NEWS RELEASE

Sep 19, 2018

【Assignment of a Preliminary Rating (Additional Report)】

Japan Housing Finance Agency

Japan Housing Finance Agency Secured Pass-through Bonds No.137: AAA

Rating and Investment Information, Inc. (R&I) has announced an additional report on a preliminary rating following the confirmation of details on entrusted loans, among others.

1. OUTLINE

This report is an additional report on a preliminary rating for the Secured Pass-through Bonds (JHF MBS) issued by Japan Housing Finance Agency (JHF).

2. CREDIT RATING

INSTRUMENT NAME	Japan Housing Finance Agency Secured Pass-through Bonds No.137
RATING ACTION	Assignment of a rating
RATING DETERMINATION DATE	Sep 13, 2018
R&I RATING (Prelim)	Long-term Issue Rating ／ AAA
NOTE	The rating is an assessment of the probability that the principal of JHF MBS or Trust Beneficial Interest (in the event JHF MBS is extinguished) will be fully redeemed by the maturity date and the interest/trust interest will be paid timely.(*)

* The press release to be issued for a formal rating will state whether the level of credit enhancement is sufficient for the AAA level stress resilience of mortgage collateral.

3. ABOUT INSTRUMENT

ISSUER	Japan Housing Finance Agency	UNDERLYING ASSET	Entrusted mortgage loans

INSTRUMENT NAME	AMOUNT (CURRENCY)	Credit Enhancement Ratio	Date of Issue Sched. Maturity Legal Maturity	Redemp-tion Method	Coupon Type/Rate
Japan Housing Finance Agency Secured Pass-through Bonds No.137	145.7 bn. (JPY)	20.4%	Sep 28, 2018 - Oct 10, 2053	—	Fixed —

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<Outline of the Scheme>

(1) JHF entrusts mortgage loan receivables originated by JHF and Kaitori-Gata mortgage loan receivables to a trust bank (for some series of JHF MBS, mortgage loan receivables originated by JHF may not be included in assigned receivables). The trusts are alternative beneficiary trusts (Taeki Shintaku) under which the bondholders of the JHF MBS are the beneficiaries. Entrustment of the mortgage loans will be perfected against any third party pursuant to the Law Regarding Special Exceptions to the Civil Code with Respect to Perfection Requirements for Assignment of Movables and Claims. When transferring Kaitori-Gata mortgage loan receivables from private financial institutions to JHF, the transfer also is perfected against any obligor by obtaining the unconditional consent with a certified date (kakutei-hizuke) from the mortgage loan obligors.

(2) Collection of the entrusted receivables will be consigned to JHF. JHF will then re-consign the collection business for mortgage loan receivables originated by JHF to the financial institutions that accepted the mortgage loan applications, and will re-consign the collection business for mortgage loan receivables JHF has purchased to the financial institutions that are the sellers of the Kaitori-Gata loans, respectively. In the event consignment of the collection business to JHF is nullified because of a beneficial interest trigger event, the collection business will be performed by the trust bank or by a third party to which the trust bank consigns the collection business.

(3) For any entrusted loans on which payments are overdue by four months and any entrusted loans where the loan terms have been altered (loan receivables four months in arrears etc.), JHF has the right to prepay JHF MBS in an amount calculated by dividing the outstanding balance of such loan receivables by a specified value. The entrusted loan receivables will be returned to JHF.

(4) The principal of JHF MBS will be amortized by using monthly pass-through. The amount amortized each month is determined based on the principal repayment from the entrusted receivables in the month before last (Note 1). In addition, after entrusted receivables equivalent to the amount calculated by multiplying the balance of the JHF MBS after each monthly redemption by a specified value are assured, the portion of entrusted receivables that exceeds this amount will be returned to JHF.

(5) Following a beneficial interest trigger event (Note 2), the beneficial interest will be exercised and the JHF MBS will be extinguished, and investors will receive and hold the trust beneficial interest that served as collateral. After the beneficial interests have been exercised, the trust beneficial interests will be redeemed by monthly pass-through using the collected money each month less an amount for the trust interest and various costs (turbo redemption).

Note 1: JHF MBS monthly redemption amount (Monthly MBS)
MBS principal redemption amount = MBS unredeemed balance – MBS current period scheduled balance
MBS current period scheduled balance = MBS unredeemed balance x A

A = Entrusted receivables balance after deduction of receivables in arrears at end of period / (Entrusted receivables balance after deduction of receivables in arrears at beginning of period + Entrusted receivables balance for early redemption after deduction of receivables in arrears at beginning of period)

- In the above equations, "unredeemed balance" is the amount on the day before the redemption date concerned.
- "Entrusted receivables for early redemption" refers to loan receivables four months in arrears etc. that become eligible for prepayment.
- "Entrusted receivables balance after deduction of receivables in arrears at beginning of period" and "Entrusted receivables balance after deduction of receivables in arrears at end of period" are the balances excluding "entrusted receivables for early redemption".

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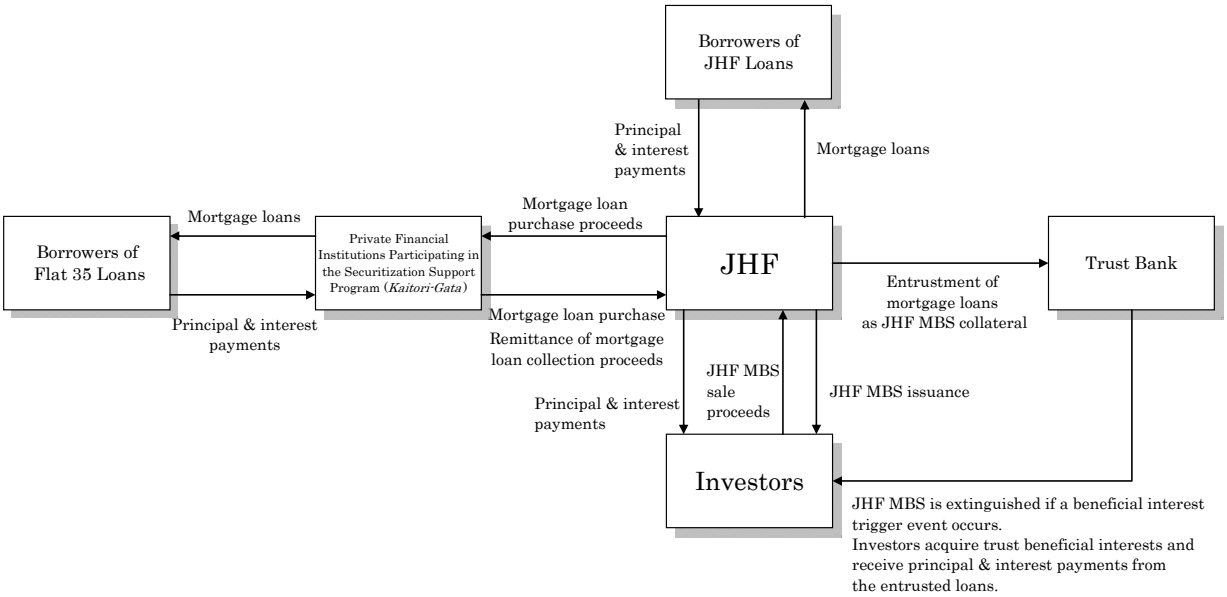
Note 2: Beneficial interest trigger events
(1) When the entity that will succeed to the obligations of the MBS has not been designated by law, and JHF has been dissolved
(2) When a law is enforced making the entity that will succeed to the obligations of the MBS a corporation to which the Corporate Rehabilitation Law or similar law can be applied, and JHF has been dissolved
(3) When a law is enforced making JHF a corporation to which the Corporate Rehabilitation Law or similar law can be applied, and an obligor of the MBS has become the corporation concerned
(4) When JHF fails to perform its payment obligation related to the MBS or other payment obligations, and JHF has not remedied this situation within seven days

[Scheme]



TRUSTOR AND SERVICER	Japan Housing Finance Agency
TRUSTEE	Sumitomo Mitsui Trust Bank, Ltd.
ADMINISTRATIVE AGENT / BENEFICIARY AGENT	Sumitomo Mitsui Banking Corp.

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4. RATIONALE

(1) Risk factors

The major risks of JHF MBS are as follows:

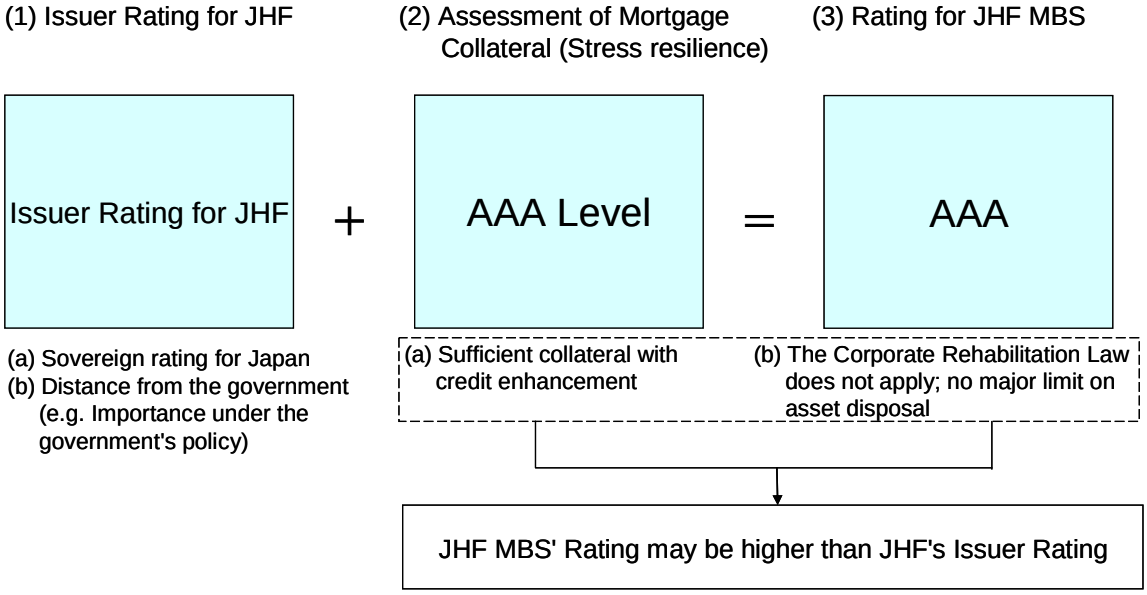
- Deterioration in JHF's creditworthiness
- Deterioration in stress resilience of mortgage collateral

(2) Analysis of risk factors

1) Deterioration in JHF's creditworthiness

There is risk that the creditworthiness of JHF MBS will deteriorate as a result of a deterioration in JHF's creditworthiness.

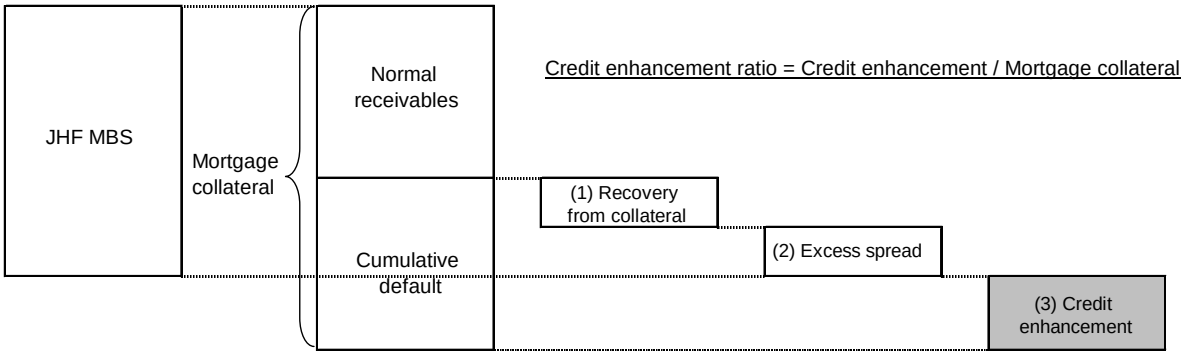
JHF MBS is FILP agency bonds issued by JHF and backed by mortgage loan receivables entrusted under an alternative beneficiary trust (Taeki Shintaku). Because mortgage collateral has sufficient credit enhancement for JHF MBS, and the Corporate Rehabilitation Law, which would greatly limit JHF's ability to dispose of assets, does not apply to JHF, the rating for JHF MBS may be higher than the Issuer Rating for JHF itself (i.e. notching up is possible). Any downgrade of JHF's Issuer Rating could result in a downgrade of the rating for JHF MBS. With loan receivables offered as collateral, however, the rating of JHF MBS will have a certain level of risk resilience even if the Issuer Rating of JHF deteriorates in the future.



2) Deterioration in stress resilience of mortgage collateral

There is risk that as cases of default by obligors increase, "credit enhancement of mortgage collateral" will be less adequate and the width of notching up from JHF's Issuer Rating will be smaller.

Credit Enhancement of Mortgage Collateral



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a. Calculation of credit enhancement of mortgage collateral

The level of "(3) credit enhancement of mortgage collateral" (credit enhancement ratio) is calculated by subtracting "(1) recovery from collateral" and "(2) excess spread" from "cumulative default".

Because this calculation normally is performed before the JHF MBS coupon rate is decided, there is a possibility the "credit enhancement of mortgage collateral" will be insufficient for the AAA level "stress resilience of mortgage collateral" if the "excess spread" decreases because, for example, interest rates rise above the assumed rate after the calculation has been made. The "stress resilience of mortgage collateral" is a measure of what level of stress scenario the "credit enhancement of mortgage collateral" is sufficient for against the default risk of the mortgage loans.

The press release to be issued for a formal rating will state whether the "credit enhancement of mortgage collateral" is sufficient for the above-mentioned level of "stress resilience of mortgage collateral". If the "credit enhancement of mortgage collateral" is insufficient for the above-mentioned level of "stress resilience of mortgage collateral", the rating for the JHF MBS will not be lower than the Issuer Rating for JHF, but the width of notching up (the extent by which JHF MBS' rating is above JHF's Issuer Rating) will be smaller. Specifically, JHF MBS' rating could exceed JHF's Issuer Rating by 3 notches for the AAA level "stress resilience of mortgage collateral" and by 2 notches for the AA to A level "stress resilience of mortgage collateral".

a-1) "Cumulative default"

When calculating the "cumulative default", R&I applies historical monthly default and prepayment rates to the outstanding amounts of the entrusted receivables principal to obtain the default amount for each month.

The numerical values such as the default rate used in the calculation are set based on historical repayment data. The historical repayment data cover receivables extracted by bracket sampling of receivables equivalent to 10% of all eligible receivables that can be entrusted for securitization from among the mortgage loan receivables held by JHF (those originated by JHF); and Kaitori-Gata loan receivables.

JHF establishes a first lien on the mortgage loan receivables. The mortgages are assumed to accompany the assignment of the loans. After the beneficial interest is exercised, R&I believes it is possible to consider collection from the collateral sales proceeds of mortgage foreclosure. For "recovery from collateral", R&I conservatively estimates the future decline rate in land prices, collateral collection period, loan balance and property sales costs, and incorporates these into the credit enhancement calculation.

R&I applies a normal scenario by taking into account an analysis of loan attributes and recent trends in the incidence of default in historical repayment data, among others. With regard to loan attributes, particular attention is given to factors such as:

- Proportion of obligors with high Loan to Value (LTV) ratios
- Breakdown by occupation
- Proportion of low-income earners
- Proportion of obligors with high Debt to Income (DTI) ratios
- Proportions of loan types
- Proportions of property locations
- Number of obligors.

In order to set a stress factor, R&I factors in the proportion of second house loans (Note 3). For a cash flow analysis, the timing of a beneficial interest trigger event is taken into consideration.

Note 3: A second house loan is a loan for the acquisition of a second house for weekend use (residence) by an obligor in addition to a primary residential dwelling. In the analysis of the credit enhancement ratio, it is deemed that the obligors' motivation to make payments on the second house loans is weaker than for residences for primary dwelling, so R&I has raised the stress for this type of loan somewhat.

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a-2) "Excess spread"

The amount of the "excess spread" is calculated by subtracting various costs such as interest payments on the JHF MBS and trust fees from the interest income on the entrusted mortgage loans. Because the level of "credit enhancement of mortgage collateral" is normally calculated before the JHF MBS coupon rate is decided, there is a possibility the "excess spread" will decrease if, for example, interest rates rise above the assumed rate after the calculation has been made.

b. Credit enhancement of mortgage collateral

The credit enhancement of mortgage collateral is set bearing in mind the characteristics of JHF's mortgage loan portfolio. Before the beneficiary agent exercises the beneficial interests, the portion of the entrusted receivables exceeding the amount to maintain the credit enhancement ratio for JHF MBS at a constant level is returned to JHF. JHF can prepay the full amount of the unredeemed balance when the JHF MBS balance falls to 10% or less of the initial amount. There is a concern the degree of concentration of the obligors will rise because the remaining number of obligors will decline when the trust period has passed a certain point in time and JHF has not redeemed the JHF MBS before maturity. Therefore, R&I confirms the extent of notching up by taking account of the number of obligors, the degree of concentration of the obligors, the loan attribute, the recovery condition and the historical repayment data, etc. After the beneficiary agent exercises the beneficial interests, in return for extinguishing the JHF MBS the investors will receive the trust beneficial interest that secured the JHF MBS. The trust beneficial interest will be redeemed by monthly pass-through using the amount of collected funds each month after deduction of the trust interest and various costs.

・ Ability to make timely payments

Although no liquidity enhancement has been initially set, the occurrence of a beneficial interest trigger event is unlikely to result in the loss of the ability to make timely payments on the JHF MBS due partly to the position of the Securitization Support Program under the government's policy.

Furthermore, after the beneficial interests have been exercised, the payments will be ensured by setting aside a cash amount equivalent to three months worth of trust interest and various costs from the collected money at the stage before redemption of the principal.

・ Risk of commingling loss

Although no credit enhancement has been set against commingling loss risk, the occurrence of a beneficial interest trigger event is unlikely to result in commingling loss being incurred for the JHF MBS due partly to the position of the Securitization Support Program under the government's policy.

・ Set-off risk

Because JHF does not accept deposits, there is no risk the obligors of mortgage collateral will set off their deposits against mortgage loan obligations. In one sense there could be a set-off between the mortgage bond-related claims and the mortgage loan obligations, because individuals may own the "Tsumitate Kun" Housing Bonds the former Government Housing Loan Corp. (GHLC) issued in the past. Nevertheless, mortgage bonds are believed to be purchased for the purpose of accumulating capital funds for purchasing a home and repaid when the bondholders borrow mortgage loans, so the likelihood of a set-off following a home purchase is low.

Moreover, when transferring Kaitori-Gata mortgage loan receivables from private financial institutions to JHF, the transfer also is perfected against any obligor and any third party by obtaining the unconditional consent with a certified date (kakutei-hizuke) from the mortgage loan obligors. In addition, when a private financial institution fails, there will be no set-off with assets such as deposits because a declaration of obligor approval or a statement to the effect the obligors waive the right of set-off and other rights is included in the loan agreement concluded between the private financial institutions and the obligors.

(3) Comprehensive evaluation

Because the Issuer Rating for JHF is AA+ and mortgage collateral has been evaluated as the AAA level, R&I has assigned the rating shown at the beginning of this report to the JHF MBS.

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5. RATING METHODOLOGY

The primary rating methodologies applied to this rating are:

Announced in	TITLE
November 2016	Chapter 1: General
November 2016	Chapter 2: Particulars: Risks regarding structure
November 2016	Chapter 3: Particulars: Risks regarding underlying assets Subchapter 4: Japan Housing Finance Agency MBS
November 2016	Chapter 4: Particulars: Cash flow risk Subchapter 1: Analysis method for monetary receivables, etc. (Large pool approach) Subchapter 6: Analysis method using cash flow test Subchapter 7: Analysis method based on credit ratings of underlying assets and parties involved in the structure

The above rating methodologies are available at R&I's website:

https://www.r-i.co.jp/en/rating/about/rating_method.html
https://www.r-i.co.jp/rating/about/rating_method.html

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6. CUMULATIVE DEFAULT RATES AND ATTRIBUTES OF UNDERLYING ASSETS

Cumulative Default Rates

Cumulative default rate based on the stress scenario	26.1	%
Cumulative default rate based on the normal scenario	10.2	%

The cumulative default rates above do not incorporate recoveries from defaulted loans.

Attributes of Underlying Assets

Total loan outstanding	183,127,244,080	yen
Number of obligors	6,210	persons
Average loan outstanding	29,489,089	yen
Average life	32.2	years
Average LTV	91.8	%
Average DTI	23.8	%
Average annual income	6,012,313	yen
Average interest rate	1.13	%
Average age of obligors	40.7	years old

Proportion of second house loans	2.11	%
Number of receivables relating to Flat 35 with special contract for rent-funded loan repayment (Note 4)	0	receivables
Number of receivables relating to JHF Relocation Support Loan (Note 5)	0	receivables
Number of re-entrusted receivables	1	receivables

Comparison of LTV with the Immediately Preceding Series

LTV	Preceding series	Current series
Above 85% and 90% or less	30.1%	30.1%
Above 90% and 95% or less	3.5%	3.5%
Above 95%	52.8%	53.9%

Note 4: For "Flat 35 with special contract for rent-funded loan repayment", an obligor may conclude the special contract upon signing Flat 35 and under this contract, in the event the obligor becomes difficult in making Flat 35 repayment and if the obligor fulfils certain conditions, the amortization period will be extended and the amortization amount will be reduced under JHF's special provision for modifying repayment methods. JHF will rent the property to a real estate leasing organization and directly receive the rent income, and use this income for the obligor's repayment to JHF.

Such loan receivables included in entrusted receivables will be removed from the entrusted receivables pool once the special provision for modifying repayment methods are applied (JHF will cancel these entrusted receivables and partially redeem the JHF MBS in advance).

The explanatory handout for obligors who conclude the special contract and the memorandum of understanding which the obligor submits to JHF state that this memorandum of understanding will be terminated "when it becomes extremely difficult for JHF to continue its Securitization Support Program, for example in the event of the dissolution of JHF due to the enforcement of a law that dissolves JHF".

Note 5: "JHF Relocation Support Loan" is extended to an obligor who will acquire a new self-occupied home on the premise that Japan Trans-housing Institute (JTI), an operator of home rental operations under guarantees provided by Foundation for Senior Citizens' Housing, will rent the current home from the obligor.

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