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Servicer Evaluation: Greystone Servicing Corp. Inc.

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Table Of Contents

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Opinion

Standard & Poor's Ratings Services' overall ranking on Greystone Servicing Corp. Inc. (Greystone) as a commercial mortgage primary servicer is STRONG. The outlook is stable.

The ranking reflects our assessment of the company's specialization as a multifamily and health care loan servicer.

The overall servicer ranking reflects STRONG subrankings for management and organization, as well as primary servicing loan administration. Additionally, we have determined Greystone's financial position to be Sufficient.

The overall primary servicer ranking reflects Standard & Poor's view of the following developments within the company's management and organization, as well as its loan administration:

- Greystone has enhanced its asset management platform by adding seasoned professionals who are equipped to manage the growing portfolio.
- The company has created a separate special servicing division that appears to consist of highly experienced personnel.
- The servicer has implemented an enhanced asset management module to provide tracking through the life of a loan.
- The company has higher average loans-per-employee ratios than other ranked servicers (180 across the Fannie Mae platform and 75 across the FHA/bridge platform).
- The turnover rate for 2009 was 11%; this rate includes Greystone's reorganization of the asset management platform, which we believe increased the depth and industry experience among staff and management.
- Greystone undertook significant procedural changes that appear to have resulted in increased efficiencies in consent processing, default management, financial statement analysis, inspections, watchlist management, covenant tracking, and risk rating analysis.
- The company created two asset management teams, as well as a compliance and reporting division with a stated intent of improving portfolio management functions; Greystone also took steps to align individual core competences according to job function and added 13 seasoned professionals to supplement the existing staff.

Although Greystone does not act as a servicer for commercial mortgage-backed securities (CMBS) transactions, Standard & Poor's believes that it possesses substantial expertise meeting FHA, Fannie Mae, state agency, and other government-sponsored enterprise (GSE) program requirements. The overall servicer ranking also reflects our opinion of the company's management team and professional staff, along with its policies and procedures and internal controls.

Outlook

The outlook is stable. The company continues to specialize in servicing multifamily and health care properties for GSEs, state agencies, and private investors. It has also expanded its construction loan originations and has increased its multifamily and health care servicing volume through its origination platforms. We expect the servicing volume to decline if market multiples compel Greystone to sell some of its FHA servicing. The company has indicated that it does not plan to expand into the CMBS markets.

Table 1

Key Statistics			
(As of year-end 2009)			
	2009	**2008**	**2007**
Total servicing portfolio			
Volume (mil. $)	7,876,177	7,430,296	6,107,359
Loans (No.)	1,995	1,689	1,429
GSE and private investors			
Volume (mil. $)	7,035,811	6,513,760	6,107,359
Loans (No.)	1927	1617	1429
State agencies			
Volume (mil. $)	837,068,000	916,536,000	994,161,000
Loans (No.)	61	72	79
Delinquency by UPB			
Total servicing portfolio (%)	4.63	4.33	4.8
GSE and private investors (%)	2.72	1.93	1.88
Delinquency by loan No. (%)			
Total servicing portfolio (%)	3.76	3.2	3.38
GSE and private investors (%)	2.49	1.86	1.68

GSE-Government-sponsored entity. UPB-Unpaid principal balance.

Profile

Greystone Select Holdings LLC wholly owns Greystone, which was founded in 1989. The servicer specializes in the origination and servicing of multifamily and health-care properties. Since 2005, the company has retained its ranking as one of the 10 largest Fannie Mae-approved delegated underwriting and servicing (DUS) multifamily seller/servicers. Greystone is also one of the top five largest FHA-approved multifamily accelerated processing (MAP) lenders based on the dollar volume it originates. Additionally, the company is a Ginnie Mae issuer and state agency contract administrator. Greystone participates as an owner, equity, and securities investor in real estate and troubled debt restructuring; it also operates in this capacity through its related sister companies. Greystone operates in seven locations and has primary servicing operations in Warrenton, Va. The company has affiliated entities that specialize in property management and real estate development, as well as the handling of accounts receivables and management of skilled nursing facilities. Greystone has indicated that it plans to expand its servicing of Ginnie Mae and Fannie Mae loans through internal originations.

Overall, Greystone employs 179 professionals (45 servicing and 134 mortgage banking) who manage approximately $7.9 billion of multifamily and health-care loans.

Management And Organization

The subranking for management and organization is STRONG.

We believe that Greystone has maintained solid management depth throughout the organization and has continued to benefit from comprehensive procedures, internal controls, and superior computer systems. Greystone also has made various changes within the organization since our last review. In addition, the company has added seasoned professionals to manage a growing portfolio, which, in our view, has enhanced its asset management platform. Greystone has also created a separate special servicing division, which consists of seasoned staff. The company has also implemented a more advanced asset management module than it previously had; the module now provides tracking through the life of a loan.

Senior managers average 27 years of experience, while middle managers average 16 years. Areas of expertise include asset management, custodial accounting, investor reporting, escrow administration, loan administration, property management, and loan workouts. In 2009, Greystone had an 11% turnover rate among its servicing and management staff. This rate includes the reorganization of the asset management platform, which, in our opinion, has resulted in increased depth and industry level experience among staff and management.

Greystone has also taken financial statement analysis back in-house and has added personnel to perform property-level financial and regional economic analysis, which we believe has enhanced its asset management division. Additionally, Greystone has added a compliance and reporting division to its asset management platform. The new division tracks and monitors contractual obligations and reporting requirements for the Fannie Mae portfolio.

Staffing and training

The company continues to focus on recruiting, training, and retaining seasoned professionals. As of Dec. 31, 2009, Greystone and its related entities employed 179 professionals, 45 of whom were part of the servicing division. The average number of loans per asset manager is approximately 180 across the Fannie Mae platform and 75 across the FHA/Bridge platform, which indicates, in our view, increased operational efficiencies and competency. The servicing area is organized both by function and investor and consists of experienced professionals. There are 45 employees dedicated to asset management (Fannie, FHA, bridge), loan administration, custodial and investor accounting, securities and document management, quality control, and legal.

We believe that the company's senior and middle management professionals are highly experienced and have significant tenure within the organization.

Table 2

Average Years Of Industry Experience/Company Tenure

	2009			2008			2007		
	Senior managers	Middle managers	Staff	Senior managers	Middle managers	Staff	Senior managers	Middle managers	Staff
Primary servicing	27/8	16/7	11/5	32/7	22/6	12/6	32/6	22/5	12/5

Training

We believe that the company continues to demonstrate proficiency in training and programs, including both staff development and industry training:

- The company provides comprehensive training schedules that average approximately 40 training hours a year per employee, which the department managers track.
- Internal and external guest speakers conduct training seminars that have covered such topics as the following in 2009: risk evaluation, collateral valuation, lease analysis, financial statement analysis, property inspection analysis, and market analysis.
- Greystone employees attend classes that the Mortgage Bankers Association, Fannie Mae, FHA, and the Institute for Professional and Executive Development offer.
- The company's benefit program also includes tuition reimbursement.

Technology

Greystone functions in an automated work environment and has dedicated significant resources, such as capital and personnel, to servicing technology. The company created supplemental, proprietary computer applications that are integrated with the servicing system. Details of the system include:

- The servicer's updated technology includes automated transfer of transactional data from the servicing system into a third-party accounting application, which manages the loan's cash position. The custodial accounting staff regularly checks the cash position against what is in the servicing system with the objective of verifying accuracy between the loan and the general ledger.
- Greystone has developed proprietary tools for tracking investor positions for all loan products. The servicer aims its systems at adapting to its investors' reporting requirements and complying with regulatory changes.
- Greystone uses separate customized servicing systems for billing and servicing state agency portfolios.
- Modules within the servicing system provide automated workflow management support, user-defined action queues, project tracking support, insurance, tax and escrow processing, and the ability to track multiple escrow balances per loan.
- The servicing system contains image and document management; the system has the ability to view images and documents online, as well as to provide links to documents and property photos.
- Greystone uses a third-party reporting application called Closer, which it integrated with its servicing system. The servicer aims its integrated application at providing the capabilities to service a loan from origination to asset management and ultimately resolution. In our view, the application has improved Greystone's processes because it spreads financial statements, houses watch list and delinquency data, and tracks loan covenants. The company plans to further enhance the application in 2010 to include risk rating management automation, as well as further enhancements related to monitoring inspections and monitoring deferred maintenance.
- Greystone maintains a proprietary system, which it integrated with the servicing system for financial tracking, as well as watch list monitoring, for FHA, bridge, and other loan products.
- Greystone has developed a link to its investor Web site to maintain its investor and borrower positions under secured user logins.

Overall, the technology area has 35 employees, eight of which are dedicated to servicing. A chief technology officer (CTO) oversees Greystone's systems department and works closely with management to develop and enhance applications to support investor requirements. The CTO also assists unit managers in providing systems training.

The IT Organization has separate departments to manage network infrastructure, software services, and development and customer support functions. Additionally, IT Management regularly tracks and reviews level of service indicators with the goal of ensuring that IT is properly staffed to assist the customer.

In our opinion, the company continues to implement sound application security and nightly system backup procedures. Greystone bases its business continuity strategies and tactics on criticality and impact of business. State agencies can view access to the company's separate servicing systems. Greystone uses a company hot site for disaster recovery and business resumption, which it tests at least annually. The disaster recovery plan is well-documented, in our view; the plan includes calling trees, responsibility assignments, and equipment configuration. The hot site is now located more than 25 miles from the servicing site.

Internal controls

We believe that Greystone has well-written policy and procedures that follow Fannie Mae and FHA guidelines, which are available online. The servicer has substantially expanded its policies to include increased efficiencies in consent processing, default management, financial statement analysis, inspections, watch list management, covenant tracking, and risk rating analysis.

According to Greystone, department managers are responsible for updating the policies and procedures for their particular areas, and senior management is responsible for approving any changes on an annual basis. An experienced independent staff member, dedicated to compliance, performs quarterly quality control reviews and reports the results to senior managers. The review provides loan-level quality control testing associated with all functional areas.

The audit also incorporates a detailed review for compliance with FHA's collection procedures. Greystone currently has detailed descriptions of critical processes and guidelines to meet customer requests in accordance with prudent industry standards. The company has indicated that it plans to review these functions using an external auditor. Further details of the servicer's internal controls are as follows:

- The company maintains, in our view, a detailed and thorough FHA quality control plan, which it reviews and updates at least annually, in accordance with HUD servicing requirements.
- Fannie Mae and Ginnie Mae conduct audits annually and noted no exceptions.
- We reviewed quality control reports for the fourth-quarter 2009 and found them to be thorough and include procedural recommendations.
- The company has implemented a broader internal operations audit program that covers controls and compliance testing for all investors.
- Cash and accounting controls are part of every audit cycle.

Greystone has, what we consider to be, a stringent internal audit function. A third-party accounting firm conducts annual control compliance audits for GSE requirements.

For the fiscal year ended Dec. 31, 2009, Greystone has complied with the Uniform Single Attestation Program for Mortgage Bankers (USAP). A third-party firm performed the examination and cited no exceptions.

Additional items

The company carries levels of corporate insurance coverage that are consistent with our ranking. In addition, no material lawsuits associated with commercial servicing are outstanding.

Loan Administration

The subranking for loan administration is STRONG.

The subranking reflects the following improvements:

- Loan boarding processes that are, in our view, well-coordinated and measure timeliness and accuracy metrics.
- The company streamlined its receipt of financial statements, procedures for monitoring portfolio financials, insurance, and property inspections.
- The loan administration department now tracks the number and nature of incoming borrower calls.
- Within the industry, it is our understanding that Greystone is highly regarded with respect to its FHA servicing knowledge.

Overall, we believe the company's extensive track record with GSE reporting mitigates its lack of CMBS servicing and reporting track record. Greystone's particular niche appears to be servicing multifamily properties for federal and state agency portfolios.

Betsy Vartanian, executive vice president, heads Greystone. As of Dec. 31, 2009, the total portfolio was $7.9 billion and consisted of 1,995 loans, 92% of which (by unpaid principal balance) denoted multifamily and 8% represented healthcare facilities. The company services loans for Fannie Mae, Ginnie Mae, private investors, and state agencies. The portfolio is distributed across 49 states, the District of Columbia, and the Virgin Islands. California, New York, and Texas represent the highest concentrations with approximately 38%, 8%, and 8%, of the portfolio, respectively, with the remaining states each having less than 5%. Servicing on office and retail properties accounts for less than one half of one percent of Greystone's portfolio.

New loan setup and data integrity

New loan setup appears to be well-coordinated, in our opinion, between the closing department and the servicing and asset management areas. The closing department notifies the appropriate departments via email. Notifications also provide a summary of important loan details (including escrow information). The respective departments then open the required bank accounts, as well as prepare for the receipt of the closing documents and other associated tasks. We believe Greystone's loan-boarding process is efficient and well-controlled. These processes include the following:

- The outside closing counsel sends original documents to the closing department within two days of closing. Exceptions are reported to Greystone's general counsel.
- Greystone uses a tickler report for all loans to denote whether a loan has any outstanding documentation issues.
- The servicer established custodial bank accounts in accordance with the GSE regulations.
- A loan administrator enters loan data in the servicing system from source documents and then a manager reviews this data for accuracy. Additionally, the servicing system contains a tickler for follow up actions.

Loan boarding procedures appear to be comprehensive and require new loan setup checklists, system edit reports, and dual review of information for all data fields and tickler files.. In addition, Greystone sends the borrower welcome letters in a timely manner. The loan administration department tracks loan boarding accuracy metrics and timeliness metrics.

Payment processing

A five-person custodial accounting area processes GSE and private investor payments using a highly automated process. Details of this process are as follows:

- Greystone receives approximately 99% of all payments in an automated manner, with 44% made through a third-party lockbox, 48% through ACH payment processing, and 8% through wire transfer. Overall, we believe the 99% capture rate is very high for commercial mortgages. The servicer receives less than 1% of payments at the servicer's street address.
- State-controlled bank lockboxes receive payment information on state agency accounts, and the customized servicing systems reconcile electronic transaction posting.
- Greystone has procedures in place for handling the small number of checks received in-house.
- The servicing system produces automated nightly transfers from payment clearing to investor custodial accounts through an online bank interface.
- The custodial accounting section appropriately reconciles the clearing and custodial accounts with dual signature reviews.
- The company reconciles bank statements within the accounting and servicing systems.

Investor reporting

The company has sound investor reporting processes and procedures, in our opinion. The investor accounting department typically performs the mechanical aspects of investor reporting and remitting. Greystone generally segregates its reporting, remitting, and reconciliation procedures. Details of these processes are as follows:

- The servicing system for GSE and other third-party investors automate investor accounting and reporting.
- The company uses the bank's wire system, which has appropriate dual controls for entry and release of funds, for all third-party investor remittances.
- The investor reporting department is the point of contact for investor inquiries and provides managerial review of monthly reports prior to distribution.
- The servicing system handles standard reporting for GSEs.
- Greystone has controls set in place at the time the investor information is entered into the servicing system. In addition, we believe that automated remittance date recognition helps in providing for timely reporting.
- All remitting is done through defined disbursement accounts and repetitive wire transfer instructions.
- During monthly reporting, the servicer has procedures in place ranging from reconciling unpaid principal balance to scheduling security balances.
- In 2009, Greystone incurred zero penalties for late reporting or remitting. The company also incurred zero errors in reporting.

Overall, the company has an effective and efficient payment processing and investor reporting operation, in our view, which covers the pool of assets, as well as individual assets or securities for government agency transactions. The company has represented to Standard & Poor's that if it decides to enter the CMBS market, it will implement CMSA reporting formats in its servicing system.

Escrow administration

Loan administration is responsible for tax and insurance disbursement processing. Details of Greystone's escrow administration process include:

791581 | 300376797

- Taxes and insurance are escrowed for 58% and 55% of the GSE portfolio, respectively. State agencies typically handle their own escrows; however, Greystone tracks activity on those loans.
- The company uses a third-party tax vendor to monitor and pay property taxes. The tax vendor generates upcoming tax disbursement reports, which the loan administrators review and approve prior to disbursement. The company appears to proactively take advantage of tax discounts for early payment.
- The company had minimal tax penalty during 2009.
- Greystone handles insurance disbursements similar to how it handles taxes; it provides an initial notice at 60 days before insurance expiration, which we consider to be an improvement since our last review.
- The servicing system generates a second notice at 30 days and a third and final notice at seven days prior to issuing forced-placed coverage, which we also consider to be an improvement since our last review.
- The servicer requires copies of paid bills for nonescrowed accounts.
- The company has forced-placed coverage with a look-back provision of 60 days. The provider then reviews a look-back provision for a period longer than 60 days on a case-by-case basis. As of Dec. 31, 2009, six loans were on forced-placed coverage.

Administrators within the documents and securities group are responsible for tracking Uniform Commercial Code filings, which are maintained on a third-party software application and used for filing continuation statements six months prior to expiration.

The loan administrators individually review insurance coverage and carrier ratings at policy renewal. The company updates its servicing system with carrier ratings as applicable and notifies interested parties of any changes.

Asset and portfolio administration

In our opinion, Greystone effectively performs the asset administration function for its current portfolio. We believe that the company has made vast improvements in its portfolio management functions in the following ways:

- Greystone reorganized its Fannie Mae asset management platform by creating two asset management teams, as well as a compliance and reporting division. The company also aligned individual core competencies according to job function, and it added 13 seasoned professionals to supplement the existing staff.
- The company also deployed a Fannie Mae asset management module in CLOSER.
- The servicer created an automated data-mart that provides a live feed of data from the servicing system, which, in our view, further supports Greystone's ability to meet ad hoc and agency reporting requirements.

Asset managers are generally responsible for consent processing, reserve administration, financial statement analysis, property inspection, deferred maintenance tracking, covenant tracking, contract compliance, delinquency management, watch list management, and risk rating analysis. The company has indicated that it performs extensive financial analysis of properties on a monthly basis and works proactively with borrowers to resolve any variances. Details include:

- Asset managers administer reserves according to GSE requirements. The company bases its reserve releases on appropriate agency and managerial authorizations for disbursement.
- The company tracks the request and receipt of property financial statements on a monthly or quarterly basis for Fannie Mae loans and on an annual basis for all others.
- For FHA loans, asset managers enter financial data from financial statements on a supplemental system application for calculation of key ratios. The state agencies perform most of the state agency financial analyses

themselves; however, Greystone also analyzes bridge loans on a monthly basis.
- Third-party vendors perform inspections for FHA loans. Property inspection cycles range from one to three years depending on the portfolio and program requirements. The servicing system contains standardized inspection report templates that summarize property conditions. For Fannie Mae loans, certified staff members perform all watch list inspections and other loans, as necessary. Approved third-party vendors perform all other inspections.
- The company has recently created an internal credit review process, which reviews a random sampling of loans every quarter with the goal of ensuring adherence to policy, procedures, and agency guidelines.
- Asset managers also review and update risk ratings/credit reviews, which result in a loan's overall risk rating, during quarterly risk rating meetings or at the direction of management during a regularly scheduled watch list review meeting.
- Greystone color codes its risk rating classifications: red means doubtful/loss, orange is substandard, yellow is special mention, green is acceptable or pass/watch.
- The servicer has expanded its rating metrics to include industry best practices covering financial performance, payment history, collateral valuation, property condition, borrower/property management, and market.
- The company uses a risk rating proprietary system to analyze financial information for its non-Fannie Mae loans. Analysts enter data into separate predesigned templates depending on the property type. Risk rating reports provide three-year spreads of the financial statements along with ratio analysis, which Greystone uses to determine the assets to include on its watchlist report. Greystone staff imports key data from the servicing system into the risk rating system regularly (i.e., debt service, inspection scores, etc.) and exports the ratings and key financial statement data back to the servicing system.

Asset managers present loans experiencing a change in rating to a review committee for discussion and give a final presentation to the risk rating committee, which consists of senior managers. Exception reports, which are built into the system, reflect thresholds established by the risk rating committee (for example, low and/or declining debt service coverage (DSC) ratios, high occupancy, poor inspection scores, etc). Each Fannie Mae loan is subject to the above-referenced thresholds, and any exceptions undergo review to determine whether the risk rating committee should take further action. The risk rating committee reviews all loan reviews and ratings across the entire portfolio. Overall, we believe that risk-rating procedures are very thorough.

Customer service and borrower requests

Greystone's asset managers are responsible for analyzing borrower requests. The company's policy on response time varies with the type of request; however, the servicer does not currently track actual response turnaround times to grant or deny consent. Greystone has also implemented a formal call tracking system, which tracks the number and nature of incoming borrower calls, which we consider to be an improvement since our last review.

Early stage collections

In our opinion, the company has sufficient early stage collection procedures. Asset managers (Fannie, FHA, bridge) are the first line of defense with respect to delinquency management and administer collection efforts. Details of these efforts include:

- Collection efforts begin on the last day of the grace period, which includes a system-generated past due notice sent at such time.
- The servicer generates and issues a notice of default at day 30.
- Greystone deploys a dual-track approach, which involves aggressive pursuit of payment collection, while

791581 | 300376797

simultaneously initiating the workout process.

- State agencies generally assume collection efforts on their own accounts between 30 to 60 days, wherein the agency becomes the special servicer responsible for handling all further collection efforts.
- Greystone has enhanced its servicing system to expand the penalty/notice screen to automatically generate required GSE investor invoices with automatic fax distribution. Furthermore, the system tracks collection calls.

Senior management has enhanced the reporting capabilities to include a live feed of delinquency information from the servicing system of record. In our view, the enhanced reporting functionality has streamlined the entire delinquency management process.

Financial Position

We determine Greystone's financial position to be Sufficient.

For servicer contact information, please refer to the Select Servicer List on RatingsDirect on the Global Credit Portal, at www.globalcreditportal.com.