

Japan Housing Finance Agency (Incorporated Administrative Agency)
(Account for Housing Loans, etc.)

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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 (guarantee-type), housing loan insurance, provision of housing loans (other than post-disaster housing reconstruction and disaster prevention loans).

2. Amount of lending under FY2021 FILP

(Unit: billion yen)

FY2021 FILP	Estimated outstanding amount of FILP lending at the end of FY2020
43.1	1,885.7

(Outstanding FILP loans at the end of FY2020 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	FY2020	FY2021	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)*1	-2.6	-2.0	+0.6
3. Opportunity cost of capital investments, etc.	39.7	38.2	-1.5
Total (1+2+3=policy cost(A))	37.1	36.2	-0.9
Analysis period (years)	40 years	40 years	-

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

Category	FY2020	FY2021	Fluctuation
(A) Policy cost (previously cited)	37.1	36.2	-0.9
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	4.5	6.2	+1.8
2) Policy cost expected to be newly accrued during the analysis period	32.7	30.0	-2.7
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*1	-2.6	-2.0	+0.6
Opportunity cost of surplus, etc.	35.3	32.0	-3.3
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.
36.2	35.6	-0.6	-	-0.7	+0.1

(A) Policy cost (previously cited)	Case of a 1% increase in loan charge-offs	Fluctuation			
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
36.2	36.5	+0.3	-	-0.1	+0.4

(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.

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2020	FY2021	Simple fluctuation
		Simple comparison (before adjustment)	37.1	36.2
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2021 analysis)	35.0	33.5	-1.5
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2020)			Real fluctuation (2-1)

【Real fluctuation factor analysis】

○Factors behind policy cost increase

- Increase in cost due to interest rate change for FY2021 loans (+2.2 billion yen)
- Others (Increase in administrative cost due to new financing, etc.) (+1.1 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to decrease in loan losses (-3.2 billion yen)
- Decrease in cost due to finalization of FY2019 results and revision of FY2020 projections (-1.6 billion yen)

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

(A) Policy cost in FY2021 (previously cited)	36.2
1) Prepayments	-6.6
2) Loan losses	29.4
3) Others (including profit spread)	13.3

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

- 1) Post-disaster housing reconstruction and disaster prevention loans based on the FY2021 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 FY2019 at 284.0 billion yen, loans planned in FY2020 at 50.1 billion yen, loans planned in FY2021 at 43.1 billion yen
- 4) Analysis period: 40 years to FY2060 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.

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	2.24	3.40	3.64	3.67	3.70	3.72	
Provision on loans	0.02	0.01	0.01	-	0.01	0.01	0.01	0.10	0.24	0.41	0.59	0.73	

FY	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Prepayment ratio	3.80	3.90	3.89	3.88	3.87	3.87	3.87	3.86	3.86	3.85	3.85	3.85
Provision on loans	0.86	0.96	1.05	1.14	1.23	1.34	1.43	1.51	1.58	1.65	1.84	1.91

FY	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Prepayment ratio	3.84	3.84	3.84	3.84	3.86	3.87	3.90	3.92	3.97	4.03	4.10	4.68
Provision on loans	1.95	1.98	2.01	2.04	2.00	1.95	1.98	1.94	1.87	1.84	1.80	1.75

FY	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060
Prepayment ratio	5.95	3.61	3.54	3.42	3.19	2.67	2.50	3.52	3.35	3.02	2.06	0.53
Provision on loans	1.81	1.81	1.97	2.22	2.76	3.43	3.85	4.29	5.12	7.09	9.90	-

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
229,978 houses, 2.1180 trillion yen (as of the end of FY2020; 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
20,314 houses, 349.2 billion yen (as of the end of FY2020; on a contractual basis)

<Trend of contracts (last 10 years)>

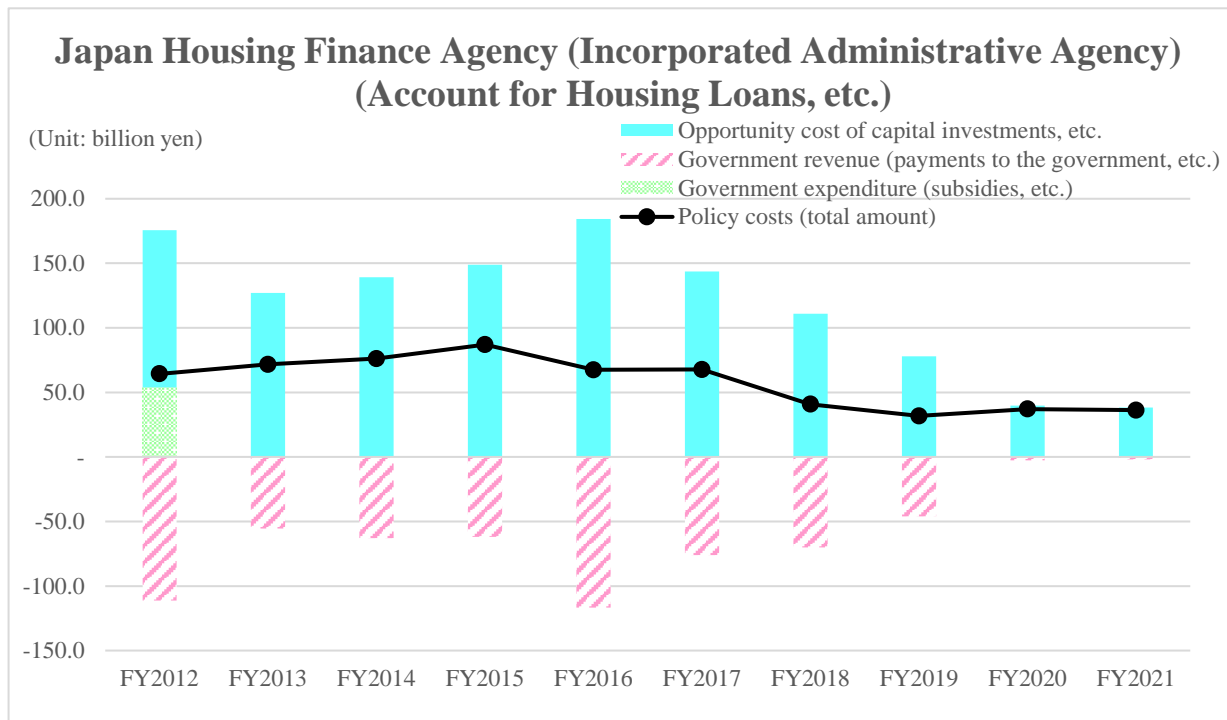
FY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of houses	4,340	4,511	3,200	2,136	1,805	2,893	2,284	2,638	2,162	1,470
Sum	62,788	70,507	57,807	40,357	34,111	45,331	36,683	34,059	28,848	24,669

【Disaster Prevention loans】

- 1) Actual loans
3,872 houses, 3.9 billion yen (as of the end of FY2020; 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】



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

(Unit: billion yen)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Policy costs (total amount)	64.4	71.7	76.1	87.0	67.5	67.8	40.8	31.8	37.1	36.2
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	-2.0
Opportunity cost of capital investments, etc.	121.8	127.1	139.1	148.9	184.3	143.7	111.0	78.0	39.7	38.2

【Explanation of policy cost trends】

- From FY2012 onward, the policy cost trended upward, reflecting the effects of receiving subsidies under the FY2011 supplementary budget and FY2012 budget due to the response to the Great East Japan Earthquake. However, since peaking in FY2015, the policy cost has trended downward due to a decrease in operations.
- In FY2020, the policy cost turned upward owing to the significant effects of a decrease in the return on investment of surplus funds due to the payment of subsidies to the government in FY2019.

【FILP agency's self-assessment of policy cost analysis results (FY2021)】

- The policy cost in FY2021 came to 36.2 billion yen, similar to the level in usual years (around the average in the past three years), but according to a simple comparison with the previous year, it was down 0.9 billion yen. The main factor was an increase in profits due to a rise in the rate of return on investment of surplus funds.
- As the amount of annual gross profits in the account for housing loans, etc. is expected to be in the range of around 12.0 billion to 13.0 billion yen in FY2020 and FY2021, financial soundness is considered to have been secured.
- The results of the sensitivity analysis (before the negative interest rate policy) showed a decrease of 0.6 billion yen in the policy cost compared with the basic case owing to an increase in payments to the government due to an increase in the return on investment of surplus funds. Even in a phase of rising interest rates, the impact of a cost increase due to a decline in voluntary premature repayments and a subsequent increase in subsidy spending is considered to be small in the sensitivity analysis (case before the negative interest rate policy) because the interest rate sensitivity of borrowers of post-disaster housing reconstruction loans is low.
- The results of the sensitivity analysis (case of a 1% increase in loan loss write-offs) showed an increase of 0.3 billion yen in the policy cost compared with the basic case due to an increase in expenses. However, the impact on financial conditions is minimal.

(Reference) Financial Statements

Balance Sheet (Account for housing loans, etc.)

(Unit: million yen)

Item	End of FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)	Item	End of FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)
(Assets)				(Liabilities and equity)			
Cash and deposits	169,940	58,874	59,476	Loans payable	320,370	346,678	361,805
Cash	0	-	-	Funds for fiscal loans	280,370	306,678	321,805
Deposits	157,506	47,474	45,970	Borrowings from private sector	40,000	40,000	40,000
Money on agencies	12,434	11,400	13,506	Bonds	1,006,530	1,003,574	1,150,468
Money in trust	27,501	25,426	25,564	Loan mortgage bond	12,522	11,422	10,316
Securities	54,302	34,043	121,699	General mortgage bond	532,035	566,408	661,268
Loans receivable	1,343,830	1,538,852	1,636,548	Housing and building bond	462,006	425,772	478,906
Loans receivable from other accounts	190,548	160,548	155,048	Discount on bond (-)	-34	-28	-22
Other assets	57,541	51,330	37,433	Deposited subsidies			
				Deposit of subsidies for emergency measures such as housing loans for post-disaster reconstruction, etc.	60,136	55,601	51,127
Claimable assets	6,197	5,613	5,205	Other liabilities	37,396	33,889	31,075
Transferred pension claims	35,373	31,397	28,018	Accrued expenses	8,471	7,137	7,441
Accrued income	1,068	1,244	1,316	Advance revenues	24,343	22,132	19,137
Other assets	14,903	13,076	2,894	Other liabilities	4,407	4,471	4,344
Intangible fixed assets				Accrued liabilities of other accounts	174	150	153
Software	2,651	3,031	3,341	Reserves	2,677	2,590	2,493
Borrowers' liabilities on guarantees	148,919	119,143	95,734	Reserve for bonuses	146	147	152
Reserve for possible loan loss	-13,407	-12,598	-11,841	Reserves for retirement pensions	2,521	2,432	2,331
				Reserve for guarantee charge	10	10	10
				Guarantee liabilities	148,919	119,143	95,734
				(Total liabilities)	1,576,028	1,561,475	1,692,702
				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	355,713	366,938	379,926
				Reserve carried forward during former medium-term target period	297,819	296,910	300,508
				Reserve fund under Paragraph 2 of Article 18 of the Act on the Japan Housing Finance Agency	38,857	38,857	65,954
				Reserve fund	13,794	19,037	-
				Unappropriated income for the current year	5,242	12,134	13,463
				(Of this, gross profit)	5,242	12,134	13,463
				Valuation and translation adjustments			
				Deferred gains or losses on hedges	-743	-591	-454
				(Total equity)	405,798	417,175	430,300
Total assets	1,981,826	1,978,650	2,123,002	Total liabilities and equity	1,981,826	1,978,650	2,123,002

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

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

Item	FY2019 (Result)	FY2020 (Estimated)	FY2021 (Planned)
Ordinary income	153,300	153,836	143,696
Profit from fund operation	23,320	23,951	25,779
Insuring profit	123,392	123,345	111,529
Profit from services, trades, etc.	438	479	466
Revenues from subsidies, etc.	4,397	4,744	4,788
Other ordinary income	1,754	1,317	1,135
Ordinary expenses	149,033	142,610	130,708
Fund-raising expenses	10,773	9,614	10,968
Insuring expenses	123,619	122,272	108,067
Expenses for services, trades, etc.	1,812	2,154	1,785
Other operating expenses	1,025	369	797
Business expenses	6,872	7,797	8,858
Other ordinary expenses	4,932	405	234
Ordinary profit	4,267	11,225	12,988
Net profit	4,267	11,225	12,988
Reversal of reserve carried forward during former medium-term target period	975	909	475
Gross profit	5,242	12,134	13,463

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