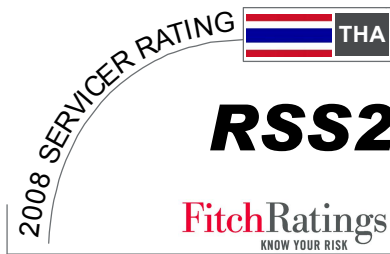


RMBS
Thailand
Servicer Report

**Capital Advisory Services
(Thailand) Limited**



Rating

| | Current Rating |
|------------------------------|------------------------|
| Residential Special Servicer | RSS2(tha) ^a |

^a Denotes its relevance in Thailand's legal, economic and social context

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Related Research

["Thai Servicers Rating Criteria", dated 27 June 2008](#)

[Capital Advisory Services \(Thailand\) Limited, dated 30 October 2007](#)

Summary

Fitch Ratings (Thailand) Limited has upgraded Capital Advisory Services (Thailand) Limited's (CAS) residential mortgage special servicer rating to 'RSS2(tha)' from 'RSS2-(tha)'. The rating upgrade reflects CAS's strengths, including its experienced and stable senior and middle management, advanced and efficient computer systems, and strong managerial support and oversight from its parent, Capital Services Holding Corporation (CSHC), Capital Servicing Company (CSC) - the flagship servicer in Tokyo - and other group companies. Based on these strengths, CAS continues to collect efficiently from its servicing portfolio while improving its internal control structure and servicing system.

Established in Thailand in 2000, CAS is effectively a wholly-owned subsidiary of CSHC, a holding company offering real estate and loan asset management services through its subsidiaries. Since its establishment, CAS has been servicing the Thai investment portfolios of certain investors, with the majority of its business coming from Lehman Brothers (LB). Helped by its stable performance, CAS has grown to become one of the major servicing providers with a sizeable share in the Thai market. In late 2007, CAS added two servicing portfolios worth THB7.9bn. At end-2007, it had serviced over 28,000 residential loans with over THB40bn in unpaid principal balances. In addition, CAS has disclosed strategic plans to diversify its business by developing new investors and products.

Strengths

- Experienced and stable senior and middle management.
- Advanced and efficient asset management systems, including SCORE, an integrated servicing system.
- Strong managerial support and oversight from CSC and other group companies.

Challenges

- Effective implementation of its new internal audit over the operational compliance with policies and procedures (P&Ps).
- Diversification of its client base and continued growth of its servicing portfolio.

Mitigants

- Now that CAS has established a comprehensive set of P&Ps, it will be important for the company to have these properly addressed and complied with in its daily operations. CAS is commencing a new internal audit focusing on operational compliance with its P&P in 2008. While this audit will be partially outsourced to an outside audit firm, CAS's local staff will be involved in overseeing and controlling the process. It is expected to improve the control environment within CAS as well as to enhance its compliance checking function.
- CAS, in close collaboration with CSC and other group companies, has intensified its efforts to market its servicing capabilities to third-party investors in Asia. The proven capabilities with respect to LB's investments should be a favourable factor in earning third-party business, although the progress is expected to be gradual.

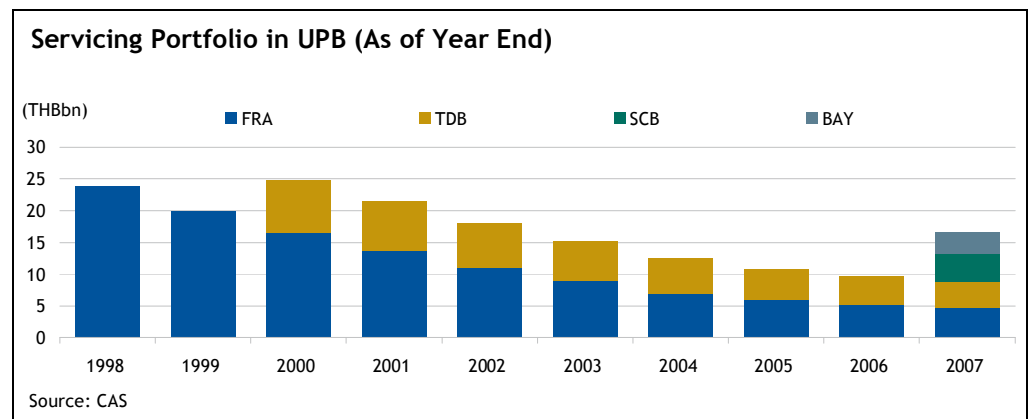
Company Overview

CAS was established in Thailand in 2000. The company is 49.9% owned by CSHC and 50.1% owned by SAL, Ltd., a local company owned by local investors, including CAS employees. CAS is the largest of CSHC's subsidiary companies operating outside Japan. Since establishment, CAS has been the main special servicer of non-performing mortgage loans for a major part of LB's investment portfolios in Thailand. The company has also been providing an asset management service to part of LB's real estate investments in the country. LB has been a long-standing customer for CSHC and its subsidiaries (Capital Servicing Group, CSG) in other markets.

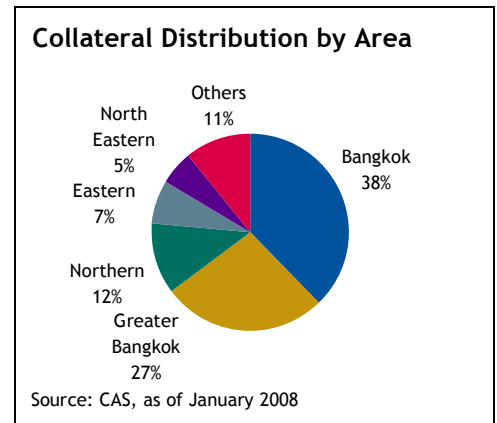
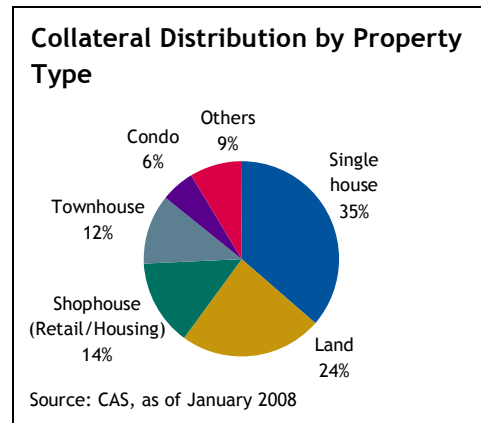
In 1998 and 2000, LB acquired two large Thai residential NPL portfolios, one from Financial Sector Restructuring Authority (FRA) and the other from DBS Thai Danu Bank (TDB). As soon as CAS was established in 2000, it started as a servicing coordinator for the two portfolios. In 2002, CAS was named as a servicing coordinator (master servicer) for LB's GT Stars II securitisation transaction, which was backed by these two residential NPL portfolios. In this role it oversaw two sub-servicers, Siam Commercial Bank Plc (SCB) and Premier LMS Limited (PLMS). By 2006, it had become a direct special servicer, replacing the sub-servicers. The bonds issued by GT Stars II were paid off in early 2006, one and a half years earlier than their legal final maturity.

In late 2007, LB successfully acquired another two residential NPL portfolios - one from SCB and the other from the Bank of Ayudhya (BAY) - and named CAS as a servicer of the newly-acquired portfolios. As of the acquisition date, these two new portfolios had 4,015 loans with THB7.9bn of unpaid principal balance and THB7bn collateral value. The appointment of CAS as a servicer of these two portfolios significantly increased the total residential NPLs under its management to THB16.5bn as of January 2008.

CAS's has indicated its strategy to grow as an independent servicer in the Thai market, which is consistent with the group mission of CSHC and its subsidiaries. In addition to the relationship with LB, CAS has begun to pursue business with third parties. However, the company's existing third-party business activities have so far involved only rendering professional services related to real estate investments. At present, the majority of CAS's business still derives from LB's investments in Thailand. CAS has stated its intention to reduce reliance on LB significantly over the next three to five years. Fitch believes that CAS's expertise in local residential loan collections, including its marketing expertise for liquidating properties both in the real estate-owned (REO) area and in foreclosure, as well as its experienced workforce, should allow CAS to diversify its revenue source. The agency will continue to monitor this development.



Over the past year, CAS has expanded its business into providing accounting services for third parties' real estate investments. The company has also been assuming additional responsibilities within the group by overseeing CSG's new Malaysia office and providing regional accounting services for the group's south-east Asian offices.



Financials

After a strong financial performance in 2005 and 2006, CAS's net profit dropped significantly in 2007. The deterioration in 2007 performance was largely due to lower service income (resulting from lower collections on the two older residential NPL portfolios and the delay of fee recognition on asset management service for real estate investments) and higher personnel and rental expenses. In 2007, revenue contribution from residential NPL portfolios accounted for 40% of total company revenue. Despite the expected revenue contribution from the two new residential NPL portfolios, CAS expects its financial performance to remain weak in 2008 given higher personnel costs for residential NPL servicing and other professional service fees.

As a pure servicing provider, CAS has no borrowings. At end-2007, it had an obligation to pay about THB250m to its customers. This obligation represents "due to customers" amounts and is covered by its restricted bank deposit account. Net of this obligation, CAS's equity-to-asset ratio was 64% at end-2007, almost unchanged from 2006. Among the subsidiaries of CSHC, the size of CAS's operation is second only to the group's companies in Japan. Given this relative importance of CAS in the group, which is concentrated in Asia, and the group's cohesive business structure, it is likely that CAS will continue to receive reasonable financial support, if this is required. Fitch believes CSHC and its other subsidiaries have sufficient resources and the willingness to provide any necessary financial support.

Three-Year Financials

| (THBm) | 2005 | 2006 | 2007 |
|--|-------|-------|-------|
| Total revenue | 196.8 | 236.6 | 205.8 |
| Net income | 13.4 | 34.1 | 4.6 |
| Shareholders' equity | 128.8 | 162.9 | 167.5 |
| Equity-to-asset ratio - net of investors' cash (%) | 61.3 | 62.3 | 64.3 |

Source: CAS

Staff and Training

As of March 2008, CAS employed 85 permanent staff, representing an increase of about 8% from its 79 permanent staff at end-2006. The hiring of new staff mainly took place during Q108 as a result of an expansion in residential NPL portfolios under its management. CAS added four staff to its portfolio management team, of which three are asset managers. The company has been able to maintain the quality of its teams by recruiting staff with appropriate industry experience.

About 87% of its permanent staff has at least one year of service while almost half have more than three years of service with the company. CAS's managing director has 24 years of relevant industry experience and seven years tenure with CAS. Its head of portfolio management has 14 years of relevant industry experience and has been with CAS for seven years. The three middle managers (vice president level) in the portfolio management team have, on average, more than 10 years of industry experience and five years with the company. Overall staff turnover for CAS was eight people or around 10% in 2007, most of whom were from the real estate group and the support & control group. During 2007, there was no staff turnover in key functions (ie asset management, asset administration, valuation, marketing & sales) under the portfolio management division.

CAS's staff distribution is as follows:

| Function | |
|------------------------|-----------|
| Managing director | 1 |
| Portfolio management | 48 |
| Support and control | 21 |
| Real estate investment | 12 |
| Due diligence | 3 |
| Total | 85 |

Source: CAS, as of March 2008

CAS's policy is to maintain low staff turnover with a stable and experienced team. This has been done through various employee relation programmes, training programmes and internal promotions. About 10% of its staff were promoted in 2007, the same level as in 2006. CAS has also focused on improving its training programmes with average training hours increasing sharply over the past four years from 14.9 hours/employee in 2004 to 47.3 hours/employee in 2007. The target average training hours/employee in 2007 was 40 hours/employee.

The framework of employee training is divided into five categories, including mandatory corporate requirements (i.e. orientation, corporate government, and business contingency plan), business process fundamentals (i.e. department functional overview), complementary business skills (i.e. language and software application skills), leadership & career development and external tailor-made professional development programmes. In 2008, CAS has been maintaining its training objectives at 40 hours/employee and 10 hours training within six months for new hires. Also in 2008, the company is increasing its standard training programmes available for all staff to 101 hours (from 97 hours in 2007) and incorporating more mandatory programmes, which include a one-day performance management course and a two-day computer and software application course for specific employees.

Fitch views CAS's employee training practices favourably given its effort to continue improving the training programmes.

Staff stability, especially in the portfolio management function, is also a plus to the company's efficient operation. Nonetheless, if no additional portfolios come in for the remainder of the year, there could be pressure on headcounts in the portfolio management function by end-2008.

Policies and Procedures/Internal Controls

Since the establishment of the risk management committee (RMC) at CSHC in 2005, CAS has made efforts to enhance its risk management structure under the guidance of the RMC. As a result, CAS now has a comprehensive set of P&Ps (some of which are shared by other CS companies, including CSC, Tokyo). The P&Ps are immediately available to all staff via its local intranet site called "RICE".

CAS also successfully implemented the internal audit procedure under the initiative of CSHC and CSC. The 2007 internal audit was conducted in January 2008 based on the risk approach. The audit scope, which included operational level controls by sampling method, had been proposed by the internal audit director and RMC and approved by CSHC. The audit found several ineffective controls, which included, among others, some of the P&Ps not being updated appropriately or needed to be created, and a few weak controls over clients' seals and blank checks in custody. In response, CAS has reviewed all of its P&Ps and manuals, created one, updated 21 and confirmed 53 procedures. All of the audit findings have now been addressed.

Internal audit has been conducted as planned, and is being expanded to cover a larger scope with a more focused approach. As of the review date, Fitch believes CSHC's efforts to improve the risk management structure in its group companies, including CAS, have been effective.

In the last review, Fitch pointed out the relative weakness that remained in the area of monitoring compliance in servicing operations due to the limited frequency and time allocated to annual audit activity. CAS is expanding coverage on operational compliance with its P&Ps by introducing additional internal audit activity, whereby CAS will outsource part of the auditing process to an outside vendor, while retaining control of the audit function. CAS's finance and accounting department will be involved in directing the audit activities under oversight from CSC. This is expected to significantly improve the monitoring procedure for its daily operations and control environment by the involvement of more local staff. Fitch will follow these developments and comment on them in the next review.

CAS is subject to financial audit by Ernst & Young, the result of which identified no significant issue for 2007. There is no other mandatory external audit.

Technology

CAS maintains an effective and integrated technology platform to provide adequate support for effective servicing functions. The company uses Servicing Company Operating & Reporting Engine (SCORE). SCORE is an efficient web-based servicing system, which offers a wide variety of servicing and reporting functions, including loan administration, asset management, cash management, reporting, system setup and maintenance for all master, primary and special servicing needs. SCORE can function in a multi-lingual and multicurrency environment. Fitch believes that SCORE is one of the most integrated servicing systems in use in the industry.

Because SCORE is regarded as a successful product, receiving favourable comments in the industry, CSG has started marketing the software. SCORE is already licensed to LB's European servicer.

In addition to SCORE and other supporting application software that are shared among the group companies, CAS has developed its internal communication software, RICE, and "PropertyChoice", a locally developed platform for real estate sales and marketing, which is actively used for management and marketing of REO properties and auction sales purposes. All these software applications are well-customised and integrated with each other to support efficient operation at CAS.

Since Fitch's last review, CAS has successfully completed migration to a new phase of SCORE (phase IV) closely supervised by IT staff at CSHC. The added functionality included a loan sale module and watch list function improvement. As SCORE was developed by CSHC/CSC and is shared by all of CSHC's subsidiaries, most of the support and improvements are undertaken by CSHC in Tokyo. Within CAS, there are three experienced IT staff members and this team collaborates well with CSHC's IT team in almost all aspects of IT, including SCORE.

CAS has successfully completed its disaster recovery testing. In June 2007, the company conducted the testing based on its business continuity plan (BCP) that had

been established in May 2007 and identified several minor issues. Based on the BCP, another disaster recovery test was conducted in October 2007 to check whether or not each business unit can function as normal at the contracted back-up site. Out of 46 areas tested, nine failed to function normally. These have since been addressed and all issues were cleared by April 2008.

All SCORE related data are backed up via virtual private network link to CSC, Tokyo. CSC's Osaka office in Japan has been added as one of the back-up data sites connected by VPN with CSC Tokyo and the KVH Data Centre, also in Tokyo. All local information is backed up via an automated tape back-up system. The tapes are collected twice a week and stored at off-site contracted storage facilities.

Fitch believes that CAS has now developed a business continuity plan and data back-up structure to support an adequate level of improved data security and business continuity.

To improve its IT security, in 2007 CAS enhanced its server monitoring function to monitor SCORE capacity usage. The current average of SCORE capacity usage is about 52%. The warning for capacity over-usage is benchmarked at 80%, and once this threshold is reached the system prompts an automatic email, sent to CSC Tokyo's IT administrator. Estimated lead time for the necessary expansion is 45 days. The database server capacity usage is 75% on average. It is CAS's intention that after this number reaches 80%, it will request an additional archive system to conserve space in the current server. CAS stipulated these procedures in its "Resource Capacity Monitoring Guideline", which was established in May 2008.

Special Servicing - Loan Administration

In late 2007, CAS acquired two new servicing portfolios, nearly doubling the size of its servicing portfolio as a result. The new portfolios are made up of residential loans from SCB and BAY. Both portfolios were purchased by LB and entrusted to CAS for servicing. Despite the increase in its portfolio, there has been no major change in the residential loan servicing platform and CAS has maintained its efficiency.

The servicing functionalities are largely allocated to two groups, the portfolio management group and the support & control group. The head count of the portfolio management group, consisting of six teams, increased from 46 a year ago to 48, responding to the addition of the servicing portfolios.

It is notable that CAS monitors and coordinates several functions outsourced to third party vendors, such as deficiency claim servicing, cash management, original documents custody and investor accounting. The vendors include commercial banks, law firms, accountants and servicers. Relevant teams in CAS monitor and coordinate with the vendors to maintain efficiency. It is also formalising performance reviews of the outsourced functions with respect to compliance and regulations. Fitch will follow this development.

The work structure within loan administration remains substantially the same as in prior years. After accepting a loan portfolio, the asset management department (AMD), asset administration department (AAD) and operations department (OD) work together to service the portfolios. AMD formulates strategies and conducts negotiations, while AAD monitors and directs litigation and deficient collections, which are outsourced to outside law firms. OD coordinates mortgage transfers and releases.

In loan setup, CAS electronically uploads the relevant portfolio data and the collection data to SCORE. All litigation cases are assigned to outside law firms. Original loan documents are received and deposited to an outsourced custodian, and mortgages are transferred to the investor. Loans that do not meet the requirements of the sales and purchase agreements (SPA) are submitted to the investor for consideration to put back to sellers.

Other developments and changes since Fitch's last review are summarised below:

- CAS has indicated that system set-up should be completed in one week, if all data is complete. However, the loan set-up process for the SCB and BAY portfolio cases took longer than expected, due to the time needed for seller/buyer negotiation.
- Loans are allocated to asset managers on an equitable distribution basis by the head of the AMD based on features such as: whether or not borrowers have made any offers of resolving delinquency; whether or not borrowers are contactable, litigation status; or geographical distributions of borrowers. There are currently 10 asset managers (AM). On average, one AM has approximately 440 residential loans to work, which Fitch believe is approximately the average market standard. The assignment among AMs is reshuffled every six months to improve collection efficiency.
- Thanks to the use of a well customised and advanced IT system, CAS's servicing operations and processes are mostly automated, especially in key servicing functions such as asset management, asset administration and operations, while using SCORE eliminates most manual work. CAS, in close collaboration with CSC and other companies, continues to upgrade and improve the efficiency of SCORE.

All senior and middle managers have more than three years of tenure with CAS and have substantial industry experience. In addition, the organisational structure is rather flat, allowing managers to have effective oversight of day-to-day operations as well as inter-departmental communications. Fitch believes CAS's management exercises adequate process controls.

Residential NPL Portfolio Serviced by CAS

| | At acquisitions | | As of January 2008 (THBm) | | |
|-----------------------------|-----------------|-----------------------|---------------------------|------------------|--------------------------------|
| | Loan counts | Unpaid balance (THBm) | Unpaid balance | Collateral value | Collections since acquisitions |
| Two older portfolios | | | | | |
| Loans | 24,261 | 32,432 | 2,432 | 2,045 | 26,355 |
| Deficiency claims | - | - | 6,280 | - | 275 |
| REO | - | - | - | 715 | 1,721 |
| SCB | | | | | |
| Loans | 1,533 | 4,392 | 4,323 | 3,547 | 76 |
| REO | | | | 96 | |
| BAY | | | | | |
| Loans | 2,482 | 3,473 | 3,473 | 3,312 | - |

Source: CAS

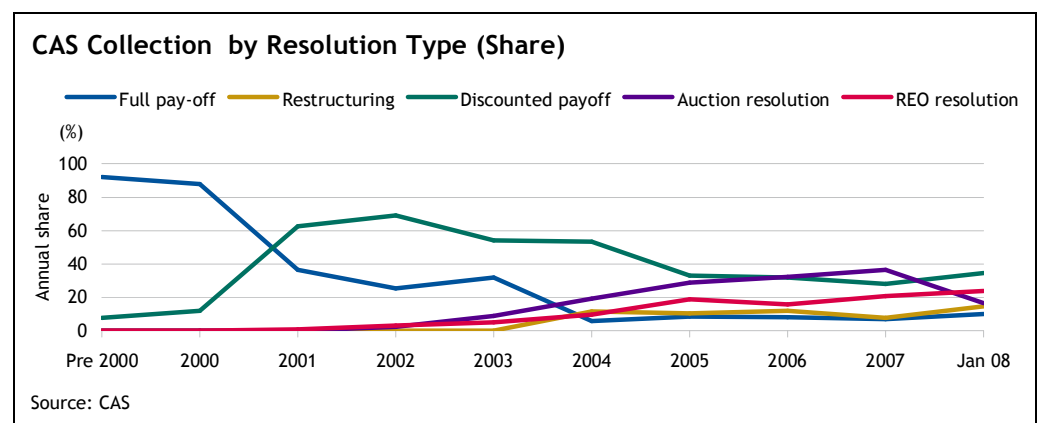
Special Servicing - Default

CAS's basic resolution strategy for defaulted residential loans, to negotiate settlement in parallel with conducting litigation, remained unchanged. The resolution methods include full payoff, discounted payoff (DPO), loan restructuring, loan sale, deed-in-lieu and guarantee release. Based on the analysis of a borrower's financial position, willingness, collateral position, collateral value and status of litigation proceeding, each AM negotiates for possible resolution by relying on portfolio business plan and collection target. AMD maintains contact with borrowers and works out loans according to business plans that it formulates. Litigation is usually used in parallel with the settlement negotiation, because it would normally take a long time (typically four years or more) to obtain permission for foreclosure and therefore there is a need to allow for enough lead time, and also because it is expected that the litigation process would bring a favourable influence to the borrower negotiation. To put a hold on the litigation, manager's approval is required at CAS. The AMD consists of the team leader, 10 AMs, a skip tracer and an administrator. As of March 2008, each AM has 443 residential loans, on average, including the loans at the post auction stage, which Fitch believes to be adequate.

The AAD, consisting of the team Leader and seven staff monitors litigation. Approximately 75% of outstanding loans, excluding deficiency claims, in the FRA and TDB portfolios as of January 2008 were in the litigation process, and litigation is an important source of resolution for CAS. The two departments (AMD and AAD) compete on their performance targets, to enhance the possibility of maximising investor returns. This is considered an important factor for success, which contributes to greater loss mitigation. Fitch believes the division of the functions between the two departments, as well as internal competition and collaboration, have been key factors for the efficient collection performance of CAS.

In addition to the skilled management of loan receivables, CAS has established an effective sales function for the properties in its marketing & sales department (MSD). MSD has experienced staff who manage the marketing process and conduct in-house sales, actively utilising the “PropertyChoice” website. It also maintains and appraises properties, and maintains an extensive network of property brokers and “managing brokers” who conduct property maintenance services. CAS re-branded “PropertyChoice” website to “Capital Services Group” in July 2008 to increase the visibility of the CAS name.

The result of resolution performance analysis indicates that the average ratios of the annual amount collected (including interest) to the corresponding unpaid principal balance (UPB) of resolved loans by each resolution method were as follows: restructuring 125%, full pay-offs 114%, DPO 98%, auction 89% and REO 97%. The overall average was 103.6%. CAS’s annual collection (including interest) as a percentage of original UPB was about 3.5% in 2007, significantly lower than the level of about 10% or more prior to 2004. This is because CAS continued to collect from the same portfolio since 2000, and the number and amount of resolutions gradually decreased. In addition, resolutions accompanied by large collection amounts such as full pay-offs became less frequent in the later stage of collection.



However, in terms of relative share in collections, DPO continues to be an important resolution source, as shown in the chart. In addition, as a result of auction sales as a litigation strategy, REO sale and deficiency claims have increased in relative importance in CAS’s collections, which reflects its stable strategy of pursuing both negotiation and litigation.

Fitch believes that CAS’s collection capability has been gradually improving in terms of its consistent approach to debtors and experienced handling of property sales, as shown in its performance.

Other developments and changes since Fitch’s last review are summarised below:

- Various management reports, made available through SCORE, which has been integrated with an additional information processing tool called “COGNOS Business Intelligence” (an improvement in 2007), together with adequate

delegation of authority to middle managers, sustain an efficient managerial decision-making environment.

- The valuation & property inspection department, comprising seven staff, inspects properties, carries out third party appraisal reviews and conducts in-house valuation and analysis. An inspection is typically done three times a year. Based on the inspection report and other reports filed by outsourced vendors, the valuation is adjusted.
- Each AM's borrower contact is monitored by the team leader through a SCORE communication log, which is updated daily. As a routine, a weekly team meeting is held to share ideas and discuss problems and solutions. CAS usually reshuffles the assigned portfolio among AMs every six months to refresh collection techniques and to ensure an equivalent workload.
- Bankruptcy processes are handled directly by external lawyers in 13 contracted law firms, and the AAD monitors their activities to ensure speedy and smooth resolution.

Experienced senior and middle managers continue to be actively communicating with AMs as well as among themselves, in efforts to improve efficiency in collecting from portfolios that are gradually collected and thus becoming increasingly difficult to collect. When needed, the senior managers intervene in the process and give instructions to resolve conflicts among departments, as well as to coordinate with the investors.

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