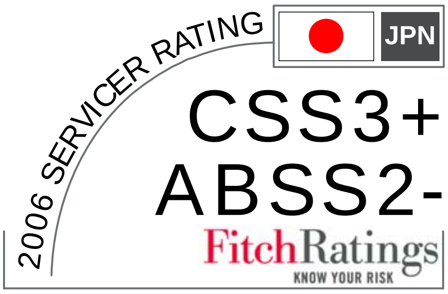
CMBS/ABS/Japan
Servicer Report

Nissin Servicer Co., Ltd.

Ratings



Commercial Mortgage Special Servicer..................................CSS3+ (JPN)*
Asset-Backed Special Servicer................................ABSS2- (JPN)*

* Indicates it is a rating of the Japanese servicer

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■ Summary

Fitch Ratings has affirmed the commercial mortgage special servicer rating and the asset-backed special servicer rating of Nissin Servicer Co., Ltd.("Nissin Servicer") at 'CSS3+ (JPN)' and 'ABSS2- (JPN)', respectively.

These ratings reflect Nissin Servicer's seasoned management and staff, various forms of support from its parent company, Nissin Co., Ltd. ("Nissin"), an increase in departments and staff to cope with rapidly growing business volumes as well as an expansion of its funding sources.

Nissin Servicer, which is a 75%-owned subsidiary of Nissin, a major financial company in Japan, has been uniquely listed on the MOTHERS ("Market of the High-Growth and Emerging Stocks") on the Tokyo Stock Exchange ("TSE") since September 2004. The servicer was established in July 2001 and licensed by the Ministry of Justice ("MoJ") in October of the same year to handle both unsecured and secured loans. Cumulatively, since its inception through to March 2005, Nissin Servicer has serviced more than 23,000 loans with an aggregate unpaid principal balance ("UPB") of approximately JPY1,787 billion.

The servicer has increased the purchase of secured loans, especially in the past few years. Fitch continues to monitor how Nissin Servicer will cope with the burden of risk and a substantial increase in workload in an increasingly competitive and changing market environment.

■ Strengths

- Experienced management and collection staff.
- Various types of support from the parent company.
- Stable funding sources.
- Broadened organisational structure to deal with increasing operational volume.

■ Concerns

- Lack of systemised training programmes.
- Relatively high staff turnover.
- Price risk increasing in tandem with rapid growth in purchased loans.
- Protracted collection period and rising loan purchase price.

■ Mitigants

- Weekly training at the management department in addition to training for newly hired employees.
- Stable employment of management and senior executives.
- Rigid allowance for loan losses.
- Improved due diligence as a result of the employment of experienced staff.

Company Overview

In July 2001, Nissin Servicer was founded as a wholly-owned subsidiary of Nissin, a major finance company listed on the first section of the TSE and the New York Stock Exchange. It commenced operations in October of the same year after obtaining a licence from MoJ. In September 2004, the servicer was listed on MOTHERS of the TSE, resulting in a reduction in shareholding of its parent company to 75% from 100%. Since inception to end-March 2005, the company has serviced 23,765 loans, with an accumulated UPB of JPY1,787.5bn, of which 13.6% were third-party loans and 86.4% purchased loans. As of end-March 2005, its parent company, Nissin had posted a loan book of JPY145.2bn and an operating profit of JPY7.5bn.

From inception, Nissin Servicer has mainly handled unsecured corporate loans, but has recently recruited staff experienced in the real estate business and has increased the volume of its commercial mortgage loans. Nevertheless, at end-March 2005, the cumulative portfolio since its inception was broken down into unsecured loans of c.92% and commercial-mortgage loans of c.8%.

At end-March 2005, the accumulated loan balance handled by the servicer was JPY1,578bn by UPB, of which 91% was unsecured loans and 9% secured loans. On a purchase price basis, unsecured loans accounted for 71% and secured loans 29%. The management department handles collections on unsecured loans and loans on which the collateral is deemed to have no residual value and from which the creditors cannot obtain collections or credit ("loans without collateral value"). The average purchase price per loan was about JPY0.5m for unsecured loans and about JPY5.5m for secured loans. The servicer purchases loans mainly from mega banks, regional banks and foreign investors.

The servicer set up an operation planning department in April 2005 to mitigate a fast increasing operational workload and improved the efficiency of entering borrowers' information data into the system.

Nissin Servicer intends to concentrate on purchasing non-performing commercial mortgage loans and real estate on its own account. Servicing for third parties is basically limited to partners in joint investments. The servicer also signed a joint venture agreement with a subsidiary of a Chinese government-owned bank to invest in non-performing loans in China.

Financial Overview

The servicer has remarkable financial strength, including support from its parent company Nissin, in maintaining high profitability due to high recovery of purchased loans, diversified funding sources and a reasonable capital-adequacy ratio.

Following the rapid accumulation of purchased loans, revenue has doubled year by year, leading to continued profit growth even after deduction of allowances and selling and administrative expenses. Return on assets ("ROA") was 6.2% at end-March 2004, up to 8.1% at end-March 2005, and although declining to 7.1% at end-March 2006, still remained high. The six-month net income at end-September 2005 was higher than for the 12-month period ending March 2005, thanks to gains on the sale of properties.

Although the recovery target set by Nissin is 200% (or an internal rate of return ("IRR") of 45%) of the purchase price over five years, the recovery rate has declined slightly due to recent intensifying competition.

At end-September 2005, the servicer had access to multiple lenders including a major bank and many regional banks. Its long-term debt accounted for 90% of total debt and short-term debt 10%. Due to a rapid growth of purchased loans, cash and liquid assets failed to cover short-term debt, but aggregated commitment lines from multiple financial institutions were enough to cover this.

Fitch considers that Nissin Servicer will receive adequate support from its parent company as the need arises.

Financials

FYE (JPYm)	Mar 03	Mar 04	Mar 05	Sep 05
Operating Revenue	2,859	4,599	10,931	4,730
Recurring Profit	309	751	1,651	607
Purchase Loan Assets	3,078	5,057	11,600	15,032
Retained Earnings	134	519	972	685

Source: Nissin Servicer Co, Ltd.
NB The Sep 05 figures are for six months to stated date while other data is for full year

Staffing and Training

As of end-September 2005, Nissin Servicer had a total of 108 employees, an increase of 41 on a year earlier (67 at end-September 2004): broken down into 77 full-time employees (54), 23 temporary staff (13), and eight others.

The employees are distributed among each department as follows:

Staff Breakdown by Department

	(No.)
Corporate Planning	5
Administration	8
Business Development	2
Sourcing	11
Asset Management	28
Management	31
Operation Planning	14
Others	1

Source: Nissin Servicer Co, Ltd.
NB Excludes five directors and three auditors

The five-member management team remains unchanged, consisting of three alumni from Nissin, the parent company, one from the real estate finance industry and one lawyer. As they have sufficient experience of both corporate finance and real estate finance, they are capable of handling a wide range of servicing operations. The average experience in related industries was 29 years and the average tenure with the company is three years, while Nissin's alumni have, on average, over 30 years of tenure at the parent. Managerial experience in the industry is also high at an average of more than 17 years. Although the company has a relatively high overall staff turnover rate of 15%, stable management makes the operation run smoothly and soundly.

Nissin Servicer has an annual salary system for all employees, composed of guaranteed salaries and performance bonuses. Guaranteed salaries are decided by a matrix on the basis of individual skills. Performance bonuses are determined by personal and corporate performance in each fiscal year.

Personnel performance is reviewed biannually. The process of the review includes an interactive communication form on which the individual to be appraised completes details of semi-annual goals, performance, self-evaluation, transfer requests and other requests. Following completion of the form, an interview takes place with a reviewer. Additionally, the performance of each individual engaged in recovery is closely monitored on a daily basis. The management department also has its own incentive pay structure, which is based on the number of cases settled and the performance in recovered amounts.

Two training programmes are available to employees:

- One is company-wide and based on the training courses provided by the Servicers' Association of Japan. Training sessions are presented by employees who have participated in the programmes regularly held by the Servicers' Association. This training is presented to all staff in the relevant sections. Depending on the subject, training reports will be circulated instead of providing training sessions.
- Training programmes within the management department, which includes all department staff during regular Monday meetings, last for about 30 minutes. This programme has been provided for the past year.

New hires are provided with a very brief orientation session referring to the company's background, the organisation and working rules. Except for the abovementioned training programmes within the management department, there are no other systematic training programmes. Since the servicer employs staff with experience at the parent company, or in the real estate business, there is no specific training programme requirement. However, as such training may be required in accordance with an increasing volume and a variety of serviced loans, Fitch will continue to monitor developments.

■ Procedures and Controls

Nissin Servicer's internal regulations are divided into rules and procedural manuals. Rules prepared by the general administration department cover company-wide issues. They are stored in a shared folder on the LAN and are made available to all staff. Procedural manuals, which are produced and managed by each department, are stored in each department's folder on the LAN and all staff have access to them. Hard copies of regulations and procedural manuals are also distributed to all staff.

Internal Audit

The internal auditor, which has six years of audit experience at a major credit company, previously worked in the business planning department. However, in October 2005, the internal audit department was newly established to make it independent from other departments. The general manager of the internal audit department creates an annual audit programme, with monthly planning, to cover matters such as audit policies, dates, departments and names of the assistants of the auditor for approval by the company president. In addition to regular audits, additional audits are carried out as necessary.

The general manager of the internal audit department produces audit reports, highlights irregularities and provides guidance within three weeks of each audit. The audit reports are submitted to the president. At the same time, the general manager also creates an "instruction for improvement" to highlight any irregularities, which must also be approved by the president. After the approval is received, the general manager forwards the request to the head of the audited department to make the improvements by handing over the "directions for improvement". Subsequently, the relevant head prepares a report including items to be improved and a schedule for completion, which is again submitted to the president.

In addition to internal audits, a full-time auditor reviews various reports, minutes of the pricing committee, rules and manuals, as well as other documentation quarterly. Cash balances are checked twice a day, i.e. at the beginning and end of each day.

External Audit

In October 2005, MoJ conducted a second on-site audit inspection of the servicer. Two irregularities on operational procedures were found, but the servicer promptly resolved these. The servicer is also audited by its parent company annually. There were no significant findings at the last audit.

As the servicer became a listed company, audits by the parent company were withdrawn. However, since the parent company has been listed on the New York Stock Exchange, it will review the results of the servicer's internal audits, based on the requirements of the Sarbanes-Oxley Act. Sanyu, an independent auditing firm, performed an audit of the servicer for FYE05 and found no specific irregularities.

Fitch believes that Nissin has been implementing various measures to reduce operational risks such as reinforcing the internal audit process and requiring additional audits. There is room to improve the process by providing detailed manuals and rules to cope with the environment for its employees. Fitch continues to monitor these areas.

■ Technology

Nissin Servicer currently utilises three independent systems; namely an asset management system, a collateral management system and an accounting system.

Since October 2004, Total Collection System ("TCS") has been fully operational as an asset management system. TCS can handle various reporting forms flexibly, account for cost of purchased loans speedily, strengthen security and streamline loan data registration. Improving security in connection with recording of the access log is under consideration to cope with the Privacy Act. The servicer also adopts its proprietary File Maker-based system to manage collateralised real estate.

Access to the systems is protected by ID numbers and passwords, and access to the database is limited to authorised users. Important documents, including original agreements and notices of loan transfer, are scanned and stored electronically, and the original documents are held in an external warehouse.

Data for all the systems are backed up daily. The back-up tapes are stored in a fire-proof safe in the office for a week, and the weekly data is then transferred to an external speciality warehouse. The server is also equipped with uninterrupted power supply ("UPS", a short-term battery back-up). However, a contingency plan is under consideration.

The full-time operational planning department is responsible for IT system maintenance, with its staff having on average about 6.5 years of related experience. The servicer has a maintenance agreement with a vendor for regular inspections of the TCS server. Servers currently operate at an average of less than 50% of capacity, and current capacity is considered sufficient. The utilisation rate of the scanning server is 27%, and that of the File Maker server, consolidated with the file server is less than 1%.

The asset management and collateral management systems are currently on independent platforms. However, when the volume of commercial mortgage loans grows, operational efficiency should be improved by integrating both systems.

■ Servicing/Loan Administration

New Loan Set-Up

Nissin Servicer's operation planning department creates an Excel sheet and "basic client data sheet" before registration (bank account, pool name, pool details, purchase price, etc) based on a detailed information package received from the asset management department. The operation planning department staff enter this data into the asset management system.

The management department receives loan transfer agreements and original loan documents, which it scans and then stores in an offsite warehouse, while the department reconciles data in the loan transfer agreement with that entered into the asset management system and "basic client data sheet".

All purchased loans are segregated between commercial mortgage loans, which will be handled by the asset management department and unsecured loans, which will be handled by the management department.

The asset management and the management departments, respectively, prepare and mail both transfer notices for purchased loans, and servicing notices for third-party loans.

Previously, it often took several months to complete new loan set-up. However, due to the recent increasing volumes since April 2005, the operation planning section in the asset management department became an independent department with extra staff to speed up the process.

Cash Management/Reporting

Multiple bank accounts are opened for each client. The servicer confirms payment notice by fax, "answer service" or electronic banking service. The payment of expenses relating to collections is controlled by different levels of authority depending on the amounts.

As Nissin Servicer is only entrusted by the joint investment partners, it provides reports to only limited investors. Monthly investor reports contain not only general information, but also details of collection activities, cash movements, monthly loan balances, disposal of collateral, progress of auctions, recovery plans and yield calculations. The reports are detailed and user friendly.

After receiving payment notices from banks, the general administration department produces a payment list and then circulates this to the asset management and management department. Staff in both the asset management and management department confirm whether or not expected payments have been credited from the payment list.

The general administration department carries out inputs of the received amount into the asset management system calculating either the amortised cost method or the collected cost method. Payment details and a daily report are also produced and circulated. At the end of each month, the general administration department records the monthly aggregated costs in the accounting system.

Fitch believes that the servicer's asset management operations work effectively, but will continue to monitor how it will cope with expanding business volume.

■ Servicing/Defaulted Loans

Unsecured Loans

The management department deals with managing and collecting unsecured corporate loans, loans after collateral disposition ("*ponkasu*") and secured loans without collateral value remaining. The management department also attempts to locate missing obligors, sets up loans and manages important documents. At the end of March 2005, the portfolio balance was JPY1,158bn in UPB. Unsecured loans (including guaranteed) accounted for about 90% and secured loans about 10%.

At end-September 2005, the department consisted of 31 employees: one general manager, three managers, 20 full-time staff, one counsel, one contract member of staff and five temporary staff. The department has three middle managers (including general managers) with an average of 16 years experience in the related industry and one year's tenure at the company. There are also 16 collectors in the department who have, on average, 15 years' experience in the related industry and one year's tenure with the company.

Of the loans handled by the management department, 80% are to corporate borrowers and, accordingly, the loan amount per borrower on an UPB basis is relatively larger than with other servicers that collect small card loans and so on.

Nissin Servicer ranks loans on a scale of 1-11, from performing to uncollectible loans on purchase. According to each rank, the servicer uses a specific percentage of the unpaid loan balance as the basic pricing data. The servicer caps the purchase price to a certain level to prevent it from exceeding a reasonable limit.

The loan loss allowance for unsecured loans/loans without collateral value consists of two types of provisions: general and individual reserves. The general reserve is calculated as an agreed percentage of the weighted average of the purchased loan balance. The reserve for individual loans is calculated in accordance with a classification code that defines the collectable amount. The rate of individual reserves is set at 100% for both contactable obligors who have not paid for more than two years, and un-contactable obligors who have not made a payment for more than a year.

The basic procedures for collecting unsecured loans/loans without collateral value are as follow:

- Based on data in the asset management system, collectors negotiate with borrowers for recovery.
- Collectors propose a repayment schedule after obtaining approval from the general manager of the management department.
- Settlement conditions are negotiated, to which all parties must agree.
- The settlement agreement is prepared and concluded.
- Payments are made under the settlement conditions.

The servicer negotiates and encourages obligors to make a lump sum payment. However, in recent years, obligors tend to prefer to pay by instalments, which has led to longer-term recovery periods. About 1% of debtors that pay by instalments, lapse into delinquency status again and the servicer does not regard this as a specific problem.

As of end-September 2005, each collector in the management department (including middle managers) deals with 200-300 obligors. Nissin Servicer expects that an additional four to five collectors will have to be hired to cope with the increasing volumes.

While separate data for secured and unsecured loans are not available, between inception and end-March 2005, the servicer collected a cumulative total of about JPY1.9bn. Disposals of the collateral property accounted for 7% of this amount, while payment by obligors, guarantors or third parties accounted for 89%. Collections for FYE05 totalled JPY5.5bn, 7% of which followed disposal of collateral property, and 91% of payments by obligors. Even in the case of secured loans, where disposal was previously the most usual route for collection, the increase in sub-performing loans has made collections through obligors' payments the most common method.

When the secured and unsecured loan collections are combined, Nissin Servicer has achieved higher-than-expected recovery performances every year, although the excess margin has consistently decreased. Therefore, in FYE06, the company slightly reduced its benchmark for expected recovery amounts. Fitch considers that the recovery rate (collected amount/purchase price) of unsecured loans/loans without collateral value is above the market average.

On Mondays, each collector in the management department submits an expected weekly payment schedule, which is ranked in terms of the obligor's payment reliability. Management assesses the performance of each individual collector daily, by checking this expected payment schedule against the payment list created by the general administration department.

The recovery manuals clearly and specifically define "musts" and "must nots" in collection activities. The servicer outsources sending the receipts for borrowers that have a direct debit arrangement.

Commercial Mortgage Loans

The asset management department is responsible for servicing commercial mortgage loans, handling due diligence for purchases and communicating with joint investors. As of end-September 2005, the department had a total of 28 staff including a general manager: one general manager, one deputy-general-manager, three managers, two deputy managers, 10 full-time employees, one counsel, three contract staff and seven temporary staff. The department staff have, on average, about 16 years of experience in the related industry with 1.5 years of tenure at the company. The managers and their deputies have, on average, about 18 years of experience in the related industry and two years of tenure at the servicer. The department has four asset managers, whose average experience in the related industry is about 18 years and average tenure at the servicer is two years.

At October 2005, the collateralised property was broken down into single family residence (25%), land (29%), multi-family residence (15%), and others (31%). Geographically, Kanto (excluding Tokyo) accounted for 33%, Tokyo 15%, Kinki (excluding Osaka) 11% and Osaka 12%, with 29% in various other locations.

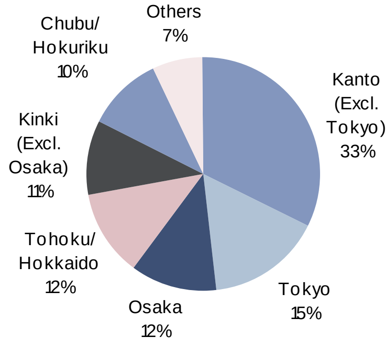
Prior to purchasing a commercial mortgage loan, the servicer conducts due diligence of the collateralised real estate and evaluates the asset value based on an assumed business plan. Following this evaluation, the pricing committee, consisting of all the directors and the general manager of the asset management department, sets a purchase price.

Within 90 days of the purchase of a loan, the servicer reviews the business plan prepared at the time of pricing. Based on more current information gained through contacts with the borrower, and the status of the collateralised property, the business plan, which is otherwise reviewed annually, is revised whenever warranted. The business plan of large obligors is monitored monthly by the general manager.

Nissin Servicer makes reasonable reserves for possible loan losses on purchased commercial mortgage loans on the basis of collateral value and the obligor's financial situation.

Each asset manager is responsible for about 150 debtors, of which only a half or a third requires constant maintenance. Fitch considers that the number of debtors per collector is manageable.

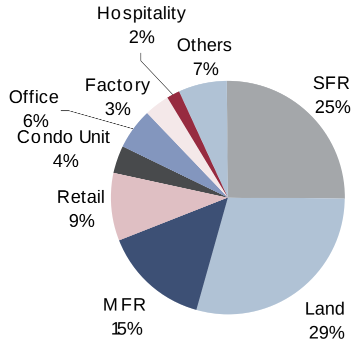
Geographic Breakdown of Collateral
October 2005



Source: Nissin Servicer Co., Ltd.

Within the asset management department, a three-member team deals with all legal issues. The head of this team spent eight years as a legal clerk and the two other team members have experience at a bank and a leasing company, respectively. At end-March 2005, cumulative collected amounts through legal procedures, including bankruptcy cases, totalled JPY764m or only about 4% of the total collected amount of JPY18.9bn during the same period.

Breakdown of Collateral
October 2005



Source: Nissin Servicer Co., Ltd.

At end-March 2005, cumulative collected amounts through workout/resolution totalled about JPY18.9bn, of which secured loans accounted for 55%. Payments by obligors or guarantors accounted for 83% (76% at end-March 2004) of recovery on commercial mortgage loans and disposal of collateral, such as foreclosure or voluntary sale, 17% (24% at end-March 2004). Even for secured loans, the majority of recoveries are made through borrowers' payments, and this trend is increasing. This is partly because collateral without residual value has grown, and sub-performing loans have increased, leading to continued payment.

The servicer handles real estate-owned ("REO") assets actively. Although there is no transaction currently under management, it owns a consolidated real estate subsidiary that has a property agent licence. The servicer is also aggressively engaged in purchasing loans for corporate revitalisation. Although there are various means for corporate revitalisation, the servicer targets those cases where borrowers' surplus property can be disposed of. Nissin Servicer diversifies profit by active investment in real estate, which is not the subject of this rating.

The servicer signs confidentiality agreements with all property agents once their market standing has been studied. The servicer also monitors any differences between the expected scenario and performance, ability to collect information, negotiating power and any illegal activities of property agents.

Nissin Servicer's asset management operations work effectively on current volumes. Fitch will continue to monitor its efforts to manage risk controls in the context of growing business volumes.