

# 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 FY2020 FILP

(Unit: billion yen)

FY2020 FILP	Estimated outstanding amount of FILP lending at the end of FY2019
50.1	2,977.9

(Outstanding FILP loans at the end of FY2019 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	FY2019	FY2020	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)*1	-46.1	-2.6	+43.5
3. Opportunity cost of capital investments, etc.	78.0	39.7	-38.3
<b>Total (1+2+3=policy cost(A))</b>	<b>31.8</b>	<b>37.1</b>	<b>+5.3</b>
Analysis period (years)	40 years	40 years	-

### (2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
(A) Policy cost (previously cited)	31.8	37.1	+5.3
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	7.9	4.5	-3.4
2) Policy cost expected to be newly accrued during the analysis period	24.0	32.7	+8.7
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*1	-46.1	-2.6	+43.5
Opportunity cost of surplus, etc.	70.1	35.3	-34.8
Opportunity cost of capital investments, etc.	-	-	-

### (5) Sensitivity analysis (cases where assumptions change) (Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy*2	Fluctuation			
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
37.1	36.4	-0.8	-	-0.8	+0.1

### (3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2019	FY2020	Simple fluctuation
		Simple comparison (before adjustment)	31.8	37.1
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2020 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2019)	Real fluctuation (2-1)
		30.3	31.9	+1.6

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to decrease in investment return accompanying payment to the Government in FY2019 of subsidies accepted in response to the Great East Japan Earthquake (+6.7 billion yen)
- Increase in cost due to interest rate change for FY2020 loans (+3.1 billion yen)
- Others (Increase in administrative cost due to new financing, etc.) (+0.7 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to finalization of FY2018 results and revision of FY2019 projections (-5.2 billion yen)
- Decrease in cost due to decrease in loan losses (-3.8 billion yen)

### (4) Breakdown of policy cost by causative factor (Unit: billion yen)

(A) Policy cost in FY2020 (previously cited)	37.1
1) Prepayments	-3.7
2) Loan losses	31.4
3) Others (including profit spread)	9.4

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

\*1 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.

\*2 Assumed interest rates (discount factor and future interest rate) are based on the market yield on Japanese government bonds on January 28, 2016, before the introduction of the negative interest rate policy.

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

- 1) Post-disaster housing reconstruction and disaster prevention loans based on the FY2020 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 FY2018 at 272.7 billion yen, loans planned in FY2019 at 63.5 billion yen, loans planned in FY2020 at 50.1 billion yen
- 4) Analysis period: 40 years to FY2059 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	2023
Prepayment ratio	1.37	1.66	1.86	2.60	3.19	2.64	3.27	3.59	3.64	3.68	3.70	3.82	
Provision on loans	0.02	0.01	0.01	-	0.01	0.01	0.08	0.21	0.39	0.55	0.69	0.83	

FY	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Prepayment ratio	3.90	3.91	3.91	3.89	3.89	3.88	3.87	3.87	3.86	3.86	3.85	3.84
Provision on loans	0.92	1.02	1.12	1.21	1.33	1.40	1.49	1.57	1.64	1.86	1.93	1.97

FY	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Prepayment ratio	3.83	3.82	3.81	3.81	3.81	3.80	3.81	3.81	3.83	3.84	3.84	4.78
Provision on loans	2.01	2.04	2.06	2.02	2.05	1.99	2.01	1.96	1.88	1.84	1.85	1.80

FY	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059
Prepayment ratio	3.62	3.54	3.42	3.19	2.65	2.50	3.52	3.35	3.00	1.99	0.52
Provision on loans	1.85	1.99	2.27	2.83	3.50	3.91	4.38	5.24	7.34	10.17	-

#### 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 FY2005) 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  
229,025 houses, 2.0934 trillion yen (as of the end of FY2019; 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, 338.5 billion yen (as of the end of FY2019; on a contractual basis)

<Trend of contracts (last 10 years)>

(Unit: houses, million yen)

FY	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of houses	- 94	4,340	4,511	3,200	2,136	1,805	2,893	2,284	2,638	2,162
Sum	- 1,468	62,788	70,507	57,807	40,357	34,111	45,331	36,683	34,059	28,848

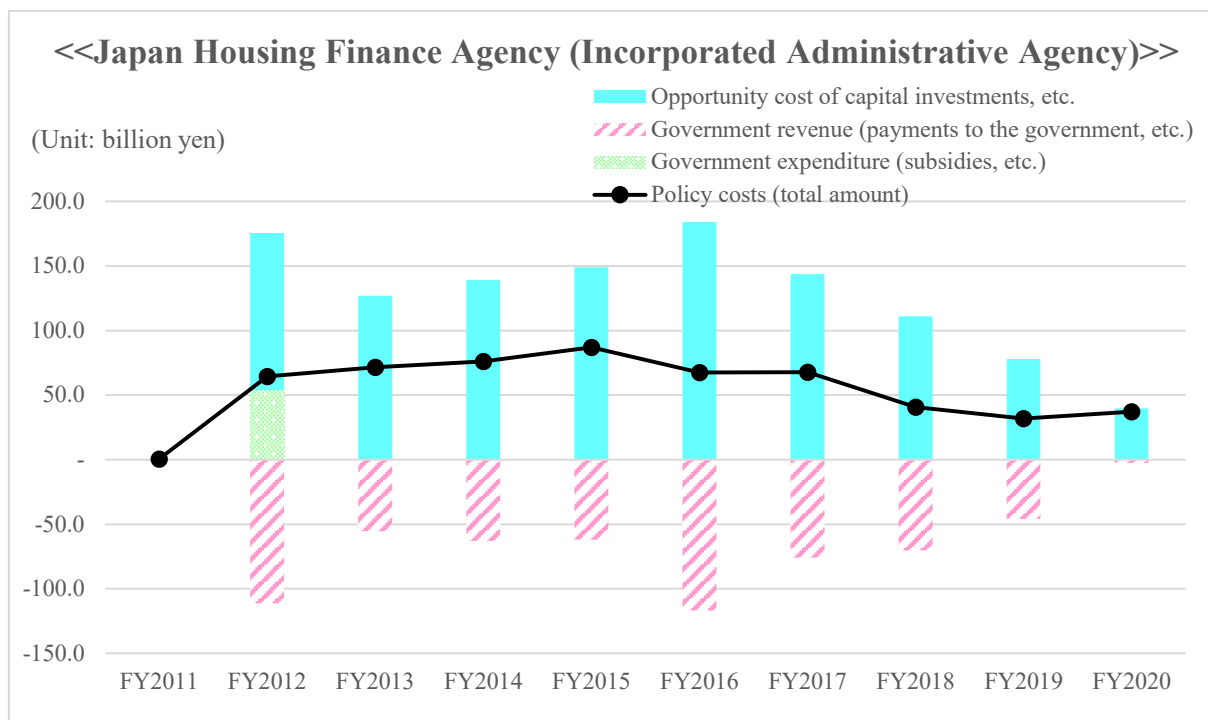
\* The negative sum came as borrowers' cancellations of approved loans (including those approved in earlier years) exceeded loans approved in the fiscal year.

[Disaster Prevention loans]

- 1) Actual loans  
3,253 houses, 3.4 billion yen (as of the end of FY2019; on a contractual basis)
- 2) Long-term, fixed-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.

# Overview of policy cost analysis results

## [Changes in policy costs]



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.

(Unit: billion yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Policy costs (total amount)	0.4	64.4	71.7	76.1	87.0	67.5	67.8	40.8	31.8	37.1
Government expenditure (subsidies, etc.)	-	53.9	-	-	-	-	-	-	-	-
Government revenue (payments to the government, etc.)	-	-111.3	-55.4	-63.0	-61.9	-116.8	-75.9	-70.2	-46.1	-2.6
Opportunity cost of capital investments, etc.	0.4	121.8	127.1	139.1	148.9	184.3	143.7	111.0	78.0	39.7

### 【Explanation of policy cost trends】

- 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.
- The policy cost amount followed a downtrend in line with a decline in operations after peaking in FY2015.
- FY2020 saw a policy cost increase of 5.3 billion yen as return on investment of surplus funds decreased due to payment to the Government in FY2019 of 39.7 billion yen in subsidies viewed as unnecessary in the future.

### 【FILP agency's self-assessment of policy cost analysis results (FY2020)】

- The JHF, which uses subsidies from the General Account to lower interest rates on loans for the facilitation of post-disaster housing reconstruction loans, has seen a policy cost downtrend in recent years due to a decline in applications for post-disaster housing reconstruction loans regarding the Great East Japan Earthquake.
- The FY2020 policy cost analysis saw a cost increase of 5.3 billion yen as the opportunity cost of Government revenues (including payments to the Government) and capital investments decreased from the previous year in line with a decrease in annual return on investment of surplus funds that accompanied payment to the Government in FY2019 of 39.7 billion yen in subsidies viewed as unnecessary in the future.
- Meanwhile, the policy cost amount fell to half the level for FY2015 when lending regarding the Great East Japan Earthquake peaked, with an annual profit estimated to range from 7 billion to 8 billion yen in recent years (between FY2018 and FY2020), leading us to conclude that our financial soundness has been secured.
- In the sensitivity analysis, the policy cost amount in the case before the negative interest rate policy decreased by 800 million yen from the basic case because payments to the Government increased due to a rise in return investment of surplus funds. Borrowers of post-disaster housing reconstruction loans are less sensitive to interest rate hikes, apparently indicating that a decline in voluntary prepayments due to an interest rate hike and a subsequent increase in subsidy spending may have little impact on the policy cost amount.
- The JHF will continue to provide long-term, fixed and low-interest loans to disaster-affected people to support the early reconstruction of housing hit by disasters.

## (Reference) Financial Statements

## Balance Sheet (Account for housing loans, etc.)

(Unit: million yen)

Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)	Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)
<b>(Assets)</b>				<b>(Liabilities and equity)</b>			
Cash and deposits	128,083	127,369	126,586	Loans payable	273,605	360,099	383,058
Cash	0	-	-	Funds for fiscal loans	273,605	315,099	338,058
Deposits	115,676	113,544	111,659	Borrowings from private sector	-	45,000	45,000
Money on agencies	12,407	13,825	14,927	Bonds	881,397	999,014	1,091,831
Money in trust	29,436	27,556	27,705	Loan mortgage bond	14,152	8,682	7,788
Securities	84,815	93,202	150,043	General mortgage bond	440,381	527,035	606,408
Loans receivable	1,209,299	1,380,307	1,479,602	Housing and building bond	426,906	463,330	477,662
Loans receivable from other accounts	190,548	190,548	160,548	Discount on bond (-)	-42	-34	-28
Other assets	68,728	51,489	39,470	Deposited subsidies			
Claimable assets	6,522	5,669	5,028	Deposit of subsidies for emergency measures such as housing loans for post-disaster reconstruction, etc.	104,063	59,557	54,870
Transferred pension claims	41,415	35,178	30,035	Other liabilities	42,264	38,114	34,207
Accrued income	1,155	1,324	1,322	Accrued expenses	9,961	7,718	7,398
Other assets	19,636	9,319	3,085	Advance revenues	27,317	25,219	21,806
Intangible fixed assets				Other liabilities	4,806	5,021	4,866
Software	3,587	3,706	3,836	Accrued liabilities of other accounts	180	157	137
Borrowers' liabilities on guarantees	171,833	142,759	119,121	Reserves	2,700	2,790	2,724
Reserve for possible loan loss	-9,089	-8,439	-7,701	Reserve for bonuses	143	148	146
				Reserves for retirement pensions	2,540	2,626	2,562
				Reserve for guarantee charge	17	16	16
				Guarantee liabilities	171,833	142,759	119,121
				(Total liabilities)	1,475,861	1,602,334	1,685,811
				Capital			
				Financing by the Government	50,812	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	351,445	356,078	363,162
				Reserve carried forward during former medium-term target period	298,794	295,034	294,305
				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	13,794	22,187
				Unappropriated income for the current year	7,161	8,393	7,812
				(Of this, gross profit)	7,161	8,393	7,812
				Valuation and translation adjustments			
				Deferred gains or losses on hedges	-895	-743	-591
				(Total equity)	401,379	406,163	413,399
Total assets	1,877,240	2,008,496	2,099,210	Total liabilities and equity	1,877,240	2,008,496	2,099,210

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

## Income Statement (Account for housing loans, etc.) (Unit: million yen)

Item	FY2018 (Result)	FY2019 (Estimated)	FY2020 (Planned)
Ordinary income	158,778	152,138	144,499
Profit from fund operation	22,784	23,807	25,310
Insuring profit	128,379	121,050	112,155
Profit from services, trades, etc.	461	508	483
Revenues from subsidies, etc.	5,070	4,978	4,969
Other ordinary income	2,083	1,795	1,582
Ordinary expenses	153,654	147,506	137,415
Fund-raising expenses	12,956	10,867	13,303
Insuring expenses	131,065	125,036	112,653
Expenses for services, trades, etc	1,685	2,137	2,058
Other operating expenses	613	1,015	782
Business expenses	6,870	8,083	8,353
Other ordinary expenses	465	369	266
Ordinary profit	5,124	4,632	7,084
Net profit	5,124	4,632	7,084
Reversal of reserve carried forward during former medium-term target period	2,037	3,761	728
Gross profit	7,161	8,393	7,812

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