

Risk-monitored Loans

HF has, in spite of not being an organization subject to the Bank Law (Law no. 59 of 1981), disclosed risk-monitored loans since FY 1997, according to the standards of disclosure used by private financial institutions. As for risk-monitored loans of FY 2000 and later, JHF has disclosed in accordance with standards formulated based on the results of internal rating. Not all of the risk monitored loans result in the losses because these loans are covered by the first lien upon the property or equivalent collateral.

Table of risk-monitored loans for FY 2008 to FY 2012

(Unit: 100 million yen, %)

Category	FY 2008			FY 2009			FY 2010		
	Outstanding loans*1	Purchased loans	Total	Outstanding loans*1	Purchased loans	Total	Outstanding loans*1	Purchased loans	Total
Loans to borrowers in default (A)	2,436	17	2,453	2,227	28	2,256	1,920	42	1,961
Seriously delinquent loans (B)	9,866	78	9,944	9,126	178	9,304	7,748	361	8,108
Loans past due 3 months or more (C)	1,099	50	1,149	1,453	153	1,605	1,482	151	1,634
Subtotal (D) = (A) + (B) + (C)	13,401	146	13,547	12,806	359	13,165	11,150	554	11,704
Ratio: (D) / (G) x 100	3.80	0.44	3.52	4.23	0.89	3.83	4.36	0.86	3.66
Loans under mitigation (E)	17,611	61	17,672	15,835	174	16,009	15,118	310	15,428
Total (F) = (A) + (B) + (C) + (E)	31,011	207	31,218	28,640	533	29,174	26,268	864	27,132
Ratio: (F) / (G) x 100	8.80	0.63	8.10	9.45	1.32	8.49	10.28	1.34	8.48
Balance of principle (G)	352,358	32,863	385,221	302,987	40,540	343,527	255,587	64,372	319,959

(Unit: 100 million yen, %)

Category	FY 2011			FY 2012		
	Outstanding loans*1	Purchased loans	Total	Outstanding loans*1	Purchased loans	Total
Loans to borrowers in default (A)	1,245	51	1,296	1,050	64	1,113
Seriously delinquent loans (B)	5,940	390	6,330	5,423	379	5,801
Loans past due 3 months or more (C)	1,415	174	1,590	1,284	185	1,469
Subtotal (D) = (A) + (B) + (C)	8,600	615	9,215	7,756	628	8,384
Ratio: (D) / (G) x 100	4.00	0.71	3.06	4.26	0.63	2.98
Loans under mitigation (E)	13,836	422	14,259	12,195	460	12,654
Total (F) = (A) + (B) + (C) + (E)	22,436	1,037	23,474	19,951	1,087	21,038
Ratio: (F) / (G) x 100	10.44	1.20	7.80	10.97	1.09	7.47
Balance of principle (G)	214,972	86,099	301,071	181,920	99,827	281,747

(Note) The totals may differ due to the figures being rounded off.

JHF discloses risk-monitored loans based on the results of internal rating asset.

** "Outstanding loans, etc." are loans receivable and claims for indemnity excluding purchased loans..

(Notes)

1. Loans to borrowers in default (A)

These are the outstanding principal balance of loans to borrowers categorized as borrowers in default as a result of self-assessment.

2. Seriously delinquent loans (B)

These are the outstanding principal balance of loans to borrowers categorized as borrowers in default or with high probability of default as a result of self-assessment.

3. Loans past due 3 months or more (C)

These are the outstanding principal balance of loans where the repayment or interest payment is contractually past due 3 months or more and are not classified as loans to borrowers in default (A) or seriously delinquent loans (B).

4. Loans under mitigation (E)

These are the outstanding principal balance of loans for which such arrangements favoring borrowers as reduction of interest, or moratorium on repayment of interest or principal (hereinafter called modification of repayment terms) are given to support borrowers' restriction, and are not classified as loans to borrowers in default (A) or seriously delinquent loans (B).

When loans, in principle, in the 4 years after the modification of repayment terms (1 year in the case of loans to businesses) are repaid as scheduled, they are excluded from restructured loans because their credit risk is deemed to be equal to that of normal claims. Outstanding principal balance of loans which corresponds to the above description and were not classified as restructured loans totaled 147.3 billion yen.

Disclosed restructured loans include those whose terms are revised by requirements, such as government economic stimulus package.

5. Remark

Not all of the disclosed outstanding amount result in losses because JHF's loans are covered by the first lien upon the property or equivalent collateral.

[Loans under mitigation]

JHF provides consultations on loan repayment and offers loan modification according to the circumstances for supports people who have difficulties in repaying their loans due to changes in the living environment and large-scale natural disasters, such as the Great Hanshin Awaji Earthquake and the Great East Japan Earthquake, so that they can continue to live in their homes, a basic necessity of human life.

For persons experiencing difficulty with repayment of loans due to their company's bankruptcy or other reasons, JHF has also prepared preferential measures according to the Cabinet decision of October 1998 and offer restructuring of loan terms corresponding to the government measures.

The corporation risk managed loans account for about 61%, but for the aforementioned policy objectives, however, it is unlikely that this will directly lead to a surge in bad loans because of low credit loss rate compared to other risk-monitored loans.

JHF allows modification to repayment terms so that borrowers can continue to live in their homes for as long as possible, and hence strives to maintain and improve our financial soundness.

Self-assessment and risk-monitored loans in FY 2012

(Unit: 100 million yen)

	Categories of borrowers under self-assessment	Category of assets under self-assessment				Reserves (reserve ratio)	Risk management	
		Non-categorized	Category II	Category III	Category IV			
Existing loans	Substantially defaulted borrowers 1,057	Portions secured by collateral and guarantees 517		Provision for portions excluding those secured by collateral and guarantees 540		Specific reserve for possible loan losses 540 (100%)	Loans to borrowers in default 1,050	
	Borrowers in default 2,389	Portions secured by collateral and guarantees 1,116		Provision for portions excluding those secured by collateral and guarantees 1,272			1,272 (100%)	Seriously delinquent loans 5,423
	Borrowers with high probability of default 3,062	Portions secured by collateral and guarantees 1,737		Provision for portions excluding those secured by collateral and guarantees using estimated loss rate for the next three years 1,324			658 (49.7%)	
	Watch-list borrowers	Borrowers requiring caution 13,630	Provisions for estimated loss rate for the next three years based on a rate determined by historical data 13,630				General reserve for possible loan losses 1,190 (8.7%)	Loans past due 3 months or more 1,284
		Other borrowers requiring caution 7,846	Provisions for estimated loss rate for the next one year based on a rate determined by historical data 7,846					179 (2.3%)
		Normal borrowers 154,384	Provisions for estimated loss rate for the next one year based on a rate determined by historical data 154,384				199 (0.1%)	
Purchased loans, etc.	Substantially defaulted borrowers 64	Portions secured by collateral and guarantees 31		Provision for portions excluding those secured by collateral and guarantees 33		Specific reserve for possible loan losses 33 (100%)	Loans to borrowers in default 64	
	Borrowers in default 352	Portions secured by collateral and guarantees 144		Provision for portions excluding those secured by collateral and guarantees 209			209 (100%)	Seriously delinquent loans 379
	Borrowers with high probability of default 31	Portions secured by collateral and guarantees 17		Provision for portions excluding those secured by collateral and guarantees using estimated loss rate for the next three years 14			6 (44.4%)	
	Watch-list borrowers	Borrowers requiring caution 650	Provisions for estimated loss rate for the next three years based on a rate determined by historical data 650				General reserve for possible loan losses 63 (9.6%)	Loans past due 3 months or more 185
		Other borrowers requiring caution 305	Provisions for estimated loss rate for the next one year based on a rate determined by historical data 305					16 (5.2%)
		Normal borrowers 98,526	Provisions for estimated loss rate for the next one year based on a rate determined by historical data 98,526				315 (0.3%)	

Note 1: The figures are rounded off.

Note 2: The reserve ratios for the "borrowers in default and substantially defaulted borrowers" and "borrowers with high probability of default" categories are applied to the amount deducting portions secured by collateral and guarantees while the reserve ratios for the "watch list borrowers" and "normal borrowers" are applied to entire outstanding loan balance.

Note 3: Major differences between self-assessment and risk-monitored loans

· Self-assessment loans cover GHLC originated loans, purchased loans, interest on GHLC loans receivable, interest on purchased loans receivable, suspense payable, and advance payments while risk-monitored loans cover GHLC originated loans and purchased loans.

· Borrowers are categorized by the repayment and financial conditions of borrowers in self-assessment and by the repayment of loans excluding loans to borrowers in default and seriously delinquent loans in risk-monitored loans.

Note 4: Reserves for purchased loans are calculated in light of the recent increase in new purchased loans and changes of portfolio in future, in addition to its original calculation from estimated loss rate, etc. for a certain period in the past.

Policy Cost Analysis

Policy cost analysis is made by related organizations as follows: (1) set certain premises (future interest rates, business scale, etc.) for businesses using Fiscal Investment and Loan Program to estimate future cash flow; (2) based on this, determine discounted present value by subtracting the amount to be repaid to the national treasury (repayment to the national government) from the amount of subsidies to be provided by the national government for the implementation of projects under the program (subsidies from the national government); and (3) add the amount of the interest payment-reduction effect of capital and other investments already made (opportunity cost for the government).

The results for FY 2012 were announced by the Ministry of Finance in July 2012 after the Fund Operation Council's Sub-committee on Fiscal Investment and Loan Program examined the policy costs of government-affiliated corporations and incorporated administrative agencies that were subject to Fiscal Investment and Loan Program.

The results of policy cost analysis on JHF showed that a policy cost of \triangle ¥64.4 billion as the present value will accrue in the future. In the analysis, the opportunity cost of government investments, etc. were calculated under the premises of (1) conducting business based on fiscal investment and loan plan for FY 2012 with no such business being conducted in FY 2013 and thereafter and (2) repaying all investments to the national government in FY 2043, the end of the analysis period, when all GHLC originated loans will be collected.

1. Business using Fiscal Investment and Loan Program

Loans for disaster-affected people to reconstruct their damaged housing (Reference) The businesses that are not covered by Fiscal Investment and Loan Program include securitization support, housing loan insurance and housing loan origination (excluding loans for recovery from disasters).

2. Planned amount for Fiscal Investment and Loan Program

(Unit: 100 million yen)

Planned amount for Fiscal Investment and Loan Program in FY 2012	Estimated balance in FILP account at the end of FY 2011
3,000	178,046

(The estimated balance in FILP account at the end of FY 2011 also includes balances other than that of disaster mitigation loans)

3. Results of the business and its social/economic benefits

- ① Results of loan origination
Number of houses: 206,879 units
Amount: ¥1.747 trillion
(As of the end of FY 2011, contract base)
- ② Long-term, fixed and low-interest loans for disaster-affected people
○ Provide long-term, fixed and low-interest loans for affected people soon after a disaster to smoothly restore damaged houses
- ③ Disasters eligible for loans for recovery from disasters
○ Until 2008, Disasters that have caused damage above a certain level as prescribed in the Disaster Relief Act
○ Since FY 2009, based on the recent changes in disaster incidences and in society, irrespective of the magnitude of the disaster damage, loans for disaster mitigation are provided expeditiously after a natural disaster has occurred.

Variation in contracts by fiscal year (for the last 10 years)

(Unit: dwelling unit, million yen)

Fiscal year	Number of dwellings	Amount	Fiscal year	Number of dwellings	Amount
FY2003	329	4,564	FY2008	71	726
FY2004	855	9,365	FY2009	26	292
FY2005	395	3,562	FY2010	7	26
FY2006	411	4,060	FY2011	\triangle 94	\triangle 1,468
FY2007	84	979	FY2012	4,340	62,788

* Negative figures \triangle in the results of loan origination represent situations where the amount of loans declined or canceled in this fiscal year (including loans that were approved in previous fiscal years but were canceled in this fiscal year) surpassed amount of loans approved.

- ④ Measures for the Great Hanshin Awaji Earthquake
○ Results of loans for recovery from disasters concerning the Great Hanshin Awaji Earthquake
Number of houses: 70,619 units
Amount: ¥1,503.2 billion
(As of the end of FY 2011, contract base)
- ⑤ Measures for the Great Hanshin Awaji Earthquake
○ Results of loans for recovery from disasters concerning the Great East Japan Earthquake
Number of houses: 4,334 units
Amount: ¥62.7 billion
(As of the end of FY 2011, contract base)

4. Values estimated in policy cost analysis for the business

[Policy cost]

(Unit: 100 million yen)

Category	FY 2011	FY 2012	Change
1. Subsidies from the national government	-	539	+ 539
2. Fund transfer to the national government	-	\triangle 1,113	\triangle 1,113
Subtotal of 1 and 2	-	\triangle 574	\triangle 574
3. Opportunity cost for investment from the national government	4	1,231	+ 1,227
Subtotal of 1 to 3	4	657	+ 653
4. Reduction in loss	-	\triangle 13	\triangle 13
Total of 1 to 4 = policy cost (A)	4	644	+ 640
Analysis period (year)	27	32	+ 5

[Breakdown of policy cost in terms of the time of investment]

(Unit: 100 million yen)

Category	FY 2011	FY 2012	Change
(A) Policy cost (relisting)	4	644	+ 640
① Opportunity cost for investment provided by the start of analysis	38	43	+ 5
② Newly estimated policy cost during the period of analysis	\triangle 34	601	+ 635
Subsidies from the national government	-	539	+ 539
Fund transfer to the national treasury	-	\triangle 1,113	\triangle 1,113
Policy cost accrued depending on changes in surplus	\triangle 34	1,175	+ 1,209
Opportunity cost for investment	-	-	-

[Comparative analysis in temporal change]

(Unit: 100 million yen)

Category	FY 2011	FY 2012	Change
(A) Policy cost (relisting)	4	644	+ 640
(A') Policy cost obtained by recalculating (A) at the same interest rate applied in the analysis for FY 2009	4	658	+ 654
(B) Of (A'), policy cost to accrue after FY 2010	4	658	+ 654

The policy cost for 2012 was ¥64.4 billion. Comparing the figure after eliminating the influence from premise interest changes in FY 2011 and FY 2012 with the policy cost that will accrue in and after FY 2012, the actual policy cost is considered to be increased by ¥65.4 billion from FY 2011.

These material cost increases are thought to be due to the following factors.

- Cost increase from higher expenditure for clerical operations due to new loans made in FY 2012 (+¥39 billion)
- Cost increase from a growing number of write-offs (+¥12.3 billion)
- Others (const increase due to new loans made in FY 2011) (+¥12.5 billion)

[Breakdown of policy cost in terms of accrual factor]

(Unit: 100 million yen)

(A) Policy cost in FY 2011 (relisting)	644
① Prepayment	2
② Credit loss	378
③ Other (interest margin, etc.)	264

[Sensitivity analysis (when premises are changed)]

(Unit: 100 million yen)

Premises changed and their variation range	Policy cost (change)	
	(No change in discount rate)	(Change in discount rate)
Loan carry rate/borrowing cost +1%	709 (+ 65)	721 (+ 77)
Of the changes, a change in opportunity cost	+ 56	+ 149
Amount of write-offs + 10%	681 (+ 37)	
Change in opportunity cost	+ 37	

(Reference) FY 2012 budget for subsidies/investment
Subsidies: ¥53.9 billion
Investment: ---

5. Outline of estimation in analysis and future business prospect

- ① Estimation was made for loans for recovery from disasters based on the business plan for FY 2012.
- ② The analysis period was set as 32 years during which all loans for recovery from disasters under the business plan for FY 2012 will be redeemed.
- ③ Prepayment was estimated using a computation model to calculate the prepayment ratio by age of loans and the difference in interest rate between JHF loans and private housing loans that will be used to refinance JHF loans.

(Unit: %, 100 million yen)

FY	(Results)					(Estimate)	(Plan)	(Premises for estimation)					
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prepayment ratio	3.80	1.32	1.88	1.50	2.66	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63
Write-off of nonperforming loans	—	—	—	0.1	—	0.1	0.7	434.0 (Sum of in and after 2013)					

FY	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Prepayment ratio	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63

FY	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
Prepayment ratio	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63	3.63

6. Rationale for receiving subsidies, the system and regulations regarding redemption to the national treasury

(Rationale)

- JHF is required to ensure the supply of long-term, fixed and low-interest loans for disaster-affected people soon after the disaster to support the speedy restoration of damaged housing. Accordingly, the agency receives subsidies from the government's general account to use their accrued interest income, thereby facilitating loans for recovery from disasters.

(Regulations regarding subsidies and its redemption)

- The Japan Housing Finance Agency Law stipulates government investments as follows (Article 6):
- The Japan Housing Finance Agency Law stipulates government investments as follows (Article 6):
 - Article 6 ② The national government may make an additional investment to JHF within the limits of the budget if necessary. In this case, if the whole or any part of the said investment should be allocated to the interest-rate fluctuation reserve prescribed in Paragraph 1, Article 25, the government shall indicate the amount.
 - Article 6 ③ When the agency receives investment from the government as prescribed in the preceding paragraph, it shall increase its capital by the same amount of the investment.
- The Japan Housing Finance Agency Law stipulates the redemption to the national treasury as follows (Article 18):
 - Article 18 ④ If there is a residual after deducting an approved amount prescribed in Paragraph 1 and Paragraph 2 from an amount equivalent to the reserve prescribed in Paragraph 1, the residual shall be redeemed to the national treasury.

7. Special notes

- ① This analysis was made for loans for recovery from disasters (those accepted in and after 2005) that are subject to Fiscal Investment and Loan Program.
- ② In accordance with the Japan Housing Finance Agency Law (Law No. 82 of 2005), the Government Housing Loan Corporation was dissolved, and Japan Housing Finance Agency was established on April 1, 2007.
- ③ With respect to the Fundamental Review of Incorporated Administrative Agencies (Cabinet Decision of December 25, 2009) a temporary freeze has been imposed on the affairs (excluding instances already implemented) stipulated in the Incorporated Administrative Agencies Rationalization Plan (Cabinet Decision of December 24, 2007), with further deliberations to be held as part of the Fundamental Review of Incorporated Administrative Agencies.
- ④ The Basic Policies for Reviewing the Clerical and Business Operations of Incorporated Administrative Agencies (approved by the cabinet on December 7, 2010) have indicated reviews of some business operations.
- ⑤ Basic points of JHF's organizational direction are to be compiled by the end of FY 2011 and reached a conclusion by summer in FY 2012 the Basic Policies for Reviewing the Business and Organizational Structure of Incorporated Administrative Agencies (approved by the cabinet on January 20, 2012)
- ⑥ The changes in policy cost are as follows (the figures until FY 2006 indicate the policy cost of the GHLC):

(Unit: 100 million yen)

FY	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Policy cost	△ 5,434	△ 810	△ 69	17	10	△ 7	△ 11	1	4	644

(Note 1) The figures in FY 2001 to 2004 indicate the policy cost in the housing loan origination business excluding loans for property accumulation saving scheme-tied houses.

(Note 2) The figure in 2005 indicates the policy cost in loans for recovery from disasters (those accepted in and after 2005) and the securitization support business.

(Note 3) The figures in and after 2006 indicate the policy cost in loans for recovery from disasters (those accepted in and after 2005).