

Japan Housing Finance Agency (Incorporated Administrative Agency)
(Account for Securitization Support)

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1. Summary of operations implemented using FILP funds

The Japan Housing Finance Agency engages in the securitization support business (purchase type), which takes over loan claims ("Flat 35" long-term, fixed-interest-rate housing loans) in order to support private financial institutions' provision of funds necessary for construction of houses.

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 FY2021 FILP

(Unit: billion yen)

FY2021 FILP	Estimated outstanding amount of FILP lending at the end of FY2020
220.0	88.9

3. Estimated policy cost analysis of the project

(1) Policy cost

(Unit: billion yen)

Category	FY2020	FY2021	Fluctuation
1. Government expenditure (subsidies, etc.)	-	145.8	+145.8
2. Government revenue (payments to the government, etc.)*1	-	-55.2	-55.2
3. Opportunity cost of capital investments, etc.	-	-417.9	-417.9
Total (1+2+3=policy cost(A))	-	-327.3	-327.3
Analysis period (years)	- years	36 years	36 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)	-	-327.3	-327.3
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	-	119.8	+119.8
2) Policy cost expected to be newly accrued during the analysis period	-	-447.1	-447.1
Government expenditure (subsidies, etc.)	-	145.8	+145.8
Government revenue (payments to the government, etc.)*1	-	-55.2	-55.2
Opportunity cost of surplus, etc.	-	-537.7	-537.7
Opportunity cost of capital investments, etc.	-	-	-

(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)	-	-327.3
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2021 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2020)	Real fluctuation (2-1)
	/		/	

Exempted from policy cost analysis in the previous year

(4) Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2021 (previously cited)	-327.3
1) Prepayments	532.9
2) Loan losses	313.5
3) Others (including profit spread)	-1,173.8

(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.
-327.3	-340.7	-13.4	+12.7	+6.5	-32.5

(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.
-327.3	-322.7	+4.6	-	-	+4.6

(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) Operations subject to the estimation: the securitization support business (purchase type) as a whole, including operations that do not use the FY2021 FILP.
- 2) Public works subject to estimation: None
- 3) Size of operations subject to the estimation: As of the end of FY2019, the outstanding amount of purchased loans was 17,059.4 billion yen. The amount of planned purchases is 2,391.7 billion yen in FY2020 and 2,190.5 billion yen in FY2021.
- 4) Analysis period: 36 years to FY2056 when longest loans will be collected
- 5) Plans for collecting new purchased loans are based on those for collecting existing purchased loans.
- 6) As for premature repayments and loan loss write-offs, the rates estimated based on past results are used as an assumption for the estimation.

(Unit : %)

FY	Result		Estimated	Decision	Trial assumption								
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	
Prepayment ratio	3.91	3.38	3.64	3.49	5.68	6.69	7.02	6.83	6.27	5.48	4.78	4.36	
Provision on loans	0.04	0.04	0.08	0.12	0.16	0.18	0.20	0.21	0.22	0.23	0.23	0.24	

FY	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Prepayment ratio	4.06	3.60	3.27	3.24	3.09	3.05	2.87	2.72	2.67	2.56	2.60	2.54
Provision on loans	0.25	0.26	0.26	0.27	0.27	0.29	0.30	0.30	0.30	0.30	0.30	0.30

FY	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053
Prepayment ratio	2.67	2.55	2.46	2.52	2.07	2.18	2.21	2.30	2.85	3.09	3.52	3.78
Provision on loans	0.31	0.32	0.33	0.34	0.36	0.38	0.40	0.44	0.50	0.60	0.76	0.94

FY	2054	2055	2056
Prepayment ratio	4.03	3.69	2.26
Provision on loans	0.97	1.63	-

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

(Reason)

•The Japan Housing Finance Agency is required to implement the "Flat 35" securitization support business (purchase type), which securitizes housing loans purchased from private financial institutions in order to support the provision of long-term, fixed-interest-rate housing loans by private financial institutions. In addition, it receives subsidies, etc. from the General Account in order to implement the "Flat 35" S business, which reduces borrowing interest rates for a certain period of time when "Flat 35" users acquire houses with superior energy-saving performance, under the framework of the securitization support business.

(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 the "securitization support business (purchase type)," which is eligible for FILP.
- 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

【Securitization support business (purchase type)】

1) Records of purchases

Number of houses: 1,178,777 houses Value 30,886.3 billion yen (as of the end of FY2020)

2) Support for the provision of long-term, fixed-interest-rate housing loans by private financial institutions

The Japan Housing Finance Agency provides support for private financial institutions to provide long-term, fixed-interest-rate housing loans by implementing the "Flat 35" business, which securitizes housing loans purchased from them.

3) Support for the dissemination of houses with superior energy-saving performance

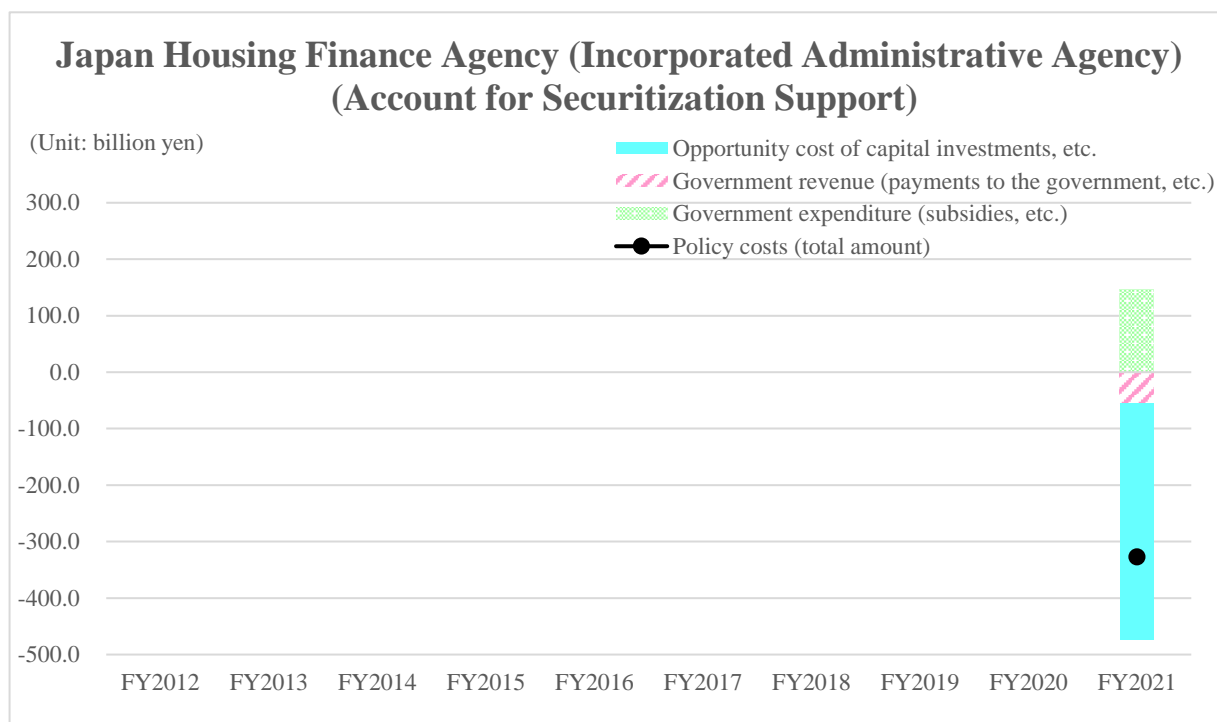
The Japan Housing Finance Agency supports the dissemination of houses with superior energy-saving performance through "Flat 35" S, which reduces borrowing interest rates for a certain period of time when Flat 35 users acquire houses with superior energy-saving performance and also through Japan Housing Finance Agency Green Bonds, which cover new houses that meet the technical standards concerning energy-saving performance among houses covered by "Flat 35" S.

4) Trend in records of purchases (last 10 years)

	Number of houses	Value (billion yen)
FY2011	110,140	2,786.8
FY2012	84,345	2,184.3
FY2013	72,517	1,855.3
FY2014	64,770	1,672.2
FY2015	85,278	2,344.5
FY2016	116,190	3,201.0
FY2017	87,551	2,515.6
FY2018	76,972	2,273.2
FY2019	76,460	2,325.2
FY2020	71,067	2,201.1

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)										-327.3
Government expenditure (subsidies, etc.)										145.8
Government revenue (payments to the government, etc.)										-55.2
Opportunity cost of capital investments, etc.										-417.9

【Explanation of policy cost trends】

- The policy cost analysis was conducted because FILP (government-backed bonds) funds started to be provided in FY2021.

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

- The results of the policy cost analysis showed that the policy cost was minus 327.3 billion yen due to expected stable income, including interest on purchased loans and profits from investment of surplus funds, Therefore, the Japan Housing Finance Agency's assessment is that there is no problem with financial soundness.

- The results of the sensitivity analysis (case before the negative interest rate policy) showed a decrease of 13.4 billion yen in the policy cost due to increases in interest on purchased loans and profits from investment of surplus funds, indicating an improvement in financial soundness. Therefore, the Japan Housing Finance Agency's assessment is that there is no problem.

- The results of the sensitivity analysis (case of a 1% increase in loan loss write-offs) showed an increase of 4.6 billion in the policy cost due to an increase in loan loss write-off cost. However, the Japan Housing Finance Agency's assessment is that there is no problem with financial soundness.

(Reference) Financial Statements

Balance Sheet

(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	145,915	370,036	371,858	Loans payable			
Cash	0	-	-	Borrowings from private sector	38,350	36,650	34,950
Deposits	111,805	334,412	334,694	Loans in other accounts	227,523	207,523	212,023
Money on agencies	34,110	35,624	37,164	Bonds	15,964,716	17,199,806	18,309,624
Money in trust	113,725	116,342	105,899	Government-guaranteed bonds	-	-	220,000
Securities	333,398	323,459	405,872	Loan mortgage bond	13,293,439	14,103,588	15,004,748
Purchased loans	17,059,410	18,231,732	19,141,973	General mortgage bond	2,197,086	2,539,213	2,515,653
Other assets	30,890	22,840	23,285	Housing and building bond	474,250	557,057	569,269
Accrued income	11,237	12,009	13,997	Discount on bond	-59	-52	-46
Derivatives	6,805	-	-	Insurance contract reserves	2,755	2,038	1
Deferred losses from financial derivatives products	11,515	9,560	8,001	Reserves for outstanding claims	1	1	1
Accrued insurance premiums	9	9	8	Policy reserves	2,754	2,037	-
Other assets	957	954	957	Deposited subsidies	147,672	116,290	102,192
Accounts receivables in other accounts	368	309	322	Deposited subsidies for the cost of emergency measures for housing finance facilitation	98,341	75,488	68,471
Tangible fixed assets	24,462	23,054	22,971	Deposited subsidies for projects to develop superior houses, etc.	49,331	40,801	33,722
Buildings	10,314	9,758	9,720	Deposit of subsidies for emergency measures such as housing loans for post-disaster reconstruction, etc.	1	1	-
Land	13,742	12,869	12,869	Other liabilities	235,318	366,752	202,429
Other tangible fixed assets	405	426	382	Accrued expenses	14,237	13,654	14,623
Intangible fixed assets				Derivatives	7,396	-	-
Software	1,813	2,398	3,982	Deferred profits from financial derivatives products	2,658	2,140	1,755
Borrowers' liabilities on guarantees	793,065	1,161,014	1,457,773	Accounts payable regarding purchased loans	207,679	347,555	182,542
Reserve for possible loan loss	-76,042	-93,705	-90,058	Other liabilities	3,101	3,182	3,309
				Accrued liabilities of other accounts	248	222	200
				Reserves	6,581	6,347	6,025
				Reserve for bonuses	360	363	369
				Reserves for retirement pensions	6,221	5,984	5,656
				Guarantee liabilities	793,065	1,161,014	1,457,773
				(Total liabilities)	17,415,981	19,096,419	20,325,017
				Capital			
				Financing by the Government	536,877	536,877	529,477
				Capital surplus	142	142	142
				Capital surplus	-2,857	-2,857	-2,857
				Other accumulated administrative costs			
				Amount equivalent to net gains or losses on sale or disposal	2,999	2,999	2,999
				Retained earnings	473,636	523,731	588,920
				Reserve carried forward during former medium-term target period	29,614	28,532	23,845
				Reserve fund under Paragraph 2 of Article 18 of the Act on the Japan Housing Finance Agency	225,268	225,268	498,498
				Reserve fund	159,118	218,754	-
				Unappropriated income for the current year	59,636	51,177	66,576
				(Of this, gross profit)	59,636	51,177	66,576
				(Total equity)	1,010,655	1,060,750	1,118,539
Total assets	18,426,636	20,157,170	21,443,556	Total liabilities and equity	18,426,636	20,157,170	21,443,556

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

Income Statement

(Unit: million yen)

Item	FY2019 (Result)	FY2020 (Estimated)	FY2021 (Planned)
Ordinary income	272,367	274,516	302,465
Profit from fund operation	206,392	218,941	257,996
Insuring profit	114	821	2,136
Profit from services, trades, etc.	61	98	131
Revenues from subsidies, etc.	65,242	54,201	41,686
Other business income	41	43	45
Other ordinary income	517	412	471
Ordinary expenses	213,173	225,000	237,277
Fund-raising expenses	131,704	129,412	146,658
Insuring expenses	1,589	2,374	2,146
Expenses for services, trades, etc.	15,871	16,263	17,474
Other operating expenses	8,473	9,675	9,040
Business expenses	12,449	13,434	15,480
Other ordinary expenses	43,087	53,842	46,478
Ordinary profit	59,193	49,516	65,189
Extraordinary profits	136	628	-
Gain on disposal of tangible fixed assets	136	628	-
Extraordinary loss	949	48	-
Loss on disposal of tangible fixed assets	223	48	-
Impairment loss	726	-	-
Net profit	58,380	50,095	65,189
Reversal of reserve carried forward during former medium-term target period	1,256	1,082	1,388
Gross profit	59,636	51,177	66,576

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