

RMBS Special Servicer
Thailand
Servicer Report

**Capital Advisory Services
(Thailand) Limited**



Summary

Fitch Ratings has affirmed Capital Advisory Services (Thailand) Limited's (CAS) Residential Mortgage Special Servicer Rating at 'RSS2(thai)'.

The rating reflects CAS's strong overall servicing capabilities based on its strengths, including its stable seasoned senior and middle management, advanced and highly efficient integrated IT system, and its demonstrated stable performance in managing and collecting residential non-performing loan (NPL) portfolios in Thailand. In addition, Fitch notes that the company has intensified its efforts to further enhance its risk management measures, via a more localised focus.

CAS has been affected by the bankruptcy of Lehman Brothers (Lehman) in September 2008, since Lehman-related entities have been the company's largest source of revenue. However, to date, the impact on the company has been manageable, due to the fact that CAS continues to service the majority of Lehman-related residential NPL portfolios, receiving full servicing fees. In addition, the company has been able to maintain almost of its experienced management and key staff.

CAS's major challenges include the uncertainty of future servicing fee income generated from the portfolios owned by Lehman-related entities, as well as its ability to diversify its customer base amid the current weak economic environment.

Strengths

- Experienced and stable senior and middle management.
- Advanced and efficient asset management systems, including Servicing Company Operating & Reporting Engine (SCORE), an integrated servicing system.
- Demonstrated stable performance in managing and collecting large NPL portfolios of Thai residential loans.

Challenges

- To maintain an adequate servicing portfolio and seasoned staff.
- To establish and implement a more localised framework for risk management, including internal audit.

Mitigants

- CAS has been involved in the servicing of residential NPL portfolios for almost ten years. Fitch views that, even if the ownership of the residential NPL portfolios changes following Lehman's bankruptcy filing, there is a fair possibility that the new owner of the portfolios will continue to use CAS's servicing function, given the company's servicing expertise, its familiarity with the portfolios, and the relative scarcity of capable third-party servicers in the local market.
- CAS has intensified its marketing and sales efforts, in close cooperation with its parent, Capital Services Holding Corporation (CSHC). Although current market conditions seem poor, the company aims to gain several new clients within 2009.

Rating

Residential Special Servicer RSS2(thai)^a

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

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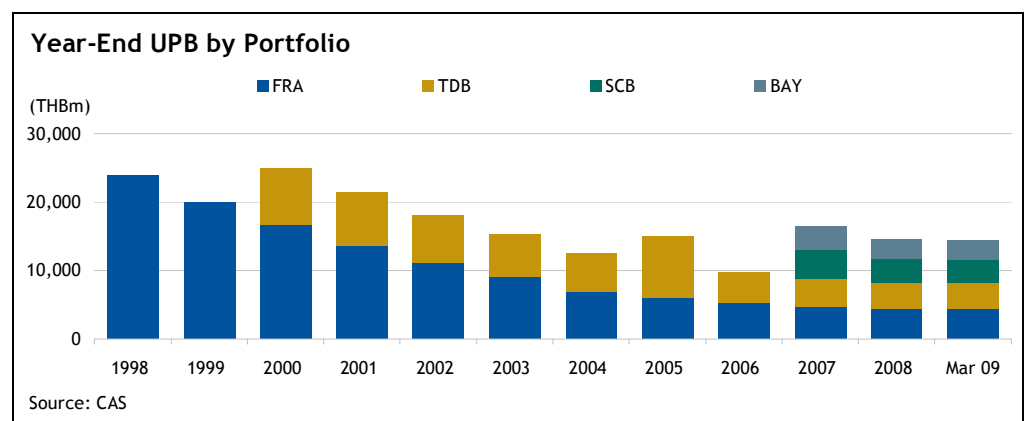
- *Thai Servicers Rating Criteria (June 2008)*
- *Capital Advisory Services (Thailand) Limited (September 2008)*
- *Capital Servicing Co., Ltd. (August 2009)*

- Following Lehman’s bankruptcy, the total number of staff has decreased significantly; however, CAS has been successful in retaining experienced management, including key middle managers and staff.
- In April 2009, CAS commenced its own risk management committee (Thailand Risk Management Committee - TRMC) with increased local staff participation. It has already produced the “2009 CAS Key Risk Status Summary”, identifying and addressing key risks and target schedules.

Company Overview

CAS was established in Thailand in 2000. The company is 49.9% owned by Capital Services Holding Corporation (CSHC) - a holding company offering real estate and loan asset management services through its subsidiaries - and 50.1% owned by local investors, including CAS employees. CAS is the second largest subsidiary of CSHC after Capital Servicing Co., Ltd (CSC) in Japan. Since its creation, CAS had been the main special servicer of residential NPLs for Lehman’s investment portfolios in Thailand. CAS was also providing an asset management service to part of Lehman’s Thai real estate investments (REI). Besides Thailand, Lehman was also a long-standing client of CSHC and its subsidiaries (Capital Services Group, CSG) in other markets.

CAS has been servicing four Thai residential NPL portfolios owned by Lehman’s subsidiaries, Global Thai Property Fund (GTPF) and Palarp Asset Management Company (PAMCO). CAS started as a servicing coordinator for the two Lehman’s residential NPL portfolios, which were acquired from the Financial Sector Restructuring Authority (FRA) and from DBS Thai Danu Bank (TDB) in 1998 and 2000. In 2002, CAS was named as a servicing coordinator (master servicer) for Lehman’s GT Stars II securitisation transaction, which was backed by these two residential NPL portfolios, and oversaw two sub-servicers, Siam Commercial Bank Plc (SCB) and Premier LMS Limited (PLMS). By 2006, CAS had assumed the full special servicer role for these two portfolios, replacing the sub-servicers. The securitised bonds backed by the portfolios were paid off in early 2006, one and a half years earlier than their legal final maturity. In late 2007, Lehman 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. With over 28,000 residential mortgages, the total unpaid principal balance (UPB) at acquisition of the four residential NPL portfolios under CAS’s management was THB40.2bn. As of March 2009, the UPB of the residential NPL portfolios reduced to THB14.3bn, involving almost 9,500 loans.



Corporate Strategy

Although CAS has been indicating its strategy to grow as an independent servicer in the Thai market, the revenue contribution from non-Lehman customers is still very low (accounting for only 7% of CAS’s service fee revenues in 2008). As a result, the bankruptcy of Lehman’s has adversely impacted CAS’s operation, although the

extent appears to be manageable. While Lehman is now a bankrupted entity, the owners of the Thai residential NPL portfolios, GTPF and PAMCO, are still solvent. The two entities are now administrated by Alvarez & Marsal (A&M), one of the court-appointed administrators of Lehman. A&M has been using CAS's servicing function for Lehman's Thai residential NPL portfolios, based on existing servicing agreements between CAS and GTPF, and CAS and PAMCO.

Nonetheless, the continuity of CAS's servicing fee revenue from Lehman's residential NPL portfolios will remain uncertain until Lehman's two Thai entities, or the portfolios, are sold to investors. Fitch views that there is a fair possibility that the new owner of the residential NPL portfolios may continue to use CAS's servicing function, given CAS's servicing expertise, its familiarity with the portfolios, and the relative scarcity of capable third-party servicers in the local market. However, should CAS be unable to secure new business, the discontinuity of its service to Lehman's residential NPL portfolios and REI is likely to have a significant impact on the company's financial position.

Following Lehman's bankruptcy, CAS intensified its efforts to pursue new third-party business and has also introduced cost-cutting measures. Over the past two years, CAS has expanded its business into providing accounting and asset management services for third parties' REI, and has worked with new NPL portfolio investors. Since late 2008, the company has conducted three due diligence services for an asset management company's NPL portfolio acquisitions. While this is clearly a positive move, the existing weak economic environment, both domestically and globally, is likely to limit a fast recovery in demand for servicing.

Financials

Despite an increase in revenue, CAS reported a net loss of THB9.3m in 2008, due to a significant rise in expenses. In 2008, CAS's total revenue increased by 4.5% yoy to THB215m, driven by higher asset management fees from residential NPL portfolios (given full year collections on the two new portfolios entrusted in late 2007). Nonetheless, its total expenses surged to THB224m in 2008, including a THB7.7m bad debt expense, mostly related to REI and structured loans services provided to Lehman, which remain unpaid. The company also posted a THB7.2m foreign exchange loss from accounts payable owed to CSC, due to the strong appreciation of the Japanese yen against the Thai baht during 2008.

Four-Year Financials

(THBm)	2005	2006	2007	2008
Total revenue	196.8	236.6	205.8	215.0
Net income	13.4	34.1	4.6	-9.3
Shareholders' equity	128.8	162.9	167.5	158.1
Equity-to-asset ratio, net of investors' cash (%)	61.3	62.3	64.3	58.9

Source: CAS

While revenue is likely to fall - in light of no new entrusted portfolios to date - CAS expects its financial performance to slightly improve in 2009, mainly on the back of lower personnel expenses (resulting from a reduction in headcount and no bonus payments) and other cost-control measures. Bad debt expense is expected to be lower, while the loss allocation from CSHC may continue in 2009. However, the outlook for CAS's financial performance in 2010 appears relatively vulnerable, dependent as it is on the continuation of existing servicing agreements and its ability to secure new clients.

As a pure servicing provider, CAS has no borrowings. At end-2008, its major liability items included THB78m due to customers (covered by CAS's restricted bank deposits) and THB75m of accounts payable owed to related companies. Excluding restricted bank deposits, CAS's equity-to-asset ratio was 59% at end-2008, falling

from 64% at end-2007 as a result of a net loss reported in 2008. Among the subsidiaries of CSHC, CAS is second only to CSC in Japan in terms of operational size. Given its relative importance in the group, it is likely that CAS will continue to receive financial support, where necessary. Nonetheless, the ability of CSHC to support CAS largely depends on the future financial performance of CSC. While CSC has also been affected by the bankruptcy of Lehman, the impact appears limited, due to the fact that it continues to service a majority of Lehman-related assets. For more details, please see Fitch's CMBS Servicer Report on CSC, "*Capital Servicing Co., Ltd.*", dated 4 August 2009.

CAS has two pending litigations; the more significant case relates to Lehman's structure loan servicing project. According to CAS management, it is likely to prevail in the case.

Staff and Training

Despite an increase in staff turnover after the Lehman incident in 2008 (partly due to the group's need to downsize in light of an expected decline in business volumes), CAS has been able to retain key managers and staff. There has been no major personnel change in the middle or upper portfolio management division since Fitch's initial review in May 2007. CAS's managing director has 25 years of relevant industry experience and eight years' tenure with CAS. Its head of portfolio management has 15 years of relevant industry experience and has been with CAS for eight years. The three middle managers (vice president level) in the portfolio management division have, on average, more than 10 years' industry experience and six years with the company. Almost 80% of its permanent staff has more than three years of service with the company.

The total number of permanent staff declined from 80 at end-2007 to 77 at end-2008. Numbers further decreased to 60 at end-August 2009, resulting from eight layoffs and nine resignations. Six of the layoffs and five of the resignations (including two asset managers) were staff in the portfolio management division, reducing the total number of staff in the division to 34 from 45, the remainder being in the REI and support divisions. Overall staff turnover for the portfolio management division increased to a high of 24% for the first eight months of 2009, as compared to 11% in 2008 and 10% in 2007. CAS's staff distribution, as of August 2009, is as follows:

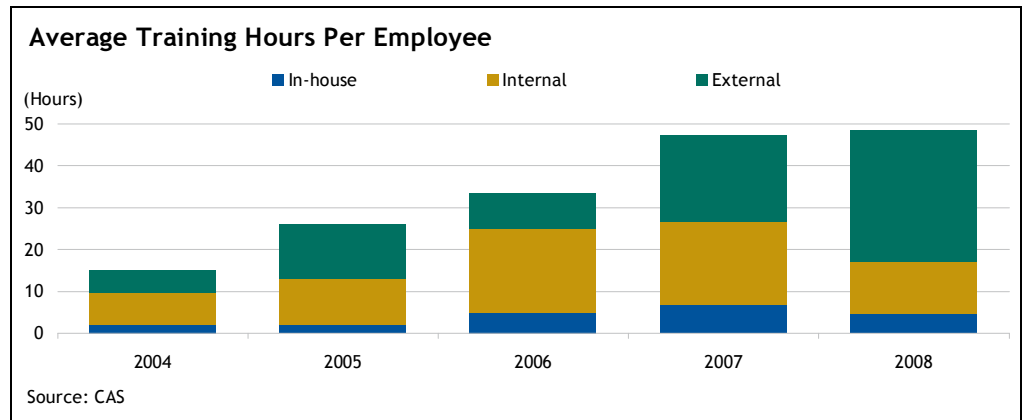
Function

As of August 2009

Managing director	1
Portfolio management	34
Support and control	17
Real estate investment	8
Total	60

Source: CAS

While key staff has been stable to date, there could be pressure on headcount in the portfolio management function in 2010 if CAS is not able to secure new business volumes and/or maintain existing servicing contracts.



In its continued efforts to retain key staff, the company has been conducting various employee relation programmes, training programmes, and internal promotions. CAS offers comprehensive training programmes to its staff, and the average actual training hours per employee have exceeded 40 hours since 2007. In 2008, about 40% of total training hours were for professional development, followed by business complement (28%) and leadership development (18%). Approximately 73% of staff received more than 40 training hours in 2008 (compared to 58% in 2007) and the average external training hours per employee increased to 31.5 (2007: 20.6 hours). For 2009, CAS has maintained its training per employee target at 40 hours, increasing its focus on professional development (50%). Fitch views CAS's employee training practices favorably, given its effort to ensure sufficient training amid a difficult operating environment.

Policies and Procedures/Internal Controls

Risk Management Structure

The current risk management framework at CAS has been based on the structure developed for CSG by the Risk Management Committee at CSHC (CSHC-RMC).

The objectives of CSHC-RMC include establishing, assessing, and overseeing company-level risk control and compliance. CSHC has established an internal audit department (IAD) at the holding company level, which independently performs internal audits on CSG companies, including CAS, by examining and evaluating - on a sample basis - the adequacy and effectiveness of controls.

CAS's risk management structure reflects guidance and oversight by CSHC-RMC in its main features, which include: a comprehensive set of written policies and procedures (P&Ps) which are readily available and updated as necessary; and internal audits of CSHC, conducted regularly by IAD, with a focus on the risk control structure. For recent internal audit results, please see the section *Internal Audit* below.

Several recent developments noted in this area are summarised below.

- In 2008, CAS conducted its first IT audit for SOX Compliance, via an IT security officer of CSHC.
- CAS has implemented reviews of the providers of major outsourced servicing functions, including deficiency claim servicing, legal documents custody, sales brokers, and property management agents for REO properties. Key testing areas include servicing agreements, servicing-related regulations, and privacy law compliance.
- In April 2009, the company established its own risk management committee, TRMC, to exclusively review CAS's risk management, with a focus on local operations. TRMC has already produced the "2009 CAS Key Risk Status

Summary” which identifies and addresses key risks and target schedules. TRMC meets monthly.

- TRMC also addressed the issue of whether to engage an external audit service provider, to focus on compliance with local servicing operations. However, partially as a result of budget constraints, it decided instead to assign more local staff to enhance the control environment at CAS.

Fitch believes that the above developments demonstrate CAS’s increased efforts to improve risk control by enhancing coverage to include local and operational compliance. The agency will closely monitor the effects these measures have on risk management performance - especially on its control environment - and the impact of increased recognition/participation by local staff.

Internal Audit

The 2008 regular internal audit was delayed, due to the unexpected departure of CSHC’s Director of Internal Audit (DIA), and Lehman’s bankruptcy. The new DIA-CSHC conducted the delayed 2008 audit in early 2009. The scope of the audit included the company-level control framework and client and corporate operations. The audit result confirmed remediation of 2007 deficiencies, with no exceptions or major deficiencies noted for 2008. Several findings were reported to the management of CAS and CSHC/CSC and these have already been addressed.

CAS’s first IT SOX audit was conducted by the Regional IT Security Officer in 2008. The audit was from the exclusive perspective of US SOX compliance for IT services. The findings have been addressed via the CAS/CSC IT department.

To ensure that CAS remains in control of all outsourced functions, the company conducted its first annual review of major sub-servicers and service providers (sub-servicers) in the summer of 2008. Staff in the relevant departments checked agreements and reviewed overall relationships from the standpoint of compliance; no significant findings were reported. The review results were communicated to the sub-servicers. CAS intends to continue the review annually, and Fitch believes that this will increase CAS’s grip on local compliance and enhance overall risk management.

External Audit

CAS is subject to both a stand-alone statutory audit and a US GAAP consolidated group audit at the parent-company level. Both audits are performed by Ernst & Young. CAS received an unqualified opinion on its stand-alone FY08 audit.

Technology

There has been no significant change to CAS’s technology strategy since Fitch’s last review. Since 2003, CAS has been using the group’s internally-developed loan servicing system, SCORE, as its main technology platform. SCORE is a web-based, fully-integrated servicing system, which offers a wide variety of servicing and reporting functions, including loan administration, asset management, cash management, reporting, system set-up, and maintenance, for all master, primary and special servicing needs. The system is equipped with the capability to function in a multi-lingual and multi currency environment.

With the support of CSG, CAS has continually upgraded its SCORE platform and its peripheral systems to increase productivity and remain competitive. In 2008, CSG established an entity in Singapore to develop and commercialise SCORE for third-party clients. SCORE has already been licensed to a number of European servicers. Fitch views SCORE as one of the most integrated servicing systems in the industry.

Besides SCORE, CAS has been using a locally-developed platform for real estate sales and marketing, which it recently re-branded “*Capital services Group-Thailand Real Estate Website*” or “www.capital.co.th” (from “PropertyChoice”). This

platform is actively used for the management and marketing of REO properties and auction sales purposes.

As SCORE was developed by CSC and is shared by all CSG companies, most of the support and improvements are undertaken by CSC in Tokyo. Within CAS, the number of IT staff has been reduced from three at end-2008 to one permanent staff and one part-time consultant (a former permanent IT staff member), partly due to the company's downsizing policy. The IT staff members at CAS work closely with CSC's IT team in almost all aspects of IT, including SCORE.

All SCORE data are stored at CSC's servers in Tokyo via a virtual private network (VPN) and backed up at two facilities. CSC's Osaka business continuity plan (BCP) site is connected by VPN to CSC's head office in Tokyo, and is used as one of the two data-backup facility sites. SCORE data is also backed up on a daily basis to tape and stored at an offsite storage facility.

All local server data at CAS is backed up via an automated tape back up system. The tapes are collected twice a week and stored at a contracted off-site storage facility.

Meanwhile, a disaster recovery test was conducted in May 2009; the result was satisfactory, although certain technical and administrative issues were noted that could help improve this area. CAS also successfully tested its emergency calling tree.

CAS's information security has been enhanced after an IT audit was performed in 2008. The change management process of the system was criticised by the audit, and this has now been addressed. The current average SCORE capacity usage is approximately 35%, falling from 52% in 2008, as new capacity was added in April 2009. The warning for capacity over-usage is set at 80%, and if this threshold is reached, a notification email will automatically be sent to CSC Tokyo's IT administrator. The database server capacity usage is 73% on average. The IT team will request an additional archive system to conserve space in the current server, if the average server capacity usage reaches 80%.

Special Servicing

The servicing functionalities are largely allocated to the portfolio management group, which consists of six groups (asset management, asset administration, operations, legal, valuation & property inspection, and marketing & sales); support functions are provided by the support & control group (HR, finance & accounting, management reporting, IT, and structured loan servicing). The head count of the portfolio management group, as of December 2008, was 45, almost unchanged from the previous year. However, this number decreased to 34 as of August 2009, as a result of resignations and layoffs made in accordance with expected business volume levels.

The work structure within the loan administration and default loan management areas remains substantially the same as in prior years. The asset management department (AMD), asset administration department (AAD) and operations department (OD) work together to manage and collect loans in the portfolios, supported by other teams. The AMD formulates strategies and conducts negotiations, while the AAD monitors and directs litigation and deficiency collections activities outsourced to outside law firms. OD coordinates mortgage transfers and releases.

All senior and middle managers have more than three years' tenure with CAS and substantial industry experience. In addition, the flat organisational structure allows managers effective oversight of day-to-day operations, while supporting inter-departmental collaboration.

CAS outsources several servicing functions to local sub-servicers and service providers. Such outsourced functions include: cash collections; deficiency claim

servicing; legal documents custody; and sales brokers and property management for REO properties. Vendors include commercial banks, law firms, accountants and servicers. Relevant teams in CAS monitor and coordinate with the vendors to maintain efficiency. To ensure that CAS maintains in control of the outsourced functions, the company conducted its first annual review of major sub-servicers and service providers in the summer of 2008 (please see section “Internal Audit” for more detail).

Loan Administration

The loan administration workflow at CAS remains substantially unchanged since Fitch’s last review. During the loan set-up process, CAS electronically uploads the relevant portfolio and collection data to SCORE. Original loan documents are received and deposited with outsourced custodians, 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 be put back to the sellers.

Thanks to SCORE and other IT systems, the majority of loan administration procedures at CAS are largely automated. However, there remain several areas where manual data input is required.

The loan set-up process took longer than expected when CAS acquired residential NPL portfolios in late 2007. This was due to the fact that a relevant agreement had not been finalised and additional time was needed for further seller and buyer negotiation. CAS has informed Fitch that system set-up will be completed in one week following receipt of finalised data. However, no new portfolios were acquired in 2008.

CAS has been servicing four Thai residential NPL portfolios owned by Lehman’s subsidiaries - namely GTPF and PAMCO - which entrusted four different portfolios (FRA, TDB, SCB and BAY portfolios) separately to CAS for management and collection. The following table shows the transition of each portfolio (which have effectively been under CAS management since 2000).

Year-End UPB by Portfolio

(THBm)

Year	Portfolio								Total portfolio	
	FRA		TDB		SCB		BAY		No. of loans	UPB
	No. of loans	UPB	No. of loans	UPB	No. of loans	UPB	No. of loans	UPB		
2000	11,930	16,599	6,295	8,275					18,225	24,874
2001	9,810	13,595	5,873	7,764					15,683	21,359
2002	8,127	11,055	5,301	6,982					13,428	18,037
2003	6,620	9,012	4,501	6,176					11,121	15,188
2004	5,943	6,955	4,263	5,619					10,206	12,574
2005	4,950	5,937	3,641	8,987					8,591	14,924
2006	4,303	5,311	3,324	4,377					7,627	9,688
2007	3,758	4,691	3,044	4,072	1,509	4,330	2,482	3,473	10,793	16,566
2008	3,425	4,349	2,867	3,870	1,316	3,468	2,037	2,886	9,645	14,573
Mar 09	3,366	4,311	2,838	3,845	1,278	3,388	1,983	2,798	9,465	14,372

Source: CAS

Default Management

CAS’s basic resolution strategy for defaulted residential loans remains unchanged; to conduct litigation in parallel with negotiation for resolution. Litigation is usually used in parallel with settlement negotiation because it normally takes considerable time (typically four years or more) to obtain permission for foreclosure; therefore, there is a need to allow for enough lead time. Furthermore, it is expected that litigation will favourably influence the borrower negotiation.

Irrespective of any pending litigation, the company continues negotiating with the

borrower for resolution. Asset managers (AM) in the AMD maintain contact with borrowers and work out loans according to business plans; such plans are based on an analysis of factors such as the borrower's financial position, willingness, collateral position, collateral value, and status of litigation proceeding.

CAS's approach to NPL resolution includes discounted payoffs, loan modification, loan sale, deed-in-lieu/voluntary surrender of loan collateral, and guarantee release. When a litigation judgment is rendered in its favour, the company normally begins the foreclosure sale process, unless resolution is attained through negotiation.

As of August 2009, the AMD consisted of the team manager, seven AMs, two skip tracers, and an administrator. The team manager monitors all AMs through regular internal meetings and SCORE logs to evaluate their individual performances. The team manager assigns loans to AMs, and sets up individual collection targets. A weekly team meeting is held to share ideas and discuss problems and solutions.

Loans are allocated to AMs on an equitable distribution basis by the manager of the AMD, based on features such as: whether the borrower has attempted to resolve the delinquency; whether the borrower is contactable; the litigation status; and the geographical distributions of borrowers. The manager periodically reshuffles assigned loans to improve collection efficiency.

In March 2009, each AM had approximately 350 residential loans assigned to them, including about 60 post auction loans, which are normally inactive. Fitch believes this case load is manageable, since only a limited number of loans are in active negotiation at one time (functions such as borrower investigation and collateral maintenance are performed elsewhere, allowing AMs more time for negotiation).

Based on the results of the asset analysis and skip tracing, AMs conduct borrower negotiations in accordance with established contact guidelines. The guidelines dictate frequency of calls to be made based on the negotiation phase, which is derived from the past behaviour and performance of the borrower (eg weekly for borrowers that have made an offer for resolution, monthly for those that have not). Contact frequency and negotiation content are closely monitored by the department manager and strategy is adjusted to reflect recent changes and advice from managers.

The AAD consists of the team manager and five staff, as of August 2009; it monitors and directs litigation proceedings and deficiency claim collections that have been outsourced to external law firms. As of March 2009, some 2,500 loans (about 25% of loans in the total portfolio) were in various stages of the litigation process, of which more than 90% were in the post-judgment stage.

In Fitch's view, CAS's collection efficiency is enhanced by the internal competitive situation that exists between the AMD and the AAD. Staff in both departments exchange relevant information regarding the status of litigations/negotiations in order to improve their respective standing and attain their performance targets. This is considered an important factor that contributes to enhanced loss mitigation. Fitch believes the division of the functions, as well as internal competition and collaboration, are key to efficient collection performance at CAS.

In addition to the AMD and the AAD, CAS also has a properties sales/marketing department (MSD) which conducts sales promotion activities for the properties obtained as REO. The MSD manages the marketing process and conducts in-house and external sales promotions. It regularly uses media such as the "*Capital Services Group-Thailand Real Estate Website*", a website for property sales supported by an internally developed system. The MSD also appraises property value and controls property maintenance through outsourced "managing brokers" that conduct property maintenance services.

The basic procedures for CAS's collateral and REO property management remain

unchanged since the last review. The valuation and property inspection department (VPID) is in charge of property maintenance, with most of the inspection/renovation field work outsourced to Managing Brokers. CAS checked the reliability of these Managing Brokers in 2008 as part of its annual review of sub-servicers and service providers; no significant issues were found.

Over all, CAS continued to collect efficiently in 2008, despite the general downturn in the Thai economy and an increasing amount of difficult-to-collect loans remaining in the portfolio. Fitch believes that, even though a substantial amount of fresh loans were added in late 2007, this continued efficiency was mainly attributable to the accumulated expertise of the seasoned staff.

Experienced senior and middle managers continue to communicate with AMs as well as among themselves, to maintain the efficient collection of existing portfolios. Where required, senior managers intervene in the collection process, helping to resolve any issues that exist between departments and coordinating with investors.

In early 2009, management initiated a comprehensive review of collateral values to reflect the recent economic downturn; CAS accordingly incorporated the results in its books. Fitch views this as an important step towards greater loss-mitigation and improved collection efficiency. The agency believes this also represents management's efficient and adequate process control.

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