

# Details of JHF Business

## Funding

JHF's major funding sources are mortgage-backed securities ("MBS") and straight bonds with general securities ("SB").

JHF procures funding required for operations such as the securitization support business mainly from the financial market by issuance of MBS and SB. In addition, fundraising by syndicated loan started in FY2014 is still

being implemented.

JHF limits use of borrowings from Fiscal Investment and Loan Program (FILP) to loans for recovery from disasters requiring emergency measures.

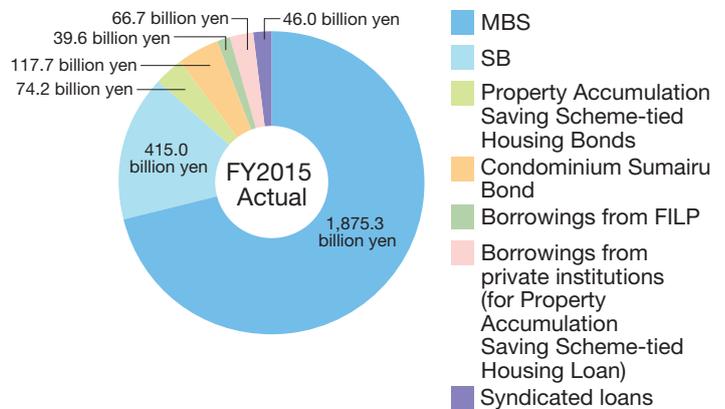
### Overview of funding



### Breakdown of funding

The majority of funds are procured by issuance of MBS and SB.

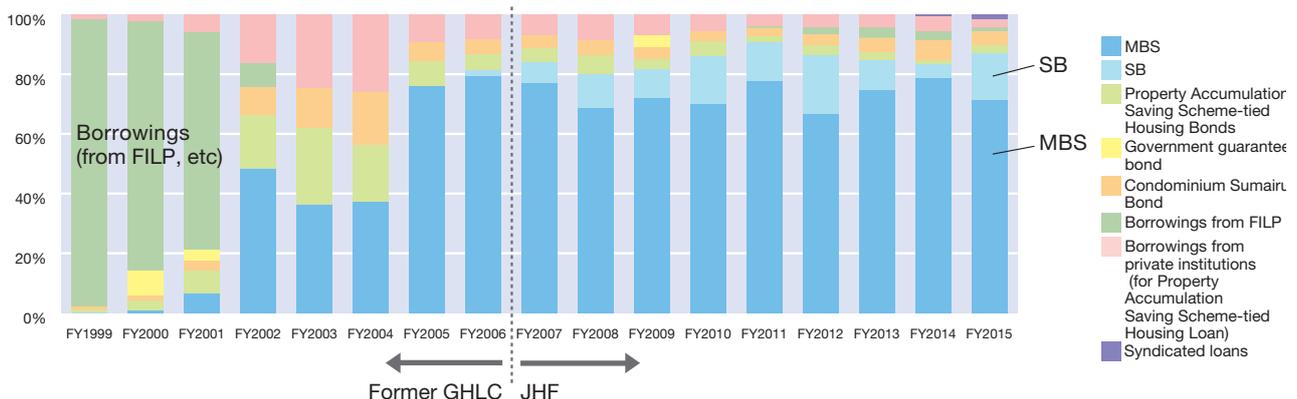
		Results of FY2015
Bonds	MBS	1,875.3 billion yen
	SB	415.0 billion yen
	Property Accumulation Saving Scheme-tied Housing Bonds	74.2 billion yen
	Condominium Sumairu Bond	117.7 billion yen
Borrowings	from FILP	39.6 billion yen
	From private institutions (for Property Accumulation Saving Scheme-tied Housing Loan)	66.7 billion yen
	Syndicated loans	46.0 billion yen
Total		2,634.5 billion yen



### Trend of funding sources

JHF shifted its main business from direct loans of the former Government Housing Loan Corporation (GHLC) to Securitization Support Business aimed to support provision of mortgages with fixed interest rate throughout

the loan duration by private financial institutions. Due to this change, main funding sources also has shifted from borrowings from FILP to funding from the financial market by issuance of MBS and SB.



## Product features of MBS and SB

	MBS	SB
Collateral	Housing loans *1	General security *2
Rating at time of issuance *3	S&P: AAA R&I: AAA	S&P: AA- R&I: AA+
Redemption methods	Monthly pass-through redemption *4	Bullet payment on maturity date
BIS risk weight *5	10% (Standard method)	10% (Standard method)
Eligible collateral security under the requirements of the Bank of Japan	Eligible (Loan value: 95% of the market value)	Eligible (Loan value: 97% of the market value with 1 year or less remaining; 97% with more than 1 yr to 5 yrs; 96% with more than 5 yrs to 10 yrs; 95% with more than 10 yrs to 20 yrs; 94% with more than 20 yrs to 30 yrs)
Amount paid (issuance price)	100 yen paid per 100 yen face value (issued at par)	

\*as of May 11, 2016

\*1. MBS entrusts housing loans “Flat 35” purchased by JHF as collateral at each issuance.

\*2. SB is a general mortgage bond in accordance with the provision of Article 19 Paragraph 4 of the Act on the Japan Housing Finance Agency, Independent Administrative Agency. Creditors (SB investors) have rights (lien) to receive repayment of their receivables in relation to JHF assets prior to other creditors. The order of the lien is the second highest priority following the general lien defined by provisions of the Civil Code (Paragraph 5 of the Article above).

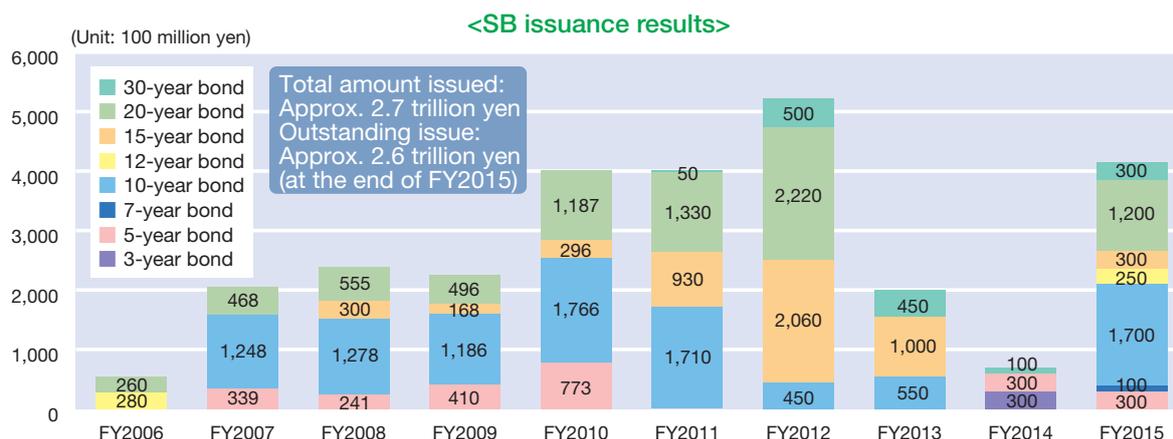
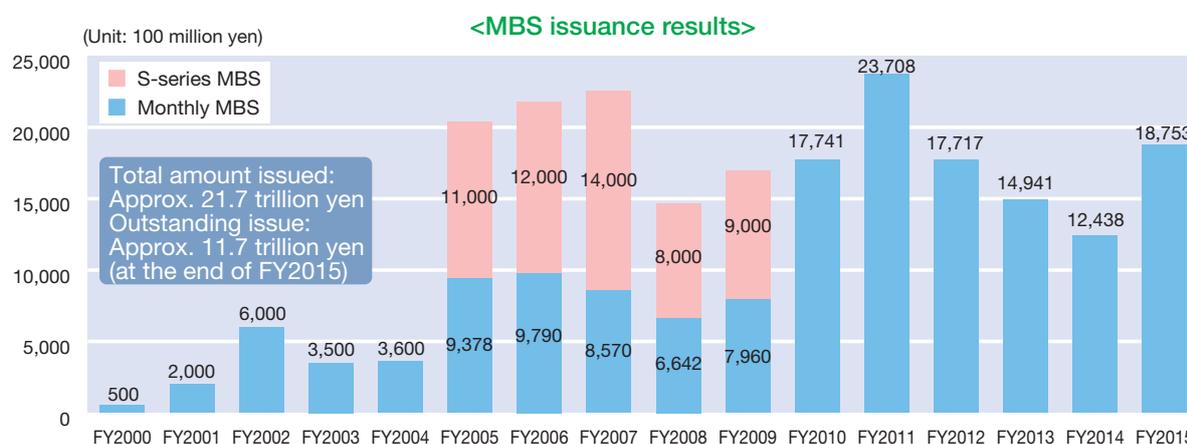
\*3. - S&P: Standard & Poor’s Ratings Japan  
- R&I: Rating and Investment Information, Inc.  
The rating of MBS given by S&P has an identifier (sf) that indicates structured finance.

\*4. See the following page for the monthly pass-through payment method.

\*5. The capital adequacy ratio under the BIS regulations is obtained by dividing the stockholders’ equity by risk assets. Each asset has a loanable value in accordance with the degree of risk, which is referred to as “risk weight.”

## Issuance results of MBS and SB

Monthly MBS and SB are issued to procure funds for “Flat 35” and JHF loans while S-series MBS is issued for the purpose of refinancing outstanding loans from the former GHLC business.



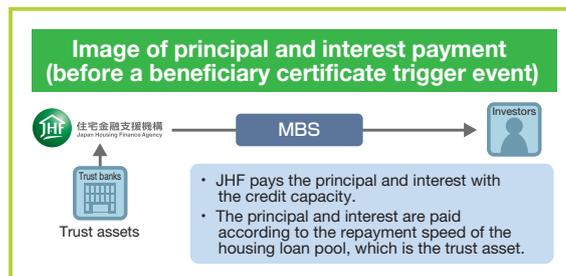
## Key Features of MBS (Monthly MBS)

### Asset-based Zaito Agency Bond

- Prior to a beneficiary certificate trigger event\*, JHF pays the principal and interest with its credit capability, and when a beneficiary certificate trigger event occurs, the MBS is no longer a Zaito Agency Bond but converted to a beneficiary certificate.
- The risk weight under the Basel Capital Accords is 10% by the standard credit risk method.

\* Beneficiary certificate trigger events

1. The successor of JHF Monthly MBS obligation is not determined by the act, and the dissolution of JHF is enforced by the act and JHF is dissolved by this act.
2. An act is enacted to designate as the successor of JHF Monthly MBS obligation a joint stock corporation (kabushiki kaisha) or a legal entity to which application of the Corporate Reorganization Act or other similar bankruptcy proceedings is legally permitted, and JHF is dissolved by such act.
3. An act is enacted to designate as JHF Monthly MBS obligor a joint stock corporation or a legal entity to which application of the Corporate Reorganization Act or other similar bankruptcy proceedings is legally permitted, and JHF MBS obligor becomes such legal entity.
4. JHF fails to fulfill its payment obligation under JHF Monthly MBS or other bond issued or assumed by JHF on the day such obligation is due and such condition is not cured within 7 days.



### Homogeneous and regionally diversified housing loan pool

- JHF purchases mortgages nationwide to create housing loan pool with highly effective regional diversification.
- JHF applies standardized criteria for purchasing mortgages from private financial institutions to create homogeneous housing loan pool.



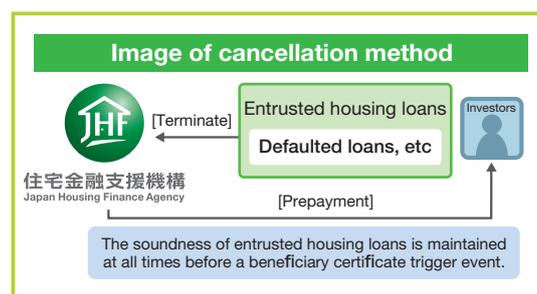
### JHF bears credit risk of defaulted loans.

- JHF pays the principal and interest of delinquent loans up to three months as if the loans are current.
- JHF will terminate defaulted loans including loans delinquent for four months from the trust. Therefore, such loans will be treated as prepayments and JHF removes such defaulted loans from the trust asset and repays an amount equivalent to the outstanding principal amount of the defaulted loan multiplied by the outstanding principal amount of the MBS divided by the outstanding amount of entrusted housing loans<sup>1</sup> [Prepayment Method]<sup>2,3</sup>.

<sup>1</sup>1. The outstanding amount of the entrusted housing loan on assumption that there is no delinquency of the entrusted housing loan

<sup>2</sup>2. As for S-series MBS and Monthly MBS issued by former GHLC, JHF maintains the soundness of the entrusted housing loan pool by replacing entrusted loans defaulted due to four-month delay and so on with equivalent housing loans. [Replacement method]

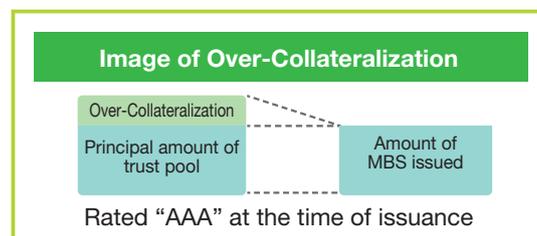
<sup>3</sup>3. The "cancellation method" and the "replacement method" are applicable only prior to a beneficiary certificate trigger event.



### JHF achieves AAA ratings by Over-Collateralization.

- JHF receives AAA rating (the highest) from S&P and R&I at the time of issuance by setting a sufficient level of Over-Collateralization.
- Minimizing the associated credit risk to the lowest level, investors are eligible to focus just on interest-rate risk and prepayment risk when deciding JHF MBS investment.

\* Over-Collateralization is the amount of the total entrusted housing loan amount exceeding the amount of MBS issued, which functions as credit enhancement after a beneficiary certificate trigger event.



### Monthly payment of the MBS principal and interest according to the repayment of the entrusted housing loan pool (Monthly Pass-Through Payment Method)

- JHF pays the MBS principal and interest to the investors according to the repayment amount of the entrusted housing loan pool that serves as the asset backing MBS.
- In general, repayment of the principal and interest of housing loans is made every month. Thus, the Monthly payment of the MBS principal and interest is paid monthly

as well.

- With housing loans, advanced repayment is possible in addition to predefined payment, and Monthly payment of the MBS principal and interest changes according to the prepayment of housing loans.