employee was 40:1, which is below the average at the time of our last report and which is also below our average of 51 loans per employee calculated from all ranked primary servicers at June 30, 2010. In our opinion, the factors affecting C-III's lower ratio may be that it does not engage in much outsourcing (for example, internal staff conducts most property inspections), its servicing responsibilities are weighted toward portfolio management duties, and many of its loans comprise multiple properties. Additionally, many of the properties, particularly in the affordable-housing portfolio, have a degree of construction loan administration and related compliance work.

Table 4

Total Mortgage Servicing Portfolio And Delinquencies*

	June, 2010	12/9/2010	12/8/2010	12/7/2010	12/6/2010
Total volume ($000s)	20,087,973	19,651,263	22,000,210	30,761,025	12,564,063
Total loans (No.)	1,974	1,946	2,222	2,382	670
CMBS-only* volume ($000s)	28,457	28,503	1,396,941	31,412	4,168
CMBS-only loans (No.)	2	2	139	2	1
Securitized transactions (No.)	0	1	35	2	1
Average loan size ($000s)	14,229	14,251	10,050	12,914	18,752
Delinquency (% based on loan UPB)					
30 days	0.73	0.49	0.31	0.25	0
60 days	0 .52	1.05	1.6	0.07	0
90-plus days	6.66	5.07	0.39	0.34	0
Total	7.91	6.61	2.3	0.66	0
Delinquency (% based on loan count)					
30 days	.30	0.57	0.36	0.17	0
60 days	.46	0.46	1.22	0.13	0
90-plus days	4.26	4.11	0.86	0.92	0
Total	5.02	5.14	2.43	1.22	0
REO (No.)	0	0	0	0	0

*Includes manufactured housing revenue bonds. See table 6 in report specifically for the revenue bond portfolio.

Table 5

Total Servicing Portfolio By Property Type—June 30, 2010

	Volume		Properties	
Property type	**$**	**%**	**No.**	**%**
Office	1,658,785,954	8	74	3
Multifamily	13,066,262,367	65	2,093	86
Retail	2,161,839,470	11	104	4
Lodging	1,785,312,993	9	93	4
Industrial	29,600,000	0	2	0
Warehouse	—	0	0	0
Mixed-use	111,635,134	1	10	0
Mobile home park	38,812,821	0	7	0
Health care*	1,013,249,359	5	7	0
Self-storage	108,075,000	1	24	1
Other	114,399,860	1	6	0
Defeased loans	—	0	0	
Total	**20,087,972,957**		**2,420**	

Table 6

Total Servicing Portfolio By Investor Type—June 30, 2010

Investor type	Volume ($)	Loans (No.)
Balance sheet/CDO	272,796,809	28

Table 6

Total Servicing Portfolio By Investor Type—June 30, 2010 (cont.)		
Warehouse/held for sale	67,966,000	17
Life insurance companies	0	0
Banks/financial institutions	0	0
Fannie Mae	6,203,251,670	927
Freddie Mac	2,307,057,020	353
Ginnie Mae	147,336,271	24
Pension funds	0	0
Other third-party investors	9,175,499,830	507
CRE CDO	1,885,608,752	116
CMBS	28,456,606	2
Total	**20,087,972,957**	**1,974**

New loan setup and UCC tracking

As of June 30, 2010, C-III dedicated two full-time employees for loan boarding and set up functions. They boarded 116 loans during the first half of 2010, up from 47 at year-end 2009 and up from 80 at the time of our last review. In our opinion, C-III demonstrates acceptable controls over loan boarding and UCC tracking.

Payment processing

In our opinion, C-III demonstrates procedures and automation within its payment processing function that are consistent with the ranking.

- We believe that the servicing system efficiently provides an interface to the external lockbox bank accounts. Approximately 96% of all payments are processed electronically, either through ACH auto debits (45%), wire transfers (25%), or the lockbox (26%). The respective percentages have not changed since our last review. The remaining 4% of payments are received at the servicer's street address, which is slightly higher than the overall average among Standard & Poor's ranked primary servicers.
- The company moves funds automatically to custodial accounts, and C-III reported no unidentified items aged more than two days in its clearing account as of June 30, 2010.
- C-III also performs adjustable-rate mortgage (ARM) audits to ensure that borrowers are invoiced according to the correct rate indices.
- As of June 30, 2010, C-III administered 35 cash-managed loans, down from 72 at the time of our last review.

In our opinion, although checks mailed directly to C-III represented only 4% of payments as of June 30, 2010, the servicer should ensure that it logs these checks at its entry point and balance that log against system entries and deposits daily. C-III has indicated that it is implementing a process to log in these checks and plans to add scanning and automatic deposit software to handle this.

Standard & Poor's also notes that C-III has reexamined its policy governing a single approver authority level for outgoing non-repetitive wires. It now requires a minimum of two authorized personnel to approve them.

Investor reporting and portfolio accounting

In our opinion, C-III continues to demonstrate efficient investor reporting and accounting functions, with appropriate procedural controls and dedicated staff for reporting, remitting, and bank account reconciliation work.

We believe that C-III is well experienced with CREF Council reporting requirements and critical loan administration issues. We base this belief on the company's bond acquisition due diligence, portfolio surveillance, special servicing work involving CMBS, and pre-securitization servicing. C-III's applications meet all of the required reporting formats and provide the necessary reporting tools and practices to address third-party reporting for its revenue bond and CRE CDO portfolios, including any asset impairment analyses.

- The LoanSSTAR system provides automated mechanisms for tracking and analyzing advances and recoverability.
- C-III reported no remittance errors or related reporting re-statements during the 12 months between July 2009 and June 2010.

Asset administration: insurance and real estate taxes

In our opinion, C-III continues to dedicate properly experienced staff for monitoring property-level insurance and real estate taxes. Procedures denote proactive practices and controls over these functions. C-III continues to have fewer loans escrowed for insurance than for taxes. However, the percentage of loans that have escrows has increased since our last review and, in our opinion, may be indicative of tighter underwriting since then. At June 30, 2010, 43% of the portfolio had insurance escrows and 53% had tax escrows, compared with 39% and 48% at the time of our last review, respectively.

- The company uses a national tax service to assist with tax tracking for the entire portfolio. It also has added the affordable-housing portfolio to the tax service in the past year.
- C-III has improved upon its percentage of nonreimbursable tax penalties since our last review. For the first half of 2010, it did not incur any tax penalties. At the time of our last review in June 2008, the company reported tax penalties that were slightly higher than our composite averages among all ranked primary servicers.
- As of June 30, 2010, the company had no primary serviced loans on its force-placed insurance. The force-placed policy is underwritten through Lloyds (A+/Stable) corporate credit and financial strength ratings. However, the policy provides for only 30 days of retroactive coverage. Standard & Poor's generally views having force-placed policies that offer at least 90 days of retroactive coverage as a more customary practice.

Asset and portfolio management

In our opinion, C-III continues to apply what we consider to be diligent portfolio management and surveillance practices that address the complex and diverse requirements of the CMBS, private-label, GSE, and CDO assets that make up its primary-serviced loan portfolio. The asset and portfolio management department has not changed significantly since our last review. C-III continues to align asset/portfolio managers by investor type within two teams that serve as the single point of contact for inquiries from borrowers and investors; monitor loan-level performance; review reserve disbursement and other draw requests; collect and review property operating statements; review results of property inspections; and coordinate payoff requests. Additionally, a surveillance group within the portfolio oversight department monitors the parent company's CMBS and CDO bond investment performance.

- C-III displays thorough watchlist management and reporting to track property- and pool-level performance.
- To facilitate credit analysis, C-III's system tracks all requisite property-level performance data and stores the actual historical statements, rent rolls, and inspection results within its relational database.
- C-III uses more vendors to inspect properties than it did at the time of our last review when approximately 80% of inspections were conducted by C-III's own personnel. The company noted that its personnel still conduct a greater percentage of inspections than outside vendors.

- For the first half of 2010, 466 properties in C-III's portfolio required site inspections, and all were completed on time or within 30 days of the due date.
- C-III attained a high collection and review rate for year-end 2009 annual property operating statements: It received and analyzed 96% of all required statements by June 30, 2010, across the portfolio and 100% for CMBS loans as of that date.

Borrower requests and consents

In our opinion, C-III promotes efficiency by dedicating a transaction team within its portfolio oversight department to manage borrower requests and consents. C-III has primarily provided consents as a special servicer, and has, in our opinion, performed quite well in that capacity, with prompt turnaround times. It uses internal tracking tools to monitor timeliness in order to hasten case approvals. The approval process is automated and is augmented by a weekly senior manager and credit officer committee meeting. The asset manager presents a case plan for discussion at this meeting, with an agenda including specially serviced asset business plans and consent requests for performing loans.

- During the first half of 2010, C-III processed 62 assumption requests in its capacity as a special servicer/controlling class holder, with an average 10-day turnaround time, down from 213 assumptions and a nine-day turnaround time in June 2008.
- Since our last review C-III also processed 52 leasing consents with an average 15-day response time, down from 74 leasing consents and an 11-day response in June 2008. It also reviewed two partial property release requests with an average three-day turnaround time, down from eight partial-property release requests and a 10-day turnaround time in June 2008.

Early-stage collections

The company's asset management personnel continue to handle the collection process for any primary-serviced loans up to 60 days past due. Asset managers use the servicing system to track collection activity and house comments on collections' efforts. In our opinion, communication timelines are suitably proactive and call for initiating immediate borrower contact through telephone calls and follow-up letters. C-III does not automate initial collection notices to borrowers. In our view, as delinquencies rise, servicers that have an automated collections process, including notification to borrowers, are acting proactively to mitigate risk. To its credit, C-III has substantial experience with the loan transfer process between primary/master servicers and the special servicer, which offsets its lack of automated notification of collection efforts, in our view.

Loan Administration - Multifamily Housing Revenue Bond Servicing

The subranking for multifamily housing revenue bond administration is ABOVE AVERAGE.

Revenue bonds are affordable-housing tax credit transactions that are commonly known as low-income housing tax credit (LIHTC) deals. Each deal contains a revenue bond and an associated equity (general partnership interests) component. The bonds are backed solely by the cash flow generated from the corresponding multifamily housing project, rather than the issuing municipal or state agency administering the tax credit program for the property.

With the split with legacy Centerline, the servicing duties have been divided by function between Centerline and CIII. CIII is responsible for the operational aspects, including tax and insurance administration, the shadow payment processing, the reporting to Freddie Mac on the Freddie Mac securitized transaction, inspections, and financial analysis

Centerline maintains a dedicated affordable-housing group that includes a staff specifically responsible for ongoing portfolio management, project compliance tracking, and any special servicing work for these assets.

Unlike traditional commercial mortgage loans, revenue bond payments are made directly to trustee-controlled bank accounts, and the trustee forwards any residual amounts due, such as fees, to C-III. Virtually all (99%) such borrower payments are received via wire transfer. C-III's procedures and systems are, therefore, designed to monitor the trustee's receipt of payments and waterfall distributions to investors.

Standard & Poor's ranking for C-III as a revenue bond servicer is predicated on the company's sound policies, procedures, staffing expertise, and reporting capabilities for this asset type. The affirmed ranking also takes into account the company's centralized servicing platform for affordable-housing project management that has sound internal control practices and customized reporting tools.

- Centerline demonstrates acceptably documented policies and procedures that indicate proactive and sound construction budget management, oversight of disbursements and receipts, project risk management, and default management capabilities, which are the core aspects of revenue bond asset administration.
- A vendor tax service monitors all revenue bond properties.
- A data warehouse provides revenue bond project reporting and activity tracking.
- Centerline's affordable-housing group includes staff with requisite development and workout experience.

Table 7

Multifamily Affordable-Housing Revenue Bond Servicing Portfolio (LIHTC)

	6/30/2010	6/30/2008
Total revenue bonds & G.P. equity ($ volume outstanding)	2,647,343,211	9,816,374,000
Total properties (No.)	414	1250
G.P. equity interests managed (No.)*		55
Total unfunded remaining equity commitment ($ volume)		834,435,899
Corresponding properties/projects (No.)		468
Affordable rev. bonds/projects in special servicing ($ volume)	830,148,544	683,787,904
Projects in special servicing (No.)	92	76

*Equity interest is approximately 0.01% ownership in the property. G.P.-General partnership.

Special Servicing

The subranking for special servicing is STRONG.

We base our ranking on:

- An increase in staffing to accommodate an increase in special servicing transfers, resulting in a sufficient capacity ratio of 17 asset per asset manager in line with other larger special servicers we rank;
- Recent reorganization within special servicing that allows for more specialization among asset managers. It has also dedicated units for matured loans and CDOs, to maintain reasonable asset manager workloads as volumes rise;
- Increased experience levels of asset managers and substantial industry experience within senior management;

- Named special servicer on 89 CMBS deals, including 12,350 loans. As of June 30, 2010, the company resolved approximately 23% of assets in special servicing, which is higher than the average among other larger volume special servicers we rank;
- In our opinion, a rigorous and well-controlled asset recovery process that adheres to the servicing standard in pooling and servicing agreements. In our opinion, C-III has made appropriate decisions that follow the servicing standard when resolving highly problematic properties. In particular, as a CMBS special servicer, C-III pursues the course of action that results in the highest net present value asset recovery benefiting the CMBS trust as a whole.
- The company's consistent recovery results (in terms of timeliness and maximizing recovery proceeds) in relation to market conditions for both troubled loans and real estate. (Further, year to date, it took an average 12 months to resolve assets, and overall loan and REO loss severities were 18.8%, which includes an average realized loss percentage of 70% on CMBS REO sales. REO sales were a small component of C-III's overall resolutions and its realized loss percentage was not significantly higher than the average among all of our ranked special servicers).
- What we consider to be a sound auditing process over REO accounting from property management companies. During 2009, C-III audited eight property management companies, up from three at the time of our last review.

C-III's special servicing operation has grown substantially to 88 full-time employees as of June 30, 2010, from 22 since our last review in 2008. In addition, the company recently reorganized the special servicing area by dividing it into three teams that handle legacy/ARCAP/third-party assets, small loans/floaters, and large loans, respectively. In addition, special servicing includes a separate REO department. All four areas are headed by individuals with a high degree of industry and company level experience. Chris Crouch, the current managing director will be retiring next year but is expected to remain to advise during the transition.

Overall, the 88-member special servicing team has 17 years experience, with senior managers averaging 23 years of industry experience and asset managers averaging 22 years. The average industry experience among special servicing staff is seven years. Currently, C-III asset managers handle a workload of approximately 17 assets each, which includes loans and REO assets. The recent separation of the REO department will benefit the department by allowing asset managers to specialize in and concentrate on REO asset management. Its current capacity level is sufficient, in our view, and is in line with the industry average among larger special servicers.

C-III maintains separate loan and REO departments. It dedicates 40 asset managers to loan resolutions and five to REO assets. As such, its loans-per-asset-manager ratio was 17:1 and its REO assets-per-asset manager ratio was 14:1 during the first half of 2010.

Table 8

Centerline Servicing – Named CMBS And CRE CDO Special Servicing Assignments (As Of June 30, 2010)	
CMBS special servicer (No. of deals)	89
CMBS special servicer (No. of loans)	12,350
CMBS special servicer ($ volume)	119,078,395,146
CRE CDO special servicer (No. of deals)	3
CRE CDO special servicer (No. of loans)	93
CRE CDO special servicer ($ volume)	1,687,888,784

Asset recovery highlights:

- During the first half of 2010, C-III resolved 167 specially serviced loans through restructuring, discounted payoffs, and full payoffs, up from 16 at the time of our last review two years ago. During this period, the company also averaged approximately 17 months to complete three foreclosure actions, while 43 remain pending in inventory as REO assets. The average length of time to foreclose was 10 months at the time of our last review. In our opinion, lengthier foreclosures reflect deteriorating market conditions due to a significant increase in foreclosure filings industry-wide since 2008.

- Average portfolio aging for loans and REO combined in active inventory was 8.7 months at June 30, 2010, slightly up from eight months at June 30, 2008. The 8.7-month average is significantly lower than the composite average among all Standard & Poor's ranked special servicers and demonstrates the company's efforts to resolve assets in a timely manner.
- The average loan resolution time was 10.5 months in the first half of 2010, up from 9.3 months in the first half of 2008. The 10.5-month average resolution time was less than our composite average for all ranked special servicers.

Table 9

Special Servicing Portfolio Summary (Excludes LIHTC)

	6/30/2010		2009	
Loan portfolio	**Volume ($)**	**No.**	**Volume ($)**	**No.**
Beginning of year (Jan. 1)	7,385,201,726	533	1,440,840,188	138
Transfers in	6,321,303,709	375	7,237,105,415	291
Transfers out				
Restructures/modifications	1,157,547,721	43	281,830,941	46
Liquidations - full payoff	47,863,724	17	148,234,891	25
Liquidations - DPO/note sales	443,849,394	89	136,637,751	30
Converted to REO	640,324,391	45	366,918,240	42
Other transfers Out or adjustments	203,008,904	19	390,277,521	5
End of year or (June 30 for 2010)	11,182,252,413	695	7,337,922,919	532
Perf. loans only (end of period)	4,450,648,734	129	2,119,897,328	72
REO portfolio				
Beginning of period	439,942,981	40	214,195,364	14
Additions	640,324,391	45	366,918,240	42
Deduct REO sold	132,503,586	15	93,627,285	15
Other transfers out or adjustments	15,246,239	4	(264,530)	0

Loan recovery and foreclosure management

In our opinion, C-III continues to follow proactive, thorough, and properly controlled loan workout and foreclosure management processes. C-III requires borrowers to sign prenegotiation letters before entering into workout discussions, which in our view, puts the special servicer in a better position to resolve the asset and also mitigates risk in the event of future litigation with the borrower.

During the first 30 days procedures require that asset managers use a checklist to review files, including a reunderwriting of the loan, ordering an inspection and valuation, reviewing any insurance claims, conducting guarantor asset searches, assessing any possible representation and warranty breaches, taking control of any cash collateral through receivers, and retaining legal counsel.

- Recommendations in business plans factor a net present value analysis of alternative recovery strategies, and subsequently negotiated terms are presented for approval by the credit committee.

- C-III uses delegations of authority with recommended resolution actions principally deliberated and approved through a credit committee process.
- Asset transfer procedures call for a formal inspection by the asset manager using standardized report formats. The inspection is often supplemented with additional market vacancy and rate information, as well as information on competing properties.

Asset managers use C-III's proprietary asset management system to create and update asset status reports. The system is intended to track all approvals, expenses, and pending transactions. Updated asset summary reports include exit strategies and approvals. The special servicing system also tracks advances and interest thereon to assist in monitoring asset recoverability thresholds and allows C-III to automatically process its monthly CREF Council servicing reports.

The asset managers obtain foreclosure approvals through their asset strategy reports.

- As part of the foreclosure due diligence process, the asset manager is required to obtain and review a REMIC opinion, current title work, a current appraisal, and a revised environmental site assessment and must complete an inspection.
- The asset manager recommends an appropriate property management company from an approved list to engage immediately upon foreclosure.
- The asset manager must develop a foreclosure bid price and an estimate of the realized loss, and then incorporate this information into an updated asset strategy report for approval within two weeks before the scheduled foreclosure sale.
- The updated asset strategy report identifies and discusses the listing broker, listing price, and marketing strategy as part of the preforeclosure approval process.

Chart 1

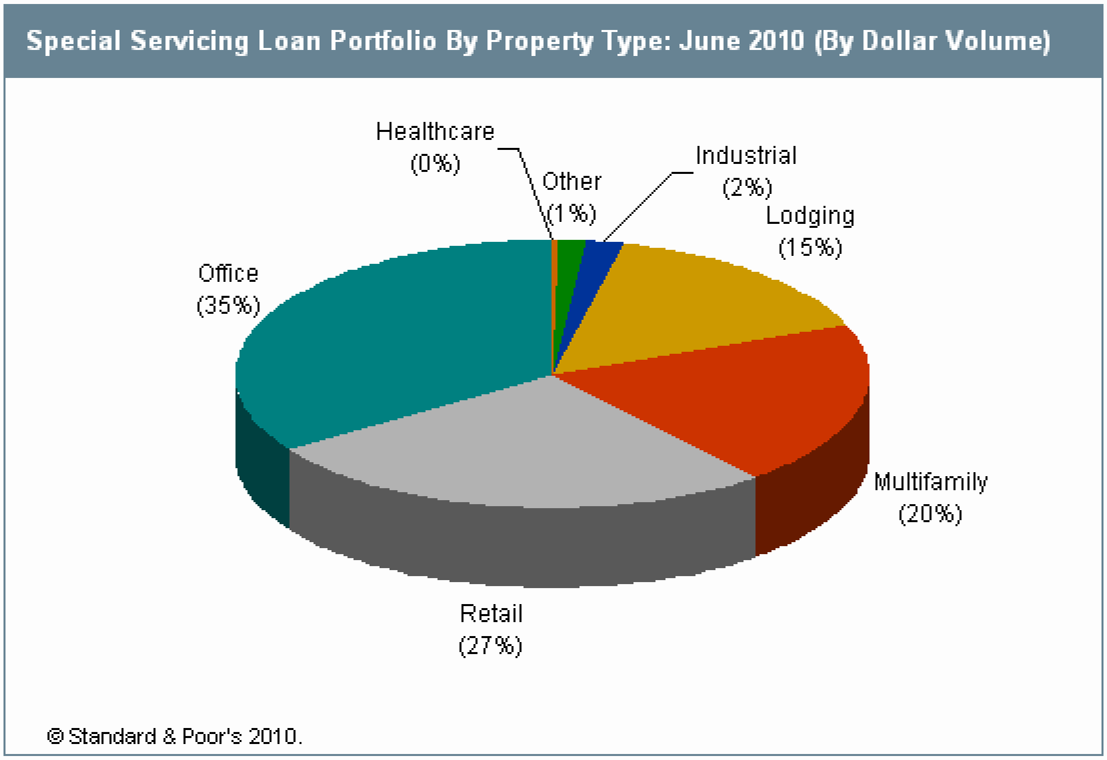


Chart 2

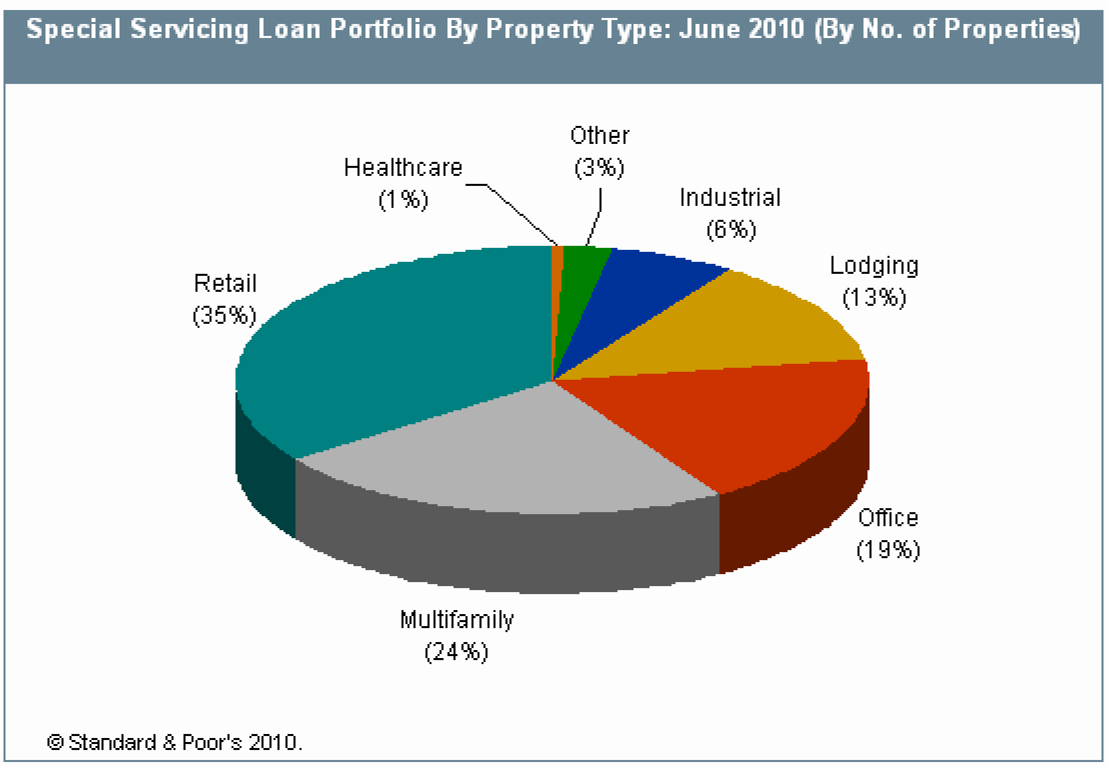
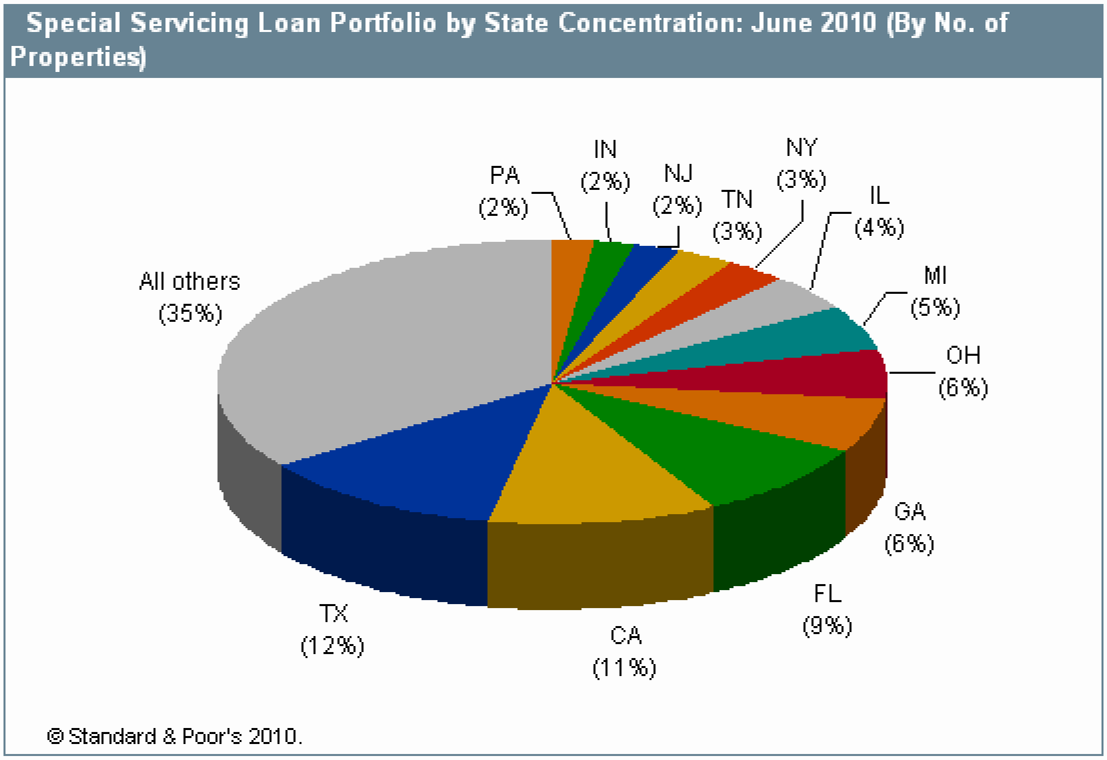


Chart 3



C-III's surveillance department maintains a significant amount of loan-level information in its due diligence database system due to the company's CMBS investment program, and it assigns a risk grade to every watchlist loan. The special servicing department receives ongoing updates of any deterioration in risk grades and participates in quarterly risk-grade meetings. The special servicing staff also receives a monthly report projecting the timing of transfer events and the nature of any imminent defaults. Finally, due to the current economic environment, senior management continues to meet weekly for a high-level review of imminent transfers. Standard & Poor's believes the close interaction between C-III's surveillance and special servicing staffs helps the company to efficiently identify and respond to asset problems.

Table 10

Selected Loan Resolution Data

	Jan-June 2010	2009	2008
Full payoffs*			
Full payoffs (No.)	16	15	5
Full payoffs - UPB ($)	37,905,748	49,574,223	18,995,925
Payoff proceeds ($)	38,364,757	51,334,466	19,830,445
Proceeds/UPB (%)¶	101	103	104
Average resolution time (months)	12.9	6.8	7
Other liquidations (DPO or note sale)			
Loans disposed (No.)	89	23	7
Net proceeds ($)	231,347,618	121,470,814	23,742,020
Net proceeds/collateral value (%)	68.1	93.5	42.1

Table 10

Selected Loan Resolution Data (cont.)			
Net proceeds/UPB (%)	53	61.3	46.2
Average resolution time (months)	14.6	9	11
Median resolution time (months)	13.6	8.6	13
Restructured/returned to master servicer			
Loans (No.)	62	34	8
Loan volume - UPB ($)	1,376,386,069	237,697,637	104,927,309
Average resolution time (months)	6.5	7.4	6.9
Median resolution time (months)	6.8	6.6	5.3
Foreclosures completed			
Loans (No.)	45	28	13
Loan volume - UPB ($)	640,324,391	285,855,325	205,509,102
Average time (months)	16.8	10	8
Median time (months)	16.7	8.1	7.2
Average time all resolutions (months)	12	8.9	8.6

*Full payoff proceeds exceed 100% because of prepayment penalties and default interest recovered. ¶Average resolution time based on 3 completed foreclosures, with 43 foreclosing pending in REO inventory.

Table 11

Specially Serviced Loan Portfolio Aging*	
(As Of June 30, 2010)	
Average	8.7 months (11.9 months S&P composite avg)
Median	7.0 months (7.6 months S&P composite avg)
Loans held < 1 year: 73.9%	
Loans held 1-2 years: 23.7%	
Loans held 2-3 years: 1.6%	
Loans held > 3 years: 0.78%	

*Based on the time loan was specially serviced by C-III.

REO management and dispositions

In our opinion, C-III continues to take proactive measures to manage and sell a diverse portfolio of REO assets. Since our last review, the REO department has grown from one asset manager to five in order to manage an increase in assets. REO sales grew to 18 assets in June 2010 from seven assets in June 2008. In addition, the portfolio of dispositions is more diverse than it was in 2008. In 2008, the portfolio consisted of multifamily and office properties, and in 2010 it consisted of industrial, lodging, multifamily, office, retail, other and self storage properties.

C-III's REO disposition performance was in line with all larger special servicers ranked by Standard & Poor's. During the first half of 2010, its average ratio of net sales proceeds to value on REO sales was 71% as was the average among all larger special servicers we rank. C-III's realized loss on REO sales was 70%, compared with 66% among all our ranked special servicers. However, C-III based its realized loss percentage on a relatively small sample size and was skewed by one asset that suffered 101% loss.

Table 12

REO Portfolio – June 30, 2010

Property type	Gross Sales($)	Properties (No.)
Industrial	1,020,135	1
Lodging	2,832,905	1
Multifamily	10,463,265	5
Office	-	1
Other	7,858,805	5
Retail	25,779,746	4
Self Storage	2,100,326	1
Total	**50,055,181**	**18**

C-III's REO transition process has not changed considerably since our last review.

- Within 45 to 60 days of taking title to an REO property, the asset manager must prepare and obtain committee approval of an REO business plan, including approval of the property management company's operating budget and a marketing strategy.
- The asset manager procures a real estate broker to market the REO asset either from C-III's approved vendor list or through referrals or interviews with prospective brokers (who are then registered to become approved vendors).
- Initial list prices, list-price reductions, capital expenditures outside of the approved budget, and sales offers all require management approval through C-III's delegated authority policies, which usually involve a committee approval.

Table 13

REO Sales Results

	Jan-June 2010	2009	2008	2007	2006
Properties sold (No.)	18	15	9	14	11
Net sales proceeds ($)	48,237,989	39,556,824	16,681,565	63,547,838	48,760,643
Market value ($)	68,095,000	60,385,000	24,055,000	68,770,000	50,620,000
Net sales/market value (%)	70.8	65.5	69.3	92.4	96.3
Avg. hold time as REO (months)	8.3	16.9	11.7	14.9	10.7

Table 14

REO Portfolio Aging*

(As of June 30, 2010)

	% by $ volume	% by count
Less than six months	56	28
6-12 months	37	56
12-24 months	7	17
24-36 months	0	0
Greater than 36 months	0	0
Total	100	100

Table 14

REO Portfolio Aging* (cont.)
Average: (8.3 months)
Median: (7.2 months)

*REO aging period includes only the time C-III held the asset as an REO.

REO accounting and reporting

C-III has a properly controlled REO accounting function. The company's accounting department is responsible for establishing the REO operating accounts and maintaining ongoing accounting records of all monthly receipts and disbursements. The accounting group also reconciles the REO accounts monthly using statements and backup documentation submitted by the property manager. The company receives and stores monthly property manager operating statements electronically. However, it still does not upload property management data to its real estate accounting or asset management systems. In our opinion, centralized property management data facilitates tracking when REO volumes increase. C-III's REO volumes have increased significantly during the first half of 2010 compared with prior years. During the first half of 2010, C-III sold 18 assets, compared with 15 assets for all of 2009.

C-III conducted eight on-site property management audits during the second half of 2009, up from three at the time of our last review. In addition, it improved upon its audit program by having accounting personnel accompany asset managers on on-site audits.

Subcontracting management

C-III appears to have a sound process for selecting subcontractors, monitoring completion of their assignments, and reviewing their work product.

- Asset managers engage third-party contractors using an approved vendor database and tracking module within the special servicing system.
- The vendor list identifies firms by specialty and by market area.
- The asset manager selects a vendor using a competitive bid process, then reviews the work product and monitors services provided by the vendor.
- The asset manager is responsible for tracking vendor assignments, due dates, and results, and comments on performance through the special servicing system.
- For environmental assessments, C-III does engage a third-party consultant to review the reports, which is a customary control practice used by many other special servicers.

Since our last review, the company has, in our opinion, strengthened its appraisal function and now uses an MAI (Member of the American Institute) of Real Estate Appraisers to manage the bidding and engagement process and provide appraisal review services.

Legal

Since our last review, C-III has added an attorney to its in-house legal staff to assist with PSA, REMIC, and asset-management specific legal issues. The attorneys within special servicing also engage outside counsel from an approved list using a standard engagement letter and require them to submit a budget along with a conflict-of-interest disclosure. The asset manager monitors law firm expenses in conjunction with in-house legal staff. Ongoing portfolio review meetings further serve to monitor the effectiveness of legal counsel. At the time of our last review, asset managers engaged outside counsel. In our opinion, having in-house legal staff perform this function promotes efficiency and allows asset managers to focus on asset management rather than legal procurement.

Special servicer investor reporting

In our opinion, C-III continues to demonstrate a thorough investor reporting function that provides comprehensive portfolio performance results to its fund investors, its parent, and its CMBS master servicers. A proprietary system produces monthly loan and property level fees, and a reporting calendar for each deal with critical dates, which are reviewed by the investor reporting analysts and utilized by the asset management group:

- The investor reporting package provides, at minimum, the specific requirements contained in each servicing agreement. This package includes all reports required by the latest CREF Council IRP format.
- With respect to monitoring advances and analyzing recoverability, C-III demonstrates a reasonable policy regarding advancing-to-valuation thresholds along with a proactive approach to master servicing communications.

Financial Position

CSI's financial position is deemed Sufficient.