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R&I Analysis of Housing Loan Defaults (2006 Update)

Rating and Investment Information, Inc. (R&I) has summarized the results of its analysis of housing loan defaults. This report is an updated version of the R&I report "Analysis of Housing Loan Defaults" released in April 2005, and is based on the latest data. The analysis includes changes in default rates by repayment starting period.

R&I calculates the level of credit enhancement for GHLC MBS by applying the changes in both the monthly default rate and the monthly prepayment rate under an AAA scenario to the monthly repayment schedule for the entire entrusted claims portfolio to determine the cumulative default rate over a 35-year period, then taking into consideration factors such as the recovery rate when disposing of the collateral on defaulted claims. The monthly default rate and monthly prepayment rate R&I applies contain increases corresponding to the passage of time to some extent. In this report, R&I introduces its analysis concerning defaults on housing loans by using historical repayment data obtained from The Government Housing Loan Corp.

In any RMBS rating analysis, an analysis of defaults in the mortgage loan claims pool that is the backing asset for the RMBS is critically important. R&I hopes this report would become an important information tool for investors in making investment analysis. R&I will revise the analysis results presented in this report from time to time, in conjunction with future revisions to the data.

Details of the report

- Data used
- Housing loan events of default
- GHLC debt collection and management policies
- Change in monthly default rate by calendar month and year
- Change in default rate by number of months elapsed
- Analysis of the causes of default
- Future analysis policy

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1. Data used

R&I performs its analysis based on static data included among data obtained from The Government Housing Loan Corp. (GHLC). These data are sampled according to specific conditions and do not include housing loans utilizing “Yutori Shokan,”¹ a redemption method that has been a major contributor to housing loan defaults. Although the data include housing loans on which repayments had begun before May 1996 (the survey starting point), the data do not include data for obligors who were in default at the survey starting point or data for obligors who had completely repaid their loans by prepayment.

For this analysis, R&I uses data for a period from the survey starting point to October 2005. The oldest sample included in the data are history for loan repayments that began in April 1983, meaning 157 months had passed as of the survey starting point and 270 months had passed as of the most recent survey point. For the default rate, based on the data composition the number of data samples is constant (113 samples)² from the survey starting point when the number of months passed is between 1 to 158 months (number of months elapsed). For periods longer than 158 months, however, the number of samples decreases steadily.

For a detailed explanation of the data used and the analysis methodology, see the R&I News Release “R&I Analysis of Housing Loan Prepayments (2006 Update)” dated May 26, 2006.

2. Housing loan events of default

Before considering the default rate on housing loans, it is necessary to understand whether the housing loans in question will end in default when certain events have occurred. The GHLC Loan Agreement provides for the default events (event of default) shown in Figure 1.

Figure 1 Government Housing Loan Corp. financing events of default

1	Multiple borrowings from the GHLC	8	Destruction, damage or remarkable loss in value of the collateral property
2	Violations of prescribed use of loan proceeds	9	When borrower has lost the right to use the site for the housing related to the loan
3	Transfer of the housing related to the loan to a third party, without GHLC consent	10	Expropriation and use of the collateral property by law
4	When borrower did not live in the housing related to the loan, without GHLC consent	11	Unlawful borrowing by means of falsification of documents submitted, multiple applications, etc
5	When borrower did not make monthly principal and interest payments for six months or longer When borrower did not make principal and interest payments and did not have proper cause	12	Conduct in violation of the loan, breach of contract
6	Application for bankruptcy or civil rehabilitation	13	Current address unknown
7	Procedures for seizure and auction sale of the collateral property begun	14	Decision to commence bankruptcy procedures

Note: Both 13 and 14 are natural events of default. The remaining events [Source: Prepared by R&I from the Government Housing Loan Corporation Loan Agreement] are events of default by request

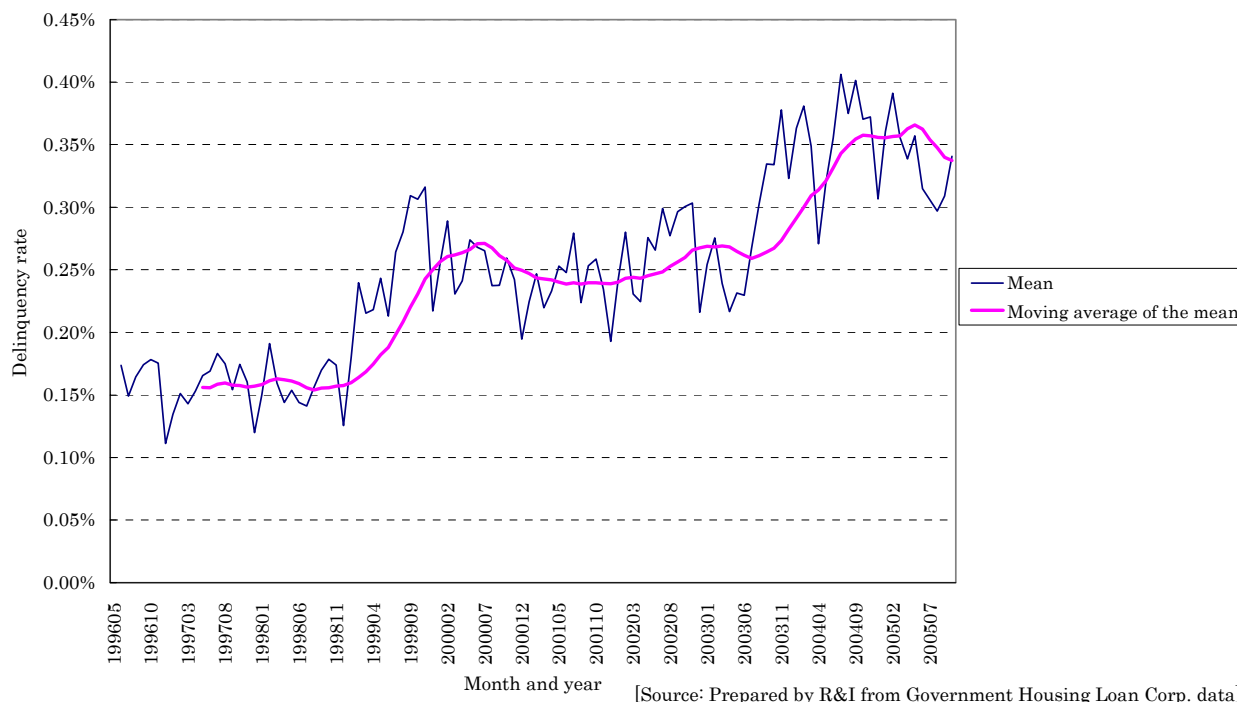
When events of default that are not necessarily dependent on the obligor's income or cash flow, such as “multiple borrowings from the GHLC,” “violations of prescribed use of loan proceeds” and “borrower did not live in the housing” are excluded, the most conspicuous event of default is the category “when borrower did not make monthly principal and interest payments for six months or longer.” When a loan is six months or more in arrears, an event of default is declared as a result of GHLC's request for payment.

¹ A repayment method in which the amount repaid during the first five years is calculated assuming a redemption period ranging from 50 to 75 years, followed by a repayment amount beginning from the sixth year that is calculated based on the traditional repayment period. Compared with the first five years, the monthly repayment amount increases beginning in the sixth year.

² Because the previous month's remaining loan balance is used in the calculations of the default rate and delinquency rate, these rates cannot be calculated when the number of months elapsed is zero. Both rates are calculated on a monthly basis (monthly rate).

This does not mean a default will occur immediately when repayment of a housing loan has been in arrears continuously for six months or longer, because a default is triggered by GHLC making a payment request. Theoretically, as long as GHLC does not declare an event of default such a loan is not in default. Figure 2 shows the change in the mean and 12-month moving average of the mean of the delinquency rate for six months or longer³. Looking at the moving average, the delinquency rate for six months or longer shows step-by-step rises until the most recent point in time, and the level at the most recent point in time is more than twice the level in 1997 or 1998.

Figure 2 Delinquency rate for six months or longer (Calendar month and year used as a base)



[Source: Prepared by R&I from Government Housing Loan Corp. data]

3. GHLC debt collection and management policies

Each year, the GHLC issues the Government Housing Loan Corporation Annual Report (GHLC Annual Report) describing the corporation's loan management and collection policies and specific approach to GHLC loan claims. For obligors who continue to repay their loans normally without being in arrears, no special measures or attention for credit management are necessary. One can surmise the series of countermeasures for obligors who are actually having difficulty repaying their loans is summarily reflected in the GHLC's policy and specific approach to loan management and collection.

Figure 3 summarizes the headings for management and collection policy-related descriptions in the GHLC's annual reports since the 1998 edition. For example, the 1998 edition describes the policies for management and collection and specific approach on which the GHLC acted during fiscal 1997. Such descriptions have tended to increase in recent years, as illustrated by the number in parentheses at the lower right of each frame in the Figure, which indicates the number of lines of text with management and collection policy-related descriptions, including headings.

³ When performing an analysis based on calendar month and year, such as the analysis shown in Figure 2, R&I sets the data selection condition to ensure the number of samples is always constant for each calendar month and year. Specifically, from the samples obtained for each calendar month and year (in Figure 2, the delinquency rate for six months or longer), R&I uses data for which the number of months elapsed is between 1 and 158 months.

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Figure 3 Revisions to GHLC's loan management and collection policy and approach

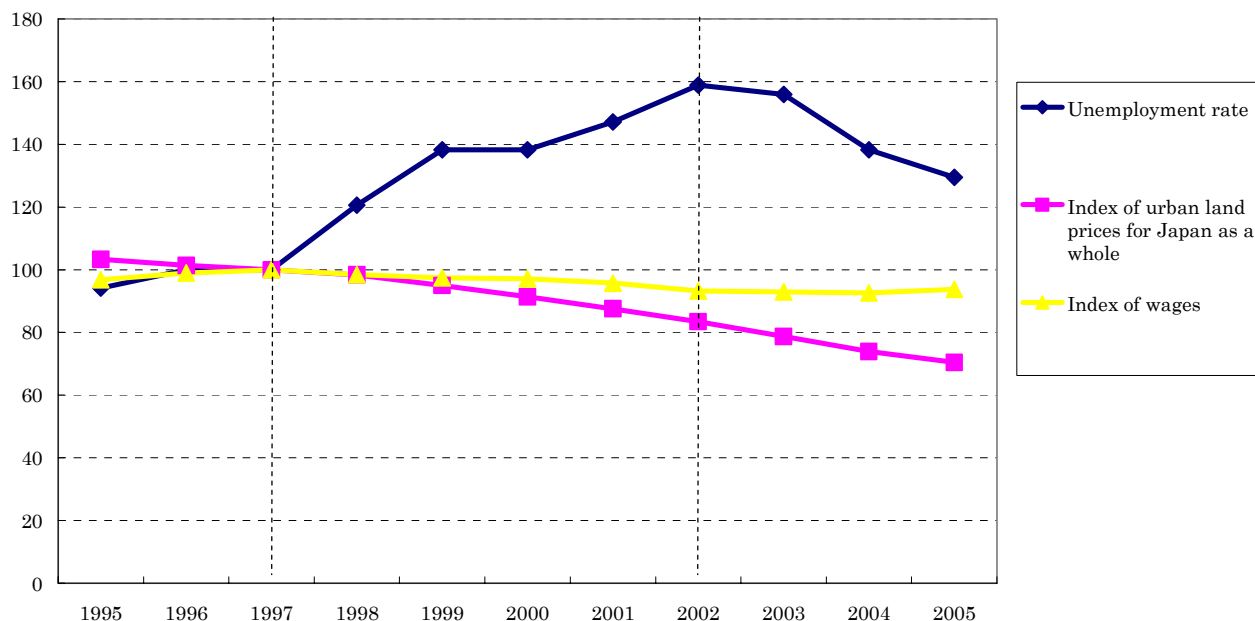
1998 Edition (Fiscal 1997)	1999 Edition (Fiscal 1998)	2000 Edition (Fiscal 1999)	2001 Edition (Fiscal 2000)
Enhancements to consultations and counseling Strengthened cooperation with financial institutions entrusting loan claims Promotion of voluntary sale Provision of advance notification to borrowers using "Yutori Shokan" loans (17)	Enhancements to repayment consultations Strengthened cooperation with financial institutions entrusting loan claims Use of voluntary sale Response to obligors such as borrowers using "Yutori Shokan" loans Response to obligors having loan repayment difficulties (27)	Implementation of proactive repayment consultations Proactive response to obligors utilizing bonus repayments Strengthened cooperation with financial institutions entrusting loan claims (27)	Implementation of proactive repayment consultations Proactive response to obligors utilizing bonus repayments Strengthened cooperation with financial institutions entrusting loan claims Promotion of voluntary sale Response to obligors using "Yutori Shokan" loans Response to obligors having loan repayment difficulties (33)
2002 Edition (Fiscal 2001)	2003 Edition (Fiscal 2002)	2004 Edition (Fiscal 2003)	
Implementation of proactive repayment consultations Response to obligors using "Yutori Shokan" loans Response to obligors having loan repayment difficulties Promotion of voluntary sale (30)	Implementation of proactive repayment consultations Systemic revision of new special measures Results from revisions to repayment procedure Support for customers' efforts to rebuild their lives (38)	Implementation of proactive repayment consultations Systemic revision of new special measures Results from revisions to repayment procedure Support for customers' efforts to rebuild their lives (38)	

[Source: Prepared by R&I from the Government Housing Loan Corporation Annual Report]

Moreover, although the GHLC Annual Report is no longer being issued, in the disclosure magazine "The Government Housing Loan Corp. 2005" the GHLC reports it is continuing its efforts to strengthen repayment consultations and amend repayment terms for borrowers having repayment difficulties.

In fact, by looking at the change in the economic indicators in Figure 4 in light of the time period shown in Figure 3, it is possible to surmise that housing loan borrowers found themselves facing a dire economic environment after the unemployment rate jumped to a high level and the index of urban land prices and the index of wages fell after 1997.

Figure 4 Change in economic indicators



Note: Standardized using 1997=100
 [Source: Ministry of Internal Affairs and Communications, Labour Force Survey Annual Report; Japan Real Estate Institute; Ministry of Health, Labour and Welfare, Monthly Labour Survey]

The characteristics of the approach adopted by GHLC and shown in Figure 3 are as follows.

- 1) "Response to obligors having loan repayment difficulties": In fiscal 1998, the government successively drafted the "Measures to be Implemented in an Emergency Concerning Financing from The Government Housing Loan Corp. and Other Institutions" (Cabinet Decision of October 23, 1998), and the Emergency Economic Package (Cabinet Decision of November 16, 1998), as countermeasures to assist individuals having housing loan repayment difficulties. The government also implemented special measures for repayment methods that included alternatives such as extension of the repayment period and interest rate reductions (the New Special Measures), and four years later in fiscal 2002 adopted further easing measures under the Program to Accelerate Reforms (Cabinet Council for Economic Countermeasures, December 12, 2002).
- 2) "Proactive response to obligors utilizing bonus repayments"⁴: Because of the concern payments in arrears might become permanent as borrowers fell behind in making the portion of their repayments covered by semiannual bonuses, the GHLC began moving aggressively to heighten attention towards obligors utilizing bonus repayments, and discontinue bonus repayments or change the repayment method, including reductions in bonus repayment amounts.
- 3) "Promotion of voluntary sale": For obligors facing repayment difficulties who can reduce their remaining debt somewhat through voluntary sale instead of legal measures such as auction, and for whom this approach appears advantageous for the obligor's recovery after the sale, the GHLC has enacted a policy to smoothly promote voluntary sale and is pursuing this independent solution.
- 4) "Results from revisions to repayment procedure": In addition to the New Special Measures mentioned above, the GHLC has made changes to repayment methods, including separate payment of past due interest and late fees and postponement of principal repayments.

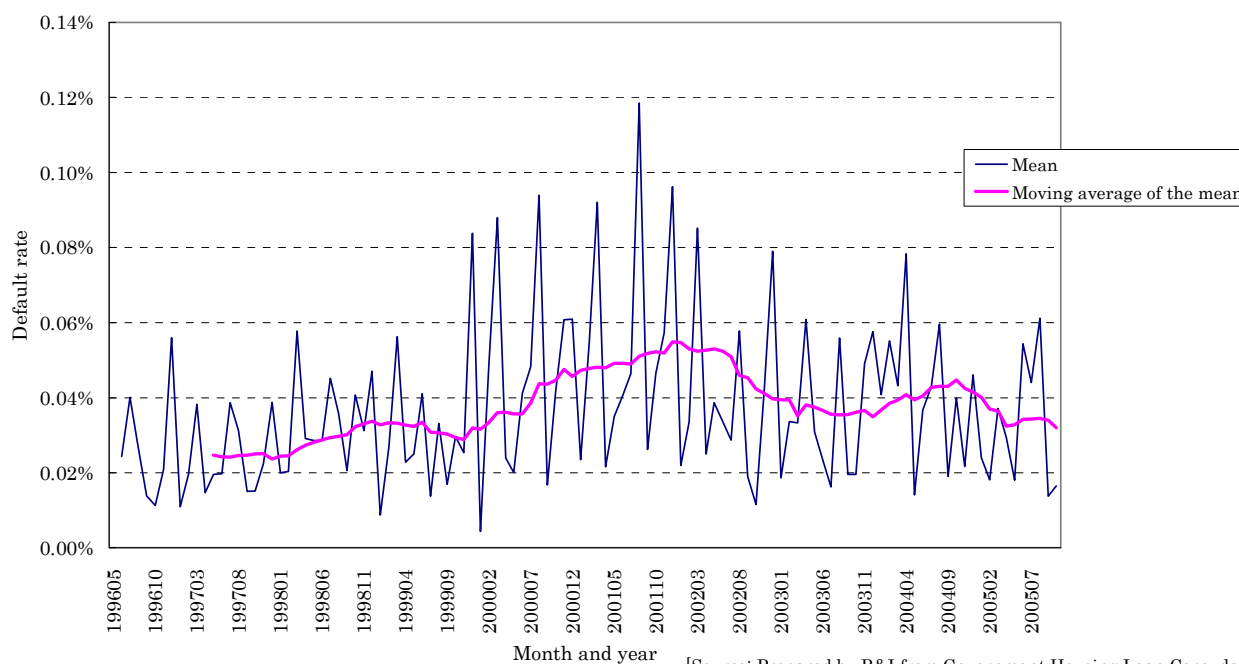
⁴ In the new policy implementation phase, the fact housing loan obligors are taking self-defensive steps can be noted from the Government Housing Loan Corporation's GHLC Loan Borrower Survey. Since 1997, the ratio of borrowers using concomitant bonus repayments has been trending downwards, with recent annual percentages declining as follows: 69.6%→68.4%→58.8%→58.7%→55.1%→46.8%→35.6%→23.8%.

From these specific actions it can be seen the GHLC has increased its menu of management policy responses to address the increase in volume of loans in arrears. The response to loan arrears under the New Special Measures drafted in 1998 made it possible to change the repayment method so obligors can pay the amount of arrears in future installments (rescheduling), in which case the arrears is eliminated from the data. Although there have been numerous requests for rescheduling, the delinquency rate has not declined, as can be understood from Figure 2. Leveling the payment amount in conjunction with discontinuation of the use of bonuses for repayments or promoting voluntary sale might be assumed to lead to a drop in the occurrence of defaults, but viewed over time, the default rate (Figure 5) rose around 2000 and shows the economic environment had deteriorated to the extent such measures alone could not keep up. Under circumstances in which land price continue to fall, for example, repayment by means of voluntary sale also becomes difficult.

4. Change in monthly default rate by month and year

Figure 5 shows the change in the mean of the default rate and moving average of the mean over time.

Figure 5 Change in default rate (Calendar month and year used as a base)



[Source: Prepared by R&I from Government Housing Loan Corp. data]

Despite rising and falling repeatedly over time, the mean held comparatively steady during the 1990s and rose no higher than about 0.06%. After 2000, however, the breadth of the fluctuations widened, and in one period the mean even approached the 0.12% level, twice the level of the 1990s. Since 2002, however, this trend has stabilized. In recent years the mean has continued to return to the level in the 1990s.

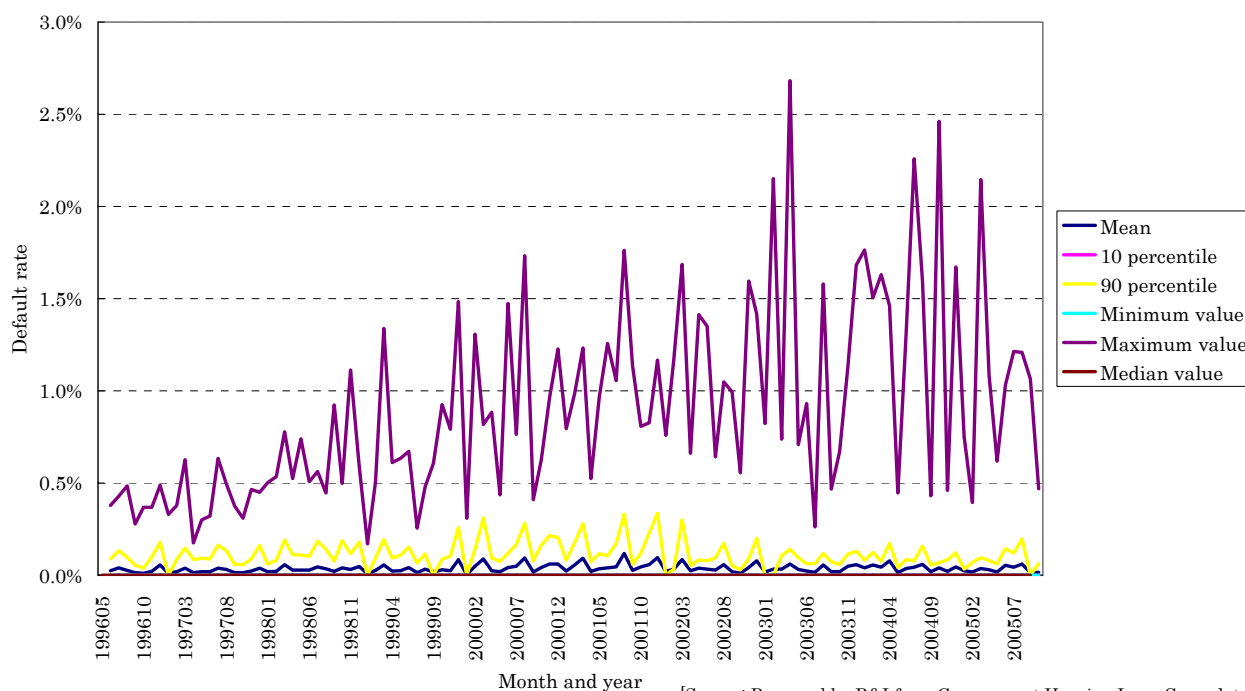
When we examine the moving average, we find there was a rising trend in 1998, followed by a large rise from 2000 onward to a level more than double the initial level. The moving average trended downward briefly from the latter half of 2002, and although this was followed by a small uptrend in 2003 and 2004, the moving average recently has returned nearly to the 1999 level. The changes in the moving average give the impression of being comparatively similar to the shape of the changes in the unemployment rate in Figure 4.

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Periodic increases and decreases can be noted from the fluctuations of the mean. When we examine this closely, the seasonality of the change in the default rate can be confirmed, with the rate being higher in March, July, August and December than in other months. According to the GHLC, it has strengthened its management of arrears by ascertaining the timing when obligors' financial situation can be expected to improve, such as the summer and winter bonus periods or the year-end and New Year's season when relatives get together and can be expected to provide some assistance. Although there are cases that are able to cancel their arrears as a result, by reviewing the repayment method or other means, conversely the number of cases that have no alternative but to halt repayments is substantial. So the timing chosen by the GHLC to aggressively implement controls on arrears is affected by the seasonality of the default rate.

In Figure 6, the scale used in Figure 5 is expanded and statistical results other than the mean are added.

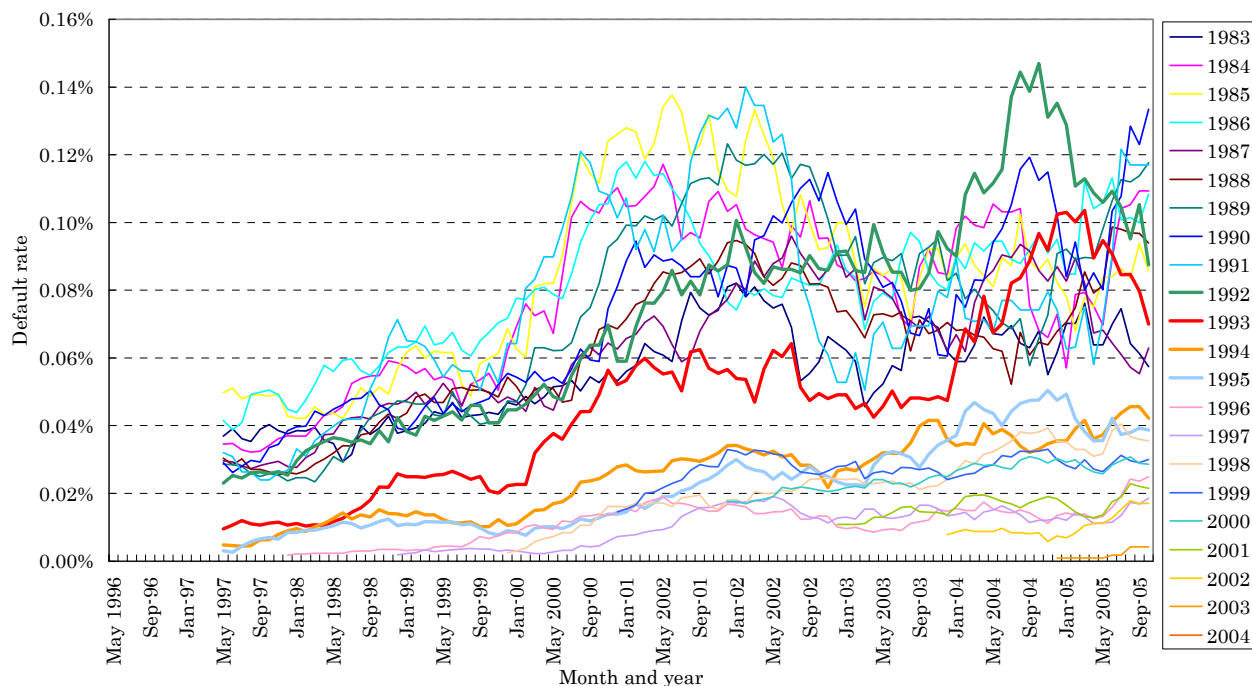
Figure 6 Default rate distribution (Calendar month and year used as a base)



Although fluctuating substantially, the maximum value shows an upward trend. Even though the mean noted in Figure 5 tended to decrease from 2002, since 2003 there have been several periods in which the maximum value exceeded 2.0%, a phenomenon not seen before. The levels of the maximum value and other statistical rating factors differ considerably. The 90 percentile never reaches 0.5%, and because the median value, the 10 percentile and the minimum value are 0.0% throughout the period examined the majority of the samples fluctuates at an extremely low value. Therefore, the distribution of the default rate for each calendar month and year is considerably biased. Although the change in the 90 percentile fluctuated substantially from 2000 through 2002, similar to the change in the mean, since then it has returned to the level of change in the 1990s.

Let's turn now to the change in the default rate by year when repayments began (Figure 7). For this default rate, R&I rearranges the history by the calendar month and year when repayments began into a history for each year when repayments began, then calculates the rate for each calendar month and year from this history by year when repayments began and takes the moving average.

Figure 7 Change in default rate by year when repayments began (Calendar month and year used as a base)



[Source: Prepared by R&I from Government Housing Loan Corp. data]

When little time has passed since repayments begin, the rate fluctuates at a low level; as the time elapsed since the period when repayments begin grows longer, the rate changes at relatively higher levels. There is a clear difference between the low level groups and high level groups. By year, the results can be divided into fluctuations for loans for which the year when repayments began in 1992 or earlier and loans for which the year when repayments began in 1994 and later. The default rate for loans for which repayments began in 1993 (1993 group) fluctuated initially near the level of 1994 group, but gradually has risen to the level of 1992 group.

When examined in detail, the fluctuations in the default rates also vary depending on the period when repayments began. For example, 1999 group and even earlier 1994 or 1995 group reached the same default rate level (calendar month and year) simultaneously, indicating the change in the default rate does not necessarily occur in chronological order. Moreover, even for back-to-back years the appearance of the change can differ greatly. For example, the 1994 and 1995 groups show comparatively similar changes, but the changes in the rates for 1992 or 1993 group are at considerably higher levels.

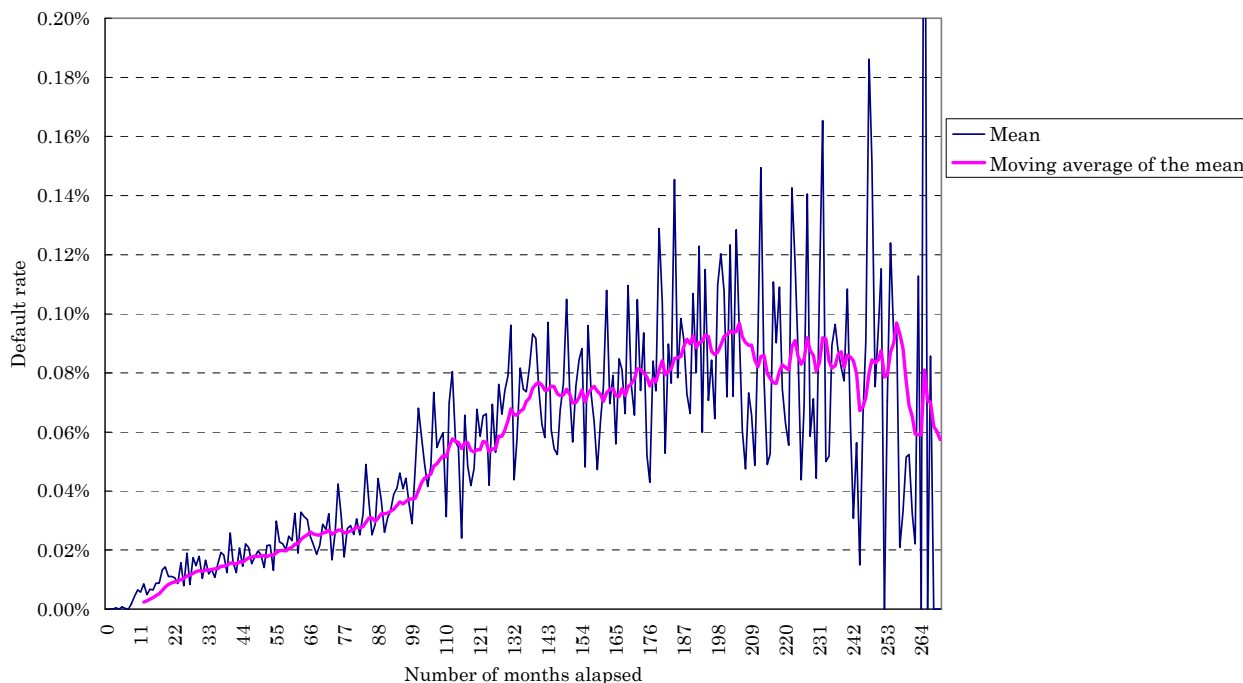
The changes in default rates of the group that began repayments in 1993 and earlier formed a “mountain” during the years from 2000 to 2002 especially. As we’ll see later in Figure 11, these years correspond to a period when the unemployment rate rose to a new peak after having risen once and then remained at a certain level, and compared with 1997 was a time when the unemployment rate was high.

5. Change in default rate by number of months elapsed

Figure 8 shows the mean of default rate and moving average of the mean by number of months elapsed for repayment. Overall, as the number of months elapsed increases, the default rate also rises. Looking at the moving average, as repayments begin the default rate increases gradually at first, but the upward trend grows stronger from 80 months. The increase levels off temporarily at 110 months, then resumes a rising tendency until 140 months. After that point sweeping generalizations cannot be made because the number of samples declines gradually beyond 159

months, but the upward trend seems to continue for a while even though the rise in the curve becomes less pronounced⁵.

Figure 8 Change in default rate (Number of months elapsed used as a base)



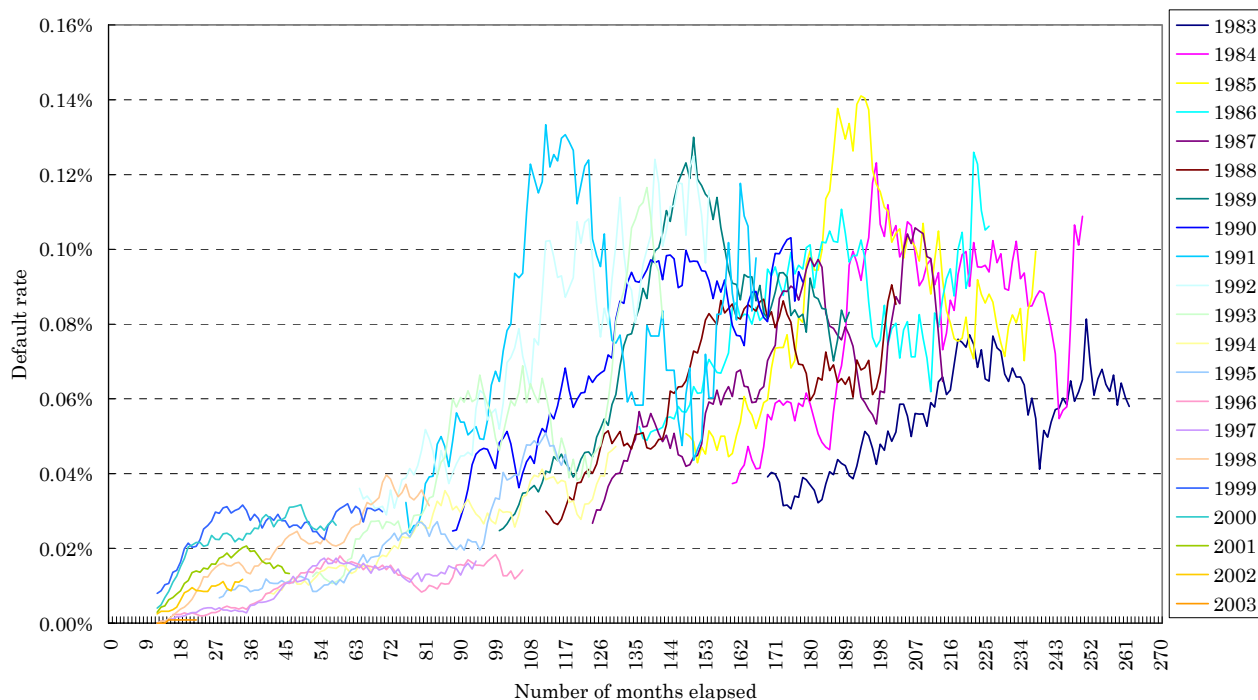
[Source: Prepared by R&I from Government Housing Loan Corp. data]

In the default rate, the negative affect of the interest rate step-up after the 120th month seen in the change in prepayments does not show a distinct shape. Considering the end of the housing loan deduction and application of the step-up interest rate at this point in time, however, full repayment within 120 months is reasonable. The repayment burden can be expected to increase when 120 months have passed, but the decrease in the loan balance, on the other hand, appears to be a countervailing factor.

Next we'll look at the change in default rate by year when repayments begin, using number of months elapsed as a base (Figure 9). For this default rate, R&I calculates the rate for number of months elapsed from this history by year when repayments begin and took the moving average.

⁵ In this case, the median value, 10 percentile and minimum value are always 0.0%.

Figure 9 Change in default rate by year when repayments began (Number of months elapsed used as a base)



[Source: Prepared by R&I from Government Housing Loan Corp. data]

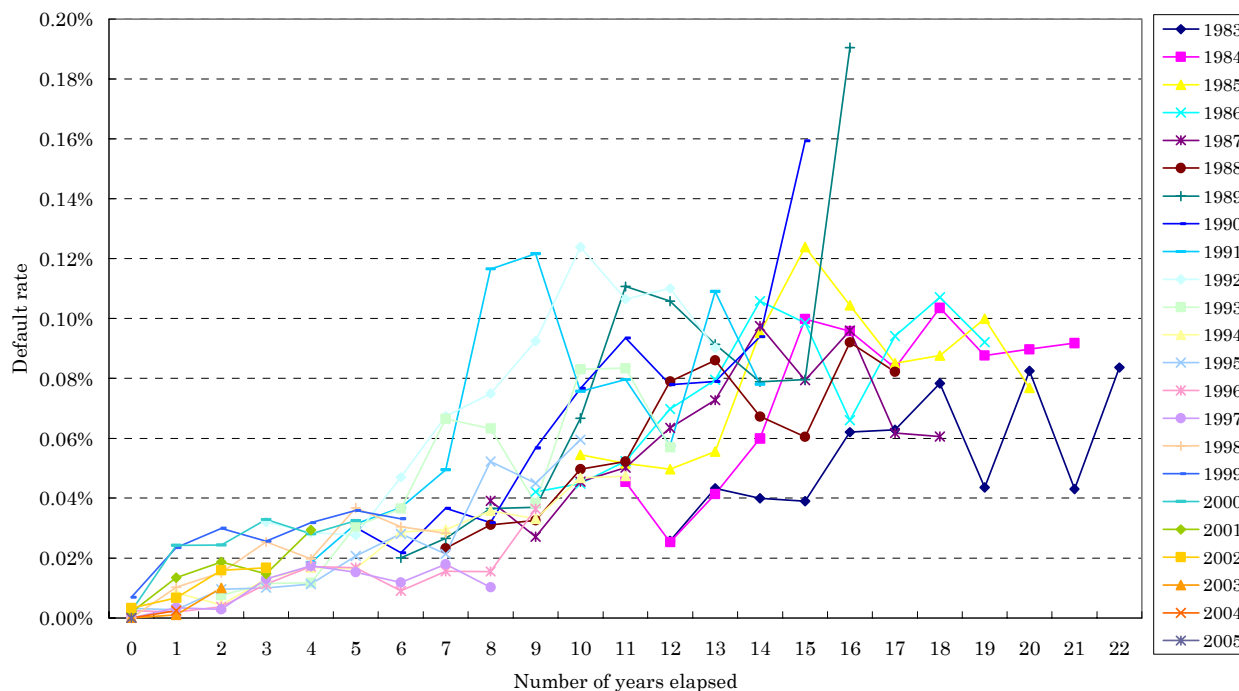
1983, 1984 or 1985 groups have default rates that sequentially become progressively higher, but the level of the default rate for 1986 group is higher than for 1987 group. When compared by identical number of months elapsed as well, the default level differs depending on the period when repayments begin, and no regularity in which the default rate is high if repayments begin early is apparent. The portions that can be confirmed as apparent peaks are for 1985, 1989 and 1991 groups, and the periods when these loans move toward a peak are reached earlier in sequence. The 1991 group shows the earliest peak, in roughly the tenth year after repayments had begun, and the default rate climbs rapidly from about 80 months.

The level of the default rate for 1994 and later groups is low compared with the group for which repayments begin earlier, and the propensity to fluctuate is smaller. While this is thought to reflect the fact the number of months elapsed is small, even when compared to 1992 and 1993 groups for the same number of months elapsed, the propensity varies to a smaller extent for 1994 group. In contrast to 1996 and 1997 groups, for which the default rate is still at a level less than 0.02% after 100 months, 1999 and 2000 groups pass that level at around the 20th month and thereafter remain at a level above 0.02%. From this we can see that even at a stage where little time has passed, the default characteristics differ depending on the period when repayments begin.

6. Analysis of the causes of default

As described earlier, the GHLC's historical repayment data cover the period from May 1996, but the period during which borrowers could begin repayments is from April 1983. Therefore it is possible to construct Figure 10 for the relationship between the default rate and the amount of time (in years) elapsed.

Figure 10 Change in default rate by year when repayments began (Number of years elapsed used as a base)



[Source: Prepared by R&I from Government Housing Loan Corp. data]

From the standpoint of a data limitation, one difficulty is that only partial data for the number of years elapsed can be used for housing loans executed many years ago. Nevertheless, Figure 10 does illustrate how the level of the default rate rises over time. The level of the default rate is high for housing loans executed during the so-called bubble economy era or housing loans executed during the period from the end of the 1990s through the first years of the new millennium, when Japan's unemployment ratio rose rapidly.

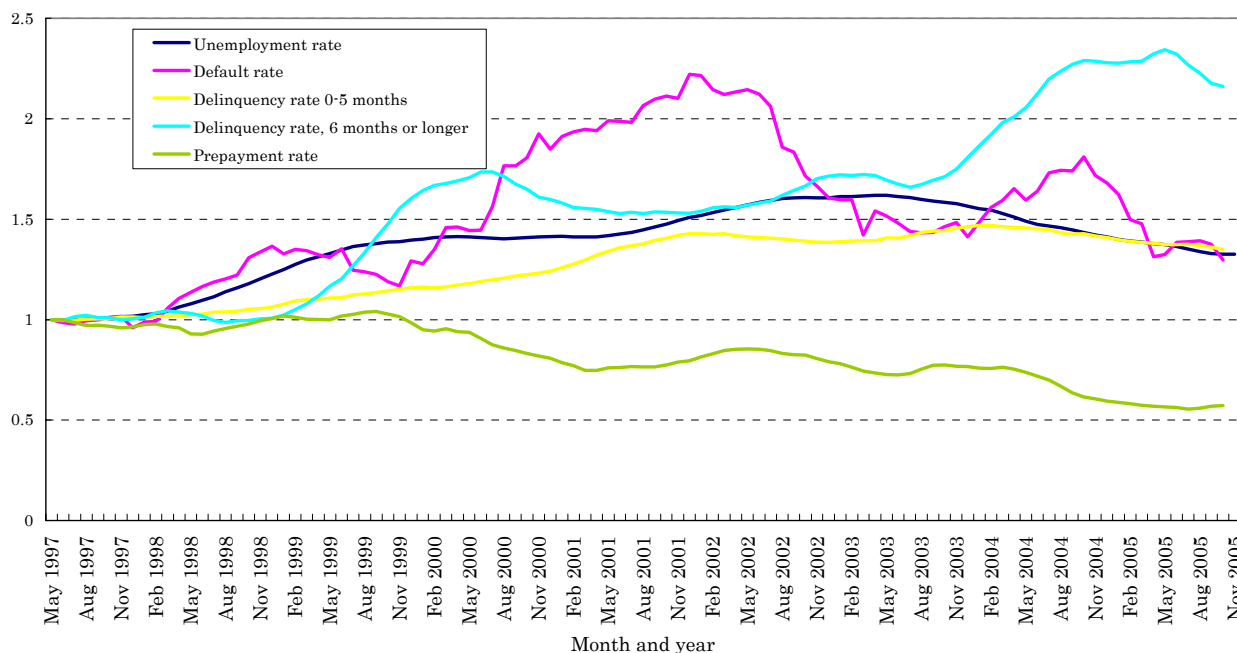
The result of performing a regression of the default rate based on number of years elapsed and the unemployment ratio is shown below (the value in parentheses is the *t* value).

$$\begin{aligned} \text{Monthly default ratio} &= -0.0005153 + 0.0000714 \times \text{Min}(11 \text{ years, number of years elapsed}) \\ &\quad (18.81) \\ &+ 0.0099929 \times \text{unemployment ratio} \\ &\quad (4.33) \end{aligned}$$

The coefficient of determination is approximately 0.68, meaning the number of years elapsed and the unemployment rate explain slightly less than 70% of the default rate.

Figure 11 shows the changes in the default rate, delinquency rate for five months or less, delinquency rate for six months or longer and prepayment rate (moving average for each indicator) compared with the change in the unemployment ratio (mean) by month. All of the indicators are standardized using May 1997 as 1.

Figure 11 Change in unemployment rate and default rate, delinquency rates and prepayment rate

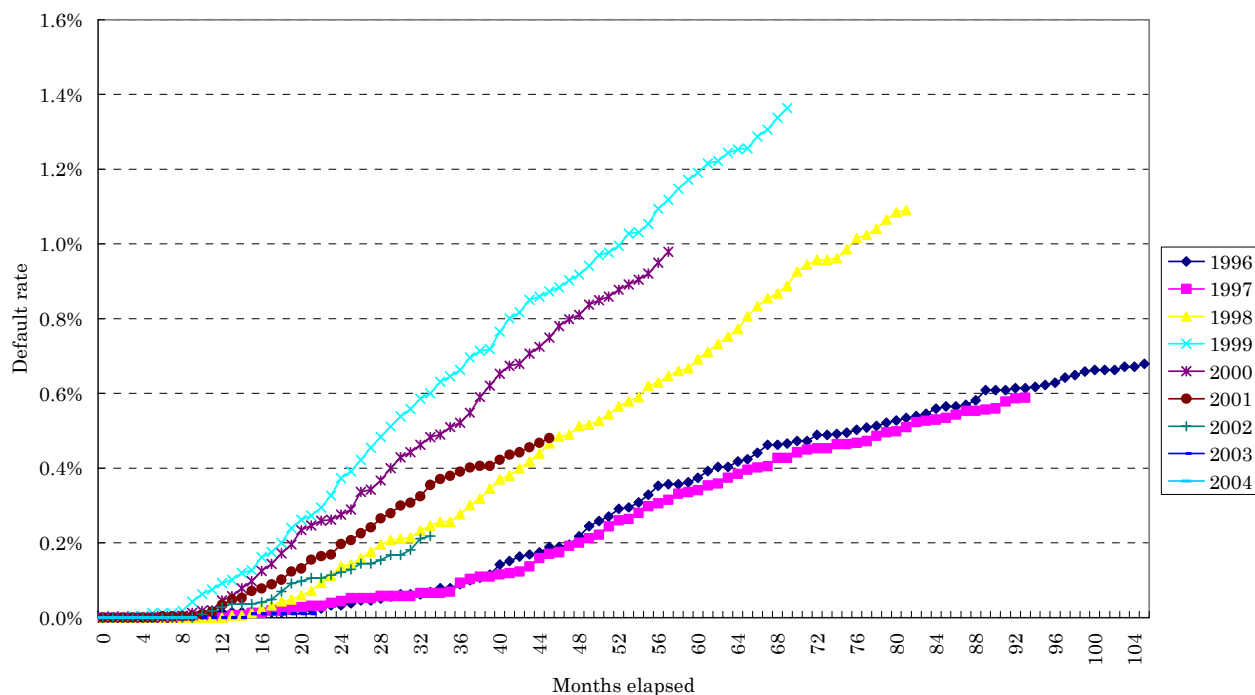


[Source: Prepared by R&I using GHLC and Ministry of Internal Affairs and Communications data]

After increasing to a certain level by 2000, the unemployment rate rose again from about mid-2001 and reached a peak in mid-2003. Although the rate has continued falling until recently, it has not returned to the initial level. The default rate increased more than the change in the unemployment rate from 2000 through 2002, but as the overall trend of the rate the change is similar to the variation in the unemployment rate. The delinquency rate for five months or less showed an increasing trend at first, and since 2002 has remained at a nearly constant level, giving an impression that overall it closely tracks the change in the unemployment rate. The delinquency rate for six months or longer shows an upward trend as a whole, and in contrast to the decline in unemployment has increased further since the latter half of 2003. The prepayment rate, on the other hand, has trended downward since 2000, as the reduction in the interest rate differential exerts a diminishing affect on refinancing. Nevertheless, excess cash has declined along with the deterioration in the economic environment, and even though arrears or defaults may not have been affected this has probably had an affect on partial prepayments. Furthermore, there is a possibility other factors have affected the changes in the default rate and delinquency rate for six months or longer, including the fact a loan will not be in default as long as GHLC does not declare an event of default at maturity, as touched upon previously.

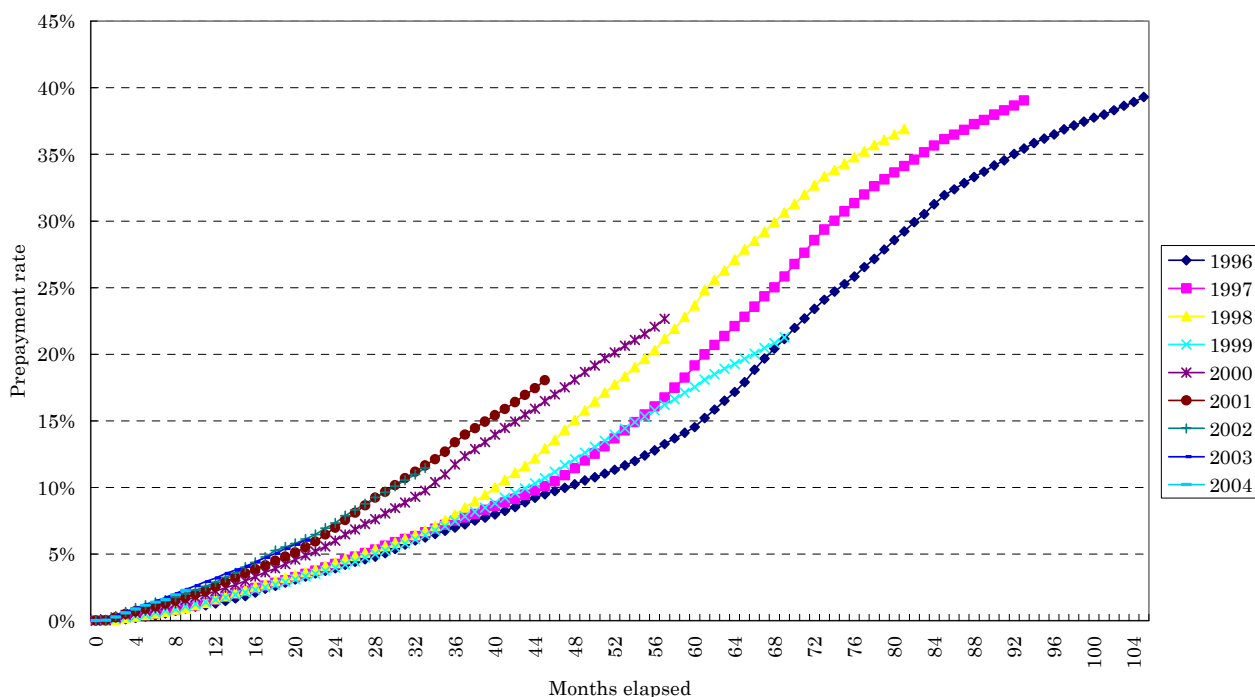
In Figure 12 and Figure 13, the cumulative default rate and cumulative prepayment rate are calculated by year of housing loan execution. There are clear differences in the cumulative default rate curves depending on the years when mortgage loans were executed, and it can be surmised that factors such as the economic environment at the time the mortgage loan was executed and loan conditions are affecting the default rate.

Figure 12 Cumulative default rate by year of loan execution



[Source: Prepared by R&I from Government Housing Loan Corp. data]

Figure 13 Cumulative prepayment rate by year of loan execution



[Source: Prepared by R&I from Government Housing Loan Corp. data]

To summarize the results,

1) The results for the same number of months elapsed shows the cumulative default rate of the pool for the years 1998-2001 is larger than the rate for the pools for years 1996 or 1997. The cumulative default rate level is high for the housing loan pools executed in 1999 and 2000 in particular.

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2) The change in prepayment rate does not show as large a difference by year of execution as the default rate. The level of the cumulative prepayment rate for the 1999 pool, however, which has a high cumulative default rate level, is lower than the prepayment rate for pools executed in other years.

Let's examine the performance of the housing loans executed in 1999 and 2000 in somewhat more detail, while taking another look at the historical background.

This was a time period when the government enacted several supplemental economic stimulus packages in succession in the face of a jump in the unemployment rate and a deteriorating economic environment after 1997. During October and November 1998, changes in housing loan management were made by the GHLC, a public financial institution, based on policies such as the "Measures to be Implemented in an Emergency Concerning Financing from The Government Housing Loan Corp. and Other Institutions" and the Emergency Economic Package. Specifically, the basic interest rate for GHLC financing was reduced to a record low rate of 2.00% in October 1998⁶, and the GHLC implemented measures to ease the upper limit on loan amounts based on the government's "Plan to Double the Size of Living Space" (valid until March 31, 2001). In addition, tax reforms in fiscal 1999 greatly expanded the housing loan tax exemption system for residential property for 1999 and 2000 (the time limit for applications was later extended until June 2001).

The results of these policies can be inferred from the fact the number of condominiums sold increased in 1999 and 2000, for example, and the last-minute rush in demand (For instance, according to research by the Real Estate Economic Institute Co., Ltd., the growth rate for the number of condominium units sold in Japan in 1999 and 2000 compared to the previous year was 20.9% and 11.9%, respectively. The number of units sold in 1999 and 2000 was 162,744 units and 182,067 units, respectively). The amount of new GHLC financing, which had been declining, also began increasing and expanded from fiscal 1998 through fiscal 2000 (Figure 14⁷).

Figure 14 Attributes

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Number of residential units	124,224	111,746	103,673	123,076	78,050	96,802	95,018	100,653	101,975	43,360	60,278	15,842
Purchase price (10,000 yen)	3,331.6	3,379.4	3,409.8	3,361.7	3,379.4	3,292.7	3,328.8	3,300.4	3,196.0	3,143.9	3,121.6	3,133.0
Down payment (10,000 yen)	964.2	975.1	1,036.6	968.0	970.4	859.6	791.8	760.0	718.4	744.5	773.2	865.2
Amount borrowed from GHLC (10,000 yen)	1,752.2	1,856.9	1,740.1	1,719.0	1,724.5	1,874.8	2,114.5	2,024.5	1,897.5	1,781.6	1,633.0	1,537.5
Amount of other loans (10,000 yen)	615.1	547.4	633.2	674.7	684.4	558.4	422.6	515.9	580.0	617.9	715.4	730.4
Initial LTV	71.1%	71.1%	69.6%	71.2%	71.3%	73.9%	76.2%	77.0%	77.5%	76.3%	75.2%	72.4%
DTI	19.4%	19.6%	19.2%	19.1%	19.6%	19.0%	18.3%	18.9%	18.3%	19.1%	18.5%	19.5%
Percent repaid with bonuses	79.4%	76.7%	76.4%	71.6%	69.6%	68.4%	58.8%	58.7%	55.1%	46.8%	35.6%	23.8%
Percentage utilizing Yutori Shokan	70.7%	65.6%	58.8%	51.8%	35.4%	24.9%	10.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Average repayment period (years)	30.47	30.20	31.07	30.77	30.73	31.42	31.72	31.73	31.79	31.97	31.60	31.52
Percent by location: Tokyo metro area	26.4%	30.4%	33.5%	32.9%	30.2%	31.1%	35.4%	36.9%	37.1%	40.3%	37.0%	41.2%
Percent by location: Kinki Region	14.5%	15.9%	15.5%	15.0%	14.3%	13.7%	15.2%	17.2%	16.5%	19.9%	20.4%	18.5%
Percent by location: Tokai Region	12.7%	10.7%	11.5%	11.9%	13.3%	13.3%	11.8%	11.6%	12.5%	12.0%	11.3%	10.2%
Percent by location: Other regions	46.4%	43.0%	39.5%	40.2%	42.1%	41.9%	37.7%	34.3%	33.9%	27.8%	31.2%	30.2%

[Source: Prepared by R&I from Government Housing Loan Corp. data]

The large increase in new financing amount in this way during a time when the economy was weak, plus the continuing upward trend in the unemployment rate since 1999, appear to be linked to the deterioration in loan performance in 1999 and 2000 compared with other years⁸.

⁶ The mortgage interest rates private financial institutions were offering at that time were not low enough to compete with the GHLC's mortgage interest rates as they do today, and presumably this was a factor causing GHLC financing to grow. Compared to the GHLC's 2.00% basic interest rate in November 1998, for example, interest rates on city banks' fixed rate housing loans were 2.40% (3 years), 2.70% (5 years) and 3.15% (10 years). In July 2003, on the other hand, compared to the GHLC's same 2.00% basic interest rate the interest rates on city banks' fixed rate housing loans were 2.25% (3 years), 2.40% (5 years) and 3.00% (10 years). The sources for this data are The Government Housing Loan Corp.'s homepage and House & Loan Monthly Magazine.

⁷ This data is taken from the GHLC Loan Borrower Survey (financing for construction of a new single-family residence, financing for purchase of builder spec housing, financing for purchase of a condominium and financing for purchase of a high-quality subdivided residence) and shows the attributes of obligors targeted by said survey only. The data therefore do not correspond to the obligors covered by the historical repayment data, but can be used to give some idea of the trend.

⁸ The following might also be cited as a factor. As indicated above, this historical repayment data excludes obligors using "Yutori Shokan." 1996 and 1997 were years when the percentage of borrowers using the "Yutori Shokan" system was still high, and presumably obligors who did not use "Yutori Shokan" during this period had a relatively



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7. Future analysis policy

R&I cautions readers of this report that the results of this analysis are based on the use of data that look at economic circumstances for a certain period in time. The survey period for the GHLC historical repayment data is pertinent for the years after interest rates had already declined greatly and had shifted to a gradually decreasing phase. A sample with a large number of elapsed months, although covering the period when interest rates were high at the housing loan execution date, will inevitably include data for obligors who had the opportunity to prepay their loan through refinancing, for example, when an interest rate differential arose. There is a strong probability that obligors who were unable to refinance at a low interest rate would be forced to repay their loans at relatively high interest rates and default. On the other hand, a sample for which repayments have just started will become data for obligors who were able to borrow loans at relatively low interest rates. The sample R&I used for this analysis encompasses large differences in the amount of time elapsed since the start of repayments, depending on the number of months elapsed.

In the future, the repayment histories for obligors that obtained housing loans at low interest rates will accumulate, and the verification results at that time will surely be different. R&I plans to broaden its analysis as it accumulates more data in the months and years ahead.

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large repayment capacity margin that naturally would cause the default rate for the group of such borrowers to be low. The GHLC cut back the "Yutori Shokan" system in 1998 and 1999, however, and terminated the system in 2000. As a result, obligors who probably would have chosen "Yutori Shokan" had the "Yutori Shokan" system been continued also began utilizing GHLC financing in a form that did not provide for "Yutori Shokan." The result would be that the default rate for 1999 and 2000 would have risen higher than it had been earlier.

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