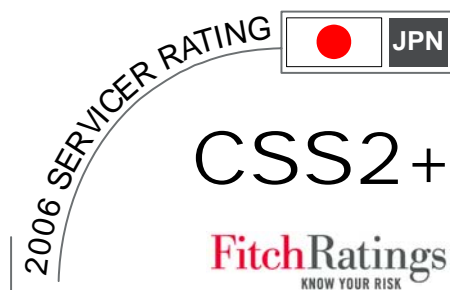


CMBS/Japan
Servicer Report

Capital Servicing Co., Ltd.



■ Summary

Fitch Ratings has upgraded the commercial mortgage special servicer rating of Capital Servicing Co., Ltd. (“CSC”) to ‘CSS2+ (JPN)’ from ‘CSS2 (JPN)’. The upgrade was based on improvements in several areas, including the successful implementation of SCORE a highly sophisticated asset management system. In addition, the company has enhanced its operational risk management through the formation of a Risk Management Committee and have hired a dedicated Director of Compliance.

Rating
Special Servicer CSS2+ (JPN)*
* Japan

CSC was licensed and began servicing activities in 1999. The company’s parent, TriMont Holdings Inc. (“TriMont”), headquartered in the US, has Fitch US servicer ratings of ‘CSS2’ and ‘CPS2’, and exclusively handles the real estate operations of Lehman Brothers Holdings Inc. (“Lehman Brothers”), Fitch rated ‘A+/F1’. CSC is a part of Capital Services Group (CSG), which employed 112 in its Japan operations as of February 2006, representing an increase of 33% from YE 2004. Of the 112 employees, 36 are specifically identified as CSC staff.

Analysts

Tokyo
Hisaharu Kamiya
+81 3 3288 2701
hisaharu.kamiya@fitchratings.com

Between January 2000 and June 2006, CSC serviced non-performing loans (“NPL”) with a total cumulative unpaid principal balance (“UPB”) of JPY2,785 billion, corresponding to 4,657 borrowers. CSC is the servicer of 16 Commercial Mortgage Backed Securities (CMBS) and has also acted as a primary servicer for many securitised portfolios of loan assets.

New York
Masako Osako
+1 212 908 0546
masako.osako@fitchratings.com

Diane Pendley
+1 212 908 0777
diane.pendley@fitchratings.com

■ Rating Committee Highlights

Company Contact
Capital Servicing Co., Ltd.
Carl N. Everett
+81 3 6439 7600

Strengths

- Flexible and well-integrated IT system which can service performing and non-performing loans on a single platform.
- Comprehensive company-wide risk management infrastructure.
- Well-established staffing policy and training program.
- Strong commitment and support from Lehman Brothers.

Concerns

- Numerous recent hires due to growth.
- Maintaining satisfactory business volume as well as asset diversification in a highly competitive market.

Mitigating Factors

- Stable top management and comprehensive training programs which facilitate an orderly integration of new employees.
- Long-standing partnership with Lehman Brothers which has an extensive business network in Japan.

■ Company Overview

CSC was licensed by the Ministry of Justice (“MoJ”), Japan in September 1999, as the country’s 23rd servicer, and commenced servicing operations in December that year. CSC’s parent, TriMont headquartered in Atlanta, USA, has Fitch servicer ratings of ‘CSS2’ and ‘CPS2’, and exclusively handles the real estate operations of Lehman Brothers rated ‘A+/F1’ in Europe and the US.

In August 2003, the Japanese operations of CSG were reorganised into three entities: CSC, Capital Realty Inc. (“CRI”), and Global Commercial Real Estate (Japan) Inc. (“GCRE”). CRI is responsible for managing real estate, while GCRE deals with due diligence and underwriting and the group’s administration.

The corporate structure of CSC has remained stable since Fitch’s last review and it retains strong ties with Lehman Brothers. CSC mainly services the non-performing and performing loan investments of Lehman Brothers, which currently contributes 70% of its revenue. CSC has, however, indicated that it is working to diversify its client base.

CSG has continued to improve its internal organization in order to accomplish its new business initiatives, specifically an increased emphasis on securitization and primary servicing, and to improve its internal control functions. During recent years, CSC has created the following newly independent departments:

- Investor reporting
- Compliance
- Treasury (zaimubu)
- Operations (operational support primarily for overseas offices)
- Corporate administration.

■ Financial Overview

CSC’s financial performance remains stable. For the year ended December 2005, the servicer reported total revenue (consisting of servicing and management fees) of Y2,345 million, representing an 11.0% increase over the prior year. CSC’s net income was Y303 million for 2005, down 35% from the prior year, reflecting increased expenses encompassing staff growth, strengthened internal controls, and an extensive systems development. Fitch is of the opinion that CSC has sufficient financial resources to fulfil the needs of its servicing operations.

Portfolio Statistics (for NPL Only)

January 2000 to June 2006

Total Loans Serviced*	
(JPYm in UPB)	No. of Borrowers*
2,785,022	4,657

Disposal Amount (JPYm)

Since January 2000 through June 2006	Annual Figure in 2005
191,793	50,066

Types of Resolution by Disposal Amount, Since Inception to June 2006* (%)

Voluntary Sales	46.4	40.2
Foreclosure	14.6	6.7
DPO	11.6	10.2
Loan-Sold	19.4	24.7
REO	2.0	2.9
Other	6.0	15.4

* "High Yield Assets" are not included
Source: Capital Servicing Co., Ltd

■ Staffing and Training

As of February 2006, CSG employed 112 employees, in Japan representing an increase of 33% from YE 2004 (excluding changes due to the transfer of the underwriting team to Lehman Brothers). CSG staff distribution was as follows:

CSG Staffing in Japan

CSC – Staff of 36	
Asset Management (Special Servicing)	15
Loan Administration (Primary Servicing)	21

GCRE – Staff of 63	
IT	19
Accounting	12
General Administration	8
Investor Reporting	7
Others	17

CRI – Staff of 13	
	13

Source: Capital Servicing Co. Ltd

CSC’s three top executives, including the president, have, on average, 25 years’ relevant industry experience and over four years tenure with the group companies. The 15 middle managers have, on average, 12 years of industry experience and three years with the company. Fitch will carefully monitor the performance of the four middle managers who joined the servicer within the past year. Asset managers are also highly experienced with 22 years of industry experience and 40% of them being with the company for more than four years.

CSG focuses on improving its training programmes and average training hours increased sharply to 40.8 hours in 2005 from 18.8 in 2004. Training for asset managers is in excess of 50 hours annually, as the company believes constant updating is necessary in

order to adapt to market and regulatory changes. In addition to courses focusing on upgrading of servicing awareness, the company provides training on other topics, including SCORE (new IT platform), disaster recovery, corporate ethics, and the 2005 Privacy Law.

Staff turnover rate is moderate and was 11% in 2004, 13% in 2005, and had improved to 3% (not seasonally adjusted) in the first half of 2006. There were no departures of asset managers in 2004 or 2005. The company's policy to provide extensive training programs and internal transfer opportunities appear to be contributing to the stability of the work force. Of ten new management positions created, six were filled by promotion or internal transfers.

Fitch evaluates CSC's staffing and training practices favourably especially its comprehensive and appropriate training programs. Staff stability, particularly in the area of asset management, contributes to the company's effective operation. CSG has experienced a substantial increase in the number of staff since the last review, mainly in the technology, compliance, and investor reporting areas. However, the stable top management and comprehensive training programs should facilitate effective assimilation of new employees.

■ Procedures and Controls

Since the last review, CSC has strengthened its compliance function. The company created and filled the post of Director of Compliance who reports directly to the COO of Asia. This new director has 14 years of experience in finance and 6 years of experience in compliance in major international financial institutions. In addition, CSC established a company-wide risk management committee consisting of 11 senior managers representing compliance, internal audit, investor reporting, operations, asset management, and others.

The scope of the risk management committee's responsibilities is extensive, including:

1. setting up an overall control platform,
2. making proposals to the board of directors on control issues,
3. reviewing the scope and result of the external and internal audits, and
4. monitoring the internal procedures applicable to the Sarbanes Oxley Act (SOX) and other compliance requirements.

Fitch views favourably the timely efforts by CSC to strengthen its risk management platform in order to accommodate the various regulatory changes.

In the summer of 2005, CSC commenced a comprehensive revision of the policy and procedure manuals. Revision of most areas, including asset management, loan administration, finance, IT, HR compliance, and the business continuity plan has been completed. In addition to this special revision, the company's policy is to review policies and procedures annually or when necessary. Manuals are available online to all staff. With timely updates, Fitch believes CSG's P&P to be comprehensive and appropriate.

Internal Audit

The frequency of internal audits has changed since the last review from quarterly to semi-annual. The primary reason for this change is that, from 2005, CSC has been conducting quarterly internal SOX testing and also undergoes an annual SOX audit by Lehman Brothers' auditors. Lehman Brothers' audit is designed to satisfy various requirements stipulated in the company's guidelines including those relating to SOX. The most recent audit conducted by Lehman Brothers' auditors was completed in October 2005. The audit uncovered no material irregularities.

External Audit

Agreed Upon Procedures Audit

The last agreed upon procedures audit (AUPA) was conducted in 2003. Since 2004 the AUPA has been integrated into the SOX audit.

Statutory Audit

One of Japan's leading auditors performs CSC's annual audits. No irregularities were found in the audited financial statement as of December 31, 2005.

Inspection by the Ministry of Justice

In June 2004, CSC had its second MoJ inspection. A few minor departures were mentioned, but no irregularities were pointed out.

■ Technology

In 2005, CSC completed a major upgrade of SCORE, an internally developed loan servicing system, which has been in use since October 2003. The SCORE system records and maintains data on loans, obligors, guarantors, collateral and hard assets, performing loans and NPLs. The system also generates reports for the MoJ and investors. In addition to these functions of the SCORE system, SCORE has a number of advanced features, including:

- Integrating special, primary, and master servicing functionality into one system using the Internet.
- Servicing securitization of both performing and non-performing loans.

- Providing investors with investment information on a real-time basis.
- Multi-currency and multi-language capacity.
- Expanding the range of serviceable loan types to include residential mortgage loans, structured mortgage loans, conduit loans, and others.
- Monitoring functions relating to internal audit, privacy law, and other regulations.

SCORE is considered by many in the IT field to be cutting-edge technology. CSC hopes to significantly improve its service to investors by the use of this highly sophisticated system.

The security of SCORE is protected by limiting access to information or areas of the system. Management determines access levels for individual users. CSG's systems security provisions satisfy the requirements of the SOX Act.

Currently, the system's capacity is sufficient since the servers' usage rate is on average 30%. Each server is backed up daily onto tapes, which are then stored in a locker at the data centre and carried to a store-room in the suburbs of Tokyo twice weekly. In addition, Data is backed up daily to the company's Osaka office for the further security.

The Osaka office of CSC is used as an alternative for any contingency. It is equipped with 30 intranet PCs and IP telephone lines and is connected to the company's Tokyo office and Data Centre through a VPN link. CSC carried out a disaster recovery drill in December 2005, which was pronounced satisfactory.

The IT section of GCRE is responsible for the maintenance of the company's systems. In 2005 the IT section doubled its size of staff from a year earlier and consists of a department head, with 18 years of professional experience, and 19 staff members, with eight years of industry experience. Of these, six are engaged in application development and work closely with external vendors. CSC has a maintenance agreement with an outside systems company.

Fitch recognizes that the technology at CSC is effective and that SCORE is highly integrated and versatile. The company's IT staff is experienced and effective disaster recovery plans are in place. CSC's technology is designed to provide global investors with highly reliable services.

■ Special Servicing

Loan Administration

The loan setup process at CSC is automated and procedures are clearly explained in the company's

manuals. When the servicer receives all the necessary data on newly assigned loans from the entrustor, the data are re-formatted using a standard template and uploaded into SCORE. The loan setup process at CSC was found to be effective.

In most cases, the information on borrower repayment is obtained on a daily basis from the bank where it has been deposited, and the asset manager responsible for the account inputs the amount in SCORE. Confirmation and reconciliation are made on the same day that an obligor makes payments. Cash collection reports are processed several times a day in the Finance department and then forwarded to the asset managers to identify the individual collections and compare the expected collection amount to the agreed payment schedule.

The upgrade of SCORE significantly improved CSC's ability to service securitizations, including investor reporting. The application automatically calculates cash flow distributions and monitors the compliance of covenants stipulated by the securitization agreement. Furthermore, the application is able to generate customized investor reports and, as mentioned before, investors have access to portfolio performance data on a real time basis.

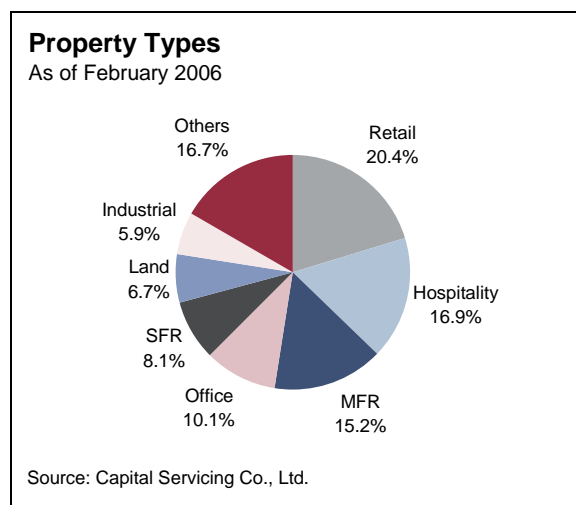
Special Servicing

From January 2000 to June 2006, CSC had serviced non-performing commercial mortgage loans with a cumulative UPB of JPY2,785bn, or 4,657 borrowers, and had collected JPY192bn. While the amount of NPL outstanding (in terms of UPB) has fluctuated over the years, the annually collected amount increased steadily.

All servicing portfolios are entrusted to CSC by Lehman Brothers, securitizing trusts or other investors. Prior to 2002, NPLs accounted for almost 100% of the commercial mortgage loans, however, in recent years, performing loans have gradually increased. At YE 2005, the percentage of non-performing commercial mortgage loans was only approximately 36% of the total mortgage portfolio. It should be noted that CSC's performance on primary loan servicing is outside the scope of this rating and report on special servicing.

The company operates a highly efficient special servicing operation and, since inception, has consistently met the NPL collection targets imposed by its entrustor. CSC's entrustors set target collection levels only for secured NPLs, and not for "ponkasu" a NPL where collateral has already been disposed. CSC attributes this strong performance mainly to its highly experienced asset managers, with an average of 22 years of industry experience,

an extensive network of disposition channels, and carefully constructed business plans.



The mix of NPLs serviced by CSC has undergone several changes since the last review. Compared to April 2004, the percentage of office buildings declined to 10% of the total from 38%, whereas that of hospitality (hotels and pachinko) sharply increased to 17% from 2%. Retail (20% in 2005) and multi family buildings (15% in 2005) increased only slightly from the previous year. These changes are not a matter of concern as, with their diverse backgrounds, CSC's asset managers are capable of servicing a diverse mix of collateral types.

The volume of so-called sub-performing loans, defaulted loans for which borrowers are still able to make partial payment, is clearly on the increase, with approximately 82% of NPL in 2005 categorized as sub-performing.

CSC maintains a two-tier approach to its business plan depending on the level of target collection amount:

- **Tier 1 Assets:** Assets with a Target Amount above JPY10m: Each individual asset requires a resolution plan to be completed within 120 days

of receipt of the underwriting package. The business plan is reviewed annually or as necessary.

- **Tier 2 Assets:** Assets with a Target Amount below JPY10m: These assets are grouped by portfolio and each group is assigned a business plan within 120 days of receipt of the underwriting package. The business plan is reviewed annually, or as necessary.

As of February 2006, asset managers serviced, on average, 65 assets each. Since some SPL assets do not require a short resolution time, Fitch considers the asset managers' workloads are manageable.

The pattern of NPL resolutions at CSC indicates its flexible approach which takes into account the changing nature of market opportunities and characteristics of loans being serviced. For instance:

- Loan sales increased dramatically to 25 % in 2005 from 11% in 2004
- Voluntary sales decreased to 40% in 2005 from 74% in 2004

At the same time, the percentage of foreclosures, which typically generates least favourable returns, recently remains consistently low at less than 10%. CSC has used REO sales as a measure of loss mitigation infrequently. In 2005, proceeds from REO disposition amounted to only 2.9% of total resolution. As of May 2006, CSG was managing two REO's.

CSC expects about 59% of the NPLs to be securitized. 24% of CSC's NPL assets under management are securitized and it expects the proportion of securitized NPL under management to increase. CSC is a leading participant in the CMBS market in Japan and since November 2002, has participated in the issuance of 16 CMBS including five with Resolution and Collection Corporation. CSC services 14 of these issues as the special servicer as well as primary or master servicer. Fitch views favourably CSC's extensive experience in securitization.

Copyright © 2006 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein is based on information obtained from issuers, other obligors, underwriters, and other sources which Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.