

Leases

1. Outline of Claims Subject to the Securitization

Lease receivables are originated from a contract under which a lease company purchases properties to be used by a client company, such as information equipment, industrial machinery, machine tools, medical devices, and in-store facilities, and leases them to said company. One particular feature of these receivables is that, unlike installment receivables, their term is generally long. There are finance leases and operating leases, and this document covers the former. Those involving vehicle leasing are treated separately as auto lease receivables (Please refer to “Automobile Leases”).

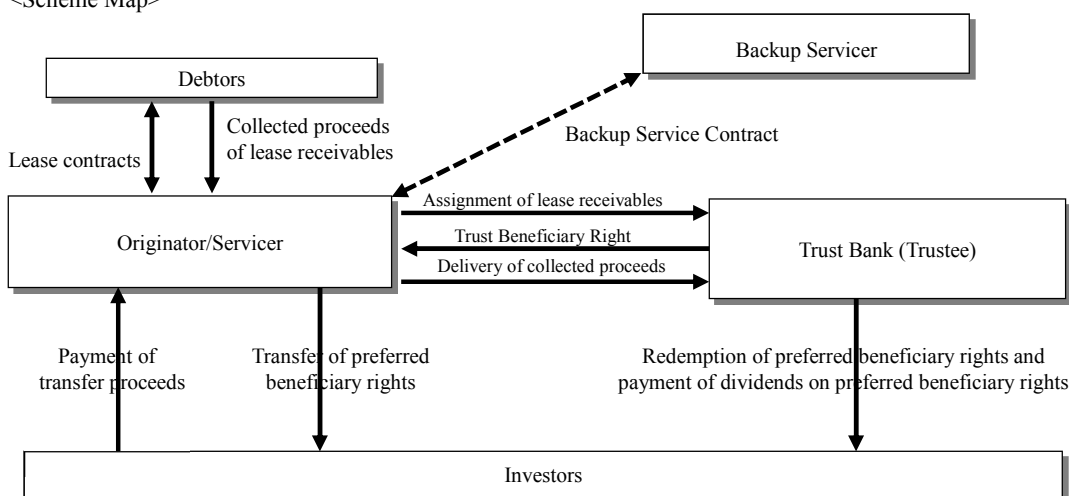
2. Outline of the General Scheme (in case of the Trust Method)

- (1) A lease company being the originator assigns its lease receivables from numerous underlying debtors to a trust bank (trustee) to raise funds¹.
- (2) The originator assigns its lease receivables in trust to the trustee and the trustee issues preferred beneficiary interests and subordinated beneficiary interests.
- (3) The originator retains the subordinated beneficiary interests and transfers the preferred beneficiary interests to investors to raise funds.
- (4) When assigning the lease receivables in trust, the originator fulfills the requirements for perfection against third parties by making the registration as stipulated in Article 4, Paragraph 1 of Act on Special Provisions, etc. of the Civil Code Concerning the Perfection Requirements for the Assignment of Movable and Claims. The originator’s fulfillment of the requirements for perfection against debtors will be reserved until any event of the servicer’s default occurs.
- (5) Based on the entrustment operation commission contract, the originator first acts as the servicer for collecting lease receivables, and delivers (pays) the collected proceeds to the trustee every month. During the collection period, the trustee redeems the principals of and pays the dividends on preferred beneficiary interests using the collected proceeds.
- (6) In case that the originator fails to pursue normal servicing operations, the backup servicer stands by from the very beginning².

¹ In the case where a lease company securitizes its retaining claims for the proceeds of installment sales to corporate customers only or in the case where a lease company securitizes its retaining claims for the proceeds of installment sales to corporate collectively with lease receivables, the same credit rating method of lease receivables is applied to either case.

² There are some projects in which no backup servicer is arranged at the beginning.

<Scheme Map>

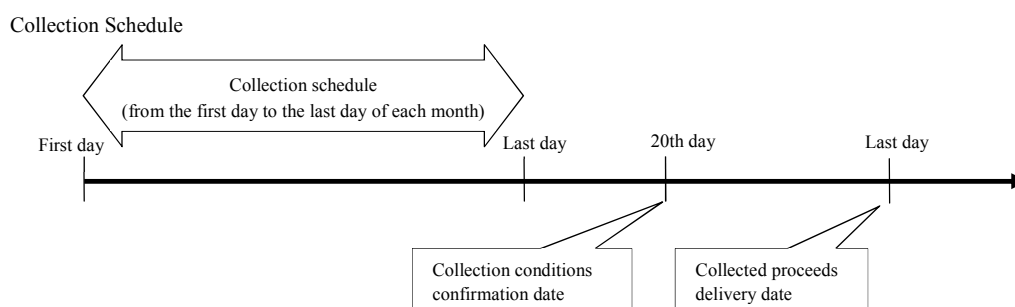


In recent days, cases of “Trust ABL Scheme” are increasing, in which upon entrustment of securitizing assets, a total or a partial amount of the preferred beneficiary interests shall be repaid with the proceeds of the borrowing against the trust assets, and especially such cases adopted so-called “One Person Beneficiary Scheme”, consisting from a ABL (Asset Backed Loan) and a subordinated beneficially interests, are increasing.

3. General Waterfalls

(1) Collection of receivables from debtors

The originator credits the proceeds of the receivables in trust as collected from the first day to the last day of each month at the end of the next month to the account opened in the name of the trustee for the delivery of the collected proceeds.



(2) Normal time

The trustee pays various charges including taxes and public charges as well as trust fees from the interest equivalent amount out of the collected proceeds received from the originator. From the remaining amount, the trustee pays the dividends on preferred beneficiary interests. With the residual

amount in full, the trustee pays the dividends on subordinated beneficiary interests. The trustee repays the amount scheduled for the redemption of principals of the preferred beneficiary interests from the principal equivalent amount out of the collected proceeds. With the remaining amount, the trustee redeems the principals of subordinated beneficiary interests. However, a minimum retention amount is set for the principals of subordinated beneficiary interests, so the trustee retains the principals of the subordinated beneficiary rights equal to or more than a certain amount of money. The residual amount of the collected proceeds unused for the redemption of principals of subordinated beneficiary interests is reserved and it is allowed to make the amount of money available as the resources for the redemption of the principals of subordinated beneficiary interests in the next month and thereafter.

(3) Accelerated redemption time

The trustee pays various charges including taxes and public charges as well as trust fees from the interest equivalent amount out of the collected proceeds received from the originator. From the remaining amount, the trustee pays the dividends on preferred beneficiary interests. From the principal equivalent amount and the interest equivalent amount after having paid the dividends on preferred beneficiary interests, the trustee redeems the principals of preferred beneficiary interests. Until all preferred beneficiary rights are redeemed in full, any payment of the dividends on subordinated beneficiary interests and any redemption of the principals of subordinated beneficiary interests will be suspended.

4. Risk Assessment for the Securitization of Lease Receivables

(1) Risk of delay in collection of the proceeds from the underlying receivables

In securitized products, any redemption of principals and any payment of interest (dividends) on a due date as scheduled entirely depends on the collection conditions of proceeds from individual debtors and so shortage of funds may possibly occurs on a temporary basis and no payment of principals and interest may be made on a due date as scheduled depending on the delinquent conditions of individual debtors and on the conditions of pursuing collection operations by the servicer.

In response to such risk, liquidity enhancement measures with cash reserves and credit enhancement measures by a senior-subordinated structure are taken.

(2) Risk involved in defaults of individual debtors

If default rate of asset pool emerges in securitized products at a rate equal to or more than a certain level, the principals of the securitized products may possibly be damaged by such defaults.

Against this risk, credit enhancement is made by a senior-subordinated structure corresponding to individual credit ratings. (See Section 4 Calculation of an amount of money necessary for the subordination.)

(3) Risk involved in the originator's bankruptcy, etc.

In the originator's bankruptcy, civil rehabilitation, or corporate rehabilitation proceedings, there is a risk that the relevant court or receiver (administrator) may judge the claims transferred by securitization as the claims or the security rights belonging to the bankrupt estate, the rehabilitation debtor's property, or the rehabilitation corporate property and as the claims or security rights subject to the bankruptcy, civil rehabilitation, or corporate rehabilitation proceedings. (This is the so called problem "true sale".)

Major focal points in terms of credit ratings are cited below:

- i. It has already been confirmed whether or not the originator has an intention of transferring its receivables. The originator's intention of transferring its receivables has already been approved according to the internal procedures.
- ii. The originator has no control rights, except that it has the rights and obligations as the subordinated beneficiary and as the servicer.
- iii. Except in the case of occurrence of certain events³, the originator has neither obligation nor right to repurchase the transferred receivables.
- iv. With regard to the transfer of the receivables in trust from the originator to the trustee, the requirements for perfection against third parties have been fulfilled. In case of occurrence of any cause for replacing the servicer including the originator's deteriorated creditworthiness, the requirements for perfection against debtors have been fulfilled.
- v. The originator renders no indemnification for solvency of individual debtors.
- vi. The selling/buying price of the receivables between the originator and the trustee has been determined based on the fair prices.

(4) Risk involved in bankruptcy, etc. of the originator doubling as the servicer

When its claims are securitized, the originator often concludes an operation commission contract with the trustee to whom the claims have been assigned, on the basis of which it pursues collection operations by continuing the collection method as has been practiced by it. In this case, however, if any bankruptcy proceedings such as civil rehabilitation, corporate rehabilitation have been commenced by or against the originator, the collection operations may possibly be confused and suspended on a temporary basis.

In response to this risk, liquidity enhancement measures are implemented and a scheme is established to ensure that the collection operation commission contract with the originator can be cancelled and the backup servicer can take over the collection operations with the approval of the trustee, etc.

³ Cleanup calls, violation of representations and warranties, violation of the conditions for qualification, other contractual violations, etc.

(5) Risk involved in the case where the requirements for perfection against debtors are not fulfilled

In many cases of securitizing lease receivables, the originator fulfills the requirements for perfection against third parties by making the registration as stipulated in Act on Special Provisions, etc. of the Civil Code Concerning the Perfection Requirements for the Assignment of Movable and Claims, while the requirements for perfection against debtors are reserved at the beginning. If the originator falls into bankruptcy by any chance, collected proceeds to be received by the trustee, etc. from the debtors may possibly decrease because the originator does not have the requirements for perfection against debtors.

In response to this risk, the provisions are set forth to ensure that the originator will promptly fulfill the requirements for perfection against debtors using the method as stipulated in the above Act or in the civil code in case of occurrence of any cause for replacing the servicer including the originator's deteriorated creditworthiness.

5. Calculation of an Amount of Money Necessary for the Subordination

(1) Risk of deteriorated creditworthiness of underlying debtors

In pursuit of securitizing lease receivables, claims inappropriate for the securitization are excluded from all the lease receivables retained by the originator to make the pool of parent claims, from which the pool of claims (transferred claims) subject to the securitization is extracted. The pool of transferred claims generally consists of no less than 300 underlying corporate debtors with a maximum concentration ratio of one debtor group limited to about one percent. In the case of the pool of well-dispersed claims, the amount of losses expected to arise from defaults of the underlying claims is calculated by the approach of large number small lots using the law of large numbers.

The securitization obtains a base case to be applied when confirming and analyzing the development of credit loss percentages and that of delinquency percentages using the historical data of parent claims. Based on the average value of historical data and with overall considerations on trends and irregular values from the past, confirmed items at a due diligence meeting, macro data on lease markets, and other factors, each parameter is adjusted to such a level as nearer to the performance of the pool of claims subject to the securitization, whenever appropriate⁴. After the replacement of the servicer, if collected proceeds due to cancellations before the maturity of the lease contracts are expected to fall below the remaining lease fees, the securitization sets a base case of losses arising from the cancellations before the maturity based on the historical data of parent claims and confirmed

⁴ When extracting transferred claims, they are filtered by the conditions for qualification and so the claims extracted for their securitization become superior to parent claims. The credit loss ratio of the securitization pool (pool of transferred claims subject to securitization) is expected to become lower than the historical data of parent claims. On the other hand, the number of debtors in the pool of transferred claims is smaller than that of the pool of parent claims (in other words, the degree of dispersion of the former is lower than that of the latter.) The concentration ratio of the amount of money for one debtor of the former becomes higher than that of the latter and the impact of credit losses from one debtor of the former becomes heavier than that of the latter.

items at the due diligence meeting.

Then through a stress test, the securitization gives rise to credit losses, delinquencies, and cancellations before maturity by putting a certain stress on expected cash flows during period. Thereafter the securitization obtains the amount of the subordination necessary to get the targeted credit rating. The following stress magnifications are basically applied according to the attributions and targeted credit ratings of underlying debtors. However, as a result of confirmation of attribution data and historical data beginning with a comparison of composition ratios of the attributions (including capitals, regions, business categories, classifications of lease properties, etc. of underlying debtors) between the parent claims and the transferred claims, if it is determined that the transferred claims are inferior to the parent claims in creditworthiness, the securitization sometimes adds additional stress.

AAA	Fivefold ~
AA	Fourfold ~
A	Threefold ~

The stress test usually verifies the possibility of repayments based on the assumption of the worst case in which a credit event occurs on the part of the originator doubling as the servicer at any point in time after the commencement of securitization and accelerated redemption begins. The following is often used as part of the efforts for the securitization scheme: A minimum retention amount of the principals of subordinated beneficiary interests is set during a period for fear that excessive withdrawals of subordinated beneficiary interests by the collected proceeds due to cancellations before maturity take place with the cancellations before maturity continuing at a high level.

In the case of lease receivables, a maximum ratio of the amount of money for one debtor is set to disperse them when extracting transferred claims. However, as underlying claims are redeemed, the number of debtors decreases. As a result, the impact of creditworthiness of the debtor that tops the list of remaining debtors sometimes increases. It is required to verify such dispersion degrees and changes of the attributions.

(About Historical Data)

As requisite data, the following data shall be procured, i.e. historical data about the delinquency, delay and cancellation in the pool of parent claims, and also attribution data regarding to a consisting ratio of the amount, term, size of the capital of the debtors with respect to both of the pool of parent claims and the pool of securitized assets. 5 years historical data are preferable, but if not available, available data of the longest term shall be supplemented with a due diligence meeting or other data provided by the originator.

JCR opines that the risk parameter to be used for the analysis of large number small lots should be obtained in principle from the historical data. In such cases, for the use of the historical data, JCR shall

process the data or modify the definition so as to fit to the actual conditions through a hearing to the originator. But even as the above, if a gap is still considered to exist, it is examined to use the historical data which was used in the past securitizing products by the identical originator. If those data are concluded to be sufficient enough for the data analyses, by referring to the relevant data, a base case, whose performance becomes a premise for the analyses, shall be deduced

(2) Commingling risk

When the originator becomes bankrupt at any point of time after the commencement of securitization, a maximum amount of money expected to be un-collectable is determined to be the amount of money necessary for the subordination for response to the commingling risk as a general rule. The period during which the collected proceeds are commingled with others is determined to be two months in many cases, but it is calculated according to the remittance schedule of collected proceeds of securitization products subject to the credit rating.

(3) Cash reserves (liquidity enhancement)

When the originator doubling as the servicer falls into difficult situations that disable implementation of normal collection operations due to bankruptcy and any other reasons, cash reserves make up the major funds as required during the period until the originator hands over the collection operations to the backup servicer and collected proceeds are credited again to the trust bank (trustee) and to the SPC. A necessary amount of money is estimated as follows.

- (a) An amount of money necessary for liquidity enhancement (the securitization of lease receivables sets aside an amount of money equivalent to the lease fees for more than three months.)
 - Interest and dividends on securitization products
 - Trust fees or maintenance fees of the SPC, as well as taxes and public charges
 - Backup service fees (level of fees after the change of the redemption method)
- (b) An amount of money as required when the servicer is replaced (payment in a lump sum)
 - Fees for preparing and sending notices of the replacement of the servicer
 - Fees for obtaining and sending the certificate of registered matters
 - Fees for taking responses to the system and for establishing a call center when the servicer is replaced, and so on
- (c) An amount of money required for others
 - Automobile tax, automobile weight tax, automobile liability insurance premiums, and voluntary insurance premiums (in the case of car leasing/installments)
 - Commitment fees required when the backup servicer is arranged (when taking responses using cash reserves) in the case of no arrangement of the backup servicer at the beginning

6. Other Issues

(1) Initial reserve of the subordination for responses to the commingling risk

(a) Rating Trigger for responses to the commingling and Measures when the Trigger is pulled

When the originator fulfills the requirements as stated in the table below, by setting forth rating triggers, it incorporates such provisions which waive subordination for response to the commingling risk until it breaches such provisions.

Table: Triggers for response to the commingling

Relevant Originator	In principle, at the time of arranging securitizing products, a non-bank financial institution to which “A” range or higher Long-term Issuer Rating is assigned by JCR. In this initial criterion, the possibility is not foreclosed that qualitative factors are taken into account like the trigger criteria (b) below.
Rating Trigger	(1) When the Long-term Issuer Rating of the originator falls to “BBB flat” and the outlook of the rating becomes “Negative”
	(2) When the Long-term Issuer Rating of the originator falls to “BBB minus” or lower
	(3) When the Long-term Issuer Rating of the originator is withdrawn
Measures when the rating trigger is pulled	Advancing an additional amount in response to commingling loss within 30 days as stipulated in the initial contracts, or making advance payments for the amount which JCR allows in accordance with the receiving schedule of the collection of money

The trigger standard is basically “BBB” or higher. Concerning the notch of credit rating, however, the possibility is not foreclosed that a different notch is set for the trigger standard with a comprehensive judgment made on the individual factors as described below.

- Dependence on securitization in terms of fund raising by an originator
If an originator’s fund raising depends on securitization to a high degree, a higher-level trigger may be applied to the originator in view of its ability to procure funds at the time of conflict of the trigger standard.
- Other factors: qualitative evaluation of the factors including an originator’s business bases and shareholders as well as supports from its group companies.

This is a scheme to reserve subordinated portion for response to the commingling risk under a certain condition. The commingling risk will be possibly occurred when the originator acts as a servicer in the case of the securitization where the originator is a non-bank. This is based on the judgment that the probability of an abrupt bankruptcy of the originator is small, if it is concluded

that the originator maintains a certain level of creditworthiness.

(Please refer to “Commingling Risk Pertaining to Securitization Products”)

- (b) The calculation of the requisite ratio of the subordination when triggers are incorporated for response to the commingling risk

In a large number small lots approach, it is assumed that the difference of attributions of the original debtors, which constitutes of the pool of lease receivables for the subject analysis, shall be negligibly small. On the other hand, in the pool of the actual lease receivables, among the original debtors, the degree of concentration to the upper bracket in term of the amount is high. Therefore it does not meet in a strict sense to the assumption of a large number small lots approach (though it varies depend on cases, in the most cases, the maximum limit of the concentration to the upper bracket is 1% of the pool of the original claims). In the case where triggers for response to the commingling risks are set forth, the amount of subordination can be small compared with the case of non-trigger. Therefore assuming an extreme case where defaults occur to the original debtors who belong to the upper bracket and taking into account the concentration ratio to the upper bracket, another subordination shall be provided for response to the cases when defaults concentrates to the upper bracket debtors, if necessary.

- (2) No arrangement of the backup servicer at the beginning

It is the basic handling for the securitization to arrange the backup servicer from the very beginning. However, when the credit rating of an originator doubling as the servicer is equal to or higher than “A minus”, it is exceptionally allowed to make no selection of the backup servicer at the beginning, provided that the trustee has an ability to select a new backup servicer and actually selects a new backup servicer at the stage where the originator’s credit rating falls into Range “BB”.

In any securitization issue that arranges no backup servicer, it is necessary to increase cash reserves (for liquidity enhancement) by the amount of commitment fees necessary for the arrangement of the backup servicer, or to take other responses including an additional obligation of cash in trust for the equivalent amount, an increase in the reserved amount of the subordination, and so on.

(Please refer to “Backup Servicer in Securitization”)

- (3) Comfort Letter and Legal Opinion

As to a comfort letter and legal opinion, it is a requisite condition for rating that the original or copy of the comfort letter or legal opinion should be received at each time when a securitization is arranged.

As to the eligibility of securitizing claims, it shall be confirmed by the “Representations and

Warranties” expressed by the originator in the claims assignment agreement or trust agreement.

7. Monitoring and Review

(1) Monitoring

The issue, to which rating is assigned, shall constantly be monitored with monthly performance reports etc. until the securities shall be redeemed.

(a) Monitoring the situation of backed assets (Claims)

Procuring servicing reports from the originator or reports from the operation administrator monthly or quarterly, JCR shall monitor the situation of the backed assets by gauging a delinquent rate of each case. When a high delinquent rate continues and if it is needed, then JCR may conduct a special review taking the hearing of the originator into account.

(b) Ratings of the related Parties

As a result of change of ratings of the related parties, it shall be confirmed if any concerning factors arise. And also it shall be checked whether the situation falls into breaching the several triggers such as appointing a backup servicer, replacing swap counter parties and altering bank account of collection money and etc.

(c) Monitoring a Statement of Accounts of the related Parties

In principle once a year, JCR procures annual statements of account from the originator (in case of no rating assigned by JCR) and SPC (in case of utilizing SPC scheme) and it shall be confirmed if any concerning factors arise with respect to the creditworthiness of the related parties or if any situation falls into breaching the triggers.

(2) Review

As regards the long-term issue that is due in 1 year or more, JCR holds a rating committee on a regular basis and decides to affirm, revise or put it under the credit monitor. When deemed necessary, JCR conducts an ad hoc review for any of such issues and makes a decision in the same manner. When conducting the review of credit ratings, JCR reexamines, as necessary, the base rate and other rating assumptions in light of the performance of underlying assets and economic conditions and analyses cash flows based on these assumptions with due consideration given to the remaining term of securitization products.

Prior to this procedure, JCR receives necessary information and materials from the originator and/or the arranger and collects other information required for the review. Where necessary, JCR visits the originator regularly to hold a review meeting (interview) even after its first visit prior to the initial rating action.



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