

## Servicer Evaluation: ValStone Asset Management LLC

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*(Editor's Note: We are republishing this report, originally published on Aug. 5, 2010, to correct a number of data errors in the text and tables. A corrected version follows.)*

## Opinion

Standard & Poor's Ratings Services has an AVERAGE ranking on ValStone Asset Management LLC (VAM), formerly known as Touchstone Asset Management LLC (a wholly owned subsidiary of ValStone Partners LLC), as a commercial mortgage special servicer for the U.S. market. The outlook for the ranking is stable.

VAM is a wholly owned subsidiary of ValStone Partners, an investment advisor registered with the Securities and Exchange Commission. VAM principally services and manages the loans, bonds, and financial assets acquired by the ValStone Opportunity Funds and its co-investors. In our opinion, the company is an experienced servicer of distressed loans and financial investments and has managed over 3,700 commercial loans and bonds with an aggregate value of \$900 million since its inception in 1999. As of year-end 2009, the company managed 368 loans and bonds with an aggregate face value of \$321 million.

Standard & Poor's had an AVERAGE commercial finance special servicer ranking on VAM before the company requested we reclassify its ranking as a commercial mortgage special servicer in 2004. We reclassified VAM's ranking because the composition of its servicing portfolio shifted from servicing small-balance business loans toward servicing larger balance commercial mortgage loans, as its parent, ValStone Partners, pursued an acquisition strategy targeting larger and more complex loans and bonds secured by commercial real estate.

The AVERAGE ranking reflects our opinion of the following strengths:

- Organizational changes that appear to have the goal of improving asset management efficiencies and better serving larger balance commercial assets;
- A highly experienced asset management team;
- A consistent and thorough internal audit function;
- Improved disaster recovery and business continuity plans;
- An automated technology environment, which integrates VAM's general ledger, loan accounting, servicing, and database applications for efficient asset management; and
- Tight policies and procedures for asset management functions and collateral administration, as well as what we view as strong oversight over property management firms.

Our ranking also reflects what we consider to be the following weaknesses:

- Consistent and thorough scope of VAM's internal audits, but narrower than prescribed by USAP and Regulation AB, which is typically required of servicers of securitizations (VAM is considering expanding the scope of its internal audits to be USAP and Regulation AB compliant in order to position itself to service securitizations. VAM's external auditor, Ernst & Young, audits its financial statements and internal controls in compliance with GAAP.); and

- VAM's lack of securitization experience to date.

Although the company does not have securitization reporting experience, it does have experience with detailed reporting to a private investor client. Standard & Poor's understands that VAM acquires many irregular asset types that can extend resolution and disposition times. The company's average hold period during 2009 was approximately 7.8 years for nonperforming specially serviced assets. (This average includes 277 small, seasoned, performing, legacy assets in its servicing portfolio that are largely owned by its parent. When we remove these assets from our calculation, the company has an average hold period of 3.6 years over 91 assets.) Standard & Poor's believes that the company's average asset hold times for both loans and real estate are in line with the asset class, namely small-balance loans and real estate. VAM achieved full payoffs on nearly half of those assets.

## Outlook

Our outlook is stable. Standard & Poor's expects VAM to continue performing its asset management duties for its existing investor clients in a manner consistent with the ranking. In our opinion, the company also has the necessary expertise and reporting capabilities to transition into special servicing for securitized asset-backed transactions involving similar types of assets as those it handles for its parent's investment funds, such as CMBS, and CDO transactions.

## Profile

VAM services and manages the loans, bonds, and other financial assets acquired by a series of related funds (the ValStone Opportunity Funds) and their institutional partners. ValStone Partners, a registered investment advisor with the SEC, which exclusively manages the ValStone Opportunity Funds, wholly owns VAM.

VAM's principal flow of business continues to come from its role as the special servicer/asset manager for assets acquired through the ValStone Opportunity Funds and for the funds' co-investors. Since inception, VAM has managed approximately 3,700 commercial loans and publicly issued bonds aggregating approximately \$900 million in face value. As of Dec. 31, 2009, VAM's portfolio consisted of 368 assets totaling \$321 million in unpaid principal balance (UPB).

**Table 1**

<b>Total Servicing Portfolio</b>									
Active inventory	12/31/2009			12/31/2008			12/31/2007		
	UPB (\$ 000)	No.	Average age (months)	UPB (\$ 000)	No.	Average age (months)	UPB (\$ 000)	No.	Average age (months)
Loans	286,282.90	358	95.8	240,243.30	422	90.3	314,754.80	476	77.5
REOs	35,149.20	10	57.7	26,370.60	9	52.9	7,525.00	4	61.5
<b>Total</b>	<b>321,432.10</b>	<b>368</b>	<b>94.8</b>	<b>266,613.90</b>	<b>431</b>	<b>89.5</b>	<b>322,279.80</b>	<b>480</b>	<b>77.4</b>

Since its inception in 1999, VAM's niche has been managing and resolving small and moderate balance performing, nonperforming or under-performing commercial loans, commercial mortgage loans, construction loans, bonds, and other types of commercial debt. However, over the past 10 years, the composition of VAM's servicing portfolio has evolved from servicing small-balance business loans to servicing larger balance commercial mortgage loans. The reason for this is that VAM's parent, ValStone Partners, pursued an acquisition strategy, which focused on acquiring

larger and more complex loans and bonds secured by commercial real estate.

As of Dec. 31, 2009, 80.1% of VAM's portfolio was represented by three collateral types:

- Healthcare/senior housing (51.3%) (including independent living, assisted living, skilled nursing, memory impaired facilities, and continuing care retirement communities);
- Multifamily housing (17.0%); and
- Lodging (11.8%).

The remainder of VAM's portfolio (19.9%) consisted of a variety of collateral types, including office, retail, industrial and warehouse, finished lots, gas station and convenience stores, billboards, a college campus, casino boats, state tax judgments, business assets, and unsecured loans.

**Table 2**

Special Servicing Portfolio By Property Type												
Property type	2009				2008				2007			
	UPB (\$ 000)	No.	Average UPB (\$ 000)	% of total portfolio	UPB (\$ 000)	No.	Average UPB (\$ 000)	% of total portfolio	UPB (\$ 000)	No.	Average UPB (\$ 000)	% of total portfolio
Health care	165,000.30	32	5,156.30	51.30	156,300.20	32	4,884.40	58.60	149,612.30	31	4,826.20	46.40
Other	60,976.80	289	210.9	19.00	65,984.00	345	191.3	24.70	122,582.40	387	316.8	38.00
Multifamily	54,532.80	19	2,870.10	17.00	39,800.60	19	2,094.80	14.90	43,383.20	14	3,098.90	13.50
Lodging	37,874.90	4	9,468.70	11.80	98.3	3	32.8	0.00	122.8	3	37.6	0.00
Office	1,147.20	3	382.4	0.40	1,998.30	4	299.6	0.40	1,665.90	7	236.6	0.50
Retail	1,053.80	13	81.1	0.30	1,720.90	16	107.6	0.60	2,807.1	20	140.4	0.90
I & W	846.3	8	105.8	0.30	1,511.60	12	126	0.60	2,125.20	18	118.1	0.70
<b>Total</b>	<b>321,432.10</b>	<b>368</b>	<b>873.5</b>	<b>100.00</b>	<b>266,613.90</b>	<b>431</b>	<b>618.6</b>	<b>100.00</b>	<b>322,279.80</b>	<b>480</b>	<b>671.4</b>	<b>100.00</b>

Healthcare includes senior housing. I&W-Industrial and warehouse.

## Management And Organization

The subranking for management and organization is AVERAGE.

The subranking reflects our assessment of the company's:

- Organizational changes that have the goal of improving asset management efficiencies and better serving larger balance commercial assets;
- An asset management team that we consider highly experienced;
- In our opinion, consistent and thorough internal audit function;
- Improved disaster recovery and business continuity plans, in our opinion; and
- Automated technology environment, which integrates VAM's general ledger, loan accounting, servicing, and database applications

In regards to the internal audit function, we do note that the audits are narrower in scope than the USAP and Regulation AB prescribes, which is typically required of servicers of securitizations. VAM has indicated that it is considering expanding the scope of its internal audits to be USAP and Regulation AB compliant in order to position itself to service securitizations. VAM's external auditor, Ernst & Young, audits its financial statements and internal

controls in compliance with GAAP.

### Management depth, staffing, and training

As of Dec. 31, 2009, VAM employed 21 professionals on its servicing team. We believe that VAM displays high average industry experience levels for its senior management, special servicing team, and the rest of its professional staff.

**Table 3**

Staffing Depth – Average Years Of Experience						
	Senior managers		Asset managers		Professional staff	
	Experience	Tenure	Experience	Tenure	Experience	Tenure
Special servicing	27	10	17	5	16	4

### Training

In our opinion, VAM has made significant advances in its staff training program. A vice president of the special servicing team is the primary training administrator for VAM and a committee of senior members of the servicing team reviews and updates the curriculum and coordinates the training schedule. The committee actively utilizes educational programs offered by various industry groups. Other notable aspects of the training program, in our view, include:

- In 2009, the company established a minimum training requirement for employees of 20 hours each year. During 2009, VAM's average training hours per employee was 49 hours, above the company's requirement.
- ValStone monitors participation in training activities in an effort to keep the servicing staff abreast of important industry developments. In addition, the company schedules an ongoing series of in-house seminars covering pertinent servicing-related topics.
- Senior members of the servicing team perform ongoing on-the-job coaching that is vigorous, in our opinion.
- Managers cross-train staff members in critical responsibilities to provide redundancy and backup coverage.
- Staff members are active in various industry groups and regularly attend associated conferences and seminars.
- The company has indicated that it also strongly encourages and sponsors employee participation in programs such as Chartered Financial Analyst (CFA) and Chartered Alternative Investment Analyst (CAIA) programs.

### Technology

Since our last evaluation, VAM has made significant investments in technology, in our opinion, and developed a centralized system that integrates its general ledger, loan accounting, servicing, and database applications, which, in our view, significantly improved its management and reporting efficiency. We believe that these improvements will better serve the needs of a larger balance commercial real estate servicer and special servicer.

The principal system used for cash management and general loan administration tasks is McCracken's Strategy system through an ASP relationship (available through the Web site). During 2009, VAM purchased software from Financial Industry Computer Systems Inc. (FICS), which supports all core loan servicing, loan accounting, and related tracking and reporting tasks, to supplement and eventually replace the McCracken system and is in the process of converting its data to the FICS system.

VAM has developed and implemented proprietary IT applications to streamline tasks associated with portfolio administration and integrate its servicing system, database, and general ledger. VAM's key developments include:

- Development of a centralized relational database of detailed loan-level data, including cash flow projections and underlying assumptions, which are used to automate quarterly market-value estimates, quarterly FASB SOP 03-3 compliant earnings calculations, and quarterly tax code compliant market discount income calculations.
- Development of an invoice and asset-level expense tracking application that tracks invoices from receipt through the approval and payment process in order to coordinate, in real time, the general ledger and estimates of future cash flow.
- Development of investor communication modules for communicating calls, distributions, and periodic reports to investors on a basis that is, at the same time, customized and batched.
- Development of the "cash flow generator", a module integrated with the company's centralized relational database, which tracks actual historical cash flows on an asset-level basis and calculates net present value of future cash flows for reporting to investors, in an effort to eliminate its reliance on manual Excel-type applications.
- All active loan collateral servicing documents, formerly stored in paper files, are now scanned and accessible to asset managers through a shared network drive.
- VAM uses Web-based software and a system of layered and dual security protocols to conduct online banking related to funds transfer, cash disbursements, and payment receipts.

In our opinion, VAM maintains a sound disaster recovery and business continuity plan, which is tested annually and in full compliance with requirements the SEC imposes on its registered investment advisor parent company.

Characteristics of VAM's recovery system include:

- The company backs up its data daily, and backup tapes are sent offsite on a weekly basis to a secure facility managed by a third-party vendor.
- A custodian holds the original collateral documents related to the loans. Scanned copies of these documents for all active loan files are stored in a shared network readily accessible to asset managers.
- ValStone stores acquisition documentation in a data warehouse system accessible to asset managers via the internet.
- VAM's main data center is located on-site at its Birmingham, Mi., office. In the event of emergency, VAM has secured a business recovery site, located in Lansing, Mi., about 80 miles away, which is available for immediate use.
- Target recoveries for investor reporting and other servicing functions are within 24 hours and 48 hours, respectively.
- VAM reviews its disaster recovery plans at least annually and modifies them as necessary. VAM has indicated that it tests its disaster recovery plans as needed, with such testing observed by an independent third party. VAM last tested its disaster recovery plan on May 18, 2010. The systems manager is responsible for conducting, and the compliance officer is responsible for auditing such review and testing.

### **Internal controls**

We believe that VAM has well-documented policies and procedures covering all core areas of its special servicing function. These policies and procedures can be accessed centrally on a shared network drive. Employees must read and confirm in writing that they have read and comprehend such policies and procedures upon being hired and any material amendments to such policies and procedures as they occur.

As a subsidiary of ValStone Partners, an investment advisor registered with the SEC, VAM is subject to what we

consider to be a rigorous compliance program. The company has a dedicated compliance officer who, in our view, maintains a thorough and comprehensive internal audit program. The compliance officer regularly reviews the compliance requirement with its outside legal counsel who has been working with the company since inception. VAM indicates that it undergoes a number of regularly scheduled audits, including:

- An annual audit of its financial statements and internal controls by Ernst & Young (Grant Thornton until 2008). The audit report dated May 26, 2010, concluded that the company's audited financial statements and operating results fairly present its financial position as of Dec. 31, 2009.
- An annual internal operational audit, which is performed by the company's principal investor client.

VAM's compliance officer conducts an internal audit on a semi-annual basis and issues reports. Overall, we find VAM's internal audits to be consistent and thorough; however, they are narrower in scope than prescribed by USAP and Regulation AB, which is typically required of servicers of securitizations. (VAM has indicated that it is considering expanding the scope of its internal audits to be USAP and Regulation AB compliant in order to position itself to service securitizations.)

#### **Additional items**

VAM indicated that it has no outstanding material defensive lawsuits. The company also provided evidence of satisfactory levels of corporate insurance coverage.

## **Special Servicing Loan Administration**

We have an AVERAGE ranking on the company as a commercial mortgage special servicer. The ranking reflects our assessment of the following:

#### **Strengths:**

- Highly experienced asset management team;
- Effective leveraging of technology tools for efficient management; and
- Proactive policies and procedures regarding asset management functions, collateral administration, and strong oversight over property management firms.

#### **Weakness:**

- VAM's lack of securitization experience to date.

Since its inception in 1999, VAM's mandate has evolved from servicing small-balance commercial loans to servicing larger loans requiring more sophisticated special servicing strategies. In our opinion, VAM has benefited from greater participation of ValStone Partners' investment team in its asset management function. As such, VAM combines the roles of investment analysts with asset management. Each investment analyst has origination, due diligence, financial analysis, and valuation experience, as well as experience handling nonperforming, and often, in our opinion, challenging loan work outs. Further, each investment analyst/asset manager specializes in a property sector, such as senior housing, multifamily housing, or lodging. The opportunity for such specialization is possible only when VAM's principal client, ValStone Partners, makes a series of investments in a single sector. However, that opportunity has presented itself 68% of the time (based upon UPB) within VAM's current portfolio of managed assets. With respect to performing and modified/reperforming loans, VAM continues to assign separate asset managers to monitor them in order to improve workload efficiency. As of Dec. 31, 2009, the company had nine professionals performing asset management functions (5.4 full-time employees {FTEs} for the 12-month period

ended Dec. 31, 2009) reporting directly to its COO.

The number of loans per FTE at VAM was 69 as of year-end 2009, significantly down from 107 as of year-end 2008. The ratio of assets to FTE is due to the fact that VAM has a large number of legacy assets, most acquired prior to 2004, which are small, seasoned, and performing, requiring minimal servicing. For these legacy assets, which account for only 8.4% of VAM's servicing portfolio, by UPB, the number of assets per FTE is 232.4 (see table 4). For the remaining assets, which account for 91.6% of VAM's servicing portfolio, by UPB, the number of assets per FTE is 17.0 (see table 4), which we view as a fairly typical according to our rated peers and criteria range of nonperforming assets per manager. Standard & Poor's views the company's staffing and number of assets per manager as consistent with our criteria for this ranking.

**Table 4**

<b>Legacy Loan Portfolio (8.4% Of Total UPB)</b>						
	<b>UPB (\$ 000)</b>	<b>No. of assets</b>	<b>Average UPB (\$ 000)</b>	<b>No. of FTEs</b>	<b>% of UPB</b>	<b>Assets per FTE</b>
Active – small nonperforming	4,716.40	45	104.8	1	1.50	45
Active – small performing (minimal servicing)	16,691.80	186	89.7	0.3	5.20	649.4
Inactive – remote possibility of collection	5,474.90	68	80.5	0	1.70	N/A
Small loan portfolio total	26,883.20	299	\$89.90	1.3	8.40	232.4
<b>Remaining loan portfolio (91.6% of total UPB)</b>						
	<b>UPB (\$ 000)</b>	<b>No. of assets</b>	<b>Average UPB (\$ 000)</b>	<b>No. of FTEs</b>	<b>% of UPB</b>	<b>Assets per FTE</b>
Active – high touch/large balance	249,549.00	69	4,268.80	4.1	91.60	17

N/A-Not applicable.

### Loan recovery and foreclosure management

In our opinion, VAM displays a successful track record of loan disposition results (see table 5).

**Table 5**

<b>Recovery Result By Resolution Type</b>									
Resolutions	<b>12/31/2009</b>			<b>12/31/2008</b>			<b>12/31/2007</b>		
	<b>UPB (\$ 000)</b>	<b>No.</b>	<b>Average (months)</b>	<b>UPB (\$ 000)</b>	<b>No.</b>	<b>Average (months)</b>	<b>UPB (\$ 000)</b>	<b>No.</b>	<b>Average (months)</b>
Loans	3,208.70	63	98.9	88,727.40	58	80.8	63,787.20	82	66
Foreclosed loans	-	-	N/A	8,622.70	3	23.3	8,962.30	5	44.7
<b>Total</b>	<b>3,208.70</b>	<b>63</b>	<b>98.9</b>	<b>97,350.10</b>	<b>61</b>	<b>77.9</b>	<b>72,760.50</b>	<b>87</b>	<b>64.8</b>
<b>Resolution breakdown</b>									
Returned to master	-	-	N/A	-	-	N/A	-	-	N/A
Full payoffs	740.4	33	100.4	11,504.30	48	84.5	33,982.30	72	70.1
DPO/note sale	2,468.30	30	97.3	77,223.10	10	63	29,815.80	10	36.6
Foreclosed loans	-	-	N/A	8,622.70	3	23.3	8,962.30	5	44.7
<b>Total</b>	<b>3,208.70</b>	<b>63</b>	<b>98.9</b>	<b>97,350.10</b>	<b>61</b>	<b>77.9</b>	<b>72,760.50</b>	<b>87</b>	<b>64.8</b>

VAM's average time to resolution is somewhat higher than other servicers because 100% of the assets transferred to VAM, including performing loans (299 assets or 62% of total number of loans as of Dec. 31, 2009), which generally pay-as-agreed, require minimal servicing and are held for investment, are classified as assets in special servicing upon servicing transfer. We view VAM's holding period as consistent with the objectives of its clients given that VAM manages its special servicing platform from an ownership perspective, which allows its asset managers

more flexibility in servicing activities, including repositioning and reinvesting in the underlying assets. Standard & Poor's believes that the company's average asset hold times for both loans and REOS are consistent with our criteria for this asset class.

In our opinion, VAM maintains an active surveillance process designed to proactively identify problem loans. This process includes regular review of borrower financial and operating information; review of borrower budgets and business plans; ongoing communication with and data collection from property managers; periodic site visits; occasional third-party environmental, property condition, and other property-specific reports; and analysis of the competitive and, when relevant, regulatory landscape within which the property operates. Further details of the surveillance process include:

- Asset managers summarize the results of such surveillance activities and their analysis, conclusions, and recommendations in monthly business plans.
- Asset managers are required to prepare their business plans within 30 days after the asset was transferred, a practice that Standard & Poor's considers to be proactive.
- Asset managers revise such business plans regularly, as needed, but no less frequently than quarterly, even for inactive assets.
- Senior management regularly reviews and critiques business plans, summaries of which are included in quarterly reports to investors in the company's client funds.
- Any proposed rehabilitation, reinvestment, repositioning, disposition, or other resolution strategies must be submitted to the managing partner for approval within the standardized business plan format with valuation analysis comparing the proposed plan to other alternatives to expedite the approval process.
- Once a loan proceeds to foreclosure, other legal action or REO, ValStone tracks it on various watch lists; senior management also monitors the loan closely for legal milestones, expenses incurred, time, and borrower counter-measures (such as bankruptcy filings). The company addresses and updates other issues in comment fields (fields within the asset management system that allow the servicer to make comments on the action), such as personal guarantees, environmental and title issues, formation of a REO subsidiary, likely outcomes, etc.

### REO management and dispositions

Historically, VAM mostly managed smaller REO properties and not larger commercial properties, but in recent years, that has changed. As of June 11, 2010, VAM's REO portfolio consisted of five multifamily properties (consisting of 908 units), five senior housing properties (consisting of 467 units), three subdivisions (consisting of over 587 finished residential lots, most of which are being actively developed with vertical construction by the company), a single-family residence (a legacy asset), and a specialty building leased to a charter school (included in "Other" in table 6) totaling \$52 million in UPB. The company retains third parties to perform day-to-day property management for these properties.

**Table 6**

Active REO Portfolio By Property Type												
Property Type	6/11/2010			12/31/2009			12/31/2008			12/31/2007		
	UPB (\$ 000)	No.	% of UPB	UPB (\$ 000)	No.	% of UPB	UPB (\$ 000)	No.	% of UPB	UPB (\$ 000)	No.	% of UPB
Multifamily	18,002.70	5	34.60	17,922.70	3	51.00	8,647.20	1	32.80	-	-	-
Senior housing	24,991.6	5	48.10	8,346.30	3	23.70	8,346.30	3	31.70	3,949.40	1	52.50
Other	9,001.00	5	17.30	8,880.20	4	25.30	8,880.20	3	33.70	3,541.60	2	47.10
Retail	-	-	-	-	-	-	474.3	1	1.80	-	-	-

**Table 6**

Active REO Portfolio By Property Type (cont.)												
Industrial	-	-	-	-	-	-	22.6	1	0.10	34	1	0.50
<b>Total</b>	<b>51,995.30</b>	<b>15</b>	<b>100.00</b>	<b>35,140.2</b>	<b>10</b>	<b>100.00</b>	<b>26,370.60</b>	<b>9</b>	<b>100.00</b>	<b>7,525.00</b>	<b>4</b>	<b>100.00</b>

**Table 7**

	12/31/2009			12/31/2008			12/31/2007		
	UPB (\$ 000)	No.	Average age (months)	UPB (\$ 000)	No.	Average age (months)	UPB (\$ 000)	No.	Average age (months)
Estimated market value	10	1	6.2	-	-	N/A	13,140.00	4	18.8
Net sales	8.5	-	-	-	-	-	13,115.20	-	-
% of sale/market value	85.00	-	-	N/A	-	-	99.80	-	-

We believe VAM has efficient property management and disposition functions, as demonstrated by its track record.

- The company employs dedicated professionals and watch lists to track assets through the foreclosure cycle and manages the process with pre- and post-foreclosure checklists to make sure that key issues are covered.
- ValStone uses property managers that often receive performance-based incentive compensation.
- VAM's policies require that the asset manager prepare a REO marketing and sales plan within five days of the foreclosure date.
- As part of the plan, the asset manager procures a real estate broker from VAM's approved vendor list. If that is not possible, the asset manager seeks in-market referrals, and interviews and vets candidate brokers to be added to the management-approved vendor list.
- ValStone generally bases internal property valuations on a Broker Price Opinion (BPO) survey, an evaluation of comparable sales and property cash flow projections, all of which are refreshed at least every six months.
- Initial list prices, list price reductions, capital expenditures outside the approved budget, and sales offers all require written management approvals through VAM's delegated authority policies.
- Active REO monitoring includes reviews of monthly financial statements and weekly conference calls and operational data collection.

### REO accounting and reporting

In our opinion, VAM has sound REO accounting, cash management, and reporting procedures.

According to the company, property managers deposit all funds into the operating account within 24 hours of receipt and pay operating expenses from funds in the account to the extent that they are consistent with an approved budget. Any security deposits are escrowed in segregated accounts. If the event amounts in the operating account exceed a pre-approved balance, property managers are required to sweep such excess funds to VAM via wire transfer. Property managers may not make unbudgeted capital expenditures unless approved by the asset manager. Once the asset manager approved unbudgeted expenses or expenditures, the information is entered into the company's proprietary asset level expense/expenditure ("ALE") tracking system. Funding requests, whereby VAM wires funds into the operating accounts, require a written recommendation by the asset manager, review by the VAM's compliance officer, and approval of two senior managers.

The company has informed us that on a weekly basis, and as needed, property managers must participate in

conference calls with and submit selected operating data to the asset manager. On a monthly basis, property managers must prepare a financial reporting package for the asset manager. Such data and reports must be sent electronically and must conform to a standardized format so that the asset managers can upload the information into the company's proprietary database located in a shared network drive. The asset manager reviews and analyzes the financial data, including conducting a variance analysis, between actual and budget. The asset manager then revises the asset management (business plan) report accordingly.

For fiscal 2009, VAM retained an independent accounting firm to conduct a financial audit of two properties and, in the future, will continue to reserve the right to have such audits conducted at its discretion. It is our understanding that VAM's asset managers also visit the REO properties (and properties under receivership) regularly to inspect operations and the condition of the property and to meet with the manager. Standard & Poor's believes such an audit program is a proactive tool to guard against potential losses due to negligence or fraud.

### **Asset accounting and investor reporting**

VAM coordinates all asset and portfolio level accounting through dedicated staff based in its headquarters office. In our opinion, job tasks, assignments, and written procedures denote an acceptable segregation of duties relating to handling payment receipts, investor remittances, and monthly investor reporting. VAM also has solid procedures regarding check log management, payment posting, and account reconciliation tasks.

In our opinion, VAM also demonstrates a sound investor reporting function for monthly reporting to its parent and investment fund participants. The company does not yet have experience with securitized portfolio reporting.

### **Subcontractor management**

Overall, in our view, VAM handles the management and oversight of subcontractors in a controlled and effective manner and follows formal guidelines defined in its policies and procedures manual.

- VAM's proprietary ALE tracking database tracks all subcontractor payables.
- VAM uses approved lists for environmental consultants, auditors, real estate brokers, property managers, and brokers, with the lists managed on a shared network drive.

### **Legal functions**

VAM's asset managers select legal counsel using VAM's approved counsel list, and one of the partners approves the recommended law firms. The asset managers use a standard engagement letter to retain counsel, who must then provide a budget for the legal fees for a specific engagement. The asset manager reviews all invoices the attorney submits for conformance with the engagement letter. All invoices and approvals for asset level legal expenses are tracked within the servicing system, and VAM's proprietary ALE tracking database to facilitate monitoring of actual legal costs against budgeted amounts and overall recovery expectations.

VAM has indicated that due to its size, it is not economically feasible for it to maintain its own in-house legal function. However, VAM is aware that as the portfolio grows in size an internal legal staff could offer additional support with asset recovery decisions and help control the law firm engagement process more effectively.

## **Financial Position**

We believe that VAM has a Sufficient financial position. Standard & Poor's bases its assessment on its review of the audited financial statements of VAM and ValStone Partners, its parent company.

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