

Disclosure Booklet
2016

2016 Disclosure



Profile of Japan Housing Finance Agency (JHF)

Establishment: April 1, 2007

Mission: Japan Housing Finance Agency (JHF) strives to provide smooth and efficient provision of funds necessary for constructing houses and thus contribute to stable living and enhanced social welfare of the Japanese citizens by purchasing mortgages to assist lending of funds necessary for constructing houses provided by general financial institutions and lending funds required for constructing buildings for disaster recovery to supplement lending by general financial institutions.

Capital: 711.73529 billion yen (as of the end of the fiscal year 2015; 100% of the capital is provided by the Japanese government.)

Number of directors and employees: 915 (as of April 1, 2016)

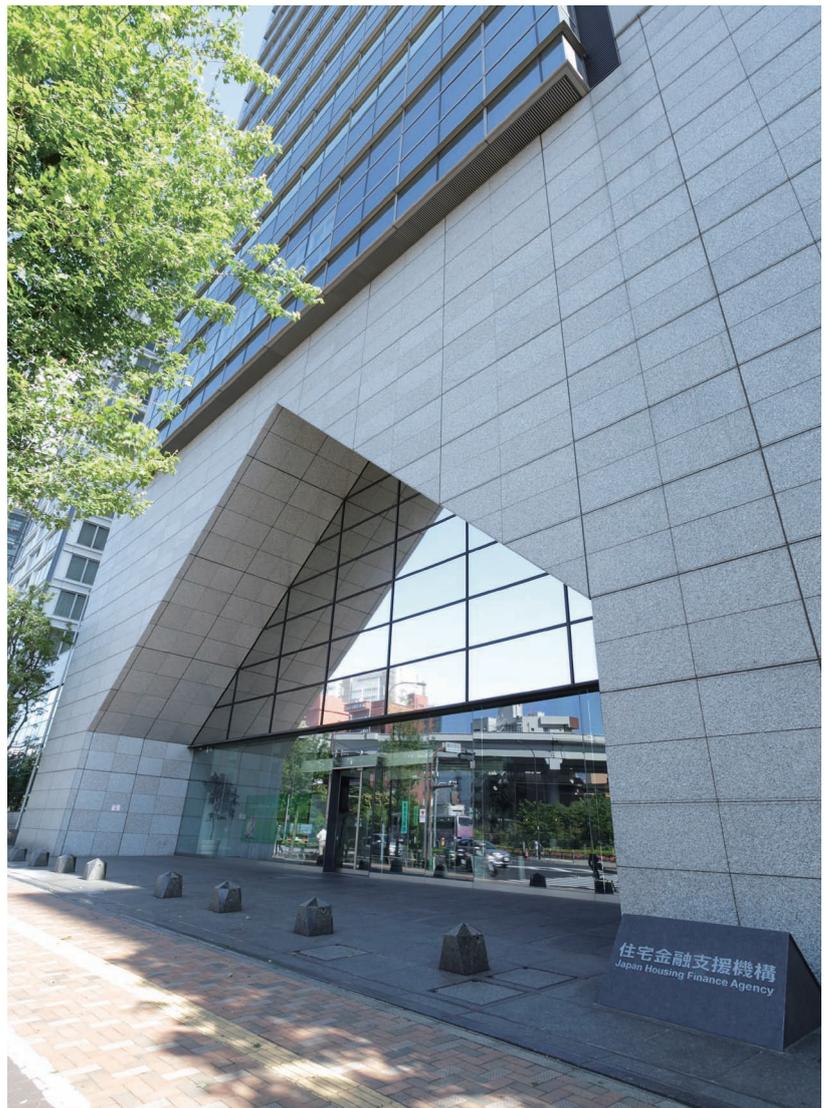
Operations: Securitization support, housing loan insurance service, loan origination

Offices: Head office: 1-4-10 Koraku, Bunkyo-ku, Tokyo, Japan 112-8570

Branches: 8 branches in major cities nationwide (as of July 1, 2016)

Size of mortgage portfolio: 24.2921 trillion yen (as of March 31, 2016)

(Including: Purchased housing loans – 12.8323 trillion yen and originated loans – 11.3922 trillion yen)



1. This booklet is a disclosure material prepared based on the "Law Concerning Access to Information Held by Incorporated Administrative Agencies." (Law No. 140 of 2001).
2. Figures in this booklet
 - (1) Rounding of figures
Amounts are rounded to the nearest unit.
Percentages (%) are rounded off at the second decimal point in principle. Thus, a figure in the total section may not equal the sum of the itemized amounts.
 - (2) Indication method
Items with values less than the unit are indicated as "0" while items with no statistical figures are indicated as "-."
3. Information on Japan Housing Finance Agency (JHF), including that on this booklet, is available on the JHF website (<http://www.jhf.go.jp>).
4. If there is any material difference between Japanese original version and this English translation, the Japanese original version shall prevail.

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Message from the President

We appreciate your continued interest and kind consideration.

And we would like to offer our heartfelt sympathy to the people affected by the Kumamoto Earthquake in 2016.

The Japan Housing Finance Agency (JHF) will make every effort to support those affected by the earthquake, together with everyone in local governments and at private financial institutions, etc. in disaster affected areas. We sincerely hope for recovery as soon as possible.

Five years have passed since the Great East Japan Earthquake. To help restore the livelihoods of those affected by the earthquake, JHF has made efforts from the financial perspective through modification of repayment methods of residential loans and with loans for recovery from the disaster.

In addition, we have held over 1500 consultation sessions in cooperation with local governments, architects' associations and private financial institutions in order to provide detailed support for the needs of those affected.

We will continue to support and contribute to restoration from the disaster, in cooperation with local communities.

Furthermore, we will continue to work with prefectures and other local governments to have stronger cooperation in ordinary times so as to make use of knowledge and the experiences acquired in this disaster in order to deal with disasters in the future, based on agreements reached with them.

“Flat 35” meets the demands of customers who want mortgages at fixed interest rates throughout the beginning of the operation in October 2003 to the end of the last fiscal year it has been utilized on 750,000 houses with an outstanding balance of 12 trillion yen. Under the “Basic Plan for Housing” Cabinet Decision in March, we will continue to make efforts to improve the convenience of the customer in cooperation with private financial institutions, thus contributing to vitalization of the housing market including resale housing, and to the promotion of quality housing.

On the other hand, we have made fundraising efforts for low interest by broadening investor base and the like, for issuance of mortgage-backed securities (MBS) to finance “Flat 35,” so that “Flat 35” will be easier for customers to use.

As a result, in August of last year we had our 100th issuance, with the total issuance amount over 21 trillion yen, attaining a high evaluation as a benchmark of the securitization market.

In the midst of big changes in the bond issuance environment due to the decline of market interest rates with the start of “Quantitative and Qualitative Monetary Easing with a Negative Interest Rate” by BOJ, we have exercised ingenuity in fundraising through efforts to level issuance amounts, etc., and we will continue to contribute to the development of the securitization market in Japan by stably issuing MBS and enhancing their benchmarkability.

In addition, while considering role-sharing with private financial institutions, JHF finances funds for projects that are important from a policy perspective, including improvement of living conditions in urban areas with high density of structures, reconstruction and seismic upgrading of decrepit condominiums and construction of serviced rental housing for the elderly, as well as expanding the system for provision of reverse-mortgage type housing loans by private financial institutions through use of housing loan insurance.

Furthermore, due to the aging society with a declining birthrate, in order to actively support local revitalization, we assign Managers for Community-based Cooperation to branch offices, and support resolution of tasks related to housing and town development in the community by offering our accumulated knowledge and experience.

This year will be the 10th year since JHF became an incorporated administrative agency and this year is the final year of its 2nd mid-term target period (FY2012-FY2016). Through the years, we have promoted various management reforms and steadily achieved our targets, including discontinuation of subsidies from the national government and elimination of the losses carried forward in all accounts, including the Outstanding Loans Management Account.

In terms of Governance, JHF will continue to make efforts to reinforce Internal Control, and by getting opinions on our business management from the “Business Management Deliberative Committee” consisting of neutral and external experts, will keep transparent and efficient management.

Then, in order to supply liquidity in the housing



financial market and contribute to the improvement of housing in our country as a public institution of “residential finance professional”, we will perform the function of implementing housing policy.

We will focus on new house recycling system construction and providing support for housing loans corresponding to upgrades to safer and higher-quality houses through rebuilding or renovation as expected for JHF in the Basic Plan for Housing, and at the same time, our directors and employees determine to strive to be an essential organization to Japanese society and citizens by corresponding to the aging society and declining birthrate, and contributing to local revitalization and measures for large-scale disasters.

We would like to request the kind understanding and support by customers and other stakehold-

ers, including private financial institutions, housing businesses, local governments and investors.

July 2016
Toshio Kato

加藤 利男

President
Japan Housing Finance Agency (JHF)
Incorporated Administrative Agency

About JHF

Business Overview

JHF focuses on the securitization support business to support provision of fixed-rate housing loans by private financial institutions, but also provides a housing loan insurance service to promote smooth provision of housing loans by private financial institutions, and a loan origination service in areas that are important from the policy perspective, yet difficult for the private sector to handle.

JHF makes efforts to enhance living standards and fulfills its corporate social responsibility (CSR) by smoothly and effectively supplying housing loans needed for construction of houses to support people's lives.

1 Securitization support business (Provision of Flat 35)

Support private financial institutions to supply fixed-rate housing loans through the following programs:

- Flat 35 (Purchase Program): JHF purchases fixed-rate housing loans from private financial institutions and securitizes them.
- Flat 35 (Guarantee Program): Private financial institutions securitize fixed rate housing loans insured by JHF, and JHF guarantees interest and principal payment of MBS to investors.

2 Housing loan insurance business

JHF supports smooth provision of housing loans by private financial institutions through the establishment of a system for insurance payments to those institutions based on insurance policies taken out in advance, in the event of default of housing loans due to unforeseen situations.

3 Loan origination business (Policy-related loans including loans for disaster recovery and town development loans)

JHF supports housing-reconstruction loans in areas affected by the Great East Japan Earthquake and other natural disasters, urban development projects and projects that facilitate the updating of urban functions and improve disaster-resilience including rebuilding of condominiums and enhancing anti-seismic strength, and promotion of rental housing for stable living for families with children and the elderly via direct loan origination by JHF.

4 Group credit life insurance business

This insurance system provides security for borrowers of Flat 35 (Purchase Program) or JHF originated loans. If the borrowers who have joined this system should die or incur a serious disability, the outstanding loan balance will be offset by insurance paid by a life insurance company or other means.

5 Promotion of quality housing

JHF helps improve living quality through its own technical standards for housing, which are set as part of the requirements for Flat 35 and JHF originated loans.

6 Management of outstanding loans

JHF appropriately manages outstanding loans through detailed and meticulous responses, such as modification of loan repayment terms for borrowers who have difficulty in making mortgage repayments, while reducing delinquent loans.

7 Research and surveys on housing finance

JHF conducts research and surveys on domestic and overseas housing finance markets.

	Results for FY2015	Initial plan for FY2016
Securitization support business (Provision of Flat 35)	Purchase Program: 2.3445 trillion yen (85,278 houses) Guarantee Program: —	Purchase Program: 1.9484 trillion yen (76,000 houses) Guarantee Program: 25.6 billion yen (1,000 houses)
Housing loan insurance business	Insurance contracts: 127 institutions, 491.7 billion yen Insurance contracted: 42,933 plans, 340.0 billion yen Insurance continuing: 154,472 plans, 2.2457 trillion yen	Insurance contracts: 353.8 billion yen
Loan origination business	199.8 billion yen (23,678 houses)	326.1 billion yen (25,410 houses)

Mission Statement

Based on independent, transparent,
and efficient management,
and in pursuit of the creation of customer values,
we provide various kinds of financial services
to support liquidity in the housing financial market,
and thus contribute to the improvement
of housing in our country.

Logo concept



住宅金融支援機構
Japan Housing Finance Agency

The letters J, H, and F represent pillars supporting the roof, the horizontal line represents the ground and is intended to create an uplifting feeling, while the sphere symbolizes security and expansiveness. The green color represents growth and vitality. The logo symbolizes a fusion between JHF and the world of housing.

*JHF is an abbreviation for the Japan Housing Finance Agency.

Activities of JHF

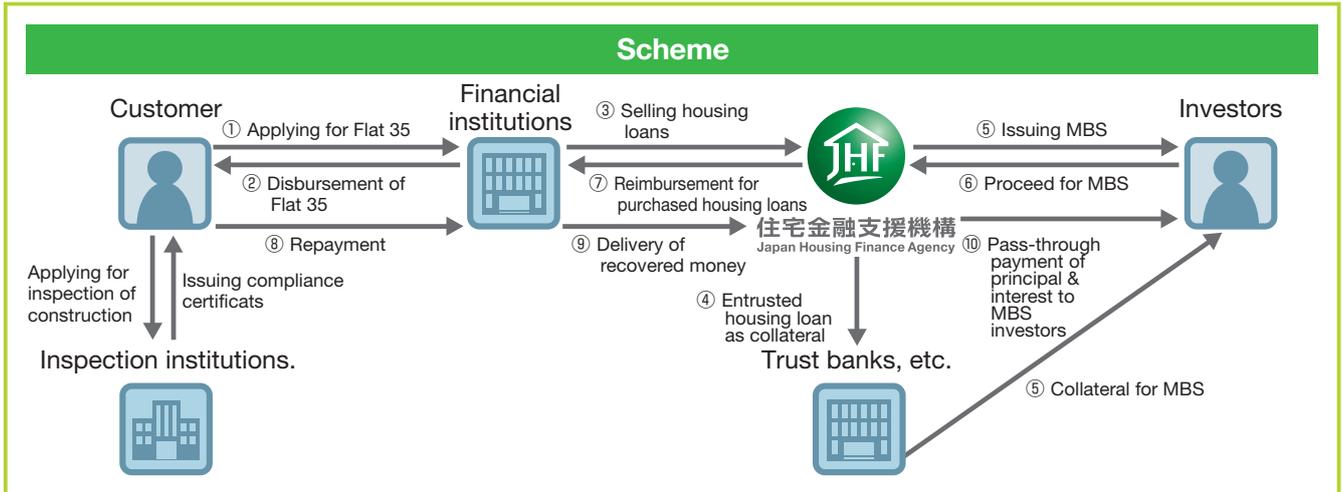
Providing fixed-rate housing loans through collaboration with private financial institutions

“Flat 35” is a fixed-rate mortgage that JHF offers to people in collaboration with private financial institutions. Because a fixed-rate mortgage is a type of loan in which the borrowing rate and the amount of installments are fixed to maturity when the loan is closed, it enables customers to make long term plans for living.

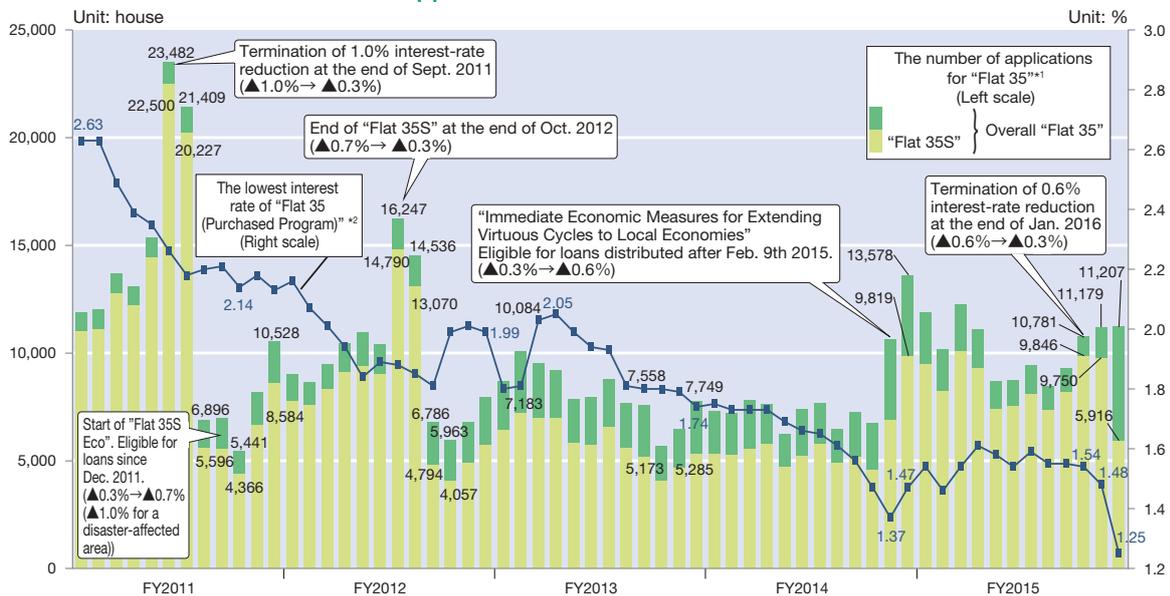
ずっと固定金利の安心
【フラット35】

Four merits of “Flat 35”

- ① Safe because interest rate is fixed to maturity
- ② JHF’s technical criteria to support housing
- ③ No guarantee fee and no fee for prepayment
- ④ Extend consultation during the repayment period



<Trend of applications for “Flat 35” and interest rates*1>

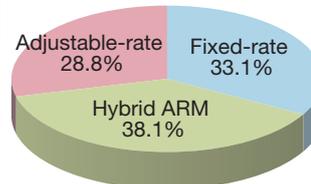


*1 Total number of houses applying for “Flat 35 (Purchased program / Guarantee program)”.

*2 The lowest interest rate among those offered by financial institutions in a case that duration of loan is between 21 years and 35 years (of which 90% or lower rate after February 2014 as interest rates vary according to its loan-to-value ratio (90% or lower, or over 90%). Many financial institutions set lower interest rate to the loans with 20 years or less maturity than those with 21-35 years.

Interest rate desired by prospective loan-applicants

Approximately one-third of prospective loan-applicants desire fixed-rate mortgages.



(Source) JHF “The third survey of recipients of private-sector housing loans in FY 2015 targeting prospective loan-applicants (conducted in February 2016)”

Promotion of High Quality (such as Energy-Efficient) Houses

“Flat 35S” is a system in which lower interest rates are applied for a certain period for customers who applied for “Flat 35” to purchase high quality housing in terms of energy saving, earthquake resilience, and the like. JHF promotes high quality houses by providing “Flat 35S”.

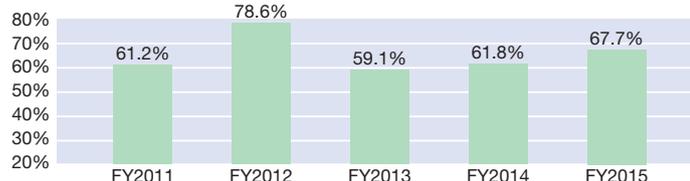
<Four performances targeted by “Flat 35S”>

<p>Housing with high energy-efficient performance</p> <ul style="list-style-type: none"> ● Use insulation materials adequately. (Fit insulating materials into the frame of the house without gaps) ● Equip windows and doors with double panes, etc. <p>To increase insulation capacity of residences and thus to reduce consumption of electricity and fossil fuels such as kerosene used in heating and cooling systems is required for conservation of the global environment.</p>	<p>Housing with excellent earthquake-resilience</p> <ul style="list-style-type: none"> ● Ensuring wall quantity and balance of layout ● Strengthen joints in building frames ● Strengthen foundations, etc. <p>It is extremely important to increase earthquake-resistance capabilities of housing and ensure safety in preparation for large-scale earthquakes is extremely important.</p>	<p>Housing with excellent barrier-free performance</p> <ul style="list-style-type: none"> ● Ensure that there are no different levels on the same floor (Elimination of the steps on the same floor) ● Install handrails ● Create sufficiently wide corridors, etc. <p>To make housing that is easier for elderly to live in must become fundamental to building housing going forward, including preparation for nursing care at home.</p>	<p>Housing with high durability and flexibility</p> <ul style="list-style-type: none"> ● Proof against decay and termites ● Ensure ventilation in the roof frame and under-floor (attic and under floor) <p>As Japan has matured as a society, to create high quality housing stock is an urgent task. To build houses that will last as long as possible and to keep using such houses carefully will lead to conservation of our lifestyles and the global environment.</p>
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Approximately 70% of newly build houses (detached houses) that applied for “Flat 35” were energy-efficient houses.

We have made efforts for the prevalence and advance of high quality housing through “Flat 35” and “Flat 35S.” The share of energy-efficient houses has increased for FY 2014 and FY 2015, due to expansion of interest rate reduction for “Flat35S.”

<“Flat 35” Share of houses meeting energy-efficient housing among applications for detached houses to be newly built>



*Houses (detached houses to be newly built) meeting energy-saving criteria of “Flat 35S”

Research and Surveys on Housing Finance and Dissemination of Information

JHF conducts research and surveys on domestic and overseas mortgage markets and actively disseminates this information.

Content of Major Surveys

- (1) Customer Surveys of Flat 35 Customers
- (2) Actual condition surveys of private-sector housing loan customers
- (3) Surveys of lending trends for private-sector housing loans
- (4) Surveys of new origination volumes and outstanding loan balances for housing loans by lender type
- (5) Consumption-expenditure surveys for home buyers

Publications

As co-author of “Professionals' Insights into Future Real Estate Investment” (Nikkei BP), in which prominent university professors, and others analyze various aspects of the future of the real property market, staff from the Research Dept. of JHF also wrote the sections about domestic and overseas housing markets.



Surveys on housing loans overseas and information dissemination overseas

▶ Ginnie Mae in the United States

JHF held a roundtable conference jointly with Ginnie Mae (the Government National Mortgage association) in Washington D.C. in the United States, on August 27, 2015. This was the first roundtable conference based on the Memorandum of Understanding, concluded in January 2014, with approximately 100 participants, which became an opportunity to deepen further collaboration between the two countries in housing loan related areas.



▶ CHDB in Myanmar

6 officials from CHDB (Construction and Housing Development Bank) and Ministry of Construction of the Republic of the Union of Myanmar were invited to come to Japan by the Ministry of Land, Infrastructure, Transport and Tourism, and participated in a workshop on housing finance and conducted information exchange from November 5 to 10, 2015.



Support for reconstruction from the Great East Japan Earthquake

Consultation sessions on housing reconstruction have been held many times.

In cooperation with national and local governments, JHF has provided local consultations on housing reconstruction for people in the disaster-affected areas since the Great East Japan Earthquake (1,558 consultation sessions were held in total from the end of March 2011 to the end of March 2016.)

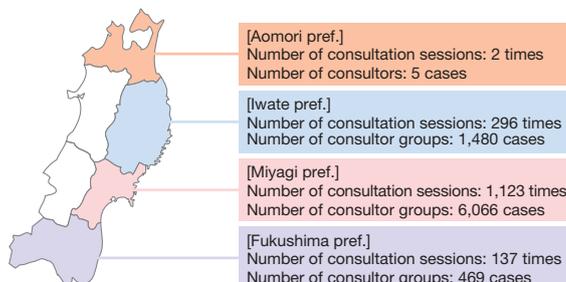
Together with the Iwate Prefectural Housing Support Council, the Miyagi Housing Development Promotion Council for Reconstruction and the Fukushima Prefectural Housing Support Council, we have held regular consultation sessions on various issues since April 2013 in Iwate, Miyagi and Fukushima Prefectures, respectively, as part of a one-stop service that includes loans and financial plans as well as housing plans and various subsidy programs.

Additionally, in cooperation with private financial institutions, we have visited various affected areas and held consultation sessions in these areas since FY2014.

<A consultation session>



<Results of local consultation sessions in Tohoku Area (March 2011 – March 2016)>



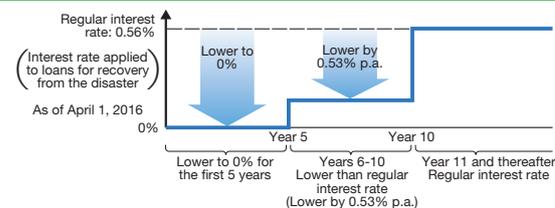
Establishment of Sanriku Reconstruction Support Center (June 2014)

Based on the fact that the full-scale supply of residential land will begin due to the project for promotion of group relocation for disaster mitigation in coastal areas of Iwate Prefecture, JHF has established the Sanriku Reconstruction Support Center in Kamaishi City, Iwate Prefecture, along with a system that offers more prompt responses to consultations on loans.

Support for rebuilding housing for those affected by disasters (Loans for recovery from disasters, etc.)

JHF provides disaster-recovery housing loans (housing loans for recovery from disasters) as well as loans to repair housing lots where such lots are damaged (loans to recover housing lots). We lowered the interest rate (0% p.a. for the first five years for construction and purchase) and extended the grace period and loan maturity. We have received 16,764 applications for disaster-recovery housing loans and made disbursements for 13,295 houses (cumulative numbers as of March 31, 2016).

Image of (Phased) Interest-Rate Reduction (for construction and purchase)



Support and etc. for customers who are under repayments (Special measures for modification of repayment methods)

JHF has deferred repayment of loans in whole or in part, extended the repayment period and lowered the interest rate for a grace period for those affected by disasters. We have approved a total of 6,150 cases for modifying the repayment method (as of March 31, 2016).

We also properly respond to the Guidelines for Individual Debtor Out-of-Court Workouts and assist self-help-based reestablishment of livelihoods and businesses. Repayment

plans have been formulated for 349 of 371 loans for which the application of the Guidelines has been submitted (both are cumulative total figures, as of March 31, 2016).

In addition, for liens inside the projected sites for construction of intermediate storage facilities promoted by the government, JHF created a scheme for removal of its liens when receiving advanced payment, to support restoration of disaster-suffered areas and the lives of those affected.

<Modification of repayment method for those affected by the Great East Japan Earthquake>

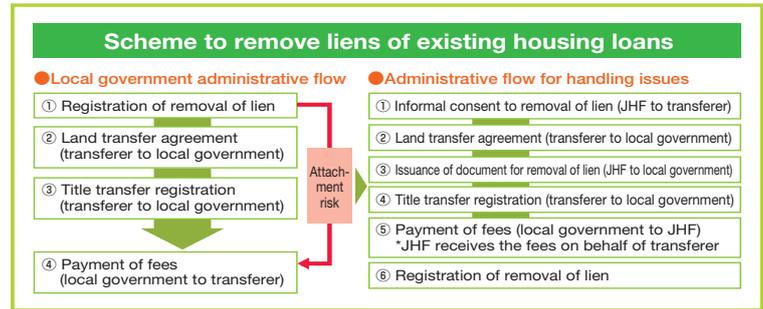
Damaged rate \ Repayment method modification	Grace period	Extension of repayment period	Lowering of interest rate* during grace period
Less than 30%	1 year	1 year	Lower rate (regular interest rate – 0.5% or 1.5%)
30% to less than 60%	Up to 3 years	Up to 3 years	Lower rate (regular interest rate – 1.0% or 1.0%)
60% or more	Up to 5 years	Up to 5 years	Lower rate (regular interest rate – 1.5% or 0.5%)

* Interest rate is per annum.

Support for project of promoting group relocation for disaster prevention

Response to purchase by local government of residential land affected by disaster

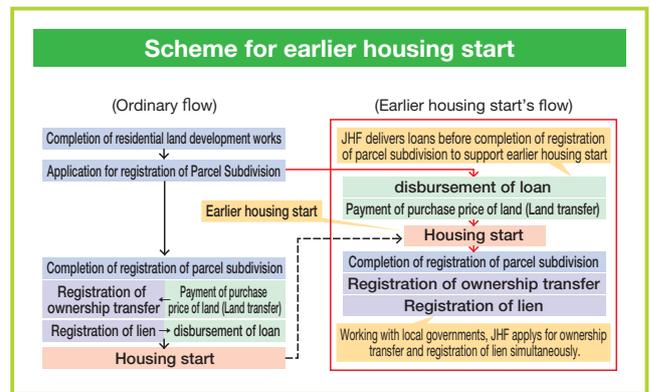
For liens of housing loans that have become obstacles to the purchase by local government of original residential land affected by disaster before transfer under the project of promoting group relocation for disaster prevention, JHF created a scheme in which JHF directly receives sales proceeds from land, etc. paid by the local government and thereby removes the liens in advance of the receipt of sales proceeds. In addition, JHF supports smooth execution of the project of promoting group relocation for disaster prevention by encouraging financial institutions to use this scheme.



Support for early housing construction starts on developed land

Loans in advance of land registration of parcel subdivision into housing lots

For smooth implementation of “Shortening of the period from site preparation to housing construction by earthquake survivors” mentioned in the “Measures for acceleration of housing reconstruction and recovery town development (the fifth step)” (Announced by the Reconstruction Agency on May 27, 2014), JHF, in collaboration with national and local governments, created a scheme that enables JHF to lend to people affected by disasters before the completion of land registration of parcel subdivision of housing lots developed by the project of promoting group relocation for disaster prevention, or other means by arranging secure procedures to register liens on land after transfer of land titles. Thanks to this scheme, we support earlier housing construction starts by people affected by disasters.



Handling of registration of special agreement on redemption of housing land after transfer

Based on the fact that giving advances is difficult in the case of general housing loans when a special agreement on redemption by local government is registered on housing land after transfer, JHF shared the problem with local government and

coordinated the response. In addition, when a special agreement on redemption is registered, JHF makes it possible to use disaster-recovery housing loans and Flat 35 by executing a memorandum with the local government, to the effect that JHF directly receives the purchase price that will be paid to the land owner at the time of exercise of redemption rights.

Support for people who evacuated from the nuclear power plant accident (Related to the Act on Special Measures for the Reconstruction and Revitalization of Fukushima)

Handling of disaster-recovery housing loans by enforcement of the Act on Special Measures for the Reconstruction and Revitalization of Fukushima (March 2012)

JHF made those who lived in the zone in which an evacuation order was issued due to the nuclear power plant accident of March 11, 2011 eligible to apply for a disaster-recovery loan for the purchase of or building of a house without a “Victims’ certificate” (that verifies the degree of damage of his/her

previously inhabited house with on-site survey, by the local government etc. and certifies the status of damage) if the fact can be confirmed that the person was living inside a zone in which an evacuation order was issued.

Handling of disaster-recovery housing loans by enforcement of the Revision of the Act on Special Measures for the Reconstruction and Revitalization of Fukushima (May 2015)

In the case where people return to a zone damaged by the nuclear disaster after the evacuation order on the zone has been lifted and reconstruct their houses using disaster-recovery housing loans, in the past a “victims’ certificate” to verify that the previously inhabited house was damaged was required. In response to the revision of the Act on Special Measures for the Reconstruction and Revitalization of Fukushima that came into effect in May 2015, and to support people’s return to zones where evacuation orders have been lifted, JHF now makes people who were living in the zone as of March, 11 2011 eligible to apply for disaster-recovery loans without such certificates for the purchase of or building of housing in the city that includes the zone.

<Handling of disaster-recovery housing loans>

Situation of the place of residence		Place in which houses will be built or purchased	Submission of victim certificate for applying disaster-recovery housing loans
In a time of disaster (As of Mar. 11, 2011)	Situation of evacuation orders on the day of applying		
Zones that are subject to an evacuation order	Zones that the evacuation order is not yet lifted.	In a city, town or village which is same as the place of residence at the time of disaster	Not required
	•Difficult-to-return zone •Restricted residence Zone •Zone in preparation for the lifting of the evacuation order	In a city, town or village which is different from the place of residence at the time of disaster	
	Zones where above-mentioned evacuation orders have been lifted	In a city, town or village which is same as the place of residence at the time of disaster	Required
•Zones where evacuation orders have been lifted	In a city, town or village which is different from the place of residence at the time of disaster		

Provides loans for which societal demand is expected to grow, and which are difficult for private financial institutions to originate

Rebuilding housings affected by disasters Loans for recovery from disasters

JHF provides low-interest loans for people whose houses were damaged by the Great East Japan Earthquake and the Kumamoto Earthquake in 2016, as well as other earthquakes, torrential rains, gusty winds and typhoons and other natural disasters to build, purchase or renovate their houses. We also provide loans for ground-work together with residential structures when housing lots are damaged due to collapse or liquefaction, etc.

Stable living for the elderly Loans for rental houses with nursing services for the elderly

JHF provides loans to business operators to build rental houses with nursing services for the elderly, or purchase houses once used for other purposes to convert to rental houses with nursing services for the elderly, or do renovation to convert to rental houses with nursing services for the elderly.

Serviced rental housing for the elderly

This refers to barrier-free rental housing that encompasses services such as monitoring and nursing care for the elderly, which was introduced when the “Act on Securement of Stable Supply of Elderly Persons’ Housing” was revised in 2011. This is rental housing that meets the registration criteria, and is registered with the municipal government. This is supported by governmental subsidies, preferential tax treatment and policy-related loans.

(Example)

Apartment complex name: “Miraia Court Miyanomori”, Sakura, Chiba Prefecture, completed in Feb. 2015

This is rental housing developed to promote stable living for the elderly in the Yukarigaoka community, where the aim is to harmonize natural and urban functions. It has well-developed common use areas, with the Family Kitchen, where visiting family and residents can have meals together, and the Care Garden, where the residents are able to enliven their five senses, other things, and alliances with medical institutions to further the security and safety of residents; disaster measures are also considered, with self-power generation equipment for a maximum of 48 hours in case of power outages, etc.

FY2015 JHF President’s letter of appreciation awarded housing development

<Building appearance>



<Living room>



<Inside bedroom>



Support for families raising children Loans for energy-saving rental housing for house holds with small children

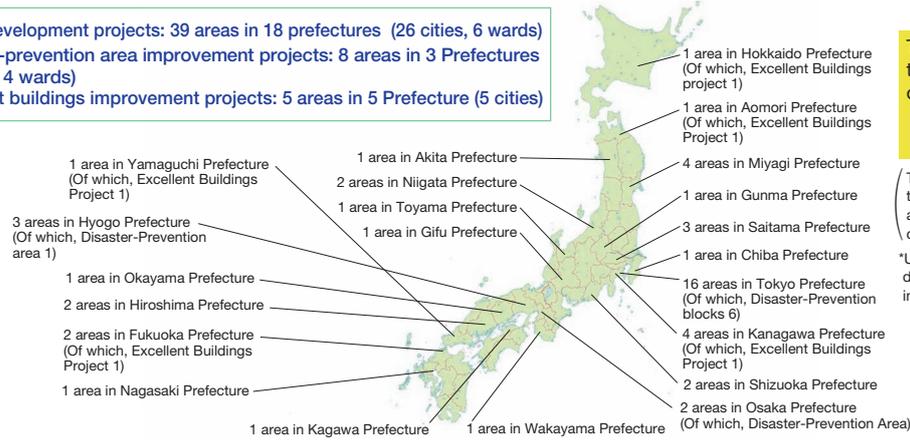
JHF provides loans for construction and other purposes to promote the supply of energy-efficient rental housing capable of accommodating families raising children.

Development of safe residential areas Town development loans

JHF provides loans for the following projects to secure disaster-resilience and improve living conditions in urban areas with high concentrations of structures to promote rational land use:

- Rebuilding old condominiums (including sale of land)
- Disaster-prevention block improvement projects and projects to rebuild rental structures in core city centers with high concentrations of structures
- Urban redevelopment projects, etc.
- Joint rebuilding projects in urban areas with high concentrations of structures, rebuilding of buildings that conform with wall setback standards for local greenery.

- Urban development projects: 39 areas in 18 prefectures (26 cities, 6 wards)
- Disaster-prevention area improvement projects: 8 areas in 3 Prefectures (2 cities, 4 wards)
- Excellent buildings improvement projects: 5 areas in 5 Prefecture (5 cities)



The share of JHF loans to develop towns in urban redevelopment and other projects*.

(From April 2007 to March 2016) **27.5%**

(The ratio of projects that received JHF loans to develop towns among urban redevelopment and other projects* for which the correct conversion plan was approved.)

*Urban redevelopment and other projects to develop disaster-prevention areas with housing implemented by private business operators, etc.

▶ Urban redevelopment project

(Example)
Project name: “First Class Urban Rebuilding Project in Sakae and Tokiwa Area”, Sasebo, Nagasaki Prefecture, Completed in Sept. 2014

<Overview of facility>

<After development>

▶ Project to rebuild condominiums

(Example)
Project name: “Central Mitake Condominium Reconstruction Project,”
Shibuya, Tokyo, completed in July 2015

<Before construction>

<After construction>

Renovation of Condominium Stocks Loans for renovating shared parts of condominiums

JHF provides loans for condominium management associations and unit owners to repair exterior walls and other areas to help them address deterioration and enhance anti-seismic strength.

Stable living for the elderly, and others/ Condominium stock maintenance and renovation Special repayment system for the elderly (renovation loans/urban development loans)

In general, funding plans by ordinary housing loans with repayment of principal and interest become difficult as the repayment period shortens when the borrower gets old.

This system can be used when an elderly person who is 60 years of age or older renovates his/her house in terms of barrier-free or earthquake resistance, or purchases a housing unit supplied by a condominium rebuilding project, etc. Before the decease of the borrower the borrower only pays interest, and after the decease of the borrower we require the inheritors, etc. to repay the outstanding balance in lump sum, and due to this scheme, the burden of repayment is eased while the elderly borrower is alive.

JHF holds briefing and consultation sessions, etc. with management associations, etc. that are considering rebuilding of condominiums, to cooperate in forming agreements on rebuilding.



Improving Earthquake Resilience Renovation (earthquake resistance improvement)

JHF provides loans for earthquake-resilient renovation aiming to improve the earthquake resistance of housing. In preparation for the anticipated Nankai Trough Earthquake or earthquakes that might directly hit the Tokyo metropolitan area, etc., the “Revision of the Act on Promotion of Seismic Retrofitting of Buildings” (Act No. 123 of 1995) went into effect in November 2013, and earthquake-resilient renovation of condominiums lacking earthquake-resilience along emergency transport roads in particular is considered to be an urgent task.

This earthquake-resilient renovation construction, a great deal of expense is required for seismic isolation construction, etc., so we increased the loan limit amount for loans to renovate shared parts of condominiums (earthquake-resistant repair construction) from 1.5 million yen, for the case of general large-scale renovation, to 5 million yen, and reduced the loan interest rate by 0.2% from the ordinary interest rate.

Strengthening operating foundations to be an organization that can implement effective and efficient business operations

Financial Conditions and other (FY2015 Settlement)

Status of assets and debts

Total assets as of end of FY2015 were approximately 27 trillion yen, and total debts were approximately 26 trillion yen.

Status of major assets and debts is as follows.

▶ Status of outstanding balance of purchased loans and other loans

The balance of "Flat 35 (Purchased loans)" at the end of FY2015 was approximately 13 trillion yen.

The balance of purchased loans has been increasing year by year and now accounts for a majority of the balance of the housing loans that JHF holds.

▶ Status of outstanding balance of bonds and borrowings

Fundraising from the financial markets through issuance of MBS has increased in accordance with the business growth of "Flat 35".

Meanwhile, borrowings for Fiscal Loan Funds, which are borrowings from the Japanese government, has declined due to the decrease in the balance in the Outstanding Loans Management Account.

Status of profit and loss

JHF posted gross income of 215.9 billion yen for the overall agency.

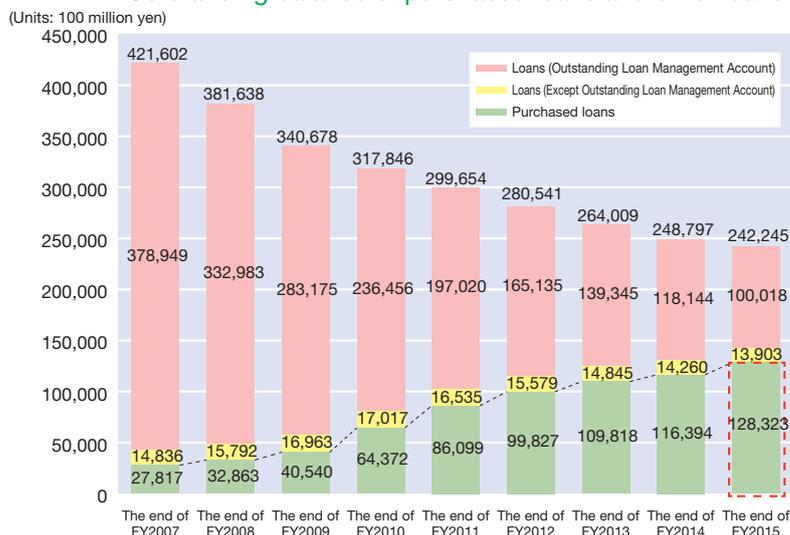
<Securitization Support Account>

JHF posted gross income of 66.3 billion yen in the Securitization Support Account, through an increase in the balance of purchased loans and appropriate loan management and so on. Thanks to this, including the reserves up to the previous term, it posted a surplus carried forward of 212.2 billion yen. As costs tended to emerge later than earnings for credit risk, etc. of the Securitization Support Business (Purchased Program), the loss in the latter half was offset by profit in the first half of the loan period, and therefore, in order to be prepared for future emergence of credit risk, etc., JHF posted this 66.3 billion yen as reserve fund (under Article 44.1 of the Act on General Rules for Independent Administrative Agency).

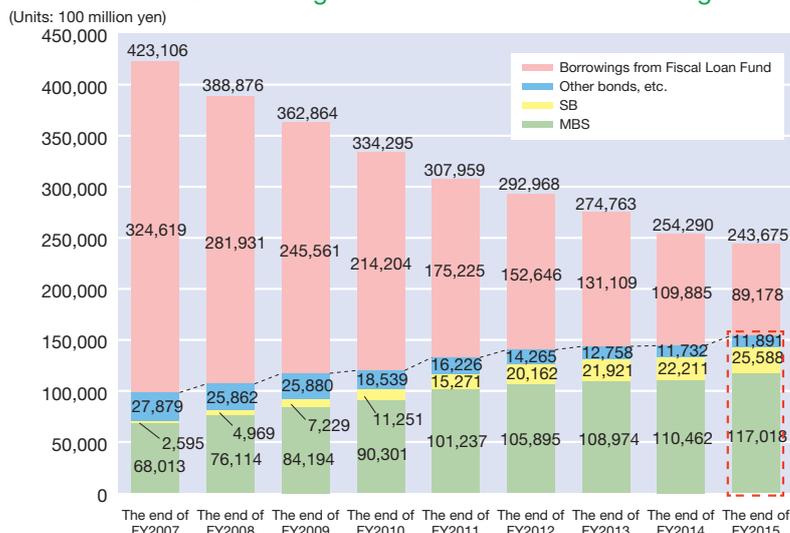
<Outstanding Loans Management Account>

JHF posted gross profit of 130.6 billion yen in the Outstanding Loans Management Account due to appropriate loan management. By this, the loss carried forward was eliminated and JHF posted a surplus carried forward of 22.2 billion yen. From the perspective of concluding the project stably without incurring new state liability, in order to be prepared for future emergence of credit risk, etc., JHF posted this 22.3 billion yen as reserve fund (under Article 7.7 of Supplementary Provisions of Act on the Japan Housing Finance Agency, Independent Administrative Agency).

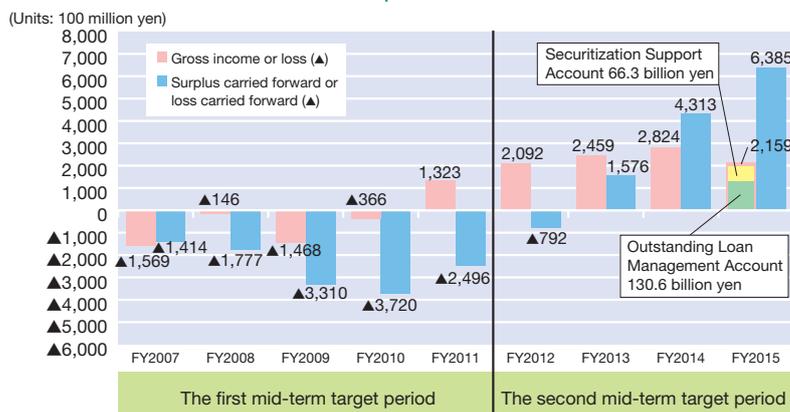
<Outstanding balance of purchased loans and other loans>



<Outstanding balance of bonds and borrowings>



<JHF's profit and loss etc.>

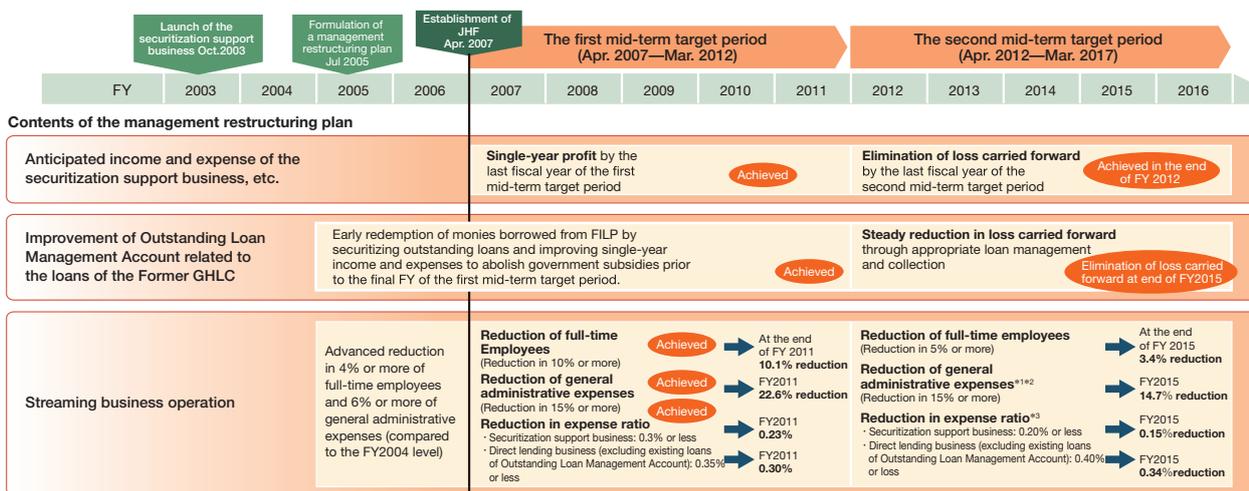


* The surplus carried forward in FY2015 includes a reserve fund of 212.2 billion yen (after appropriation of profit for the year) in the Securitization Support Account, a reserve fund of 295.2 billion yen for the group credit life insurance business, and a reserve fund of 22.2 billion yen (after appropriation of profit for the year) in the Outstanding Loans Management Account.

Business Operations Optimization

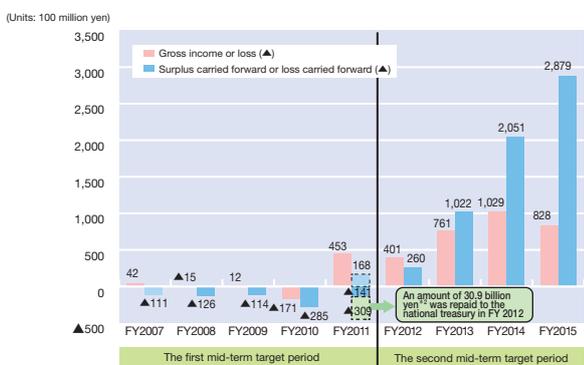
In the housing loan market, JHF has been working on efficiency improvements of business operations and improvement of financial details while steadily accumulating results in order to promote support and complement private financial institutions under autonomous management, and achieved the goals of the first mid-term target period.

JHF achieved its goal of eliminating loss carried forward for the Securitization Support Account at the end of FY2012, and for the Outstanding Loans Management Account the loss carried forward was eliminated at the end of FY2015, thus the loss carried forward was eliminated for all accounts. JHF will steadily work toward achievement of the other goals of the second mid-term target period.



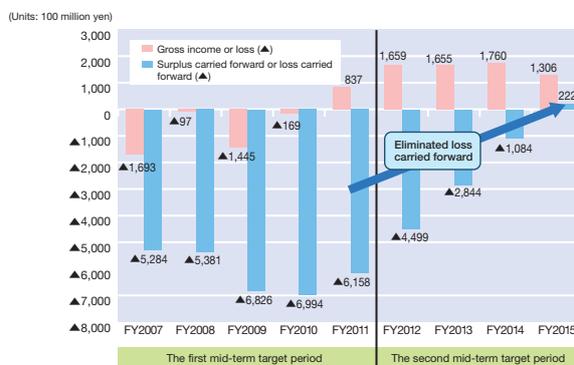
*1 Commissioning cost (excluding business outstanding cost), wages of temporary employees and expenses of office supplies, etc.
 *2 General administrative expenses in the second mid-term target period do not include labor costs, for which a reduction target is set separately based on government policy and taxes and public dues beyond the control of the JHF
 *3 Expense ratio: (administrative cost + (business outsourcing cost - entrustment charges) + bond issuance cost + depreciation) / average balance of purchased receivables, etc.

<Accounts excluding Outstanding Loan Management Account*1>



*1 Excluding operations taken over from the Housing Loan Guarantee Cooperation
 *2 Housing loan insurance account: 2.12 billion yen
 Account for Loans for Property Accumulation Saving Scheme-tied Houses: 28.74 billion yen

<Outstanding Loan Management Account* >



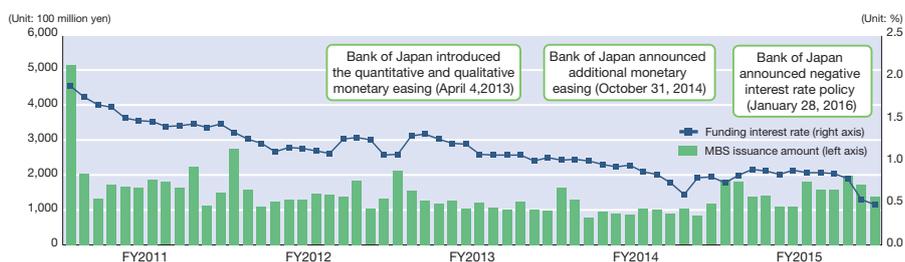
* Outstanding Loan Management Account is the account for management and collection of loans for which loan applications were received by former Government Housing Loan Corporation before FY2004

Providing low long-term fixed-rate interest housing loans by issuing MBS

Careful investor relation activities prompted more investors to participate in investing in MBS, which enabled stable fundraising, even amid the changing financial environment in Japan and overseas.

In March 2016, the coupon interest rate of MBS was lowered to 0.48%, the lowest coupon interest rate in the history of JHF, and we have successfully implemented efficient fundraising and provided customers with low fixed-rate interest housing loans throughout loan duration.

* The "Flat 35" interest rate consists of a funding interest rate, expenses for JHF's business operations, and fees payable to financial institutions.



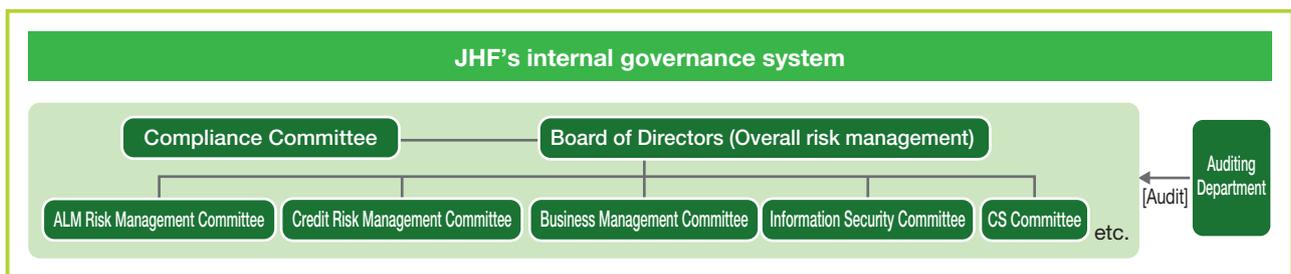
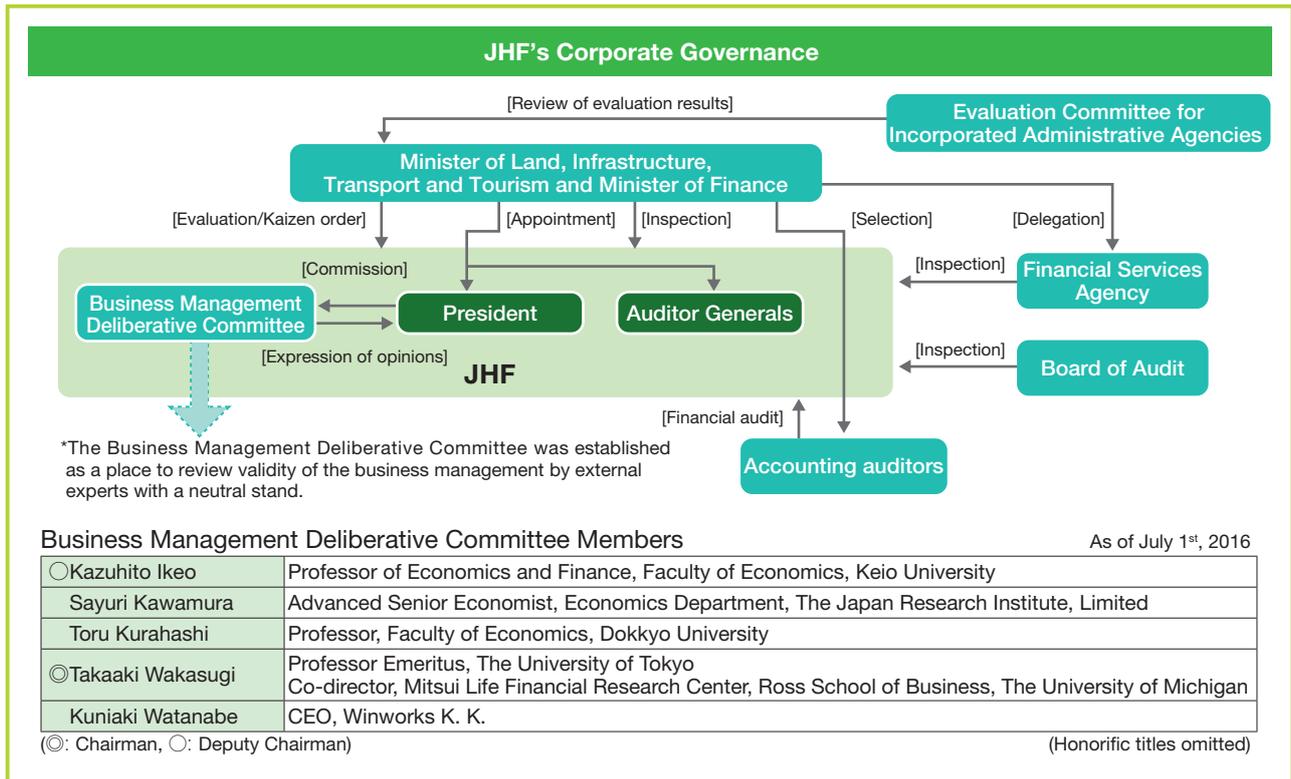
Corporate Governance

Governance Structure

Recognizing its basic mission and social responsibility as an Incorporated Administrative Agency, JHF gives priority to strengthening corporate governance in its business management and actively implements activities to ensure sound and proper conduct of its business with high ethical standards and wisdom under transparent and efficient management based on the Act on General

Rules for Independent Administrative Agency.

Moreover, in order to develop its internal governance system for appropriate business operations, JHF has established the Basic Policy on Internal Governance and promotes appropriate internal governance by the PDCA cycle as well as further sophistication of internal governance by enhancing the governance environment.



Basic Policy on Internal Governance (Overview)

1. System to ensure that execution of tasks by our employees conforms to laws and regulations
2. System for customer management including privacy policies and management and storage of information related to execution of tasks by our employees
3. Regulations related to loss risk management and other systems
4. System to ensure that tasks are effectively executed by our employees
5. Internal audit system to ensure proper business
6. System related to employees assisting the auditor, if requested, and their independence from the President
7. System for employees to report to the auditor and other systems related to report to the auditor
8. Other systems to ensure effective audits by the auditor
9. Establishment of the PDCA cycle for internal governance

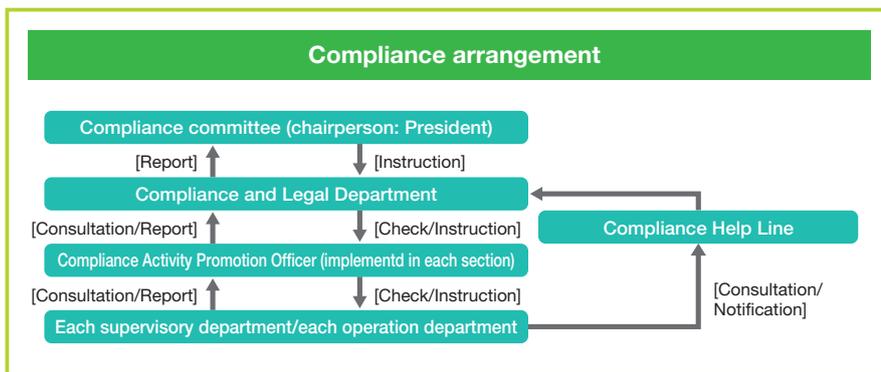
Compliance

Arrangements for compliance

In order to reliably implement compliance, JHF has set up the Compliance Committee (chaired by the President) comprising all directors and managers of departments involved in discussing and deciding important matters related to compliance. In addition, the Compliance and Legal Department has been established as the department for managing compliance, along with which, in

managing the promotion of activities for compliance in each department, a person responsible for compliance is assigned for each department.

Furthermore, for advance prevention of compliance violations at JHF, a compliance help line has been set up in and outside of the Compliance and Legal Department.



JHF provides all executives and staff members with a pocket-size edition of its compliance manual. It will serve to guide them when they look back on actions on their jobs, or when they have difficulty making decisions.

Compliance activities

JHF has established the Compliance Charter as its basic principles of compliance and developed a compliance manual that stipulates the laws and regulations to be complied with, rules, social requirements, and matters to be noted pertaining to compliance in order to enhance awareness of compliance among all executives and employees.

As a plan to ensure compliance at JHF, a Compliance Program is defined and implemented each fiscal year.

Specific activities of the Compliance Program include agency-wide e-learning, compliance meetings by individual operational units (where familiar compliance top-

ics are discussed interactively among a few members by the case method), and monthly dissemination of compliance-related information over the internal LAN. These educational programs help employees understand compliance and to think and act autonomously based on their understanding.

In addition, JHF has steadily promoted compliance activities in the PDCA cycle by quarterly monitoring and examining implementation of the Compliance Program in the Compliance Committee and making necessary modifications of Compliance Program policies.

The Compliance Charter (excerpt)

1. We comply with laws, rules and regulations as well as social norms, and strive to undertake all tasks properly in efforts to ensure public confidence.
 - (1) Compliance with laws and regulations as well as social norms
 - (2) Proactive and fair disclosure of information
 - (3) Strict information management
 - (4) Resistance against all anti-social parties
2. We do our utmost to pursue customer confidence and satisfaction.
 - (1) Provision of comprehensive housing loan services
 - (2) Provision of appropriate and sufficient explanations
 - (3) Sincere responses to customer voices
3. We respect the unique individuality of each executive and staff member and endeavor to secure a comfortable work environment.
 - (1) Respect for the personality and character of each individual
 - (2) Comfortable work environment

Responses to Anti-social Forces

To reject any relationship with anti-social forces such as organized crime syndicates, JHF has incorporated an item concerning resistance against all anti-social parties into its compliance charter and established a basic policy, which is available on our website. In addition, regulations and manuals for dealing with such anti-social forces have been developed. Through these efforts, JHF has established a system for reporting to and consulting immediately and properly with management and the Compliance and Legal Department, which is the department that oversees responses to anti-social forces,

when any business with such anti-social forces or undue claim from such forces is identified.

JHF also conducts training and other sessions on how to handle undue claims in cooperation with the police and other relevant institutions.

Incorporating stipulations on rejection of anti-social forces into business contracts, JHF eliminates any relationship, not only with organized crime syndicates but also with any affiliated parties of such organizations that anti-social forces utilize to illegally receive loans.

JHF continues its efforts to reject anti-social forces.

Basic Policy on Anti-Social Forces

1. JHF shall have no relationship with any anti-social forces, and the President, the management, and all employees shall work together to take an uncompromising stance toward such forces.
2. JHF shall establish a system to reject anti-social forces and educate management and employees to ensure their knowledge of the handling manual for such forces.
3. JHF shall ensure the safety of management and employees who handle undue claims from anti-social forces.
4. JHF shall cooperate closely with such external institutions as the police, the National Center for Elimination of Boryokudan, and lawyers.
5. JHF shall take legal actions, both civil and criminal, against undue claims from anti-social forces.
6. JHF shall accept no “backstage deals” to conceal facts, even when undue claims from anti-social forces are based on irregularities related to JHF’s business activities or involve its employees.
7. JHF shall provide no funds to anti-social forces.

Information Security

JHF has made efforts for information security measures since our establishment, and in FY2015, we further reinforced our information security measures promotion system through the following efforts.

- Establishment of the Information Security Committee for the purpose of deliberation on matters relating to information security, and appropriate maintenance of the level of information security.
- Formulation of the Information Security Measures Promotion Plan as a project for comprehensive promotion of information security measures.
- Re-development of the Information Security Policy based on the “Integrated Standards for Information Security Measures of Government Agencies” after organization of the existing security-related rules and regulations.

Risk Management

In order to properly manage its business and gain the understanding and trust of the general public, JHF maintains a system to adequately manage the various risks that may arise in its day-to-day operations.

JHF has established risk management regulations, including the “Risk Management Basic Rules,” that stipulate the purpose of risk management, identify and define individual risks, and specify basic systems such as the

risk management system and methods and auditing of the status of risk management implementation. Based on these rules, JHF manages risks from a comprehensive point of view by understanding and evaluating the various risks overall that are characteristic of the housing loan business, with the operations and characteristics of JHF taken into consideration as well.

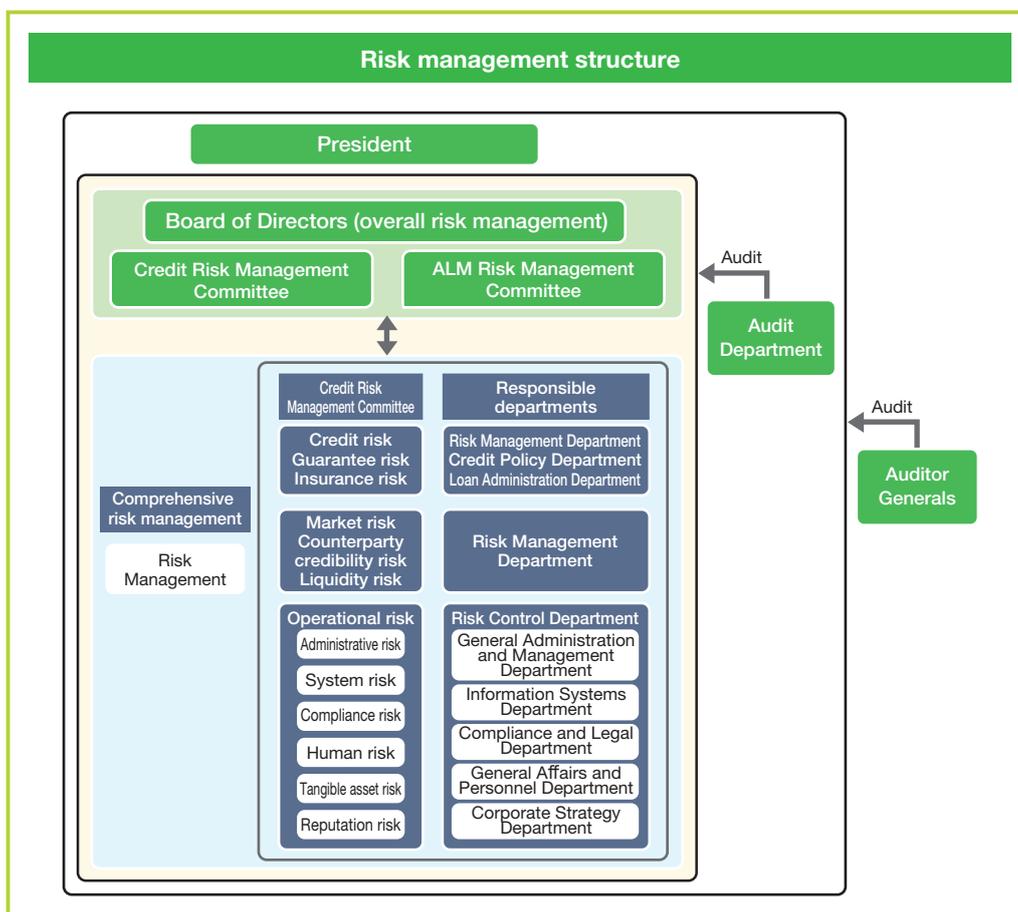
Risk management structure

JHF classifies risks into seven categories: credit risk, guarantee risk, insurance risk, market risk, counterparty credibility risk, liquidity risk, and operational risk. In the event of a significant change in the economy, JHF will define new categories of risk to be managed as necessary.

To properly manage these risks qualitatively and quantitatively, JHF has built the requisite system by appointing an executive and a department responsible for managing each risk category. In particular, the “Credit Risk Management Committee” was established to manage credit risk, guarantee risk, and insurance risk, and

the “ALM Risk Management Committee” was established manage market risk, counterparty credibility risk, and liquidity risk. These committees monitor the status of each risk and deliberate on planning and proposals related to the management of each risk.

In addition, JHF assigns an executive and a department responsible for comprehensive risk management in order to manage the risks from a comprehensive point of view and maintains a system to track and evaluate management of the risks overall and periodically report the results to the Board of Directors.



Risk categories

Credit risk

This is the risk of JHF suffering a loss in relation to credit that JHF owns due to a decline or loss of value of an asset caused by deterioration of the creditworthiness of a debtor. Since housing loans account for a large part of JHF assets, JHF properly underwrites the credit risk of the loans it purchases or originates, and manages and performs self-assessment of the loans that it holds, and tracks, analyzes, and manages overall credit risk.

▶▶ Underwriting

JHF has established underwriting criteria and methods and underwrites the credit risk of loans it purchases or originates accordingly.

▶▶ Self-assessment

JHF properly manages the credit risk of loan claims that it owns and conducts self-assessment according to self-assessment criteria established in accordance with the “Financial Inspection Manual” of the Financial Service Agency in order to adequately disclose financial information in a manner that conforms with the “Accounting Standards for Incorporated Administrative Agencies.” In specific terms, JHF calculates the necessary reserves for non-performing loans by classifying its assets in accordance with the probability of default and loss severity and by applying the expected loss given default ratio calculated based on historical performance.

▶▶ Credit portfolio management

Using the credit portfolio management system for periodical monitoring, JHF analyzes the utilization status of housing loans, forecasts future losses, and reviews the necessary credit risk premium in order to accurately evaluate the overall credit risk of all the debts that it holds and the location of risk. JHF also makes efforts to further enhance risk assessment utilizing the credit portfolio management system to strengthen credit risk management.

Guarantee risk

This is the risk of JHF suffering a loss due to variance in the occurrence of a guarantee incident from the estimate made at the time of the guarantee fee calculation. JHF guarantees MBS in the securitization support business (guarantee program). JHF performs proper underwriting and strives to track, analyze, and manage overall guarantee risk.

Insurance risk

This is the risk of JHF suffering a loss due to variance in the occurrence of an insurance incident from the estimates made at the time of the insurance premium calculation. JHF extends insurance against non-performing housing loans to private financial institutions. JHF performs proper underwriting and strives to track, analyze, and manage overall insurance risk by monitoring with the credit portfolio management system and verifying the sufficiency of reimbursement of the unused policy reserve by future cash flow analysis.

Market risk

This is the risk of Net Income fluctuating for a reporting period according to changes in the risk factors, such as the interest rate. At JHF, whose main assets are mortgages, this type of risk includes prepayment risk, refinance or reinvestment risk, and pipeline risk.

▶▶ Prepayment risk

This is the risk of reduction of revenue for a period by loss of expected interest income due to an increase in the loan prepayment amount resulting from a decline in the interest rate. JHF manages this risk by estimating the prepayment amount by the prepayment model and procuring funds combining securitization and bond issuances of various maturities.

▶▶ Refinance/reinvestment risks

This is the risk for reduction of revenues in a period by an increase in the interest paid due to a rise in the funding cost or decrease in the interest income received due to a drop in interest on investment when either refinancing or reinvestment is required. JHF manages this risk by utilizing the interest model to estimate the cash flow of assets and debts taking future interest fluctuations into consideration and forecasting periodical net income according to cash flow, and periodically monitoring risk indexes such as duration.

▶▶ Pipeline risk

This is the risk of net income fluctuating from a certain reporting period due to the interest fluctuating in the period from the decision on the mortgage interest rate to the decision on funding cost. JHF manages this risk by hedging with interest rate swaps, as necessary.

Counterparty risk

This is the risk of JHF suffering a loss from a decline or loss of asset values due to deterioration in financial conditions at bond issuers at which surplus funds are invested or counterparties to interest rate swap deals. JHF defines the risk management methods of bond issuers and counterparties of interest rate swap deals, and monitors them.

Liquidity risk

This is the risk of JHF being unable to raise necessary funds or being required to finance at an interest rate significantly higher than normal in order to secure funds, or being unable to trade in the market due to market turmoil, or being forced to make deals at prices significantly less favorable than usual. JHF sets the minimum net line of liquidity assets as a management standard for a measure against liquidity risk, observes this standard in daily operations, and manages financing stably. In addition, the credit line in case of emergencies is set to secure means of procurement, and management classifications according to the urgency of funding needs (normal, watch, and crisis) are defined as well as the responses required at times of “watch” and “crisis.” Furthermore, an action plan for a situation that impacts financing (contingency funding plan) is defined to establish a system for prompt response when liquidity risk becomes eminent.

Operational risk

This is the risk of JHF suffering a loss due to improper operational processes, personnel activities, or information systems, or an external phenomenon. This risk includes administrative risk, system risk, legal risk, human risk, tangible asset risk, and reputation risk. JHF strengthens the operational risk management system by noting significant risk phenomena to comprehend the status of occurrence, defining measures based on causal analysis, self-analyzing risks that exist in internal operations and the control methods to constrain them, and implementing RCSA (Risk & Control Self-Assessment) to improve operations based on the results of self analysis. The following are the definitions and control methods of main operational risks.

▶ Administrative risk

This is the risk of JHF suffering a loss due to negligence, accidents, or fraud by its executives or em-

ployees. JHF reduces administrative risk by organizing administration work manuals, improving administrative work, enhancing crosschecking among staff, providing instructions and training on administrative work, performing internal self-checks, and collecting and analyzing information on administrative errors and taking preventive measures against their recurrence.

▶ System risk

This is the risk of JHF suffering a loss due to failure, malfunction, defect, or misuse of information systems. JHF reduces system risk by taking measures based on classifications according to importance and risk assessment, developing systems with functionalities, reliability, and information security taken into consideration, and comprehending and analyzing information on system failures and taking preventive measures against their recurrence. In preparation for serious failures, JHF upgrades its crisis management manual and maintains stable operations by taking necessary measures such as duplexing systems, establishing backup centers, and conducting emergency drills.

▶ Legal risk

This is the risk of JHF suffering a loss due to unlawful acts, inappropriate contracts, or vagueness in legal matters related to business deals. To reduce legal risk, the Legal Affairs Department performs legal checks before establishing internal regulations, concluding contracts, and submitting advertisements. JHF also prevents violations of laws and regulations by collecting information on new legislation, amendments, etc., and court judgments that may affect the business.

Others

As a measure for overall risk management, JHF carries out lifetime income simulations over the following 35 years (until the housing loans currently held by JHF have been paid in full).

Based on cash flow with future changes in interest rates taken into consideration, the simulation calculates across multiple risks if losses resulting from credit risk and market risk are covered by interest income.

The simulation also performs stress tests on both risks and analyses based on business volume change scenarios to verify financial resilience.

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.

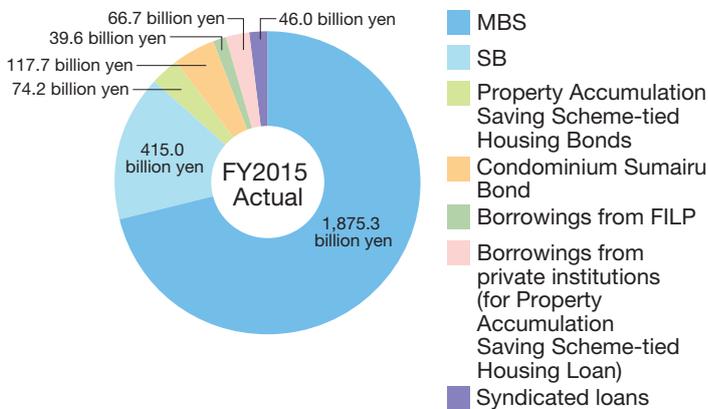
Overview of funding



Breakdown of funding

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

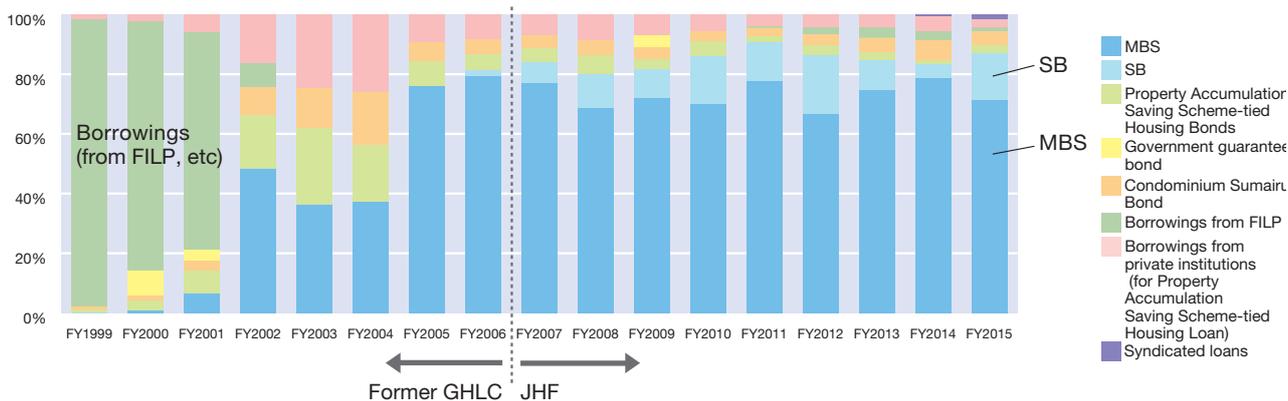
		Results of FY2015
Bonds	MBS	1,875.3 billion yen
	SB	415.0 billion yen
	Property Accumulation Saving Scheme-tied Housing Bonds	74.2 billion yen
	Condominium Sumairu Bond	117.7 billion yen
Borrowings	from FILP	39.6 billion yen
	From private institutions (for Property Accumulation Saving Scheme-tied Housing 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).

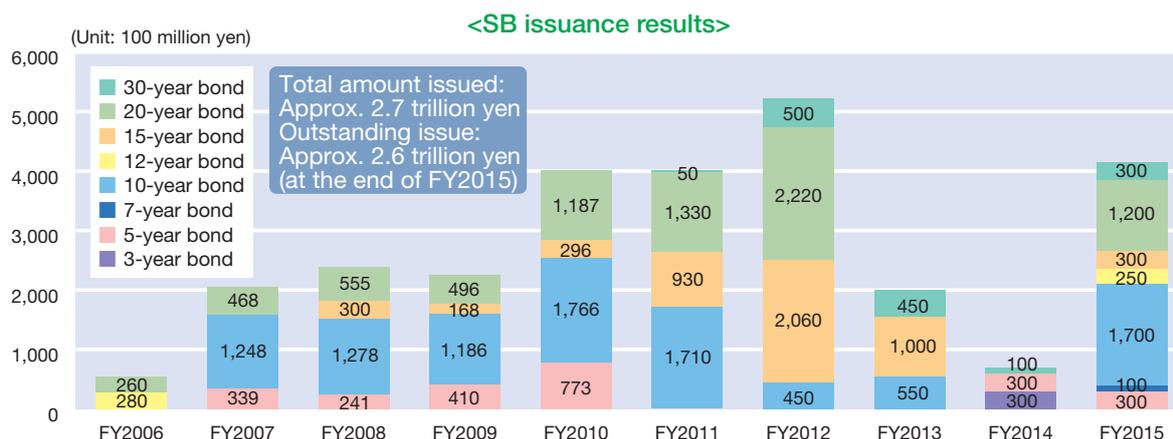
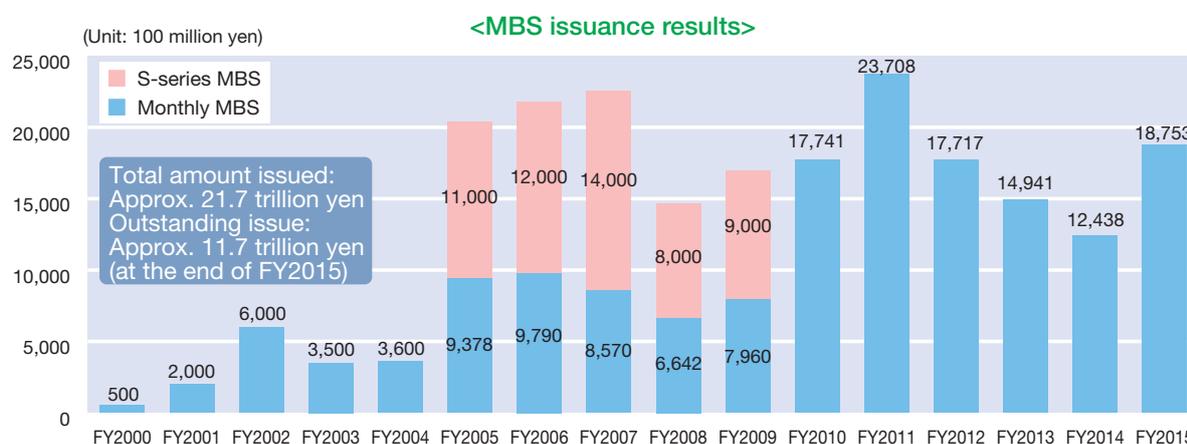
*3. - S&P: Standard & Poor’s Ratings Japan
- R&I: Rating and Investment Information, Inc.
The rating of MBS given by S&P has an identifier (sf) that indicates structured finance.

*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.



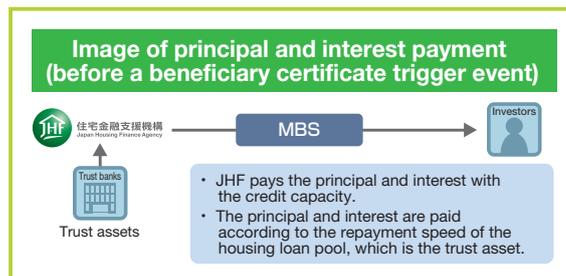
Key Features of MBS (Monthly MBS)

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.



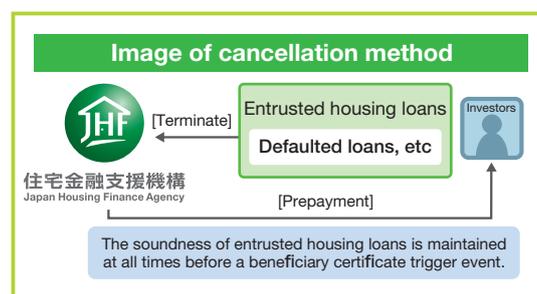
JHF bears credit risk of defaulted loans.

- 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 loans¹ [Prepayment Method]^{2,3}.

¹1. The outstanding amount of the entrusted housing loan on assumption that there is no delinquency of the entrusted housing loan

²2. 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]

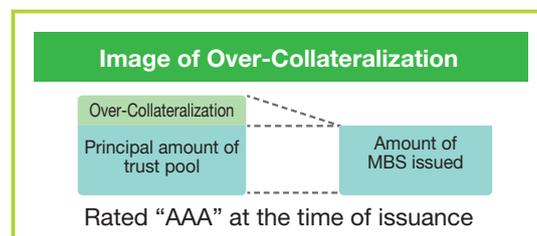
³3. The "cancellation method" and the "replacement method" are applicable only prior to a beneficiary certificate trigger event.



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.