

Japan Housing Finance Agency (Incorporated Administrative Agency)

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1. Summary of operations implemented using FILP funds

Japan Housing Finance Agency provides loans to disaster-affected persons (post-disaster housing reconstruction loans) to reconstruct disaster-affected housing and loans to persons implementing seismic retrofitting work (seismic retrofitting work loans, landslide-related housing loans and residential disaster prevention work loans (hereinafter referred to as "disaster prevention loans")).

Note: Non-FILP operations include securitization support, housing loan insurance, provision of housing loans (other than post-disaster housing reconstruction and disaster prevention loans).

2. Amount of lending under FY2019 FILP

(Unit: billion yen)

FY2019 FILP	Estimated outstanding amount of FILP lending at the end of FY2018
63.5	4,347.9

(Outstanding FILP loans at the end of FY2018 include those other than post-disaster housing reconstruction and disaster prevention loans)

3. Estimated policy cost analysis of the project

(1) Policy cost

(Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)*	-70.2	-46.1	+24.1
3. Opportunity cost of capital investments, etc.	111.0	78.0	-33.0
Total (1+2+3=policy cost(A))	40.8	31.8	-8.9
Analysis period (years)	40 years	40 years	-

(2) Breakdown of policy cost by the time of the provision of funds

(Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
(A) Policy cost (previously cited)	40.8	31.8	-8.9
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	3.0	7.9	+4.9
2) Policy cost expected to be newly accrued during the analysis period	37.8	24.0	-13.8
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*	-70.2	-46.1	+24.1
Opportunity cost of surplus, etc.	102.3	70.1	-32.1
Opportunity cost of capital investments, etc.	5.8	-	-5.8

(5) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case for raising lending and fundraising rates by 1 %	Fluctuation			
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*	3. Opportunity cost of capital investments, etc.
31.8	21.9	-10.0	-	-2.9	-7.1

(A) Policy cost (previously cited)	Case for raising the bad loan write-off by 10 %	Fluctuation			
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*	3. Opportunity cost of capital investments, etc.
31.8	34.9	+3.1	-	-1.0	+4.1

(Note) Components in each column may not add up to the total because of rounding.

* Government revenue (payments to the government, etc.) is booked as a negative amount. Example: -10 b. yen for 10 b. yen in payments to government, etc.

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2018	FY2019	Simple fluctuation
		Simple comparison (before adjustment)	40.8	31.8
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2019 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2018)	Real fluctuation (2-1)
		34.8	30.2	-4.5

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to interest rate change for FY2019 loans (+4.8 billion yen)
- Others (Increase in administrative cost due to new financing, etc.) (+3.1 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to decrease in loan losses (-6.8 billion yen)
- Decrease in cost due to finalization of FY2017 results and revision of FY2018 projections (-4.7 billion yen)
- Decrease in cost due to changes in fiscal loan terms and conditions, etc. (-0.8 billion yen)

(4) Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2019 (previously cited)	31.8
1) Prepayments	-18.9
2) Loan losses	31.7
3) Others (including profit spread)	19.1

4. Outline of estimation and project prospect employed in the analysis

- 1) Post-disaster housing reconstruction and disaster prevention loans based on the FY2019 business plan are subjected to the estimation.
- 2) Public works subject to estimation: None
- 3) Size of operations subjected to estimation: Outstanding loans at the end of FY2017 at 254.5 billion yen, loans planned in FY2018 at 68.1 billion yen, loans planned in FY2019 at 63.5 billion yen
- 4) Analysis period: 40 years to FY2058 when longest loans will be collected
- 5) Plans for collecting new loans are based on those for collecting existing loans.
- 6) As for prepayments and loan loss write-offs, amounts calculated based on past results are used for estimation.

(Unit : %)

FY	Result					Estimated	Decision	Trial assumption				
	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022
Prepayment ratio	1.37	1.66	1.86	2.60	3.19	3.44	3.48	3.55	3.60	3.64	3.78	3.90
Provision on loans	0.02	0.01	0.01	-	0.01	0.07	0.19	0.35	0.51	0.64	0.76	0.87

FY	Result					Estimated	Decision	Trial assumption				
	2025	2026	2027	2028	2029			2030	2031	2032	2033	2034
Prepayment ratio	3.89	3.90	3.89	3.88	3.88	3.87	3.86	3.86	3.85	3.85	3.83	3.82
Provision on loans	0.98	1.10	1.20	1.33	1.41	1.48	1.58	1.66	1.88	1.97	2.01	2.06

FY	Result					Estimated	Decision	Trial assumption				
	2037	2038	2039	2040	2041			2042	2043	2044	2045	2046
Prepayment ratio	3.81	3.79	3.77	3.76	3.74	3.73	3.71	3.70	3.70	3.68	3.65	3.62
Provision on loans	2.10	2.14	2.16	2.11	2.14	2.07	2.09	1.99	1.91	1.89	1.88	1.96

FY	Result					Estimated	Decision	Trial assumption		
	2049	2050	2051	2052	2053			2054	2055	2056
Prepayment ratio	3.55	3.43	3.23	2.76	2.52	3.50	3.32	2.96	1.88	0.55
Provision on loans	2.08	2.33	2.90	3.55	3.97	4.45	5.36	7.63	10.28	-

5. Reasons for granting of subsidies, mechanism and underlying laws

(Reason)

•The Japan Housing Finance Agency is required to implement the disaster restoration housing loan program to quickly provide low-interest loans to disaster-affected people to support the prompt restoration of disaster-damaged housing. It is also required to implement the disaster prevention loan program to provide low-interest loans to support the promotion of disaster prevention and reduction measures for housing.
In order to accomplish this mission the JHF strives to smoothly implement housing loans for post-disaster reconstruction by receiving capital investment from the general account and utilizing investment profits.

(Underlying laws and regulations)

•The investment is stipulated under (Article 6 of) the Incorporated Administrative Agency Japan Housing Finance Agency Act.
Article 6-2: The Government may make an additional contribution to the Agency within the amount designated by the budget thereto if such contribution is considered to be required.
In the event of such contribution, the Government shall disclose the amount of the fund so contributed if such contribution as a whole or in part is to be appropriated for the provident fund for the interest fluctuation as set forth under Article 25, Paragraph 1 hereof.
Article 6-3: The Agency, upon such contribution provided in the foregoing made by the Government, shall increase the stated capital of itself with the fund so contributed.
•Payment to the national treasury is stipulated under (Article 18 of) the Incorporated Administrative Agency Japan Housing Finance Agency Act.
Article 18-3: In the event of surplus realized after subtracting the approved amount provided under the preceding two paragraphs from the amount of the reserve funds provided under paragraph 1, the Agency shall pay such surplus to the national treasury.

6. Special remarks

- 1) This analysis covers post-disaster housing reconstruction loans (accepted from FY2015) and disaster prevention loans (accepted from November 2016).
- 2) The Japan Housing Finance Agency was established on April 1st, 2007 following the winding-up of the Housing Loan Corporation pursuant to the Incorporated Administrative Agency Japan Housing Finance Agency Act (Act No. 82 of 2005).

(Reference) Outcome and social and economic benefits of operations

[Housing loans for post-disaster reconstruction]

- 1) Housing loans for post-disaster reconstruction loans provided
226,346 houses, 2.0645 trillion yen (as of the end of FY2018; on a contractual basis)
- 2) Long-term fixed-rate low-interest loans for disaster victims
○Supply of long-term fixed-rate low-interest loans to disaster victims immediately following the occurrence of disaster in order to support early reconstruction of disaster-affected housing
- 3) Disasters targeted by housing loans for disaster victims
○Targeting disasters that caused damage at or above specific levels stipulated in the National Disaster Act (until FY2008)
○Providing loans for post-disaster reconstruction soon after a disaster occurs, irrespective of levels of the disaster that caused damage, thinking of disaster situations and social conditions in recent years. (after FY2009)
- 4) Response to the Great East Japan Earthquake
○Housing loans for post-disaster reconstruction related to the Great East Japan Earthquake
19,082 houses, 326.9 billion yen (as of the end of FY2018; on a contractual basis)

<Trend of contracts (last 10 years)>

(Unit: houses, million yen)

FY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of houses	7	-94	4,340	4,511	3,200	2,136	1,805	2,893	2,284	2,638
Sum	26	-1,468	62,788	70,507	57,807	40,357	34,111	45,331	36,683	34,059

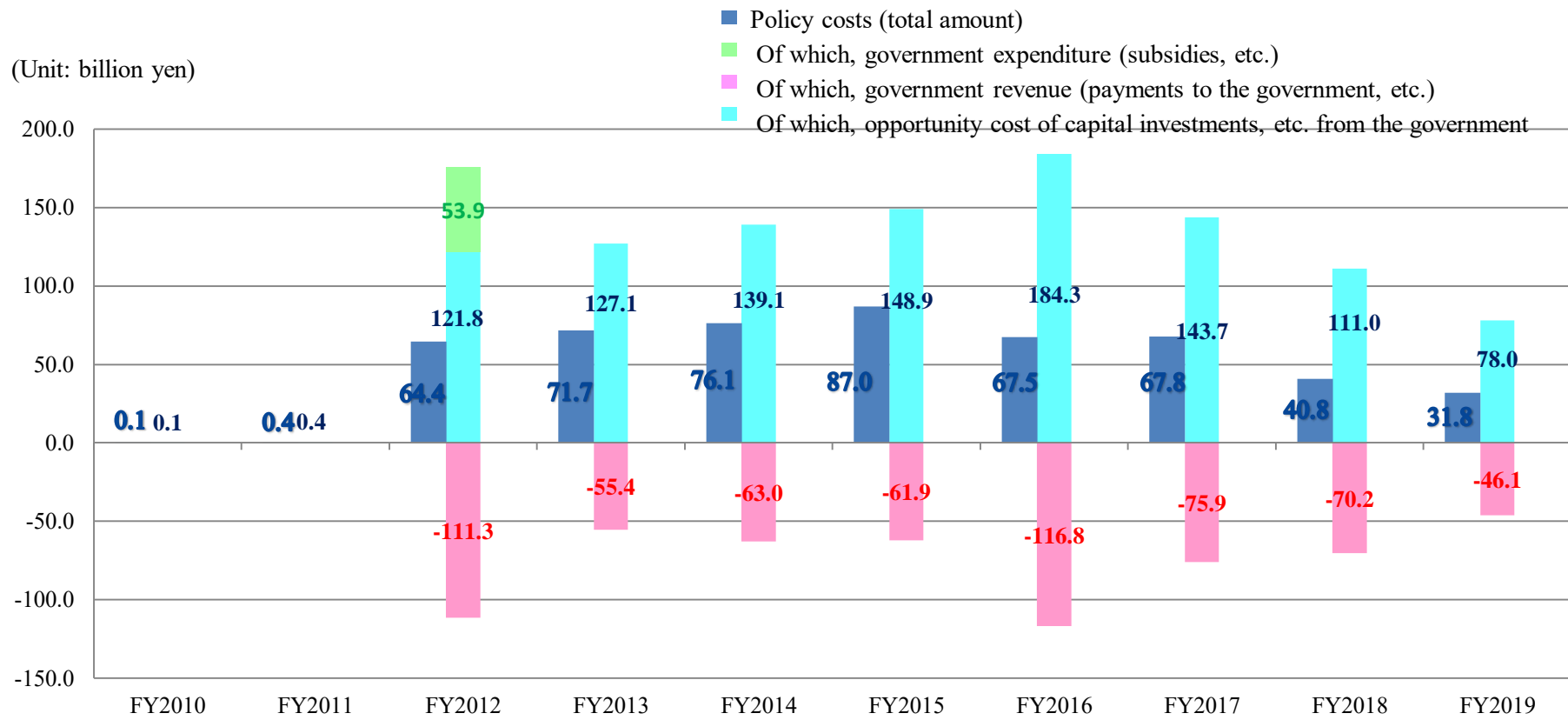
* The negative sum came as borrowers' cancellations of approved loans (including those approved in earlier years) exceeded loans approved in the fiscal year.

[Disaster prevention loans]

- 1) Actual loans
42 houses, 1.5 billion yen (as of the end of FY2018; on a contractual basis)
- 2) Long-term fixed-rate low-interest loans to persons implementing seismic retrofitting work
○To improve anti-earthquake safety, long-term, fixed-low-interest loans are provided to persons implementing seismic retrofitting work.

(Reference) Changes in Policy Costs by Component

<Japan Housing Finance Agency (Incorporated Administrative Agency)>



Notes 1. Policy costs for each fiscal year differ in assumptions including interest rates applied to estimates.

2. Policy costs represent post-disaster housing reconstruction loans (accepted from FY2005) until FY2016 and cover new disaster prevention loans (accepted from November 2016) as well as post-disaster housing reconstruction loans from FY2017.

(Points)

- From FY2012 onward, policy costs have increased, reflecting the effects of receiving subsidies from the FY2011 supplementary budget and FY2012 budget due to the response to the Great East Japan Earthquake.

(Reference) Financial Statements

Balance Sheet (Account for housing loans, etc.)

(Unit: million yen)

Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)	Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)
(Assets)				(Liabilities and equity)			
Cash and deposits	237,706	113,048	113,070	Loans payable			
Cash	0	-	-	Funds for fiscal loans	257,064	305,355	343,662
Deposits	217,497	110,522	110,755	Bonds	929,976	876,409	887,418
Money on agencies	20,208	2,526	2,315	Loan mortgage bond	16,235	14,099	12,842
Money in trust	30,381	33,367	33,513	General mortgage bond	525,966	435,381	417,035
Securities	151,725	94,315	54,302	Housing and building bond	387,829	426,971	457,574
Loans receivable	1,070,912	1,237,004	1,335,724	Discount on bond (-)	-55	-42	-34
Loans receivable from other accounts	210,548	190,548	190,548	Deposited subsidies			
Other assets	71,358	62,600	46,036	Deposit of subsidies for emergency measures such as housing loans for post-disaster reconstruction, etc.	141,524	103,750	98,729
Claimable assets	7,082	6,583	6,124	Other liabilities	47,809	43,607	38,859
Transferred pension claims	48,531	41,336	35,273	Accrued expenses	10,727	8,913	7,932
Accrued income	1,142	1,370	1,340	Advance revenues	30,762	28,351	24,682
Other assets	14,603	13,311	3,299	Other liabilities	6,133	6,182	6,092
Intangible fixed assets	3,925	4,491	4,447	Accrued liabilities of other accounts	187	160	153
Software	3,904	4,491	4,447	Reserves	2,680	2,749	2,820
Software in progress	21	-	-	Reserve for bonuses	134	140	142
Borrowers' liabilities on guarantees	198,223	163,639	135,327	Reserves for retirement pensions	2,521	2,586	2,655
Reserve for possible loan loss	-9,311	-8,653	-8,055	Reserve for guarantee charge	25	24	24
	-	-	-	Guarantee liabilities	198,223	163,639	135,327
	-	-	-	(Total liabilities)	1,577,276	1,495,510	1,506,815
	-	-	-	Capital			
	-	-	-	Financing by the Government	42,900	50,812	50,812
	-	-	-	Capital surplus	16	16	16
	-	-	-	Capital surplus	-33	-33	-33
	-	-	-	Other accumulated administrative costs			
	-	-	-	Amount equivalent to accumulated net gains or losses on sale or disposal	50	50	50
	-	-	-	Retained earnings	346,322	344,915	348,011
	-	-	-	Reserve carried forward during former medium-term target period	300,831	292,075	287,876
	-	-	-	Reserve fund under Paragraph 2 of Article 18 of the Act on the Japan Housing Finance Agency	38,857	38,857	38,857
	-	-	-	Reserve fund	-	6,634	13,984
	-	-	-	Unappropriated income for the current year	6,634	7,350	7,295
	-	-	-	(Of this, gross profit)	6,634	7,350	7,295
	-	-	-	Valuation and translation adjustments			
	-	-	-	Deferred gains or losses on hedges	-1,047	-895	-743
	-	-	-	(Total equity)	388,192	394,849	398,097
Total assets	1,965,468	1,890,359	1,904,912	Total liabilities and equity	1,965,468	1,890,359	1,904,912

Note: Components may not add up to the total because of rounding.

Income Statement (Account for housing loans, etc.)

(Unit: million yen)

Item	FY2017 (Result)	FY2018 (Estimated)	FY2019 (Planned)
Ordinary income	162,610	160,982	148,204
Profit from fund operation	22,612	22,922	24,097
Insuring profit	130,815	129,239	116,536
Profit from services, trades, etc.	498	540	507
Revenues from subsidies, etc.	5,814	5,374	5,167
Other ordinary income	2,870	2,907	1,898
Ordinary expenses	162,670	162,388	145,108
Fund-raising expenses	15,343	13,080	12,265
Insuring expenses	136,570	137,179	120,592
Expenses for services, trades, etc.	1,557	2,096	2,094
Other operating expenses	279	620	710
Business expenses	8,910	9,060	8,329
Other ordinary expenses	11	352	1,117
Ordinary profit or loss (-)	-60	-1,406	3,096
Extraordinary profits	26	-	-
Other extraordinary profits	26	-	-
Net profit or loss (-)	-34	-1,406	3,096
Reversal of reserve carried forward during former medium-term target period	6,667	8,756	4,200
Gross profit	6,634	7,350	7,295

Note: Components may not add up to the total because of rounding.