

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 FY2022 FILP

(Unit: billion yen)

FY2022 FILP	Estimated outstanding amount of FILP lending at the end of FY2021
220.0	301.5

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2021	FY2022	Fluctuation
1. Government expenditure (subsidies, etc.)	145.8	138.2	-7.6
2. Government revenue (payments to the government, etc.)*1	-55.2	-34.7	+20.5
3. Opportunity cost of capital investments, etc.	-417.9	-518.2	-100.2
Total (1+2+3=policy cost(A))	-327.3	-414.6	-87.3
Analysis period (years)	36 years	36 years	-

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

Category	FY2021	FY2022	Fluctuation
(A) Policy cost (previously cited)	-327.3	-414.6	-87.3
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	119.8	115.4	-4.4
2) Policy cost expected to be newly accrued during the analysis period	-447.1	-530.0	-82.9
Government expenditure (subsidies, etc.)	145.8	138.2	-7.6
Government revenue (payments to the government, etc.)*1	-55.2	-34.7	+20.5
Opportunity cost of surplus, etc.	-537.7	-633.6	-95.8
Opportunity cost of capital investments, etc.	-	-	-

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2021	FY2022	Simple fluctuation
		Simple comparison (before adjustment)	-327.3	-414.6
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2022 analysis)	-301.8	-516.7	-214.9
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2021)			Real fluctuation (2-1)

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to increase in prepayments (+129.8 billion yen)
- Increase in cost due to increase in loan losses (+20.4 billion yen)
- Others (Increase in subsidies for projects to develop superior houses, etc.) (+15.0 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to an interest gap for new purchases in FY2022 (-366.1 billion yen)
- Decrease in cost due to finalization of FY2020 results and revision of FY2021 projections (-14.0 billion yen)

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

(A) Policy cost in FY2022 (previously cited)	-414.6
1) Prepayments	740.1
2) Loan losses	318.0
3) Others (including profit spread)	-1,472.8

(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.		
-414.6	-491.3	-76.7	+11.7	+4.1	-92.5						

(A) Policy cost (previously cited)	Case of a 1% increase in loan write-offs	Fluctuation	1. Government expenditure (subsidies, etc.)			2. Government revenue (payments to the government, etc.)*1			3. Opportunity cost of capital investments, etc.		
-414.6	-410.1	+4.5	-	-	+4.5						

(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 FY2022 FILP.
- 2) Public works subject to estimation: None
- 3) Size of operations subject to the estimation: As of the end of FY2020, the outstanding amount of purchased loans was 18,006.4 billion yen. The amount of planned purchases is 2,379.9 billion yen in FY2021 and 2,167.3 billion yen in FY2022.
- 4) Analysis period: 36 years to FY2057 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 prepayments and loan write-offs, the rates estimated based on past results are used as an assumption for the estimation.

(Unit : %)

FY	Result			Estimated	Planned	Assumptions for calculation						
	2018	2019	2020			2021	2022	2023	2024	2025	2026	2027
Prepayment ratio	3.91	3.38	3.46	3.89	3.47	5.89	6.80	6.63	6.50	6.12	5.22	4.48
Loan write-off ratio	0.04	0.04	0.03	0.08	0.11	0.14	0.16	0.18	0.20	0.21	0.22	0.23

FY	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Prepayment ratio	4.13	3.92	3.63	3.21	2.97	2.74	2.49	2.35	2.30	2.28	2.26	2.54
Loan write-off ratio	0.23	0.24	0.25	0.25	2.60	0.26	0.28	0.29	0.29	0.29	0.29	0.29

FY	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053
Prepayment ratio	2.34	2.12	2.05	1.89	1.43	1.55	1.78	1.96	2.48	3.56	3.45	3.57
Loan write-off ratio	0.30	0.30	0.31	0.31	0.32	0.34	0.35	0.37	0.41	0.47	0.55	0.67

FY	2054	2055	2056	2057
Prepayment ratio	3.68	3.32	2.56	1.70
Loan write-off ratio	0.71	0.83	2.01	-

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: 1,240,046 houses Value 32,805.0 billion yen (as of the end of FY2021)

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

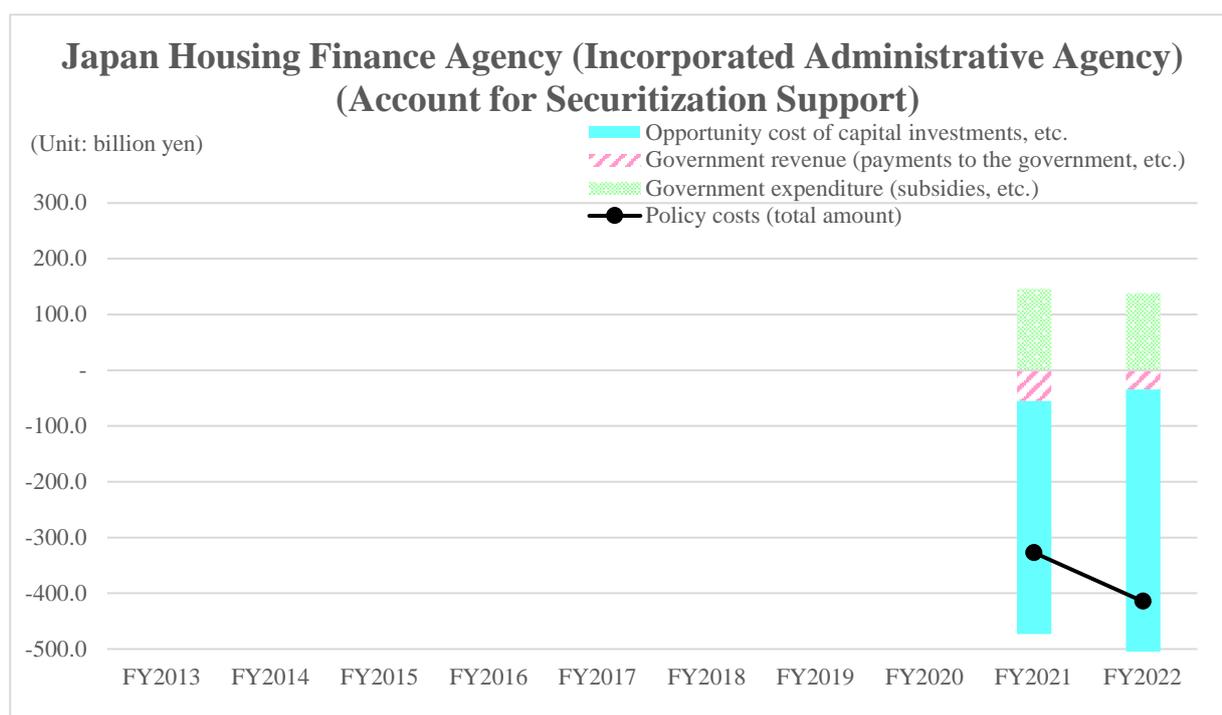
The Japan Housing Finance Agency supports the dissemination of houses with superior energy-saving performance through "Flat 35" S, which reduces borrowing interest rates for a certain period of time when Flat 35 users acquire houses with superior energy-saving performance and also through Japan Housing 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)
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
FY2021	61,269	1,918.7

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)

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Policy costs (total amount)									-327.3	-414.6
Government expenditure (subsidies, etc.)									145.8	138.2
Government revenue (payments to the government, etc.)									-55.2	-34.7
Opportunity cost of capital investments, etc.									-417.9	-518.2

【Explanation of policy cost trends】

- The policy cost analysis was conducted because FILP (government-backed bonds) funds started to be provided in FY2021.
- In FY2022, the policy cost decreased due mainly to a rise in the interest margin for loan purchases.

【FILP agency's self-assessment of policy cost analysis results (FY2022)】

- The results of the policy cost analysis showed that the policy cost was minus 414.6 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 76.7 billion yen in the policy cost due to increases in profits from investment of surplus funds and interest on purchased loans, 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 write-offs) showed an increase of 4.5 billion in the policy cost due to an increase in loan 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 FY2020 (Result)	End of FY2021 (Estimated)	End of FY2022 (Planned)	Item	End of FY2020 (Result)	End of FY2021 (Estimated)	End of FY2022 (Planned)
(Assets)				(Liabilities and net assets)			
Cash and deposits	363,208	458,534	458,559	Borrowings			
Cash	0	-	-	Borrowings from private sector	36,650	39,950	38,250
Deposits	328,265	419,654	419,806	Borrowings from other accounts	207,523	202,023	200,678
Money on agencies	34,943	38,880	38,753	Bonds	17,078,012	18,146,857	19,449,925
Money in trust	86,803	87,146	85,810	Government-guaranteed bonds	-	220,000	440,000
Securities	321,162	325,504	705,119	Loan mortgage bond	13,994,409	14,692,644	15,434,483
Purchased loans	18,006,358	19,057,535	19,893,308	General mortgage bond	2,539,213	2,650,653	2,995,153
Other assets	22,843	17,873	22,387	Housing and building bond	544,440	583,244	580,052
Accrued income	11,962	8,421	14,244	Discount on bond	-51	315	236
Deferred losses from financial derivatives products	9,700	8,294	6,989	Deposited subsidies	110,096	88,635	77,084
Accrued insurance premiums	10	9	9	Deposited subsidies for the cost of emergency measures for housing finance facilitation	71,681	57,317	52,266
Other assets	829	828	830	Deposited subsidies for projects to develop superior houses, etc.	38,414	31,317	24,818
Accounts receivables in other accounts	342	321	315	Deposit of subsidies for emergency measures such as housing loans for post-disaster reconstruction, etc.	1	1	-
Tangible fixed assets	22,947	23,076	24,767	Other liabilities	207,100	329,824	202,096
Buildings	9,715	9,200	9,482	Accrued expenses	13,485	15,144	16,409
Land	12,869	12,869	12,869	Deferred profits from financial derivatives products	2,078	1,704	1,242
Construction in progress	-	675	1,920	Accounts payable regarding purchased loans	187,978	309,547	180,608
Other tangible fixed assets	363	332	495	Other liabilities	3,338	3,233	3,670
Intangible fixed assets				Accrued liabilities of other accounts	221	196	167
Software	2,014	2,730	2,476	Provisions	6,523	6,144	5,931
Contra-accounts for guarantee liabilities	1,116,076	1,395,622	1,675,503	Provision for bonuses	366	348	360
Allowance for loan losses	-74,438	-85,162	-63,194	Provision for retirement benefits	6,157	5,795	5,572
				Guarantee liabilities	1,116,076	1,395,622	1,675,503
				(Total liabilities)	18,761,980	20,209,054	21,649,468
				Capital			
				Government investment	536,877	529,477	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	567,975	544,184	625,647
				Reserve fund carried over from the previous Mid-term objective period	28,459	23,432	22,253
				Reserve fund under Paragraph 2 of Article 18 of the Act on the Japan Housing Finance Agency	225,268	465,962	465,962
				Reserve fund	218,754	-	54,789
				Unappropriated income for the current year	95,494	54,789	82,643
				(Of this, gross profit)	95,494	54,789	82,643
				(Total net assets)	1,104,994	1,073,803	1,155,266
Total assets	19,866,974	21,282,857	22,804,734	Total liabilities and net assets	19,866,974	21,282,857	22,804,734

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

Income Statement

(Unit: million yen)

Item	FY2020 (Result)	FY2021 (Estimated)	FY2022 (Planned)
Ordinary income	282,622	273,005	305,261
Profit from fund operation	218,722	230,405	263,793
Insuring profit	2,864	110	111
Profit from services, trades, etc.	96	125	153
Revenues from subsidies, etc.	60,435	41,608	40,191
Other business income	33	53	55
Other ordinary income	472	705	957
Ordinary expenses	189,095	219,571	223,798
Fund-raising expenses	127,601	126,713	148,066
Insuring expenses	793	2,460	2,381
Expenses for services, trades, etc.	16,139	17,106	18,153
Other operating expenses	9,097	9,089	9,155
Business expenses	12,306	14,452	15,920
Other ordinary expenses	23,159	49,752	30,123
Ordinary profit	93,527	53,434	81,463
Extraordinary profits	892	-	-
Gain on disposal of tangible fixed assets	892	-	-
Extraordinary loss	80	-	-
Loss on disposal of tangible fixed assets	80	-	-
Net profit	94,339	53,434	81,463
Reversal of reserve fund carried over from the previous Mid-term Objective period	1,155	1,355	1,180
Gross profit	95,494	54,789	82,643

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