



住宅金融支援機構  
Japan Housing Finance Agency

# Disclosure Booklet 2014

2014  
Disclosure

# Japan Housing Finance Agency Profile

**Establishment:** April 1, 2007

**Mission:** JHF shall provide liquidity to housing market by secondary market operation, purchasing mortgages originated by private lenders and securitizing those loans into MBS. JHF shall also provide liquidity to housing market by direct loan origination as well, for such areas which are difficult for private financial institutions to handle as disaster mitigation. JHF is committed to improve the safety and soundness of the living of Japanese people and thus enhance the social welfare.

**Capital:** 705.04799 billion yen (as of the end of FY 2013, fully paid in by the Government of Japan)

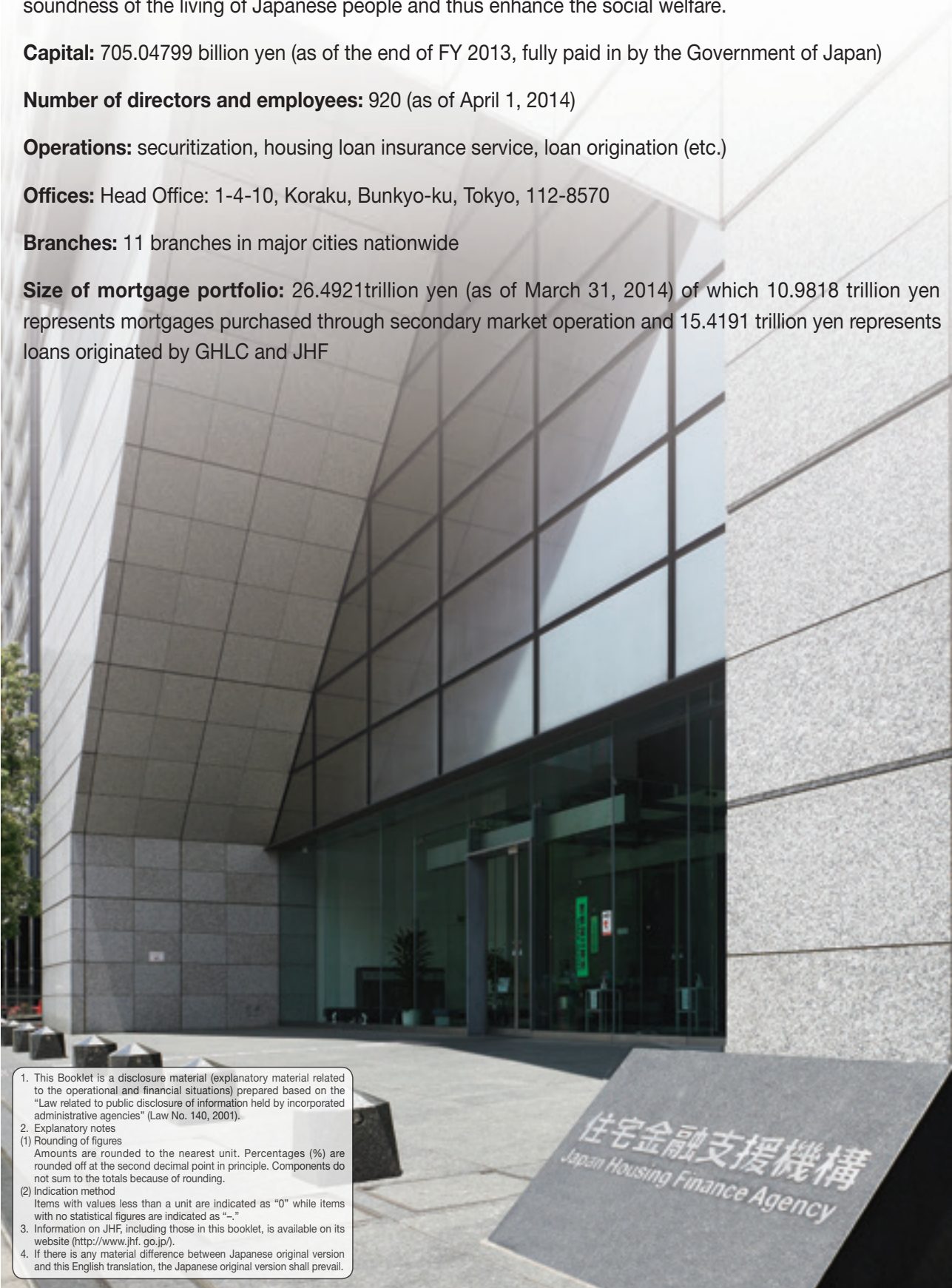
**Number of directors and employees:** 920 (as of April 1, 2014)

**Operations:** securitization, housing loan insurance service, loan origination (etc.)

**Offices:** Head Office: 1-4-10, Koraku, Bunkyo-ku, Tokyo, 112-8570

**Branches:** 11 branches in major cities nationwide

**Size of mortgage portfolio:** 26.4921trillion yen (as of March 31, 2014) of which 10.9818 trillion yen represents mortgages purchased through secondary market operation and 15.4191 trillion yen represents loans originated by GHLC and JHF

- 
1. This Booklet is a disclosure material (explanatory material related to the operational and financial situations) prepared based on the "Law related to public disclosure of information held by incorporated administrative agencies" (Law No. 140, 2001).
  2. Explanatory notes
    - (1) Rounding of figures  
Amounts are rounded to the nearest unit. Percentages (%) are rounded off at the second decimal point in principle. Components do not sum to the totals because of rounding.
    - (2) Indication method  
Items with values less than a unit are indicated as "0" while items with no statistical figures are indicated as "-".
  3. Information on JHF, including those in this booklet, is available on its 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.

<b>Message from the President</b> .....	2
---	---

## Main contents

### About JHF

Business Summary .....	4
Management Concept .....	5
Prioritized Actions .....	6

### Topics

History of [Flat 35] .....	7
Support for Recovery from the Great East Japan Earthquake .....	10
Support for Urban Development .....	11
Current MBS Status .....	12
Activities to sophisticate Research and Survey .....	13
Key Features of Financial and Business Performance .....	14
Efforts to promote empowerment of female employees .....	16
Nationwide employees' KAIZEN convention .....	16

### Corporate Governance

Governance Structure .....	17
Compliance .....	18
Responses to Anti-social Forces .....	19
Customer Protection .....	20
Promotion of Customer Satisfaction (CS Promotion) .....	21
JHF KAIZEN Activities .....	22
Risk Management .....	23
Business Continuity Plan (BCP) .....	26
Disclosure .....	27

### Details of JHF Business

Funding .....	28
Securitization Support Business (Provision of Flat 35) .....	31
Housing Loan Insurance Business .....	36
Loan Origination Business (government-policy-related loans for recovery from disasters, town development, etc.) .....	37
Group Credit Life Insurance .....	42
Promotion of quality housings .....	43
Management of Outstanding Loans .....	45
Research and Survey on Housing Finance .....	47

### Financial data

Business Operational Framework .....	50	Risk-monitored Loans .....	92
Key Performance Indicators .....	51	Policy Cost Analysis .....	94
Status of Business Execution .....		Basic Policy on Internal Governance .....	96
· Business Plan and Actual Performance .....	52	Response Measures Related to the Basic Policies for	
· Result of Funding Activities .....	54	Reviewing the Clerical and Business Operations of	
· Outstanding Balance of Purchased Loans, etc. ....	55	Incorporated Administrative Agencies .....	97
Financial Statements .....		Outline of the Review of Procurement .....	99
· Overall Agency .....	56	Executive Compensation and Salaries of Employees .....	100
· Securitization Support Account .....	61	Product Outline .....	105
· Housing Loan Insurance Account .....	65	Corporate Data .....	111
· Account for Loans for Property Accumulation Saving Scheme-tied Houses .....	69		
· Housing Loan Account .....	73		
· Outstanding Loan Management Account .....	77		
· Details .....	81		

# Message from the President

We appreciate your continued interest and kind consideration.

More than three years have passed since the Great East Japan Earthquake. The Japan Housing Finance Agency (JHF) established the Reconstruction Support Office within its Tohoku Branch to help restore the livelihoods of those affected by the earthquake from a financial perspective by providing consultations on housing loan modifications and “Loans for Recovery from Disaster” with zero interest on the basic loan amount for the first five years. We also located the Sanriku Reconstruction Support Center in Kamaishi City in June 2014 for more close assistance in the coastal region of Iwate Prefecture, given the likelihood that the supply of the lots for house rebuilding will soon go into full implementation. We will support the recovery from the earthquake to meet the needs of those affected in a more detailed manner.

JHF was established in April 2007 to replace the Government Housing Loan Corporation (GHLC) and is currently in the third year of its second mid-term target period (FY 2012-2016). Its main business has changed significantly from that of GHLC: GHLC directly originated mortgages funded by the Fiscal Investment and Loan Program, while JHF assists private financial institutions to originate 35-year, fixed-rate mortgages, “FLAT 35”, by issuing mortgage-backed securities (MBS) funded by the capital market. JHF has also worked on organizational reform trying to achieve an independent, transparent and efficiently operated management, and dependence on government subsidies was terminated in FY 2011.

In FY2013, we posted net income for the third successive term to eliminate the loss carried forward for the overall agency.

Although the organizational structure and business model have changed, our work approach remains the same — we continue to provide fixed-rate mortgages throughout the loan duration, assist in constructing quality housing with excellent durability and heat insulation, and support customers during the repayment period. We will fulfill our social responsibilities by providing various loans.

A decade has passed since Flat 35 was first introduced in October 2003 and its outstanding balance reached almost 11 trillion yen as of the end of FY2013. We will continue endeavoring to further improve our products and customer services. The total issuance of MBS, our main source of funding, reached approximately 18.6 trillion yen as we have managed the stable issuance, and in response to the Cabinet Decision concerning basic policies on incorporated administrative agency reform in December 2013, we intend to promote the private sector to issue MBS actively, and improve its liquidity by standardizing the monthly issuance amount of MBS which JHF issues to increase its recognition as a benchmark while preventing excessive expansion of scale and maintaining the perspective of private-sector complementation.





We also provide original loans for urban development projects in important government policy areas to deal with the challenges caused by aging of society and enhance our disaster prevention function as an organization that supports governmental housing policies, considering demarcation with the private sector. As for loans for “Rental Housing with Services for the Elderly” in particular, we have concluded the agreements on joint financing with private financial institutions to create customer value by making it more convenient for borrowers and facilitate the achievement of policy goals. Moreover we will redouble our efforts to research and gain further insight into housing finance by, for example, concluding memorandums of understanding on enhancing cooperative relationships; mainly in information exchange with related overseas organizations.

JHF is determined to help improve housing quality and enhance living standard by providing housing finance.

We will continue to strive to meet the expectations of customers and other stakeholders, including affiliated financial institutions and the housing industry, to become an organization which society needs.

We greatly appreciate your continued support and understanding.

July 2014

宮内信哉

President  
Japan Housing Finance Agency  
Incorporated Administrative Agency

## Business Summary

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

JHF makes its efforts to enhance living standards and fulfills its corporate social responsibilities by smoothly and effectively supplying housing loans necessary for the construction of houses to support people's lives.

### 1 Securitization support business (provision of Flat 35)

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

- \* Flat 35 (Purchase Program): JHF purchases and securitizes fixed-rate housing loans from private financial institutions
- \* Flat 35 (Guarantee Program): JHF insures fixed-rate housing loans securitized by private financial institutions, and guarantees interest and principal payment of bonds to investors.

(Refer to page 31)

### 2 Housing loan insurance business

JHF supports the smooth supply of housing loans originated by private financial institutions with insurance paid to those institutions based on the insurance policies concluded beforehand if those housing loans should default due to unexpected situations.

(Refer to page 36)

### 3 Loan origination business (government-policy-related loans for recovery from disasters, town development, etc.)

JHF provides housing-reconstruction loans in areas affected by the Great East Japan Earthquake or other natural disasters, urban development projects and projects that help improve disaster-prevention capacities in urban areas, such as rebuilding condominiums and renovating to enhance anti-seismic strength, etc., as well as rental housing contributing to a stable housing supply for families raising children and the elderly.

(Refer to page 37)

### 4 Group credit life insurance business

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

(Refer to page 42)

### 5 Promotion of quality housing

JHF helps improve living quality using its own technical criteria for housing, which are set as one of the requirements for Flat 35 and JHF loans.

(Refer to page 43)

### 6 Management of outstanding loans

JHF appropriately manages outstanding loans through its fine and careful response, such as modifying the terms of loan repayment for borrowers who have difficulty in making mortgage repayments to reduce the number of delinquent loans.

(Refer to page 45)

### 7 Research and surveys on housing finance

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

(Refer to page 47)

	Results of FY 2013	Initial plan for FY 2014
Securitization support business (Provision of Flat 35)	Purchase Program: 1,855.3 billion yen (72,517 houses) Guarantee Program: 4 billion yen (159 houses)	Purchase Program: 2,116.2 billion yen (89,000 houses) Guarantee Program: 23.8 billion yen (1,000 houses)
Housing loan insurance business	Insurance contracts: 167 institutions, 278.2 billion yen Insurance effected: 25,576 cases, 186 billion yen Insurance continuing: 128,664 cases, 2,283 billion yen	Limit of insurance contracts: 300.5 billion yen
Loan origination business	159.9 billion yen (16,799 houses)	396.1 billion yen (29,310 houses)

## Management Concept

Based on independent,  
transparent and efficient management,  
and in pursuit of the creation of customer value,  
we will provide various kinds of financial services  
to supply liquidity in the housing finance market,  
thus contributing to the improvement of housing in our country.

### Logo concept



## 住宅金融支援機構 Japan Housing Finance Agency

Pillars supporting a roof are represented by the letters J, H and F. The horizontal line representing the ground is intended to create an uplifting feeling, and the sphere symbolizes security and expanse. The green color represents growth and vitality. The logo symbolizes the fusion between JHF and the world of housing.

\* JHF is an abbreviation of Japan Housing Finance Agency.

## Prioritized Actions

### Prioritized actions in business operation

JHF provides its products and services, which are endorsed by customers, private financial institutions and housing industries and contribute to housing policy.

#### ●Securitization support business

JHF steadily implements its main business, securitization support business. JHF implements securitization support business, housing loan insurance business and the group credit life insurance, etc. as integral products by recognizing them as strongly interrelated.

- Improving products and procedures and quality of operations and underwriting, etc. by voluntary initiatives.

#### ●Direct loan origination

JHF steadily originates direct loans which are important from policy perspective and enhance its social contribution.

- Promoting business such as enhanced customer support in providing loans for rental housing to address an aging society with less birth, loans to reform the shared parts of condominiums and urban development.
- Improving products as well as procedures and quality of operations and underwriting, etc. by voluntary initiatives.

#### ●Support for recovery from the Great East Japan Earthquake

In close cooperation with national and local governments and local financial institutions, etc., JHF provides maximum financial support to disaster-affected people to help them recover from the Great East Japan Earthquake.

#### ●Social contribution in a new field

JHF also studies the possible social contributions in a new field, such as an international relationship in cooperation with the national government etc.

### Prioritized actions in corporate governance

To improve JHF's reliability and corporate value, we strive to fulfill our mission.

#### ●Internal control

JHF improves the overall internal control and governance.

#### ●Compliance and response to anti-social forces

JHF promotes compliance.

JHF takes an uncompromising stance toward anti-social forces threatening social order and safety.

#### ●CS, customer protection and information security

By implementing concrete activities based on CS action guidelines, JHF improves its organizational capacity and strives to improve customer satisfaction.

JHF is committed to strictly manage information to protect our customers including prevention of leakage of personal information.

#### ●Risk management

JHF sophisticates risk management.

JHF improves the emergency response.

#### ●Enhancing practical capacity

JHF improves its practical capacity to solve worksite problems on the ground and strengthens efforts to promote the empowerment of female employees, both of which are essential for our growth.



## History of [Flat 35]

### [Flat 35] has marked the 10th anniversary in October 2013.

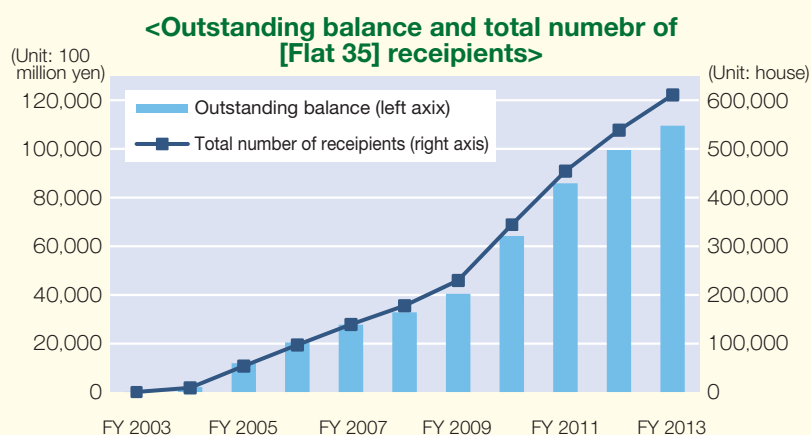
"Flat 35", which was launched in October 2003, marked its 10th anniversary in October 2013.

We would like to extend our appreciation to private financial institutions and housing companies having supported us for the past decade as well as Flat 35 customers.

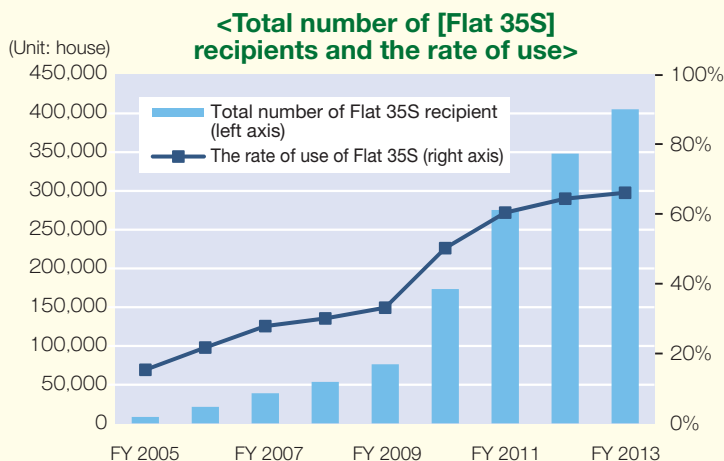
### [Flat 35] has been used for more than 600,000 houses in total with an outstanding balance of approx. 11 trillion yen.

Thankfully, Flat 35 has been used for more than 600,000 houses and the outstanding balance has exceeded 10 trillion yen to reach approx. 11 trillion yen.

We are determined to provide fixed-rate housing loans through Flat 35, to meet the considerable demand.



### Promotion of High-Quality Housing



Flat 35S, a loan scheme featuring a reduced interest rate for a certain period, which was introduced in June 2005 to promote high-quality housing with excellent energy-saving performance and earthquake resistance, has been used for more than 400,000 houses, reaching approx. 70 percent of Flat 35.

JHF will continue to promote high-quality housing by providing Flat 35S to help people enjoy better-quality housing.

#### Do you know Flat 35 TV commercials?

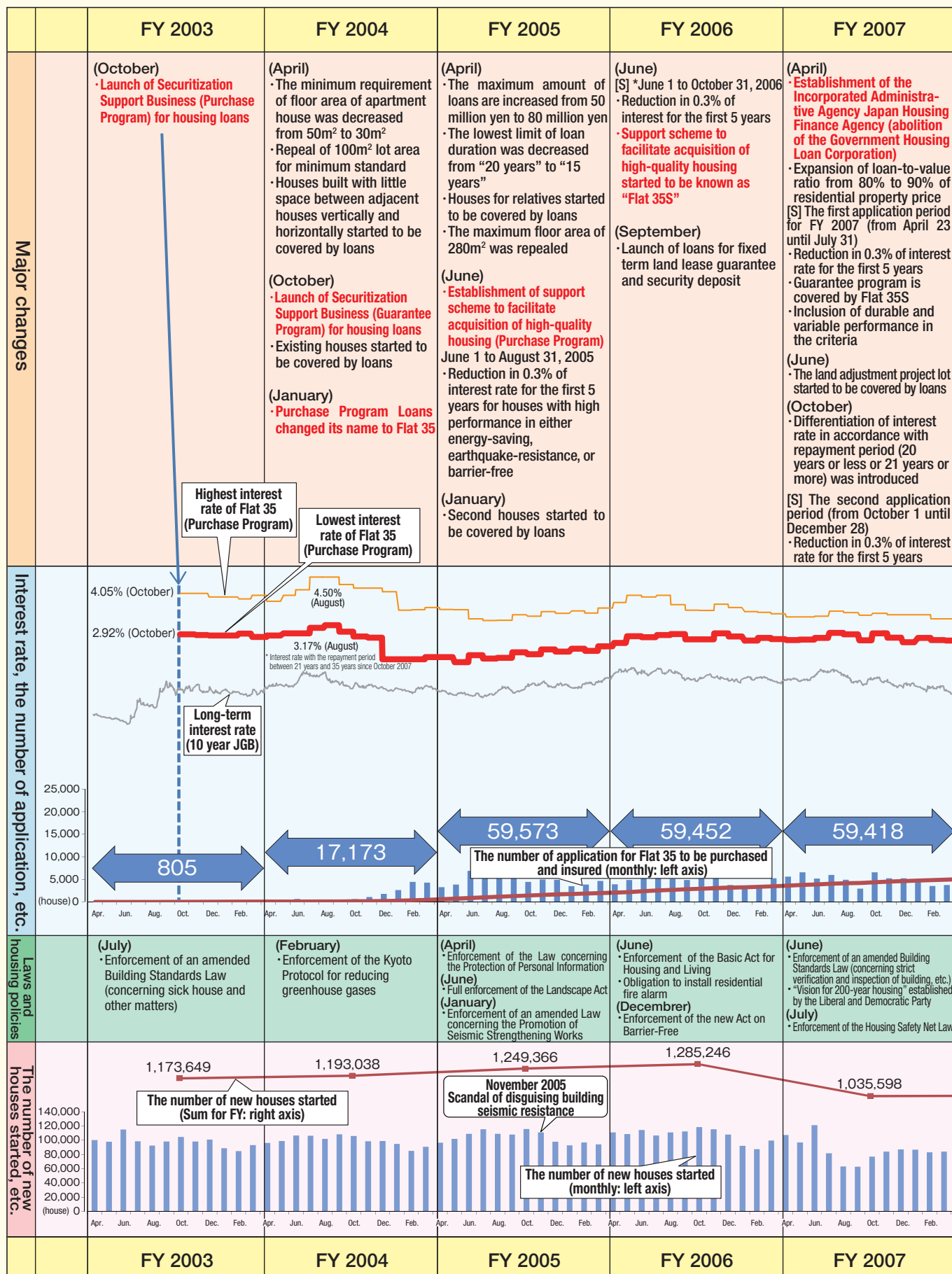
We produce TV commercials to raise awareness of Flat 35.

The photos on the right show scenes from the "Family Morning" version aired in May 2014.

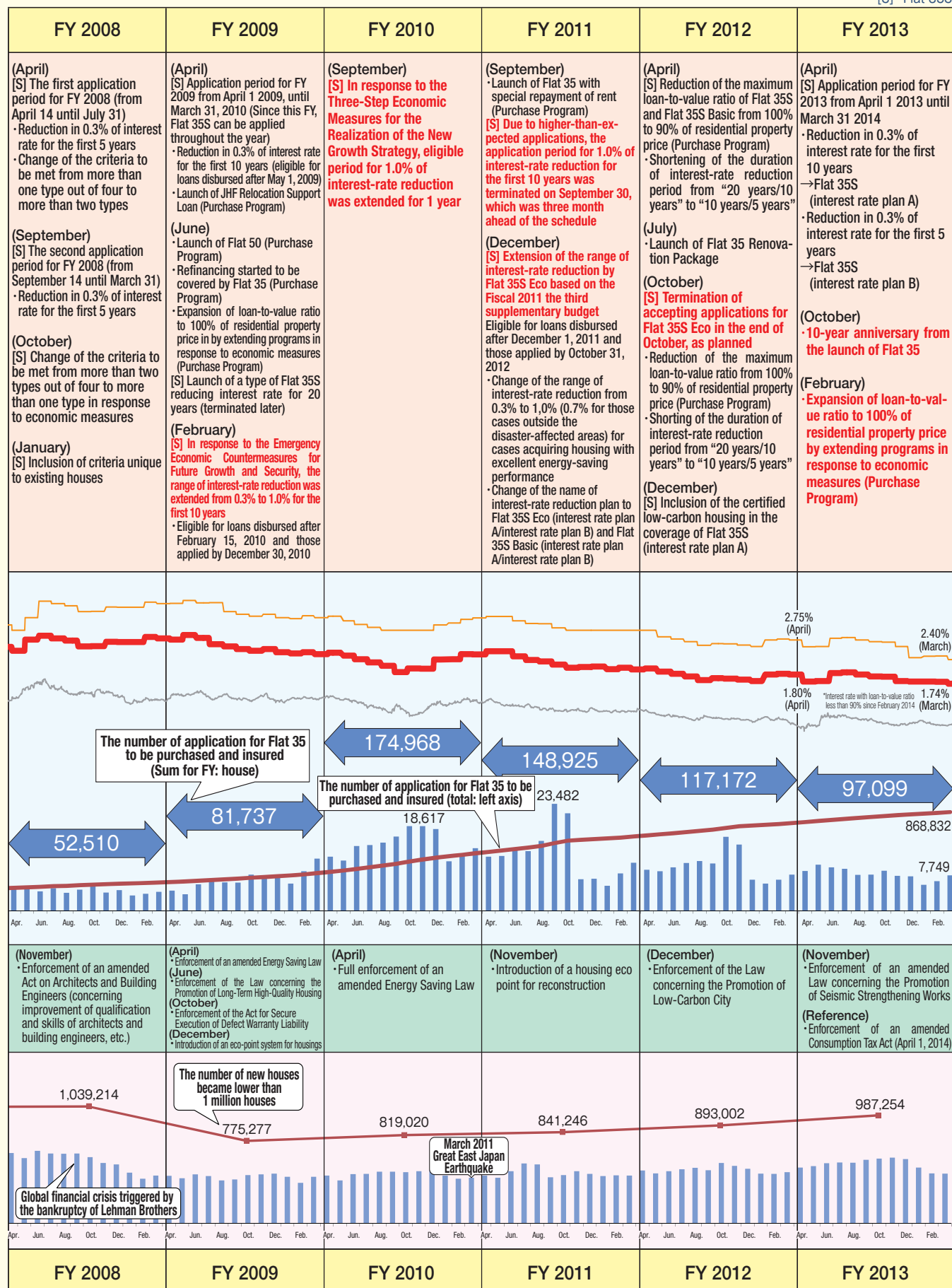
It was produced to convey a concept to the viewers that housing loan borrowers can repay with peace of mind, as conveyed by the dialog of a family (husband, wife and their daughter).



# [Flat 35] A decade's history



\*[S]=Flat 35S



As of May 2014

## Support for Recovery from the Great East Japan Earthquake

JHF has worked as one to help with the recovery from the Great East Japan Earthquake.

### Consultation sessions for 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 occurrence of the Great East Japan Earthquake (1,055 consultation sessions were held in total from the end of March 2011 to the end of March 2014).

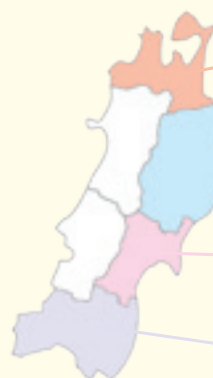
Together with the Iwate prefectural Housing Support Council, Miyagi Housing Development Promotion Council

for Reconstruction, and Fukushima prefectural Housing Support Council, we have held regular consultation sessions in Iwate, Miyagi and Fukushima prefectures since April 2013 respectively, on various issues as part of a one-stop service, including loans and financial plans as well as housing plans and various subsidy programs.

#### <A consultation session>



#### <Local Consultation Sessions (March 2011 to March 2014)>



[Aomori Pref.]  
2 consultation sessions  
5 cases consulted

[Iwate Pref.]  
163 consultation sessions  
732 cases consulted

[Miyagi Pref.]  
804 consultation sessions  
4,723 cases consulted

[Fukushima Pref.]  
86 consultation sessions  
314 cases consulted

### Sanriku Reconstruction Support Center

JHF has visited various affected areas from the Tohoku Branch in Sendai as the base, and held consultation sessions on housing reconstruction.

We also established the Sanriku Reconstruction Support Center on June 26, 2014, in Kamaishi city as a new base to enhance loan consultations on the backdrop of housing site supply expected to be in full-scale roll-out from the latter half of FY2014 to FY2015 under the projects including that to promote collective relocation for disaster prevention in the areas along Iwate prefectural coastline.

#### <Opening ceremony> (at Kamaishi City)



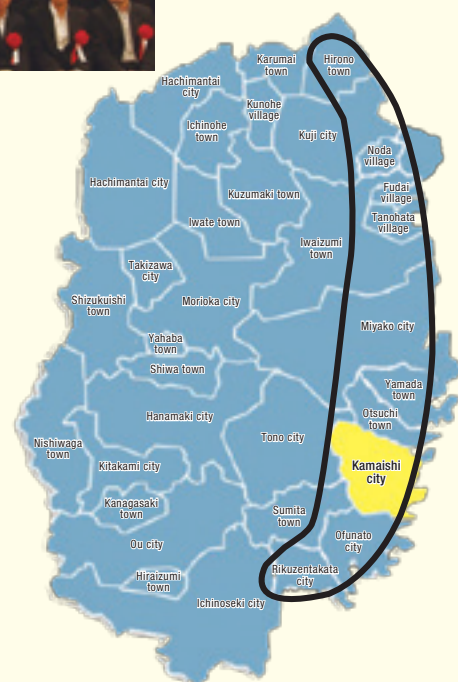
#### <Housing supply period through areal readjustment projects\*1 in Iwate Prefecture >

(Unit: dwelling)

Municipality	Points in time available for housing starts (points in time for site-development completions)																	Total
	FY 2012		FY 2013				FY 2014				FY 2015				FY 2016 and after	Total points per municipality		
	Oct. - Dec. 2012	Jan. - Mar. 2013	Apr. - Jun. 2013	Jul. - Sep. 2013	Oct. - Dec. 2013	Jan. - Mar. 2014	Apr. - Jun. 2014	Jul. - Sep. 2014	Oct. - Dec. 2014	Jan. - Mar. 2015	Apr. - Jun. 2015	Jul. - Sep. 2015	Oct. - Dec. 2015	Jan. - Mar. 2016				
Total of 11 municipalities	0	2	6	12	98	133	128	52	201	568	111	85	536	2,320	4,039	0	8,291	
Hirono town	0	0	0	0	0	0	0	0	0	0	0	0	0	0	17	0	17	
Kuji city	0	0	0	1	5	9	0	0	0	0	0	0	0	0	0	0	15	
Noda village	0	0	0	0	18	31	2	0	4	70	0	0	0	53	0	0	178	
Tanohata village	0	0	6	0	35	0	12	0	0	0	0	0	0	0	0	0	53	
Iwaizumi town	0	0	0	0	0	0	0	0	0	60	0	0	0	0	0	0	60	
Miyako city	0	2	0	3	9	33	5	12	41	47	0	0	0	613	0	0	765	
Yamada town	0	0	0	0	0	0	0	4	0	11	0	31	151	179	559	0	935	
Otsuchi town	0	0	0	0	2	4	0	0	52	71	13	37	114	827	783	0	1,903	
Kamaishi city	0	0	0	0	0	4	1	4	2	132	12	0	0	541	779	0	1,475	
Ofunato city	0	0	0	0	8	26	46	0	40	73	86	17	50	107	215	0	668	
Rikuzentakata city	0	0	0	8	21	26	62	32	62	104	0	0	221	0	1,686	0	2,222	

\*1 Areal readjustment projects include the project to promote the resettlement of communities to more disaster-resistant areas, land adjustment project, and the project to enhance disaster preventive function of fishing village.

\*2 Prepared by JHF based on "Roadmap for reconstruction of housing (as of the end of March 2014)" announced by the Reconstruction Agency etc. on May 13, 2014





## Support for Urban Development

### Promoting the urban disaster-prevention through redevelopment

Urban redevelopment projects are underway in the central area of Ishinomaki and other cities that were severely affected by the tsunami after the Great East Japan Earthquake, to restore their housing and city functions.

JHF extended a loan for initial funds to the redevelopment project preparatory association of “Chuo 3 Chome-1” in Ishinomaki in FY2012. We also extended a loan for initial funds to the association of “Tachimachi 2-chome-5” to realize the project in FY2013.

<An image of the completion of the category 1 urban redevelopment project for Chuo 3 Chome-1>



The usage ratio of JHF loans for urban redevelopment and other projects\* (From April 2007 until the end of September 2013)

**25.4%**

[The ratio of projects that received JHF loans among urban redevelopment and other projects\* for which the right conversion plan was approved]

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

### Support to provide serviced rental housing for the elderly

Due to copyright protection, the article image is not published.

JHF provides loans to construct serviced rental housing for the elderly to secure stable housing for the elderly.

We have created schemes to lower the interest rate and provide a grace period of around one year after launching the project for the monthly repayment of the principal, as well as improving the loan scheme in coordination with private financial institutions. We concluded agreements with 21 private financial institutions as of the end of June 2014 since the first agreement on January 24 the same year.

Publicized in Hokkaido Shimbin Press, January 12, 2014

### Promotion of condominium renovation for enhancing anti-seismic strength

In preparation for predicted gigantic earthquakes in the Nankai Trough and the one directly beneath the Tokyo metropolitan area, the revised Act to Promote Renovation for Earthquake-Resistant Structures (1995 law No. 123) entered into force in November 2013 and there is an urgent need, particularly to renovate condominiums with insufficient earthquake resistance along emergency transportation roads and enhance their anti-seismic strength. Because seismic-isolation work is a very costly form of renovation to enhance anti-seismic strength, JHF raised the loan limit to renovate shared portions of condominiums from 1.5 million to 5 million yen per unit.

<Raise of the limit of loan for reforming the shared parts of condominiums (earthquake resistance improvement)>

Limit of loan is the lower amount of ① or ②

① 80% of work costs

② Number of units × Loan limit per unit

**Loan limit per unit**

**Raised from 1.5 million to 5 million yen**



## Current MBS Status

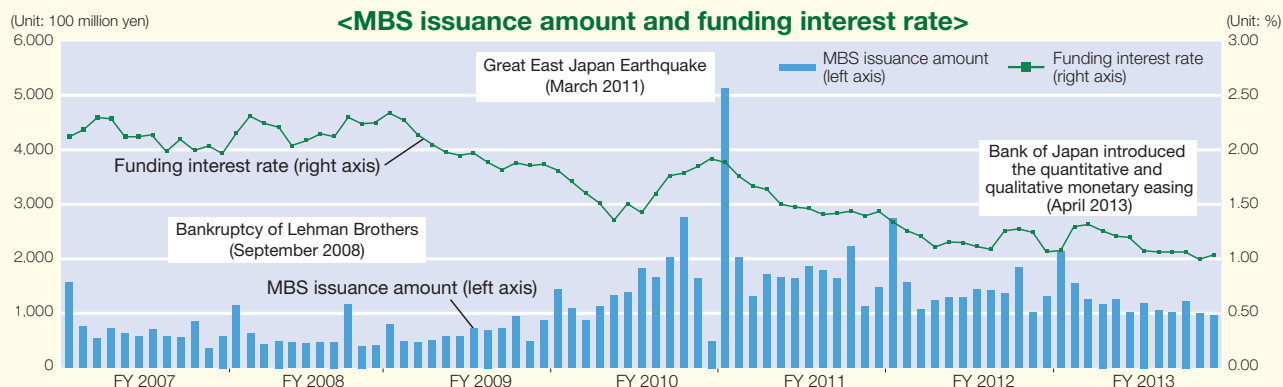
### Providing low long-term fixed-rate interest housing loans by issuing MBS

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 February 2014, the coupon interest rate of MBS lowered to 1.00%, the lowest coupon interest rate in

history of JHF. We have successfully implemented efficient fundraising and provided customers with low fixed-rate interest housing loans throughout the loan duration.

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



### Efforts to maintain and expand the scope of investors who enter the MBS market

Our active information provision and careful PR activities for investors helped us realize participation of an estimated 50 to 80 companies per monthly MBS issuance.

#### Activities to improve investors' recognition and understanding

- Individual visits to investors (225 companies in Japan and 9 overseas)
- Briefing sessions for investors
- Lecture on the MBS market in Japan at conferences for investors held by securities firms in Japan and overseas, etc.

Partly because of dialog using English documents in briefing sessions for overseas investors, an estimated 36 overseas investment firms, four of which new, are believed to have invested or revived their dormant investment account.

#### Ample information offering to respond to investor needs

- Production of materials containing the monthly MBS and SB issuance plan in FY2014 to promote new and expanded investment before investors formulate their FY2014 investment plan.
- Teleconferencing with overseas investors interested in monthly MBS for more efficient and faster operations.

### Efforts to develop the MBS market in Japan

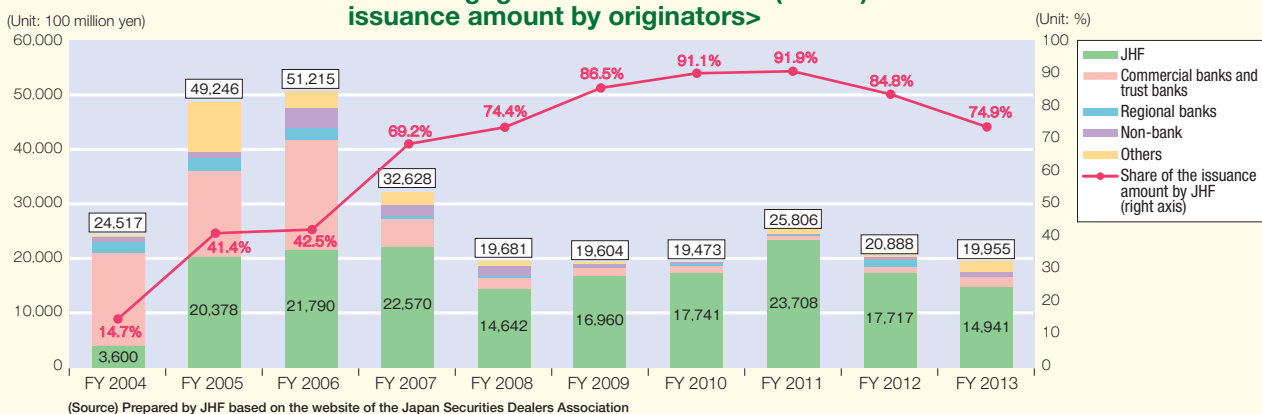
The JHF committee that examines issues related to securitization support business, established in February 2013, and comprising external experts, recommended that it should raise funds stably and efficiently by equalizing the MBS issuance amount, given the importance of enhancing its function as benchmark for the time being. Based on this recommendation, we equalized the MBS issuance amount (16.1 billion yen

(20 billion based on trust claims)) in January 2014 as the amount would be likely to exceed considerably the investor demand.

Underwriting securities firms regarded such efforts as favorable to investors for maintaining a stable MBS issuance environment.

\*The above intent is also described in the cabinet decision, December 2013.

### <Residential Mortgage-Backed Securities (RMBS) issuance amount by originators>



## Activities to sophisticate Research and Survey

### Strengthen cooperative relationship with overseas institutions

#### ●Ginnie Mae

JHF and the Government National Mortgage Association (Ginnie Mae) concluded the Memorandum of Understanding (MOU) on January 9, 2014 at Washington DC., to strengthen their cooperative relationship, the pillar of which is their information exchange. It was the first time for both organizations to conclude the MOU and symbolizes a close relationship between Japan and the U.S.



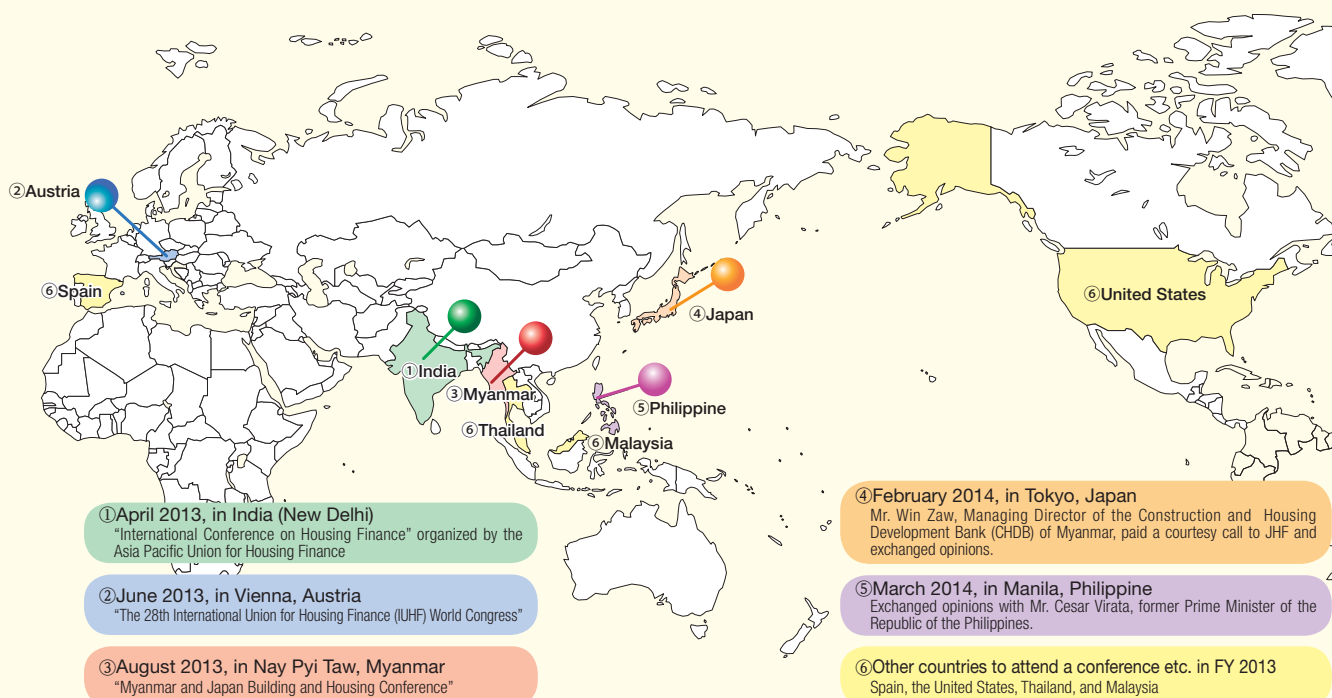
#### ●SMC Thailand

The JHF President, Mr. Shishido, delivered a speech at the “Secondary Mortgage Markets: Asia Forum 2013” held on July 31, 2013, in Bangkok, Thailand, where representatives from securitization facilities in Japan, Thailand, Philippine, Malaysia, and Korea attended to deliver speech to around 400 participants.

On February 18, 2014, JHF and the Secondary Mortgage Corporation (SMC), Thailand, concluded the MOU at the JHF Headquarters.



### Worldwide dissemination of the results of survey and research on housing finance in Japan

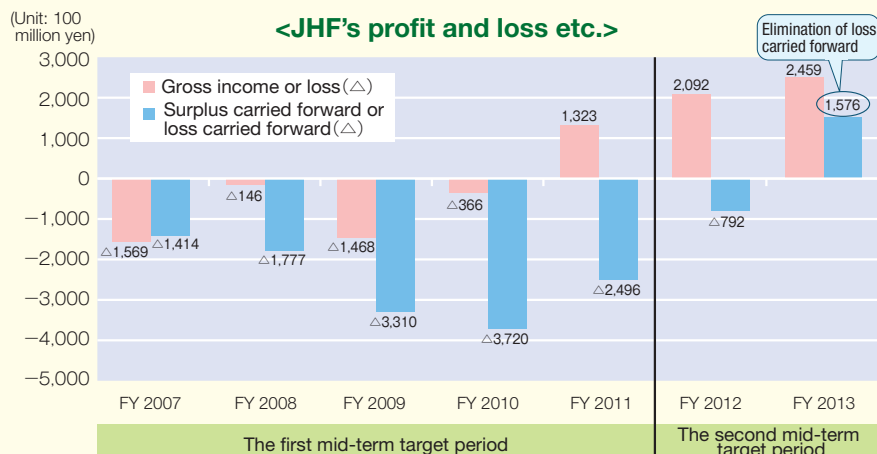


# Key Features of Financial and Business Performance

## Financial Conditions (FY2013 Settlement)

### Loss carried forward eliminated for the entire agency

JHF posted gross income of 245.9 billion yen to eliminate the loss carried forward for the overall agency at the end of FY2013.

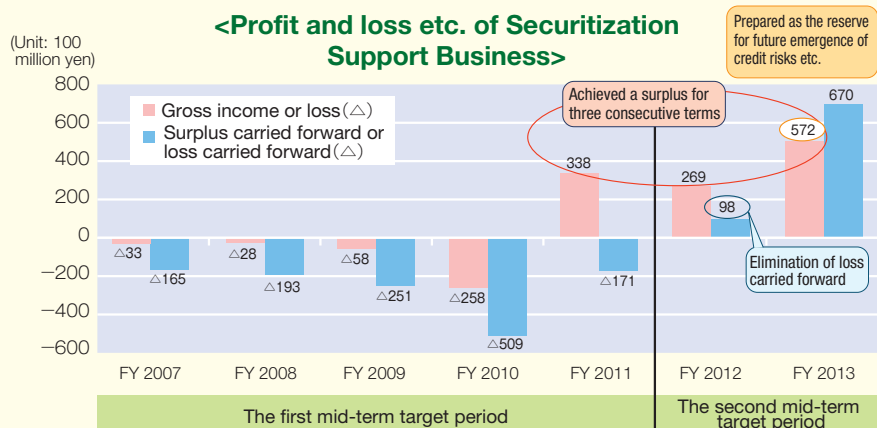


\*The surplus carried forward in FY2013 includes a reserve fund of 67 billion yen (after appropriation of profit for the year) in preparation for the emergence of future credit risk in a securitization support account as well as reserves of 312.7 billion yen for the group credit life insurance business.

### A surplus posted in the securitization support account for two consecutive years

JHF posted gross income of 57.2 billion yen in the securitization support account.

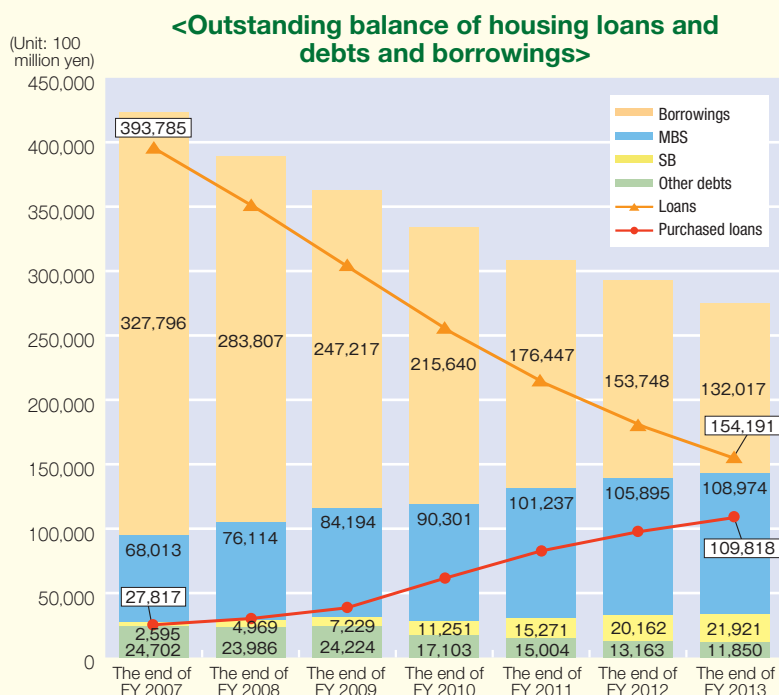
As the cost tends to emerge later than earnings as for the credit risk of the securitization support business (Purchase Program), the loss in the latter half is offset by the profit in the first half of the loan period. Thus, the profit is counted as the reserve under Article 44.1 of the Act on General Rules for Incorporated Administrative Agency with approval from the competent minister to be prepared for future emergence of risk.



### Fundraising ratio of MBS, etc., increased

The ratio of fundraising from the financial market through issuance of MBS has increased in accordance with the business growth of Flat 35 (Purchased Program).

The balance of Flat 35 at the end of FY2013 was approx. 11 trillion yen, whereas the balance of direct loans originated by GHLC has decreased and the balance of Flat 35 is to exceed the balance of direct loans within several years.

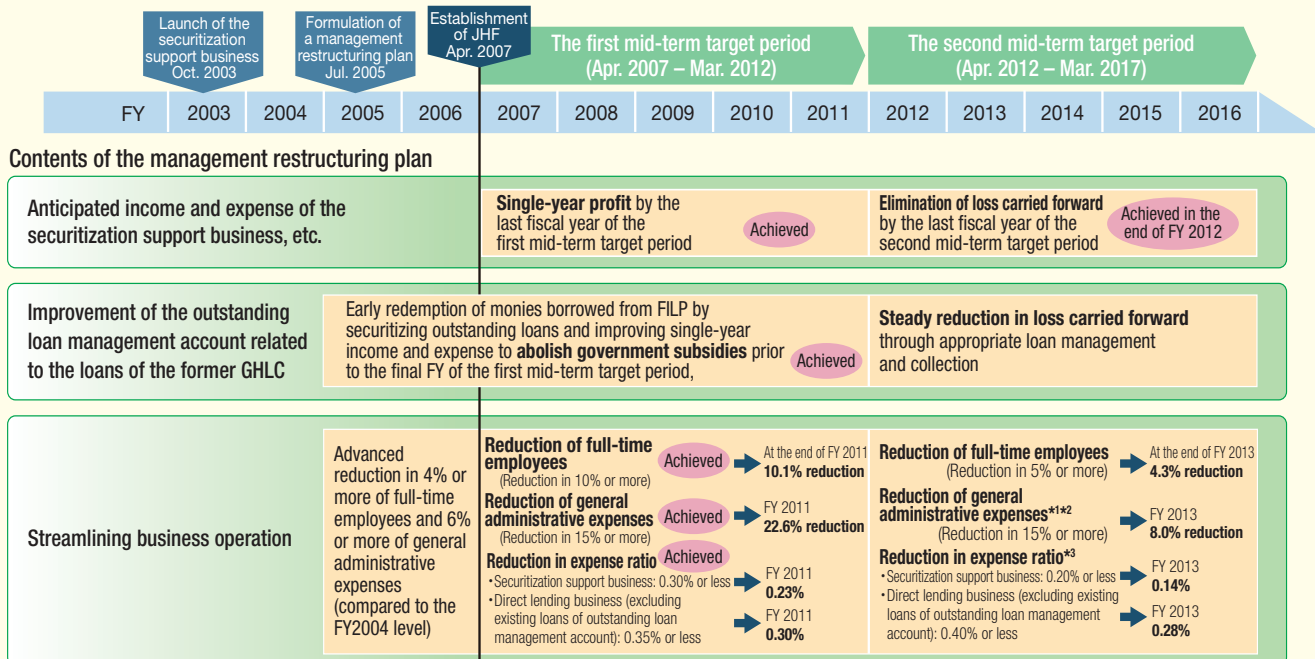


## Streamlining business operation

To support and complement private financial institutions in the housing financial markets, with independent business operations, JHF has steadily consolidated its business performance, while striving to streamline operations and improve its financial status to achieve the target for the first mid-term period

successfully.

We have also achieved the target of eliminating losses carried forward in the securitization support business before the end of the second mid-term period and remain hard at work to achieve other targets for the period.

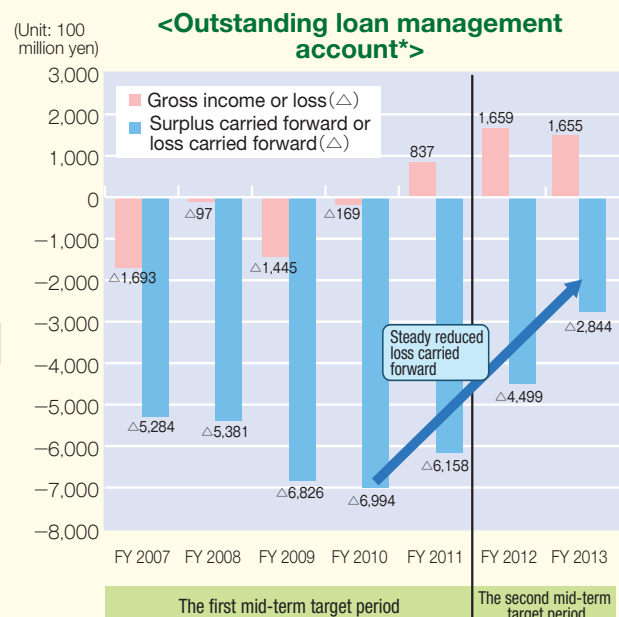
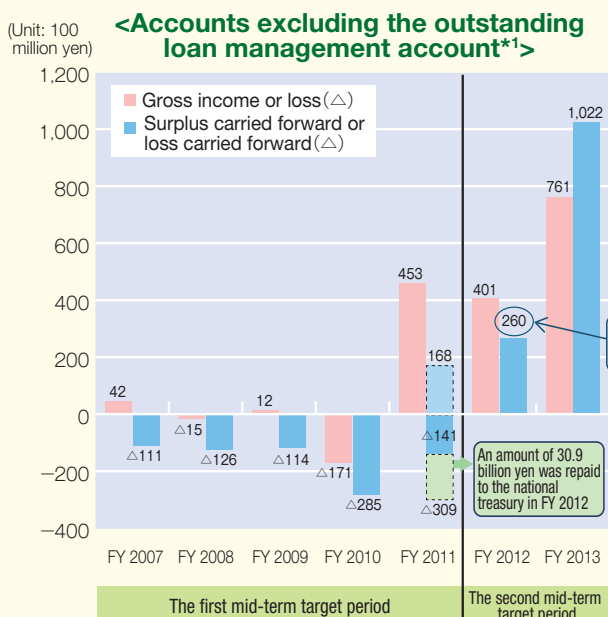


- \*1 Commissioning cost (excluding business outsourcing cost), wages of temporary employees and expenses of office supplies, etc.  
 \*2 General administrative expenses in the second mid-term target period do not include labor costs, for which a reduction target is set separately based on government 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.

## Improvement of financial status

The financial status is steadily improving, as evidenced by the successful elimination of loss carried forward in FY2012 in all accounts except for the outstanding loan management account and loss carried forward of the outstanding loan management account decreased steadily. This is mainly contributed

by the increase in interest income by the purchased receivables of Flat 35, and the increase in the reversal of reserve for possible loan losses caused by the decreased repayment delay and default, which is thanks to the effort of all employees; spearheaded by branches.



\*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 is the account for management and collection of loans for which loan applications were received by the former Government Housing Loan Corporation before FY 2004.



## Efforts to promote empowerment of female employees

JHF registered the Positive Action Declaration with the Ministry of Health, Labour and Welfare in May 2013; acknowledging that empowerment of female employees was essential for our growth and to set out the basic policy to promote women's empowerment.

In November, we informed all employees, including Board members, of concrete measures for the next three years included in the timetable to implement efforts to promote women's empowerment. We are also working to establish a corporate culture, change employees' awareness, encourage the active employment of women and support efforts for continuation of employment.

About 40 percent of new graduate employees were women in FY2014. Similarly, in April 2014, a female employee was appointed as branch manager as a first, including the period of the predecessor, GHLC.

### <Declaration of Positive Action>



(Website) <http://www.positiveaction.jp/declaration/>

### <Training to develop female leaders>



We conducted training for women to assume leadership and improve their positions.

### <Main efforts based on the timetable>

- Establishment of a section in charge of women's empowerment
- Interview with female employees
- Various training programs, including training to develop female leaders
- Awareness survey (all employees including Board members)
- Expansion of support programs for continuation of employment

### <Lecture to promote women's empowerment>



We held a lecture to promote awareness reform among employees and deepen their understanding of promotion of women's empowerment.

## Nationwide employees' KAIZEN convention

JHF is actively working on KAIZEN to improve work efficiency and CS from customers' perspectives. We aim to improve the practical capacity by encouraging each employee in each section to think actively and carry out KAIZEN voluntarily.

We hold an annual nationwide KAIZEN convention to link the outcomes of such efforts to corporation-wide KAIZEN activities to raise employees' awareness of KAIZEN and promote horizontal expansion of the KAIZEN activities of each section.

The event took place on November 7 at the head office in FY2013, featuring six sections selected from Best KAIZEN cases of 29 sections nationwide through employee voting, etc., who presented their examples passionately.

We invited Professor Isao Endo of the Graduate School of Commerce, Waseda University to the convention, who is famous for his books on practical capacity and visualization, and he commented on each KAIZEN case.

### <Nationwide Employees' KAIZEN Convention>



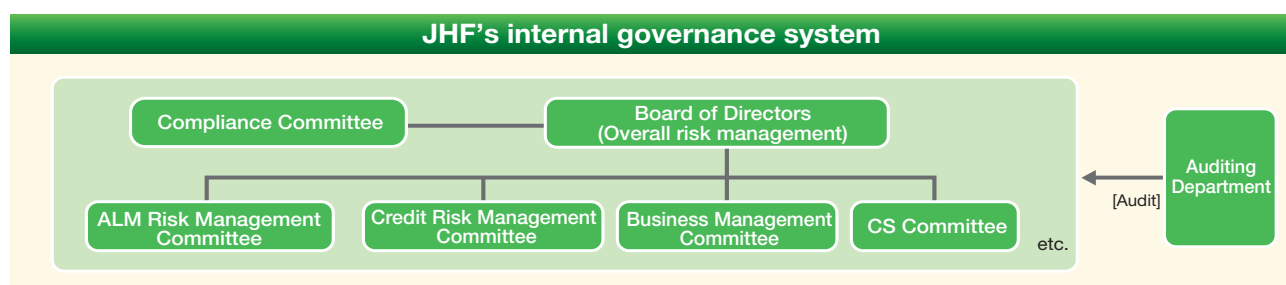
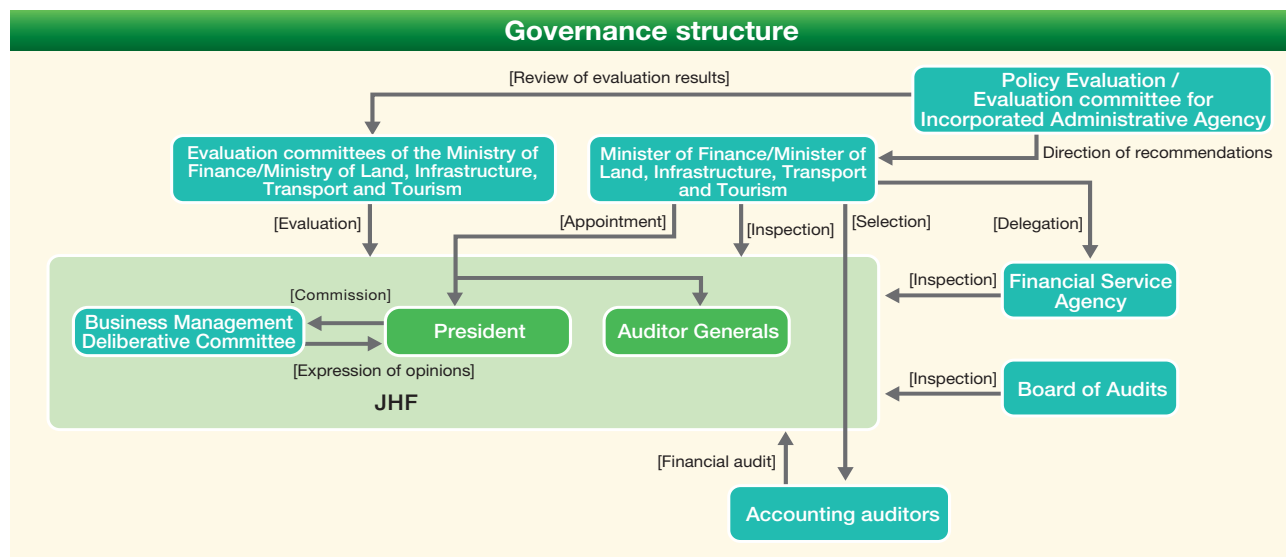


## Governance Structure

Recognizing its basic mission and social responsibility as an Incorporated Administrative Agency, JHF places strengthening of corporate governance as a priority of its business management, as a way to ensure sound and proper proceedings of its business with high ethical standards and wisdom under transparent and efficient management based on the Act on the General Rules for

Incorporated Administrative Agencies.

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



### Basic Policy on Internal Governance (summary)

#### 1. Compliance system

- Establishment of the Compliance Charter for our employees to perform their duties based on full awareness of our fundamental mission and social responsibilities
- Development of a compliance enforcement system through establishment of the Compliance Committee and formulation of compliance programs, etc.
- Creation of a system to handle compliance violations

#### 2. Customer protection and other customer management

- Establishment of rules and systems for customer explanations, management of customer support, etc. and customer information management
- Establishment of privacy policy and rules on information security
- Establishment of rules on document management

#### 3. Risk management system

- Establishment of risk management rules
- Creation of a risk management system that includes establishment of a risk management committee necessary to understand where risks are as well as types and features of risks and manage each risk

#### 4. Establishment of board of directors

- Development of rules on the organization and document approvals to clarify disciplines in official authority and decision making
- Establishment of board of directors to deliberate management-related issues and support decision-making of the president
- Quarterly inspection management of annual plan
- Establishment of the post of chief information officer (CIO)

#### 5. Internal audit system

- Establishment of internal audit division directly under the president, independent from other business departments, etc.

#### 6. Establishment of a system for auditor-generals auditing

- Establishment of a system for effective audit by auditor-generals independent from JHF

(For the full text, refer to page 98)

## Compliance

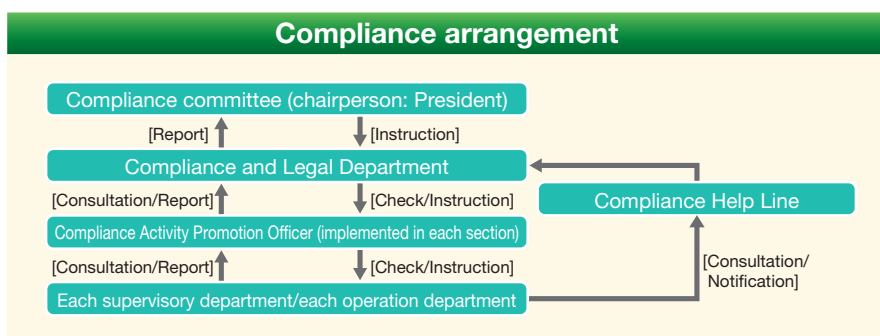
### Arrangements for compliance

In order to reliably implement compliance, JHF has set up the Compliance Committee (chairperson is President) comprising of 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 managing compliance, along with which, in managing the promotion of

activities for compliance in each department, a person responsible for compliance is assigned for every department.

Furthermore, in order to prevent violating compliance in JHF in advance, a compliance help line has been set up in and outside the Compliance and Legal Department.

#### Compliance arrangement



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.

### Fostering awareness of compliance

JHF has established the Compliance Charter as a basic principle of compliance. JHF is also making every effort to enhance awareness of compliance among all executives and employees; we have developed a compliance manual providing the laws, regulations, rules, social requirements, and matters to be noted pertaining to compliance to be shared by all executives and employees, and set and implemented annual compliance programs.

The programs also included agency-wide e-learning, compliance meetings in individual operational units (where interactive opinion exchange is conducted based on compliance topics) and the monthly provision of compliance-related information through the in-

house LAN, as well as periodic interactive training using the case method. These educational programs help employees understand compliance and think and act based on their understanding.

In addition, JHF monitors and examines the implementation of compliance programs at the Compliance Committee on a quarterly basis to steadily promote and establish compliance activities, and undertakes necessary revisions of such programs. These efforts are steadily made based on the PDCA cycle.

#### The Compliance Charter (excerpt)

1. We will comply with laws, rules and regulations as well as social norms, and attempt to undertake all jobs properly in a bid to ensure public confidence.
  - (1) Compliance with applicable laws, rules and regulations as well as socially established good standards of behavior
  - (2) Disclosure of information with willingness and impartiality
  - (3) Protection of information in a manner that prevents any leakage
  - (4) Confrontation against any anti-social parties
2. We will do our utmost to pursue customer confidence and satisfaction.
  - (1) Extending comprehensive housing loan services
  - (2) Providing information required to improve the housing environment
  - (3) Explaining matters to customers until they are satisfied
  - (4) Responding to customers in good faith
3. We will respect the personality of each and every executive and staff member and endeavor to secure workplace where he or she can comfortably work.
  - (1) Respect for the personality and character of each individual
  - (2) Set up of a workplace that can facilitate day-to-day jobs

## Responses to Anti-social Forces

To reject any relationships with anti-social forces such as organized crime syndicates, JHF has incorporated an item concerning confrontation against any anti-social parties into its compliance charter and established a basic policy and provided it on the website. Moreover, we have also developed regulations and manuals to deal with such anti-social forces. Throughout these efforts, we have developed a system to report and consult immediately and properly to management and the Compliance and Legal Department, the department controlling the response to anti-social forces, when a

business with such anti-social forces or undue claims from such forces is identified.

We also conduct training and other sessions setting out how to deal with undue claims in cooperation with police and other relevant institutions.

Incorporating stipulation related to anti-social forces into business contracts, JHF also eliminates any relationships with symbiotic actors utilized by such anti-social forces as an organized crime to illegally receive loans as well as those with organized crime syndicates.

JHF continues its efforts to reject anti-social forces.

### Basic Policy on Anti-Social Forces

1. JHF shall have no relationship with anti-social forces, and its president and the management and employees shall work together to take an uncompromising stance toward such forces.
2. JHF shall establish a system to reject anti-social forces, and have its executives and employees fully be aware of the manual on such forces.
3. JHF shall ensure the safety of its executives and employees who handle undue claims from anti-social forces.
4. JHF shall cooperate closely with such external institutes as the police, centers for promotion of campaigns against organized crime syndicates and lawyers to be prepared for undue claims from such forces.
5. JHF shall take legal action, both civil and criminal, against undue claims from anti-social forces.
6. JHF shall not accept any 'backstage deals' to conceal facts even when the undue claims from antisocial forces are based on misbehaviors related to business activities or involving employees.
7. JHF shall not provide any funds for anti-social forces.

## Customer Protection

### Customer Support and Explanations

#### ● Customer Support

JHF has undertaken the followings in order to appropriately respond to consultations and complaints from customers and hear the customers' voices so as to reflect them to product and service improvement:

- Created a customer support manual
- Assignment of a chief customer support manager, customer support operators, customer support leaders and customer supporters.
- Monitors and periodically evaluates customer support activities
- Employees' training for customer support service
- Established a system for reporting complaints at the financial institutions, etc., handling JHF products

#### ● Explanations to Customers

JHF has undertaken the followings in order to provide adequate explanation of our products to customers:

- Created explanatory materials and a manual on how to provide explanations to customers
- Assigned a chief customer explanation manager and a customer explanation administrator
- Monitoring and periodic evaluations of customer explanation activities

### Privacy Policy

Recognizing the importance of protecting and adequately managing individuals' information in a highly-networked information society, JHF is aggressively and honestly making a commitment to comply with the Law on Protection of Personal Information Held by Incorporated Administrative Agencies (Law No. 59 of 2003) and other regulations as well as protect individuals' rights and welfare according to the privacy policy as follows:

#### ● Appropriate acquisition of personal information

JHF appropriately acquires information related to customers without using unfair means or by fraud.

#### ● Purpose of using personal information

JHF does not use any personal information in its possession beyond its stated purpose and limited to applications necessary for business operations.

#### ● Measures for security control

JHF takes necessary measures for appropriate management of personal information in its possession, including the prevention of their leakage, loss or damage.

#### ● Duties of directors and employees

Those who are mentioned in (1) and (2) below shall not tell others about any matters regarding personal information gained through the operation of JHF without permission, nor use such information for unreasonable purposes.

- (1) Directors and employees of JHF or those who have engaged in such work.
- (2) Those who are or have been engaged in handling personal information under contract with JHF

#### ● Selecting and supervising consignees

When JHF contracts out all or part of the operations handling personal information, it develops criteria for judging whether consignees take adequate measures and the system was organized to ensure the security of personal information, and contracts out the consignees who meet the criteria. JHF also supervises the consignees if they are abiding by the consignment contract.

#### ● Restriction of provision of personal information to the third parties

JHF does not provide private information to third parties except in specific cases.

#### ● Developing and disclosing the private information file registry

For the private information JHF has on file, a private information file registry is developed pursuant to the provisions of the Act on Access to Information Held by Incorporated Administrative Agencies and publicized on the JHF website as well as at the window of the information disclosure and private information protection set at the headquarters and branches across Japan.

#### ● Disclosure, revision and stopping the use of private information

When a request is made to disclose, revise or stop the use of private information JHF possesses, JHF responds promptly unless there are particular reasons to do otherwise, after confirming that the person who made the requests is identical to our customer.

## Promotion of Customer Satisfaction (CS Promotion)

### CS action guidelines

JHF establishes and implements Customer Satisfaction (CS) action guidelines for CS advancement as a code of conduct for each individual.

#### CS action guidelines

We aim to make JHF an organization that is appreciated by all its customers, and act in an attempt to win their confidence and satisfaction.

We offer financial products and services that best suit each individual customer need.

We provide comprehensive explanations to our customers so that they are completely satisfied.

We respond to our customer promptly in good faith, taking all their voices gratefully.

We always ask ourselves what we can do for our customers and act on it.

### CS promotion system

JHS establishes a CS committee, made up of executives and relevant managers, as well as a CS working group engaging in CS activities across sectional boundaries. Further, it appoints a person in charge of CS activities in each section.

#### ●Development of user-friendly website

JHF intends to develop friendly and understandable website for customers and business partners as well as provide timely information responding to what customers want to know.

#### ●Activities of a customer call center

A customer call center receives inquiries and general consultations from customers with a toll free service every day. The center dedicates itself to make close relation with any customers who are considering housing loans or at the repayment stage. Further, customer's feedbacks are reflected to business improvement.

#### ●Implementation of CS questionnaire surveys

JHF regularly conducts surveys of customers and of business partners (e.g. private financial institutions commissioned JHF business), and collects their comments and requests on JHF products and services and employee's manner.

<Flat 35 website> <http://www.flat35.com>



<Customer Call Center>

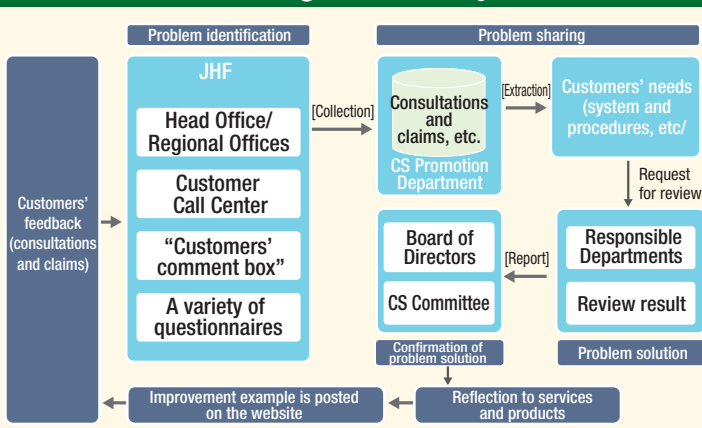


### Activities from customers' perspective

To be more attentive to customers and make them more satisfied with our products and services based on their feedback, we extract and determine customer needs by analyzing feedback received in the "customer comment

boxes" placed at the headquarters and branches and the customer call center, as well as on the website and reflect them in our business operation. We also ensure improvement examples are available on the website.

#### <Reflecting-feedback cycle>



#### <Introduction of an improvement example on the website>



\* Cases of improvement in response to customers' feedback are available on our website.



## JHF KAIZEN Activities

### Purpose

JHF has worked on KAIZEN activities.

The purpose is to improve work efficiency, prevent administrative errors, and improve administrative quality as well as CS from customers' perspectives.

We aim to improve practical capacity by encouraging

each employee in each section to think actively and carry out KAIZEN voluntarily.

### Concrete activities

#### ●Daily efforts

Each section devises solutions independently for improvement, which is referred to as voluntary KAIZEN. The results and outcomes are regularly compiled and shared as KAIZEN cases across JHF for horizontal expansion.

When it is impossible to solve problems or make KAIZEN within a section, they propose KAIZEN to the section responsible for the work to study possible approaches for implementing solutions.

#### ●Nationwide employees' KAIZEN Convention

JHF holds an annual nationwide employees' KAIZEN convention to raise employees' awareness of KAIZEN, nurture a sense of solidarity and promote the horizontal expansion of the KAIZEN cases of each section.

#### ●JHF KAIZEN history

Our KAIZEN activities were originally started to eliminate occurrences of administrative and other errors (Zero-Defect Movement) in FY2006 when JHF was GHLC.

We expanded the movement after the establishment of the JHF in FY2007, expanding the scope beyond administrative KAIZEN to cover CS improvement, and have striven on efforts as the KAIZEN movement since FY2009.

In FY2012, we changed the name to KAIZEN activities to translate what we note on a daily basis into actions sparking improvements in practical capacity rather than just "movement" in a certain period, so employees will be fully aware of KAIZEN. We also launched the annual nationwide employees' KAIZEN convention to raise employees' awareness of KAIZEN and promote mutual encouragement among them. We emphasize the importance of copying good examples of other sections and accumulating small KAIZEN to upgrade our KAIZEN activities.

#### <Trend of the number of activities for "voluntary KAIZEN" and "KAIZEN proposal">

(Unit: case)

	FY 2011	FY 2012	FY 2013
Voluntary KAIZEN	178	147	363
KAIZEN proposal	383	69	66

## Risk Management

In order to properly manage business and gain the understanding and trust of the general public, JHF is maintaining its system that manages various risks that arise in day-to-day business.

Toward this end, JHF has set up and implemented the Risk Management Basic Rules, Rules such as the Credit Risk Management Rules, and other administrative provisions. The Risk Management Basic Rules stipulates the purpose of risk management, identifies and defines

individual risks, specifies the risk management framework and methods, and mandates risk management auditing. The Risk Management Rules spell out specific methods applicable to the management of individual risks. Based on these rules, JHF manages those risks based on an in-depth understanding of their properties of business including housing loan. JHF also makes it a business to manage all risks comprehensively by keeping them under total evaluation in relation to its business and nature.

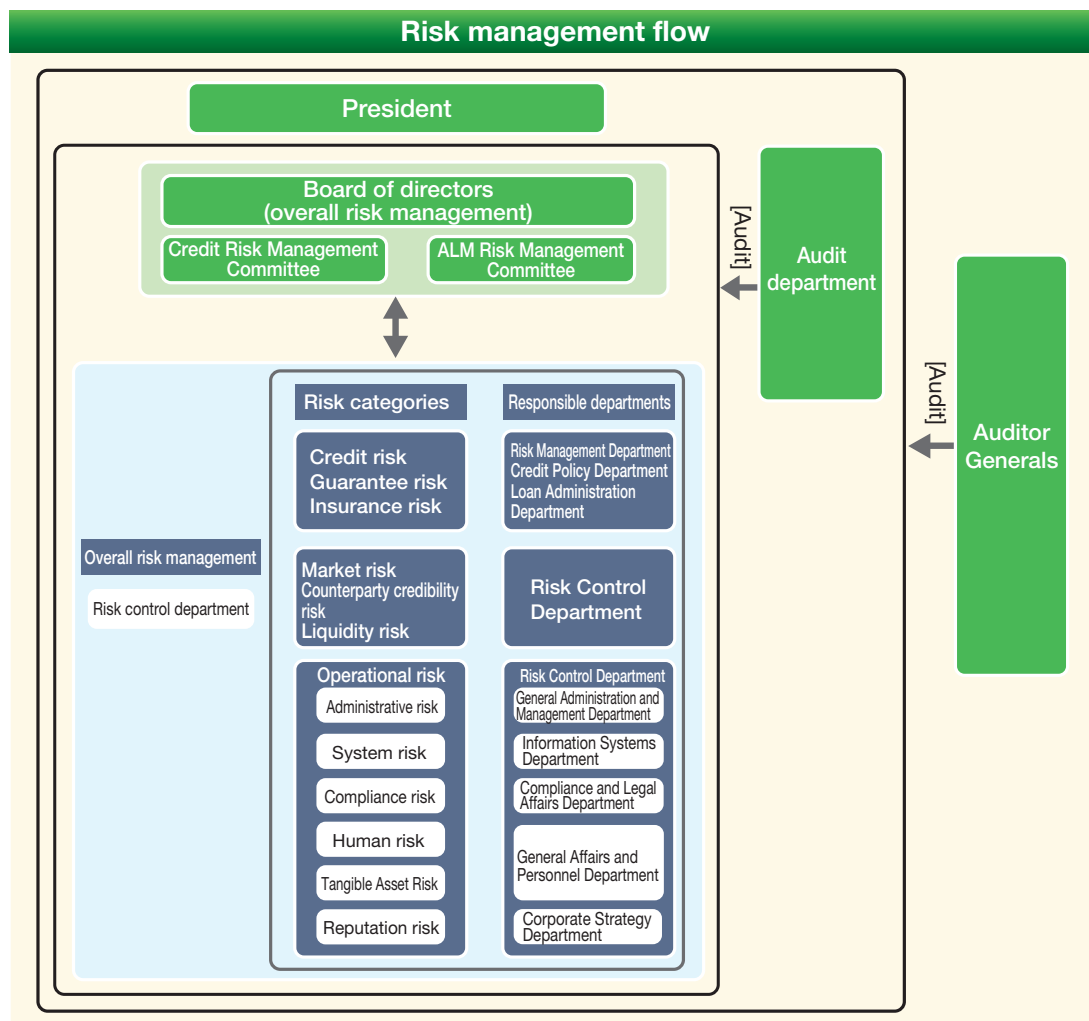
### Risk management system

JHF classifies risks into seven categories: credit risks, guarantee risks, insurance risks, market risks, counterparty credibility risks, liquidity risks, and operational risks. In the event of a notable change in the economy, JHF may define new categories of risks that should be managed in addition to those in the conventional categories.

To manage these risks both in quantity and in quality, JHF has appointed an executive and a department to deal with each category of risks, and runs a committee to support them. For example, the credit risk management committee examines credit risks, guarantee risks and insurance risks.

In parallel, the ALM risk management committee deals with market risks, counterparty credibility risks and liquidity risks.

Each committee monitors risks in its territory and discusses plans and proposals concerning the management of those risks. JHF holds a specific executive and department responsible for the total management of all categories of risks. The executive and department follow and evaluate the assessment and management of individual risks and report to the board of executives regularly.



## Risk Categories

### ●Credit risk

This is a risk that can cause losses to JHF with JHF held asset values depreciating or vanishing due to a decline in the credibility of debtors. Since housing loans account for a large part of JHF assets, JHF checks, analyzes and manages credit risks as well as examines actual and potential debtors, purchases loans, and implements internal asset auditing appropriately.

#### Examination of actual and potential debtors

JHF examines debtors when it considers buying their debts and scrutinizes potential debtors when it plans to extend credit, in accordance with the internal checking criteria and procedures.

#### Internal asset auditing

JHF manages credit risks resulting from credit it has extended and discloses balance sheets according to the government accounting criteria. Against this backdrop, JHF audits its assets based on its self-audit procedures that comply with the Finance Inspection Manual of the Financial Services Agency. JHF classifies its assets in accordance with the possibility of loans ending up unpaid and of property values falling. It subsequently calculates necessary reserves for non-performing loans by using an expected loss ratio based on past records.

#### Credit extension portfolio management

JHF evaluates the overall risk resulting from all debts owed to it and locates individual risks accurately. To this end, it monitors the debts by what it calls the credit extension portfolio management system. Starting with its findings, JHF analyzes housing loan statistics, estimates probable losses in the future, and rethinks required credit risk premiums. To strengthen its management of credit risk, JHF explores ways to quantify the overall risk in the credit extension portfolio management system.

### ●Guarantee risk

Guarantee risk is a risk that can cause unexpected losses to JHF since the occurrence of guarantee accidents goes beyond expectations that constitutes the basis of the calculation of guarantee fees. JHF extends guarantees for MBS as part of its assistance with the securitization of debts. When doing so, however, JHF examines applications meticulously in an attempt to grasp, analyze and manage the overall guarantee risk.

### ●Insurance risk

Insurance risk is a risk that can cause unexpected losses to JHF when the occurrence of insurance accidents goes beyond expectations that constitutes the basis of the calculation of insurance premium. JHF extends mortgage insurance against non-performing housing loans to financial institutions. When underwriting, JHF conducts proper screening. JHF also utilizes credit portfolio management system for monitoring the performance of underwritten mortgages and examines adequate reserves through future income/cost analysis.

### ●Market risk

Market risk is a risk that can cause losses to JHF due to financial ups and downs attributable to fluctuations in interest rates and other volatile factors. Since housing loans are its major assets, JHF is faced with prepayment risk and refunding/reinvestment risk.

#### Prepayment risk

Prepayment risk can reduce revenues from loan repayment interest rates by early repayment of loans, which can happen when interest rates are cut. JHF manages this risk by estimating an increase in repayments based on established prepayment models as well as financing by combining securitization of debts and issuance of bonds spanning varying periods.

#### Refinance/reinvestment risk

Refinance/reinvestment risk is a risk that can reduce profit from increased interest payment due to an increase in rates on borrowings or from decreased interest income due to a decrease in rates on investment. JHF manages ALM risks by using of interest rate models to estimate the cash flow of assets and liabilities in consideration of future interest rate changes, measuring the periodic profits and losses generated by the aforementioned cash flows and periodic monitoring of duration and other risk indexes.

#### Pipeline risk

Pipeline risk is a risk that can change profits and losses due to a shift in interest rates between the date of decision of the rate for housing loans and funding. JHF executes interest rate swaps as needed for the purpose of hedging pipeline risks, etc.

### ●Counterparty credibility risk

Counterparty credibility risk is a risk that can cause losses to JHF when asset values of a counterparty, in which JHF invests excess money, drop or are lost. This can happen when the party runs into financial difficulties. JHF establishes guidelines regarding the credit risk management including that of each issuer, and a counterparty for uses of interest rate swap transactions and monitors those transactions.

### ●Liquidity risk

Liquidity risk is a risk that can cause losses to JHF due to uncertain liquidity of funds. This happens when JHF cannot secure funds because of financial difficulties, or when it is compelled to pay interest at far higher rates than usual simply to secure funds. For managing liquidity risk, JHF has established a floor for liquid asset holdings, and the standards are applied on a daily basis to ensure stable cash management. In addition, in accordance with the degree of liquidity squeeze, we have set three classifications (Normal, Watch, and Crisis) and developed a response measure for the Watch and Crisis situations. Furthermore, to establish borrowing facilities and other emergency measures to ensure our ability to finance, JHF has stipulated a contingency funding plan to respond to situations that would expose us to liquidity risk.

### ●Operational risk

Operational risk is a risk that can cause losses to JHF due to improper business processes, misconduct of any executive or employee, a faulty information system and/or exogenous events, and includes administrative risk, system risk, legal risk, human risk, tangible asset risk and reputation risk. JHF is working to collect realized risk events to understand the circumstances causing such risk events, analyzes the causes to formulate countermeasures, self-evaluate potential risk and control method to deter its emergence, and implements Risk & Control Self-Assessment (self-assessment of risk inherent in operation and control against the risk for better operation), thereby strengthening the management system against operational risk. Definitions and management methods for core operational risks are shown as follows:

### Administrative risk

Administrative risk is a risk that can cause losses to JHF when any executive or staff member fails to do his job as expected, causes an accident, or commits wrongdoing. To reduce the risk, JHF is revising its office work manual, improving office work, enhancing crosschecking between staff members, and educating them about better office work. Other efforts include organizing training sessions for staff members, encouraging voluntary inspections of office work, collecting and analyzing information on mistaken office work, and setting up countermeasures.

### System risk

System risk is a risk that can cause losses to JHF due to a failure, malfunction, defect or misuse of the information system. JHF classifies system risk according to the degree of significance and evaluates each category to set up preventative measures. JHF also carries out system development with its performance, reliability, and information security taken into consideration, checks and analyzes system failures and gets countermeasures into action. In preparation for serious failures, JHF enforces the crisis control manual, and, as necessary, introduces a dual system, runs a backup center and organizes accident response drills.

### Compliance risk

Compliance risk is a risk that can cause losses to JHF due to unlawful acts, inappropriate contracts, and uncertainty of legal matters related to business deals. JHF strengthens internal regulations, scrutinizes draft contracts, and gets the legal affairs department to check the contents of all advertisements it plans to post. All these efforts aim to decrease compliance risk. The same department provides the executives with information on the enforcement and abolishment of the law and regulations, and court decisions that can affect JHF business. This course of action aims to prevent anyone in JHF from violating any law, rules and regulations.

### ●Others

As overall risk management, JHF carries out a lifetime income simulation for the next 35 years (until the housing loans currently held by JHF have been repaid in full).

Based on cash flow and with future changes in interest rate taken into consideration, the simulation calculates across the relevant risks to observe if losses resulting from both credit and market risks are covered by interest income.

A stress test on both risks is also conducted in the simulation, which allows the JHF to verify its financial resilience to an increase in both risks.

## Business Continuity Plan (BCP)

JHF formulated its Business Continuity Plan (BCP) in FY2008 to minimize the impact on customers and other concerned parties, as well as to pursue its basic mission and social responsibilities, under circumstances including a large-scale disaster or epidemic of a new

strain of Influenza. We conduct various drills and regularly review damage predictions to clarify any new challenges and items to be improved to further sophisticate the BCP.

### Formulation of JHF Business Continuity Plan

JHF places its first priority on ensuring the safety of visitors, executives, employees and other people and takes preventive measures first against such secondary disasters as fires caused by an earthquake, and then works on plans for the continuation of its business operations.

We have formulated action guidelines for executives and employees and an execution framework for business continuity and decided the businesses that need to be continued and the priority order of recovery in case of a natural disaster.

### Drills

We have continuously conducted disaster drills, safety confirmation drills, drills of establishment and operation of disaster headquarters, business continuity drills, as well as drills for gathering on foot in the Tokyo

metropolitan area for executives and employees.

After the drills, we clarify new challenges and items to be improved based on opinions and observation of participants to further improve the BCP and drills.

### Preparation of stockpiles

Based on the Tokyo ordinance for people with difficulties returning home, which was enforced in April 2013, JHF has prepared an additional 10 percent to the three days' worth of stockpiled food and beverages for those who may have difficulties returning home.

We are also improving the capacity of power

generation, etc. by introducing solar power generation and batteries in order to secure the minimum level of power necessary for business continuation even when the power supply is suspended due to natural disasters, etc.

### Information gathering

JHF gathers information on damage anticipated to be caused by a massive earthquake along the Nankai Trough or an earthquake directly beneath the Tokyo metropolitan area, released by the Central Disaster Prevention Council of the Cabinet Office and Tokyo

Metropolitan Government's Disaster Prevention Council.

This information is reflected in our own disaster response endeavors.



## Disclosure

JHF accepts requests for information disclosure under the Law on Protection of Personal Information Held by Incorporated Administrative Agencies (Law No. 140 of 2001) at the window of the information disclosure and private information protection set at the Headquarters and branches across Japan. In compliance with the purpose of that law,

JHF is making a further commitment to the promotion of disclosure.

In order to obtain the understanding of the people, JHF discloses the details of its business, financial status, etc., as follows. The disclosed materials are also available on JHF website.

### <The above materials>

Materials	Place and manner of disclosure	Time of disclosure (scheduled)
Financial statements (statements of assets and liabilities, statements of profits and losses, documents on the dealing of profits and losses, documents on the calculation of cash flow, documents on the calculation of administrative service costs and relevant appendixes)	Published in the Official Gazette Always prepared at each branch (*)	July August
Report of settlements of accounts	Always prepared at each branch (*)	August
Comments of the auditor and accounting auditor on the financial statements and final accounts reports	Always prepared at each branch (*)	August
Report on activities	Always prepared at each branch (*)	August
Business report	Always prepared at each branch	August
Disclosure booklet (this document)	Always prepared at each branch	August
Criteria for the payment of salaries and retirement benefits for directors and employees	Always prepared at each branch	At every revision (modification)
Rules concerning the style of contracts	Always prepared at each branch	At every revision (modification)
Method of calculating usage fees, commissions and other charges collected when applicable by law	Always prepared at each branch	At every revision (modification)
Report on the evaluation of business	Always prepared at each branch	November
Report on the evaluation of policies	Always prepared at each branch	At every policy evaluation by competent ministry
Report on the latest audit by the Board of Audit	Always prepared at each branch	December
Issues related to associated organizations (what is stipulated in item 3, paragraph 1, article 22 of the law (Law Concerning Disclosure of Information Owned by Independent Organizations, Law No. 140 of 2001), the names of organizations, activities and relation with JHF, and significant business transactions with JHF, and the names and titles of the person who serve both JHF and any such agency as executives)	Always prepared at each branch (*)	August
Personal data file	Always prepared at each branch	At every revision (modification)
Details of business, performance, outline of organization, state of finance, etc.	(Website) <a href="http://www.jhf.go.jp">http://www.jhf.go.jp</a>	At every revision (modification)

\*Documents marked with (\*) are compiled into single-volume booklets for each year and placed ready for use at each branch

<Website> <http://www.jhf.go.jp/teikyou/index.html>



<Window of the information disclosure and private information protection (Head Office)>



# Details of JHF Business

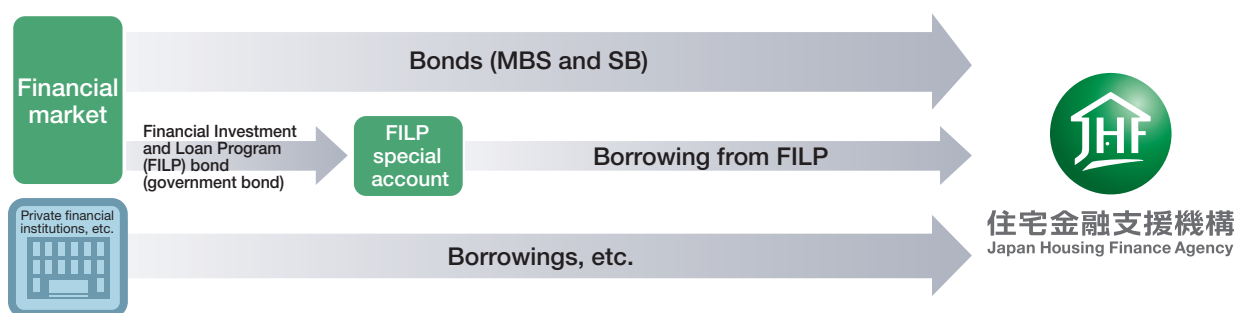
## Funding

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

The major funding source of JHF is issuing MBS and SB in the financial markets and JHF applies such monies to Securitization Support Business and other businesses of JHF.

JHF limits the use of borrowing from FILP to loans for recovery from disasters, which requires emergency measures.

### Overview of funding

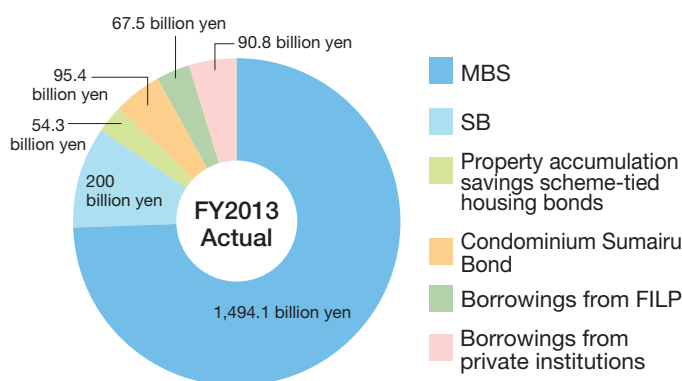


### Breakdown of funding

Major funding source of JHF is issuing MBS and SB.

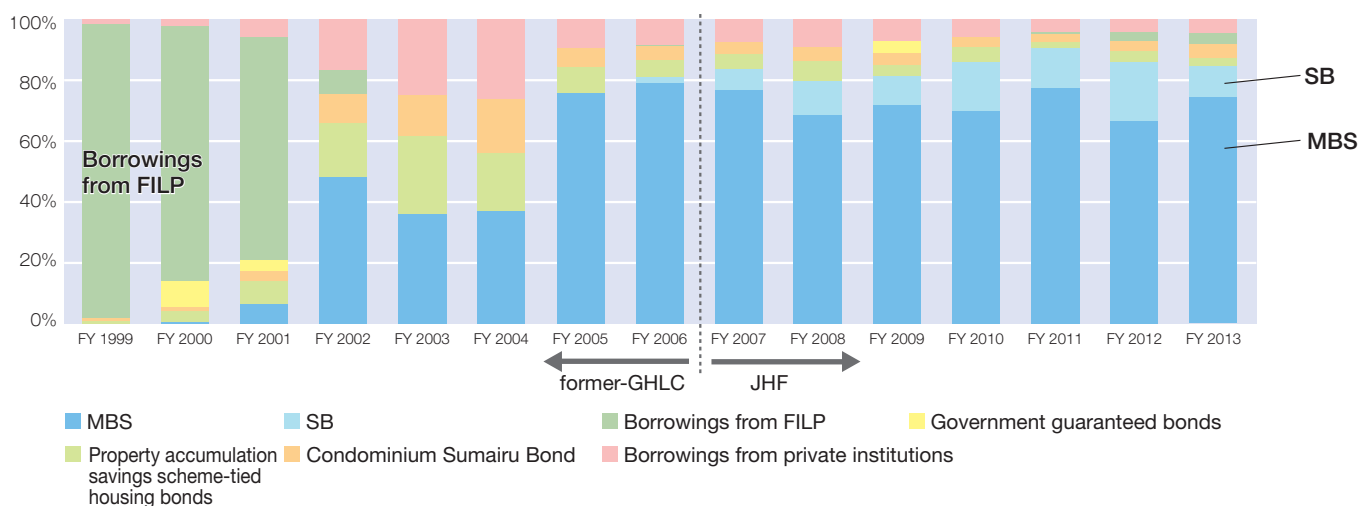
		Results of FY 2013
Bonds	MBS	1,494.1 billion yen
	SB	200 billion yen
	Property accumulation savings scheme-tied housing bonds	54.3 billion yen
	Condominium Sumairu Bond	95.4 billion yen
Borrowings	Borrowings from FILP	67.5 billion yen
	Borrowings from private institutions	90.8 billion yen
Total		2,002.1 billion yen

\* Amount of bonds is based on amount paid



### Trend of Funding Sources

JHF has shifted its main business of direct lending business conducted by the former-Government Housing Loan Corporation ("former-GHLC") to securitization support business aimed to support organization of fixed-rate housing loans throughout the loan duration by private financial institutions. Thus, the main funding sources have also shifted from borrowings from FILP to fund-raising from the financial market by issuing MBS and SB.



## Product features of MBS and SB

	MBS	SB
Collateral	Housing loans <sup>*1</sup>	General security <sup>*2</sup>
Rating at the time of issuance <sup>*3</sup>	S&P : AAA R&I : AAA	S&P : AA- R&I : AA+
Redemption methods	Monthly pass-through redemption <sup>*4</sup>	Bullet payment on maturity date
BIS risk weight <sup>*5</sup>	10% (Standard method)	10%
Eligible collateral security under the requirement of Bank of Japan	Eligible (LTV: 94% of market value applies)	Eligible (LTV: 96% of market value applies to remaining 5 up to 10 years; 94% of market value applies to remaining 10 up to 20 years; 93% of market value applies to remaining 20 up to 30 years)
Amount paid (issuance price)	100 yen paid per 100 yen face value (issued at par)	

\* as of July 14, 2014

<sup>\*1</sup> MBS: JHF purchases housing loans, Flat 35, and entrust them as collateral of MBS at each issuance.

<sup>\*2</sup> SB: SB is a bond with general security in accordance with provisions of Article 19.5 of the Japan Housing Finance Agency Act. Creditors (SB investors) have the right (lien) to receive the repayment of their receivables prior to other creditors in relation to JHF assets. The order of the lien is the second highest priority following the general lien in accordance with provisions of the Civil Code (Article 19.6 in the same act).

<sup>\*3</sup> · S&P: Standard and Poor's Rating Services

· R&I: Rating and Investment Information, Inc.

The rating of MBS given by S&P has an identifier (sf) that indicates structured finance.

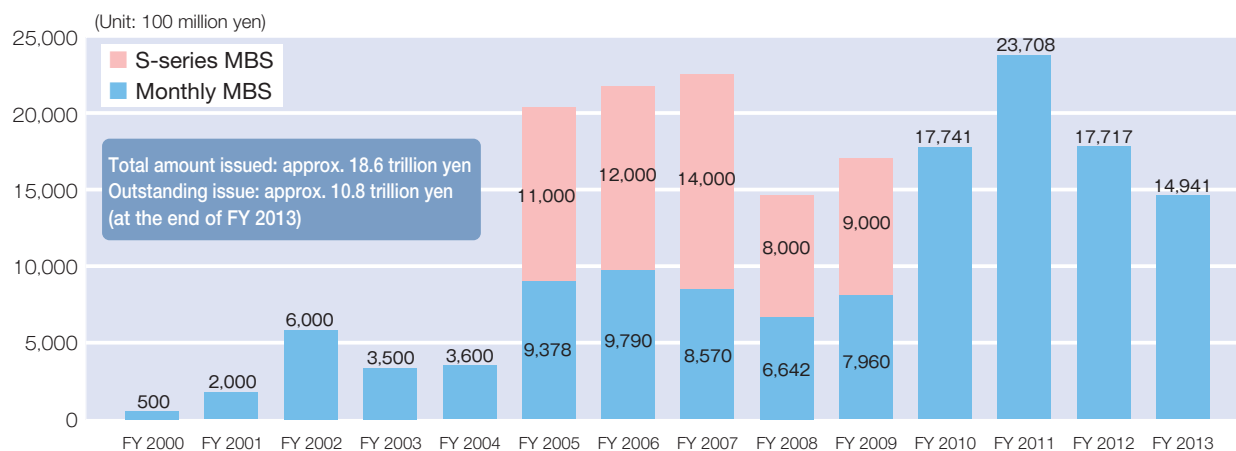
<sup>\*4</sup> See the following page for the monthly pass-through payment method.

<sup>\*5</sup> The capital adequacy ratio under 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 and this is referred to as risk weight.

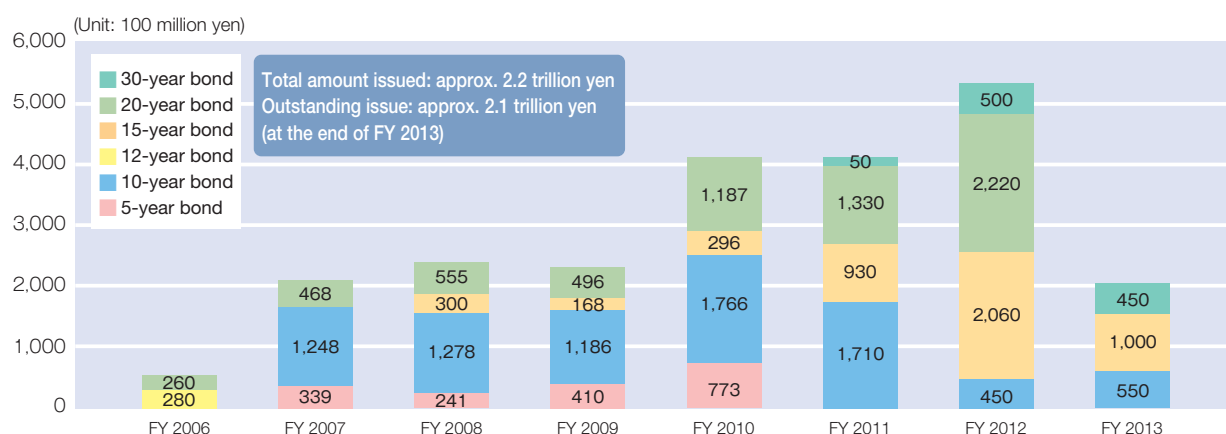
## Issuance results of MBS and SB

Monthly MBS and SB are issued to raise funds for Flat 35 and JHF loans while S-series MBS is issued for the purpose of refinancing the outstanding loans borrowed by the former GHLC.

### <MBS issuance results>



### <SB issuance results>



\* JHF implements appropriate Asset Liability Management (ALM) by issuing SB of various maturities.

## Key Features of MBS (monthly MBS)

### ● Asset-backed Zaito Agency bond

- Prior to a beneficiary certificate trigger event\*, JHF is responsible for all principal and interest payments backed by its creditworthiness. After a beneficiary certificate trigger event, the MBS is no longer a Zaito Agency bond but converted to a beneficiary certificate.
- The risk weight under the standards regulated by the Basel Capital Accords is 10 percent determined by the standardized approach to credit risk.

\*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 (kabusiki 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 pools

- As JHF purchases housing loans nationwide, therefore, housing loan pools are regionally well diversified.
- As JHF applies standardized uniform criteria for all housing loans when purchasing them from private financial institutions, housing loan pools are homogenous.



### ● JHF bears credit risks of defaulted loans

- JHF will pay the principal and interest of delinquent loans up to three months as if loans are current.
- JHF will terminate the 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\*1 [Prepayment Method]\*2, \*3.

\*1 The outstanding amount of entrusted housing loans is calculated based on assumption of no delinquency of housing loans.

\*2 As for MBS (S series) and MBS (Monthly) issued by former-GHLC, JHF replaces defaulted loans which include loans delinquent for four months with performing loans and maintains the soundness of the entrusted housing loan pools [Replacement Method].

\*3 The Prepayment Method and Replacement Method are applicable only prior to a beneficiary certificate trigger event.

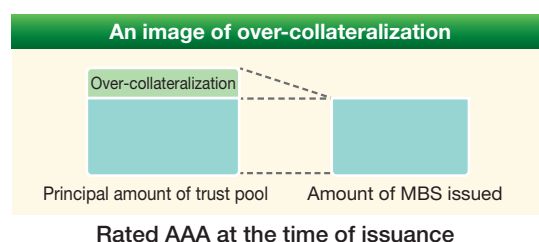
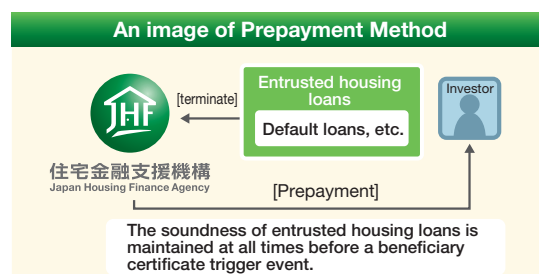
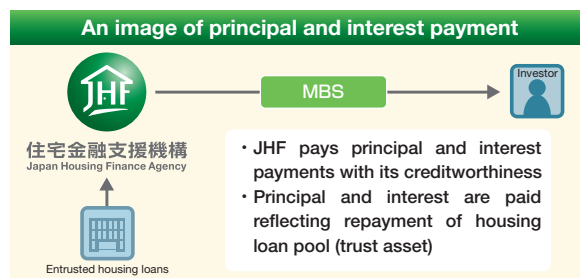
### ● JHF achieved AAA ratings by over-collateralization

- JHF sets a sufficient level of over-collateralization to achieve AAA ratings from S&P and R&I at the time of issuance.
- Minimizing the associated credit risks 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 an excess amount of the total entrusted housing loan amount over the JHF MBS issuance amount. It functions as credit enhancement after a beneficiary certificate trigger event.

### ● Principal and interest of JHF MBS are paid monthly in accordance with the repayment of entrusted housing loan pools (monthly pass-through payment method)

- JHF pays the principal and interest of its MBS to investors in accordance with the repayment amount of entrusted housing loan pools that serve as an asset backing the MBS.
- As repayment of the principal and interest of housing loans is made monthly in general, those of JHF MBS are also paid monthly.
- Housing loans are repaid periodically and can also be prepaid. Thus, the principal and interest payment of JHF MBS fluctuate in accordance with the prepayment condition of underlying housing loans.



## Securitization Support Business (Provision of Flat 35)

### Support private financial institutions to provide fixed-rate housing loans

JHF has implemented Securitization Support Business for private financial institutions to provide fixed-rate housing loans, for which there is a persistent demand from people. Housing loans provided by utilizing JHF platform of securitization are collectively referred to as Flat 35.

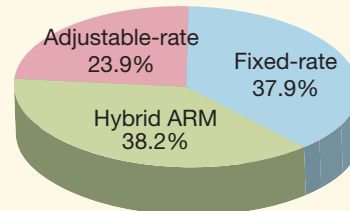
There are two types of program for JHF's securitization business: Purchase Program and Guarantee Program.

Both Purchase Program and Guarantee Program are eligible for "Flat 35S," a support scheme in which reduced interest rates are applied for a certain period for customers who purchase high-quality housing in terms of energy saving and others.

It became 10 years in October 2013 since JHF started the Flat 35.

#### <Interest rates desired by prospective borrowers of mortgages>

More than one-third prospective borrowers of mortgages desire fixed-rate mortgages.



(Source) JHF "The third survey of recipients of private-sector housing loans in FY 2013 targeting prospective recipients of housing loan (conducted in February 2014)"

### "Flat 35" product line up

#### Flat 35 (Purchase Program)

Flat 35 (Purchase Program) is a fixed-rate mortgage; provided via a collaboration between private financial institutions and JHF. It is a housing loan where the borrowing rate and amount repaid are fixed to maturity when the loan is closed, which makes easier for customers to consider lifelong plans.

Flat 35 (Purchased Program) supports customers who purchase their own housing safely because both the interest rate and subsequent lifelong plan are fixed to maturity. We also propose options which allow customers to refinance Flat 35.

#### Flat 35S

A system in which reduced interest rates are applied for a certain period for customers applying for Flat 35 to acquire high-quality housing in terms of energy efficiency and others.

#### Flat 50

A system that allows a maximum 50-year repayment period for houses certified as long-life high-quality.

#### Flat 35 Renovation Package

A scheme that finances the purchase of existing houses and renovation in a streamlined procedures by using Flat 35 and loans provided by financial institutions (Flat 35 package).

#### JHF Transfer Support Loan

A loan for the customer's current owning housing who acquire a new housing on the premise that corporation\* rent the customer's current house by using guarantee of the Foundation for Senior Citizens' Housing.

\* Japan Trans-housing Institute implements lease of housings, as of March 31, 2014

#### Flat 35 (Guarantee Program)

Flat 35 (Guarantee Program) is a fixed-rate housing loans originated and securitized by private financial institutions with JHF insurance. Refinance is available under this program as well.



## Scheme of Flat 35 (Purchase Program)

(For the product details, refer to page 126)

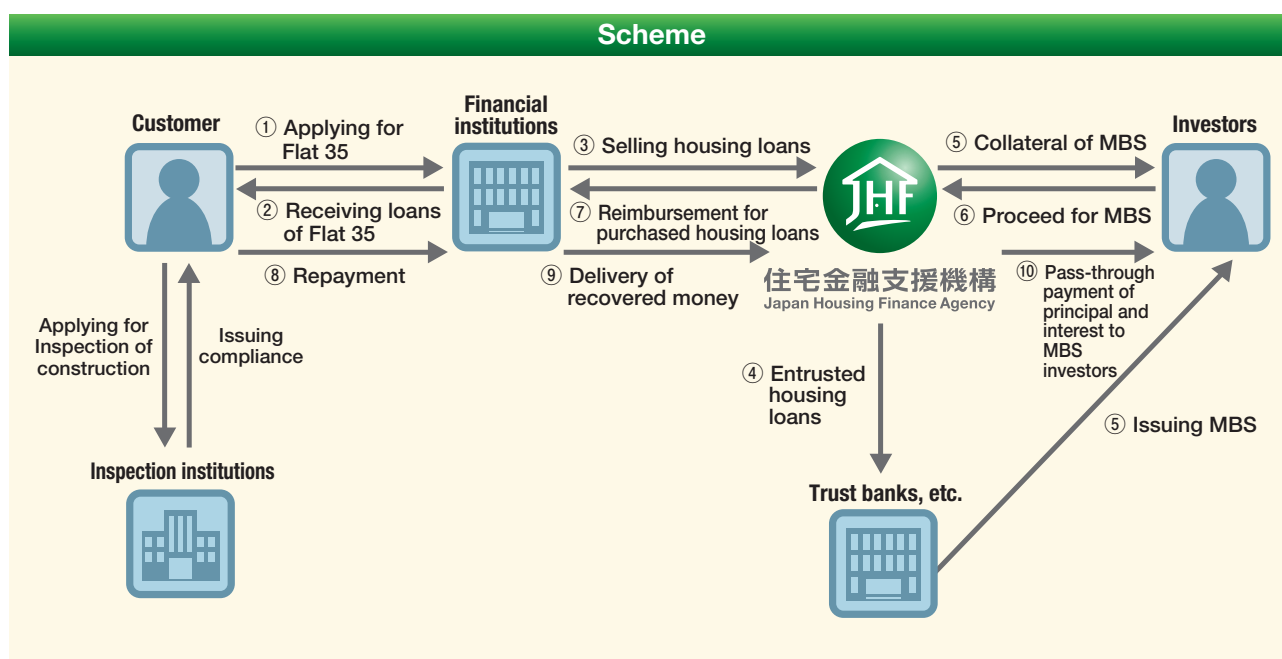
JHF purchases housing loans from private financial institutions and entrusts them to trust banks, etc.

JHF issues MBS backed by this collateral and raises funds for housing loans from the bond market (i.e., from investors). (See the figure below).

Using this system, private financial institutions can provide fixed-rate housing loans. Such housing loans

must meet certain underwriting criteria set by JHF, and are transferred to JHF from private institutions when they are disbursed.

The interest rate on these loans is decided by individual private institutions based on the coupon on MBS, etc.



### ● Features of Flat 35 (Purchase Program)

#### Safe because interest rate is fixed to maturity

The borrowing rate and the amount repaid is fixed to maturity when the loan is closed.

#### No guarantee fee and no prepayment penalties

There is no guarantee fee that is usually required for housing loans. No guarantor is required, either. In addition, no fee is required for prepayment and modification of repayment conditions during the repayment period.

#### JHF's technical criteria to support housing

Houses shall be inspected based on technical criteria set by JHF for thermal insulation, durability and others, and JHF confirms a certificate issued based on the Building Standards Act for new housing.

### ● Institutions participating in the program

A total of 327 institutions participate in securitization business (Purchase Program), including city banks (5), trust banks (1), regional banks (64), other regional banks (38), cooperative banks (157), credit unions (18), labor credit unions (12), prefectural associations of agricultural credit cooperatives (9) and insurance companies/mortgage banks/other banks (23).

The figures in the brackets indicate the numbers of participating institutions (As of March 31, 2014).

#### Support to provide security during the repayment period

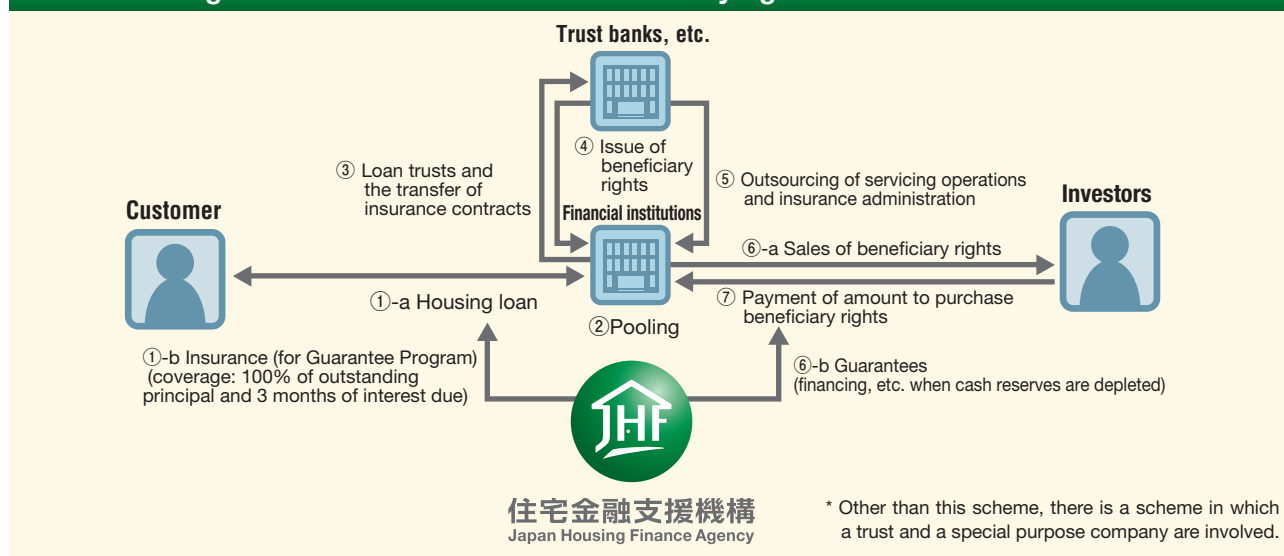
JHF provides consultations for customers experiencing difficulties in repaying their loans, and proposes options for modifying repayment terms and conditions depending on their circumstances. JHF also provides its group credit life insurance as well as group credit life insurance for three major diseases.

## Scheme of Flat 35 (Guarantee Program)

JHF will underwrite housing loan insurance (for Guarantee Program) for housing loans with fixed-rate housing loans originated by private financial institutions,

and guarantees investors the timely payment of principal and interest on obligations backed by the housing loans as collateral.

**Figure: Scheme in which trust beneficiary rights are sold to an investor**



### ●Criteria for approving applications for Flat 35 (Guarantee Program) (\*1)

- The loan is for the construction/purchase of a house for the applicant and/or relatives.\*2
- The house satisfies the technical requirements specified by JHF.
- The cost of housing construction, including the cost of purchasing the land, or the cost of purchasing the house and land is 100 million yen or less (including consumption tax).
- The amount of loan is more than 1 million yen and less than 80 million yen, inclusive, and is equal to or less than 100

percent of the cost of the housing construction or the cost to purchase the house and land.

- The maturity of the loan is between 15 years and 35 years, inclusive.
- The interest rate remains fixed to maturity.

\*1 Requirements for Flat 35 (Guarantee Program) vary according to the financial institution. Please contact the relevant financial institution for more information.

\*2 Refinancing is also covered.

### ●Institutions participating in the business

In the securitization business (Guarantee Program), we concluded agreements with five institutions: city bank (1), regional bank (1) and mortgage banks (3).

The number of institutions participating in the business. (as of May 31, 2014)

\* Some financial institutions have suspended the acceptance of new applications (as of May 31, 2014)

## Flat 35S

Flat 35S is a system in which reduced interest rates are applied for a certain period for customers applying for Flat 35 to acquire high-quality housing in terms of energy efficiency, earthquake-resistance and others.

There are two interest-rate reduction plans for Flat 35S; Flat 35S (Interest rate plan A) and Flat 35S (Interest rate plan B).



Eligible for application from April 1, 2014, to March 31, 2015

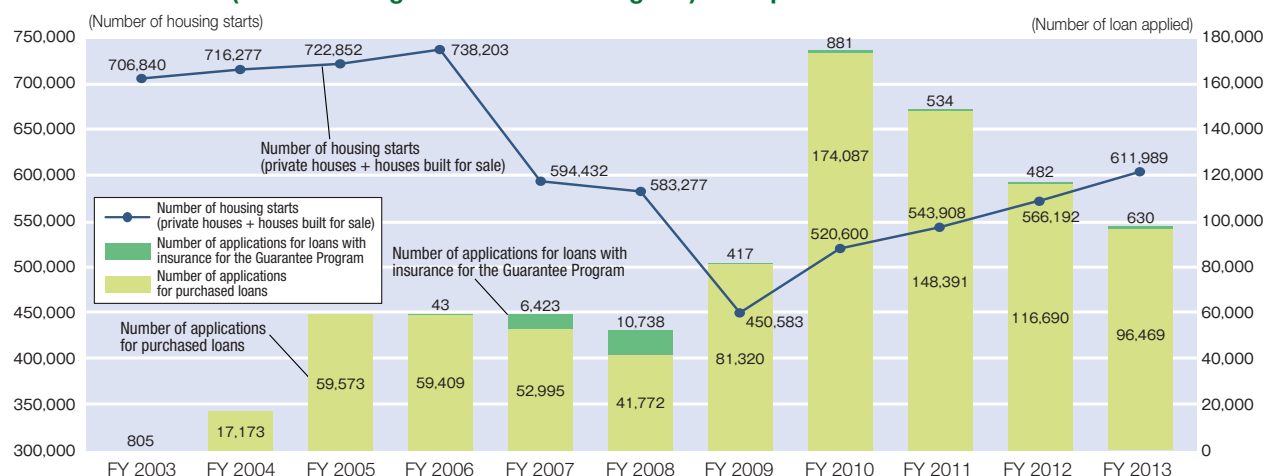
Interest-rate reduction plan	Duration of interest-rate reduction	Range of interest-rate reduction
<b>Flat 35S</b> (Interest rate plan A)	First 10 years	Reduction of 0.3%/year from <b>Flat 35</b>
<b>Flat 35S</b> (Interest rate plan B)	First 5 years	

\*1 There is a budgetary ceiling for Flat 35S. Applications will be accepted until the total amount reaches the ceiling. The end date will be notified on the Flat 35 website (www.flat35.com) by three weeks prior to ending.

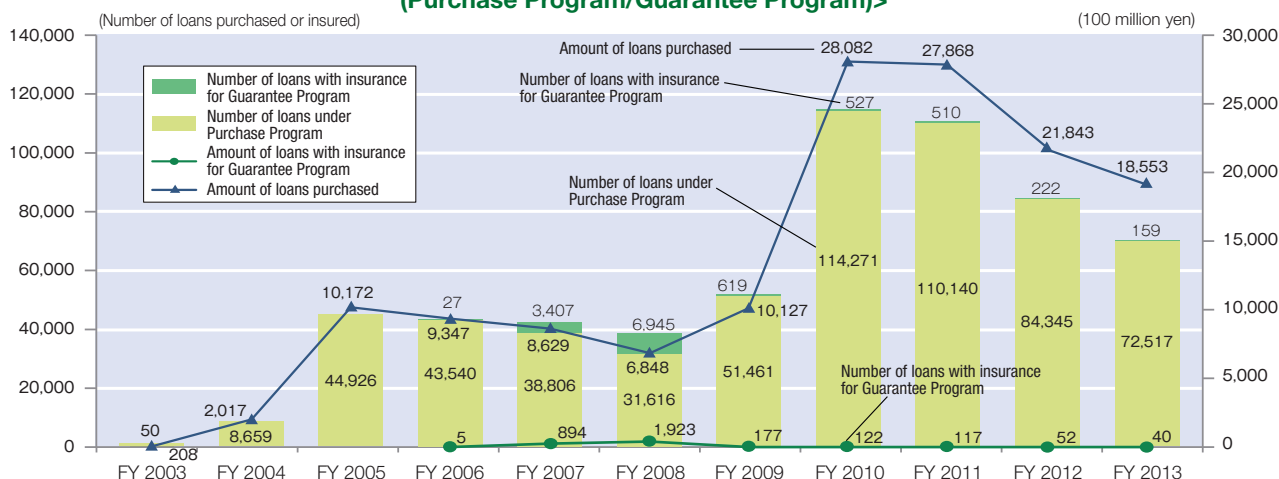
\*2 Flat 35S is available when constructing and purchasing new housings as well as purchasing existing housings (except "Flat 35" refinancing).

## Results of Flat 35

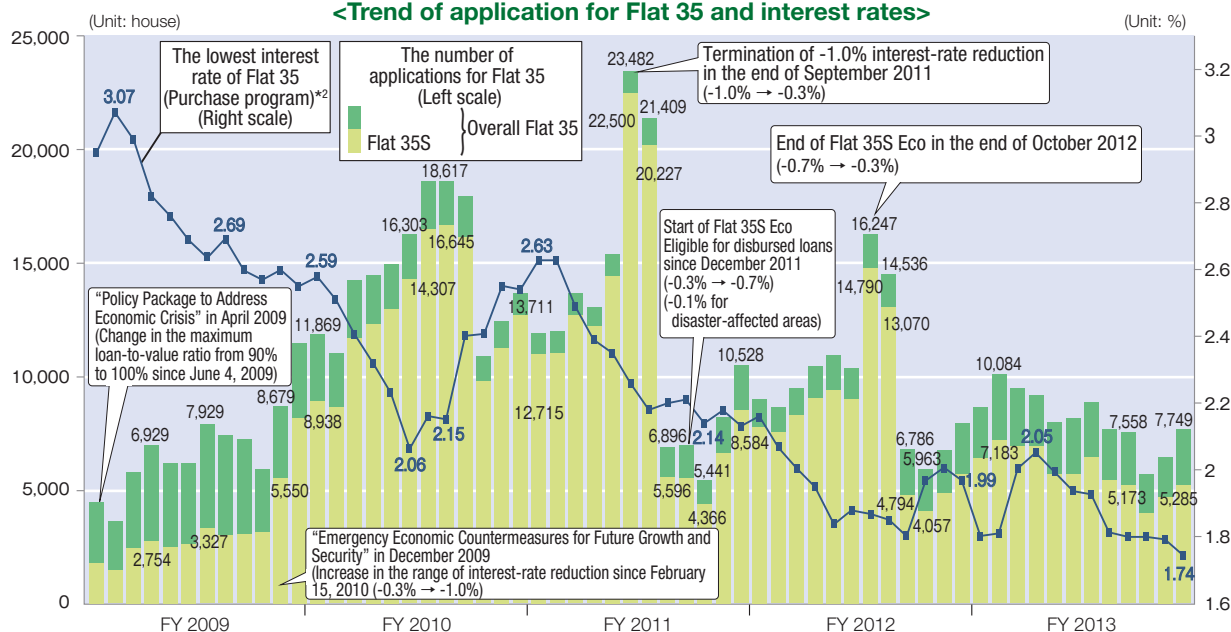
### <Numbers of applications for Flat 35 (Purchase Program/Guarantee Program) to be purchased and insured>



### <Number of loans and amount of disbursements for Flat 35 (Purchase Program/Guarantee Program)>



### <Trend of application for Flat 35 and interest rates>



\*1 Total Number of houses applying for Flat 35 (Purchase 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 the loan-to-value ratio (90% or lower/over 90%). Many financial institutions set the lower interest rate by comparing the cases that duration of loan is shorter than 20 years and between 21 years and 35 years.

## Activities to promote Flat 35

### ●Organizing consultation meetings across Japan

JHF holds consultation meetings on Flat 35 simultaneously across Japan for people considering to own housing.

At some places, a seminar is also organized during the consultation meetings and attracts many audience.

<Consultation meeting>



<Seminar>



<Meetings in May 2014>

- Held at 45 places nationwide
- Number of audience: 902

### ●Flat 35 website

Since the renewal of the Flat 35 website in May 2013, it has become easier for customers to obtain information they look for.



Product information, such as Flat 35 product outline, interest rate, procedures, etc. is available from Flat 35 website (<http://www.flat35.com>).  
[Annual number of visitors: approx. 42.8 million (FY 2013)]

### ●Business activities using tablet terminal

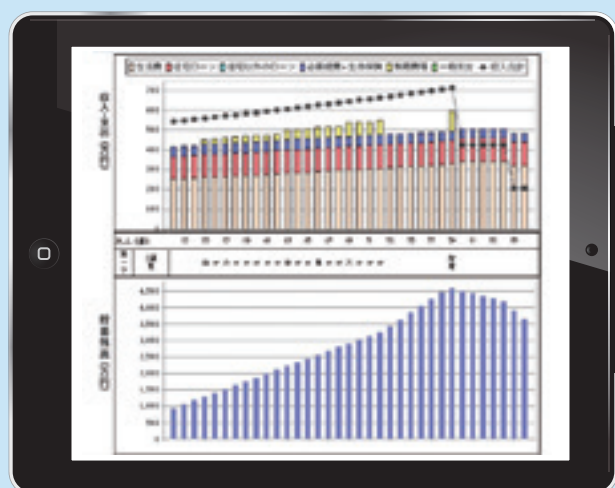
JHF has provided timely information and consultations by utilizing tablet terminals.

When providing consultations to customers at the consultation meetings and other occasions, JHF staff prepares a simulation of repayment plan by using tablet terminals.

<Explanation with tablet terminals>



<An image of estimation made by repayment plan simulation>



A repayment plan for acquiring housing and other estimations in light of monthly family income and expenditure or future life events are available from the simulation.

## ● Housing Loan Insurance Business

### JHF underwrites insurance for private-sector housing loans.

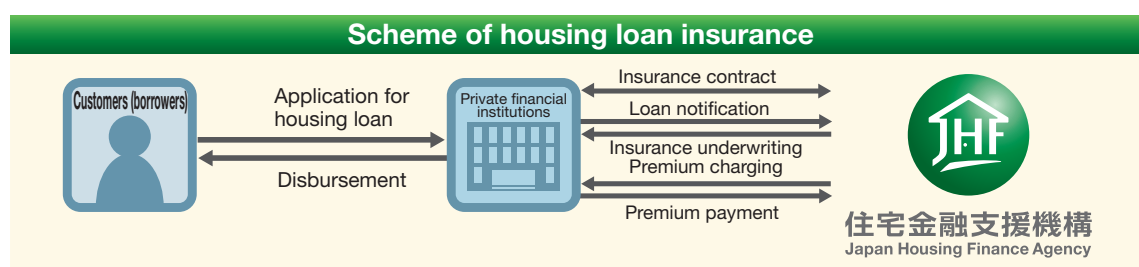
Housing loan insurance is public credit insurance provided by JHF. By underwriting insurance for housing loans originated by private financial institutions, JHF supports the supply of housing loans by private financial institutions.

### Scheme of housing loan insurance

When housing loans made by private financial institutions default, JHF covers part of the incurred losses based on the insurance policy concluded between JHF and the private finance institution in advance.

10% of the risk weight for the insured portion is applied to housing loans with housing loan insurance in the standard calculation of the capital adequacy ratio.

For more details, see the Announcement of the Financial Services Agency No. 19 (on March 27, 2006).



### ● Loan types eligible for housing loan insurance

- Loans related to housing (construction, purchase, extension / renovation, etc.)
  - \* Bridge loans and renovation of shared parts of condominiums are also covered.
- Outstanding amount of loan with insurance shall be 80 million yen or less.
- Repayment of the loan is reasonably expected without default.
- The collateral/surety and debt-to-income ratio shall meet the criteria determined by JHF.

### ● Financial institutions entering into housing loan insurance contracts

167 financial institutions in total have entered into housing loan insurance contracts. They include: City banks (4), Regional banks (29), Secondary regional banks (10), Cooperative banks (60), Credit associations (15), Prefectural Credit Federation of Agricultural Cooperatives/Japan Agricultural Cooperatives/Prefectural Banking Federations of Fishery Cooperatives/Japan Fishery Cooperatives (26) and Insurance companies/mortgage banks and other banks (23).

( ) shows the number of institutions having entered into the insurance contract (as of March 31, 2014).

### Product outline

Type	Eligible loans	Insurance coverage*1
Specific personal loan insurance (Flat 35 package type)	Housing loans received in combination with Flat 35 or disaster relief housing loans (exclusive to the Great East Japan Earthquake). Also applicable to refinance.	100%
Specific short-term loan insurance (bridge-loan type)	Bridge loans for installed payments at the commencement of construction, interim payments and payments on completion that have been underwritten by JHF insurance. To be connected into permanent mortgages that are Flat 35 (including Flat 35 package) or disaster relief housing loans (exclusive to the Great East Japan Earthquake). Those with a loan period of 1 year or less	
Specific personal loan insurance (private financial institute loan type)*2	Retail housing loans that are in accordance with the underwriting criteria of a private financial institution and have been approved by JHF in advance.	
Specific personal loan insurance (Reverse mortgage for home improvement loans for elderly people)	Loans for remodeling of property with elderly residents (60 years or older) that has been underwritten for insurance approval by JHF (the principal, etc. is repayable as a lump sum upon the death of the borrower.)	
Personal loan insurance*2	Retail housing loan in accordance with the underwriting criteria of a private financial institution.	90%
Personal bridge loan insurance*2	Bridge loans in accordance with the underwriting criteria of a private financial institution Loans with maturity of less than one year.	

\*1 The ratio of insuring uncollected principals (excluding interest, late charges, etc.)

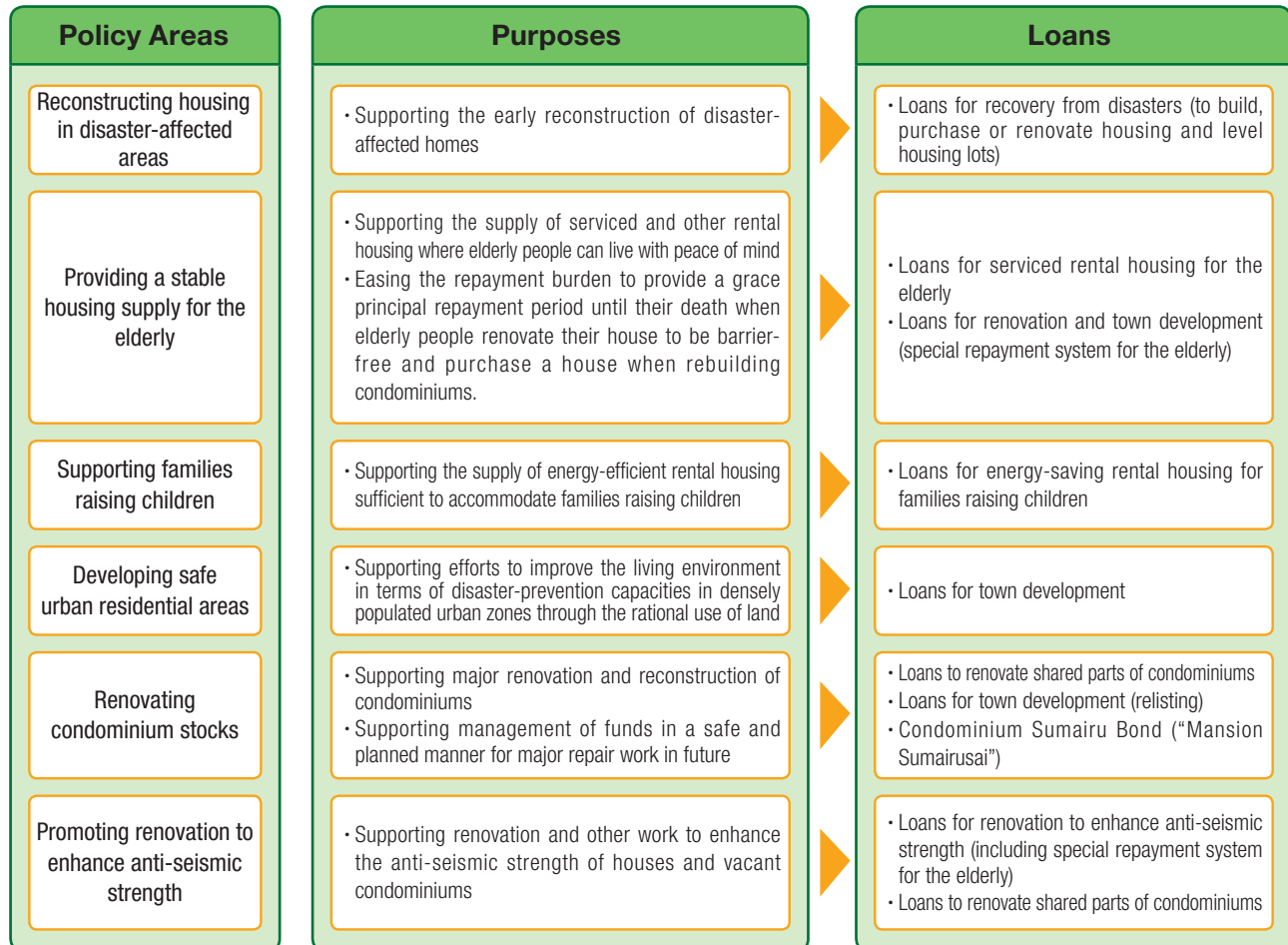
\*2 The insurance is available exclusively to small and mid-sized financial institutions that do not own guaranty companies as subsidiaries as prescribed in the provisions of Article 2 of the Companies Act (Act No. 86 of 2005).



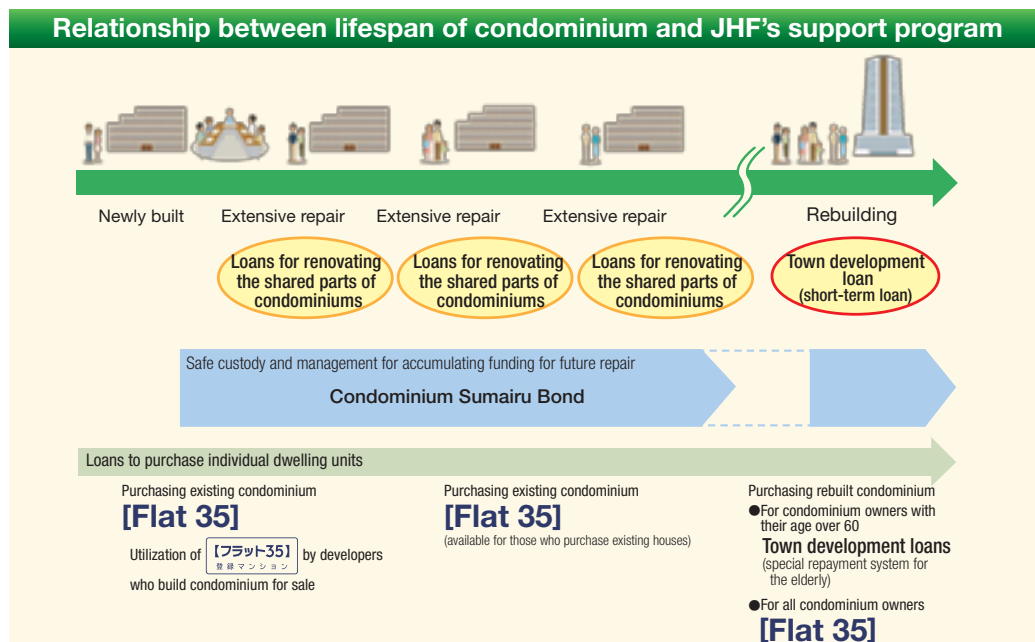
## Loan Origination Business (government-policy-related loans for recovery from disasters, town development, etc.)

**JHF provides loans for which societal demand is expected to grow, and which are difficult for private financial institutions to originate.**

At present, JHF provides loans in limited areas, such as prompt housing reconstruction in disaster-affected areas, constructing serviced rental housing for the elderly, rebuilding old housing in high-density urban districts, and renovating shared parts of condominiums, which are important in terms of policy and also difficult for the private sector to provide financing for.



\*In addition to the above loan origination programs, JHF provides loans for those who have joined employees' savings scheme and those who conduct works to protect their homes from disasters such as landslides.



## Details of Loans

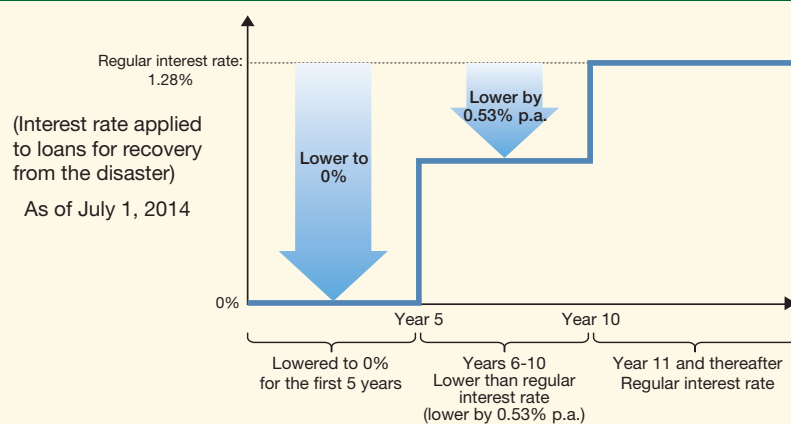
### ●Loans for recovery from the disaster Support for rebuilding housings affected by disasters

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

#### Support to reconstruct housing affected by the Great East Japan Earthquake

JHF provides disaster-recovery loans as well as loans to repair housing lots where such lots are damaged (loans to recover housing lots). We lower the interest rate (0% p.a. for the first five years for construction and purchase) and extend the grace period and loan maturity, for example. We received 13,401 applications for disaster-recovery housing loans and disbursed for 9,732 houses (both totals as of March 31, 2014).

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



#### Simplification of Procedures for Loan Application for Recovery from the Great East Japan Earthquake

- **Support for people living in areas from which they were ordered to evacuate due to the nuclear power plant accident**  
When people who were living in areas subject to an evacuation order due to the nuclear power plant accident on March 11, 2011, build or purchase a house outside these areas, we now provide disaster-recovery housing loans upon confirmation that they were living in such areas without presenting their victims' certificates (issued by the municipal government to show the degree of damage after confirming the damage based on a field survey, etc.) or submission of residence registry after moving into housing for which loans are provided
- **Support for a project to promote collective relocation for disaster-prevention**  
Mortgage liens placed on housing lots in areas subject to the project to promote collective relocation for disaster-prevention are written off and the owners purchase land for the new location before the municipal government reimburses the purchase price of the land to JHF. JHF then directly receives the money for purchasing the old lots payable by the municipal government, allowing the mortgage to be written off. We have created a scheme to facilitate the implementation of this project.

### ●Loans for serviced rental housing for the elderly Support for stable living for the elderly

We provide loans to business operators who build serviced rental housing for the elderly or purchase real estate to convert it into such housing that contributes to stable living for the elderly.

#### Serviced rental housing for the elderly

This refers to barrier-free rental housing that encompasses services such as watching and nursing care for the elderly, which was introduced when the Act to Secure a Stable Supply of Elderly Persons' Housing was revised. It is rental housing that meets the registration criteria, and is registered with the municipal government and for which support such as subsidies, preferential tax treatment and policy-related loans are provided.

(Example)

Apartment complex name: “Morita-san Chi”, Noda, Chiba Prefecture, completed in Oct. 2012

The serviced rental housing for the elderly provides good support, including family-like homemade meals which many elderly people are looking forward to as well as deathwatch. The building is carefully designed to have residents feel at home with stained glass, mosaic tiles, and comfortable chairs.

Letter of Appreciation of JHF President was awarded in FY 2013

<Building appearance>



<Inside of the building>



●Loans for energy-efficient rental housing sufficient to accommodate families raising children

Support for families raising children

JHF provide loans for business operators for construction, etc. and to promote the supply of energy-efficient rental housing capable of accommodating families raising children.

(Example)

Apartment complex name: “ViaCirCo”, Minami-ku, Saitama, Saitama Prefecture, completed in Jan. 2013

All the housing has different floor plans, reflecting the hope of the owner to create a lively community where various families communicate. Buildings are located interestingly, with shared spaces centering on two courtyards, for a living environment where residents can communicate and enjoy each season.

Letter of Appreciation of JHF President was awarded in FY 2013

<Building appearance>



<Inside of the building>



●Town development loans

Support for development of safe residential area

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

- Rebuilding old condominiums with insufficient anti-seismic strength and other problems related to the living environment
- A project to rebuild rental structures in core city centers with a high concentration of structures
- A project to develop disaster-prevention areas and secure disaster-prevention capacities and rational and sound land use
- An urban redevelopment project for rational and sound intensive land use in cities and renewal of their urban functions

The share of JHF loans to develop towns in urban redevelopment and other projects\* (From April 2007 until the end of September 2013)

**25.4%**

[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 = urban redevelopment projects and 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 the South Area of the Western Part of Toiyamachi, Gifu, Gifu Prefecture, completed in Aug. 2012

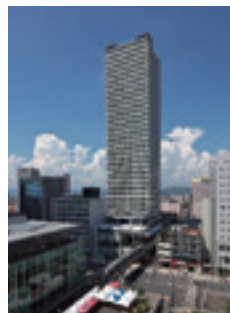
The area is situated at a corner of a textile wholesalers' street in front of JR Gifu Station. However, problems tending to blight city centers, such as aging of buildings and an increase in vacant stores, have emerged in recent years. Against this backdrop, an urban redevelopment project was implemented to be equipped with urban functions demanded to fit the era and the construction of complexes (housing, business and commercial) to optimally exploit the potential of the location; in front of the station in the prefectural capital.

Letter of Appreciation of JHF President was awarded in FY 2013

<Before improvement>



<After improvement>



## Project to construct a disaster-prevention area

(Example)

**Project name:** Project to Construct a Disaster Prevention District in the East Area of Higashi-Kishiwada Station, Kishiwada, Osaka Prefecture, completed in Sep. 2010

Fireproof structures were initially constructed and roads and parks were improved for disaster-prevention in an area with a high concentration of wooden structures in front of the station to prevent fire from spreading and secure safe evacuation.

Letter of Appreciation of JHF President was awarded in FY 2012.

<Before improvement>



<After improvement>



## Project to rebuild condominiums

(Example)

**Project name:** Daikyo-cho Condominium Reconstruction Project, Shinjuku-ku, Tokyo, completed in Jan. 2010

As the four-story condominium building sold in 1957 was aging, half a century after its construction and given the lack of elevators and the aging of residents, the residents began to find it difficult to live there. Against the backdrop, a reconstruction association was formed to rebuild it under the Act to Facilitate the Reconstruction of Condominiums.

Letter of Appreciation of JHF President was awarded in FY 2012.

<Before reconstruction>



<After reconstruction>





## Loans for renovating shared parts of condominiums

### Support for renovation of condominium stocks

JHF finances condominium management associations and unit owners to repair exterior walls and others to help them address deterioration and enhance their anti-seismic strength.

#### (Example)

Apartment complex name: Lions Mansion Hisasue", Takatsu-ku, Kawasaki city, completed in Mar. 2012

Renovating condominiums on a slope is a progressive example. Problems, including a lack of elevators for the first to third floors, became increasingly apparent as residents aged. The repair committee of the management association played a central role in repeatedly explaining the benefits of repair work to residents to help build a consensus. Additional elevators were built together with major repair works to renew the functions and achieve living situations commensurate to the many elderly residents there.

Letter of Appreciation of JHF President was presented in FY 2013.



## Assist condominium associations with Condominium Sumairu Bond ("Mansion Sumairusai")

### Support for renovation of condominium stocks

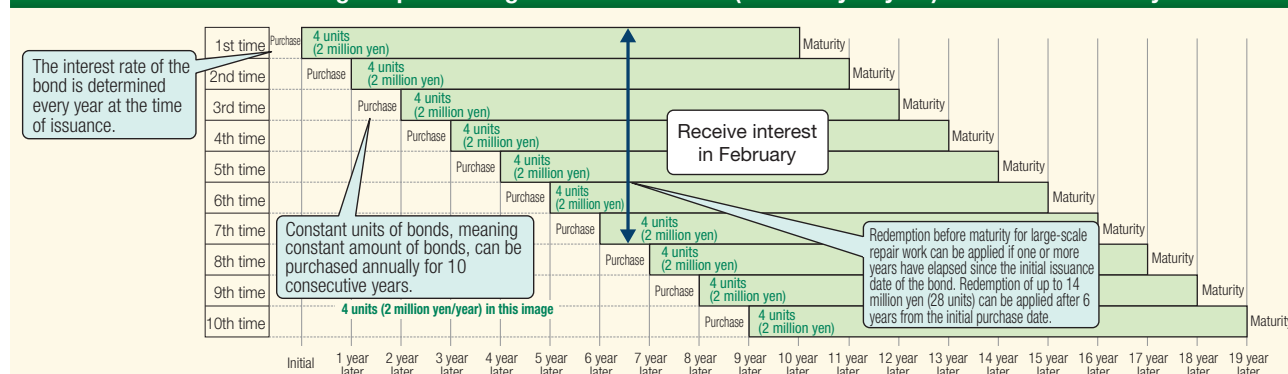
Mansion Sumairusai is a bond issued by the JHF with approval from the government, which aims to support the efforts of condominium management associations to accumulate and properly manage funds they collect from unit owners for future repairs in a planned manner. JHF began to offer the bond in FY2000 and has received a total of 996 billion yen in deposits from 22,000 condominium associations.

JHF sends a magazine named Condominium Information Box ("Mansion Joho Bokkusu") containing useful information on condominium management biannually as well as a mail magazine containing invitations to seminar sessions for condominium management and renovation to condominium associations having purchased the bond.

#### Features of the Condominium Sumairu Bond

- A 10-year bond with interest payable in February (The annual average interest rate increases every year according to the years having elapsed since its issuance)
- The bond is issued for 500,000 yen per unit and multiple units can be purchased at a time.
- Constant units can be purchased annually for a consecutive ten years.
- Redemption before maturity for repair is possible if one or more years have elapsed since the initial issuance date.

#### An image of purchasing 4 units of the bond (2 million yen/year) for 10 consecutive years



## Special repayment system for the elderly (reform loan/town development loan)

### Support for stable living for the elderly

This system is available for elderly building barrier-free housing or purchasing housing in a condominium reconstruction project. In order to reduce the burden of monthly payments, elderly are required to repay only interest until the time of their death and repay the remaining outstanding loan amount at the time of their death.

## Reform loan (earthquake resistance improvement)

### Support for promotion of improving earthquake resistance

JHF provides loans for seismic strengthening aiming to improve earthquake resistance of housings.



## Group Credit Life Insurance

### Providing security for unforeseeable circumstances during the loan repayment period

JHF's group credit life insurance (mutual relief) program is a system in which if borrowers of Flat 35 (Purchase Program) or JHF loans for individuals such as disaster relief loan, who have joined in this system die or incur a serious disability, the outstanding loan balance is offset by the insurance (mutual relief money) that is paid by life insurance companies and others.

In addition, group credit life insurance with security insurance for three major diseases (cancer, acute

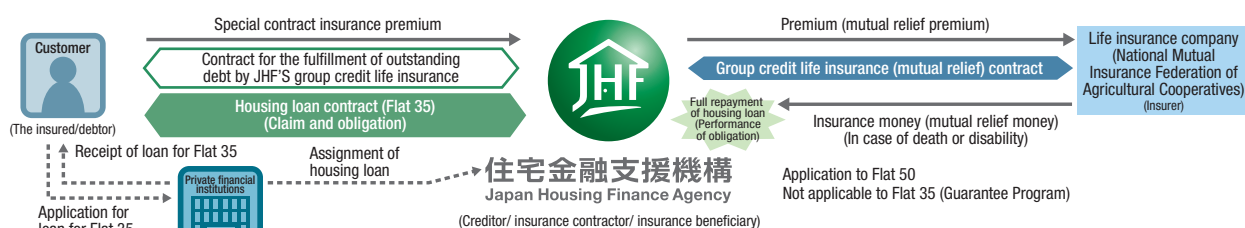
myocardial infarction and cerebral apoplexy) is also available.

If the housing loan is co-borrowed with the spouse, the both can join this scheme (known as "Duet") ("Duet" is not available for three major diseases).

\* JHF loans for individuals include housing loans from JHF, the Welfare and Medical Service Agency (the former Government Pension Investment Fund) and Okinawa Development Finance Corporation.

### Scheme of JHF's group credit life insurance

#### ● Under Flat 35 (Purchased Program)



#### ● Under a JHF loan (disaster relief loan, etc.)



#### ● Under a loan from the Okinawa Development Finance Corporation or the Welfare and Medical Service Agency



#### <Number of payments with group credit life insurance>

(Unit: case)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
The number of payments with group credit life insurance	11,960	11,713	11,621	10,745	10,203

\* Accumulation since the start of operation (1980): 311,347 cases

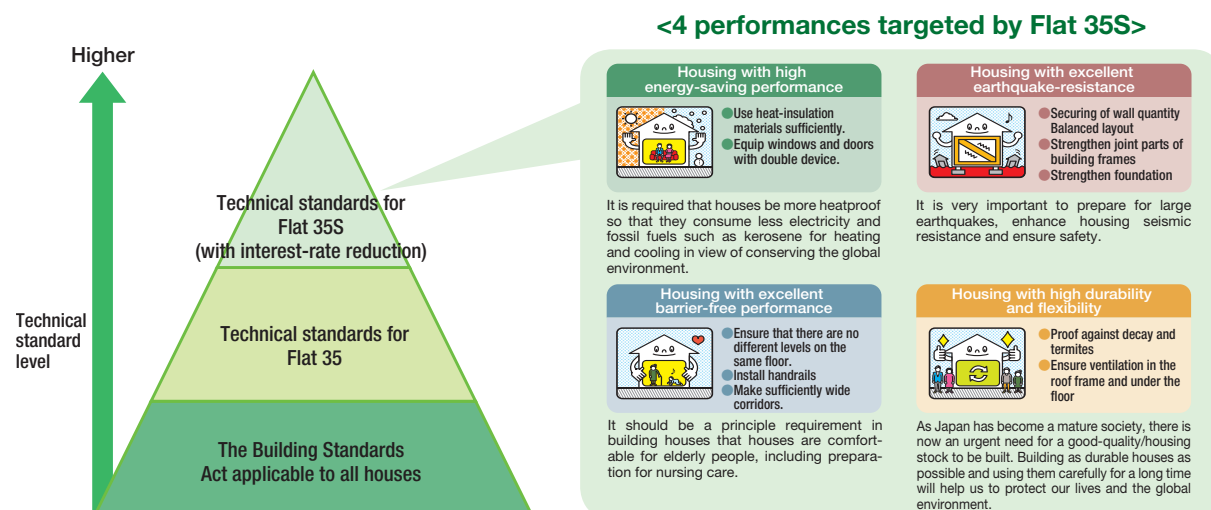
## Promotion of quality housings

### JHF improves living environment with technical standards established by JHF to promote quality housings

#### Encouraging technical standards and quality housings

JHF establishes the technical standards for Flat 35. The standards are largely divided into essential standards and those that are requirements for Flat 35S. Specifically, JHF reduces interest rates for a certain period for housing that is highly energy efficient, seismic resistant, barrier-free, durable and with variable performance to attract consumers to the high quality housing.

Technical standards are also set for loans for serviced rental housing for the elderly.



### Promoting Quality Housing

#### ●Preparation and issuance of housing construction specifications

JHF prepares and issues housing construction specifications to explain details of implementation methods and materials to be used which are not specified in the Flat 35 technical standards or drawings.

The specifications have its approximately 60-year history from the time of the former-GHLC.

#### ●Seminar on specifications organized for housing industries

JHF explains details of technical standards of Flat 35 and Flat 35S by using housing construction specifications at seminars organized for housing industries. JHF also dispatches its employees as a lecturer to a seminar organized by industry associations.

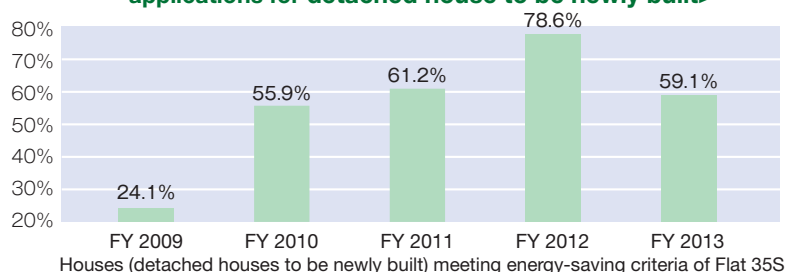


#### <Seminar on specifications>



Thanks to the promotion of Flat 35 and Flat 35S, the range of energy-saving housing\* for housing industries has been expanding. The share of energy-saving housing increased from FY 2010 to FY 2012 due to a substantial interest rate reduction in Flat 35S and remained at approximately 60% of the share after the end of the reduction. JHF is currently striving to maintain equivalent promotion toward the full enforcement of the amended Act on Energy-Saving Standards, which is planned in April 2015.

#### <[Flat 35] Share of houses meeting energy-saving housing among applications for detached house to be newly built>



## Technical assessment to ensure compliance of housings with technical criteria

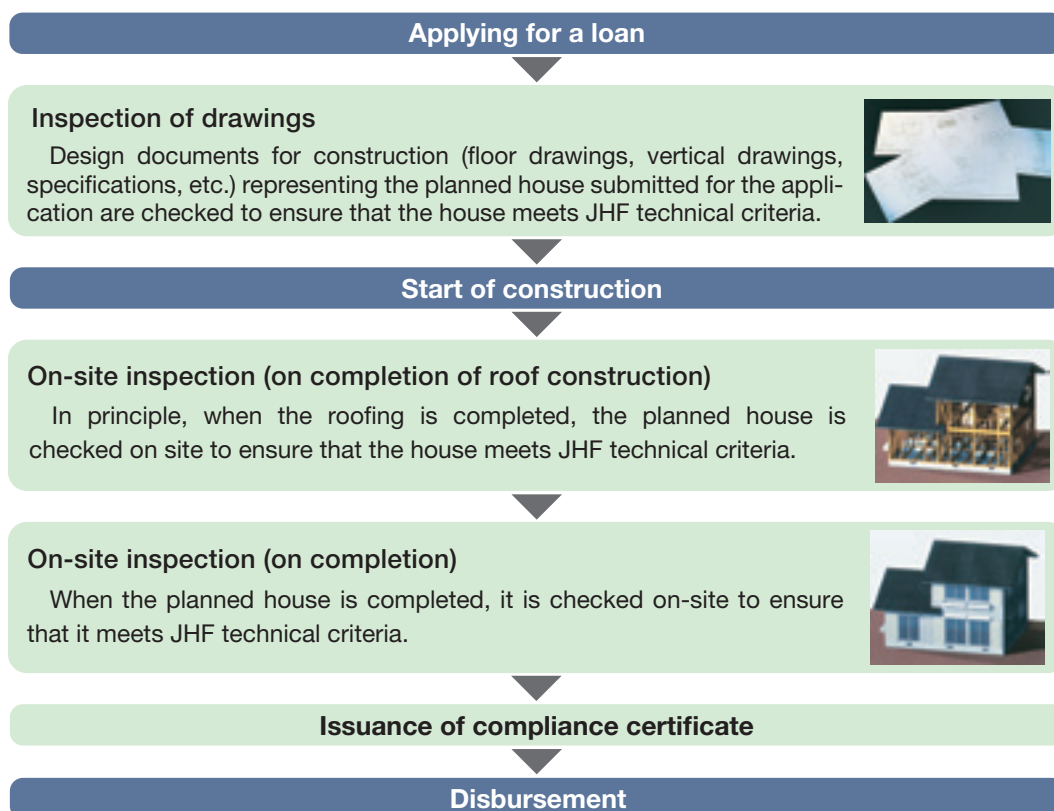
JHF conducts technical assessments based on the technical standards while ensuring compliance with the housing performance labeling system and other regulations. Further, JHF checks for the issuance of compliance certificates based on the Building Standards Act for newly built houses.

### ● Technical assessment method

Technical assessments for Flat 35 are conducted both at the drawing stage and at construction sites by private inspection institutions that have contractual agreements with JHF (in cases of newly built housing). If customers' houses are confirmed to meet technical standards for Flat 35 through the design and on-site inspections, private inspection institutions issue compliance certificates.

Technical assessments are also conducted for loans for serviced rental housing for the elderly.

#### <General flow of technical assessment for Flat 35 (in the case of a detached house to be newly built)>

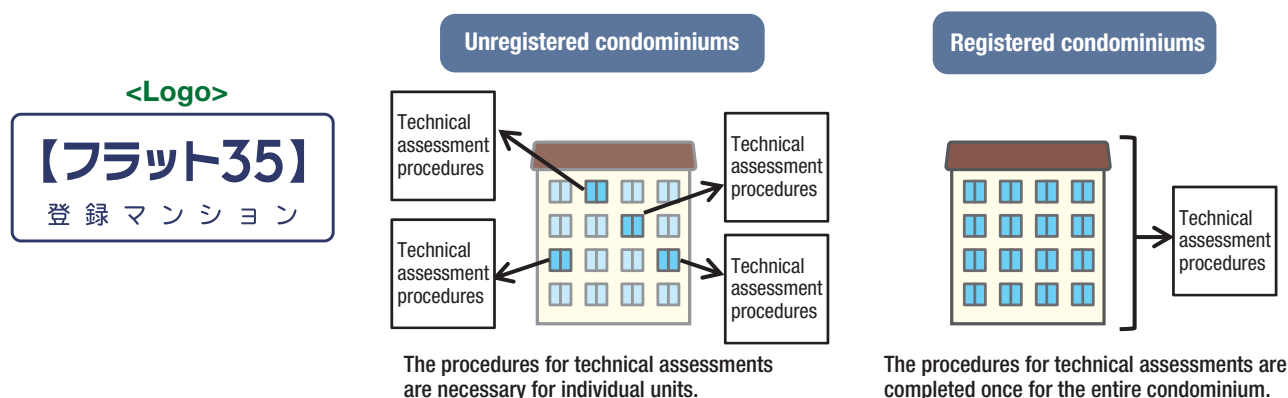


### ● Promotion of Flat 35-registered condominiums

JHF promotes the Flat 35-registered condominium scheme, which allows housing distributors to have the entire condominium complex inspected instead of a regular procedure of having individual dwelling units inspected.

Under this scheme, housing distributors can advertise and sell their condominiums as applicable for Flat 35. Property information on registered condominiums is posted on JHF website.

A logo of Flat 35-registered condominiums is used by housing distributors on relevant websites, advertisement and leaflets, etc.



## Management of Outstanding Loans

**JHF provides feeling of safety for customers during the repayment period.**

### Overview of the management of outstanding loans

JHF provided 2.04 million housing loans (outstanding amount of 26.5 trillion yen)\* for customers as of the end of March 2014.

The repayment of housing loans continues for a long period of time, during which we provide consultations

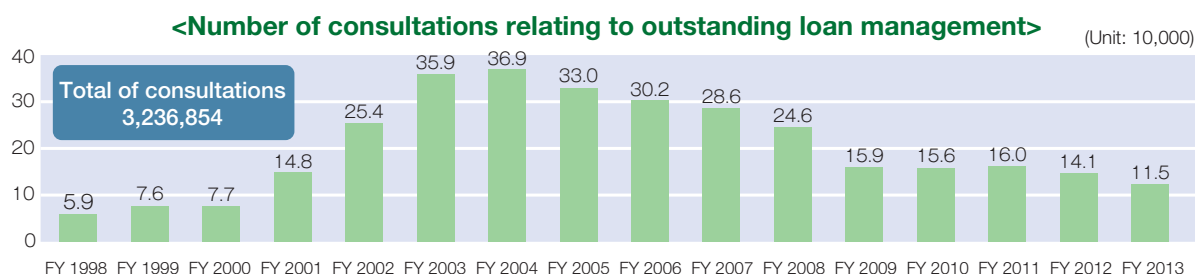
on loan modification, prepayment and the issuance of verification of outstanding balance so that customers can avoid uncertainty.

\* The figure includes housing loans originated by GHLC.

### Situation of consultations on repayments

JHF has organized a consultation system with servicing financial institutions for customers experiencing difficulty in repaying their loans in the adverse economic conditions. Also we have prepared options for modifying repayment

terms and conditions depending on family income and other circumstances to alleviate repayment burdens. We support customers so they may live with a sense of security until their repayments have been completed.



### Special measures for modifications to repayment methods

For customers experiencing difficulty in repaying their loans in the adverse economic conditions, JHF offers special measures for modifications to repayment methods to alleviate repayment burdens depending on family income and other circumstances, so that borrowers can continue to pay.

Other loan modification options include the change of repayment date, adjustments to the proportion of monthly and biannual bonus repayments and cancellation of biannual bonus repayments.

#### ●Application requirements for special measures for modifications to repayment methods

If customers, who meet the JHF's criteria, have difficulty with repayment due to bankruptcy or changes in circumstances concerning the customers' employment but are able to continue the repayment under a modified repayment term, the extension of the repayment period up

to 15 years will be applied to their loans to alleviate their monthly amortization. Of them, for people unemployed or suffered reduction of income more than 20%, each repayment burden will be greatly alleviated by setting a grace period of up to three years and reducing the interest rate during this period\*.

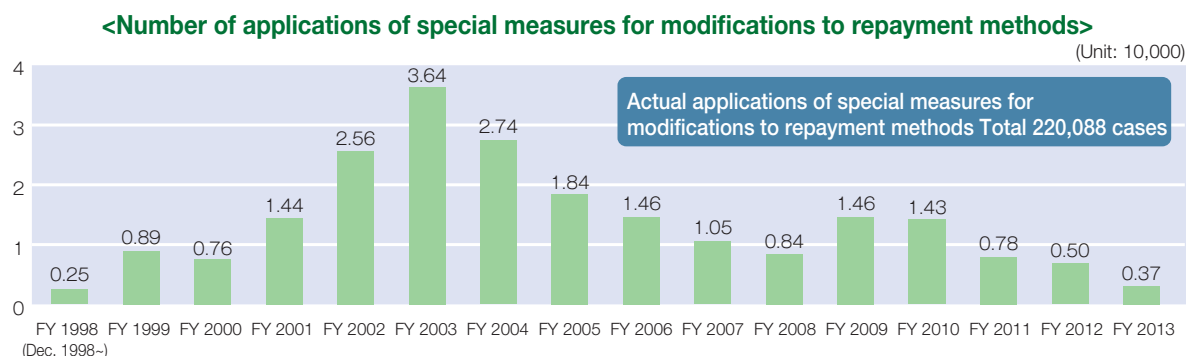
\*The interest-rate reduction for borrowers applying for loan modification in and after FY 2010 and who meet requirements is as follows:

(Direct loans under former-GHLC and JHF)

- Current interest rate of 6% or less: 1% reduction
- Current interest rate of more than 6%: reduced to 5%

(Flat 35)

- Until FY 2012: 1% reduction regardless of the current interest rate
  - Until FY 2013: 0.5% reduction regardless of the current interest rate
  - In FY 2014: 0.5% reduction regardless of the current interest rate
- Note that the interest rate after the reduction is 2.0% at the minimum.



## Response to the Great East Japan Earthquake

### ●Special measures for those affected by the disaster/Guidelines for Individual Debtor Out-of-Court Workouts

JHF has deferred repayment of loans in whole or in part, extended the repayment period and lowered the interest rate for the deferment period for those affected by the disaster. We have approved a total of 5,685 cases for modifying the repayment method (as of March 31, 2014).

We also properly respond to the Guidelines for Individual Debtor Out-of-Court Workouts and assist self-help-based re-establishment of livelihood and businesses. The repayment plan has been formulated for 196 of 299 claims for which the application of the Guidelines has been requested (as of March 31, 2014).

### ●Support for the project to promote the resettlement of communities to more disaster-resistant areas in cooperation with local governments and financial institutions

Existence of mortgages until the completion of repayment of housing loans have been an issue for the project to promote the resettlement of communities to more disaster-resistant areas. JHF has created a scheme to terminate the mortgage by directly receiving the payments for purchase of land, etc., that is reimbursed by local governments, etc., to assist the project.

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

Repayment method modification Damaged rate	Deferment of repayment	Extension of repayment period	Lowering of interest rate* during deferment 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.

## Strengthening of the business system in light of the enactment of the Small and Medium Sized Enterprises Finance Facilitation Law

In light of the enactment of the Act on Temporary Measures concerning the Facilitation of Financing for Small and Medium Sized Enterprises (Act No. 96 of 2009, hereinafter referred to as the "Finance Facilitation Law"), JHF reveals its business policies and strengthens the system based on the policies to provide more appropriate

consultations on housing loans for customers.

JHF continues to respond to consultations from customers receiving housing loans regarding payment, etc. appropriately after the expiration of the Finance Facilitation Law at the end of March 2013.

#### <Number of applications for loan modifications and their amount (December 4 2009 - March 31 2014)>

(Unit: Number of cases, million yen)

	Loans to small and medium sized enterprises* <sup>1</sup>		Loans to individuals with mortgage obligation* <sup>2</sup>	
	Number of cases	Amount	Number of cases	Amount
Number of applications for loan modifications and their amount	663	127,210	89,564	1,138,497
Of which, the number of accepted applications and their amount	569	109,479	65,770	838,214
Of which, the number of rejected applications and their amount	38	7,557	2,951	40,060
Of which, the number of applications under underwriting and their amount	7	1,603	892	10,749
Of which, the number of withdrawn applications and their amount	49	8,572	19,951	249,475

\*1 Measures in accordance with Article 4 of the Finance Facilitation Law

\*2 Measures in accordance with Article 5 of the Finance Facilitation Law



## ● Research and Survey on Housing Finance

### Research and study on housing finance to promote securitization business

JHF conducts the following surveys and research activities to promote securitization business while

continuously providing accurate and fair information to enable customers to select appropriate products.

### Surveys of domestic housing loan market

JHF conducts surveys on housing markets including new domestic loan origination and outstanding loan balances, on profile of housing loan recipients, on consumers' awareness and behavior in terms of their housing loan selection, and on other relevant theme.

Results of the latest and unique surveys are widely utilized by governmental institutions and think tanks, etc.

Research results (Website)

<http://www.jhf.go.jp/about/research/index.html>

### Analyses and information dissemination on housing finance market

JHF disseminates results of survey analyses on domestic and overseas market of housings and housing loans through its website as well as compiles and issues publications with the results. JHF also contributes to academic journals including the Japan

Association of Real Estate Sciences (JARES) and noted economic journals, etc., in addition to exchange information and present research results at broad fields of seminars and academic conference.

### Surveys on overseas housing finance and dissemination of information overseas

JHF collects the latest information on systems and trends of overseas housing finance market, analyzes their effects on Japan. These information are disseminated through the JHF website as well as reported to media including JHF Housing Finance Journal. In addition, JHF interacts with international

organizations and public/private institutions overseas, or attends international conferences to provide information on housing finance in Japan. Through these activities, JHF contributes to international mutual understanding. (Refer to page 13 for the details)

<Speech at the International Union for Housing Finance>



<An example of a report in Housing Finance Journal>



<Presentation at the JARES conference>



### Fiscal 2013 surveys

The following reports are available from "Kihou" on the JHF website.  
<http://www.jhf.go.jp/about/kihou/index.html>

#### ● Domestic housing finance

- "Will the housing loan market see great progress again? -current situation and issues in promoting housing loans"
- "Costs of durable consumer goods and their purchase status for acquisition of houses"
- "Housing loans and household income and expenditure"
- "Profile of customers: from the survey results on Flat 35S recipients"
- "Current situations and the future of construction industry in Japan"
- "The state of housing construction in the area affected by the Great East Japan Earthquake and the profile of disaster-recovery loan recipients"

#### ● Overseas housing finance

- "Common Securitization Platform to integrate Fannie Mae and Freddie Mac MBS – FHFA proposes reform amid of record high profit"
- "A report on attending the 28th International Union for Housing Finance World Congress"
- "Recent housing policy and housing finance in India"
- "The Obama administration's plan to reform the housing finance market and bills of the United States Senate and the House of Representatives to wind down GSEs"
- "Housing market and housing finance in Indonesia"
- "The update of the Government National Mortgage Association (Ginnie Mae)"
- "Housing market and housing finance in Malaysia"