NEWS RELEASE

Past Changes for JHF MBS
(Applicable from GHLC Monthly Bonds No. 40)

Regarding GHLC Monthly Bonds

I. Change in qualifying standards for entrusted loan claims in initial entrustment and in substitution beginning with GHLC Monthly Bonds No. 40

Commencing with GHLC Monthly Bonds No. 40, the qualifying standards for entrusted loan claims and instances where substitutions are made were changed on four accounts.

(1) Abolition of guarantee requirements for JHF direct finance loans

In the past, direct finance loans carried a guarantee from the Housing Loan Guarantee Corporation. As of April 2005, however, JHF has abolished the guaranty requirements for applications for loans received from April 2005 onwards, and will add a premium corresponding to the cost required for the credit enhancement on the interest rate instead. This measure is to prevent the guarantee obligation and the guarantee claims held by GHLC to be commingled and be extinguished when JHF is established in April 2007 and succeeds to the loan guarantee obligations of the guarantee association.

Loan claims for which applications are received from April 2005 onwards will now included in the entrusted loan claims of GHLC Monthly Bonds No. 40 onwards. In line with this change, changes have also been made to qualifying standards in initial entrustment and in substitution.

In its rating analysis for securitizations, R&I did not factor in the guarantee capacity of the Housing Loan Guarantee Corporation, so the change on this occasion will not have an effect on R&I's analysis of the credit enhancement ratio.

As before, Securitization Support Program (Kaitori-Gata) loans have no guaranty requirements.

(2) Increase in types of direct finance loans

The types of financing available for loan applications received from April 2005 onwards have been increased. Seven new types of loans have been added to existing loans: new residential dwellings (apart from free-standing houses), public corporation condominiums, pre-existing houses, houses at risk from landslides, etc., urban residence renaissance, urban area redevelopment (construction), and medium- to high-rise buildings.

Like purchased pre-existing houses that have been included in entrusted claims since the issue of GHLC Monthly Bonds No. 25, data from pre-existing houses, such as default ratios on pre-existing blue chip houses and prepayment ratios, serve as useful repayment historical data references.

Furthermore, R&I obtained data on these loans and loan attributes and has reflected this in the calculation of the credit enhancement ratio.

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Type of loan	Provisions under the Agency Law	Classification under entrusted mortgage loan claims
New residential dwellings (Including dwellings apart from single houses)	Article 17-1 or 17-2	1) Residential dwellings, etc.
Condominiums		2) Condominium
Ready-build houses		3) Ready-build houses
Blue-chip condominiums		4) Blue-chip condominiums etc.
Government Corporation condominiums		
Pre-existing houses		6) Pre-existing house
Houses at risk of landslide	Article 17-7	1) Residential dwellings, etc.
Urban Residence Renaissance (building and purchasing)	Article 17-11 or 17-12	5) Urban Residence Renaissance etc.
Urban Area Redevelopment		
Medium- to High-Rise Buildings		

Note: Underlined items above are new loan categories that have been added to the GHLC entrusted mortgage loan claims from GHLC Monthly Bonds No. 40.

(3) Inclusion of Second Home Loans in direct finance loans and Securitization Support Program (Kaitori-Gata) loans

A Second House Loan is a loan for the acquisition of a second house for weekend use (residence) by an obligor in addition to the primary residential dwelling.

Second House Loans were added to the Securitization Support Program (Kaitori-Gata) loans in January 2006; however, these loans had previously been offered through direct finance loans under the name "Home Expansion Special Financing (Owner Occupied-type)."

R&I analyzed data on these loans regarding past defaults. While the period covered by the data and the type of data was limited and broad generalizations cannot be made on that basis alone, there were no particular differences with the previous entrusted loan claims.

In the analysis of the credit enhancement ratio, it was deemed that the obligors' motivation to make payments on the Second House Loans is weaker than for residences for dwelling purposes, so R&I raised the stress for this type of loan somewhat. R&I also obtained data on the loan attributes for this type of loan and reflected it in the calculation of the credit enhancement ratio.

(4) Changes in the handling of the initial incidence of delinquency

Loan claims that are in arrears on the base sampling date or the trust execution date have been excluded from the entrusted loans by substitution with other loan claims on the grounds that they do not fulfill the qualifying standards. Payment delays on the initial payment date can be due to various reasons, such as arrangements for bank transfers, etc. might not be on time. Such circumstances do not constitute a credit incident, and to avoid substitution exercises which do not reflect the true reason, treatment of the first payment in arrears has been changed. To be specific, delay in payment on the first repayment day right after the loan agreement is not handled as a delinquent loan.

This change applies to direct finance loans and Securitization Support Program (Kaitori-Gata) loans; however, with direct finance loans, since there is some leeway for the loan agreement to the first payment date, this change will be intended mainly for Securitization Support Program (Kaitori-Gata) loans.

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The average proportion of loan payments in arrears on the first payment for Kaitori-Gata loans in GHLC Monthly Bonds No. 30 to GHLC Monthly Bonds No. 39 was 0.21%, and the ratio of loans where the payment remained in arrears in the following month was 0.02%. Approximately 90% of the loans that were in arrears on the first payment date met the payment by the following month.

Because payments for the majority of loans that were late in making the initial were on time the following month, the ratio of loans where payments remained in arrears was extremely small, and because the delays in loan payments on the first payment were included in the repayment historical data used for the analysis, R&I does not see any particular problem.

II. Implementation of exception regarding the initial repayment (Initial Repayment Exception System): Implemented from GHLC Monthly Bonds No. 46

Starting July 1, 2006, for Kaitori-Gata loans financed by non-deposit-accepting financial institutions, the initial repayment date of the loan can be scheduled to fall on the second transaction date following the financing if the financial institution in question requests the use of the Initial Repayment Exception System. This system defers the repayment due on the initial transaction date that falls immediately after the financing, and the first two installment payments are made on the initial repayment date. This results in one less repayment than originally, compared to when the Initial Repayment Exception System is not implemented. Loans for which this system applies are included in the entrusted loans starting with the GHLC Monthly Bonds No. 46.

Regarding the Kaitori-Gata loans financed by non-deposit-accepting financial institutions, when the transaction date fell immediately after the financing, the institution faced the inconvenience of not having enough time to complete the relevant paperwork. This problem can be avoided by implementing the Initial Repayment Exception System.

The system will affect only the first two repayments of the overall repayment schedule for entrusted loans. According to the historical repayment data as of June 2010, the delinquency rate at the point in time when one month has elapsed since the repayment has started averages about 0.29%; 90% of these cases do not lead to a second delay, however, but are resolved. R&I therefore believes the impact of this system will be limited.

III. Change in administration when the land is sublease ground: Implemented from GHLC Monthly Bonds No. 47

Since September 2005, properties for which the land leasehold is a sublease have been eligible for purchase (1) when a first mortgage can be established on the site or (2) when the party holding title to the land is a public enterprise that has concluded a "Memorandum Concerning Adjustment of Rights" with JHF that provides for the protection of the right of use of the housing lot and a mortgage or other security has not been established for any third party (excluding the establishment of a mortgage on the land).

Beginning with loans purchased from August 2006, the parties able to conclude such a memorandum will be expanded to include private sector entities.

IV. Change in treatment for leasehold acquisition expense: Implemented from GHLC Monthly Bonds No. 48

Beginning with loans purchased from September 2006 (entrusted loans for GHLC Monthly Bonds No. 48), GHLC has implemented treatment of loans that make the guaranty money or deposit required when purchasing a leasehold eligible for financing as leasehold acquisition expense (key money has always been eligible for financing) when the land for a house that is eligible for Kaitori-Gata financing is a fixed-term land leasehold.

The share of guaranty financing as a percentage of total GHLC direct finance loans is at a level that has not exceeded 0.4% on a number of obligors basis (figures on a fiscal year basis for fiscal 2000-fiscal 2005). While borrowers of Kaitori-Gata financing with a leasehold are believed to have increased somewhat along with expansion of the types of loans eligible for financing, when the supply of homes having a fixed-term land leasehold is considered it is difficult to view this growth as an extreme increase.

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Because it considers the ratio of such loans currently to be low, R&I believes the affect on the credit enhancement ratio is limited.

Regarding JHF Monthly Bonds

V. Changes to the Monthly Bonds scheme and changes to the Flat 35 system (for trusts established from March to May 2007)

(1) Revision of the Monthly Bonds scheme (change in the “entrusted claims substitution” system)

For GHLC MBS issued up until now, when arrears of four months or longer occurred in the entrusted claims prior to the occurrence of a beneficial interest trigger event, GHLC had the right to replace such loans with other loans it held (“entrusted claims substitution” system), and in fact GHLC did make such substitutions. For JHF MBS issued from April 2007, JHF will prepay the JHF MBS in an amount calculated by dividing the outstanding balance of loan claims on which payments are overdue by four months by “1 + overcollateralization rate”. This response is identical to JHF’s response when prepayments are made on the entrusted claims. A similar “entrusted claims substitution” system has been applied until now for Monthly Bonds issued by March 2007 (Bonds No. 1-53), and the “entrusted claims substitution” system will be continued for Series S Bonds in the future.

As a result of the change in the “entrusted claims substitution” system, in its analysis of the cash flow from entrusted claims R&I assumes it will be possible to handle claims in arrears in the same manner as prepayments until a beneficial interest trigger event has occurred, and that the cash flow average remaining term will decrease somewhat. R&I believes the affect on the overcollateralization rate will be limited, however, because of the fact the size of the decrease in the average remaining term is small, and the fact the excess spread also will decrease in conjunction with the shortened maturity.

(2) Changes in the Flat 35 system

a. Special measure for the time limit to establish and record mortgages or other liens concerning large-scale condominiums and other properties (for trusts established in March 2007)

Beginning from Kaitori-Gata purchases in January 2007, GHLC began extending by one month the period for establishing and recording mortgages or other liens for large-scale condominiums when application had been made to GHLC in advance. Although the time limit to establish and record mortgages or other liens had been the month subsequent to the month when financing was executed, this will now be possible until the second subsequent month. The setting up of the trust will be completed after establishment and registration of the mortgage has been confirmed. Loans related to this special measure will be included in the entrusted loans starting with the GHLC Monthly Bonds No. 53.

Effects anticipated from growth in the number of large-scale condominiums financed include an increase in condominiums by type of financing and greater concentration of property locations. For GHLC Monthly Bonds No. 53, the affect of this special measure is expected to be limited, because no particular differences in the increase in the number of condominiums or concentration of property locations can be verified when entrusted claim attributes are compared with MBS issued at the same time in the past. For GHLC Monthly Bonds No. 54 and future issues, R&I will pay attention to the change in attributes resulting from an increase in the number of condominiums or property location concentration.

b. Increase in financing rate (LTV) (90% financing) (for trusts established beginning from April 2007)

Under the Flat 35 program until now, home buyers could finance up to 80% of the cost required to build or purchase a home. For trusts established beginning from April 2007 (JHF Monthly Bonds No. 1), lenders will be able to finance up to 90% of all costs.

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The affect of the LTV on the level of the overcollateralization rate can be divided into the stress applied to the default rate and the collection from collateral for claims in default. The stress applied to the default rate is set based on a LTV level (proportion of obligors with high LTV ratios) that also considers private financial institutions loans, while the collection from collateral for claims in default is based on the LTV level that only considers Flat 35 loans.

VI. Introduction of JHF mortgage loan group credit life insurance with rider covering the three major diseases

JHF introduced mortgage loan group credit life insurance with a rider covering the three major diseases beginning with the Kaitori-Gata housing loan claims in April 2007, and such loans will be included among the entrusted claims beginning with JHF Monthly Bonds No. 2. Although the proportion of entrusted claims whose borrowers are covered by this type of insurance rider is not very large at the present time, should the percentage of such entrusted claims grow larger over time, there is a possibility the number of prepayments will increase somewhat. Under the present circumstances, R&I views this conservatively and has not incorporated such an increase in the prepayment assumptions.

VII. Changes from JHF Monthly Bonds No. 8

(1) Introduction of a new interest rate system based on repayment period (Flat 35)

From October 2007, a new interest rate system based on repayment period (20 years or less, or more than 20 years) has been introduced to Flat 35 regarding mortgage loans eligible for JHF purchasing for JHF Monthly Bonds No. 8. The previous Flat 35 set interest rates regardless of the repayment period. However, the new system will allow private financial institutions to set lower interest rates on loans with repayment period of 20 years or less.

The proportion of loan claims with repayment period of 20 years or less to total loan claims underlying JHF Monthly Bonds No. 8 is 6.9%.

(2) Revision of the criteria for screening Flat 35 (Abolition of the monthly income criteria - “Four or more times the amount of the monthly repayment” and revised DTI Ratio)

There was a revision on loans applied after October 2007. The revisions were the abolition of the monthly income criteria which restricted to those who has "four or more times the amount of the monthly repayment," and the revision of DTI standards (see the following table).

Annual Revenue	DTI Standard	
	Former standard	Borrowings applied after October 1, 2007
Less than 3 million yen	25% or lower	30% or lower
3 million - 4 million yen	30% or lower	
4 million - 7 million yen	35% or lower	35% or lower
7 million yen and above	40% or lower	

In response to the changes in the portion of obligors with high DTI in the entrusted claims pool, R&I conducts an analysis based on data from the past cases R&I was involved in.

VIII. Changes applicable from JHF Monthly Bonds No. 27 (Expansion of Flat 35 as part of "Economic Countermeasures")

(1) Raise LTV limit for Flat 35

The LTV limit was raised from 90% to 100% of construction cost and/or purchase price. The affect of the LTV on the level of the overcollateralization rate can be divided into the stress applied to the default rate and the collection from collateral for claims in default. The stress applied to the default rate is set based on a LTV level (proportion of obligors with high LTV ratios) that also considers private financial institutions loans, while the collection from collateral for claims in default is based on the LTV

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level that only considers Flat 35 loans. Furthermore, R&I considers it necessary to keep an eye on the trends in the repayment of loans with no or little down payment. R&I will calculate credit enhancement, taking loan performance and other factors into account.

(2) Introduce refinancing loans for Flat 35

The refinancing loan scheme started with a loan limit of "200% of collateral appraisal value" or "the outstanding balance of a housing loan to be refinanced," whichever the lower. When analyzing the entrusted claims of refinancing loans, R&I will estimate default rates based on the claims attributes of initial and refinancing loans, and recovery rates based on LTV at the time of refinancing.

(3) Extend the scope of miscellaneous expenses covered by Flat 35

Loans are now available to cover miscellaneous expenses such as the costs of application for building confirmation, interim inspection and final inspection (only for new construction) and revenue stamps attached to entrustment (or sales) agreements (those borne by obligors). Since these expenses account for only a small portion of the total loan, its impact is deemed limited.

(4) Provide Flat 35 S to allow for a 0.3% rate reduction for the first 20 years

Flat 35 S started, allowing for a 0.3% rate reduction for the first 20 years. Changes in interest payments corresponding to this rate reduction have been incorporated in cash flows used by R&I for analysis.

IX. Changes applicable from JHF Monthly Bonds No. 35 (Expansion of Flat 35 S)

Under the support scheme for acquiring a good quality house (Flat 35 S), the rate reduction for the first 10 years increased from 0.3% to 1.0%. Changes in interest payments corresponding to this rate reduction have been incorporated in cash flows used by R&I for analysis.

X. Changes applicable from JHF Monthly Bonds No. 37

(1) Extend the scope of miscellaneous expenses covered by Flat 35

Loans are now available to cover expenses incurred in the case of housing construction or purchase, including costs of obtaining approval for long-term quality housing and application fees regarding evaluation for energy efficient housing certification, and those incurred in the case of refinancing, including revenue stamps attached to loan agreements (stamp tax), refinance loan fees, costs of mortgage registration and cancellation (registration and license tax), payments to judicial scriveners for mortgage registration and cancellation, and premium payments under JHF group credit life insurance special contracts (only for the first year). Since these expenses account for only a small portion of the total loan, its impact is deemed limited.

XI. Changes applicable from JHF Monthly Bonds No. 42

1) JHF Relocation Support Loan

The 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.

Since the proportion of JHF Relocation Support Loan in the underlying loan portfolio is low, its impact is considered to be limited.

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XII. Changes applicable from JHF Bonds No.53

1) Regarding Flat 35 with special contract for rent-funded loan repayment

From August 1, 2011, JHF has started to handle 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 obligors' repayment to JHF. Mortgage loan claims relating to Flat 35 with special contract for rent-funded loan repayment included in the entrusted claims will be removed from the entrusted claims pool once the special provision for modifying repayment methods are applied (JHF will partially cancel the entrusted claims, and the JHF MBS will be partially redeemed 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 assistance business, for example, in the event of the dissolution of JHF due to the enforcement of a law that dissolves JHF."

Prior to beneficial interest trigger event, the claims relating to this special contract will be removed from the entrusted claims when the special contract is applied. After a beneficial interest trigger event occurs, it is considered difficult to apply the special contract. Therefore, R&I believes the impact on MBS ratings will be limited.

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